

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

August 31, 2004

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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 August 2004

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

**No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
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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**Taiwan Semiconductor Manufacturing
Company Ltd.**

**Financial Statements for the Six Months Ended
June 30, 2004 and 2003
Together with Independent Auditors Report**

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers convenience. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

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English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Ltd.

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. as of June 30, 2004 and 2003, and the related statements of income, changes in shareholders' equity and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Regulations for Auditing of Financial Statement by Certified Public Accountants, and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Ltd. as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the periods then ended in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China.

July 13, 2004

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

Table of Contents**English Translation of Financial Statements Originally Issued in Chinese****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****BALANCE SHEETS****JUNE 30, 2004 AND 2003****(In Thousand New Taiwan Dollars, Except Par Value)**

| | 2004 | | 2003 | |
|--|---------------|-------|---------------|-------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2, 3 and 4) | \$ 82,142,400 | 19 | \$ 66,546,050 | 18 |
| Short-term investments (Notes 2 and 4) | 41,199,013 | 9 | 3,054,050 | 1 |
| Receivables from related parties (Note 18) | 18,130,742 | 4 | 15,186,990 | 4 |
| Notes receivable | 50,168 | | 13,459 | |
| Accounts receivable | 16,662,695 | 4 | 12,834,737 | 4 |
| Allowance for doubtful receivables (Note 2) | (983,077) | | (975,547) | |
| Allowance for sales returns and others (Note 2) | (3,019,657) | | (2,069,722) | (1) |
| Other financial assets (Notes 2 and 21) | 1,148,887 | | 798,672 | |
| Inventories net (Notes 2 and 5) | 11,725,188 | 3 | 11,355,534 | 3 |
| Deferred income taxes assets (Notes 2 and 12) | 6,144,000 | 1 | 3,320,000 | 1 |
| Prepaid expenses and other current assets | 614,990 | | 955,192 | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total current assets | 173,815,349 | 40 | 111,019,415 | 30 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| FUNDS AND LONG-TERM INVESTMENTS (Notes 2, 6, 16 and 20) | | | | |
| Equity method | 39,606,640 | 9 | 34,029,484 | 10 |
| Cost method | 716,377 | | 1,092,503 | |
| Long-term bonds | 8,893,477 | 2 | | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total funds and long-term investments | 49,216,494 | 11 | 35,121,987 | 10 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| PROPERTY, PLANT, AND EQUIPMENT (Notes 2 and 7) | | | | |
| Cost | | | | |
| Buildings | 72,030,258 | 16 | 70,341,223 | 19 |
| Machinery and equipment | 353,594,669 | 81 | 320,043,036 | 88 |
| Office equipment | 6,486,523 | 2 | 5,948,653 | 2 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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| | | | | |
|--|-----------------------|------------|-----------------------|------------|
| Deferred gain on sale and leaseback (Note 2) | | | 38,309 | |
| | | | | |
| Total other liabilities | 3,446,140 | 1 | 3,695,558 | 1 |
| | | | | |
| Total liabilities | 88,753,094 | 20 | 64,590,919 | 18 |
| | | | | |
| SHAREHOLDERS' EQUITY (Notes 2, 14, 15 and 16) | | | | |
| Capital stock \$10 par value | | | | |
| Authorized: 24,600,000 thousand shares | | | | |
| Issued: Common 23,376,597 thousand shares in 2004 and | | | | |
| 18,622,887 thousand shares in 2003 | 233,765,970 | 53 | 186,228,867 | 51 |
| To be issued | | | 16,437,322 | 5 |
| Capital surplus | 56,885,914 | 13 | 56,840,751 | 16 |
| Retained earnings: | | | | |
| Appropriated as legal reserve | 25,528,007 | 6 | 20,802,137 | 6 |
| Appropriated as special reserve | | | 68,945 | |
| Unappropriated earnings | 43,517,207 | 10 | 19,058,142 | 5 |
| Others: | | | | |
| Unrealized loss on long-term investments | (9) | | (7,981) | |
| Cumulative translation adjustments | 53,132 | | 755,436 | |
| Treasury stock (at cost) 170,690 thousand shares in 2004 and | | | | |
| 41,961 thousand shares in 2003 | (8,676,467) | (2) | (1,922,049) | (1) |
| | | | | |
| Total shareholders' equity | 351,073,754 | 80 | 298,261,570 | 82 |
| | | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 439,826,848 | 100 | \$ 362,852,489 | 100 |
| | | | | |

The accompanying notes are an integral part of the financial statements.

Table of ContentsEnglish Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousand New Taiwan Dollars, Except Earnings Per Share)

| | 2004 | | 2003 | |
|--|---------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| GROSS SALES (Notes 2 and 18) | \$124,982,265 | | \$91,227,434 | |
| SALES RETURNS AND ALLOWANCES (Note 2) | (2,599,819) | | (1,979,969) | |
| NET SALES | 122,382,446 | 100 | 89,247,465 | 100 |
| COST OF SALES (Notes 13 and 18) | 71,514,061 | 59 | 60,510,165 | 68 |
| GROSS PROFIT | 50,868,385 | 41 | 28,737,300 | 32 |
| OPERATING EXPENSES (Notes 13 and 18) | | | | |
| Research and development | 5,825,173 | 5 | 5,589,164 | 6 |
| General and administrative | 4,635,566 | 3 | 2,958,075 | 3 |
| Marketing | 733,496 | 1 | 655,343 | 1 |
| Total operating expenses | 11,194,235 | 9 | 9,202,582 | 10 |
| INCOME FROM OPERATIONS | 39,674,150 | 32 | 19,534,718 | 22 |
| NON-OPERATING INCOME AND GAINS | | | | |
| Investment income recognized by equity method net (Notes 2 and 6) | 2,053,966 | 2 | | |
| Interest (Notes 2 and 21) | 558,592 | | 370,789 | 1 |
| Gain on disposal of property, plant and equipment (Notes 2 and 18) | 114,102 | | 295,796 | |
| Technical service income (Notes 18 and 20) | 111,096 | | 76,527 | |
| Gain on sales of short-term investments (Note 2) | 98,644 | | 19,192 | |
| Other (Note 18) | 138,298 | | 125,878 | |

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| | | | | |
|--|-----------------------------|-------------------|-----------------------------|-------------------|
| Total non-operating income and gains | 3,074,698 | 2 | 888,182 | 1 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Interest (Notes 2, 7 and 21) | 602,981 | | 946,124 | 1 |
| Foreign exchange loss net (Notes 2 and 21) | 542,591 | | 246,919 | |
| Loss on disposal of property, plant, and equipment (Note 2) | 32,913 | | 262,208 | |
| Loss on property, plant, and equipment, and idle assets (Note 2) | | | 1,401,585 | 2 |
| Investment loss recognized by equity method net (Notes 2 and 6) | | | 705,431 | 1 |
| Other (Notes 2 and 21) | 14,405 | | 108,188 | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total non-operating expenses and losses | 1,192,890 | | 3,670,455 | 4 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

(Continued)

Table of Contents**English Translation of Financial Statements Originally Issued in Chinese**

| | 2004 | | 2003 | |
|---|--------------|----|--------------|-----|
| | Amount | % | Amount | % |
| INCOME BEFORE INCOME TAX | \$41,555,958 | 34 | \$16,752,445 | 19 |
| INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 12) | 642,844 | | (664,611) | (1) |
| NET INCOME | \$42,198,802 | 34 | \$16,087,834 | 18 |

| | 2004 | | 2003 | |
|------------------------------|-------------------------|------------------------|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
| EARNINGS PER SHARE (Note 17) | | | | |
| Basic earnings per share | \$ 1.78 | \$ 1.81 | \$ 0.71 | \$ 0.68 |
| Diluted earnings per share | \$ 1.78 | \$ 1.81 | \$ 0.71 | \$ 0.68 |

The pro forma net income and earnings per share (after income tax) are based on the assumption that the stock of parent company held by its subsidiaries is treated as an investment instead of the treasury stock, and are shown as follows (Notes 2 and 16):

| | 2004 | 2003 |
|----------------------------|--------------|--------------|
| NET INCOME | \$42,200,461 | \$16,342,850 |
| EARNINGS PER SHARE | | |
| Basic earnings per share | \$ 1.81 | \$ 0.69 |
| Diluted earnings per share | \$ 1.81 | \$ 0.69 |

(Concluded)

The accompanying notes are an integral part of the financial statements.

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TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousand New Taiwan Dollars)**

| | Capital Stock | | | | | | Capital Surplus |
|--|----------------------|--------|----------------------|---------------|----------------------|--------|--------------------|
| | Preferred stocks | | Common stocks | | To be issued | | |
| | Shares (thousand) | Amount | Shares (thousand) | Amount | Shares (thousand) | Amount | |
| BALANCE, JANUARY 1, 2004 | | \$ | 20,266,619 | \$202,666,189 | | \$ | \$56,855,885 |
| Appropriations of prior year's earnings | | | | | | | |
| Legal reserve | | | | | | | |
| Reversal of special reserve | | | | | | | |
| Bonus to employees' cash | | | | | | | |
| Bonus to employees' stock | | | 272,651 | 2,726,514 | | | |
| Cash dividends paid for preferred stocks | | | | | | | |
| Cash dividends 6% Stock dividends 14% | | | 2,837,327 | 28,373,267 | | | |
| Remuneration to directors and supervisors | | | | | | | |
| Net income for the six months ended June 30, 2004 | | | | | | | |
| Reversal of unrealized loss on long term investment of investees | | | | | | | |

| | | | | | | | |
|--|-------------|----|--------------|---------------|---------------|--------|--------------|
| Adjustment arising from changes in ownership percentage in investees | | | | | | 28,370 | |
| Translation adjustments | | | | | | | |
| Treasury stock transaction | | | | | | 1,659 | |
| <hr/> | | | | | | | |
| BALANCE, JUNE 30, 2004 | | \$ | 23,376,597 | \$233,765,970 | | \$ | \$56,885,914 |
| <hr/> | | | | | | | |
| BALANCE, JANUARY 1, 2003 | 1,300,000 | \$ | 13,000,000 | 18,622,887 | \$186,228,867 | \$ | \$57,004,789 |
| Appropriations of prior year's earnings | | | | | | | |
| Legal reserve | | | | | | | |
| Special reserve | | | | | | | |
| Bonus to employees' stock | | | | | 153,901 | | 1,539,013 |
| Cash dividends paid for preferred stocks | | | | | | | |
| Stock dividends 8% | | | | | 1,489,831 | | 14,898,309 |
| Remuneration to directors and supervisors | | | | | | | |
| Net income for the six months ended June 30, 2003 | | | | | | | |
| Redemption and retirement of preferred stocks | (1,300,000) | | (13,000,000) | | | | |
| Reversal of unrealized loss on long term investment of subsidiaries | | | | | | | |
| Reversal of unrealized loss on long term investment of | | | | | | | |

| | | | | | | | |
|--|-------|------------|----------------|-----------|---------------|---------------|-----------|
| investees | | | | | | | |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | (164,473) |
| Translation adjustments | | | | | | | |
| Treasury stock transaction | | | | | | | 435 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| BALANCE, JUNE 30, 2003 | \$ | 18,622,887 | \$ 186,228,867 | 1,643,732 | \$ 16,437,322 | \$ 56,840,751 | |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| | Retained Earnings | | | | Unrealized | | Treasury Stock | Total Shareholders Equity |
|--|-------------------|-----------------|-------------------------|---------------|-------------------------------|------------------------------------|----------------|---------------------------|
| | Legal reserve | Special reserve | Unappropriated earnings | Total | Loss on Long-term Investments | Cumulative Translation Adjustments | | |
| BALANCE, JANUARY 1, 2004 | \$ 20,802,137 | \$ 68,945 | \$ 50,229,008 | \$ 71,100,090 | \$ (35) | \$ 225,408 | \$(1,633,228) | \$ 329,214,309 |
| Appropriations of prior year's earnings | | | | | | | | |
| Legal reserve | 4,725,870 | | (4,725,870) | | | | | |
| Reversal of special reserve | | (68,945) | 68,945 | | | | | |
| Bonus to employees cash | | | (681,628) | (681,628) | | | | (681,628) |
| Bonus to employees stock | | | (2,726,514) | (2,726,514) | | | | |
| Cash dividends paid for preferred stocks | | | (184,493) | (184,493) | | | | (184,493) |
| Cash dividends 6% | | | (12,159,971) | (12,159,971) | | | | (12,159,971) |
| Stock dividends 14% | | | (28,373,267) | (28,373,267) | | | | |

| | | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Remuneration to directors and supervisors | | | (127,805) | (127,805) | | | | (127,805) |
| Net income for the six months ended June 30, 2004 | | | 42,198,802 | 42,198,802 | | | | 42,198,802 |
| Reversal of unrealized loss on long term investment of investees | | | | | | 26 | | 26 |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | | 28,370 |
| Translation adjustments | | | | | | (172,276) | | (172,276) |
| Treasury stock transaction | | | | | | | (7,043,239) | (7,041,580) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| BALANCE, JUNE 30, 2004 | \$25,528,007 | \$ | \$ 43,517,207 | \$ 69,045,214 | \$ (9) | \$ 53,132 | \$(8,676,467) | \$351,073,754 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| BALANCE, JANUARY 1, 2003 | \$18,641,108 | \$ | \$ 22,151,089 | \$ 40,792,197 | \$(194,283) | \$ 945,129 | \$(1,923,492) | \$295,853,207 |
| Appropriations of prior year's earnings | | | | | | | | |
| Legal reserve | 2,161,029 | | (2,161,029) | | | | | |
| Special reserve | | 68,945 | (68,945) | | | | | |
| Bonus to employees | | | (1,539,013) | (1,539,013) | | | | |
| Stock dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 8% | | | (14,898,309) | (14,898,309) | | | | |
| Remuneration to directors and supervisors | | | (58,485) | (58,485) | | | | (58,485) |
| Net income for the six months ended June 30, 2003 | | | 16,087,834 | 16,087,834 | | | | 16,087,834 |
| | | | | | | | | (13,000,000) |

| | | | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Redemption and retirement of preferred stocks | | | | | | | | |
| Reversal of unrealized loss on long term investment of subsidiaries | | | | | 20,647 | | | 20,647 |
| Reversal of unrealized loss on long term investment of investees | | | | | 165,655 | | | 165,655 |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | | (164,473) |
| Translation adjustments | | | | | | (189,693) | | (189,693) |
| Treasury stock transaction | | | | | | | 1,443 | 1,878 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| BALANCE, JUNE 30, 2003 | \$20,802,137 | \$ 68,945 | \$ 19,058,142 | \$ 39,929,224 | \$ (7,981) | \$ 755,436 | \$(1,922,049) | \$298,261,570 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

The accompanying notes are an integral part of the financial statements.

