

**Taiwan Semiconductor Manufacturing  
Company Ltd.**

**Financial Statements as of December 31, 2003 and 2002  
Together with Independent Auditors' Report**

**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 December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the years 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 Statements 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 December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock" (SFAS No. 30) on January 1, 2002. SFAS No. 30 requires a parent company to record stock held by its subsidiary as treasury stock.

We have also audited the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Ltd. as of and for the years ended December 31, 2003 and 2002, and have expressed a modified unqualified opinion on such financial statements.

January 12, 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 jurisdiction. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**BALANCE SHEETS**

**DECEMBER 31, 2003 AND 2002**

**(In Thousand New Taiwan Dollars, Except Par Value)**

ASSETS	2003		2002		LIABILITIES AND SHAREHOLDERS' EQUITY	2003		2002	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 98,288,002	25	\$ 61,656,795	16	Payables to related parties (Note 18)	\$ 4,500,140	1	\$ 2,466,998	1
Short-term investments (Notes 2 and 5)	12,559,019	3	-	-	Accounts payable	6,083,876	2	4,849,234	1
Receivables from related parties (Note 18)	15,000,625	4	10,183,488	3	Payables to contractors and equipment suppliers	7,117,884	2	14,004,383	4
Notes receivable	9,893	-	60,240	-	Accrued expenses and other current liabilities (Notes 2, 11 and 21)	7,836,084	2	5,839,488	1
Accounts receivable	13,907,914	4	9,495,447	3	Current portion of bonds (Note 10)	5,000,000	1	4,000,000	1
Allowance for doubtful receivables (Note 2)	( 1,016,022)	-	( 929,864)	-	Total current liabilities	30,537,984	8	31,160,103	8
Allowance for sales returns and others (Note 2)	( 2,126,025)	( 1)	( 2,363,067)	( 1)	<b>LONG-TERM LIABILITIES</b>				
Other financial assets	1,081,742	-	969,669	-	Bonds—net of current portion (Note 10)	30,000,000	7	35,000,000	10
Inventories—net (Notes 2 and 6)	10,907,158	3	10,340,336	3	Other long-term payables (Notes 11 and 20)	3,300,829	1	4,281,665	1
Deferred income tax assets (Notes 2 and 13)	8,322,000	2	3,320,000	1	Total long-term liabilities	33,300,829	8	39,281,665	11
Prepaid expenses and other current assets (Notes 2 and 21)	1,591,966	-	2,014,361	1	<b>OTHER LIABILITIES</b>				
Total current assets	158,526,272	40	94,747,405	26	Accrued pension cost (Notes 2 and 12)	2,600,251	1	2,210,542	1
<b>LONG-TERM INVESTMENTS (Notes 2, 3, 7 and 20)</b>					Guarantee deposits (Note 20)	763,489	-	1,395,066	-
Equity method	37,262,237	10	33,042,029	9	Deferred gain on sales and leaseback (Note 2)	-	-	114,928	-
Cost method	432,500	-	849,666	-	Total other liabilities	3,363,740	1	3,720,536	1
Funds	270,616	-	237,440	-	Total liabilities	67,202,553	17	74,162,304	20
Prepayment for subscribed stocks	-	-	849,360	-	<b>SHAREHOLDERS' EQUITY (Notes 2 and 15)</b>				
Total long-term investments	37,965,353	10	34,978,495	9	Capital stock—\$10 par value				
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8 and 18)</b>					Authorized: 24,600,000 thousand shares				
Cost					Issued:				
Buildings	71,277,031	18	68,488,180	18	Common—20,266,619 thousand shares in 2003 and				
Machinery and equipment	332,252,225	84	303,334,232	82	18,622,887 thousand shares in 2002	202,666,189	51	186,228,867	50
Office equipment	6,180,495	1	5,697,828	2	Preferred—1,300,000 thousand shares	-	-	13,000,000	4
	409,709,751	103	377,520,240	102	Capital surplus:				
Accumulated depreciation	( 247,514,312)	( 62)	( 188,447,604)	( 51)	Merger and others (Note 2)	56,802,829	14	56,961,753	15
Advance payments and construction in progress	26,091,313	6	28,119,627	8	Treasury stock (Note 3)	53,056	-	43,036	-
Net property, plant and equipment	188,286,752	47	217,192,263	59	Retained earnings:				
<b>GOODWILL (Note 2)</b>	2,264,536	1	2,612,926	1	Appropriated as legal reserve	20,802,137	5	18,641,108	5
<b>OTHER ASSETS</b>					Appropriated as special reserve	68,945	-	-	-
Deferred charges—net (Notes 2, 9 and 20)	7,947,331	2	9,792,490	3	Unappropriated earnings	50,229,008	13	22,151,089	6
Deferred income tax assets (Notes 2 and 13)	1,070,596	-	9,712,567	2	Others:				
Refundable deposits (Notes 18 and 20)	177,379	-	543,469	-	Unrealized loss on long-term investments (Note 2)	( 35)	-	( 194,283)	-
Idle assets (Note 2)	94,296	-	339,400	-	Cumulative translation adjustments (Note 2)	225,408	-	945,129	-
Assets leased to others (Note 2)	84,347	-	87,246	-	Treasury stock (at cost)—40,597 thousand shares in 2003 and				
Miscellaneous	-	-	9,250	-	42,001 thousand shares in 2002 (Notes 2, 3 and 16)	( 1,633,228)	-	( 1,923,492)	-
Total other assets	9,373,949	2	20,484,422	5	Total shareholders' equity	329,214,309	83	295,853,207	80
<b>TOTAL ASSETS</b>	<b>\$ 396,416,862</b>	<b>100</b>	<b>\$ 370,015,511</b>	<b>100</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 396,416,862</b>	<b>100</b>	<b>\$ 370,015,511</b>	<b>100</b>

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

(With Deloitte & Touche report dated January 12, 2004)

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousand New Taiwan Dollars, Except Earnings Per Share)**

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
GROSS SALES (Notes 2 and 18)	\$ 206,157,918		\$ 164,805,296	
SALES RETURNS AND ALLOWANCES (Note 2)	( 4,253,577 )		( 3,843,967 )	
NET SALES	201,904,341	100	160,961,329	100
COST OF SALES (Notes 14 and 18)	<u>129,012,704</u>	<u>64</u>	<u>108,994,184</u>	<u>68</u>
GROSS PROFIT	<u>72,891,637</u>	<u>36</u>	<u>51,967,145</u>	<u>32</u>
OPERATING EXPENSES (Notes 14 and 18)				
Research and development	12,712,695	6	11,440,332	7
General and administrative	6,337,845	3	5,210,083	3
Marketing	<u>1,193,520</u>	<u>1</u>	<u>1,140,424</u>	<u>1</u>
Total operating expenses	<u>20,244,060</u>	<u>10</u>	<u>17,790,839</u>	<u>11</u>
INCOME FROM OPERATIONS	<u>52,647,577</u>	<u>26</u>	<u>34,176,306</u>	<u>21</u>
NON-OPERATING INCOME AND GAINS				
Interest (Note 2)	819,377	1	1,008,147	1
Investment income recognized by equity method—net (Notes 2 and 7)	791,424	-	-	-
Gain on disposal of property, plant and equipment (Note 2)	438,804	-	273,998	-
Technical service income (Notes 18 and 20)	209,764	-	204,350	-
Gain on sales of investments	114,817	-	32,169	-
Other (Note 18)	<u>291,613</u>	<u>-</u>	<u>244,229</u>	<u>-</u>
Total non-operating income	<u>2,665,799</u>	<u>1</u>	<u>1,762,893</u>	<u>1</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 8, 10 and 21)	1,576,343	1	2,119,935	1
Loss on impairment of property, plant and equipment and idle assets (Note 2)	1,401,585	1	-	-
Foreign exchange loss—net (Notes 2 and 21)	755,713	-	120,568	-
Loss on disposal of property, plant and equipment	373,472	-	221,955	-
Amortization of premium expense from option contracts—net (Notes 2 and 21)	153,783	-	419,513	-

(Continued)

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

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Investment loss recognized by equity method—net (Notes 2 and 7)	\$ -	-	\$ 5,716,510	4
Casualty loss—net (Note 2)	-	-	119,485	-
Other	<u>24,205</u>	-	<u>108,778</u>	-
Total non-operating expenses	<u>4,285,101</u>	<u>2</u>	<u>8,826,744</u>	<u>5</u>
INCOME BEFORE INCOME TAX	51,028,275	25	27,112,455	17
INCOME TAX EXPENSE (Notes 2 and 13)	<u>3,769,575</u>	<u>2</u>	<u>5,502,164</u>	<u>4</u>
NET INCOME	<u>\$ 47,258,700</u>	<u>23</u>	<u>\$ 21,610,291</u>	<u>13</u>

	<u>2003</u>		<u>2002</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
EARNINGS PER SHARE (Note 17)				
Basic earnings per share	<u>\$ 2.51</u>	<u>\$ 2.33</u>	<u>\$ 1.32</u>	<u>\$ 1.05</u>
Diluted earnings per share	<u>\$ 2.51</u>	<u>\$ 2.33</u>	<u>\$ 1.32</u>	<u>\$ 1.05</u>

The pro forma net income and earnings per share for the adoption of SFAS No. 30 “Accounting for Treasury Stock” is as follows (Notes 3 and 16):

NET INCOME	<u>\$ 47,337,094</u>	<u>\$ 21,584,382</u>
EARNINGS PER SHARE		
Basic earnings per share	<u>\$ 2.33</u>	<u>\$ 1.05</u>
Diluted earnings per share	<u>\$ 2.33</u>	<u>\$ 1.05</u>

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

(With Deloitte & Touche report dated January 12, 2004)

(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousand New Taiwan Dollars)

