

**Taiwan Semiconductor Manufacturing Company  
Ltd. and Subsidiaries**

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

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

**English Translation of a Report Originally Issued in Chinese**

**INDEPENDENT AUDITORS' REPORT**

January 12, 2004

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

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries (the Company) as of December 31, 2003, and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting and generally accepted accounting principles in the Republic of China.

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

Deloitte & Touche  
(T N Soong & Co and Deloitte & Touche (Taiwan)  
Established Deloitte & Touche Effective June 1, 2003)  
Taipei, Taiwan  
Republic of China

#### Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated 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. AND SUBSIDIARIES

CONSOLIDATED 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 5)	\$ 102,988,896	26	\$ 67,790,204	17	Short-term bank loans (Note 11)	\$ 407,736	-	\$ 729,813	-
Short-term investments (Notes 2 and 6)	13,611,536	3	170,012	-	Payables to related parties (Note 22)	3,248,289	1	1,776,149	-
Receivables from related parties (Note 22)	1,052,175	-	439,659	-	Accounts payable	6,438,604	2	5,138,592	1
Notes receivable	9,893	-	60,240	-	Payable to contractors and equipment suppliers	7,232,103	2	14,132,100	4
Accounts receivable	28,495,269	7	19,530,702	5	Accrued expenses and other current liabilities (Note 25)	8,820,776	2	5,947,229	2
Allowance for doubtful receivables (Note 2)	( 1,020,398)	-	( 932,993)	-	Current portion of long-term liabilities (Notes 12, 13 and 14)	<u>5,000,000</u>	<u>1</u>	<u>12,107,899</u>	<u>3</u>
Allowance for sales returns and others (Note 2)	( 2,135,843)	-	( 2,372,515)	( 1)	Total current liabilities	<u>31,147,508</u>	<u>8</u>	<u>39,831,782</u>	<u>10</u>
Other financial assets (Note 25)	1,373,705	-	1,010,453	-	<b>LONG-TERM LIABILITIES</b>				
Inventories—net (Notes 2 and 7)	12,135,324	3	11,201,446	3	Long-term bank loans (Note 12)	8,800,302	2	11,051,454	3
Deferred income tax assets (Notes 2 and 16)	8,398,205	2	3,401,729	1	Long-term bonds payables (Note 13)	30,000,000	7	35,000,000	9
Prepaid expenses and other current assets (Note 2)	<u>1,632,908</u>	<u>-</u>	<u>2,238,221</u>	<u>1</u>	Other long-term payables (Note 14)	<u>3,300,829</u>	<u>1</u>	<u>4,281,665</u>	<u>1</u>
Total current assets	<u>166,541,670</u>	<u>41</u>	<u>102,537,158</u>	<u>26</u>	Total long-term liabilities	<u>42,101,131</u>	<u>10</u>	<u>50,333,119</u>	<u>13</u>
<b>LONG-TERM INVESTMENTS (Notes 2, 3, 8, and 20)</b>					<b>OTHER LIABILITIES</b>				
Equity method	7,255,239	2	5,551,412	2	Accrued pension cost (Notes 2 and 15)	2,601,450	1	2,211,560	1
Cost method	3,222,159	1	3,997,284	1	Guarantee deposits (Note 24)	763,889	-	1,395,066	-
Funds	270,616	-	237,440	-	Others	<u>1,483,245</u>	<u>-</u>	<u>822,167</u>	<u>-</u>
Prepayment for subscribed stocks	-	-	<u>849,360</u>	<u>-</u>	Total other liabilities	<u>4,848,584</u>	<u>1</u>	<u>4,428,793</u>	<u>1</u>
Total long-term investments	<u>10,748,014</u>	<u>3</u>	<u>10,635,496</u>	<u>3</u>	<b>MINORITY INTEREST IN SUBSIDIARIES (Note 2)</b>	<u>88,999</u>	<u>-</u>	<u>95,498</u>	<u>-</u>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9, 12 and 22)</b>					Total liabilities	<u>78,186,222</u>	<u>19</u>	<u>94,689,192</u>	<u>24</u>
Cost					<b>SHAREHOLDERS' EQUITY (Notes 2 and 18)</b>				
Land and land improvements	855,394	-	874,907	-	Capital stock—\$10 par value				
Buildings	79,778,533	20	76,428,851	20	Authorized: 24,600,000 thousand shares				
Machinery and equipment	372,042,314	91	343,951,592	88	Issued: Common—20,266,619 thousand shares in 2003 and 18,622,887 thousand shares in 2002	202,666,189	50	186,228,867	48
Office equipment	<u>7,457,538</u>	<u>2</u>	<u>6,996,027</u>	<u>2</u>	Preferred—1,300,000 thousand shares	-	-	13,000,000	3
Total cost	460,133,779	113	428,251,377	110	Capital surplus:				
Accumulated depreciation	( 275,013,069)	( 68)	( 210,101,159)	( 54)	Merger and others (Note 2)	56,802,829	14	56,961,753	15
Advance payments and construction in progress	<u>26,733,553</u>	<u>7</u>	<u>28,348,093</u>	<u>7</u>	Treasury stock (Notes 3 and 20)	53,056	-	43,036	-
Net property, plant and equipment	<u>211,854,263</u>	<u>52</u>	<u>246,498,311</u>	<u>63</u>	Retained earnings:				
<b>GOODWILL (Note 2)</b>	<u>8,720,917</u>	<u>2</u>	<u>10,158,845</u>	<u>3</u>	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 and 10)	7,992,016	2	9,873,825	3	Unappropriated earnings	50,229,008	12	22,151,089	5
Deferred income tax assets (Notes 2 and 16)	1,111,367	-	9,773,226	2	Others:				
Refundable deposits (Notes 22 and 24)	199,522	-	557,266	-	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 42,001 thousand in 2002 (Notes 2, 3 and 20)	<u>( 1,633,228)</u>	<u>-</u>	<u>( 1,923,492)</u>	<u>-</u>
Miscellaneous	<u>54,119</u>	<u>-</u>	<u>81,626</u>	<u>-</u>	Total shareholders' equity	<u>329,214,309</u>	<u>81</u>	<u>295,853,207</u>	<u>76</u>
Total other assets	<u>9,535,667</u>	<u>2</u>	<u>20,712,589</u>	<u>5</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 407,400,531</u>	<u>100</u>	<u>\$ 390,542,399</u>	<u>100</u>
<b>TOTAL ASSETS</b>	<u>\$ 407,400,531</u>	<u>100</u>	<u>\$ 390,542,399</u>	<u>100</u>					