Table of Contents**English Translation of Financial Statements Originally Issued in Chinese****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousand New Taiwan Dollars)**

| | 2004 | 2003 |
|---|---------------|---------------|
| | <hr/> | <hr/> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 42,198,802 | \$ 16,087,834 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 31,086,443 | 30,840,186 |
| Deferred income taxes | (921,333) | 535,007 |
| Investment loss (income) recognized by equity method net | (2,053,966) | 705,431 |
| Loss on property, plant, and equipment, and idle assets | | 1,401,585 |
| Gain on sales of long-term investments net | (2,150) | (200) |
| Amortization of discount of long-term bond investments | 327 | |
| Gain on disposal of property, plant and equipment net | (81,189) | (33,588) |
| Pension cost accrued | 246,798 | 221,397 |
| Allowance for doubtful receivables | (32,945) | 45,683 |
| Allowance for sales returns and others | 893,632 | (293,345) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Receivables from related parties | (3,130,117) | (5,003,502) |
| Notes receivable | (40,275) | 46,781 |
| Accounts receivable | (2,754,781) | (3,339,290) |
| Inventories net | (818,030) | (1,015,198) |
| Other financial assets | (67,145) | 170,997 |
| Prepaid expenses and other current assets | 976,976 | 1,059,169 |
| Increase (decrease) in: | | |
| Payables to related parties | 161,861 | 1,124,019 |
| Accounts payable | 1,224,512 | 304,772 |
| Accrued expenses and other current liabilities | 1,900,027 | 392,969 |
| | <hr/> | <hr/> |
| Net cash provided by operating activities | 68,787,447 | 43,250,707 |
| | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Increase in short-term investments net | (32,042,407) | (3,054,050) |
| Acquisitions of: | | |
| Long-term investments | (5,943,022) | (1,015,301) |
| Property, plant and equipment | (39,179,243) | (16,207,787) |
| Proceeds from disposal of: | | |
| Property, plant and equipment | 250,080 | 132,387 |

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| | | |
|--|-----------------------------|-----------------------------|
| Long-term investments | 7,552 | 592 |
| Increase in deferred charges | (640,653) | (711,056) |
| Decrease in refundable deposits | 151,138 | 167,754 |
| Decrease in other assets miscellaneous | | 9,250 |
| | <u> </u> | <u> </u> |
| Net cash used in investing activities | <u>(77,396,555)</u> | <u>(20,678,211)</u> |

(Continued)

Table of Contents**English Translation of Financial Statements Originally Issued in Chinese**

| | 2004 | 2003 |
|---|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Purchase of treasury stock | (\$7,059,798) | \$ |
| Decrease in guarantee deposits | (164,398) | (169,756) |
| Repayment on long-term bonds | | (4,000,000) |
| Redemption of preferred stock | | (13,000,000) |
| Remuneration to directors and supervisors | (127,805) | (58,485) |
| Cash dividend paid for preferred stocks | (184,493) | (455,000) |
| | <u> </u> | <u> </u> |
| Net cash used in financing activities | (7,536,494) | (17,683,241) |
| | <u> </u> | <u> </u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (16,145,602) | 4,889,255 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD | 98,288,002 | 61,656,795 |
| | <u> </u> | <u> </u> |
| CASH AND CASH EQUIVALENTS, END OF THE PERIOD | \$ 82,142,400 | \$ 66,546,050 |
| | <u> </u> | <u> </u> |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid (excluding the amounts capitalized of NT\$157,109 thousand and NT\$2,932 thousand in 2004 and 2003, respectively) | \$ 268,006 | \$ 688,371 |
| | <u> </u> | <u> </u> |
| Income tax paid | \$ 11,689 | \$ 2,500 |
| | <u> </u> | <u> </u> |
| Non-cash investing and financing activities: | | |
| Current portion of long-term bonds payable | \$ 5,000,000 | \$ |
| | <u> </u> | <u> </u> |
| Current portion of other payables to related parties (under payables to related parties) | \$ 177,161 | \$ |
| | <u> </u> | <u> </u> |
| Current portion of other long-term payables (under accrued expense and other current liabilities) | \$ 1,757,476 | \$ |
| | <u> </u> | <u> </u> |
| Reclassification of short-term investments to long-term investments | \$ 3,402,413 | \$ |
| | <u> </u> | <u> </u> |

The accompanying notes are an integral part of the financial statements.

(Concluded)

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TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Ltd. (the Company or TSMC), a Republic of China corporation (R.O.C.), was incorporated as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. In September 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

The Company is engaged mainly in the manufacturing, selling, packaging, testing and designing of integrated circuits and other semiconductor devices, and the manufacturing of masks.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with Guidelines Governing in Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C. Significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

Classification of Current and Non-current Assets and Liabilities

Current assets are those expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations due on demand within one year from the balance sheet date. Assets and liabilities that are not classified as current are non-current assets and liabilities, respectively.

Cash Equivalents

Government bonds under repurchase agreements, notes, treasury bill and commercial papers acquired with maturities less than three months from the date of purchase are classified as cash equivalents.

Short-term Investments

Short-term investments consist of bond funds, corporate bonds, government bonds, agency bonds, asset-backed securities, government bonds acquired under repurchase agreements and listed stocks. Cost of short-term investments are recorded at historical cost. Cash dividends are recorded as investment income in the current period.

The investments are carried at the lower of cost or market value. An allowance for decline in value is provided and is charged to current period earnings when the aggregate carrying value of the investments exceeds the aggregate

market value. A reversal of the allowance is recorded for a subsequent recovery of the market value.

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The cost of the asset-backed securities and the bonds sold is accounted for using the specific identification method, whereas the cost of bond funds and listed stocks sold is accounted for using the weighted-average method.

The market values of asset-backed securities and the bonds are determined using the average of bid and ask prices as of the balance sheet date. The market value of bond funds is determined using the net asset value of the funds at the end of the period, and the market value of listed stocks is determined using the average-closing price of the listed stocks for the last month of the period.

Allowance for Doubtful Receivables

Allowance for doubtful receivables are provided based on a review of the collectibility of accounts receivables. The Company determines the amount of allowance for doubtful accounts by examining the historical collection experience and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes net sales when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance, if applicable, have occurred, as well as the price is fixed or determinable and the collectibility is reasonably assured. An allowance is provided for any sales return and pricing discounts. Allowance for sales returns and pricing discounts is estimated based on historical experience and any known factors that would affect the allowance. Such provisions are deducted from sales in the year the products are sold and the estimated related costs are deducted from cost of sales.

Sales are determined using the fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for majority of the customers and 30 to 45 days after the end of the month in which the sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period. Market value represents net realizable value for finished goods and work in process. Replacement value represents net realizable value for raw materials, supplies and spare parts. The Company assesses the impact of changing technology on its inventory on-hand and writes off inventories that are considered obsolete. Ending inventories are evaluated for estimated excess quantities and obsolescence based on demand forecast within a specific time horizon, generally 180 days or less, and the estimated scrap and slow-moving items are recognized in the allowance for losses.

Long-term Investments

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method of accounting. The Company's proportionate share in the net income or net loss of investee companies is recognized as components of the investment income/loss recognized by equity method net account. When equity investments are made, the difference, if any, between the cost of investment and the Company's proportionate share of investee's net book value is amortized using the straight-line method over five years and is recorded as a component of the investment income/loss recognized by equity method net account.

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When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in the equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged to capital surplus. If investee's functional currency is a foreign currency, cumulative translation adjustments will result from the process of translating the investee's financial statements into the reporting currency of the Company.

Investments in companies wherein the Company does not exercise significant influence are recorded at historical cost. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying values of the long-term investments if the dividends are received in the same year that the related investments are acquired. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income or the carrying amount of the investment. An allowance is recognized for any decline in the market value of investments with readily ascertainable fair market value with the corresponding amount recorded as an unrealized loss, a component of shareholders' equity. A reversal of the allowance will result from a subsequent recovery of the market value of such investments. The market value of such investment is determined using the average-closing price of the listed stocks for the last month of the period. The carrying values of investments whose fair market values are not readily ascertainable are reduced to reflect an other-than-temporary decline in their values, with the related impairment loss charged to income.

Investments in foreign mutual funds are stated at the lower of aggregate cost or net asset value. An allowance is recognized when the cost of the funds is lower than their net asset values, with the corresponding amount recorded as a reduction to shareholders' equity. A reversal of the allowance will result from a subsequent recovery of the net asset value.

The costs of stocks and mutual funds sold are determined using the weighted-average method.

Investments in long-term bonds are stated at amortized cost. The discount or premium is amortized over the duration period using the interest method, and recorded as an adjustment to the interest income.

If an investee company recognizes an unrealized loss on its long-term investment using the lower-of-cost-or-market method, the Company also recognizes a corresponding unrealized loss in proportion to its equity interest in the investee company and records the amount as a component of its shareholders' equity.

Gains or losses on sales from the Company to investee companies accounted for using the equity method are deferred in proportion to the Company's ownership percentage in the investee companies until realized through transactions with third parties. The entire amount of the gains or losses on sales to majority-owned subsidiaries is deferred until such gains or losses are realized through the subsequent sale of the related products to third parties.

Gains or losses on sales from investee companies to the Company are deferred in proportion to the Company's ownership percentages in the investee companies until realized through transactions with third parties.

Property, Plant and Equipment, Assets Leased to Others and Idle Assets

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. When an impairment is determined, the related assets are stated at the lower of fair value or book value. Idle assets are stated at the lower of net realizable value or book value. Significant additions, renewals, and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed in the period incurred. Interest expense incurred for the project during the purchase and construction period is also capitalized.

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Depreciation is computed using the straight-line method over the following estimated service lives: buildings 10 to 20 years; machinery and equipment 5 years; and office equipment 3 to 5 years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss charged to income in the period of sale or disposal.

Goodwill

Goodwill represents the excess of the consideration paid for acquisitions over the fair market value of identifiable net assets acquired and acquisition costs. Goodwill is amortized using the straight-line method over the estimated life of 10 years.

Deferred Charges

Deferred charges consist of technology license fees and software and system design costs and other charges. The amounts are amortized as follows: technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract, software and system design costs 3 or 5 years.

Pension Costs

The Company records net periodic pension costs on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gains or losses are amortized over 25 years.

Deferred Gain on Sale and Leaseback

The gain on the sale of property that is simultaneously leased back is deferred by the Company and amortized as an adjustment of rental expenses over the term of the lease.

Income Tax

The Company uses an inter-period tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits, and net operating loss carry forwards. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or non-current based on the expected length of time before it is realized.

Any tax credit arising from the purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprise are recognized using the current method.

Adjustments to prior years' tax liabilities are added to or deducted from the current year's tax provision.

As of January 1, 1998, income taxes on unappropriated earnings (excluding earnings from foreign consolidating subsidiaries) of 10% are expensed in the year of shareholder approval which is usually the year subsequent to the year incurred.

Stock-Based Compensation

Compensatory employee stock option plans that are amended or have options granted on or after January 1, 2004 must be accounted for following the interpretations issued by Accounting Research and Development Foundation. The Company adopted the intrinsic value method and any compensation cost is charged to expense over the employee vesting period as specified in the stock option plans.

Table of Contents**Treasury Stock**

When the Company purchases its outstanding common stock, the cost of the reacquired stock is recorded as treasury stock which is a reduction to shareholders' equity. The Company's stock held by its subsidiaries is also treated as treasury stock and reclassified from long-term investments to treasury stock.

Foreign Currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the current rate of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in a foreign currency are recognized in current operations. At the end of each period, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rate with the resulting gains or losses recognized in current operations.

Derivative Financial Instruments

The Company enters into foreign currency forward contracts to manage its currency exposures in cash flow and in foreign currency-denominated assets and liabilities. The differences in the New Taiwan dollar amounts translated using the spot rate and the amounts translated using the contracted forward rates on the contract date are amortized over the terms of the forward contracts using the straight-line method. At the end of each period, the receivables or payables arising from forward contracts are restated using the prevailing spot rate at the balance sheet date with the resulting differences charged to income. In addition, the receivables and payables related to forward contracts are netted with the resulting amount presented as either an asset or a liability. Any resulting gains or losses upon settlement are charged to income in the period of settlement.

The Company enters into interest rate swap transactions to manage its exposures to changes in interest rates on existing liabilities. These transactions are accounted for on an accrual basis, in which the cash settlement receivable or payable is recorded as an adjustment to interest income or expense.

The notional amount of foreign currency option contracts entered into for hedging purposes are not recognized as an asset or liability on the contract dates. The premiums paid or received for the call or put options are amortized and charged to income on a straight-line basis over the term of the related contract. Any resulting gains or losses upon settlement are charged to income in the period of settlement.

3. CASH AND CASH EQUIVALENTS

| | June 30 | |
|---|----------------|--------------|
| | 2004 | 2003 |
| Cash and bank deposits | \$69,712,977 | \$63,513,247 |
| Government bonds acquired under repurchase agreements | 10,165,256 | 3,032,803 |
| Corporate issued notes | 884,533 | |
| Treasury bills | 842,873 | |
| Agency notes | 435,526 | |
| Commercial papers | 101,235 | |
| | <hr/> | <hr/> |
| | \$82,142,400 | \$66,546,050 |



Table of Contents**4. SHORT-TERM INVESTMENTS**

| | June 30 | |
|---|---------------------|--------------------|
| | 2004 | 2003 |
| Bond funds | \$ 9,900,000 | \$ |
| Corporate bonds | 7,190,519 | |
| Government bonds | 7,052,471 | 3,054,050 |
| Agency bonds | 6,974,162 | |
| Corporate issued asset-backed securities | 6,720,188 | |
| Government bonds acquired under repurchase agreements | 3,355,145 | |
| Listed stocks | 6,528 | |
| | <u>\$41,199,013</u> | <u>\$3,054,050</u> |
| Market value | <u>\$41,491,242</u> | <u>\$3,057,705</u> |

The Company entered into investment management agreements with two well-known financial institutions (fund managers) to manage investment portfolios for the Company. In accordance with the investment guidelines and terms in these agreements, the securities invested by fund managers should reach specific level of credit rating. As of June 30, 2004, the Company invested these investment portfolios in the aggregate amount of US\$800,000 thousand. The investment portfolios included securities such as notes, treasury bills, asset-backed securities, agency bonds, commercial papers, corporate bonds and government bonds. The securities acquired with maturities less than three months from the date of purchase had been reclassified to cash equivalents.

5. INVENTORIES NET

| | June 30 | |
|--------------------------|---------------------|---------------------|
| | 2004 | 2003 |
| Finished goods | \$ 2,392,871 | \$ 1,872,790 |
| Work in process | 9,192,283 | 10,522,974 |
| Raw materials | 785,848 | 374,667 |
| Supplies and spare parts | 755,052 | 677,276 |
| | <u>13,126,054</u> | <u>13,447,707</u> |
| Allowance for losses | <u>(1,400,866)</u> | <u>(2,092,173)</u> |
| | <u>\$11,725,188</u> | <u>\$11,355,534</u> |

6. LONG-TERM INVESTMENTS

| | June 30 | | | |
|---|---------------------------|---------------------------------|---------------------------|---------------------------------|
| | 2004 | | 2003 | |
| | Carrying Value | % of Owner- ship | Carrying Value | % of Owner- ship |
| Equity method: | | | | |
| TSMC International Investment Ltd. (TSMC International) | \$23,708,232 | 100 | \$21,954,303 | 100 |
| Vanguard International Semiconductor Corporation (VIS) | 4,667,952 | 28 | 3,848,018 | 28 |
| TSMC Partners, Ltd. (TSMC Partners) | 4,113,671 | 100 | 3,931,378 | 100 |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 3,181,111 | 32 | 2,609,934 | 32 |

(Continued)

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| | June 30 | | | |
|---|---------------------------|---------------------------------|---------------------------|---------------------------------|
| | 2004 | | 2003 | |
| | Carrying Value | % of Owner- ship | Carrying Value | % of Owner- ship |
| TSMC (Shanghai) Company Limited (TSMC Shanghai) | \$ 1,758,405 | 100 | \$ | |
| Emerging Alliance Fund, L.P. (Emerging Alliance) | 912,982 | 99 | 879,128 | 99 |
| TSMC North America (TSMC North America) | 474,695 | 100 | 240,294 | 100 |
| Global Unichip Corporation (GUC) | 362,629 | 47 | 387,376 | 47 |
| VentureTech Alliance Fund II, L.P., (VTAF II) | 165,190 | 98 | | |
| TSMC Japan K. K. (TSMC Japan) | 100,521 | 100 | 91,333 | 100 |
| VisEra Technology Company, Ltd. (VisEra) | 51,825 | 25 | | |
| Chi Cherng Investment Co., Ltd. (Chi Cherng) | 42,990 | 36 | 38,514 | 36 |
| Hsin Ruey Investment Co., Ltd. (Hsin Ruey) | 42,673 | 36 | 38,216 | 36 |
| Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe) | 23,764 | 100 | 10,990 | 100 |
| | <u>39,606,640</u> | | <u>34,029,484</u> | |
| Cost method: | | | | |
| Publicly traded stock | | | | |
| Amkor Technology | | | 280,748 | |
| Monolithic System Technology Inc. | | | 104,289 | 2 |
| Taiwan Mask Co., Ltd. | | | 32,129 | 2 |
| Non-publicly traded stock | | | | |
| United Industrial Gases Co., Ltd. | 193,584 | 11 | 193,584 | 11 |
| Shin-Etsu Handotai Taiwan Co., Ltd. | 105,000 | 7 | 105,000 | 7 |
| Hontung Venture Capital Co., Ltd. | 83,916 | 10 | 83,916 | 10 |
| W.K. Technology Fund IV | 50,000 | 2 | 50,000 | 2 |
| Funds | | | | |
| Horizon Venture Fund I, L.P. | 246,485 | | 195,452 | |
| Crimson Asia Capital Ltd., L.P. | 37,392 | | 47,385 | |
| | <u>716,377</u> | | <u>1,092,503</u> | |
| Long-term bonds government bonds | <u>8,893,477</u> | | | |
| | <u>\$49,216,494</u> | | <u>\$35,121,987</u> | |

In August, November, 2003 and May 2004, the Company established TSMC Shanghai, invested in VisEra and VTAF II, respectively.