	Capital Stock Issued				Capital Surplus							retained earnings				Unrealized Loss on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	Total Shareholders' Equity	
	Preferred stock		Common stock		From merger	Additional paid-in capital	From long-term investments	Excess on foreign bond investments	Gain on sales of properties	Donation	Treasury stock	Total	Legal reserve	Special reserve	Unappropriated earnings					Total
	Shares (thousand)	Amount	Shares (thousand)	Amount																
BALANCE, JANUARY 1, 2002	1,300,000	\$ 13,000,000	16,832,554	\$168,325,531	\$ 24,132,297	\$ 23,172,550	\$246,381	\$ 9,410,632	\$166,518	\$ 55	\$ -	\$ 57,128,433	\$ 17,180,067	\$ 349,941	\$ 19,977,402	\$ 37,507,410	\$ -	\$1,228,701	\$ -	\$277,190,075
Appropriations of prior year's earnings																				
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	1,448,317	-	( 1,448,317)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	( 349,941)	349,941	-	-	-	-	-
Bonus to employees—stock	-	-	107,078	1,070,783	-	-	-	-	-	-	-	-	-	-	( 1,070,783)	( 1,070,783)	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 455,000)	( 455,000)	-	-	-	( 455,000)
Stock dividends—10%	-	-	1,683,255	16,832,553	-	-	-	-	-	-	-	-	-	-	( 16,832,553)	( 16,832,553)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 133,848)	( 133,848)	-	-	-	( 133,848)
Net income in 2002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,610,291	21,610,291	-	-	-	21,610,291
Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings	-	-	-	-	-	-	-	( 166,518)	-	-	( 166,518)	12,724	-	-	153,794	166,518	-	-	-	-
Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings	-	-	-	-	-	( 162)	-	-	-	( 162)	-	-	-	-	162	162	-	-	-	-
Unrealized loss on long-term investments from investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 194,283)	-	-	( 194,283)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 283,572)	-	( 283,572)
Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 1,923,492)	( 1,923,492)	( 1,923,492)
Capital surplus resulted from sales of treasury stock	-	-	-	-	-	-	-	-	-	-	43,036	43,036	-	-	-	-	-	-	-	43,036
BALANCE, DECEMBER 31, 2002	1,300,000	13,000,000	18,622,887	186,228,867	24,132,297	23,172,550	246,219	9,410,632	-	55	43,036	57,004,789	18,641,108	-	22,151,089	40,792,197	( 194,283)	945,129	( 1,923,492)	295,853,207
Redemption and retirement of preferred stock	( 1,300,000)	( 13,000,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 13,000,000)
Appropriations of prior year's earnings																				
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	2,161,029	-	( 2,161,029)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	68,945	( 68,945)	-	-	-	-	-
Bonus to employees—stock	-	-	153,901	1,539,013	-	-	-	-	-	-	-	-	-	-	( 1,539,013)	( 1,539,013)	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 455,000)	( 455,000)	-	-	-	( 455,000)
Stock dividends—8%	-	-	1,489,831	14,898,309	-	-	-	-	-	-	-	-	-	-	( 14,898,309)	( 14,898,309)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 58,485)	( 58,485)	-	-	-	( 58,485)
Net income in 2003	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,258,700	47,258,700	-	-	-	47,258,700
Adjustment arising from changes in ownership percentage in investees	-	-	-	-	-	( 158,924)	-	-	-	-	( 158,924)	-	-	-	-	-	-	-	-	( 158,924)
Reversal of unrealized loss on long-term investment of investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	194,248	-	-	194,248
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 719,721)	-	( 719,721)
Sale of treasury stock	-	-	-	-	-	-	-	-	-	-	10,020	10,020	-	-	-	-	-	-	290,264	300,284
BALANCE, DECEMBER 31, 2003		\$ -	20,266,619	\$202,666,189	\$ 24,132,297	\$ 23,172,550	\$ 87,295	\$ 9,410,632	\$ -	\$ 55	\$ 53,056	\$ 56,855,885	\$ 20,802,137	\$ 68,945	\$ 50,229,008	\$ 71,100,090	( \$ 35)	\$ 225,408	( \$ 1,633,228)	\$329,214,309

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

(With Deloitte &amp; Touche report dated January 12, 2004)

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousand New Taiwan Dollars)**

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 47,258,700	\$ 21,610,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61,786,114	57,621,462
Deferred income taxes	3,639,971	5,489,503
Investment loss (income) recognized by equity method—net	( 791,424 )	5,716,510
Loss on impairment of property, plant, and equipment, and idle assets	1,401,585	-
Loss (gain) on sales of investments	( 79,149 )	2,403
Gain on disposal of property, plant and equipment—net	( 65,332 )	( 52,043 )
Accrued pension cost	389,709	355,689
Allowance for doubtful receivables	86,158	( 170,628 )
Allowance for sales returns and others	( 237,042 )	( 218,484 )
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables from related parties	( 4,817,137 )	( 9,659,627 )
Notes receivable	50,347	116,342
Accounts receivable—net	( 4,412,467 )	10,462,189
Inventories—net	( 566,822 )	( 1,835,918 )
Other financial assets	( 112,073 )	( 248,952 )
Prepaid expenses and other current assets	422,395	( 98,777 )
Increase (decrease) in:		
Payables to related parties	2,033,142	384,392
Accounts payable	1,234,642	3,725,340
Accrued expenses and other current liabilities	<u>1,447,119</u>	<u>1,088,409</u>
Net cash provided by operating activities	<u>108,668,436</u>	<u>94,288,101</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Short-term investments	( 12,529,448 )	-
Long-term investments	( 3,006,374 )	( 10,187,730 )
Property, plant and equipment	( 37,247,465 )	( 54,443,595 )
Proceeds from sales of:		
Long-term investments	476,405	1,402
Property, plant and equipment	177,307	494,805
Increase in deferred charges	( 2,137,932 )	( 5,724,583 )
Decrease in refundable deposits	366,090	229,443
Decrease in other assets—miscellaneous	<u>9,250</u>	<u>-</u>
Net cash used in investing activities	<u>( 53,892,167 )</u>	<u>( 69,630,258 )</u>

(Continued)

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

	<u>2003</u>	<u>2002</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of (repayment on) bonds payable	(\$ 4,000,000)	\$ 10,000,000
Redemption of preferred stock	( 13,000,000)	-
Decrease in guarantee deposits	( 631,577)	( 5,815,906)
Remuneration paid to directors and supervisors	( 58,485)	( 133,848)
Cash dividends paid for preferred stocks	( 455,000)	( 455,000)
Net cash provided by (used in) financing activities	( 18,145,062)	3,595,246
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	36,631,207	28,253,089
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b>	<u>61,656,795</u>	<u>33,403,706</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b>	<u>\$ 98,288,002</u>	<u>\$ 61,656,795</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding capitalized interest of NT\$138,668 thousand and NT\$165,857 thousand in 2003 and 2002, respectively)	<u>\$ 1,652,579</u>	<u>\$ 1,771,682</u>
Income tax paid	<u>\$ 2,500</u>	<u>\$ 12,661</u>
Noncash investing and financing activities:		
Reclassification of parent company stock held by subsidiaries from long-term investments to treasury stock	<u>\$ -</u>	<u>\$ 1,923,492</u>
Current portion of bonds	<u>\$ 5,000,000</u>	<u>\$ 4,000,000</u>
Current portion of other long-term payables	<u>\$ 1,591,972</u>	<u>\$ 1,157,299</u>
Reclassification of long-term investment to short-term investment	<u>\$ 29,571</u>	<u>\$ -</u>

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

(With Deloitte & Touche report dated January 12, 2004)

(Concluded)



**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**NOTES TO FINANCIAL STATEMENTS**

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

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**1. GENERAL**

Taiwan Semiconductor Manufacturing Company Ltd. (the Company or TSMC), a Republic of China corporation, was incorporated as a venture among the Government of the Republic of China, acting through the Development Fund of the Executive Yuan; Koninklijke 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).

TSMC is engaged in the manufacturing, selling, packaging and 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 the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as follows:

**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 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 government bonds, money market funds, government bonds acquired under repurchase agreements, bond funds and listed stocks. The investments are carried at the lower of cost or market value. A decline in value is recorded as investment loss and cash dividends are recorded as investment income in the current period.

An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance will result from a subsequent recovery of the carrying value. The cost of investments sold is accounted for using the weighted-average method.

The market values of government bonds are determined using the daily-volume-weighted-average yield/price conversion. The market value of funds are determined using the net asset value of the funds, and the market value of listed stocks are determined using the average-closing price 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 four criteria used by the Company to recognize revenue are determining if there is a contractual arrangement, whether delivery or performance has occurred, whether the selling price is fixed or determinable and whether collectibility is reasonably assured. Allowance for sales returns and others 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 by the Company and its 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. Scrap and slow-moving items are recognized in 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. 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 acquiring shares of stock, the difference between the cost of investment and the Company's proportionate share of investee's net book value is amortized using straight-line method over five years, and is also recorded as a component of the "investment income/loss recognized by equity method—net". The Company adopted Statements of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock" on January 1, 2002. SFAS No. 30 requires a parent company to reclassify its capital stock held by its subsidiaries from short/long-term investments to treasury stock.

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 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 "capital surplus" as well as the "long-term investments" accounts. In the event an investee uses its capital surplus, excluding any reserve for asset revaluation, to offset its accumulated deficit, the Company will record a corresponding entry equivalent to its proportionate share of the investee's adjustment. If an 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 accounted for using the cost method. Cash dividends are recognized as income in the year received but are accounted for as a reduction in the carrying values of the investment if the dividends are received in the same year that the related investment is acquired. Stock dividends are recognized neither as investment income nor increase of the investment but are recorded only as an increase in the number of shares held. An allowance is recognized for any decline in the market value of investments with readily determinable fair market value with the corresponding amount recorded as an unrealized loss within of shareholders' equity. A reversal of the allowance will result from a subsequent recovery of the market value of such investments. The carrying values of investments whose fair market value is not readily determinable 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 its 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 investments sold are determined using the weighted-average method.

A loss is recognized on publicly-traded investments that are reclassified from long-term to short term investments when the market value is lower than the book value.

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

Gains or losses on sales from the Company to non-majority owned investee companies accounted for using the equity method are deferred in proportion to the Company's ownership percentage until realized through a transaction with a third party. 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 by 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 book value or net realizable value. Significant additions, renewals, betterments, and interest expense 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.