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

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

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**

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

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
GROSS SALES (Notes 2, 22 and 26)	\$ 207,279,137		\$ 166,187,670	
SALES RETURNS AND ALLOWANCES (Note 2)	( 4,282,325 )		( 3,886,462 )	
NET SALES	202,996,812	100	162,301,208	100
COST OF SALES (Notes 17 and 22)	<u>128,113,334</u>	<u>63</u>	<u>109,988,058</u>	<u>68</u>
GROSS PROFIT	<u>74,883,478</u>	<u>37</u>	<u>52,313,150</u>	<u>32</u>
OPERATING EXPENSES (Notes 22 and 26)				
Research and development	12,712,695	6	11,725,035	7
General and administrative	8,199,965	4	6,767,756	5
Marketing	<u>2,670,237</u>	<u>2</u>	<u>2,231,320</u>	<u>1</u>
Total operating expenses	<u>23,582,897</u>	<u>12</u>	<u>20,724,111</u>	<u>13</u>
INCOME FROM OPERATIONS	<u>51,300,581</u>	<u>25</u>	<u>31,589,039</u>	<u>19</u>
NON-OPERATING INCOME AND GAINS (Note 26)				
Gain on sales of investments—net (Note 2)	3,538,081	2	-	-
Interest (Notes 2 and 25)	888,107	1	1,094,724	1
Gain on sales of property, plant and equipment (Note 2)	438,809	-	273,998	-
Technical service income (Notes 22 and 23)	209,764	-	162,149	-
Royalty income (Note 23)	-	-	527,126	-
Other (Note 22)	<u>594,551</u>	<u>-</u>	<u>291,860</u>	<u>-</u>
Total non-operating income and gains	<u>5,669,312</u>	<u>3</u>	<u>2,349,857</u>	<u>1</u>
NON-OPERATING EXPENSES AND LOSSES (Note 26)				
Interest (Notes 2, 9 and 25)	1,891,009	1	2,616,740	2
Loss on impairment of property, plant and equipment and idle assets (Note 2)	1,506,199	1	244,430	-
Foreign exchange loss—net (Notes 2 and 25)	755,100	1	120,568	-
Loss on impairment of long-term investments (Note 2)	652,718	-	795,674	1
Loss on sales of property, plant and equipment (Note 2)	374,126	-	221,955	-
Investment loss recognized by equity method—net (Notes 2 and 8)	294,244	-	1,976,847	1
Amortization of premium from option contracts—net (Notes 2 and 25)	153,783	-	419,513	-

(Continued)

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

	<b>2003</b>		<b>2002</b>	
	<b><u>Amount</u></b>	<b><u>%</u></b>	<b><u>Amount</u></b>	<b><u>%</u></b>
Loss on sales of investments—net (Note 2)	\$ -	-	\$ 101,221	-
Casualty loss—net (Note 2)	-	-	119,485	-
Other	<u>164,069</u>	-	<u>100,315</u>	-
Total non-operating expenses and losses	<u>5,791,248</u>	<u>3</u>	<u>6,716,748</u>	<u>4</u>
INCOME BEFORE INCOME TAX (Note 26)	51,178,645	25	27,222,148	16
INCOME TAX EXPENSE (Notes 2 and 16)	<u>3,922,957</u>	<u>2</u>	<u>5,636,648</u>	<u>3</u>
INCOME BEFORE MINORITY INTEREST	47,255,688	23	21,585,500	13
MINORITY INTEREST IN LOSS OF SUBSIDIARIES (Notes 2 and 26)	<u>3,012</u>	-	<u>24,791</u>	-
CONSOLIDATED NET INCOME	<u>\$ 47,258,700</u>	<u>23</u>	<u>\$ 21,610,291</u>	<u>13</u>
	<b><u>Income Before Income Tax and Minority Interest</u></b>	<b><u>Consolidated Net Income</u></b>	<b><u>Income Before Income Tax and Minority Interest</u></b>	<b><u>Consolidated Net Income</u></b>
CONSOLIDATED EARNINGS PER SHARE (Note 21)				
Basic earnings per share	<u>\$ 2.52</u>	<u>\$ 2.33</u>	<u>\$ 1.32</u>	<u>\$ 1.05</u>
Diluted earnings per share	<u>\$ 2.52</u>	<u>\$ 2.33</u>	<u>\$ 1.32</u>	<u>\$ 1.05</u>

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

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

(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED 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 parent company held by subsidiaries from long-term investments to treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 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 consolidated financial statements.

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

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**

**CONSOLIDATED 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>		
Consolidated net income	\$ 47,258,700	\$ 21,610,291
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	69,161,317	65,000,873
Deferred income taxes	3,665,383	5,421,020
Investment loss recognized by equity method—net	294,244	1,976,847
Loss on impairment of property, plant and equipment, and idle assets	1,506,199	244,430
Loss on impairment of long-term investments	652,718	795,674
Loss (gain) on sales of long-term investments—net	( 78,694 )	170,831
Gain on sales of property, plant and equipment—net	( 64,683 )	( 52,043 )
Accrued pension cost	389,890	355,705
Allowance for doubtful receivables	87,405	( 167,499 )
Allowance for sales returns and others	( 236,672 )	( 209,036 )
Minority interest in loss of subsidiaries	( 3,012 )	( 24,791 )
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	( 612,516 )	55,073
Notes receivable	50,347	116,342
Accounts receivable	( 8,964,567 )	426,934
Inventories—net	( 933,878 )	( 1,373,118 )
Other financial assets	( 347,161 )	( 162,642 )
Prepaid expenses and other current assets	605,001	( 330,819 )
Increase (decrease) in:		
Payable to related parties	1,472,140	727,876
Accounts payable	1,300,012	3,740,713
Accrued expenses and other current liabilities	<u>834,941</u>	<u>184,564</u>
Net cash provided by operating activities	<u>116,037,114</u>	<u>98,507,225</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) of short-term investments	( 13,026,055 )	1,184,419
Acquisitions of:		
Long-term investments	( 1,412,335 )	( 3,192,427 )
Property, plant and equipment	( 37,870,907 )	( 55,235,458 )
Proceeds from sales of:		
Long-term investments	505,702	53,048
Property, plant, and equipment	177,312	495,878
Increase in deferred charges	( 2,138,087 )	( 5,724,583 )
Decrease in refundable deposits	357,744	226,823
Decrease in other assets	4,610	2,711
Increase (decrease) in minority interest in subsidiaries	( <u>3,487</u> )	<u>49</u>
Net cash used in investing activities	( <u>53,405,503</u> )	( <u>62,189,540</u> )

(Continued)





**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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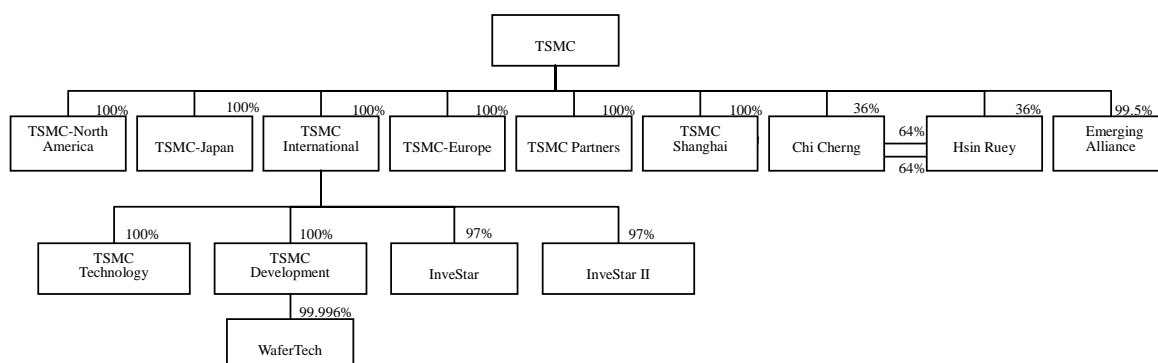
**1. GENERAL**

Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), a Republic of China (R.O.C.) corporation, was incorporated as a venture among the Government of the R.O.C., 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, testing and designing of integrated circuits and other semiconductor devices, and the manufacturing of masks.

TSMC has six direct wholly-owned subsidiaries: TSMC International Investment Ltd. (TSMC International), TSMC North America (TSMC—North America), Taiwan Semiconductor Manufacturing Company Europe B.V (TSMC—Europe), TSMC Japan K. K. (TSMC—Japan), TSMC Shanghai Company Limited (TSMC Shanghai, a newly established entity in 2003), and TSMC Partners, Ltd. (TSMC Partners). In addition, TSMC has the following consolidating subsidiaries: A 99.5% owned subsidiary, Emerging Alliance Fund, L.P. (Emerging Alliance) and two 36% owned affiliates—Chi Cherng Investment Co., Ltd. (Chi Cherng, which is 36% owned by TSMC and 64% owned by Hsin Ruey Investment Co., Ltd.) and Hsin Ruey Investment Co., Ltd. (Hsin Ruey, which is 36% owned by TSMC and 64% owned by Chi Cherng). TSMC International has two wholly-owned subsidiaries—TSMC Development, Inc. (TSMC Development) and TSMC Technology, Inc. (TSMC Technology), and two 97% owned subsidiaries—InveStar Semiconductor Development Fund, Inc. (InveStar) and InveStar Semiconductor Development Fund, Inc. (II) LDC (InveStar II). TSMC Development has a 99.996% owned subsidiary, WaferTech, LLC (WaferTech).