For the six months ended June 30, 2004 and 2003, net investment income and losses recognized by equity method were NT\$2,053,966 thousand and NT\$705,431 thousand for the six months ended June 30, 2004 and 2003, respectively. The carrying value of investments accounts accounted for under the equity method and the related investment income or losses were determined based on the audited financial statements of the investees for the same periods as the Company.

Table of Contents**7. PROPERTY, PLANT AND EQUIPMENT**

Accumulated depreciation consisted of the following:

| | June 30 | |
|-------------------------|----------------------|----------------------|
| | 2004 | 2003 |
| Buildings | \$ 32,452,205 | \$ 26,377,185 |
| Machinery and equipment | 238,344,951 | 189,172,205 |
| Office equipment | 4,268,797 | 3,366,082 |
| | <u>\$275,065,953</u> | <u>\$218,915,472</u> |

Information on the status of the expansion or construction plans of the Company's manufacturing facilities as of June 30, 2004 is as follows:

| Construction/Expansion Plan | Estimated Complete Cost | Accumulated Expenditures | Expected Date of Commencement |
|------------------------------------|--------------------------------|---------------------------------|--------------------------------------|
| Fab 14 construction | \$ 67,047,200 | \$ 59,076,700 | Fourth quarter of 2004 |
| Fab 12 expansion | 59,235,000 | 864,000 | First quarter of 2005 |

Interest expense for the six months ended June 30, 2004 and 2003 was NT\$760,090 thousand and NT\$949,056 thousand, respectively (before deducting capitalized amounts of NT\$157,109 thousand in 2004 and NT\$2,932 thousand in 2003, respectively). The interest rate used for purposes of calculating the capitalized amount was 2.80% and 5.283% for the six months ended June 30, 2004 and 2003, respectively.

8. DEFERRED CHARGES NET

| | June 30 | |
|----------------------------------|---------------------|--------------------|
| | 2004 | 2003 |
| Technology license fee | \$ 7,518,432 | \$5,711,412 |
| Software and system design costs | 2,444,985 | 2,955,771 |
| Others | 103,201 | 64,261 |
| | <u>\$10,066,618</u> | <u>\$8,731,444</u> |

9. BONDS

| | June 30 | |
|--|-------------------|-------------------|
| | 2004 | 2003 |
| Domestic unsecured bonds: | | |
| Issued in October, 1999 and payable in October, 2004, 5.95% interest payable annually | \$ 5,000,000 | \$ 5,000,000 |
| Issued in December, 2000 and payable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% interest payable annually, respectively | 15,000,000 | 15,000,000 |
| Issued in January, 2002 and payable in January 2007, 2009 and 2012 in three equal payments, 2.6%, 2.75% and 3% interest payable annually, respectively | 15,000,000 | 15,000,000 |
| | <u>35,000,000</u> | <u>35,000,000</u> |

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As of June 30, 2004 future principal payments for the Company's bonds arrangements are as follows:

| Year of Repayment | Amount |
|--------------------------|---------------|
| 2004 3rd to 4th quarter | \$ 5,000,000 |
| 2005 | 10,500,000 |
| 2007 | 7,000,000 |
| 2008 and thereafter | 12,500,000 |
| | <hr/> |
| | 35,000,000 |
| Less: Current portion | 5,000,000 |
| | <hr/> |
| | \$30,000,000 |
| | <hr/> |

10. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor-related patents. Future payments under the agreements as of June 30, 2004 are as follows:

| Year | Amount |
|--|---------------|
| 2004 3rd to 4th quarter | \$ 1,114,196 |
| 2005 | 1,271,495 |
| 2006 | 455,962 |
| 2007 | 472,850 |
| 2008 | 270,200 |
| 2009 and thereafter | 810,600 |
| | <hr/> |
| | 4,395,303 |
| Less: Current portion (under accrued expenses and other current liabilities) | 1,757,476 |
| | <hr/> |
| | \$2,637,827 |
| | <hr/> |

11. PENSION PLAN

The Company has a defined benefit pension plan for all regular employees that provides benefits based on length of service and average monthly salaries and wages for the six-month period prior to retirement.

The Company contributes at an amount equal to 2% of salaries paid every month to a Pension Fund (the Fund). The Fund is administered by a pension fund monitoring committee (the Committee) and the amounts in the Fund

are deposited in the Committee's name in the Central Trust of China.

Accrued pension costs based on actuarial calculation for the six months ended June 30, 2004 and 2003 were NT\$365,228 thousand and NT\$311,022 thousand, respectively. The balances of the Fund were NT\$1,324,108 thousand and NT\$1,101,623 thousand as of June 30, 2004 and 2003, respectively.

Table of Contents**12. INCOME TAX**

- a. A reconciliation of income tax expense on income before income tax at the statutory rate and current income tax expense before income tax credits is as follows:

| | Six Months Ended June 30 | |
|--|-------------------------------------|-----------------------------|
| | 2004 | 2003 |
| Income tax expense based on income before income tax at statutory rate (25%) | \$(10,388,989) | \$(4,188,111) |
| Tax-exempt income | 6,233,394 | 2,027,750 |
| Temporary and permanent differences | (294,984) | 162,898 |
| | <u> </u> | <u> </u> |
| Current income tax expense before income tax credits | <u>\$ (4,450,579)</u> | <u>\$ (1,997,463)</u> |

- b. Income tax benefit (expense) consists of the following:

| | Six Months Ended June 30 | |
|--|-------------------------------------|-----------------------------|
| | 2004 | 2003 |
| Current income tax expense before tax credits | \$(4,450,579) | \$(1,997,463) |
| Additional 10% on the unappropriated earnings | (821,767) | (1,271,759) |
| Income tax credits | 5,272,346 | 3,269,222 |
| Other income tax | (278,489) | (2,500) |
| Net change in deferred income tax assets and liabilities | | |
| Investment tax credits | (883,812) | 2,573,210 |
| Temporary differences | 528,349 | (476,739) |
| Valuation allowances | 1,276,796 | (2,758,582) |
| | <u> </u> | <u> </u> |
| Income tax benefit (expense) | <u>\$ 642,844</u> | <u>\$ (664,611)</u> |

- c. Deferred income tax assets (liabilities) consist of the following:

| | June 30 | |
|------------------------|----------------|--------------|
| | 2004 | 2003 |
| Current: | | |
| Investment tax credits | \$ 6,144,000 | \$ 3,320,000 |

| | | |
|------------------------|-----------------------------|-----------------------------|
| Noncurrent: | | |
| Investment tax credits | \$ 18,622,082 | \$ 25,820,863 |
| Temporary differences | (2,957,102) | (4,042,580) |
| Valuation allowances | (11,495,051) | (12,600,723) |
| | <u> </u> | <u> </u> |
| | \$ 4,169,929 | \$ 9,177,560 |
| | <u> </u> | <u> </u> |

d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of June 30, 2004 and 2003 were NT\$347,422 thousand and NT\$14,748 thousand, respectively.

The actual creditable ratio for 2003 and 2002 were 0.03% and 0.08%, respectively.

e. All retained earnings generated prior to December 31, 1997 had been appropriated.

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f. As of June 30, 2004, investment tax credits consist of the following:

| Regulation | Items | Total Creditable Amounts | Remaining Creditable Amounts | Expire Year |
|-------------------------------------|---|---|---|------------------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment | \$ 4,461,519 | \$ 20,936 | 2004 |
| | | 3,820,225 | 3,820,225 | 2005 |
| | | 4,917,933 | 4,917,933 | 2006 |
| | | 4,146,862 | 4,146,862 | 2007 |
| | | 867,205 | 867,205 | 2008 |
| | | <u>\$ 18,213,744</u> | <u>\$ 13,773,161</u> | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 2,270,013 | \$ 1,438,251 | 2004 |
| | | 3,147,071 | 3,147,071 | 2005 |
| | | 3,342,952 | 3,342,952 | 2006 |
| | | 1,976,913 | 1,976,913 | 2007 |
| | | 917,500 | 917,500 | 2008 |
| | | <u>\$ 11,654,449</u> | <u>\$ 10,822,687</u> | |
| Statute for Upgrading Industries | Personnel training | \$ 48,659 | \$ 48,659 | 2004 |
| | | 29,448 | 29,448 | 2005 |
| | | 27,311 | 27,311 | 2006 |
| | | 26,780 | 26,780 | 2007 |
| | | <u>\$ 132,198</u> | <u>\$ 132,198</u> | |
| Statute for Upgrading Industries | Investments in important technology-based enterprise | <u>\$ 38,036</u> | <u>\$ 38,036</u> | 2005 |

g. The sales generated from the following expansion and construction of the Company's manufacturing plants are exempt from income tax:

| | Tax-Exemption Period |
|--------------------------------|---------------------------------|
| Construction of Fab 6 | 2001 to 2004 |
| Construction of Fab 8 module B | 2002 to 2005 |

Expansion of Fab 2 modules A and B, Fab 3, Fab 4, Fab 5 and Fab 6
Construction of Fab 12

2003 to 2006
2004 to 2007

- h. The tax authorities have examined income tax returns of the Company through 2000. However, the Company is contesting the assessment by the tax authority for 1992, 1997 and 1998. The Company believes that any additional assessment will not have a material adverse effect on the Company.

Table of Contents**13. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE**

| | Six Months Ended June 30, 2004 | | | Six Months Ended June 30, 2003 | | |
|-------------------------------|--------------------------------|--|---------------------|--------------------------------|--|---------------------|
| | Classified as Cost of Sales | Classified as Operating Expense | Total | Classified as Cost of Sales | Classified as Operating Expense | Total |
| Labor cost | | | | | | |
| Salary | \$ 4,302,502 | \$ 2,063,433 | \$ 6,365,935 | \$ 3,421,909 | \$ 1,469,436 | \$ 4,891,345 |
| Labor and health insurance | 269,132 | 148,662 | 417,794 | 223,533 | 112,100 | 335,633 |
| Pension | 235,293 | 129,935 | 365,228 | 207,039 | 103,983 | 311,022 |
| Other | 174,500 | 311,136 | 485,636 | 88,871 | 47,921 | 136,792 |
| Depreciation | 27,377,787 | 1,193,473 | 28,571,260 | 27,768,264 | 1,152,407 | 28,920,671 |
| Amortization | 1,381,976 | 1,123,581 | 2,505,557 | 755,793 | 1,190,504 | 1,946,297 |
| | <u>\$33,741,190</u> | <u>\$4,970,220</u> | <u>\$38,711,410</u> | <u>\$32,465,409</u> | <u>\$4,076,351</u> | <u>\$36,541,760</u> |

14. SHAREHOLDERS EQUITY

The Company has issued 668,395 thousand ADSs which are traded on the NYSE as of June 30, 2004. The number of common shares represented by the ADSs is 3,341,973 thousand shares (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the ROC Company Law. However, the components of capital surplus generated from donated capital and the excess of the issue price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the purchase of treasury stock) can be transferred to capital as stock dividends.

As of June 30, 2004 and 2003, the capital surplus consisted of the following:

| | 2004 | 2003 |
|----------------------------|---------------------|---------------------|
| From merger | \$ 24,132,297 | \$ 24,132,297 |
| Additional paid-in capital | 23,172,550 | 23,172,550 |
| From long-term investments | 115,665 | 81,746 |
| From convertible bonds | 9,410,632 | 9,410,632 |
| Donation | 55 | 55 |
| Treasury stock | 54,715 | 43,471 |
| | <u>\$56,885,914</u> | <u>\$56,840,751</u> |

The Company's Articles of Incorporation provide that the following shall be appropriated from annual earnings to the extent that the annual earnings exceed any accumulated deficit:

- a. 10% legal reserve; until the amount of total legal reserve equals to the Company's total paid-in capital;
- b. Special reserve in accordance with relevant laws or regulations;
- c. Remuneration to directors and supervisors and bonuses to employees equals to 0.3% and at least 1% of the remainder, respectively. Individuals eligible for the employee bonuses may include employees of affiliated companies as approved by the board of directors or a representative of the board of directors;
- d. Dividends to holders of preferred shares at a 3.5% annual rate are based on the period which the preferred shares have been outstanding. Following the redemption of all its issued and outstanding preferred shares on May 29, 2003, the Company amended its Article of Incorporation on June 3, 2003 to remove the provision for issuance of any future dividends to preferred shareholders as of that date; and

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e. The appropriation of any remaining balance shall be approved by the shareholders.

Dividends may be distributed in shares of common stock or a combination of cash and common stock. Distributions of profits are preferably made in the form of stock dividend. The total of cash dividends paid in any given year may not exceed 50% of total dividends distributed in that year.

Any appropriations of net income are recorded in the financial statement in the year of shareholder approval.

The appropriation for legal reserve shall be made until the reserve equals the aggregate par value of the Company's outstanding capital stock. The reserve can only be used to offset an accumulated deficit or be distributed as a stock dividend up to 50% of the reserve balance when the reserve balance has reached 50% of the aggregate par value of the outstanding capital stock of the Company.

A special reserve equivalent to the debit balance of any account shown in the shareholder's equity section of the balance sheet (for example, unrealized loss on long-term investments and cumulative translation adjustments), shall be made from unappropriated retained earnings pursuant to existing regulations promulgated by the R.O.C Securities and Futures Commission (SFC). The special reserve is allowed to be appropriated to the extent that the debit balance of such accounts is reversed.

The appropriations of earnings for 2003 and 2002 were approved in the shareholders' meeting on May 11, 2004 and June 3, 2003, respectively. The appropriations and dividend per share are as follows:

| | Appropriation of Earnings | | Dividend Per Share (NT\$) | |
|---|----------------------------------|---------------------------------|---|---|
| | For Fiscal Year 2003 | For Fiscal Year 2002 | For Fiscal Year 2003 | For Fiscal Year 2002 |
| Legal reserve | \$ 4,725,870 | \$ 2,161,029 | | |
| Special reserve | (68,945) | 68,945 | | |
| Bonus paid to employees in cash | 681,628 | | | |
| Bonus paid to employees in stock | 2,726,514 | 1,539,013 | | |
| Preferred stock dividend in cash | 184,493 | 455,000 | 0.35 | 0.35 |
| Common stock dividend in cash | 12,159,971 | | 0.60 | |
| Common stock dividend in stock | 28,373,267 | 14,898,309 | 1.41 | 0.80 |
| Remuneration to directors and supervisors in cash | 127,805 | 58,485 | | |
| | \$48,910,603 | \$19,180,781 | | |

The amount of above appropriation of earnings for 2003 and 2002 is consistent with the resolution of the meetings of board of directors on February 17, 2004 and March 4, 2003, respectively. However, the Company Law of R.O.C. states that treasury stock shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolution. If

the above employee bonus and remuneration to directors and supervisors had been paid in cash and charged against income for 2003 and 2002, the basic earnings per share for the years ended December 31, 2003 and 2002 would decrease from NT\$2.33 to NT\$2.15 and NT\$1.14 to NT\$1.05, respectively. The shares distributed as a bonus to employees represented 1.35 % and 0.83 % of the Company's total outstanding common shares as of December 31, 2003 and 2002, respectively.

The above information associated with the appropriations of bonus to employees and remuneration to directors and supervisors is available at Market Observation System website.

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Under the Integrated Income Tax System that became effective on January 1, 1998, ROC resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated as of January 1, 1998. An imputation credit account is maintained by the Company for such income tax and the tax credit allocated to each shareholder.

Preferred Shareholders

The Company issued 1,300,000 thousand shares of unlisted Series A preferred stock to certain investors on November 29, 2000. All of the preferred stock was redeemed at par value and retired on May 29, 2003. Under the Company's Articles of Incorporation, as amended on June 3, 2003, the Company is no longer authorized to issue preferred stock.

The preferred shareholders had the following rights and related terms and conditions prior to redemption:

Preferred shareholders

- a. Are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- b. Are not entitled to receive any common stock dividends (whether declared out of unappropriated earnings or capital surplus).
- c. Have priority over the holders of common shares to the assets of TSMC available for distribution to shareholders upon liquidation or dissolution; however, the pre-emptive rights to the assets shall not exceed the issue value of the shares.
- d. Have voting rights similar to that of the holders of common shares.
- e. Have no right to convert their shares into common shares. The preferred shares are to be redeemed within thirty months from their issuance. The preferred shareholders have the aforementioned rights and the Company's related obligations remain the same until the preferred shares are redeemed by the Company.