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, and any gain or loss is charged to income in the period of disposal.

### **Goodwill**

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

## **Deferred Charges**

Deferred charges consist of software and system design costs, technology know-how, bond issuance costs and technology license fees. The amounts are amortized as follows: software and system design costs—3 years, technology know-how—5 years, bond issuance costs—the term of the bonds, technology license fee—the shorter of the estimated life of the technology or the term of the technology transfer contract.

## **Pension Costs**

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gain 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.

## **Casualty Loss**

Casualty losses resulted primarily from the March 31, 2002 earthquake and were recorded when incurred. Any insurance recoveries were recorded when probable up to the amount of the loss. Recoveries in excess of the amount of the loss were recorded when realized.

## **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 carryforwards. 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, according to the classification of its related asset or liability, classified as current or non-current. However, if a deferred 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 of 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 of 10% are expensed in the year of shareholder approval which is the year subsequent to the year incurred.

## **Foreign Currency Transactions**

Foreign currency transactions are recorded in New Taiwan dollars at the current rate of exchange in effect when the transaction occurs. 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, foreign-currency assets and liabilities 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 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 balance sheet dates, the receivables or payables arising from forward contracts are restated using the prevailing spot rate and the resulting differences are charged to income. Also, the receivables and payables related to the forward contract are netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement is charged to income in the period of settlement.

The Company enters into interest rate swap transactions to manage 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 gain or loss upon settlement is charged to income in the period of settlement.

## Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2002 have been reclassified to conform to the financial statements as of and for the year ended December 31, 2003.

## 3. NEW ACCOUNTING PRONOUNCEMENTS

In accordance with the SFAS No. 30, "Accounting for Treasury Stock" and other relevant regulations from Securities and Futures Commission (SFC), the Company is required to reclassify its common stock held by its subsidiaries from long-term investments to treasury stock. The reclassification is based on the carrying value recorded by the Company's subsidiaries as of January 1, 2002. The adoption of SFAS No. 30 resulted in a decrease of long-term investments and an increase of treasury stock by NT\$1,923,492 thousand as of December 31, 2002, and an increase in net income for the year ended December 31, 2002 by NT\$25,909 thousand.

## 4. CASH AND CASH EQUIVALENTS

	<u>2003</u>	<u>2002</u>
Cash and bank deposits	\$92,340,643	\$58,917,928
Government bonds acquired under repurchase agreements	<u>5,947,359</u>	<u>2,738,867</u>
	<u>\$98,288,002</u>	<u>\$61,656,795</u>

## 5. SHORT-TERM INVESTMENTS

	<u>2003</u>
Government bonds	\$ 7,692,595
Money market funds	2,038,680
Government bonds acquired under repurchase agreements	1,800,000
Bond funds	1,000,000
Listed stocks	<u>27,744</u>
	<u>\$12,559,019</u>
Market value	<u>\$12,703,444</u>

**6. INVENTORIES—NET**

	<u>2003</u>	<u>2002</u>
Finished goods	\$ 2,705,165	\$ 3,610,547
Work in process	8,303,357	7,227,129
Raw materials	445,357	389,164
Supplies and spare parts	<u>674,548</u>	<u>693,526</u>
	12,128,427	11,920,366
Less—allowance for losses	( <u>1,221,269</u> )	( <u>1,580,030</u> )
	<u>\$10,907,158</u>	<u>\$10,340,336</u>

**7. LONG-TERM INVESTMENTS**

	<u>2003</u>		<u>2002</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
<u>Shares of stock</u>				
Equity method				
TSMC International Investment Ltd. (TSMC International)	\$22,654,743	100	\$22,265,157	100
TSMC Partners Ltd. (TSMC Partners)	4,116,934	100	3,753,733	100
Vanguard International Semiconductor Corporation (VIS)	4,077,198	28	2,415,297	25
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	2,759,376	32	3,136,115	32
TSMC Shanghai Company Limited (TSMC Shanghai)	1,901,428	100	-	-
Emerging Alliance Fund LLP (Emerging Alliance)	704,744	99	767,239	99
TSMC North America (TSMC—North America)	417,858	100	173,601	100
Global UniChip Corp. (GUC)	368,434	47	-	-
TSMC Japan K. K. (TSMC—Japan)	101,722	100	94,258	100
VisEra Technology Company Ltd. (VisEra)	50,231	25	-	-
Chi Cherng Investment Ltd. (Chi Cherng)	42,941	36	41,894	36
Hsin Ruey Investment Ltd. (Hsin Ruey)	42,006	36	39,815	36
TMSC Semiconductor Manufacturing Company Europe B. V. (TSMC—Europe)	24,622	100	13,670	100
Ya Xin Technology (Ya Xin)	-	-	<u>341,250</u>	100
	<u>37,262,237</u>		<u>33,042,029</u>	
Prepayment for subscribed stocks				
VIS	-		<u>849,360</u>	
	-		<u>849,360</u>	
Cost method				
Publicly traded stock				
Amkor Technology	-	-	280,748	-
Monolithic System Tech.	-	-	104,289	2
Taiwan Mask Corp.	-	-	32,129	2
Non-publicly traded stock				
United Gas Co., Ltd.	193,584	11	193,584	11
Shin-Etsu Handotai Taiwan Company Ltd.	105,000	7	105,000	7
Hon Tung Venture Capital	83,916	10	83,916	10
W.K. Technology Fund IV	<u>50,000</u>	2	<u>50,000</u>	2
	<u>432,500</u>		<u>849,666</u>	

(Continued)

<u>Funds</u>	<u>2003</u>		<u>2002</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
Horizon Ventures	\$ 229,669	-	\$ 195,452	-
Crimson Asia Capital	40,947	-	41,988	-
	<u>270,616</u>		<u>237,440</u>	
	<u>\$37,965,353</u>		<u>\$34,978,495</u>	

On January 8, 2003, the Company's investee company, VIS issued 600,000 thousand shares of common stock at a price of NT\$7 per share of which the Company purchased a total of 230,882 thousand shares. As a result, its ownership in VIS increased from 25% to 28%.

The Company's investees, Hsin Ruey, Chi Hsin and Kung Cherng were merged on October 30, 2002, with Hsin Ruey as the surviving company. In addition, the Company's investees, Chi Cherng, Cherng Huei and Po Cherng were merged on October 30, 2002, with Chi Cherng as the surviving company. The mergers were accounted for as a pooling of interest. The Company's direct ownership is approximately 36% in Hsin Ruey and approximately 36% in Chi Cherng subsequent to the merger.

The Company established Ya Xin in November 2002 and subsequently signed a merger agreement with GUC in December 2002. The merger was effective on January 4, 2003 and GUC is the surviving company.

The Company established TSMC Shanghai in August 2003, which is wholly owned by the Company.

In November 2003, the Company invested US\$1,500 thousand in VisEra. The Company's ownership in VisEra is 25% as of December 31, 2003.

The carrying value of investments accounted for using the equity method and the related investment gains or losses were determined based on the audited financial statements of the investees for the same period as the Company. The investment gains or (losses) of the investee companies consisted of the following:

	<u>2003</u>	<u>2002</u>
TSMC International	\$ 876,814	(\$ 4,714,203)
TSMC North America	227,062	139,006
TSMC Partners	197,394	993,292
VIS	50,351	( 821,771)
SSMC	( 310,821)	( 1,155,076)
Emerging Alliance	( 218,094)	( 142,151)
Others	( <u>31,282</u> )	( <u>15,607</u> )
	<u>\$ 791,424</u>	<u>(\$ 5,716,510)</u>

The aggregate market value of the publicly traded stocks accounted for using the cost method was zero and \$465,389 thousand as of December 31, 2003 and 2002, respectively.

## 8. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	<u>2003</u>	<u>2002</u>
Buildings	\$ 29,384,609	\$ 22,289,909
Machinery and equipment	214,296,129	163,208,908
Office equipment	<u>3,833,574</u>	<u>2,948,787</u>
	<u>\$ 247,514,312</u>	<u>\$ 188,447,604</u>

Information on the status of the expansion or construction plans of the Company's manufacturing facilities as of December 31, 2003 is as follows:

<u>Construction/ Expansion Plan</u>	<u>Estimated Complete Costs</u>	<u>Accumulated Expenditures</u>	<u>Actual Date of Starting Operations</u>	<u>Expected Date of Starting Operations</u>
Fab 12 Phase 1	\$ 85,364,800	\$ 82,722,100	March 2002	-
Fab 14 Phase 1	67,047,200	27,189,600	-	2 <sup>nd</sup> half of 2004 at the earliest

Interest expense (before deducting capitalized amounts of NT\$138,668 thousand and NT\$165,857 thousand for the year ended December 31, 2003 and 2002, respectively) were NT\$1,715,011 thousand and NT\$2,285,792 thousand for the year ended December 31, 2003 and 2002, respectively. The interest rates used for calculating the capitalized amounts was 2.8% and 5.283% for the year ended December 31, 2003 and 5.283% for the year ended December 31, 2002.

## 9. DEFERRED CHARGES—NET

	<u>2003</u>	<u>2002</u>
Technology license fees	\$ 5,084,684	\$ 6,519,286
Software and system design costs	2,718,270	3,167,366
Other	<u>144,377</u>	<u>105,838</u>
	<u>\$ 7,947,331</u>	<u>\$ 9,792,490</u>

## 10. BONDS

Domestic unsecured bonds:

Issued in March 1998 and payable in March 2003 in one lump sum payment, 7.71% annual interest payable semi-annually	\$ -	\$ 4,000,000
Issued in October 1999 and payable in October 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively	5,000,000	5,000,000
Issued in December 2000 and payable in December 2005 and 2007 in two installments, 5.25% and 5.36% annual interest payable annually, respectively	15,000,000	15,000,000
Issued in January 2002 and payable in January 2007, 2009 and 2012 in three installments, 2.6%, 2.75% and 3.00% annual interest payable annually, respectively	<u>15,000,000</u>	<u>15,000,000</u>
	<u>\$ 35,000,000</u>	<u>\$ 39,000,000</u>



As of December 31, 2003, future principal payments for the Company's bonds are as follows:

<u>Year of Repayment</u>	<u>Amount</u>
2004	\$ 5,000,000
2005	10,500,000
2007	7,000,000
2008 and thereafter	<u>12,500,000</u>
	<u>\$ 35,000,000</u>

## 11. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor-related patents. Future payments under the agreements as of December 31, 2003 are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 1,591,972
2005	1,279,139
2006	458,703
2007	475,692
2008	271,824
2009 and thereafter	<u>815,471</u>
	<u>\$ 4,892,801</u>

## 12. PENSION PLAN

The Company has a pension plan for all regular employees that provide benefits based on length of service and average monthly salary 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 deposited in the Committee's name in the Central Trust of China.