The following diagram presents information regarding the relationship and ownership percentages among TSMC and its consolidated subsidiaries as of December 31, 2003:



TSMC—North America is engaged in the sales and marketing of integrated circuits and semiconductor devices. TSMC—Europe, TSMC—Japan, TSMC Development and TSMC Technology are engaged mainly in marketing and engineering support activities. TSMC Shanghai is engaged in integrated circuits and other wafer equipment manufacturing and marketing. TSMC Partners, Chi Cherng and Hsin Ruey are engaged in investments. TSMC International is engaged in providing investment in companies involved in design, manufacture, and other related business in semiconductor industries. Emerging Alliance, InveStar and InveStar II are engaged in investing in new start-up technology companies. WaferTech is engaged in the manufacturing, selling, testing and designing of integrated circuits and other semiconductor devices.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements are presented in conformity with the Guidelines for Securities Issuers' Financial Reporting and Accounting Principles generally accepted in the R.O.C. Significant accounting policies are summarized as follows:

### **Consolidation**

TSMC consolidates the accounts of all majority (directly and indirectly) owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The consolidated financial statements include, as of and for the years ended December 31, 2003 and 2002, the accounts of TSMC, TSMC—North America, TSMC—Europe, TSMC—Japan, TSMC Shanghai, TSMC Partners, Emerging Alliance, Chi Cherng, Hsin Ruey and TSMC International and its subsidiaries, InveStar, InveStar II, TSMC Development (including WaferTech) and TSMC Technology. Ya Xin Technology, Inc. (Ya Xin), one of the consolidated entities in 2002, was dissolved after merging with Global UniChip Corp. (GUC) on January 4, 2003. Therefore, Ya Xin is not a consolidated entity in the consolidated financial statements of 2003. The Company's consolidated financial statements of 2002 are not restated due to Ya Xin is not material to the Company. TSMC and the foregoing subsidiaries are hereinafter referred to collectively as the "Company".

Minority interests in WaferTech (0.004% in 2003 and 0.006% in 2002), Emerging Alliance (0.5%), InveStar (3%) and InveStar II (3%) are presented separately in the consolidated financial statements.

### **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 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. Cash dividends are recorded as investment income in the current period. An allowance for decline in value is provided and is charged to current period earnings when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the market value. The cost of investments sold is accounted for using the weighted-average method.

The market values of government bonds are determined using the average of bid and ask prices of the government bonds. The market value of funds is determined using the net asset value of the funds, and the market value of listed stocks is determined using the average-closing price of the listed stocks for the last month of the period.

### **Allowance for Doubtful Receivables**

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

### **Revenue Recognition and Allowance for Sales Returns and Others**

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

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

### **Inventories**

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

### **Long-term Investments**

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method of accounting. The Company's proportionate share in the net income or net loss of investee companies is recognized as components of the "Investment income/loss recognized by equity method—net" account. When equity investments are made, the difference, if any, between the cost of investment and the Company's proportionate share of investee's net book value is amortized using the straight-line method over five years and is recorded as a component of the "investment income/loss recognized by equity method—net" account. The Company adopted Statements of Financial Accounting Standards (SFAS) No. 30, "Accounting for Treasury Stock" on January 1, 2002. SFAS No. 30 requires the parent company to reclassify its capital stock held by its subsidiary from 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 the equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged to capital surplus. In the event an investee uses its capital surplus (excluding any reserve for asset revaluation) to offset its accumulated deficit, the Company records a corresponding entry equivalent to its proportionate share of the investee's adjustment.

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

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

Investments in convertible notes are carried at cost.

The costs of investments sold are determined using the weighted-average method.

When investments in publicly-traded stocks are reclassified from long-term to short-term investments, the Company recognizes a loss to the extent, if any, that the market value of such investments is lower than the carrying value.

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

Gains or losses on sales from the Company to investee companies accounted for using the equity method are deferred in proportion to the Company's ownership percentage in the investee companies until realized through 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: land improvements—20 years; buildings—10 to 20 years; machinery and equipment—5 to 10 years; and office equipment—3 to 7 years.

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

### **Goodwill**

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

### **Deferred Charges**

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

### **Pension Costs**

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

### **Casualty Loss**

Casualty losses are recorded when incurred. Any insurance recoveries are recorded up to the amount of the loss when such recoveries are probable. Recoveries in excess of the amount of the loss are 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 carry forwards. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as current or non-current based on the expected length of time before it is realized.

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

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

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

### **Foreign-Currency Transactions**

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

### **Derivative Financial Instruments**

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

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

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

### **Translation of Foreign-Currency Financial Statements**

ROC SFAS No. 14, "Accounting for Foreign-Currency Transactions," applies to foreign subsidiaries that use the local foreign currency as their functional currency. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities—current rate on balance sheet date; shareholders' equity—historical rate; income and expenses—weighted average rate during the year. The resulting translation adjustment is recorded as a separate component of shareholders' equity.

### **Reclassification**

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

### 3. NEW ACCOUNTING PRONOUNCEMENTS

In accordance with the ROC 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 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 in long-term investments and an increase in treasury stock by NT\$1,923,492 thousand as of December 31, 2002, and an increase in consolidated net income for the year ended December 31, 2002 by NT\$25,909 thousand.

### 4. SIGNIFICANT ELIMINATION ENTRIES

Significant transactions and balances with subsidiaries that have been eliminated upon consolidation are as follows:

<u>Company</u>	<u>Account</u>	<u>Amount</u>	<u>Transaction Entity</u>
TSMC	Payables to related parties	\$ 1,184,642	WaferTech
		16,026	TSMC—Europe
		28,150	TSMC—Japan
		12,241	TSMC—North America
		10,792	TSMC Technology
	Receivables from related parties	13,946,638	TSMC—North America
		1,232	TSMC Technology
	Sales	117,758,911	TSMC—North America
	Purchases	11,433,083	WaferTech
	Marketing expenses—commissions	215,202	TSMC—Japan
		154,262	TSMC—Europe
Other non-operating income	2,794	WaferTech	
TSMC International	Other receivables	2,038,680	TSMC Development
	Other receivables	339,780	TSMC Technology
	Interest receivable	198,805	TSMC Technology
	Interest receivable	1,787	TSMC Development
	Deferred revenue	670,970	TSMC Technology
	Interest income	14,343	TSMC Technology
	Interest income	1,810	TSMC Development
TSMC Partners	Other receivables	10,427,786	TSMC International
	Other receivables	2,718,240	TSMC Development
	Interest receivable	2,382	TSMC Development
	Deferred revenue	9,188,559	TSMC International
	Interest income	174,579	TSMC International
	Interest income	2,414	TSMC Development
TSMC Technology	Accounts receivable	2,194	WaferTech
	Management service income	25,112	WaferTech
	Technical service income	13,229	WaferTech



<b>5. CASH AND CASH EQUIVALENTS</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Cash and bank deposits	\$ 97,041,537	\$ 65,051,337
Government bonds acquired under repurchase agreements	<u>5,947,359</u>	<u>2,738,867</u>
	<u>\$ 102,988,896</u>	<u>\$ 67,790,204</u>