15. STOCK-BASED COMPENSATION PLANS

On October 29, 2003 and June 25, 2002, the SFC approved The Company's Employee Stock Option Plans (the 2003 Plan and the 2002 Plan, respectively). The maximum number of units authorized to be granted under the 2003 Plan and the 2002 Plan was 120,000 thousand and 100,000 thousand, respectively, with each unit representing one common share of stock. The option rights may be granted to qualified employees of the Company, TSMC North America, and WaferTech, LLC, (WaferTech, an indirectly owned subsidiary of the Company). The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of both plans, stock option rights are granted at an exercise price equal to the closing price of the Company's common shares listed on the TSE on the date of grant. Under the 2002 Plan, there were 57,239 thousand option rights had never been granted, or had been granted and subsequently cancelled. These un-granted or cancelled option rights expired as of June 30, 2004.

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Information of outstanding stock option rights for the six months ended June 30, 2004 and 2003 under the 2003 Plan and the 2002 Plan is as follows:

| | 2003 Plan | | 2002 Plan | |
|---------------------------------------|---|---|---|--|
| | Number of Outstanding Stock Option Rights (In Thousands) | Weighted- Average Exercise Price (NT\$) | Number of Outstanding Stock Option Rights (In Thousands) | Weighted- Average Exercise Prices (NT\$) |
| <u>Six months ended June 30, 2004</u> | | | | |
| Beginning balance | 842 | 57.8 | 48,515 | 42.7 |
| Options granted | 12,891 | 50.0 | 7,200 | 42.6 |
| Options cancelled | (377) | 51.5 | (2,133) | 44.0 |
| | <hr/> | | <hr/> | |
| Ending balance | 13,356 | | 53,582 | |
| | <hr/> | | <hr/> | |
| <u>Six months ended June 30, 2003</u> | | | | |
| Beginning balance | | | 19,369 | 52.9 |
| Options granted | | | 21,792 | 54.6 |
| Options cancelled | | | (600) | 52.8 |
| | | | <hr/> | |
| Ending balance | | | 40,561 | |
| | | | <hr/> | |

The number of outstanding option rights and exercise prices have been adjusted to reflect the appropriations of dividends in accordance with the plans.

As of June 30, 2004, there are no exercisable stock option rights. Information on outstanding option rights is as follows:

| | Option Outstanding | | |
|--|---|---|--|
| | Number of Outstanding Options (In Thousands) | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price (NT\$) |
| <u>Range of Exercise Prices (NT\$)</u> | <hr/> | <hr/> | <hr/> |

| | | | |
|-----------------------|---------------|------|------|
| 2003 Plan (49.9-57.8) | <u>13,356</u> | 9.84 | 50.4 |
| 2002 Plan (32.8-46.2) | <u>53,582</u> | 8.59 | 42.6 |
| Total (32.8-57.8) | <u>66,938</u> | 8.84 | 44.2 |

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The compensation cost recognized for the six months ended June 30, 2004 was zero. If the Company uses fair-value based method to evaluate the options granted, the method, assumptions and pro forma results of the Company for the six months ended June 30, 2004 would be as follows:

| Method: | Black-Scholes model |
|----------------------------------|--------------------------------|
| Assumptions: | |
| Expected dividend yield | 1.00% |
| Expected volatility | 43.19%-43.25% |
| Risk free interest rate | 3.07%-3.85% |
| Expected life | 5 years |
| Net income: | |
| Net income as reported | \$ 42,198,802 |
| Pro forma net income | 42,184,898 |
| Earnings per share (EPS) (NT\$): | |
| Basic EPS as reported | 1.81 |
| Pro forma basic EPS | 1.81 |
| Diluted EPS as reported | 1.81 |
| Pro forma diluted EPS | 1.81 |

The estimated weighted average fair value for the options granted under the 2003 Plan during the six-month period ended June 30, 2004 was NT\$19.75 per option.

16. TREASURY STOCK (COMMON STOCK)

| | (Shares in Thousand) | | | |
|---|-----------------------------|-------------------------------|-----------------|--------------------------|
| | Beginning Shares | Increase/ Dividend | Decrease | Ending Shares |
| <u>Six months ended June 30, 2004</u> | | | | |
| Reclassification of parent company stock held by subsidiaries from long-term investment | 40,597 | 5,676 | 303 | 45,970 |
| Maintaining the shareholders' equity | _____ | 124,720 | _____ | 124,720 |
| | 40,597 | 130,396 | 303 | 170,690 |
| <u>Six months ended June 30, 2003</u> | | | | |
| Reclassification of parent company stock held by subsidiaries from long-term investment | 42,001 | _____ | 40 | 41,961 |

Proceeds from sale of treasury stock held by subsidiaries for the six months ended June 30, 2004 and 2003 were NT\$18,218 thousand and NT\$1,876 thousand, respectively. As of June 30, 2004 and 2003, the book value of the

stock held by subsidiaries was NT\$1,616,669 thousand and NT\$1,922,049 thousand, respectively; the market value was NT\$2,247,024 thousand and NT\$2,463,723 thousand, respectively. Capital stock held by subsidiaries as an investment is recorded as treasury stock with the holder having the same rights as other common shareholders.

In order to maintain the shareholders' equity, the Company held a special meeting of the Board of Directors and approved a share buyback plan to purchase the Company's common shares listed on the TSE from its shareholders during the period from March 24, 2004 to May 23, 2004. The purchased shares will be cancelled and deducted from the Company's current outstanding common shares. The maximum number of shares of treasury stock that the Company can hold is 300,000 thousand shares while the prices of the range from NT\$38.5 to NT\$95 per share. As of June 30, 2004, the share buyback plan has ended and the Company has purchased 124,720 thousand common shares for a total of NT\$7,059,798 thousand. As of July 13, 2004, the treasury stock has not been retired.

Table of Contents**17. EARNINGS PER SHARE**

EPS is computed as follows:

| Amounts (Numerator) | | Shares (Denominator) | EPS (NT\$) | |
|----------------------------|--|---------------------------------|----------------------------------|---------------------------------|
| | | | Before Income Tax | After Income Tax |
| | | (Thousand) | Before Income Tax | After Income Tax |

Six months ended June 30, 2004

The potential common shares issuable under the employee stock option plans (see Note 15) are included in the denominator of the diluted EPS computation by using the treasury stock method under the Statement of Financial Accounting Statement No. 24 Earning Per Share, however, such shares resulted in a non-dilutive per share amount for the six months ended June 30, 2003.

18. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

- a. Industrial Technology Research Institute (ITRI), the Chairman of the Company is one of its directors
- b. Philips, a major shareholder of the Company
- c. Subsidiaries

TSMC North America
TSMC Europe
TSMC Japan

- d. Investees

VIS
GUC
SSMC

- e. Indirect subsidiaries

WaferTech
TSMC Technology Inc. (TSMC Technology)

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The significant transactions with the aforementioned parties in addition to those disclosed in other Notes are summarized as follows:

| | Six Months Ended June 30 | | | |
|--|---------------------------------|-------------------|-----------------------------|-------------------|
| | 2004 | | 2003 | |
| | Amount | % | Amount | % |
| <u>For the period</u> | | | | |
| Sales | | | | |
| TSMC North America | \$68,191,878 | 55 | \$52,570,870 | 58 |
| Philips and its affiliates | 2,712,508 | 2 | 1,396,502 | 2 |
| Others | 205,544 | | 369,015 | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$71,109,930 | 57 | \$54,336,387 | 60 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Purchases | | | | |
| WaferTech | \$ 7,505,754 | 35 | \$ 4,669,299 | 32 |
| VIS | 4,247,055 | 19 | 2,286,535 | 16 |
| SSMC | 3,050,439 | 14 | 2,676,309 | 19 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$14,803,248 | 68 | \$ 9,632,143 | 67 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Manufacturing expenses technical assistance fee (see Note 20a) | | | | |
| Philips | \$ 808,072 | 1 | \$ 1,493,877 | 3 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Marketing expenses commission | | | | |
| TSMC Japan | \$ 139,243 | 14 | \$ 63,642 | 10 |
| TSMC Europe | 105,175 | 11 | 47,577 | 7 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 244,418 | 25 | \$ 111,219 | 17 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Sale of property, plant, and equipment | | | | |
| VIS | \$ 32,960 | 13 | \$ 8,098 | 6 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Non-operating income and gain | | | | |
| SSMC (mainly technical service income, see Note 20e) | \$ 149,362 | 5 | \$ 54,811 | 6 |

| | | | | |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|
| VIS | 29,763 | 1 | 271 | |
| WaferTech | 2,076 | | 81 | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 181,201 | 6 | \$ 55,163 | 6 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| <u>At end of the period</u> | | | | |
| Receivables | | | | |
| TSMC North America | \$17,029,287 | 94 | \$14,490,662 | 96 |
| Philips and its affiliates | 922,713 | 5 | 508,535 | 3 |
| Others | 178,742 | 1 | 187,793 | 1 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$18,130,742 | 100 | \$15,186,990 | 100 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

(Continued)

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| | Six Months Ended June 30 | | | |
|--|---------------------------------|------------|--------------------|------------|
| | 2004 | | 2003 | |
| | Amount | % | Amount | % |
| Payables | | | | |
| VIS | \$ 1,844,800 | 40 | \$ 996,832 | 28 |
| WaferTech | 1,296,351 | 28 | 930,867 | 26 |
| Philips and its affiliates | 745,428 | 16 | 1,160,377 | 32 |
| SSMC | 685,240 | 15 | 395,253 | 11 |
| Others | 90,182 | 1 | 107,688 | 3 |
| | \$4,662,001 | 100 | \$3,591,017 | 100 |
| Other payables to related parties (excluding current portion which is under payables to related parties. See Note 20a) | | | | |
| Philips and its affiliates | \$3,622,369 | 100 | | |
| Refundable deposits | | | | |
| VIS | \$ | | \$ 349,204 | 93 |

The terms of sales to related parties and the terms of the sales of property, plant and equipment to related parties are not significantly different from those to third parties. For other related parties transactions, since no other similar transactions to follow, the prices are determined in accordance with the related contractual agreements.

19. SIGNIFICANT LONG-TERM OPERATING LEASES

The Company leases land from the Science-Based Industrial Park Administration. These agreements expire on various dates from March 2008 to December 2020. The agreements can be renewed upon their expiration.

As of June 30, 2004, future remaining lease payments are as follows:

| Year | Amount |
|---------------------------|---------------|
| 2004 (3rd to 4th quarter) | \$ 117,674 |
| 2005 | 235,348 |
| 2006 | 235,348 |
| 2007 | 235,348 |
| 2008 | 210,687 |
| 2009 and thereafter | 1,617,858 |

\$2,652,263

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20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of June 30, 2004 are as follows:

- a. On June 20, 2004, the Company and Philips revised the Technical Cooperation Agreement, which was originally signed on May 12, 1997, with effective date from January 1, 2004 for five years. Upon expiration, this amended Technical Cooperation Agreement will be terminated at the expiration date and will not be automatically renewed. Under this amended Technical Cooperation Agreement, the Company will pay Philips royalties based on fixed amounts mutually agreed-on, rather than under certain percentage of the Company's annual net sales. The Company and Philips also agree to cross license the patents owned by each party.
- b. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of June 30, 2004, the Company had a total of US\$17,616 thousand of guarantee deposits.
- d. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. On March 30, 1999, the parties formed a joint venture company, SSMC, for the purpose of constructing an integrated circuit foundry in Singapore. As of June 30, 2004, the Company's equity interest in SSMC was 32%. The Company and Philips committed to buy specific percentages of the production capacity of SSMC. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. The Company provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling price of certain products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- f. The Company provided guarantees on loans amounting to US\$60,000 thousand, US\$40,000 thousand and US\$440,000 thousand for TSMC Development, Inc. (TSMC Development), TSMC North America and WaferTech, respectively.
- g. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the termination agreement, the Company is relieved of further obligation to transfer additional technology. In addition, the Company granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- h. Beginning in 2001, the Company entered into several licensing arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be made in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability

with the corresponding amounts recorded as deferred charges which are amortized and charged to cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.

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- i. In November 2002, the Company entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Motorola, Inc. and STMicroelectronics to jointly develop 90-nanometer to 65-nanometer advanced CMOS Logic and e-DRAM technologies. The Company also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. The Company will contribute process technologies and share a portion of the costs associated with this joint development project.

- j. In December 2003, the Company entered into a Technology Development and License Agreement with Motorola Inc. to jointly develop 65nm SOI (silicon on insulator) technology. The Company will also license related 90nm SOI technology from Motorola. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company will pay royalty to Motorola, Inc. and will share a portion of the costs associated with the joint development project.

- k. In December 2003, the Company filed a lawsuit in the US District Court for the Northern District of California against Semiconductor Manufacturing International Corporation (SMIC) and certain of its subsidiaries for patent infringement seeking injunctive relief and monetary damages. In May 2004, the Company filed a separate suit against SMIC and certain of its subsidiaries in Alameda County of California for trade secret misappropriation seeking injunctive relief and monetary damages. The probable outcome in either forum cannot be reasonably estimated.

1. Amounts available under unused letters of credit as of June 30, 2004 were NT\$6,480 thousand, US\$15 thousand and SG\$85 thousand.

21. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFC for the Company and its investees:

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the capital: Please see Table 7 attached;
- i. Names, locations, and related information of investee on which the Company exercises significant influence: Please see Table 8 attached;

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j. Financial instrument transactions:

1) Derivative financial instruments

The Company entered into derivative financial instrument transactions for the six-month period ended June 30, 2004 to manage exposures related to foreign-currency denominated receivables or payables, and interest rate fluctuations. Certain information on these contracts is as follows:

a) Outstanding forward exchange contracts as of June 30, 2004 are as follows:

| Financial Instruments | Period | Contract Amount (Nominal) (In Thousand) |
|------------------------------|-------------------------|--|
| Sell | July 2004 to April 2005 | US\$ 2,158,000 (US\$/NT\$) |
| Sell | August 2004 | EUR 20,000 (EUR/US\$) |

As of June 30, 2004, payables to forward exchange contracts (included in the other current liabilities account) aggregate approximately NT\$903,322 thousand. Net exchange losses for the six months ended June 30, 2004 was NT\$69,938 thousand.

b) Interest rate swaps

The Company entered into interest rate swap contracts to manage related interest rates on its long-term loans. Net interest income on these transactions for the six months ended June 30, 2004 was NT\$9,292 thousand. Outstanding contracts as of June 30, 2004 were as follows:

| Contract Date | Period | Contract Amount (Nominal) (In Thousand) |
|----------------------|---|--|
| September 19, 2003 | September 22, 2003 to December 15, 2005 | \$ 500,000 |
| October 16, 2003 | October 20, 2003 to December 15, 2005 | 500,000 |
| October 16, 2003 | October 20, 2003 to December 15, 2005 | 500,000 |
| October 17, 2003 | October 21, 2003 to December 15, 2005 | 500,000 |
| October 17, 2003 | October 20, 2003 to December 15, 2005 | 500,000 |
| November 7, 2003 | November 11, 2003 to December 15, 2005 | 500,000 |

c) Transaction risk

i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss incurred by the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter-parties are low.

ii)

Market price risk. All derivative financial instruments are intended as hedges for fluctuations in currency exchange rates on the Company's foreign currency denominated receivables or payables and interest rate fluctuations on its floating rate long-term loans. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from the hedged receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks are believed to be minimal.

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iii) Liquidity and cash flow risk and uncertainty of amount and term of future cash demand.

As of June 30, 2004, the Company's future cash demand for outstanding forward exchange contracts, interest rate swaps and option contracts are as follows:

| Term | Forward Exchange Contracts | |
|-----------------|-----------------------------------|----------------------------------|
| | Inflow (In Thousand) | Outflow (In Thousand) |
| Within one year | NT\$71,986,263 US\$24,132 | US\$2,158,000 EUR 20,000 |

The Company has sufficient operating capital to meet the above cash demand. The interest rate of the interest rate swaps has taken the Company's cost of capital into account. In addition, the exchange rates of forward foreign exchange contracts and interest swap contracts are fixed. Therefore, there is no material fund raising risk and cash flow risk.

2) The fair values of financial instruments were as follows:

| | June 30 | | | |
|--|----------------------------|-------------------|----------------------------|-------------------|
| | 2004 | | 2003 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Non-derivative financial instruments</u> | | | | |
| Assets | | | | |
| Short-term investments | \$41,199,013 | \$41,491,242 | \$ 3,054,050 | \$ 3,057,705 |
| Long-term investments | 49,216,494 | 57,269,033 | 35,121,987 | 38,358,044 |
| Liabilities | | | | |
| Bonds payable (includes current portion) | 35,000,000 | 35,729,923 | 35,000,000 | 35,838,341 |
| <u>Derivative financial instruments</u> | | | | |
| Forward exchange contracts (buy) | | | (39,769) | (39,560) |
| Forward exchange contracts (sell) | (903,322) | (538,407) | (104,205) | (65,798) |
| Interest rate swaps | | (26,956) | 986 | (22,130) |
| Foreign currency options | | | 772 | (87,415) |

The above financial instruments do not include cash and cash equivalents, receivables, other financial assets, payables, and payable to contractors and equipment suppliers. The carrying amounts of aforementioned instruments reported in the balance sheet are approximate to their fair values.