The changes in the plan assets and unfunded accrued pension cost for the years ended December 31, 2003 and 2002 are summarized as follows:

### a. Components of pension cost

	<u>2003</u>	<u>2002</u>
Service cost	\$ 502,116	\$ 442,294
Interest cost	109,671	121,552
Projected return on plan assets	( 41,154 )	( 45,102 )
Amortization	<u>2,409</u>	<u>1,681</u>
Net pension cost	<u>\$ 573,042</u>	<u>\$ 520,425</u>

(Continued)

	<u>2003</u>	<u>2002</u>
b. Reconciliation of the fund status of the plan and accrued pension cost		
Benefit obligation		
Vested benefit obligation	\$ 21,895	\$ 21,294
Nonvested benefit obligation	<u>2,184,593</u>	<u>1,604,027</u>
Accumulated benefit obligation	2,206,488	1,625,321
Additional benefits based on future salaries	<u>1,752,208</u>	<u>1,300,712</u>
Projected benefit obligation	3,958,696	2,926,033
Fair value of plan assets	( <u>1,207,264</u> )	( <u>1,014,086</u> )
Funded status	2,751,432	1,911,947
Unrecognized net transitional obligation	( 141,091 )	( 149,391 )
Unrecognized net gain (loss)	( 10,090 )	445,759
Accrued pension liabilities	<u>-</u>	<u>2,227</u>
Unfunded accrued pension cost	<u>\$ 2,600,251</u>	<u>\$ 2,210,542</u>
c. Actuarial assumptions		
Discount rate used in determining present values	3.25%	3.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	3.25%	3.75%
d. Contributions to pension fund	<u>\$ 181,106</u>	<u>\$ 164,720</u>
e. Payments from pension fund	<u>\$ 3,490</u>	<u>\$ 5,360</u>

### 13. INCOME TAX

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

	<u>2003</u>	<u>2002</u>
Income tax expense based on income before income tax at statutory rate (25%)	\$ 12,757,069	\$ 6,778,114
Tax-exempt income	( 5,255,750 )	( 2,526,500 )
Temporary and permanent differences	<u>( 728,904 )</u>	<u>452,684</u>
Current income tax expense before income tax credits	<u>\$ 6,772,415</u>	<u>\$ 4,704,298</u>

- b. Income tax expense consists of:

Current income tax expense before income tax credits	\$ 6,772,415	\$ 4,704,298
Additional 10% on the unappropriated earnings	1,271,759	162,938
Income tax credits	( 7,917,070 )	( 4,867,236 )
Other income tax	2,500	12,661
Income tax expense		

(Continued)

	<u>2003</u>	<u>2002</u>
Net change in deferred income tax liabilities (assets)		
Investment tax credits	\$ 917,759	(\$ 2,510,192)
Temporary differences	( 80,390)	1,072,086
Valuation allowance	<u>2,802,602</u>	<u>6,927,609</u>
	<u>\$ 3,769,575</u>	<u>\$ 5,502,164</u>

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

Current:		
Investment tax credits	<u>\$ 8,322,000</u>	<u>\$ 3,320,000</u>
Noncurrent:		
Investment tax credits	\$17,327,894	\$23,247,653
Temporary differences	( 3,485,451)	( 3,565,841)
Valuation allowances	<u>( 12,771,847)</u>	<u>( 9,969,245)</u>
	<u>\$ 1,070,596</u>	<u>\$ 9,712,567</u>

d. Integrated income tax information:

The balances of the imputation credit account as of December 31, 2003 and 2002 were NT\$2,832 thousand and NT\$6,650 thousand, respectively.

The expected and actual creditable ratio for 2003 and 2002 was 0.01% and 0.08%, respectively.

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2003 may be adjusted when the distribution of the imputation credits are made.

e. All retained earnings generated prior to December 31, 1997 were appropriated as of December 31, 2003 and 2002.

f. As of December 31, 2003, investment tax credits consisted of the following:

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 8,203,531	\$ 3,938,319	2004
		3,792,734	3,792,734	2005
		4,823,691	4,823,691	2006
		<u>1,680,360</u>	<u>1,680,360</u>	2007
		<u>\$18,500,316</u>	<u>\$14,235,104</u>	

(Continued)

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Statute for Upgrading Industries	Research and development expenditures	\$ 2,258,828	\$ 2,258,828	2004
		3,111,472	3,111,472	2005
		3,322,453	3,322,453	2006
		<u>2,275,560</u>	<u>2,275,560</u>	2007
		<u>\$ 10,968,313</u>	<u>\$ 10,968,313</u>	
Statute for Upgrading Industries	Personnel training	\$ 48,097	\$ 48,097	2004
		28,886	28,886	2005
		<u>27,311</u>	<u>27,311</u>	2006
		<u>\$ 104,294</u>	<u>\$ 104,294</u>	
Statute for Upgrading Industries	Investments in important technology—based enterprises	\$ 203,319	\$ 203,319	2004
		<u>138,864</u>	<u>138,864</u>	2005
		<u>\$ 342,183</u>	<u>\$ 342,183</u>	

- 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—modules B	2002 to 2005
Expansion of Fab 2—modules A and B, Fab 3 and Fab 4, Fab 5 and Fab 6	2003 to 2006

- h. The tax authorities have examined income tax returns of the Company through 2000. However, the Company is contesting the assessment of the tax authority for 1992, 1993, 1997 and 1998. The Company believes that the Result of the contesting will have no significant unfavorable impact on the Company.

**14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE**

	<u>Year Ended December 31, 2003</u>		
	<u>Classified as Cost of Sales</u>	<u>Classified as Operating Expense</u>	<u>Total</u>
Labor cost			
Salary	\$ 7,392,295	\$ 3,093,658	\$ 10,485,953
Labor and health insurance	476,687	239,067	715,754
Pension	379,845	190,507	570,352
Other	273,780	159,569	433,349
Depreciation	55,699,522	2,298,375	57,997,897
Amortization	<u>1,385,594</u>	<u>2,399,724</u>	<u>3,785,318</u>
	<u>\$ 65,607,723</u>	<u>\$ 8,380,900</u>	<u>\$ 73,988,623</u>

	<b>Year Ended December 31, 2002</b>		
	<b>Classified as</b>	<b>Classified as</b>	
	<b>Cost of Sales</b>	<b>Operating Expense</b>	<b>Total</b>
Labor cost			
Salary	\$ 6,443,740	\$ 2,996,574	\$ 9,440,314
Labor and health insurance	427,992	216,154	644,146
Pension	349,279	177,267	526,546
Other	187,490	147,079	334,569
Depreciation	51,070,254	2,354,408	53,424,662
Amortization	<u>2,161,467</u>	<u>2,035,333</u>	<u>4,196,800</u>
	<u>\$60,640,222</u>	<u>\$ 7,926,815</u>	<u>\$68,567,037</u>

## 15. SHAREHOLDERS' EQUITY

### Capital, Capital Surplus and Retained Earnings

The Company has issued a total of 585,898 thousand ADSs which were traded on the NYSE as of December 31, 2003. The total number of common shares represented by all issued ADSs is 2,929,491 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, and the purchase of treasury stock) can be transferred to capital stock as stock dividends.

The Company's Articles of Incorporation provide that the following shall be appropriated from annual earnings if in excess of any cumulative deficit:

- a. 10% legal reserve; until the accumulated legal reserve has equaled the total paid-in capital of the Company;
- b. Special reserve in accordance with relevant laws or regulations;
- c. Remuneration to directors and supervisors and bonus to employees equals to 0.3% and at least 1% of the remainder, respectively. Individuals eligible for the employee bonus 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, based on the period which the preferred shares have been outstanding. Following the redemption of all of its issued and outstanding preferred shares in May 2003, the Company amended its Articles of Incorporation on June 3, 2003, to remove the provision for issuance of any future dividends to preferred shareholders as of that date;
- e. The appropriation of any remaining balance shall be approved by the shareholders.

Dividends are distributed in shares of common stock or a combination of cash and common stock. Since the Company is in a capital-intensive industry and is currently in the growth stage of its operation, distributions of profits is made preferably 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 is made until the reserve equals the aggregate par value of the Company's outstanding capital stock. The reserve can only be used to offset a deficit or be distributed to capital stock as a stock dividend up to half 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 (except for the recorded cost of treasury stock held by subsidiaries) shall be made from unappropriated retained earnings pursuant to existing regulations promulgated by the SFC. The special reserve is allowed to be appropriated when the debit balance of such accounts is reversed.

The appropriations of the earnings of 2002 and 2001 were approved in the shareholders' meeting on June 3, 2003 and May 7, 2002, respectively. The appropriations and dividend per share are as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share</u> (NT\$)	
	<u>For Fiscal</u> <u>Year 2002</u>	<u>For Fiscal</u> <u>Year 2001</u>	<u>For Fiscal</u> <u>Year 2002</u>	<u>For Fiscal</u> <u>Year 2001</u>
Legal reserve	\$ 2,161,029	\$ 1,448,317	\$ -	\$ -
Special reserve	68,945	( 349,941 )	-	-
Bonus paid to employees—in stock	1,539,013	1,070,783	-	-
Preferred stock dividend—in cash	455,000	455,000	0.35	0.35
Common stock dividend—in stock	14,898,309	16,832,553	0.80	1.00
Remuneration to directors and supervisors—in cash	<u>58,485</u>	<u>133,848</u>	-	-
	<u>\$19,180,781</u>	<u>\$19,590,560</u>		

The above appropriation of the earnings in fiscal year 2002 and 2001 is consistent with the resolution of the meetings of board of directors on March 4, 2003 and March 26, 2002, respectively. If the above employee bonus and remuneration to directors and supervisors were paid in cash and charged against income for 2002 and 2001, the basic earnings per share for the years ended December 31, 2002 and 2001 would decrease from NT\$1.14 to NT\$1.05 and NT\$0.83 to NT\$0.76, respectively. The shares distributed as a bonus to employees represented 0.83% and 0.64% of the Company's total outstanding common shares as of December 31, 2002 and 2001, respectively.