<b>6. SHORT-TERM INVESTMENTS</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Government bonds	\$ 7,692,595	\$ -
Money market funds	3,068,213	-
Government bonds acquired under repurchase agreements	1,800,000	-
Bond funds	1,000,000	-
Listed stocks	<u>50,728</u>	<u>170,012</u>
	<u>\$ 13,611,536</u>	<u>\$ 170,012</u>
Market value	<u>\$ 14,054,511</u>	<u>\$ 2,455,582</u>

<b>7. INVENTORIES—NET</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Finished goods	\$ 2,892,529	\$ 3,837,245
Work in process	9,089,169	7,611,344
Raw materials	465,745	518,196
Supplies and spare parts	<u>1,052,075</u>	<u>970,960</u>
	13,499,518	12,937,745
Less—allowance for losses	( <u>1,364,194</u> )	( <u>1,736,299</u> )
	<u>\$ 12,135,324</u>	<u>\$ 11,201,446</u>

<b>8. LONG-TERM INVESTMENTS</b>	<u><b>2003</b></u>		<u><b>2002</b></u>	
	<u>Carrying</u>	<u>% of</u>	<u>Carrying</u>	<u>% of</u>
	<u>Value</u>	<u>Owner-</u>	<u>Value</u>	<u>Owner-</u>
		<u>Ship</u>		<u>Ship</u>
<u>Shares of stock</u>				
Equity method:				
Publicly traded stocks				
Vanguard International Semiconductor Corporation (VIS)	\$ 4,077,198	28	\$ 2,415,297	25
Non-publicly traded stocks				
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	2,759,376	32	3,136,115	32
GUC	368,434	47	-	-
VisEra Technology Company Ltd. (VisEra)	<u>50,231</u>	25	<u>-</u>	<u>-</u>
	<u>7,255,239</u>		<u>5,551,412</u>	
Prepayment for subscribed stocks				
VIS	<u>-</u>		<u>849,360</u>	<u>-</u>

(Continued)

	2003		2002	
	Carrying Value	% of Owner- Ship	Carrying Value	% of Owner- Ship
Cost method:				
Common stocks				
Publicly traded stocks				
RichTek Technology Corp.	\$ 26,728	5	\$ 46,986	9
Amkor Technology Inc.	-	-	280,748	-
Monolithic System Technology, Inc.	-	-	104,289	2
Taiwan Mask Corp.	-	-	32,129	2
Non-publicly traded stocks				
United Gas Co., Ltd.	193,584	11	193,584	11
Global Testing Corp.	179,905	10	179,882	10
Shin-Etsu Handotai Taiwan Co., Ltd.	105,000	7	105,000	7
Global Investment Holding, Inc.	104,144	6	100,000	6
EoNex Technologies, Inc.	103,580	6	70,305	6
Hong Tung Venture Capital	83,916	10	83,916	10
Procoat Technology Co., Ltd.	65,922	10	67,490	12
W.K. Technology Fund IV	50,000	2	50,000	2
Advanced Power Electronics Corp.	46,761	5	46,743	6
Conwise Technology Co., Ltd.	33,268	14	67,039	14
EON Technology, Inc.	32,788	8	33,606	9
TrendChip Technologies, Corp.	29,262	5	29,992	5
Auden Technology Mfg. Co., Ltd.	28,341	4	38,819	4
Ralink Technologies, Inc.	26,889	5	-	-
Goyatek Technology, Inc.	24,689	8	62,104	8
ChipStrate Technology, Inc.	10,451	9	10,426	9
Signia Technologies, Inc.	10,442	6	-	-
Programmable Microelectronics (Taiwan) Corp.	8,612	4	59,358	4
eChannel Option Holding, Inc.	8,515	6	-	-
Capella Microsystems, Inc.	5,306	-	-	-
GeoVision, Inc.	4,477	1	4,518	2
eLCOS Microdisplay Technology, Ltd.	917	1	-	-
Divio, Inc.	-	-	104	-
	1,183,497		1,667,038	
Preferred stocks				
Non-publicly traded stocks				
Sonics, Inc.	224,646	10	229,787	10
Reflectivity, Inc.	142,436	15	146,262	15
Monolithic Power Systems, Inc.	134,092	16	137,135	16
Atheros Communications, Inc.	122,086	-	124,868	3
Tropian, Inc.	119,306	5	150,620	5
eLCOS Microdisplay Technology, Ltd.	118,920	-	-	-
Memsic, Inc.	103,964	23	106,344	23
Quicksilver Technology	84,548	4	82,153	4
Pixim, Inc.	80,932	3	87,845	3
Kilopass Technology, Inc.	67,956	19	69,506	18
Fang Tek, Inc.	67,956	44	-	-
NanoAmp Solutions, Inc.	62,946	4	64,397	4
NetLogic Microsystems, Inc.	62,859	1	65,005	1

(Continued)

	<u>2003</u>		<u>2002</u>	
	<u>Carrying Value</u>	<u>% of Owner-Ship</u>	<u>Carrying Value</u>	<u>% of Owner-Ship</u>
Alchip Technologies, Ltd.	\$ 57,763	-	\$ -	-
Ikanos Communications, Inc.	55,206	3	52,707	2
SiRF Technology Holdings, Inc.	49,753	1	50,878	1
OEpic Inc.	44,741	8	43,094	7
Advanced Analogic Technologies, Inc.	42,844	2	43,824	2
Integrated Memory Logic, Inc.	41,480	12	62,868	12
Axiom Microdevices Inc.	33,978	5	-	-
Optichron Inc.	33,978	6	-	-
NuCORE Technology, Inc.	33,978	2	-	-
Silicon Data, Inc.	25,484	7	34,753	7
XHP Microsystem, Inc.	25,483	6	26,353	6
Newport Opticom Inc.	22,139	15	63,288	15
Angstrom Systems, Inc.	16,996	6	26,065	7
Iridigm Display, Co.	16,989	1	17,639	2
NextIO, Inc.	16,989	3	-	-
Zenesis Technologies, Inc.	16,989	4	17,569	4
IP Unity	16,781	2	56,856	2
Accelerant Networks, Inc.	15,630	1	35,138	1
Match Lab, Inc.	14,866	11	60,818	11
Quake Technologies, Inc.	11,340	1	35,138	1
LightSpeed Semiconductor Corp.	11,172	2	46,534	3
Sensory, Inc.	10,618	5	21,720	5
Oridus, Inc.	10,193	8	15,639	8
Audience, Inc.	8,495	2	-	-
LeadTONE Wireless, Inc.	4,462	6	8,270	6
Capella Microsystems, Inc.	4,134	3	23,667	12
Incentia Design Systems, Inc.	3,126	2	17,377	2
Mosaic Systems	408	6	17,569	6
FormFactor, Inc.	-	-	69,506	1
Ralink Technologies, Inc.	-	-	52,130	6
Litchfield Communications	-	-	35,138	6
Spreadtrum Communications, Inc.	-	-	35,138	-
HiNT Corp.	-	-	34,753	5
Equator Technologies, Inc.	-	-	24,675	2
Divio, Inc.	-	-	17,377	4
Signia Technologies, Inc.	-	-	15,639	12
eBest!, Inc.	-	-	3,370	1
	<u>2,038,662</u>		<u>2,329,412</u>	
Convertible notes				
eBest!, Inc.	-	-	834	-
Funds				
Horizon Ventures	229,669	-	195,452	-
Crimson Asia Capital	40,947	-	41,988	-
	<u>270,616</u>		<u>237,440</u>	
	<u>\$ 10,748,014</u>		<u>\$ 10,635,496</u>	

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 (losses) of the investee companies consisted of the following:

	<u>2003</u>	<u>2002</u>
SSMC	(\$ 310,821)	(\$ 1,155,076)
VIS	50,351	( 821,771)
Others	( 33,774)	-
	<u>(\$ 294,244)</u>	<u>(\$ 1,976,847)</u>

The aggregate market value of the publicly traded stocks accounted for using the cost method was \$510,995 thousand and \$500,351 thousand as of December 31, 2003 and 2002, respectively.