The above financial instruments also exclude refundable deposits, guarantee deposits and other long-term payables. The future cash inflow and outflow of the deposits approximate to their fair values and fair value of other long-term payables approximates to the carrying value.

Fair values of financial instruments were determined as follows:

- a) Fair value of short-term and long-term investments is based on quoted market prices. If quoted market prices are unavailable, fair value is based on net asset value or book value of investment.
- b) The fair value of bonds payable is the quoted market value.

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- c) Fair value of derivative financial instruments is the estimated net receivable or (payable) if the contracts are terminated on the relevant balance sheet date.

The fair values of some financial and non-financial instruments are not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not represent the fair value of the Company as a whole.

k. Information on investment in Mainland China

- 1) The name of the investee company in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, ratio of ownership, equity in the net gain or net loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Please see Table 9 attached.
- 2) Significant direct or indirect transactions with the investee company, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None.

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TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

FINANCING PROVIDED

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| No. | Financing Name | Counter-party | Financial Statement Account | Maximum Balance for the Period (US\$ in Thousand) | Ending Balance (US\$ in Thousand) | Interest Rate | Type of Financing (Note 1) |
|-----|-----------------------|---------------------|--------------------------------|--|--|------------------|--|
| 1 | TSMC International | TSMC Technology | Other receivables | \$ 337,750 US\$ (10,000) | \$ 337,750 US\$ (10,000) | 4.00% | 2 |
| | | TSMC Development | Other receivables | 2,026,500 US\$ (60,000) | 2,026,500 US\$ (60,000) | 1.50% | 2 |
| 2 | TSMC Partners | TSMC Development | Other receivables | 2,702,000 US\$ (80,000) | 2,702,000 US\$ (80,000) | 1.50% | 2 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| No. | Financing Name | Transaction Amounts | Reasons for Short-term Financing | Allowance for Bad Debt | Collateral Item | Value | Financing Limit for Each Borrowing Company | Financing Company s Financing Amount Limits (US\$ in Thousand) |
|-----|--------------------|------------------------|--|------------------------------|--------------------|-------|--|--|
| 1 | TSMC International | \$ | Operating capital | \$ | | \$ | N/A | \$ 33,368,627 US\$ (987,968) (Note 2) |

| | | | | |
|---|---------------|--|-----|----------|
| 2 | TSMC Partners | Operating capital Operating capital | N/A | (Note 3) |
|---|---------------|--|-----|----------|

Note 1: The No. 2 represents necessary for short-term financing.

Note 2: Not exceeding the issued capital of the Company.

Note 3: Generally not exceeding the issued capital of the Company, unless approved by all members of the board.

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TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

ENDORSEMENT/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2004

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| No. | Endorsement/ Guarantee Provider | Counter-party | | Limits on Each Counter-party s Endorsement/ Guarantee Amounts | Maximum Balance for the Period (US\$ in Thousand) |
|-----|------------------------------------|-----------------------|---|--|--|
| | | Name | Nature of Relationship (Note 2) | | |
| 0 | The Company | TSMC Development | 3 | Not exceed 10% of the net worth of the Company, and also limiting to the total capital issued of the endorsement/guarantee company, unless otherwise approved by Board of Directors. | \$2,026,500 US\$(60,000) |
| | | TSMC-North America | 2 | | 1,351,000 US\$(40,000) |
| | | WaferTech | 3 | | 14,861,000 US\$(440,000) |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| No. | Endorsement/ Guarantee Provider | Ending Balance (US\$ in Thousand) | Value of Collateral Property, Plant and Equipment | Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement | Maximum Collateral/Guarantee Amounts Allowable (Note 1) |
|-----|------------------------------------|--------------------------------------|---|---|--|
| 0 | The Company | \$2,026,500 US\$(60,000) | | 0.58% | \$87,768,438 |
| | | 1,351,000 US\$(40,000) | | 0.38% | |

| | |
|---------------|-------|
| 14,861,000 | |
| US\$(440,000) | 4.23% |

Note 1: 25% of the net worth of the Company as of June 30, 2004.

Note 2: The No. 2 represents a subsidiary in which the Company holds directly over 50% of the equity interest.
The No. 3 represents an investee in which the Company holds directly and indirectly over 50% of the equity interest.

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TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

JUNE 30, 2004

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| | | June 30, 2004 | | | | |
|-------------------------|---|-------------------------------|-----------------------------|----------------------------|--------------------|-------------------------|
| Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value | Market |
| | | | | | (US\$ in Thousand) | Percentage of Ownership |
| <u>Government bonds</u> | | | | | | |
| | 2003 Government Bond Series A | | Short-term investment | | \$ 1,207,409 | N/A |
| | 2002 Government Bond Series J | | Short-term investment | | 2,023,206 | N/A |
| | 2003 Government Bond Series I | | Long-term investment | | 3,401,654 | N/A |
| | 2004 Government Bond Series A | | Long-term investment | | 3,891,458 | N/A |
| | 2004 Government Bond Series E | | Long-term investment | | 1,600,365 | N/A |
| | United States Treas NTS | | Short-term investment | | US\$ 114,396 | N/A |
| | <u>Bonds under repurchase agreement</u> | | Short-term investment | | 3,355,145 | N/A |
| <u>Bond funds</u> | | | | | | |
| | JF Taiwan Bond Fund | | Short-term investment | 102,364 | 1,500,000 | N/A |
| | ABN AMRO Bond Fund | | Short-term investment | 186,363 | 2,700,000 | N/A |
| | JF Taiwan First Bond Fund | | Short-term investment | 110,580 | 1,500,000 | N/A |
| | INVESCO R.O.C. Bond A Fund | | Short-term investment | 69,692 | 1,000,000 | N/A |
| | Dresdner Bond DAM Fund | | Short-term investment | 80,833 | 900,000 | N/A |
| | Barits Bond Fund | | Short-term investment | 59,679 | 700,000 | N/A |
| | Shinkong Chi Shin Bond Fund | | Short-term investment | 115,606 | 1,600,000 | N/A |
| <u>Stock</u> | | | | | | |
| | Taiwan Mask Corp. | | Short-term investment | 1,787 | 6,528 | |
| | TSMC-North America | Subsidiary | Long-term investment | 11,000 | 474,695 | 100 |
| | TSMC Europe | Subsidiary | Long-term investment | | 23,764 | 100 |
| | TSMC Japan | Subsidiary | Long-term investment | 6 | 100,521 | 100 |

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| | | | | | | |
|-------------------------------------|------------|----------------------|---------|------------|-----|------|
| VIS | Investee | Long-term investment | 787,016 | 4,667,952 | 28 | 10,8 |
| TSMC International | Subsidiary | Long-term investment | 987,968 | 23,708,232 | 100 | 23,7 |
| TSMC Partners | Subsidiary | Long-term investment | 300 | 4,113,671 | 100 | 4,1 |
| SSMC | Investee | Long-term investment | 382 | 3,181,111 | 32 | 3,1 |
| GUC | Investee | Long-term investment | 39,040 | 362,629 | 47 | 3 |
| VisEra | Investee | Long-term investment | 5,100 | 51,825 | 25 | |
| United Industrial Gases Co., Ltd. | | Long-term investment | 16,783 | 193,584 | 11 | 3 |
| Shin-Etsu Handotai Taiwan Co., Ltd. | | Long-term investment | 10,500 | 105,000 | 7 | 1 |
| W.K. Technology Fund IV | | Long-term investment | 5,000 | 50,000 | 2 | |
| Hontung Ventures Capital Co., Ltd. | | Long-term investment | 8,392 | 83,916 | 10 | |

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| | | June 30, 2004 | | | | |
|---------------------|--|--------------------------------------|------------------------------------|-----------------------------------|--------------------------------|--|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Percentage of Ownership | Market Value or Net Asset Value |
| | | | | | | (US\$ in Thousand) |
| | <u>Certificate</u> | | | | | |
| | Chi Cherng | Investee | Long-term investment | 42,990 | 36 | 501,554 |
| | Hsin Ruey | Investee | Long-term investment | 42,673 | 36 | 502,185 |
| | <u>Corporate bonds</u> | | | | | |
| | Allstate Finl Global Fdg LLC | | Short-term investment | US\$ 3,171 | N/A | US\$ 3,151 |
| | American Express Cr Corp. Mtn | | Short-term investment | US\$ 3,503 | N/A | US\$ 3,506 |
| | American Gen Fin Corp. Mtn | | Short-term investment | US\$ 6,832 | N/A | US\$ 6,809 |
| | American Honda Fin Corp. Mtn | | Short-term investment | US\$ 7,258 | N/A | US\$ 7,253 |
| | American Intl Group Inc. Mtnf | | Short-term investment | US\$ 3,795 | N/A | US\$ 3,810 |
| | Amsouth Bk Birmingham Ala | | Short-term investment | US\$ 1,972 | N/A | US\$ 1,964 |
| | Bank New York Inc. | | Short-term investment | US\$ 3,945 | N/A | US\$ 3,933 |
| | Bank One Corp. | | Short-term investment | US\$ 3,693 | N/A | US\$ 3,691 |
| | Bear Stearns Cos Inc. | | Short-term investment | US\$ 3,805 | N/A | US\$ 3,791 |
| | Bristol Myers Squibb Co. | | Short-term investment | US\$ 3,819 | N/A | US\$ 3,819 |
| | Cardinal Health Inc. | | Short-term investment | US\$ 3,837 | N/A | US\$ 3,816 |
| | Cargill Inc. | | Short-term investment | US\$ 2,120 | N/A | US\$ 2,110 |
| | Citigroup Inc. | | Short-term investment | US\$ 3,583 | N/A | US\$ 3,560 |
| | Compaq Computer Corp. | | Short-term investment | US\$ 3,719 | N/A | US\$ 3,690 |
| | Consolidated Edison Co NY Inc. | | Short-term investment | US\$ 3,688 | N/A | US\$ 3,691 |
| | Countrywide Fdg Corp. Mtn | | Short-term investment | US\$ 3,534 | N/A | US\$ 3,523 |
| | Credit Suisse Fb USA Inc. | | Short-term investment | US\$ 2,645 | N/A | US\$ 2,627 |
| | Credit Suisse First Boston USA | | Short-term investment | US\$ 3,177 | N/A | US\$ 3,164 |

| | | | | |
|--------------------------------|-----------------------|------------|-----|------------|
| Diageo PLC | Short-term investment | US\$ 3,459 | N/A | US\$ 3,458 |
| Fifth Third Bk Cincinnati OH | Short-term investment | US\$ 2,419 | N/A | US\$ 2,447 |
| General Elec Cap Corp. Mtn | Short-term investment | US\$ 3,507 | N/A | US\$ 3,502 |
| Genworth Finl Inc. | Short-term investment | US\$ 2,000 | N/A | US\$ 1,998 |
| Goldman Sachs Group LP | Short-term investment | US\$ 3,820 | N/A | US\$ 3,790 |
| Goldman Sachs Group LP | Short-term investment | US\$ 1,100 | N/A | US\$ 1,089 |
| Hershey Foods Corp. | Short-term investment | US\$ 1,627 | N/A | US\$ 1,622 |
| Hewlett Packard Co. | Short-term investment | US\$ 3,373 | N/A | US\$ 3,345 |
| Honeywell Inc. | Short-term investment | US\$ 3,284 | N/A | US\$ 3,266 |
| Household Fin Corp. | Short-term investment | US\$ 7,254 | N/A | US\$ 7,218 |
| Huntington Natl Bk | Short-term investment | US\$ 3,003 | N/A | US\$ 3,002 |
| Huntington Natl Bk Columbus | Short-term investment | US\$ 2,954 | N/A | US\$ 2,959 |
| ING Sec Life Ins Ingsf | Short-term investment | US\$ 3,012 | N/A | US\$ 3,008 |
| Intl Bk For Recon + Dev | Short-term investment | US\$ 5,232 | N/A | US\$ 5,218 |
| JP Morgan Chase + Co. | Short-term investment | US\$ 6,766 | N/A | US\$ 6,755 |
| KFW Intl Fin Inc. | Short-term investment | US\$ 5,104 | N/A | US\$ 5,088 |
| Lehman Brothers Hldgs Inc. | Short-term investment | US\$ 3,417 | N/A | US\$ 3,383 |
| Monumental Global Fdg II 2002A | Short-term investment | US\$ 2,084 | N/A | US\$ 2,086 |

(Continued)

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| | | | | | | | June 30, 2004 |
|---|-------------------------------------|-------------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|----------------------------|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value of Net Assets |
| | | | | | | | (US\$ in Thousand) |
| Morgan Stanley Group Inc. | | | Short-term investment | US\$ 3,712 | N/A | US\$ 3,6 | |
| Morgan Stanley Group Inc. | | | Short-term investment | US\$ 2,104 | N/A | US\$ 2,1 | |
| Nationsbank Corp. | | | Short-term investment | US\$ 3,644 | N/A | US\$ 3,6 | |
| Nationalwide Bldg Soc | | | Short-term investment | US\$ 3,457 | N/A | US\$ 3,4 | |
| Nationwide Life Global Mtn | | | Short-term investment | US\$ 3,413 | N/A | US\$ 3,4 | |
| Pepsico Inc Mtn Book Entry | | | Short-term investment | US\$ 3,818 | N/A | US\$ 3,8 | |
| Premark Intl Inc. | | | Short-term investment | US\$ 2,954 | N/A | US\$ 2,9 | |
| Pricoa Global Fdg I Mtn | | | Short-term investment | US\$ 3,507 | N/A | US\$ 3,5 | |
| Principal Life Global Fdg I GI | | | Short-term investment | US\$ 3,168 | N/A | US\$ 3,1 | |
| Protective Life Secd Trs | | | Short-term investment | US\$ 2,920 | N/A | US\$ 2,9 | |
| Prudential Ins Co. Amer | | | Short-term investment | US\$ 2,648 | N/A | US\$ 2,6 | |
| Salomon Smith Barney Hldgs Inc. | | | Short-term investment | US\$ 3,160 | N/A | US\$ 3,1 | |
| SBC Communications Inc. | | | Short-term investment | US\$ 3,681 | N/A | US\$ 3,6 | |
| SLM Corp. | | | Short-term investment | US\$ 2,498 | N/A | US\$ 2,5 | |
| SLM Corp. Medium Term NTS | | | Short-term investment | US\$ 2,950 | N/A | US\$ 2,9 | |
| TIAA Global Mkts Inc. | | | Short-term investment | US\$ 3,631 | N/A | US\$ 3,6 | |
| Tribune Co. Med Trm NTS | | | Short-term investment | US\$ 2,943 | N/A | US\$ 2,9 | |
| Unitedhealth Group Inc. | | | Short-term investment | US\$ 3,119 | N/A | US\$ 3,1 | |
| US Bk Natl Assn Cincinnati OH | | | Short-term investment | US\$ 2,669 | N/A | US\$ 2,6 | |
| Viacom Inc. | | | Short-term investment | US\$ 6,349 | N/A | US\$ 6,3 | |
| Vodafone Group PLC New | | | Short-term investment | US\$ 2,559 | N/A | US\$ 2,5 | |
| Wachovia Corp. | | | Short-term investment | US\$ 3,720 | N/A | US\$ 3,6 | |
| Wal Mart Cda Venture Corp. | | | Short-term investment | US\$ 3,670 | N/A | US\$ 3,6 | |
| Washington Mut Fin Corp. | | | Short-term investment | US\$ 3,725 | N/A | US\$ 3,6 | |
| Wells Fargo + Co. New | | | Short-term investment | US\$ 3,697 | N/A | US\$ 3,6 | |
| <u>Agency bonds</u> | | | | | | | |
| Federal Home Ln Mtg Corp. | | | Short-term investment | US\$58,487 | N/A | US\$58,5 | |
| Federal Natl Mtg Assn | | | Short-term investment | US\$78,423 | N/A | US\$78,1 | |
| Federal Home Ln Bks | | | Short-term investment | US\$66,912 | N/A | US\$66,8 | |
| Freddie Mac | | | Short-term investment | US\$ 4,929 | N/A | US\$ 4,9 | |
| <u>Corporate issued asset-backed securities</u> | | | | | | | |
| Americredit Automobile | | | Short-term investment | US\$ 6,949 | N/A | US\$ 6,8 | |
| BMW Veh Owner Tr | | | Short-term investment | US\$ 4,978 | N/A | US\$ 4,9 | |
| Capital One Auto Fin Tr | | | Short-term investment | US\$ 3,000 | N/A | US\$ 2,9 | |
| Daimlerchrysler Auto Tr | | | Short-term investment | US\$ 9,879 | N/A | US\$ 9,8 | |