As of January 12, 2004, the board of directors has not resolved earnings appropriation for fiscal year 2003.

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

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.

### **Employee Stock Option 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 aforementioned plans provide qualified employees with 120,000 thousand and 100,000 thousand units of option rights, respectively, with each unit representing one common share of stock. The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of issuance. Under the terms of both plans, stock options 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 51,485 thousand option rights that had never been granted, or had been granted but cancelled. These un-granted or cancelled option rights expired as of December 31, 2003.

Information of outstanding stock option rights under 2003 and 2002 Plan is as follows:

	<u>2003 Plan</u>		<u>2002 Plan</u>	
	<u>Number of Outstanding Stock Option Rights (in Thousand)</u>	<u>Range of Exercise Price (NT\$)</u>	<u>Number of Outstanding Stock Option Rights (in Thousand)</u>	<u>Range of Exercise Price (NT\$)</u>
Balance, January 1, 2003	-	-	19,369	46.86-48.70
Options granted	843	66.5	32,031	38.23-53.76
Options cancelled	( <u>1</u> )	66.5	( <u>2,885</u> )	38.23-53.76
Balance, December 31, 2003	<u>842</u>		<u>48,515</u>	

The aforementioned number of outstanding option rights and exercise prices have been adjusted, taken stock dividends into consideration, in accordance with both plans.

### **Preferred Stock**

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 following are the rights of the preferred shareholders and the 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 the Company 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.

## 16. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

Purpose	Beginning Shares	Dividend	Sell	Ending Shares
<u>Year ended December 31, 2003</u>				
Reclassification of parent company stock held by subsidiaries from long-term investment	<u>42,001</u>	<u>3,357</u>	<u>4,761</u>	<u>40,597</u>
<u>Year ended December 31, 2002</u>				
Reclassification of parent company stock held by subsidiaries from long-term investment	<u>39,270</u>	<u>3,818</u>	<u>1,087</u>	<u>42,001</u>

Proceeds from the sale of treasury stock for the year ended December 31, 2003 and 2002 were NT\$331,945 thousand and NT\$96,501 thousand, respectively. As of December 31, 2003 and 2002, the book value of the treasury stock was NT\$1,633,228 thousand and NT\$1,923,492 thousand, respectively; the market value was NT\$2,548,788 thousand and NT\$2,048,164 thousand, respectively. The Company's capital stock held by a subsidiary as an investment is recorded as treasury stock, with the holder having the same rights as other common shareholders.

## 17. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

	Amounts (Numerator)		Share (Denominator) (Thousand)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2003</u>					
Net Income	\$ 51,028,275	\$ 47,258,700			
Less—preferred stock dividends	( 184,493)	( 184,493)			
Basic earnings per share					
Income available to common shareholders	50,843,782	47,074,207	20,223,457	<u>\$ 2.51</u>	<u>\$ 2.33</u>
Effect of diluted securities—stock options	-	-	8,282		
Diluted earnings per share					
Income available to common shareholders	<u>\$ 50,843,782</u>	<u>\$ 47,074,207</u>	<u>20,231,739</u>	<u>\$ 2.51</u>	<u>\$ 2.33</u>
<u>Year ended December 31, 2002</u>					
Income	\$ 27,112,455	\$ 21,610,291			
Less—preferred stock dividends	( 455,000)	( 455,000)			
Basic and diluted earnings per share					
Income available to common shareholders	<u>\$ 26,657,455</u>	<u>\$ 21,155,291</u>	<u>20,220,989</u>	<u>\$ 1.32</u>	<u>\$ 1.05</u>

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 SFAS No. 24, "Earnings Per Share", but such shares resulted in a non-dilutive per share amount for the year ended December 31, 2002. The average number of shares outstanding for the EPS calculation has been adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic EPS before income tax and after income tax for the year ended December 31, 2002 to decrease from NT\$1.43 to NT\$1.32 and NT\$1.14 to NT\$1.05, respectively.



## 18. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI); one of whose directors is the Chairman of the Company
- b. Philips; a major shareholder of the Company
- c. Subsidiaries
  - TSMC—North America
  - TSMC—Europe
  - TSMC—Japan
- d. Investees
  - VIS
  - SSMC
  - GUC
- e. Indirect subsidiaries
  - WaferTech, LLC (WaferTech)
  - TSMC Technology

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

	2003		2002	
	Amount	%	Amount	%
<u>For the years</u>				
Sales				
TSMC—North America	\$ 117,758,911	57	\$ 94,433,401	57
Philips and its affiliates	3,577,054	2	2,909,008	2
GUC	549,471	-	-	-
ITRI	60,171	-	94,409	-
SSMC	873	-	7,018	-
VIS	19	-	92,119	-
WaferTech	-	-	1,152	-
	\$ 121,946,499	59	\$ 97,537,107	59
Purchase				
WaferTech	11,433,083	36	9,955,154	41
SSMC	5,519,805	17	2,751,297	11
VIS	4,910,810	15	3,469,198	14
	\$ 21,863,698	68	\$ 16,175,649	66
Operating expense—rental				
ITRI	\$ -	-	\$ 40,401	3

(Continued)

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Manufacturing expenses—technical assistance fee				
Philips	\$ 3,023,741	3	\$ 2,849,517	4
Marketing expenses—commission				
TSMC—Japan	\$ 215,202	18	\$ 208,226	23
TSMC—Europe	154,262	13	132,086	15
	<u>\$ 369,464</u>	<u>31</u>	<u>\$ 340,312</u>	<u>38</u>
Sales of property, plant and equipment				
VIS	\$ 15,125	9	\$ -	-
Non-operating income and gain				
SSMC (technical service income mainly)	\$ 201,869	8	\$ 126,061	3
WaferTech	2,794	-	1,635	-
VIS	251	-	-	-
	<u>\$ 204,914</u>	<u>8</u>	<u>\$ 127,696</u>	<u>3</u>
<u>At end of the year</u>				
Receivables				
TSMC—North America	\$ 13,946,638	93	\$ 9,739,236	96
Philips and its affiliates	895,063	6	352,706	3
VIS	118,503	1	58,301	1
GUC	15,339	-	-	-
SSMC	14,489	-	5,678	-
ITRI	8,781	-	22,974	-
TSMC Technology	1,232	-	-	-
Others	580	-	4,593	-
	<u>\$ 15,000,625</u>	<u>100</u>	<u>\$ 10,183,488</u>	<u>100</u>
Payables				
Philips and its affiliates	\$ 1,579,568	35	\$ 730,847	30
WaferTech	1,184,642	27	617,751	25
VIS	1,034,074	23	653,876	26
SSMC	634,647	14	391,426	16
TSMC—Japan	28,150	1	19,643	1
TSMC—Europe	16,026	-	29,520	1
TSMC—North America	12,241	-	14,511	1
TSMC Technology	10,792	-	9,424	-
	<u>\$ 4,500,140</u>	<u>100</u>	<u>\$ 2,466,998</u>	<u>100</u>
Refundable deposits—VIS	\$ 150,840	85	\$ 514,846	95

Except for WaferTech and TSMC—North America, sales to related parties are based on normal selling prices and collection terms. The payables to WaferTech represent the purchase of finished goods. The purchase prices of finished goods were determined in accordance with the related contractual agreements. The selling prices to TSMC—North America are approximately 99% of the comparable selling prices to third parties. The payment terms of related parties are thirty days from the date of monthly closing or thirty days from the date of invoice, which is not significantly different from payment terms with third parties.

## 19. SIGNIFICANT LONG-TERM OPERATING LEASES

The Company leases land from the Science-Based Industrial Park (SBIP) Administration where its Fab 2 through Fab 14 manufacturing facilities reside. These agreements expire on various dates from March 2008 to December 2020 and have annual rent payments aggregating NT\$230,449 thousand. The agreements can be renewed upon their expiration.

Future remaining lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 230,449
2005	230,449
2006	230,449
2007	230,449
2008	206,406
2009 and thereafter	<u>1,586,361</u>
	<u>\$ 2,714,563</u>

## 20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies as of December 31, 2003 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fees at a percentage of net sales (as defined in the agreement) with respect to certain products. The agreement shall remain in force through July 8, 2007 and may be automatically renewed for successive periods of three years thereafter. Under the amended agreement, starting from the fifth anniversary date of the amended agreement, the fees are subject to reduction by the amounts the Company pays to any third party for settling any licensing/infringement disputes, provided that the fees to be paid after reduction will not be below a certain percentage of the net sales.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of the Company's production capacity.
- c. 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.
- d. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers who have made guarantee deposits to the Company. As of December 31, 2003, the Company has a total of US\$22,557 thousand of guarantee deposits.

- e. 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, and allowed the Company to invest in 32% of SSMC's capital. The Company and Philips committed to buy a specific percentage 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.
- f. 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 prices 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.
- g. 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.
- h. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for license of certain technology to National. The agreement will remain in force for ten years and will 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 will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request additional technology transfers under the same terms and conditions as the terminated TTA through January 2008.
- i. The Company entered into a Manufacturing Agreement with VIS. VIS agrees to reserve certain production capacity for the Company to manufacture certain logic devices or other technologies required by the Company's customers at selling prices agreed upon by the parties. The Company paid NT\$1,200,000 thousand to VIS as a guarantee deposit. VIS shall return portions of the guarantee deposit without any interest to the Company upon reaching certain levels of purchase commitment by the Company. The contract will remain in force for five years. As of December 31, 2003, the refundable deposit was NT\$150,840 thousand.
- j. Starting from 2001, the Company entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability and deferred charges which is 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.
- k. 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.
- l. 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 and license related 90nm SOI technology. The resultant works of the 65nm SOI technology co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company shall pay royalty to Motorola, Inc. and share a portion of the costs associated with this joint development project.