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

In November 2003, TSMC purchased a 25% ownership in VisEra for US\$1,500 thousand.

TSMC 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. As of December 31, 2003, TSMC holds a 47% ownership interest in GUC.

## 9. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2003 and 2002, accumulated depreciation consisted of the following:

	<u>2003</u>	<u>2002</u>
Land improvements	\$ 154,062	\$ 127,341
Buildings	31,665,779	24,140,506
Machinery and equipment	238,392,296	181,998,606
Office equipment	<u>4,800,932</u>	<u>3,834,706</u>
	<u>\$ 275,013,069</u>	<u>\$ 210,101,159</u>

Information on the status of expansion or construction plans of TSMC'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

For the years ended December 31, 2003 and 2002, interest expense (before deducting capitalized amounts of NT\$139,516 thousand and NT\$213,686 thousand in 2003 and 2002, respectively) were NT\$2,030,525 thousand and NT\$2,830,426 thousand, respectively. The interest rates used for the purpose of calculating the capitalized amount were 1.770% to 5.283% in 2003 and 2.070% to 5.283% in 2002.

<b>10. DEFERRED CHARGES—NET</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Technology license fees	\$ 5,084,684	\$ 6,519,334
Software and system design costs	2,719,199	3,167,366
Others	<u>188,133</u>	<u>187,125</u>
	<u>\$ 7,992,016</u>	<u>\$ 9,873,825</u>

<b>11. SHORT-TERM BANK LOANS</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Unsecured loan in US dollars: US\$12,000 thousand and US\$21,000 thousand as of December 31, 2003 and 2002, respectively; annual interest at 1.52% and 1.82% in 2003 and 2002, respectively	<u>\$ 407,736</u>	<u>\$ 729,813</u>

As of December 31, 2003, TSMC provided NT\$1,359,120 thousand (US\$40,000 thousand) guarantee for the benefit of TSMC—North America for the above loan.

Unused credit lines as of December 31, 2003 aggregated approximately US\$38,000 thousand.

<b>12. LONG-TERM BANK LOANS</b>	<u><b>2003</b></u>	<u><b>2002</b></u>
Secured loan: US\$199,000 thousand and US\$318,000 thousand as of December 31, 2003 and 2002, respectively, repayable by February 2005, repaid US\$119,000 thousand in 2003; annual floating interest at 1.8275% and 2.078% in 2003 and 2002, respectively	\$ 6,761,622	\$ 11,051,454
Unsecured loan: US\$60,000 thousand, repayable by December 2006, annual interest at 1.56%	2,038,680	-
US\$200,000 thousand, repaid in December 2003, annual interest at 2.0375%	<u>-</u>	<u>6,950,600</u>
	<u>\$ 8,800,302</u>	<u>\$ 18,002,054</u>

As of December 31, 2003, TSMC provided NT\$16,989,000 thousand (US\$500,000 thousand) guarantee for the benefit of TSMC Development and WaferTech for the secured loan above. In addition, all assets of WaferTech with carrying amount of approximately NT\$18,876,007 thousand (US\$555,536 thousand) are pledged for the secured loan. WaferTech is required to be in compliance with certain financial covenants beginning December 31, 2002 under the secured loan agreement above. As of December 31, 2003, WaferTech was in compliance with all such financial covenants. Under the unsecured loan agreement above, the Company is required to be in compliance with certain financial covenants which, if violated, could result in the payment of this obligation becoming due prior to the originally scheduled maturity date. The Company was in compliance with these financial covenants as of December 31, 2003.

Unused credit lines for long-term bank loans as of December 31, 2003 aggregated approximately US\$241,000 thousand.

As of December 31, 2003, future minimum principal payments under the Company's long-term bank loan arrangements are as follows:

<u>Year</u>	<u>Amount</u>
2005	\$ 6,761,622
2006	<u>2,038,680</u>
	<u>\$ 8,800,302</u>

### 13. BONDS

	<u>2003</u>	<u>2002</u>
Domestic unsecured bonds:		
Issued on March 4, 1998 and payable on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually	\$ -	\$ 4,000,000
Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively	5,000,000	5,000,000
Issued from December 4 to 15, 2000 and payable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% annual interest payable annually, respectively	15,000,000	15,000,000
Issued from January 10 to 24, 2002 and payable in January 2007, 2009 and 2012 in three equal payments, 2.60%, 2.75% and 3% 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 TSMC'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>

### 14. OTHER LONG-TERM PAYABLES

TSMC entered into several license arrangements for certain semiconductor-related patents. Future minimum 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>

## 15. PENSION PLAN

TSMC has a defined benefit 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.

TSMC contributes at an amount equal to 2% of salaries paid every month to a Pension Fund (the Fund). The Fund is administered by a pension fund monitoring committee (the Committee) and the amounts in the Fund are deposited in the Committee's name with the Central Trust of China.

For the years ended December 31, 2003 and 2002, the changes in the Fund and accrued pension costs are summarized as follows:

	<u>2003</u>	<u>2002</u>
a. Components of pension cost		
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>
b. Reconciliation of the fund status of the plan and unfunded accrued pension cost		
	<u>2003</u>	<u>2002</u>
Benefit obligation		
Vested benefit obligation	\$ 21,895	\$ 21,294
Nonvested benefit obligation	<u>2,185,792</u>	<u>1,607,272</u>
Accumulated benefit obligation	2,207,687	1,628,566
Additional benefits based on future salaries	<u>1,752,208</u>	<u>1,300,712</u>
Projected benefit obligation	3,959,895	2,929,278
Fair value of plan assets	( <u>1,207,264</u> )	( <u>1,014,086</u> )
Funded status	2,752,631	1,915,192
Unrecognized net transitional obligation	( 141,091 )	( 149,391 )
Unrecognized net gain (loss)	( <u>10,090</u> )	<u>445,759</u>
Unfunded accrued pension cost	<u>\$ 2,601,450</u>	<u>\$ 2,211,560</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>

## 16. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax and minority interest at the statutory rate of 25% and current income tax expense before income tax credits is as follows:

	<u>2003</u>	<u>2002</u>
Income tax expense based on income before income tax and minority interest at the statutory rate	\$ 12,881,547	\$ 6,881,352
Tax-exempt income	( 5,255,750 )	( 2,526,500 )
Temporary and permanent differences	( <u>732,681</u> )	<u>519,490</u>
Current income tax expense before income tax credits	<u>\$ 6,893,116</u>	<u>\$ 4,874,342</u>

- b. Income tax expense consists of:

Current income tax expense before income tax credits	\$ 6,893,116	\$ 4,874,342
Additional 10% tax on the unappropriated earnings	1,273,482	179,362
Income tax credits	( 7,917,070 )	( 4,867,236 )
Other income tax	7,988	29,160
Net change in deferred income tax liabilities (assets)		
Net operating loss	( 535,725 )	( 1,733,990 )
Investment tax credits	917,759	( 2,510,192 )
Temporary differences	300,848	5,910,152
Valuation allowance	2,982,501	3,755,050
Adjustment of prior years' taxes	<u>58</u>	<u>-</u>
Income tax expense	<u>\$ 3,922,957</u>	<u>\$ 5,636,648</u>