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| | | | | |
|--------------------------------|-----------------------|-------------|-----|-------------|
| Fifth Third Auto Tr | Short-term investment | US\$ 3,000 | N/A | US\$ 3,000 |
| Ford Cr Auto Owner Tr | Short-term investment | US\$ 10,999 | N/A | US\$ 10,999 |
| GS Auto Ln Tr | Short-term investment | US\$ 2,948 | N/A | US\$ 2,948 |
| Honda Auto Receivables | Short-term investment | US\$ 5,000 | N/A | US\$ 5,000 |
| National City Auto Receivables | Short-term investment | US\$ 1,206 | N/A | US\$ 1,206 |
| Navistar Finl 2003 A Owner Tr | Short-term investment | US\$ 4,928 | N/A | US\$ 4,928 |
| Nissan Auto Receivables Own Tr | Short-term investment | US\$ 9,852 | N/A | US\$ 9,852 |

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| | | | | | | | June 30, 2004 | |
|--------------|-------------------------------------|-------------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|--------------------|--|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value | |
| | | | | | | | (US\$ in Thousand) | |
| | ONYX Accep Owner Tr | | Short-term investment | | US\$ 4,913 | N/A | US\$ | |
| | Toyota Auto Receivables 2003 B | | Short-term investment | | US\$ 4,970 | N/A | US\$ | |
| | Triad Auto Receivables Tr | | Short-term investment | | US\$ 5,042 | N/A | US\$ | |
| | Wachovia Auto Owner Tr | | Short-term investment | | US\$ 10,999 | N/A | US\$ | |
| | WFS Financial Owner Trust | | Short-term investment | | US\$ 5,008 | N/A | US\$ | |
| | Capital One Master Tr | | Short-term investment | | US\$ 3,093 | N/A | US\$ | |
| | Capital One Secd NT Tr | | Short-term investment | | US\$ 5,032 | N/A | US\$ | |
| | Citibank Cr Card Issuance Tr | | Short-term investment | | US\$ 4,959 | N/A | US\$ | |
| | First USA Credit Cr Master Tr | | Short-term investment | | US\$ 5,011 | N/A | US\$ | |
| | GE Cap Cr Card Master NT Tr | | Short-term investment | | US\$ 4,000 | N/A | US\$ | |
| | Aesop Fdg II LLC | | Short-term investment | | US\$ 4,955 | N/A | US\$ | |
| | Atlantic City Elc Trns Fdg LLC | | Short-term investment | | US\$ 1,045 | N/A | US\$ | |
| | California Infr + Economic Dev | | Short-term investment | | US\$ 8,016 | N/A | US\$ | |
| | California Infrs + Economic Dev | | Short-term investment | | US\$ 1,079 | N/A | US\$ | |
| | California Infrastructure Dev | | Short-term investment | | US\$ 6,701 | N/A | US\$ | |
| | Caterpillar Finl Asset Tr | | Short-term investment | | US\$ 4,999 | N/A | US\$ | |
| | Centex Home Equity Ln Tr | | Short-term investment | | US\$ 3,500 | N/A | US\$ | |
| | CIT Equip Coll Tr | | Short-term investment | | US\$ 4,999 | N/A | US\$ | |
| | GS Mtg Secs Corp | | Short-term investment | | US\$ 4,000 | N/A | US\$ | |
| | Monumentl Global Fdg II | | Short-term investment | | US\$ 3,500 | N/A | US\$ | |
| | Permanent Fing No 1 PLC | | Short-term investment | | US\$ 5,102 | N/A | US\$ | |
| | Providian Gateway Owner Tr | | Short-term investment | | US\$ 4,204 | N/A | US\$ | |
| | Reliant Energy Transition Bd | | Short-term investment | | US\$ 5,185 | N/A | US\$ | |
| | TXU Elec Delivery Transition | | Short-term investment | | US\$ 3,982 | N/A | US\$ | |
| | World Omni Auto Receivables Tr | | Short-term investment | | US\$ 5,000 | N/A | US\$ | |
| | Banc Amer Mtg Secs Inc. | | Short-term investment | | US\$ 4,030 | N/A | US\$ | |
| | Citicorp Mtg Secs | | Short-term investment | | US\$ 2,941 | N/A | US\$ | |
| | Cwmb Inc. | | Short-term investment | | US\$ 2,968 | N/A | US\$ | |
| | First Union Lehman Bros Mtg Tr | | Short-term investment | | US\$ 4,177 | N/A | US\$ | |
| | Holmes Fing No 8 PLC | | Short-term investment | | US\$ 5,001 | N/A | US\$ | |
| | <u>Equity</u> | | | | | | | |
| | Crimson Asia Capital Ltd., L.P. | | Long-term investment | | 37,392 | N/A | | |
| | Horizon Venture Fund I, L.P. | | Long-term investment | | 246,485 | N/A | 2 | |
| America | <u>Stock</u> | | | | | | | |
| | TSMC | Parent company | Short-term investment | 14,600 | 698,593 | | 7 | |

| | | | | | | |
|--------------------|-------------------|-----------------------|--------|-------------|----|---|
| <u>Stock</u> | | | | | | |
| TSMC | Parent company | Short-term investment | 15,670 | 458,564 | | 7 |
| <u>Certificate</u> | | | | | | |
| Hsin Ruey | Major shareholder | Long-term investment | | 903,612 | 64 | 9 |
| <u>Stock</u> | | | | | | |
| TSMC | Parent company | Short-term investment | 15,700 | 459,512 | | 7 |
| | | | | (Continued) | | |

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| | | | | | | | June 30, 2004 | |
|--------------|---|-------------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|--------------------|--|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value | |
| | | | | | | | (US\$ in Thousand) | |
| | <u>Certificate</u> | | | | | | | |
| | Chi Cherng | Major shareholder | Long-term investment | | \$902,821 | 64 | \$902,821 | |
| Additional | <u>Stock</u> | | | | | | | |
| | InveStar | Subsidiary | Long-term investment | 45,000 | US\$ 51,447 | 97 | US\$ 51,447 | |
| | InveStar II | Subsidiary | Long-term investment | 51,300 | US\$ 36,923 | 97 | US\$ 36,923 | |
| | TSMC Development | Subsidiary | Long-term investment | 1 | US\$567,256 | 100 | US\$567,256 | |
| | TSMC Technology | Subsidiary | Long-term investment | 1 | US\$ (8,029) | 100 | US\$ (8,029) | |
| | 3DFX Interactive Inc. | | Long-term investment | 68 | | | | |
| | <u>Money market fund</u> | | | | | | | |
| | BOA Fund | | Short-term investment | 30,300 | US\$ 30,300 | N/A | US\$ 30,300 | |
| Development | <u>Stock</u> | | | | | | | |
| | WaferTech | Subsidiary | Long-term investment | | US\$410,009 | 99 | US\$410,009 | |
| | <u>Common stock</u> | | | | | | | |
| | PLX Technology, Inc. | | Short-term investment | 40 | US\$ 77 | | US\$ 77 | |
| | RichTek Technology Corp. | | Short-term investment | 619 | US\$ 79 | 2 | US\$ 79 | |
| | Atheros Communications, Inc. | | Short-term investment | 1,205 | US\$ 3,593 | | US\$ 3,593 | |
| | Advanced Power Electronics Corp. | | Short-term investment | 843 | US\$ 439 | | US\$ 439 | |
| | Broadtek Electronics Corp. | | Short-term investment | 869 | US\$ 275 | 1 | US\$ 275 | |
| | Programmable Microelectronics (Taiwan), Corp. | | Long-term investment | 575 | US\$ 204 | 1 | US\$ 204 | |
| | Broadtek Electronics Corp. | | Long-term investment | 145 | US\$ 44 | 2 | US\$ 44 | |
| | Global Testing Corp. | | Long-term investment | 13,268 | US\$ 5,328 | 9 | US\$ 5,328 | |
| | RichTek Technology Corp. | | Long-term investment | 1,053 | US\$ 129 | | US\$ 129 | |
| | Signia Technologies, Inc. | | Long-term investment | 701 | US\$ 208 | 3 | US\$ 208 | |
| | Incentia Design Systems, Inc. | | Long-term investment | 365 | US\$ 91 | 1 | US\$ 91 | |
| | Advanced Power Electronics Corp. | | Long-term investment | 1,123 | US\$ 533 | | US\$ 533 | |
| | Capella Microsystems (Taiwan), Inc. | | Long-term investment | 530 | US\$ 157 | 4 | US\$ 157 | |
| | <u>Preferred stock</u> | | | | | | | |
| | SiRF Technology Holdings, Inc. | | Short-term investment | 306 | US\$ 1,333 | 1 | US\$ 1,333 | |
| | Integrated Memory Logic, Inc. | | Long-term investment | 1,831 | US\$ 1,221 | 12 | US\$ 1,221 | |
| | Sensory, Inc. | | Long-term investment | 1,404 | US\$ 125 | 5 | US\$ 125 | |
| | Sonics, Inc. | | Long-term investment | 2,686 | US\$ 3,530 | 4 | US\$ 3,530 | |

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|--------------------------------|----------------------|-------|------|-------|----|------|
| NanoAmp Solutions, Inc. | Long-term investment | 541 | US\$ | 853 | 2 | US\$ |
| Monolithic Power Systems, Inc. | Long-term investment | 2,521 | US\$ | 2,000 | 11 | US\$ |
| Memsic, Inc. | Long-term investment | 2,727 | US\$ | 1,500 | 10 | US\$ |
| Reflectivity, Inc. | Long-term investment | 1,064 | US\$ | 741 | 3 | US\$ |
| Match Lab, Inc. | Long-term investment | 1,875 | US\$ | 150 | 9 | US\$ |
| Oridus, Inc. (CreOsys, Inc.) | Long-term investment | 1,500 | US\$ | 300 | 8 | US\$ |
| IP Unity | Long-term investment | 1,008 | US\$ | 494 | 2 | US\$ |
| Tropian, Inc. | Long-term investment | 1,758 | US\$ | 940 | 3 | US\$ |

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| | | | | | | | June 30, 2004 | |
|------------------------|--|-------------------------------|-----------------------------|----------------------------|-----------------------------------|-------|-------------------------|---------------------------------|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value (US\$ in Thousand) | | Percentage of Ownership | Market Value (US\$ in Thousand) |
| | | | | | Value | Value | | |
| <u>Common stock</u> | | | | | | | | |
| | RichTek Technology Corp. | | Short-term investment | 290 | US\$ 216 | | | US\$ |
| | eChannel Option Holding, Inc. | | Long-term investment | 358 | US\$ 251 | | | US\$ |
| | eLCOS Microdisplay Technology, Ltd. | | Long-term investment | 270 | US\$ 27 | | | US\$ |
| | Signia Technologies (Taiwan), Inc. | | Long-term investment | 351 | US\$ 101 | 1 | | US\$ |
| | Procoat Technology, Inc. | | Long-term investment | 4,165 | US\$ 1,940 | 10 | | US\$ |
| | RichTek Technology Corp. | | Long-term investment | 494 | US\$ 367 | | | US\$ |
| | Programmable Microelectronics (Taiwan), Inc. | | Long-term investment | 177 | US\$ 50 | | | US\$ |
| | Auden Technology MFG. Co., Ltd. | | Long-term investment | 953 | US\$ 738 | 4 | | US\$ |
| | GeoVision, Inc. | | Long-term investment | 287 | US\$ 132 | 1 | | US\$ |
| | EoNex Technologies, Inc. | | Long-term investment | 55 | US\$ 3,048 | 6 | | US\$ |
| | Conwise Technology Corporation, Ltd. | | Long-term investment | 2,800 | US\$ 979 | 14 | | US\$ |
| | EON Technology, Corp. | | Long-term investment | 3,276 | US\$ 1,179 | 8 | | US\$ |
| | Goya Technology, Corp. | | Long-term investment | 2,088 | US\$ 545 | 8 | | US\$ |
| | Trendchip Technologies Corp. | | Long-term investment | 2,000 | US\$ 861 | 5 | | US\$ |
| | Ralink Technology (Taiwan), Inc. | | Long-term investment | 1,833 | US\$ 791 | 4 | | US\$ |
| | Silicon Data, Inc. | | Long-term investment | 2,000 | US\$ 204 | 5 | | US\$ |
| | Capella Microsystems (Taiwan), Inc. | | Long-term investment | 419 | US\$ 122 | 3 | | US\$ |
| <u>Preferred stock</u> | | | | | | | | |
| | SiRF Technology Holding, Inc. | | Short-term investment | 20 | US\$ 131 | | | US\$ |
| | Memsic, Inc. | | Long-term investment | 2,289 | US\$ 1,560 | 8 | | US\$ |
| | OEpic, Inc. | | Long-term investment | 4,997 | US\$ 1,317 | 8 | | US\$ |
| | NanoAmp Solutions, Inc. | | Long-term investment | 375 | US\$ 1,500 | 2 | | US\$ |
| | Advanced Analogic Technology, Inc. | | Long-term investment | 948 | US\$ 1,261 | 2 | | US\$ |
| | Monolithic Power Systems, Inc. | | Long-term investment | 804 | US\$ 1,946 | 4 | | US\$ |
| | Sonics, Inc. | | Long-term investment | 3,082 | US\$ 3,082 | 5 | | US\$ |
| | Newport Opticom, Inc. | | Long-term investment | 1,157 | US\$ 241 | 9 | | US\$ |
| | Reflectivity, Inc. | | Long-term investment | 4,255 | US\$ 2,205 | 8 | | US\$ |
| | Tropian, Inc. | | Long-term investment | 1,464 | US\$ 783 | 2 | | US\$ |
| | Match Lab, Inc. | | Long-term investment | 313 | US\$ 25 | 2 | | US\$ |
| | Kilopass Technology, Inc. | | Long-term investment | 3,887 | US\$ 2,000 | 19 | | US\$ |
| | eLCOS Microdisplay Technology, Ltd. | | Long-term investment | 2,667 | US\$ 3,500 | 15 | | US\$ |
| | FangTek, Inc. | | Long-term investment | 6,806 | US\$ 3,250 | 34 | | US\$ |
| | Alchip Technologies, Ltd. | | Long-term investment | 2,125 | US\$ 1,700 | 23 | | US\$ |

liance

Common stock

| | | | | | | |
|---------------------------------|----------------------|--------|------|---------|----|------|
| Global Investment Holding, Inc. | Long-term investment | 10,000 | | 100,000 | 6 | 10 |
| RichWave Technology Corp. | Long-term investment | 2,600 | US\$ | 867 | 13 | US\$ |

Preferred stock

| | | | | | | |
|-----------------------------|----------------------|-------|------|-------|---|------|
| Quake Technologies, Inc. | Long-term investment | 601 | US\$ | 450 | 1 | US\$ |
| Pixim, Inc. | Long-term investment | 1,721 | US\$ | 2,382 | 3 | US\$ |
| Newport Opticom, Inc. | Long-term investment | 962 | US\$ | 250 | 6 | US\$ |
| NetLogic Microsystems, Inc. | Long-term investment | 602 | US\$ | 1,850 | 1 | US\$ |
| Ikanos Communication, Inc. | Long-term investment | 7,446 | US\$ | 3,125 | 3 | US\$ |

(Continued)