- m. The Company filed a lawsuit in the US District Court of Northern California in December 2003 against Semiconductor Manufacturing International Corporation and certain of its subsidiaries for patent infringement and trade secret misappropriation. The suit also asks for injunctive relief along with monetary damages. The case is in the process of being reviewed by the court and, the probable impact is still unable to be reasonably estimated.
- n. Amounts available under unused letter of credits as of December 31, 2003 were NT\$6,480 thousand, EUR21 thousand and Singapore dollar 85 thousand.

## 21. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFC for TSMC and 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 and 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 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 at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Names, locations, and related information of investees of which the Company exercises significant influence: Please see Table 8 attached;
- j. Financial instrument transactions:
  - 1) Derivative financial instruments

The Company entered into derivative financial instrument transactions for the year ended December 31, 2003 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 December 31, 2003:

<b>Financial Instruments</b>	<b>Maturity Period</b>	<b>Contract Amount (Nominal) Amount) (in Thousand)</b>
Sell	January 2004 to July 2004	US\$ 1,805,000(US\$/NT\$)
Buy	January 2004	EUR 7,500(EUR/US\$)
Buy	January 2004	JPY 748,405(JPY/US\$)

As of December 31, 2003, receivables from forward exchange contracts (included in the “other financial assets” account) aggregate approximately NT\$76,385 thousand, and payables from forward exchange contracts (included in the “other current liabilities” account) aggregate approximately NT\$174,019 thousand. Net exchange gain for the year ended December 31, 2003 was NT\$321,033 thousand.

The assets and liabilities related to the above forward exchange contracts are as follows:

<u>Assets and Liabilities</u>	<u>As of December 31, 2003</u> <u>(in Thousand)</u>
Time deposits	US\$ 1,137,704
Accounts and notes receivable	US\$ 789,927
Accounts payable	JPY 889,850
Accounts payable	EUR 9,364

b) Interest rate swaps

The Company entered into interest rate swap contracts to manage exposures to floating interest rates on long-term liabilities. Net interest expense on these transactions for the year ended December 31, 2003 was NT\$141,007 thousand.

Outstanding contracts as of December 31, 2003 were as follows:

<u>Contract Date</u>	<u>Period</u>	<u>Amount</u> <u>(in Thousand)</u>
July 1, 1999	July 1, 1999 to June 28, 2004	US\$ 2,857
September 19, 2003	September 22, 2003 to December 15, 2005	NT\$ 500,000
October 16, 2003	October 20, 2003 to December 15, 2005	NT\$ 500,000
October 16, 2003	October 20, 2003 to December 15, 2005	NT\$ 500,000
October 17, 2003	October 21, 2003 to December 15, 2005	NT\$ 500,000
October 17, 2003	October 20, 2003 to December 15, 2005	NT\$ 500,000
November 7, 2003	November 11, 2003 to December 15, 2005	NT\$ 500,000

c) Option contracts

The Company entered into foreign currency option contracts to manage exchange rate fluctuations arising from its anticipated US dollar cash receipts on export sales or its Yen and European currency obligations for purchases of machinery and equipment.

As of December 31, 2003, there were no outstanding option contracts.

For the year ended December 31, 2003, the Company realized premium income of NT\$50,273 thousand and premium expense of NT\$204,056 thousand.

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

As of December 31, 2003, the Company's future cash demand for outstanding forward exchange contracts, interest rate swaps and option contracts are as follows:

<u>Term</u>	<u>Forward Exchange Contracts</u>	
	<u>Inflow</u> (In Thousand)	<u>Outflow</u> (In Thousand)
Within one year	NT\$ 61,230,306 EUR 7,500 JPY 748,405	US\$ 1,821,340

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 option contracts are fixed. Therefore, there is no material fund raising risk and cash flow risk.

## 2) Fair value of financial instruments

	<u>2003</u>		<u>2002</u>	
	<u>Carrying Amount</u> (In Thousand)	<u>Fair Value</u> (In Thousand)	<u>Carrying Amount</u> (In Thousand)	<u>Fair Value</u> (In Thousand)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 98,288,002	\$ 98,288,002	\$ 61,656,795	\$ 61,656,795
Short-term investments	12,559,019	12,703,444	-	-
Receivables from related parties	15,000,625	15,000,625	10,183,488	10,183,488
Notes and accounts receivable	13,917,807	13,917,807	9,555,687	9,555,687
Other financial assets	1,081,742	1,081,742	969,669	969,669
Long-term investments	37,965,353	46,144,338	34,978,495	38,909,570
Refundable deposits	177,379	177,379	543,469	543,469
<u>Liabilities</u>				
Payables to related parties	4,500,140	4,500,140	2,466,998	2,466,998
Accounts payable	6,083,876	6,083,876	4,849,234	4,849,234
Payables to contractors and equipment suppliers	7,117,884	7,117,884	14,004,383	14,004,383
Bonds payable (includes current portion)	35,000,000	35,850,377	39,000,000	39,762,245
Other long-term payable (includes current portion)	4,892,801	4,892,801	5,438,964	5,438,964
Guarantee deposits	763,489	763,489	1,395,066	1,395,066
<u>Derivative financial instruments</u>				
Forward exchange contracts (buy)	2,351	3,037	38,369	26,089
Forward exchange contracts (sell)	( 99,984)	40,638	143,702	139,913
Interest rate swaps	-	2,093	23,994	( 164,342)
Option	-	-	( 50,273)	( 410,132)

Fair values of financial instruments were determined as follows:

- a) The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, payables to contractors and equipment suppliers are approximate to their fair values.
- b) 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.
- c) Fair value of refundable deposits and guarantee deposits is based on carrying values.
- d) The fair value of bonds payable is the quoted market value. Fair value of other long-term payable is approximate to its carrying value.
- e) 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 were 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.

3) Investment in Mainland China:

The Company filed an investment project with the Investment Commission of MOEA to establish a foundry in Mainland China. On February 27, 2003, the authority approved phase one of the foregoing project and permitted direct investment in establishing TSMC Shanghai. The Company entered into an investment related agreement with Shanghai Songjiang District People's Government on June 8, 2003. On August 4, 2003, TSMC Shanghai has been established and is 100% held by the Company. TSMC Shanghai is engaged mainly in the manufacturing and selling of integrated circuits. The Company invested US\$56,000 thousand on October 8, 2003.

## 22. SEGMENT FINANCIAL INFORMATION

a. Gross export sales

<u>Area</u>	<u>2003</u>	<u>2002</u>
America	\$ 103,600,081	\$ 86,045,821
Asia and others	63,349,186	49,916,588
Europe	<u>11,706,059</u>	<u>9,216,429</u>
	<u>\$ 178,655,326</u>	<u>\$ 145,178,838</u>

The export sales information is based on amounts billed to customers within the region.

b. Major customers representing at least 10% of net total sales:

The Company only has one customer that accounts for at least 10% of its total sales. The sales to such customer amounted to \$31,220,104 thousand and \$32,769,054 thousand in 2003 and 2002 representing 15% and 20% of its total sales, respectively.

The Company entered into an exclusive distribution agreement with TSMC - North America on January 1, 2002. Under the distributor agreement, TSMC - North America purchases inventory from the Company, and in turn, sells the inventory to third-party customers.



**TABLE 1****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****FINANCING PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2003****(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	Transaction Amounts	Reasons For Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limits (US\$ in Thousand)
										Item	Value		
1	TSMC International	TSMC Technology	Other receivables	\$ 538,585 (US\$ 15,851)	\$ 538,585 (US\$ 15,851)	4.25%	\$ -	Operating capital	\$ -	-	\$ -	N/A	\$ 33,569,117 (US\$987,968) (Note 1)
		TSMC Development	Other receivables	\$ 2,038,680 (US\$ 60,000)	\$ 2,038,680 (US\$ 60,000)	1.50%	-	Operating capital	-	-	-		
2	TSMC Partners	TSMC Development	Other receivables	\$ 2,718,240 (US\$ 80,000)	\$ 2,718,240 (US\$ 80,000)	1.50%	-	Operating capital	-	-	-	N/A	(Note 2)

Note 1: Not exceeding the issued capital of the Company.

Note 2: Generally not exceeding the issued capital of the Company, unless approved by all members of the board.

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**(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)	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)
		Name	Nature of Relationship (Note 2)						
0	TSMC	TSMC Development	3	Not exceed 10% of the net worth of TSMC, and also limiting to the total paid-in capital of the endorsement/guarantee company, unless otherwise approved by Board of Directors.	\$ 6,795,600 (US\$ 200,000)	\$ 2,038,680 (US\$ 60,000)	\$ -	0.62%	\$ 82,303,577
		TSMC—North America	2		1,359,120 (US\$ 40,000)	1,359,120 (US\$ 40,000)	-	0.41%	
		WaferTech	3		14,950,320 (US\$ 440,000)	14,950,320 (US\$ 440,000)	-	4.54%	

Note 1: 25% of the net worth of TSMC as of December 31, 2003.