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

	<u>2003</u>	<u>2002</u>
Current		
Investment tax credits	\$ 8,322,000	\$ 3,320,000
Temporary differences	385,221	81,729
Valuation allowance	( <u>309,016</u> )	<u>-</u>
	<u>\$ 8,398,205</u>	<u>\$ 3,401,729</u>
Noncurrent		
Net operating loss	\$ 8,388,063	\$ 7,852,338
Investment tax credits	17,327,894	23,247,653
Temporary differences	( 8,956,987 )	( 8,352,647 )
Valuation allowance	( <u>15,647,603</u> )	( <u>12,974,118</u> )
	<u>\$ 1,111,367</u>	<u>\$ 9,773,226</u>

- d. Integrated income tax information:

The balances of TSMC's 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 credit allocated to the shareholders is based on its balance as of the date of dividend distribution. The expected creditable ratio 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, TSMC's 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	Purchases 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>	
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. As of December 31, 2003, the net operating loss carryforwards were generated from WaferTech, TSMC Development and TSMC Technology and will expire at various dates through 2023.
- h. The sales attributable to the following expansion and construction of TSMC's manufacturing plants are exempt from income tax for the following periods:

**Tax-Exemption Periods**

Construction of Fab 6	2001 to 2004
Construction of Fab 8—module B	2002 to 2005
Expansion of Fab 2—modules A and B, Fab 3 and Fab 4, Fab 5 and Fab 6	2003 to 2006

- i. The tax authorities have examined income tax returns of TSMC through 2000. However, TSMC is contesting the assessment by the tax authority for 1992, 1993, 1997 and 1998. TSMC believes that any additional assessment will not have a material adverse effect on TSMC.

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

	<u>For the 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	\$ 9,014,068	\$ 4,647,912	\$ 13,661,980
Labor and health insurance	476,687	245,357	722,044
Pension	379,845	193,718	573,563
Other	339,500	304,398	643,898
Depreciation	61,988,138	2,398,768	64,386,906
Amortization	<u>1,385,594</u>	<u>3,367,462</u>	<u>4,753,056</u>
	<u>\$73,583,832</u>	<u>\$ 11,157,615</u>	<u>\$84,741,447</u>

	<u>For the Year Ended December 31, 2002</u>		
	<u>Classified as Cost of Sales</u>	<u>Classified as Operating Expense</u>	<u>Total</u>
Labor cost			
Salary	\$ 7,831,036	\$ 4,195,974	\$ 12,027,010
Labor and health insurance	427,992	220,527	648,519
Pension	349,279	185,457	534,736
Other	291,439	348,707	640,146
Depreciation	57,404,004	2,493,369	59,897,373
Amortization	<u>2,161,950</u>	<u>2,938,670</u>	<u>5,100,620</u>
	<u>\$68,465,700</u>	<u>\$ 10,382,704</u>	<u>\$78,848,404</u>

**18. SHAREHOLDERS' EQUITY**

**Capital, Capital Surplus and Retained Earnings**

TSMC has issued 585,898 thousand ADSs which are 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 distributed as stock dividends.

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

- a. 10% legal reserve; until the amount of total legal reserve equals TSMC's total paid-in capital;
- b. Special reserve in accordance with relevant laws or regulations;
- c. Remunerations to directors and supervisors and bonuses to employees equal to 0.3% and at least 1% of the remainder, respectively. Individuals eligible for the employee bonuses may include employees of affiliated companies as approved by the board of directors or a representative of the board of directors;

- d. Dividends to holders of preferred shares at a 3.5% annual rate, 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, TSMC 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 may be distributed in shares of common stock or a combination of cash and common stock. Distributions of profits are usually made in the form of a 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 TSMC's outstanding capital stock. The reserve can only be used to offset an accumulated deficit or be distributed as a stock dividend up to 50% of the reserve balance when the reserve balance has reached 50% of the aggregate par value of the outstanding capital stock of TSMC.

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 ROC SFC. The special reserve is allowed to be appropriated when the debit balance of such account is reversed.

The appropriations of earnings for 2002 and 2001 were approved in the shareholders' meeting on June 3, 2003 and May 7, 2002, respectively. The appropriations and dividends 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 earnings for 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 had been 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 TSMC's total outstanding common shares as of December 31, 2002 and 2001, respectively.

As of January 12, 2004, the board of directors had 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 TSMC on earnings generated as of January 1, 1998. An imputation credit account is maintained by TSMC for such income tax and the tax credit allocated to each shareholder.

### **Preferred Stock**

TSMC 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 TSMC's Articles of Incorporation, as amended on June 3, 2003, TSMC is no longer authorized to issue preferred stock.

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

Preferred shareholders

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

## **19. STOCK-BASED COMPENSATION PLANS**

### **Stock Option Plans**

On October 29, 2003 and June 25, 2002, the SFC approved TSMC's Employee Stock Option Plans (the 2003 Plan and the 2002 Plan, respectively). The maximum number of units authorized to be granted under the 2003 Plan and the 2002 Plan was 120,000 thousand and 100,000 thousand, respectively, with each unit representing one common share of stock. The option rights may be granted to qualified employees of TSMC and its subsidiaries, including TSMC—North America and WaferTech. The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of both plans, stock option rights are granted at an exercise price equal to the closing price of TSMC's common shares listed on the TSE on the date of grant. Under the 2002 Plan, there were 51,485 thousand option rights that were 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 the 2003 Plan and the 2002 Plan is as follows:

	<u>2003 Plan</u>		<u>2002 Plan</u>	
	<b>Number of Outstanding Stock Option Rights (In Thousands)</b>	<b>Range of Exercise Price (NT\$)</b>	<b>Number of Outstanding Stock Option Rights (In Thousands)</b>	<b>Range of Exercise Prices (NT\$)</b>
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>	

For the 2002 Plan, the number of outstanding option rights and their exercise prices have been adjusted to reflect the issuance of stock dividends in accordance with the 2002 Plan.

In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan (the WaferTech Plans) under which officers, key employees and non-employee directors may be granted stock option rights. The WaferTech Plans provide for 15,150 thousand option rights available for grant. For option rights granted to date, the option purchase price was equal to or exceeded the fair market value at the date of grant. As of December 31, 2003, 672 thousand stock options remain outstanding. The options will expire if not exercised at specified dates ranging from May 2006 and June 2011. No options were granted during the years ended December 31, 2003 and 2002 as a result of the implementation of the Stock Option Buyback Program as described below.

#### **WaferTech Stock Option Buyback Program**

In December 2000, WaferTech implemented a Stock Option Buyback Program (Buyback). The Buyback program provides employees with the right to sell back to WaferTech all vested stock options and outstanding ownership interests granted under the WaferTech Plans. The repurchase price for outstanding ownership interests is US\$6. The repurchase price for vested stock options is US\$6 less the exercise price of the option. As of December 31, 2003, WaferTech has repurchased 3,253 thousand outstanding ownership interests at a cost of US\$19,519 thousand, and 6,913 thousand vested stock option rights at a cost of US\$34,483 thousand. As of December 31, 2003, 164 thousand stock options are vested and may be sold back to WaferTech, and US\$2,681 thousand was accrued in connection with the Buyback program.

#### **Stock Appreciation Rights**

In December 2000, WaferTech and TSMC—North America implemented a stock appreciation rights program (Appreciation). The Appreciation plan is designed to provide employees with a long-term incentive plan that tracks the appreciation of TSMC common stock through Stock Appreciation Rights (SARs). SARs provide each participant the right to receive, upon exercise, an amount in cash from WaferTech and TSMC—North America that is the excess of the market price of TSMC common stock on TSE on the date of exercise over the exercise price. As of December 31, 2003, WaferTech and TSMC—North America accrued US\$1,735 thousand and US\$3,032 thousand, respectively, in connection with the Appreciation. During 2002, benefits under the Appreciation plan for TSMC—North America were replaced by the stock option plans aforementioned. Accordingly, TSMC—North America does not intend to provide additional Appreciation plan benefits subsequent to the adoption of the stock option plans.