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| | | | | | | | June 30, 2004 | |
|--------------|--|-------------------------------|-----------------------------|----------------------------|---------|----------------|-------------------------|--|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | US\$ in | Carrying Value | Percentage of Ownership | Market Value / Net Value (US\$ Thousand) |
| | | | | | | | | |
| | Quicksilver Technology, Inc. | | Long-term investment | 1,049 | US\$ | 2,011 | 4 | US\$ |
| | Mosaic Systems, Inc. | | Long-term investment | 2,481 | US\$ | 12 | 6 | US\$ |
| | Zenesis Technologies, Inc. | | Long-term investment | 861 | US\$ | 500 | 4 | US\$ |
| | Reflectivity, Inc. | | Long-term investment | 4,848 | US\$ | 2,479 | 6 | US\$ |
| | Iridigm Display, Co. | | Long-term investment | 254 | US\$ | 500 | 1 | US\$ |
| | Miriadia, Inc. (formerly XHP Microsystems, Inc.) | | Long-term investment | 3,040 | US\$ | 1,000 | 7 | US\$ |
| | Axiom Microdevices, Inc. | | Long-term investment | 1,000 | US\$ | 1,000 | 5 | US\$ |
| | Optichron, Inc. | | Long-term investment | 714 | US\$ | 1,000 | 6 | US\$ |
| | Audience, Inc. | | Long-term investment | 1,654 | US\$ | 250 | 2 | US\$ |
| | Next IO, Inc. | | Long-term investment | 800 | US\$ | 500 | 3 | US\$ |
| | NuCORE Technology Inc. | | Long-term investment | 1,821 | US\$ | 1,000 | 2 | US\$ |
| | Centrality Communications, Inc. | | Long-term investment | 809 | US\$ | 1,000 | 2 | US\$ |
| | Layer N Networks, Inc. | | Long-term investment | 1,905 | US\$ | 1,000 | 2 | US\$ |
| | <u>Preferred stock</u> | | | | | | | |
| | Powerprecise Solutions, Inc. | | Long-term investment | 258 | US\$ | 250 | 3 | US\$ |
| | Iridigm Display, Co. | | Long-term investment | 163 | US\$ | 325 | | US\$ |
| | <u>Bond funds</u> | | | | | | | |
| | Grand Cathay | | Short-term investment | 3,213 | | 40,271 | N/A | 4 |
| | TIIM | | Short-term investment | 2,595 | | 35,519 | N/A | 3 |
| | Polaris Fu-Li | | Short-term investment | 2,204 | | 22,640 | N/A | 2 |
| | EnTrust Kirin | | Short-term investment | 2,106 | | 22,516 | N/A | 2 |
| | E. Sun New Era | | Short-term investment | 1,920 | | 20,144 | N/A | 2 |
| | Jih Sun | | Short-term investment | 1,525 | | 20,116 | N/A | 2 |
| | EnTrust Phoenix | | Short-term investment | 1,399 | | 20,382 | N/A | 2 |
| | Mega Diamond | | Short-term investment | 1,281 | | 14,220 | N/A | 1 |
| | Sheng Hua 1699 | | Short-term investment | 1,009 | | 12,107 | N/A | 1 |
| | Sheng Hua 5599 | | Short-term investment | 931 | | 10,086 | N/A | 1 |
| | Ta-Hua GC Dollar | | Short-term investment | 39 | | 13,691 | N/A | 1 |
| | Taiwan Security Argent | | Short-term investment | 22 | | 102,694 | N/A | 10 |
| | <u>Stock funds</u> | | | | | | | |
| | TIIM DaLi | | Short-term investment | 296 | | 5,000 | N/A | |
| | President Tung Hsin | | Short-term investment | 211 | | 3,005 | N/A | |

Stock

Global Unichip Corporation-North
America

Subsidiary
57

Long-term investment

100

3,444

100

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TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004**
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Shares/Units Relationship (Thousand) | Beginning Balance | |
|--------------|--|--------------------------------|--|---|---------------------------------|--|
| | | | | | Amount (US\$ in Thousand) | |
| The Company | <u>Money market funds</u> | | | | | |
| | BOA Fund | Short-term investment | BOA | 40,000 | \$ 1,359,120 US\$ (40,000) | |
| | GS Fund | Short-term investment | Goldman Sachs | 20,000 | 679,560 US\$ (20,000) | |
| | <u>Bond funds</u> | | | | | |
| | JF Taiwan Bond Fund | Short-term investment | JF Asset Management (Taiwan) Ltd. | 34,343 | 500,000 | |
| | ABN AMRO Bond Fund | Short-term investment | ABN AMRO | 34,794 | 500,000 | |
| | JF Taiwan First Bond Fund | Short-term investment | JF Asset Management (Taiwan) Ltd. | | | |
| | INVESCO R.O.C Bond A Fund | Short-term investment | INVESCO Asset Management Taiwan | | | |
| | Dresdner Bond DAM Fund | Short-term investment | Allianz Dresdner Securities Investment Consulting Co., Ltd. | | | |
| | Barits Bond Fund | Short-term investment | Barits Securities Investment Trust Co., Ltd. | | | |
| | Shinkong Chi Shin Bond Fund | Short-term investment | Shinkong Investment Trust Co., Ltd. | | | |

| | | | |
|---|-----------------------|--|-----------|
| <u>Bonds under repurchase agreement</u> | Short-term investment | Chung Shing Bills Finance Corp. and several financial institutions | 1,800,000 |
| <u>Government bonds</u> | | | |
| 1994 Government Bond Series C | Short-term investment | Chung Shing Bills Finance Corp. and several financial institutions | 1,422,197 |
| 2002 Government Bond Series A | Short-term investment | BNP and several financial institutions | 3,157,331 |
| 2002 Government Bond Series E | Short-term investment | BNP and several financial institutions | 3,113,066 |
| 2002 Government Bond Series J | Short-term investment | BNP and several financial institutions | |
| 2003 Government Bond Series A | Short-term investment | BNP and several financial institutions | |
| 2003 Government Bond Series I | Long-term investment | FCB and several financial institutions | |
| 2004 Government Bond Series A | Long-term investment | China Bills Finance Corp. and several financial institutions | |
| 2004 Government Bond Series E | Long-term investment | BNP and several financial institutions | |
| United States Treas NTS | Short-term investment | | |
| <u>Corporate bonds</u> | | | |
| Allstate Finl Global Fdg LLC | Short-term investment | | |
| American Express Cr Corp. Mtn | Short-term investment | | |

| | |
|---------------------------------|-----------------------|
| American Gen Fin Corp. Mtn | Short-term investment |
| American Honda Fin Corp. Mtn | Short-term investment |
| American Intl Group Inc. Mtnf | Short-term investment |
| Bank New York Inc. | Short-term investment |
| Bank One Corp. | Short-term investment |
| Bear Stearns Cos Inc. | Short-term investment |
| Bristol Myers Squibb Co. | Short-term investment |
| Cardinal Health Inc. | Short-term investment |
| Citigroup Inc. | Short-term investment |
| Compaq Computer Corp. | Short-term investment |
| Consolidated Edison Co. NY Inc. | Short-term investment |
| Countrywide Fdg Corp. Mtn | Short-term investment |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Name | Marketable Securities Type and Name | Shares/Units (Thousand) | Acquisition | | Disposal | | | Ending Balance (Thousand) |
|---------------------------|-------------------------------------|-------------------------|---------------------------|-------------------------|---------------------------|-------------------------|-----------------------------------|---------------------------|
| | | | Amount (US\$ in Thousand) | Shares/Units (Thousand) | Amount (US\$ in Thousand) | Shares/Units (Thousand) | Carrying Value (US\$ in Thousand) | |
| <u>Money market funds</u> | | | | | | | | |
| | BOA Fund | | \$ | 40,000 | \$1,359,120 | | \$1,359,120 | |
| | GS Fund | | | 20,000 | US\$ (40,000) | | US\$ (40,000) | \$ |
| | | | | | 679,560 | | 679,560 | |
| | | | | | US\$ (20,000) | | US\$ (20,000) | |
| <u>Bond funds</u> | | | | | | | | |
| | JF Taiwan Bond Fund | 68,021 | 1,000,000 | | | | | 102,364 |
| | ABN AMRO Bond Fund | 151,569 | 2,200,000 | | | | | 186,363 |

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| | | | | | |
|---|---------|-----------|-----------|-----------|-----------------------------|
| JF Taiwan First Bond Fund | 110,580 | 1,500,000 | | | 110,580 |
| INVESCO R.O.C Bond A Fund | 69,692 | 1,000,000 | | | 69,692 |
| Dresdner Bond DAM Fund | 80,833 | 900,000 | | | 80,833 |
| Barits Bond Fund | 59,679 | 700,000 | | | 59,679 |
| Shinkong Chi Shin Bond Fund | 115,606 | 1,600,000 | | | 115,606 |
| <u>Bonds under repurchase agreement</u> | | 2,577,163 | 1,022,018 | 1,022,018 | |
| <u>Government bonds</u> | | | | | |
| 1994 Government Bond Series C | | | 1,427,762 | 1,422,197 | 5,565 |
| 2002 Government Bond Series A | | | 3,169,750 | 3,157,331 | 12,419 |
| 2002 Government Bond Series E | | | 3,133,875 | 3,113,066 | 20,809 |
| 2002 Government Bond Series J | | 2,023,206 | | | |
| 2003 Government Bond Series A | | 1,207,409 | | | |
| 2003 Government Bond Series I | | 3,418,984 | | | |
| 2004 Government Bond Series A | | 1,600,467 | | | |
| 2004 Government Bond Series E | | 3,890,925 | | | |
| United States Treas NTS | US\$ | 269,539 | US\$ | 154,304 | US\$ 155,123 (US\$819) US\$ |
| <u>Corporate bonds</u> | | | | | |
| Allstate Finl Global Fdg LLC | US\$ | 3,171 | | | US\$ |
| American Express Cr Corp. Mtn | US\$ | 3,503 | | | US\$ |
| American Gen Fin Corp. Mtn | US\$ | 6,832 | | | US\$ |
| American Honda Fin Corp. Mtn | US\$ | 7,258 | | | US\$ |
| American Intl Group Inc. Mtnf | US\$ | 3,795 | | | US\$ |
| Bank New York Inc. | US\$ | 3,945 | | | US\$ |
| Bank One Corp. | US\$ | 3,693 | | | US\$ |
| Bear Stearns Cos Inc. | US\$ | 3,805 | | | US\$ |
| Bristol Myers Squibb Co. | US\$ | 3,819 | | | US\$ |
| Cardinal Health Inc. | US\$ | 3,837 | | | US\$ |
| Citigroup Inc. | US\$ | 3,583 | | | US\$ |

| | | | |
|---------------------------------|------|-------|------|
| Compaq Computer Corp. | US\$ | 3,719 | US\$ |
| Consolidated Edison Co. NY Inc. | US\$ | 3,688 | US\$ |
| Countrywide Fdg Corp. Mtn | US\$ | 3,534 | US\$ |

(Continued)

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| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | |
|--------------|--|--------------------------------|---------------|---------------------------|----------------------------|------------------------------|
| | | | | | Shares/Units (Thousand) | Amount (US\$ Thousand) |
| | Credit Suisse First Boston USA | Short-term investment | | | | \$ |
| | Diageo PLC | Short-term investment | | | | |
| | Wachovia Corp. | Short-term investment | | | | |
| | General Elec Cap Corp. Mtn | Short-term investment | | | | |
| | Goldman Sachs Group LP | Short-term investment | | | | |
| | Hewlett Packard Co. | Short-term investment | | | | |
| | Honeywell Inc. | Short-term investment | | | | |
| | Household Fin Corp. | Short-term investment | | | | |
| | Huntington Natl Bk | Short-term investment | | | | |
| | ING Sec Life Ins Ingslf | Short-term investment | | | | |
| | Intl Bk For Recon + Dev | Short-term investment | | | | |
| | JP Morgan Chase + Co. | Short-term investment | | | | |
| | KFW Intl Fin Inc | Short-term investment | | | | |
| | Lehman Brothers Hldgs Inc. | Short-term investment | | | | |
| | Morgan Stanley Group Inc. | Short-term investment | | | | |
| | Nationsbank Corp. | Short-term investment | | | | |
| | Nationwide Bldg Soc | Short-term investment | | | | |
| | Nationwide Life Global Mtn | Short-term investment | | | | |
| | Pepsico Inc Mtn Book Entry | Short-term investment | | | | |
| | Pricoa Global Fdg I Mtn | Short-term investment | | | | |

| | |
|------------------------------------|--------------------------|
| Principal Life Global Fdg I GI | Short-term investment |
| SBC Communications Inc | Short-term investment |
| Salomon Smith Barney Hldgs Inc. | Short-term investment |
| TIAA Global Mkts Inc. | Short-term investment |
| Unitedhealth Group Inc. | Short-term investment |
| Viacom Inc. | Short-term investment |
| Walmart Cda Venture Corp. | Short-term investment |
| Washington Mut Fin Corp. | Short-term investment |
| Wells Fargo + Co. New | Short-term investment |

Agency bonds

| | |
|------------------------------|--------------------------|
| Federal Home Ln Mtg Corp. | Short-term investment |
| Federal Home Ln Bks | Short-term investment |
| Freddie Mac | Short-term investment |
| Federal Natl Mtg Assn | Short-term investment |
| Student Ln Marketing Assn | Short-term investment |

Corporate issued
asset-backed securities

| | |
|----------------------------------|--------------------------|
| Aesop Fdg II LLC | Short-term investment |
| Americredit Automobile | Short-term investment |
| BMW Veh Owner Tr | Short-term investment |
| CIT Equip Coll Tr | Short-term investment |
| California Infrastructure Dev | Short-term investment |
| California Infrs + Economic | Short-term investment |
| Capital One Master Tr | Short-term investment |
| Capital One Secd NT Tr | Short-term investment |
| Caterpillar Finl Asset Tr | Short-term investment |

| | |
|-------------------------------|-----------------------|
| Centex Home Equity Ln Tr | Short-term investment |
| Citibank Cr Card Issuance Tr | Short-term investment |
| Daimlerchrysler Auto Tr | Short-term investment |
| First USA Credit Cr Master Tr | Short-term investment |
| Ford Cr Auto Owner Tr | Short-term investment |
| GE Cap Cr Card Master NT Tr | Short-term investment |
| GS Mtg Secs Corp. | Short-term investment |
| Honda Auto Receivables | Short-term investment |
| Monumentl Global Fdg II | Short-term investment |
| Navistar Finl 2003 A Owner Tr | Short-term investment |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Company Name | Marketable Securities Type and Name (Thousand Shares/Unit) | Acquisition | | Disposal | | Ending Balance |
|--------------------------------|--|-----------------|--------------------|--|--|---------------------------|
| | | US\$ (Thousand) | US\$ in (Thousand) | US\$ in (Thousand) | US\$ in (Thousand) | Amount (US\$ in Thousand) |
| | | | | Gain Carrying Value (US\$ in Thousand) | Gain (Loss) on Disposal (US\$ in Thousand) | |
| Credit Suisse First Boston USA | | US\$ 3,177 | \$ | \$ | \$ | US\$ 3,177 |
| Diageo PLC | | US\$ 3,459 | | | | US\$ 3,459 |
| Wachovia Corp. | | US\$ 3,720 | | | | US\$ 3,720 |
| General Elec Cap Corp. Mtn | | US\$ 3,507 | | | | US\$ 3,507 |
| Goldman Sachs Group LP | | US\$ 3,820 | | | | US\$ 3,820 |
| Hewlett Packard Co. | | US\$ 3,373 | | | | US\$ 3,373 |
| Honeywell Inc. | | US\$ 3,284 | | | | US\$ 3,284 |
| Household Fin Corp. | | US\$ 7,254 | | | | US\$ 7,254 |
| Huntington Natl Bk | | US\$ 3,003 | | | | US\$ 3,003 |
| ING Sec Life Ins Ingslf | | US\$ 3,012 | | | | US\$ 3,012 |
| Intl Bk For Recon + Dev | | US\$ 5,232 | | | | US\$ 5,232 |