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

## TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2003

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003			Market Value or Net Asset Value (US\$ in Thousand)	Note
				Shares/Units (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership		
TSMC	<u>Liquidity fund</u>							
	BOA Funds	-	Short-term investment	40,000	\$ 1,359,120 (US\$ 40,000)	N/A	\$ 1,359,120 (US\$ 40,000)	
	GS Funds	-	Short-term investment	20,000	679,560 (US\$ 20,000)	N/A	679,560 (US\$ 20,000)	
	<u>Bond fund</u>							
	JF Taiwan Bond Fund	-	Short-term investment	34,343	500,000	N/A	503,421	
	ABN AMRO Bond Fund	-	Short-term investment	34,794	500,000	N/A	503,490	
	<u>Bond</u>							
	2002 Government Bond Series A	-	Short-term investment	-	3,157,331	N/A	3,169,046	
	2002 Government Bond Series E	-	Short-term investment	-	3,113,067	N/A	3,126,273	
	1994 Government Bond Series C	-	Short-term investment	-	1,422,197	N/A	1,426,995	
	Bonds with Repurchase Agreement	-	Short-term investment	-	1,800,000	N/A	1,802,572	
	<u>Stock</u>							
	Taiwan Mask Corp.	-	Short-term investment	7,094	27,744	2	132,967	
	TSMC—North America	Subsidiary	Long-term investment	11,000	417,858	100	1,133,011	The treasury stocks in amounts of NT\$ 715,153 thousand are deducted from the carrying value.
	TSMC—Europe	Subsidiary	Long-term investment	-	24,622	100	24,622	
	TSMC—Japan	Subsidiary	Long-term investment	6	101,722	100	101,722	
	VIS	Investee	Long-term investment	787,016	4,077,198	28	10,465,676	
	TSMC International	Subsidiary	Long-term investment	987,968	22,654,743	100	22,654,743	
	TSMC Partners	Subsidiary	Long-term investment	300	4,116,934	100	4,116,934	
	SSMC	Investee	Long-term investment	382	2,759,376	32	2,759,376	
	Emerging Alliance	Subsidiary	Long-term investment	-	704,744	99	704,744	
	GUC	Investee	Long-term investment	39,040	368,434	47	403,962	
	Vis Era	Investee	Long-term investment	5,100	50,231	25	50,231	
United Gas Co., Ltd.	-	Long-term investment	16,783	193,584	11	282,754		
Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	147,999		
W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	57,051		
Hon Tung Ventures Capital	-	Long-term investment	8,392	83,916	10	66,447		
<u>Certificate</u>								
Chi Cherng Investment	Investee	Long-term investment	-	\$ 42,941	36	501,505	The treasury stocks in amounts of NT\$458,564 thousand are deducted from the carrying value.	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Hsin Ruey Investment	Investee	Long-term investment	-	\$ 42,006	36	\$ 501,517	The treasury stocks in amounts of NT\$459,511 thousand are deducted from the carrying value.
	<u>Equity</u> Crimson Asia Capital	-	Long-term investment	N/A	40,947	N/A	40,947	
	Horizon Ventures	-	Long-term investment	N/A	229,669	N/A	229,669	
TSMC—North America	<u>Stock</u> TSMC	Parent company	Long-term investment	13,101	715,153	-	822,491	
Chi Cherng Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	13,735	458,564	-	862,340	
	<u>Certificate</u> Hsin Ruey Investment	Major shareholder	Long-term investment	-	902,033	64	902,033	
Hsin Ruey Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	13,761	459,511	-	863,957	
	<u>Certificate</u> Chi Cherng Investment	Major shareholder	Long-term investment	-	902,909	64	902,909	
TSMC International	<u>Stock</u> InveStar	Subsidiary	Long-term investment	45,000	US\$ 46,403	97	US\$ 46,403	
	InveStar II	Subsidiary	Long-term investment	51,300	US\$ 36,901	97	US\$ 36,901	
	TSMC Development	Subsidiary	Long-term investment	1	US\$ 537,716	100	US\$ 537,716	
	TSMC Technology	Subsidiary	Long-term investment	1	(US\$ 7,918)	100	(US\$ 7,918)	
	3DFX Interactive Inc.	-	Long-term investment	68	-	-	-	
	<u>Liquidity fund</u> BOA Fund	-	Short-term investment	30,300	US\$ 30,300	N/A	US\$ 30,300	
TSMC Development	<u>Stock</u> WaferTech	Subsidiary	Long-term investment	-	US\$ 341,972	99	US\$ 341,972	
InveStar	<u>Stock</u> PLX Technology, Inc.	-	Short-term investment	93	US\$ 180	-	US\$ 786	
	Richtek Technology Corp.	-	Short-term investment	947	US\$ 121	2	US\$ 5,799	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	575	US\$ 203	3	US\$ 203	
	Global Testing Corp.	-	Long-term investment	13,268	US\$ 5,295	10	US\$ 5,295	
	Chipstrate Technologies, Inc.	-	Long-term investment	6,660	US\$ 308	9	US\$ 308	
	Capella Microsystems, Inc.	-	Long-term investment	530	US\$ 156	-	US\$ 156	
	Signia Technologies, Inc.	-	Long-term investment	701	US\$ 206	4	US\$ 206	
	Advanced Power Electronics Corp.	-	Long-term investment	2,750	US\$ 1,376	5	US\$ 1,376	
	Richtek Technology Corp.	-	Long-term investment	1,671	US\$ 204	3	US\$ 10,235	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
InveStar II	<u>Preferred stock</u>							
	Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$ 1,221	12	US\$ 1,221	
	SiRF Technology Holdings, Inc.	-	Long-term investment	306	US\$ 1,333	1	US\$ 1,333	
	Sensory, Inc.	-	Long-term investment	1,404	US\$ 312	5	US\$ 312	
	LightSpeed Semiconductor Corporation	-	Long-term investment	2,252	US\$ 329	2	US\$ 329	
	Tropian, Inc.	-	Long-term investment	1,758	US\$ 1,916	3	US\$ 1,916	
	Sonics, Inc.	-	Long-term investment	2,686	US\$ 3,530	5	US\$ 3,530	
	Atheros Communications, Inc.	-	Long-term investment	1,607	US\$ 3,593	-	US\$ 3,593	
	NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$ 853	3	US\$ 853	
	Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$ 2,000	12	US\$ 2,000	
	Memsic, Inc.	-	Long-term investment	2,727	US\$ 1,500	12	US\$ 1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$ 1,192	5	US\$ 1,192	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$ 375	9	US\$ 375	
	Oridus, Inc. (Creosys, Inc.)	-	Long-term investment	1,500	US\$ 300	8	US\$ 300	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$ 92	2	US\$ 92	
	IP Unity	-	Long-term investment	1,008	US\$ 494	2	US\$ 494	
	<u>Stock</u>							
	WatchGuard Technologies, Inc.	-	Short-term investment	5	US\$ 30	-	US\$ 30	
	RichTek Technology Corp	-	Short-term investment	465	US\$ 346	1	US\$ 2,848	
	eChannel Option Holding, Inc.	-	Long-term investment	358	US\$ 251	6	US\$ 251	
	Elcos Microdisplay Technology, Ltd.	-	Long-term investment	270	US\$ 27	1	US\$ 27	
	Signia Technologies, Inc.	-	Long-term investment	351	US\$ 101	2	US\$ 101	
	Procoat Technology	-	Long-term investment	4,165	US\$ 1,940	10	US\$ 1,940	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	177	US\$ 50	1	US\$ 834	
	Auden Technology MFG Co., Ltd.	-	Long-term investment	953	US\$ 834	4	US\$ 1,151	
	GeoVision, Inc.	-	Long-term investment	287	US\$ 132	1	US\$ 132	
	EoNex Technologies, Inc.	-	Long-term investment	55	US\$ 3,048	6	US\$ 3,048	
	Conwise Technology Co., Ltd.	-	Long-term investment	2,800	US\$ 979	14	US\$ 979	
	Eon Technology, Inc.	-	Long-term investment	2,800	US\$ 965	8	US\$ 965	
	Goyatek Technology, Inc.	-	Long-term investment	2,088	US\$ 727	8	US\$ 727	
	TrendChip Technologies Corp.	-	Long-term investment	2,000	US\$ 861	5	US\$ 861	
	Ralink Technologies, Inc.	-	Long-term investment	1,833	US\$ 791	5	US\$ 791	
	RichTek Technology Corp	-	Long-term investment	785	US\$ 583	2	US\$ 4,804	
	<u>Preferred stock</u>							
	Capella Microsystems, Inc.	-	Long-term investment	419	US\$ 122	3	US\$ 122	
	Memsic, Inc.	-	Long-term investment	2,289	US\$ 1,560	10	US\$ 1,560	
	Oepic, Inc.	-	Long-term investment	4,997	US\$ 1,317	8	US\$ 1,317	
	NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$ 1,000	1	US\$ 1,000	
	Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$ 1,261	2	US\$ 1,261	
	Monolithic Power Systems, Inc.	-	Long-term investment	804	US\$ 1,946	4	US\$ 1,946	
	Sonics, Inc.	-	Long-term investment	3,082	US\$ 3,082	5	US\$ 3,082	
	Newport Opticom, Inc.	-	Long-term investment	1,157	US\$ 402	9	US\$ 402	
	Silicon Data, Inc.	-	Long-term investment	2,000	US\$ 750	7	US\$ 750	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Emerging Alliance	Reflectivity, Inc.	-	Long-term investment	1,596	US\$ 1,500	6	US\$ 1,500	
	Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$ 500	6	US\$ 500	
	Tropian, Inc.	-	Long-term investment	1,464	US\$ 1,595	2	US\$ 1,595	
	SiRF Technology, Inc.	-	Long-term investment	20	US\$ 131	-	US\$ 131	
	LeadTONE Wireless, Inc.	-	Long-term investment	433	US\$ 131	6	US\$ 131	
	Match Lab, Inc.	-	Long-term investment	313	US\$ 63	2	US\$ 63	
	Kilopass Technology, Inc.	-	Long-term investment	3,887	US\$ 2,000	19	US\$ 2,000	
	Fang Tek, Inc.	-	Long-term investment	5,556	US\$ 2,000	44	US\$ 2,000	
	Alchip Technologies Ltd.	-	Long-term investment	2,125	US\$ 1,700	-	US\$ 1,700	
	Elcos Microdisplay Technology, Ltd.	-	Long-term investment	2,667	US\$ 3,500	-	US\$ 3,500	
		<u>Stock</u>						
		Global Investment Holding, Inc.	Investee	Long-term investment	10,000	\$ 100,000	6	\$ 100,000
		<u>Preferred stock</u>						
		Quake Technologies, Inc.	-	Long-term investment	467	US\$ 334	1	US\$ 334
		Pixim, Inc.	-	Long-term investment	1,721	US\$ 2,382	3	US\$ 2,382
		Newport Opticom, Inc.	-	Long-term investment	962	US\$ 250	6	US\$ 250
		NetLogic Microsystems, Inc.	-	Long-term investment	602	US\$ 1,850	1	US\$ 1,850
		Ikanos Communication, Inc.	-	Long-term investment	5,116	US\$ 1,625	3	US\$ 1,625
		Quicksilver Technology, Inc.	-	Long-term investment	963	US\$ 2,488	4	US\$ 2,488
		Mosaic Systems, Inc.	-	Long-term investment	2,481	US\$ 12	6	US\$ 12
		Accelerant Networks, Inc.	-	Long-term investment	441	US\$ 460	1	US\$ 460
		Zenesis Technologies, Inc.	-	Long-term investment	861	US\$ 500	4	US\$ 500
		Reflectivity, Inc.	-	Long-term investment	1,596	US\$ 1,500	5	US\$ 1,500
		Iridigm Display, Co.	-	Long-term investment	254	US\$ 500	1	US\$ 500
		XHP Microsystems, Inc.	-	Long-term investment	2,280	US\$ 750	6	US\$ 750
		Axiom Microdevices, Inc.	-	Long-term investment	1,000	US\$ 1,000	5	US\$ 1,000
		Optichron, Inc.	-	Long-term investment	714	US\$ 1,000	6	US\$ 1,000
		Audience, Inc.	-	Long-term investment	1,654	US\$ 250	2	US\$ 250
		Next IO, Inc.	-	Long-term investment	800	US\$ 500	3	US\$ 500
		NuCORE Technology Inc.	-	Long-term investment	1,821	US\$ 1,000	2	US\$ 1,000
	GUC	<u>Bond fund</u>						
		Entrust KIRIN	-	Short-term investment	2,106	22,324	-	22,334
		Entrust Phoenix	-	Short-term investment	1,399	20,207	-	20,216
TISC		-	Short-term investment	2,210	30,000	-	30,012	
Ta-Hua		-	Short-term investment	2,412	30,003	-	30,013	
E. Sun New Era		-	Short-term investment	962	10,000	-	10,004	
Shenghua 1699		-	Short-term investment	1,009	12,000	-	11,995	
Jihsun		-	Short-term investment	764	10,000	-	10,157	
Shenghua 5599		-	Short-term investment	931	10,000	-	10,004	
Mega Diamond		-	Short-term investment	2,734	30,105	-	30,118	
Polar		-	Short-term investment	1,968	20,060	-	20,068	
Ta-Hua GC Dollar		-	Short-term investment	38	13,691	-	13,732	
Taiwan Security Overseas Fund		-	Short-term investment	22	102,694	-	103,190	