## 20. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

Purpose of Purchase	Beginning Shares	Dividend Distributed	Share Sold	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 years 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. TSMC'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.

## 21. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

	Amounts (Numerator)		Share (Denominator) (Thousand)	EPS (Dollars)	
	Income Before Income Tax and Minority Interest	Consolidated Net Income		Income Before Income Tax and Minority Interest	Consolidated Net Income
<u>Year ended December 31, 2003</u>					
Income	\$ 51,178,645	\$ 47,258,700			
Less—preferred stock dividends	( 184,493)	( 184,493)			
Basic earnings per share					
Income available to common shareholders	50,994,152	47,074,207	20,223,457	<u>\$ 2.52</u>	<u>\$ 2.33</u>
Effect of diluted securities—stock options	-	-	8,282		
Diluted earnings per share					
Income available to common shareholders	<u>\$ 50,994,152</u>	<u>\$ 47,074,207</u>	<u>20,231,739</u>	<u>\$ 2.52</u>	<u>\$ 2.33</u>
<u>Year ended December 31, 2002</u>					
Income	\$ 27,222,148	\$ 21,610,291			
Less—preferred stock dividends	( 455,000)	( 455,000)			
Basic and diluted earnings per share					
Income available to common shareholders	<u>\$ 26,767,148</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 19) are included in the denominator of the diluted EPS computation by using the treasury stock method under SFAS No. 24, "Earnings Per Share"; however, 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 and diluted 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.

## 22. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions:

- a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC serves as one of its directors
- b. Philips, a major shareholder of TSMC
- c. Investees of TSMC

VIS  
SSMC  
GUC

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 year ended</u>				
Sales				
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	-
	<u>\$ 4,187,588</u>	<u>2</u>	<u>\$ 3,102,554</u>	<u>2</u>
Purchase				
SSMC	\$ 5,519,805	17	\$ 2,751,297	11
VIS	4,910,810	15	3,469,198	14
	<u>\$ 10,430,615</u>	<u>32</u>	<u>\$ 6,220,495</u>	<u>25</u>
Operating expense—Rental				
ITRI	\$ -	-	\$ 40,401	-
Manufacturing expenses—Technical assistance fees				
Philips	\$ 3,023,741	3	\$ 2,849,517	4
Sales of property, plant and equipment				
VIS	\$ 15,125	3	-	-
Non-operating income and gains				
SSMC (primarily technical service income, see Note 24f)	\$ 201,869	4	\$ 126,061	6
VIS	251	-	-	-
	<u>\$ 202,120</u>	<u>4</u>	<u>\$ 126,061</u>	<u>6</u>

(Continued)

	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>At December 31</u>				
Receivables				
Philips and its affiliates	\$ 895,063	85	\$ 352,706	80
VIS	118,503	11	58,301	13
GUC	15,339	2	-	-
SSMC	14,489	1	5,678	2
ITRI	8,781	1	22,974	5
	<u>\$ 1,052,175</u>	<u>100</u>	<u>\$ 439,659</u>	<u>100</u>
Payables				
Philips and its affiliates	\$ 1,579,568	49	\$ 730,847	41
VIS	1,034,074	32	653,876	37
SSMC	634,647	19	391,426	22
	<u>\$ 3,248,289</u>	<u>100</u>	<u>\$ 1,776,149</u>	<u>100</u>
Refundable deposits—VIS (see Note 24h)	<u>\$ 150,840</u>	<u>76</u>	<u>\$ 514,846</u>	<u>92</u>

Sales to related parties are based on normal selling prices and collection terms, except for sales of property, plant and equipment and technical assistance fees, which were in accordance with the related contracts.

### 23. SIGNIFICANT LONG-TERM LEASES

TSMC leases land from the Science-Based Industrial Park 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.

TSMC—North America leases its office premises and certain equipment under non-cancelable operating agreements. TSMC—Europe and TSMC—Japan entered into lease agreements for their office premises. The leases will expire between 2005 and 2010. Current annual rent payments aggregate to NT\$118,787 thousand. The agreements can be renewed upon their expiration.

As of December 31, 2003, future remaining lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 349,236
2005	350,120
2006	349,867
2007	339,249
2008	318,379
2009 and thereafter	<u>1,797,827</u>
	<u>\$ 3,504,678</u>



## 24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as 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 TSMC 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 TSMC's production capacity.
- c. Under a technical cooperation agreement with ITRI, TSMC 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, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2003, TSMC 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. As of December 31, 2003, TSMC's equity interest in SSMC was 32%. TSMC and Philips are committed to buy specific percentages of the production capacity of SSMC. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- f. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net sales 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. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, TSMC shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, TSMC and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the termination agreement, TSMC is relieved of further obligation to transfer additional technology. In addition, TSMC granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- h. TSMC entered into a Manufacturing Agreement with VIS. VIS agrees to reserve certain production capacity for TSMC and agrees to manufacture certain logic devices or other products for TSMC's customers at prices agreed upon by TSMC and VIS. TSMC paid NT\$1,200,000 thousand to VIS as a guarantee deposit for the capacity reservation. VIS shall return portions of the guarantee deposit without any interest to TSMC upon reaching certain purchase commitments by TSMC. The contract will remain in force for five years. As of December 31, 2003, the refundable deposit was NT\$150,840 thousand.

- i. Beginning in 2001, TSMC entered into several licensing arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be made in the form of royalties over the term of the related contracts. TSMC has recorded the related amounts as a liability with the corresponding amounts recorded as deferred charges which are amortized and charged to the cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.
- j. In November 2002, TSMC 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. TSMC also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. TSMC will contribute process technologies and share a portion of the costs associated with this joint development project.
- k. In December 2003, TSMC entered into a Technology Development and License Agreement with Motorola Inc. to jointly develop 65nm SOI (silicon on insulator) technology. TSMC will also license related 90nm SOI technology from Motorola. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, TSMC will pay royalties to Motorola, Inc. and will share a portion of the costs associated with the joint development project.
- l. In December 2003, the Company filed a lawsuit in the US District Court of Northern California 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. The probable outcome cannot be reasonably estimated.
- m. Under an agreement signed with a certain company, TSMC Shanghai has the obligation to purchase certain assets within a specified period at the price agreed upon by both parties. TSMC Shanghai will compensate the other party in case of a breach of the agreement
- n. Amounts available under unused letters of credit as of December 31, 2003 were NT\$6,480 thousand, US\$1,294 thousand, EUR21 thousand and Singapore dollar \$85 thousand. Among the unused letters of credit, TSMC—North America has an outstanding irrevocable standby letter of credit with a financial institution for US\$1,294 thousand. The standby letter of credit was entered into as security to the landlord of TSMC—North America's office spaces in San Jose, California. In the event TSMC—North America defaults under this lease agreement, the landlord will draw on the standby letter of credit up to the amount of the default, but not to exceed the amount of the standby letter of credit. The standby letter of credit expires in October, 2004, and is renewable on an annual basis.

## 25. ADDITIONAL DISCLOSURES

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

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;

- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the capital: Please see Table 7 attached;
- i. Names, locations, and related information of investee on which the Company exercises significant influence: Please see Table 8 attached;
- j. Financial instrument transactions:

1) Derivative financial instruments

The Company entered into derivative financial instruments 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

<u>Financial Instruments</u>	<u>Maturity Period</u>	<u>Contract Amount (Nominal) (In Thousand)</u>
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 NT\$76,385 thousand, and payables from forward exchange contracts (included in the "other current liabilities" account) aggregate NT\$174,019 thousand. Net exchange gain for the year ended December 31, 2003 was NT\$321,033 thousand.

