

**Taiwan Semiconductor Manufacturing
Company Ltd.**

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

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

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

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

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

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

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

July 13, 2004

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

BALANCE SHEETS

JUNE 30, 2004 AND 2003

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2004		2003		LIABILITIES AND SHAREHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2, 3 and 4)	\$ 82,142,400	19	\$ 66,546,050	18	Payables to related parties (Notes 18 and 20)	\$ 4,662,001	1	\$ 3,591,017	1
Short-term investments (Notes 2 and 4)	41,199,013	9	3,054,050	1	Accounts payable	7,308,388	2	5,154,006	1
Receivables from related parties (Note 18)	18,130,742	4	15,186,990	4	Payables to contractors and equipment suppliers	8,658,321	2	6,559,597	2
Notes receivable	50,168	-	13,459	-	Accrued expenses and other current liabilities (Notes 2, 10, 20 and 21)	23,418,048	5	6,669,201	2
Accounts receivable	16,662,695	4	12,834,737	4	Current portion of long-term bonds payable (Note 9)	5,000,000	1	-	-
Allowance for doubtful receivables (Note 2)	(983,077)	-	(975,547)	-	Total current liabilities	49,046,758	11	21,973,821	6
Allowance for sales returns and others (Note 2)	(3,019,657)	-	(2,069,722)	(1)	LONG-TERM LIABILITIES				
Other financial assets (Notes 2 and 21)	1,148,887	-	798,672	-	Bonds payable (Note 9)	30,000,000	7	35,000,000	10
Inventories—net (Notes 2 and 5)	11,725,188	3	11,355,534	3	Other payables to related parties (Notes 18 and 20)	3,622,369	1	-	-
Deferred income taxes assets (Notes 2 and 12)	6,144,000	1	3,320,000	1	Other long-term payable (Notes 10 and 20)	2,637,827	-	3,921,540	1
Prepaid expenses and other current assets	614,990	-	955,192	-	Total long-term liabilities	36,260,196	8	38,921,540	11
Total current assets	173,815,349	40	111,019,415	30	OTHER LIABILITIES				
FUNDS AND LONG-TERM INVESTMENTS (Notes 2, 6, 16 and 20)					Guarantee deposits (Note 20)	599,091	-	1,225,310	-
Equity method	39,606,640	9	34,029,484	10	Accrued pension cost (Notes 2 and 11)	2,847,049	1	2,431,939	1
Cost method	716,377	-	1,092,503	-	Deferred gain on sale and leaseback (Note 2)	-	-	38,309	-
Long-term bonds	8,893,477	2	-	-	Total other liabilities	3,446,140	1	3,695,558	1
Total funds and long-term investments	49,216,494	11	35,121,987	10	Total liabilities	88,753,094	20	64,590,919	18
PROPERTY, PLANT, AND EQUIPMENT (Notes 2 and 7)					SHAREHOLDERS' EQUITY (Notes 2, 14, 15 and 16)				
Cost					Capital stock—\$10 par value				
Buildings	72,030,258	16	70,341,223	19	Authorized: 24,600,000 thousand shares				
Machinery and equipment	353,594,669	81	320,043,036	88	Issued: Common—23,376,597 thousand shares in 2004 and 18,622,887 thousand shares in 2003	233,765,970	53	186,228,867	51
Office equipment	6,486,523	2	5,948,653	2	To be issued	-	-	16,437,322	5
	432,111,450	99	396,332,912	109	Capital surplus	56,885,914	13	56,840,751	16
Accumulated depreciation	(275,065,953)	(63)	(218,915,472)	(60)	Retained earnings:				
Advance payments and construction in progress	43,236,290	10	18,376,849	5	Appropriated as legal reserve	25,528,007	6	20,802,137	6
Net property, plant, and equipment	200,281,787	46	195,794,289	54	Appropriated as special reserve	-	-	68,945	-
GOODWILL (Note 2)	2,090,341	-	2,438,731	1	Unappropriated earnings	43,517,207	10	19,058,142	5
OTHER ASSETS					Others:				
Deferred charges—net (Notes 2, 8 and 20)	10,066,618	2	8,731,444	2	Unrealized loss on long-term investments	(9)	-	(7,981)	-
Deferred income taxes assets (Notes 2 and 12)	4,169,929	1	9,177,560	3	Cumulative translation adjustments	53,132	-	755,436	-
Assets leased to others—net (Note 2)	81,480	-	85,796	-	Treasury stock (at cost)—170,690 thousand shares in 2004 and 41,961 thousand shares in 2003	(8,676,467)	(2)	(1,922,049)	(1)
Idle assets (Note 2)	78,609	-	107,552	-	Total shareholders' equity	351,073,754	80	298,261,570	82
Refundable deposits (Note 18)	26,241	-	375,715	-	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 439,826,848	100	\$ 362,852,489	100
Total other assets	14,422,877	3	18,478,067	5					
TOTAL ASSETS	\$ 439,826,848	100	\$ 362,852,489	100					