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| | | | | |
|---|------------|------------|---------------------|------------|
| JP Morgan Chase + Co. | US\$ 6,766 | | | US\$ 6,766 |
| KFW Intl Fin Inc | US\$ 5,104 | | | US\$ 5,104 |
| Lehman Brothers Hldgs Inc. | US\$ 3,417 | | | US\$ 3,417 |
| Morgan Stanley Group Inc. | US\$ 3,712 | | | US\$ 3,712 |
| Nationsbank Corp. | US\$ 3,644 | | | US\$ 3,644 |
| Nationwide Bldg Soc | US\$ 3,457 | | | US\$ 3,457 |
| Nationwide Life Global Mtn | US\$ 3,413 | | | US\$ 3,413 |
| Pepsico Inc Mtn Book Entry | US\$ 3,818 | | | US\$ 3,818 |
| Pricoa Global Fdg I Mtn | US\$ 3,507 | | | US\$ 3,507 |
| Principal Life Global Fdg I Gl | US\$ 3,168 | | | US\$ 3,168 |
| SBC Communications Inc | US\$ 3,681 | | | US\$ 3,681 |
| Salomon Smith Barney Hldgs Inc. | US\$ 3,160 | | | US\$ 3,160 |
| TIAA Global Mkts Inc. | US\$ 3,631 | | | US\$ 3,631 |
| Unitedhealth Group Inc. | US\$ 3,119 | | | US\$ 3,119 |
| Viacom Inc. | US\$ 6,349 | | | US\$ 6,349 |
| Walmart Cda Venture Corp. | US\$ 3,670 | | | US\$ 3,670 |
| Washington Mut Fin Corp. | US\$ 3,725 | | | US\$ 3,725 |
| Wells Fargo + Co. New | US\$ 3,697 | | | US\$ 3,697 |
| <u>Agency bonds</u> | | | | |
| Federal Home Ln Mtg Corp. | US\$64,469 | US\$ 5,950 | US\$ 5,982(US\$32) | US\$58,487 |
| Federal Home Ln Bks Freddie Mac | US\$66,912 | | | US\$66,912 |
| Federal Natl Mtg Assn | US\$ 4,929 | | | US\$ 4,929 |
| Student Ln Marketing Assn | US\$88,423 | US\$ 9,890 | US\$10,000(US\$110) | US\$78,423 |
| | US\$16,000 | US\$16,000 | US\$16,000 | |
| <u>Corporate issued asset-backed securities</u> | | | | |
| Aesop Fdg II LLC | US\$ 4,955 | | | US\$ 4,955 |
| Americredit Automobile | US\$ 6,949 | | | US\$ 6,949 |
| BMW Veh Owner Tr | US\$ 4,978 | | | US\$ 4,978 |
| CIT Equip Coll Tr | US\$ 4,999 | | | US\$ 4,999 |
| California Infrastructure Dev | US\$ 7,419 | US\$ 690 | US\$ 718(US\$28) | US\$ 6,701 |
| California Infrs + Economic | US\$ 8,383 | US\$ 352 | US\$ 367(US\$15) | US\$ 8,016 |
| Capital One Master Tr | US\$ 3,093 | | | US\$ 3,093 |
| Capital One Secd NT Tr | US\$ 5,032 | | | US\$ 5,032 |
| Caterpillar Finl Asset Tr | US\$ 4,999 | | | US\$ 4,999 |
| | US\$ 3,500 | | | US\$ 3,500 |

| | | |
|-----------------------------|-------------|-------------|
| Centex Home Equity Ln Tr | | |
| Citibank Cr Card | | |
| Issuance Tr | US\$ 4,959 | US\$ 4,959 |
| Daimlerchrysler Auto Tr | US\$ 9,879 | US\$ 9,879 |
| First USA Credit Cr | | |
| Master Tr | US\$ 5,011 | US\$ 5,011 |
| Ford Cr Auto Owner Tr | US\$ 10,999 | US\$ 10,999 |
| GE Cap Cr Card Master | | |
| NT Tr | US\$ 4,000 | US\$ 4,000 |
| GS Mtg Secs Corp. | US\$ 4,000 | US\$ 4,000 |
| Honda Auto Receivables | US\$ 5,000 | US\$ 5,000 |
| Monumentl Global Fdg | | |
| II | US\$ 3,500 | US\$ 3,500 |
| Navistar Finl 2003 A | | |
| Owner Tr | US\$ 4,928 | US\$ 4,928 |

(Continued)

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| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party Relationship | Nature Shares/Units (Thousands) | Beginning Balance |
|--------------|---|--------------------------------|-------------------------------|---------------------------------------|-----------------------|
| | | | | | US\$ in (Thousand) |
| | Nissan Auto Receivables Owner | Short-term investment | | | \$ |
| | ONYX Accep Owner Tr | Short-term investment | | | |
| | Permanent Fing No 1 PLC | Short-term investment | | | |
| | Providian Gateway Owner Tr | Short-term investment | | | |
| | Reliant Energy Transition Bd | Short-term investment | | | |
| | TXU Elec Delivery Transition | Short-term investment | | | |
| | Toyota Auto Receivables 2003 B | Short-term investment | | | |
| | Triad Auto Receivables Tr | Short-term investment | | | |
| | WFS Financial Owner Trust | Short-term investment | | | |
| | Wachovia Auto Owner Tr | Short-term investment | | | |
| | World Omni Auto Receivables Tr | Short-term investment | | | |
| | Banc Amer Mtg Secs Inc. | Short-term investment | | | |
| | Cwmbs Inc. | Short-term investment | | | |
| | First Union Lehman Bros Mtg | Short-term investment | | | |
| | Holmes Fing No 8 PLC | Short-term investment | | | |
| InveStar | <u>Common stock</u> RichTek Technology Corp. | Short-term investment | | 947 | US\$ 121 |
| InveStar II | <u>Common stock</u> RichTek Technology Corp. | Short-term investment | | 465 | US\$ 346 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Company Name | Marketable Securities Type and Name | Acquisition | | Disposal | | | Ending Balance | |
|--------------|--|---------------------------------|----------------------------|---------------------------------|--------------------------------|--|---|---------------------------------|
| | | Amount (US\$ in Thousand) | Shares/Units (Thousand) | Amount (US\$ in Thousand) | Value (US\$ in Thousand) | Carrying Value (US\$ in Thousand) | Gain (Loss) on Disposal (US\$ in Thousand) | Amount (US\$ in Thousand) |
| | Nissan Auto Receivables Owner | US\$ 9,852 | | \$ | \$ | \$ | | US\$ 9,852 |
| | ONYX Accep Owner Tr | US\$ 4,913 | | | | | | US\$ 4,913 |
| | Permanent Fing No 1 PLC | US\$ 5,102 | | | | | | US\$ 5,102 |
| | Providian Gateway Owner Tr | US\$ 4,204 | | | | | | US\$ 4,204 |
| | Reliant Energy Transition Bd | US\$ 5,185 | | | | | | US\$ 5,185 |
| | TXU Elec Delivery Transition | US\$ 3,982 | | | | | | US\$ 3,982 |
| | Toyota Auto Receivables 2003 B | US\$ 4,970 | | | | | | US\$ 4,970 |
| | Triad Auto Receivables Tr | US\$ 5,042 | | | | | | US\$ 5,042 |
| | WFS Financial Owner Trust | US\$ 5,008 | | | | | | US\$ 5,008 |
| | Wachovia Auto Owner Tr | US\$ 10,999 | | | | | | US\$ 10,999 |
| | World Omni Auto Receivables Tr | US\$ 5,000 | | | | | | US\$ 5,000 |
| | Banc Amer Mtg Secs Inc. | US\$ 4,030 | | | | | | US\$ 4,030 |
| | Cwmbms Inc. | US\$ 3,128 | | 158 | 160 | (2) | | US\$ 2,968 |
| | First Union Lehman Bros Mtg | US\$ 4,177 | | | | | | US\$ 4,177 |
| | Holmes Fing No 8 PLC | US\$ 5,001 | | | | | | US\$ 5,001 |
| InveStar | <u>Common stock</u> RichTek Technology Corp. | | | 726 | US\$4,393 | US\$ 92 | US\$4,301 | 221 US\$ 29 |
| InveStar II | <u>Common stock</u> RichTek Technology Corp. | | | 455 | US\$2,781 | US\$338 | US\$2,443 | 10 US\$ 8 |

Note 1: The ending balance included the recognition of the investment income (loss) by the equity method, the cumulative translation adjustments and unrealized loss on long-term investments recognized in proportion to the

Company's ownership percentage in investees.

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TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR
20% OF THE PAID-IN CAPITAL

FOR THE SIX MONTHS ENDED JUNE 30, 2004

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| <u>Company Name</u> | <u>Types of Property</u> | <u>Transaction Date</u> | <u>Transaction Amount</u> | <u>Payment Term</u> | <u>Counter-party Relationship</u> | <u>Nature of</u> |
|---------------------|--------------------------|-------------------------|---------------------------|------------------------------|---|------------------|
| The Company | Fab 12 | April 21, 2004 | \$ 1,484,370 | By the construction progress | IDC Taiwan, Inc., Taiwan Branch (U.S.A) | |
| | Fab 12 | April 21, 2004 | 420,168 | By the construction progress | CHRIST AG | |
| | Fab 12 | April 22, 2004 | 224,800 | By the construction progress | ALLIS ELECTRIC CO., LTD. | |
| | Fab 12 | May 12, 2004 | 340,307 | By the construction progress | United Industry gas Corp., Ltd. | |
| | Fab 12 | May 12, 2004 | 116,181 | By the construction progress | United Industry gas Corp., Ltd. | |
| | Fab 12 | May 12, 2004 | 133,092 | By the construction progress | BOC EDWARDS, CMS | |
| | Fab 12 | June 17, 2004 | 165,208 | By the construction progress | Organo Corporation | |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| <u>Company Name</u> | <u>Types of Property</u> | <u>Prior Transaction of Related Counter-party</u> | | | <u>Price Reference</u> | <u>Purpose of Acquisition</u> | <u>Other Terms</u> |
|---------------------|--------------------------|---|----------------------|---------------|------------------------|-------------------------------|--------------------|
| | | <u>Owner Relationship</u> | <u>Transfer Date</u> | <u>Amount</u> | | | |

| | | | | | | | | |
|-------------|--------|-----|-----|-----|-----|----------------|-----------------------|------|
| The Company | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab 12 | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |

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TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | |
|--------------|----------------------------|------------------------|---------------------|--------------|---------------|-------------------------------|
| | | | Purchase/ Sale | Amount | % to Total | Payment Terms |
| The Company | TSMC North America | Subsidiary | Sales | \$68,191,878 | 55 | Net 30 days from invoice date |
| | Philips and its affiliates | Major shareholder | Sales | 2,712,508 | 2 | Net 30 days from invoice date |
| | GUC | Investee | Sales | 182,084 | | 30 days after monthly closing |
| | WaferTech | Subsidiary | Purchases | 7,505,753 | 35 | Net 30 days from invoice date |
| | VIS | Investee | Purchases | 4,247,055 | 19 | Net 30 days from invoice date |
| | SSMC | Investee | Purchases | 3,050,439 | 14 | Net 30 days from invoice date |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Company Name | Related Party | Abnormal Transaction | | Note/Accounts Payable or Receivable | | Note |
|--------------|----------------------------|----------------------|---------------|---|---------------|------|
| | | Unit Price | Payment Terms | Ending Balance | % to Total | |
| The Company | TSMC North America | None | None | \$ 17,029,287 | 49 | |
| | Philips and its affiliates | None | None | 922,713 | 3 | |
| | GUC | None | None | 83,097 | | |
| | WaferTech | None | None | (1,296,351) | 11 | |

| | | | | |
|------|------|------|-------------|----|
| VIS | None | None | (1,844,800) | 15 |
| SSMC | None | None | (685,240) | 6 |

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TABLE 7

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2004
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue Amount | Action Taken | Period | Amounts Received | Allowance in Subsequent Period | Debt |
|--------------|----------------------------|------------------------|----------------|---------------|----------------|--|--------|------------------|--------------------------------|------|
| | | | | | | | | | | |
| The Company | TSMC North America | Subsidiary | \$ 17,029,287 | 41 days | \$ 3,537,936 | | | \$ 4,080,830 | | \$ |
| | Philips and its affiliates | Major shareholder | 922,713 | 61 days | 53,156 | Accelerate demand on account receivables | | 1,628 | | |

Table of Contents**TABLE 8****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES****NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****JUNE 30, 2004****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | |
|-------------------------|-------------------------|---------------------------------|--|-----------------------------------|--------------------------|
| | | | | June 30, 2004 | December 31, 2003 |
| The Company | TSMC North America | San Jose, California, U.S.A. | Marketing and engineering support | \$ 333,178 | \$ 333,178 |
| | TSMC Europe | Amsterdam, the Netherlands | Marketing and engineering support | 15,749 | 15,749 |
| | TSMC Japan | Yokohama, Japan | Marketing and engineering support | 83,760 | 83,760 |
| | TSMC Shanghai | Shanghai, China | IC and other wafer equipment manufacturing and marketing | 1,890,952 | 1,890,952 |
| | VIS | Hsin-Chu, Taiwan | IC design and manufacturing | 8,119,816 | 8,119,816 |
| | TSMC International | Tortola, British Virgin Islands | Investment | 31,445,780 | 31,445,780 |
| | Chi Cherng | Taipei, Taiwan | Investment | 300,000 | 300,000 |
| | Hsin Ruey | Taipei, Taiwan | Investment | 300,000 | 300,000 |
| | TSMC Partners | Tortola, British Virgin Islands | Investment | 10,350 | 10,350 |
| | SSMC | Singapore | Wafer manufacturing | 6,408,190 | 6,408,190 |
| | Emerging Alliance | Cayman Islands | Investment | 1,447,957 | 1,179,690 |
| | GUC | Hsin-Chu, Taiwan | IC research, development, manufacturing, testing and marketing | 409,920 | 409,920 |
| | VisEra | Hsin-Chu, Taiwan | Electronic spare parts manufacturing, material | 51,000 | 51,000 |

| | | | |
|---------|----------------|---------------------------|---------|
| | | wholesaling and retailing | |
| VTAF II | Cayman Islands | Investment | 164,701 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| | | Balance as of June 30, 2004 | | | | | |
|-------------------------|-------------------------|------------------------------------|--------------------------------|--------------------------------|--|--|-------------|
| Investor Company | Investee Company | Shares | Percentage of Ownership | Carrying Value (Note 1) | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note 2) | Note |
| | TSMC North America | 11,000 | 100 | \$ 474,695 | \$ 46,551 | \$ 44,892 | Subsidiary |
| | TSMC Europe | | 100 | 23,764 | 137 | 137 | Subsidiary |
| | TSMC Japan | 6 | 100 | 100,521 | 618 | 618 | Subsidiary |
| | TSMC Shanghai | | 100 | 1,758,405 | (130,485) | (130,485) | Subsidiary |
| | VIS | 787,016 | 28 | 4,667,952 | 2,020,305 | 580,383 | Investee |
| | TSMC International | 987,968 | 100 | 23,708,232 | 1,165,007 | 1,165,007 | Subsidiary |
| | Chi Cherng | | 36 | 42,990 | 138 | 49 | Investee |
| | Hsin Ruey | | 36 | 42,673 | 1,868 | 667 | Investee |
| | TSMC Partners | 300 | 100 | 4,113,671 | 21,108 | 21,108 | Subsidiary |
| | SSMC | 382 | 32 | 3,181,111 | 1,354,964 | 433,588 | Investee |
| | Emerging Alliance | | 99 | 912,982 | (56,086) | (55,805) | Subsidiary |
| | GUC | 39,040 | 47 | 362,629 | (21,684) | (5,820) | Investee |
| | VisEra | 5,100 | 25 | 51,825 | 6,378 | 1,595 | Investee |
| | VTAF II | | 98 | 165,190 | (311) | (1,968) | Subsidiary |

Note 1: The treasury stock is deducted from the carrying value.

Note 2: The unrealized gain or loss and the gain or loss on disposal of the stocks held by subsidiaries are excluded.

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TABLE 9

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

INFORMATION OF INVESTMENT IN MAINLAND CHINA

JUNE 30, 2004

(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| Investee Company | Main Businesses and Products | Total Amount of Paid-in Capital (RMB in Thousand) | Investment Type | Accumulated Outflow of Investment from Taiwan as of January 1, 2004 (US\$ in Thousand) | Investment Flows | |
|---------------------------------|--|--|-----------------|---|------------------|--------|
| | | | | | Outflow | Inflow |
| TSMC (Shanghai) Company Limited | IC and other wafer equipment manufacturing and marketing | \$1,890,952 RMB463,512 | (Note 1) | \$1,890,952 US\$56,000 | \$ | \$ |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Investee Company | Main Businesses and Products | Accumulated Outflow of Investment from Taiwan as of June 30, 2004 (US\$ in Thousand) | Percentage of Ownership in Investment | Investment Gain (Loss) (Note 2) | Carrying Value as of June 30, 2004 | Accumulated Inward Remittance of Earnings as of June 30, 2004 |
|------------------|------------------------------|---|---------------------------------------|------------------------------------|------------------------------------|---|
| | | | | | | |
| | | \$1,890,952 | | | | |

| | | | | | | |
|---------------------------------|--|------------|------|-------------|-------------|----|
| TSMC (Shanghai) Company Limited | IC and other wafer equipment manufacturing and marketing | US\$56,000 | 100% | (\$130,485) | \$1,758,405 | \$ |
|---------------------------------|--|------------|------|-------------|-------------|----|

| Accumulated Investment in Mainland China as of June 30, 2004 (US\$ in Thousand) | Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand) | Upper Limit on Investment (US\$ in Thousand) |
|--|--|---|
| \$1,890,952 | \$12,530,525 | \$12,530,525 |
| US\$56,000 | US\$371,000 | US\$371,000 |

Note 1: Direct investment in TSMC (Shanghai) US\$56,000 thousand.

Note 2: Amount was based on the financial statements audited by Deloitte (Taiwan).

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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: August 27, 2004

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