TABLE 4

## TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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 YEAR ENDED DECEMBER 31, 2003

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares/Units (Thousand)	Amount (US\$ in Thousand)	Shares/Units (Thousand)	Amount (US\$ in Thousand)	Shares/Units (Thousand)	Amount	Carrying Value (US\$ in Thousand)	Gain (Loss) on Disposal	Shares/Units (Thousand)	Amount (US\$ in Thousand) (Note 1)	
TSMC	<u>Liquidity fund</u>														
	BOA Fund	Short-term investment	BOA	-	-	\$ -	120,000	\$ 4,161,760 (US\$ 120,000)	80,000	\$ 2,785,760	\$ 2,785,760 (US\$ 80,000)	\$ -	40,000	\$ 1,359,120 (US\$ 40,000)	
	GS Fund	Short-term investment	Goldman Sachs	-	-	-	140,000	4,852,300 (US\$140,000)	120,000	4,165,140	4,165,140 (US\$120,000)	-	20,000	679,560 (US\$ 20,000)	
	<u>Bond fund</u>														
	JF Taiwan Bond Fund	Short-term investment	JF Asset Management (Taiwan) Ltd.	-	-	-	34,343	500,000	-	-	-	-	34,343	500,000	
	ABN AMRO Bond Fund	Short-term investment	ABN AMRO	-	-	-	97,782	1,400,000	62,988	902,881	900,000	2,881	34,794	500,000	
	ABN AMRO Select Bond Fund	Short-term investment	ABN AMRO	-	-	-	81,744	879,000	81,744	881,719	879,000	2,719	-	-	
	<u>Bond</u>														
	Bonds with Repurchase Agreement	Short-term investment	Several financial institutions	-	-	-	-	1,800,000	-	-	-	-	-	-	1,800,000
	2002 Government Bond Series A	Short-term investment	BNP and several financial institutions	-	-	-	-	3,157,331	-	-	-	-	-	-	3,157,331
	2002 Government Bond Series E	Short-term investment	BNP and several financial institutions	-	-	-	-	3,113,067	-	-	-	-	-	-	3,113,067
	1994 Government Bond Series C	Short-term investment	Chung Shing Bills Finance Corp. and several financial institutions	-	-	-	-	1,422,197	-	-	-	-	-	-	1,422,197
	<u>Stock</u>														
Emerging Alliance	Long-term investment	Emerging Alliance		Subsidiary	-	767,239	-	174,030	-	-	-	-	-	704,744	
VIS	Long-term investment	VIS		Investee	677,471	3,264,657	109,545	766,815	-	-	-	-	787,016	4,077,198	
Amkor Technology	Long-term investment	-		-	505	280,748	-	-	505	301,209	280,748	20,461	-	-	
Monolithic System Tech.	Long-term investment	-		-	470	104,289	-	-	470	152,681	104,289	48,392	-	-	
TSMC Partners	<u>ADR</u>														
TSMC	Short-term investment	-	-	-	762	US\$ 7,357	-	-	823 (Note 2)	US\$ 8,407	US\$ 7,357	US\$ 1,050	-	-	
InveStar II	<u>Preferred stock</u>														
Elcos Microdisplay Technology, Ltd.	Long-term investment	Elcos Microdisplay Technology, Ltd.	-	-	-	-	2,667	US\$ 3,500	-	-	-	-	2,667	US\$ 3,500	
TSMC International	<u>Liquidity fund</u>														
BOA Fund	Short-term investment	BOA	-	-	-	-	87,300	US\$ 87,300	57,000	US\$ 57,000	US\$ 57,000	-	30,300	US\$ 30,300	
GUC	<u>Bond fund</u>														
Taiwan Securities Overseas Fund	Short-term investment	-	-	-	-	-	22	102,694	-	-	-	-	22	102,694	

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.

Note 2: Including stock dividend of 61 thousand units.

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

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

**FOR THE YEAR ENDED DECEMBER 31, 2003**

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

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
TSMC	Fab 14	January 20, 2003	\$ 180,665	By the construction progress	United Integrated Services	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	May 6, 2003	119,000	By the construction progress	United Integrated Services	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	June 17, 2003	134,500	By the construction progress	United Integrated Services	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	June 18, 2003	110,055	By the construction progress	Liquid Air Far East Co. Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	December 2, 2003	230,000	By the construction progress	China Steel Structure Co.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	December 2, 2003	285,000	By the construction progress	Fu Tsu Construction Co. Ltd	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None



**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2003**

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
TSMC	TSMC—North America Philips and its affiliates GUC WaferTech SSMC VIS	Subsidiary Major shareholder	Sales	\$ 117,758,911	57	Net 30 days from invoice date	None	None	\$ 13,946,638	48	-
			Sales	3,577,054	2	Net 30 days from invoice date	None	None	895,063	3	-
		Investee	Sales	549,471	-	30 days after monthly closing	None	None	15,339	-	-
			Subsidiary	Purchases	11,433,083	36	Net 30 days from invoice date	None	None	1,184,642	11
		Investee	Purchases	5,519,805	17	Net 30 days from invoice date	None	None	634,647	6	-
		Investee	Purchases	4,910,810	15	Net 30 days from invoice date	None	None	1,034,074	10	-

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**DECEMBER 31, 2003**

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC—North America Philips and its affiliates	Subsidiary Major shareholder	\$ 13,946,638 895,063	37 days 64 days	\$ 3,907,505 97,618	- Accelerate demand on account receivables	\$ 4,831,330 40	\$ - -

## TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
 DECEMBER 31, 2003  
 (Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2003			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)	Note
				December 31, 2003	December 31, 2002	Shares (Thousand)	Percentage of Ownership	Carrying Value (Note 1)			
TSMC	TSMC—North America	San Jose, California, U.S.A.	Marketing and engineering support	\$ 333,178	\$ 333,178	11,000	100	\$ 417,858	\$ 234,639	\$ 227,061	Subsidiary
	TSMC—Europe	Amsterdam, The Netherlands	Marketing and engineering support	15,749	2,960	-	100	24,622	( 13)	( 13)	Subsidiary
	TSMC—Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760	6	100	101,722	2,451	2,451	Subsidiary
	TSMC—Shanghai	Shanghai, China	IC and other wafer equipment manufacturing and marketing	1,890,952	-	-	100	1,901,428	( 1,306)	( 1,306)	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC design and manufacturing	8,119,816	6,503,640	787,016	28	4,077,198	179,359	50,351	Investee
	TSMC International	Tortola, British Virgin Islands	Investment	31,445,780	31,445,780	987,968	100	22,654,743	876,814	876,814	Subsidiary
	Chi Cherng Investment	Taipei, Taiwan	Investment	300,000	300,000	-	36	42,941	( 840)	108	Investee
	Hsin Ruey Investment	Taipei, Taiwan	Investment	300,000	300,000	-	36	42,006	( 1,290)	1,252	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	4,116,934	199,401	197,394	Subsidiary
	SSMC	Singapore	Wafer manufacturing	6,408,190	6,408,190	382	32	2,759,376	( 971,314)	( 310,821)	Investee
	Emerging Alliance	Cayman Islands	Investment	1,179,690	1,005,660	-	99	704,744	( 219,190)	( 218,094)	Subsidiary
	GUC	Hsin-Chu, Taiwan	IC research, development, manufacturing, testing and marketing	409,920	341,250	39,040	47	368,434	( 88,517)	( 33,005)	Investee
	Vis Era	Hsin-Chu, Taiwan	Electronic spare parts manufacturing, material wholeselling and retailing	51,000	-	5,100	25	50,231	( 3,076)	( 769)	Investee

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.

Note 3: TSMC's investee, Ya Xin, merged with GUC in January 2003. GUC is the surviving company.