As of December 31, 2003, the underlying assets and liabilities related to the above forward exchange contracts are as follows:

<u>Assets and Liabilities</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 related interest rates on its long-term loans. 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>Contract Amount (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 (In Thousand)</u>	<u>Outflow (In Thousand)</u>
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

	December 31			
	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$ 102,988,896	\$ 102,988,896	\$ 67,790,204	\$ 67,790,204
Short-term investments	13,611,536	14,054,511	170,012	2,455,582
Receivables from related parties	1,052,175	1,052,175	439,659	439,659
Notes and accounts receivables	28,505,162	28,505,162	19,590,942	19,590,942
Other financial assets	1,373,705	1,373,705	1,010,453	1,010,453
Long-term investments	10,748,014	17,815,445	10,635,496	12,750,029
Refundable deposits	199,522	199,522	557,266	557,266
Liabilities				
Short-term bank loans	407,736	407,736	729,813	729,813
Payables to related parties	3,248,289	3,248,289	1,776,149	1,776,149
Accounts payable	6,438,604	6,438,604	5,138,592	5,138,592
Payable to contractors and equipment suppliers	7,232,103	7,232,103	14,132,100	14,132,100
Long-term bank loans (includes current portion)	8,800,302	8,800,302	18,002,054	18,002,054
Bonds payable (includes current portion)	35,000,000	35,850,377	39,000,000	39,762,245
Other long-term payables (includes current portion and other liabilities-others)	5,649,461	5,649,461	5,616,220	5,616,220
Guarantee deposits	763,889	763,889	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)
Options	-	-	( 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 long-term bank loans is its carrying value with the floating interest rate. The fair value of bonds payable is the quoted market value. Fair value of other long-term payables approximates the 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 are not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not represent the fair value of the Company as a whole.

3) Investment in Mainland China:

TSMC 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 aforementioned project and permitted direct investment in mainland China. Subsequently, TSMC entered into an investment related agreement with Shanghai Songjiang District People's Government on June 8, 2003. On August 4, 2003, TSMC Shanghai, a wholly-owned subsidiary of TSMC, was established. TSMC Shanghai is engaged mainly in the manufacturing and selling of integrated circuits. TSMC made a capital investment in TSMC Shanghai in the amount of US\$56,000 thousand on October 8, 2003.

## 26. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	<u>Overseas</u>	<u>Taiwan</u>	<u>Adjustments and Elimination</u>	<u>Consolidated</u>
<u>2003</u>				
Sales to unaffiliated customers	\$ 118,851,382	\$ 84,145,430	\$ -	\$ 202,996,812
Transfers between geographic areas	<u>11,494,868</u>	<u>117,758,911</u>	( <u>129,253,779</u> )	<u>-</u>
Total sales	<u>\$ 130,346,250</u>	<u>\$ 201,904,341</u>	( <u>\$ 129,253,779</u> )	<u>\$ 202,996,812</u>
Gross profit	<u>\$ 2,392,944</u>	<u>\$ 72,891,637</u>	( <u>\$ 401,103</u> )	\$ 74,883,478
Operating expenses				( 23,582,897 )
Non-operating income and gains				5,669,312
Non-operating expenses and losses				( <u>5,791,248</u> )
Income before income tax				<u>\$ 51,178,645</u>
Minority interest loss				<u>\$ 3,012</u>
Identifiable assets	<u>\$ 52,276,269</u>	<u>\$ 358,451,509</u>	( <u>\$ 14,075,261</u> )	\$ 396,652,517
Long-term investments				<u>10,748,014</u>
Total assets				<u>\$ 407,400,531</u>

(Continued)

<u>2002</u>	<u>Overseas</u>	<u>Taiwan</u>	<u>Adjustments and Elimination</u>	<u>Consolidated</u>
Sales to unaffiliated customers	\$ 95,774,432	\$ 66,526,776	\$ -	\$ 162,301,208
Transfers between geographic areas	<u>9,537,846</u>	<u>94,434,553</u>	( <u>103,972,399</u> )	<u>-</u>
Total sales	<u>\$ 105,312,278</u>	<u>\$ 160,961,329</u>	( <u>\$ 103,972,399</u> )	<u>\$ 162,301,208</u>
Gross profit	( <u>\$ 19,865</u> )	<u>\$ 51,967,145</u>	<u>\$ 365,870</u>	\$ 52,313,150
Operating expenses				( 20,724,111 )
Non-operating income and gains				2,419,467
Non-operating expenses and losses				( <u>6,786,358</u> )
Income before income tax				<u>\$ 27,222,148</u>
Minority interest loss				<u>\$ 24,791</u>
Identifiable assets	<u>\$ 75,840,416</u>	<u>\$ 336,405,063</u>	( <u>\$ 32,338,576</u> )	\$ 379,906,903
Long-term investments				<u>10,635,496</u>
Total assets				<u>\$ 390,542,399</u>

b. Gross export sales

The export sales information is determined based on billed regions. Gross export sales for the years ended December 31, 2003 and 2002 were NT\$59,868,104 thousand and NT\$48,795,235 thousand, respectively. There were no export sales to a region that accounted for more than 10% of the Company's total sales.

c. Major customer

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**

**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. AND SUBSIDIARIES

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. AND SUBSIDIARIES

## 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 (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership		
TSMC	<u>Government bonds</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>Money market funds</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 funds</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>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	Treasury stock of NT\$ 715,153 thousand is 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		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	<u>Certificate</u> Chi Cherng	Investee	Long-term investment	-	\$ 42,941	36	\$ 501,505	Treasury stock of NT\$458,564 thousand is deducted from the carrying value. Treasury stock of NT\$459,511 thousand is deducted from the carrying value.
	Hsin Ruey	Investee	Long-term investment	-	42,006	36	501,517	
	<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	<u>Stock</u> TSMC	Parent company	Short-term investment	13,735	458,564	-	862,340	
	<u>Certificate</u> Hsin Ruey	Major shareholder	Long-term investment	-	902,033	64	902,033	
Hsin Ruey	<u>Stock</u> TSMC	Parent company	Short-term investment	13,761	459,511	-	863,957	
	<u>Certificate</u> Chi Cherng	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>Money market 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	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
InveStar II	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	
	<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	
	RickTek 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	
	RickTek 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		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	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	
	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	
Emerging Alliance	<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 funds</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	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	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	

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 (US\$ in Thousand)	Carrying Value (US\$ in Thousand)	Gain (Loss) on Disposal (US\$ in Thousand)	Shares/Units (Thousand)	Amount (US\$ in Thousand) (Note 1)	
TSMC	<u>Money market funds</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 funds</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>Government bonds</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>Money market 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 funds</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. AND SUBSIDIARIES

## 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)

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. AND SUBSIDIARIES**

**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	Subsidiary	Sales	\$ 117,758,911	57	Net 30 days from invoice date	None	None	\$ 13,946,638	48	-
		Major shareholder	Sales	3,577,054	2	Net 30 days from invoice date	None	None	895,063	3	-
	GUC	Investee	Sales	549,471	-	30 days after monthly closing	None	None	15,339	-	-
	WaferTech	Subsidiary	Purchases	11,433,083	36	Net 30 days from invoice date	None	None	1,184,642	11	-
	SSMC	Investee	Purchases	5,519,805	17	Net 30 days from invoice date	None	None	634,647	6	-
	VIS	Investee	Purchases	4,910,810	15	Net 30 days from invoice date	None	None	1,034,074	10	-

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**

**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. AND SUBSIDIARIES

## 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	Taipei, Taiwan	Investment	300,000	300,000	-	36	42,941	( 840)	108	Investee
	Hsin Ruey	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
	VisEra	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.