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

(In Thousand New Taiwan Dollars, Except Earnings Per Share)

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
GROSS SALES (Notes 2 and 18)	\$ 124,982,265		\$ 91,227,434	
SALES RETURNS AND ALLOWANCES (Note 2)	(2,599,819)		(1,979,969)	
NET SALES	122,382,446	100	89,247,465	100
COST OF SALES (Notes 13 and 18)	<u>71,514,061</u>	<u>59</u>	<u>60,510,165</u>	<u>68</u>
GROSS PROFIT	<u>50,868,385</u>	<u>41</u>	<u>28,737,300</u>	<u>32</u>
OPERATING EXPENSES (Notes 13 and 18)				
Research and development	5,825,173	5	5,589,164	6
General and administrative	4,635,566	3	2,958,075	3
Marketing	<u>733,496</u>	<u>1</u>	<u>655,343</u>	<u>1</u>
Total operating expenses	<u>11,194,235</u>	<u>9</u>	<u>9,202,582</u>	<u>10</u>
INCOME FROM OPERATIONS	<u>39,674,150</u>	<u>32</u>	<u>19,534,718</u>	<u>22</u>
NON-OPERATING INCOME AND GAINS				
Investment income recognized by equity method—net (Notes 2 and 6)	2,053,966	2	-	-
Interest (Notes 2 and 21)	558,592	-	370,789	1
Gain on disposal of property, plant and equipment (Notes 2 and 18)	114,102	-	295,796	-
Technical service income (Notes 18 and 20)	111,096	-	76,527	-
Gain on sales of short-term investments (Note 2)	98,644	-	19,192	-
Other (Note 18)	<u>138,298</u>	<u>-</u>	<u>125,878</u>	<u>-</u>
Total non-operating income and gains	<u>3,074,698</u>	<u>2</u>	<u>888,182</u>	<u>1</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 7 and 21)	602,981	-	946,124	1
Foreign exchange loss—net (Notes 2 and 21)	542,591	-	246,919	-
Loss on disposal of property, plant, and equipment (Note 2)	32,913	-	262,208	-
Loss on property, plant, and equipment, and idle assets (Note 2)	-	-	1,401,585	2
Investment loss recognized by equity method—net (Notes 2 and 6)	-	-	705,431	1
Other (Notes 2 and 21)	<u>14,405</u>	<u>-</u>	<u>108,188</u>	<u>-</u>
Total non-operating expenses and losses	<u>1,192,890</u>	<u>-</u>	<u>3,670,455</u>	<u>4</u>

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

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

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

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

	<u>2004</u>	<u>2003</u>
NET INCOME	<u>\$42,200,461</u>	<u>\$16,342,850</u>
EARNINGS PER SHARE		
Basic earnings per share	<u>\$1.81</u>	<u>\$0.69</u>
Diluted earnings per share	<u>\$1.81</u>	<u>\$0.69</u>

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

(Concluded)

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

	Capital Stock						Capital Surplus	Retained Earnings				Unrealized Loss on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	Total Shareholders' Equity
	Preferred stocks		Common stocks		To be issued			Legal reserve	Special reserve	Unappropriated earnings	Total				
	Shares (thousand)	Amount	Shares (thousand)	Amount	Shares (thousand)	Amount									
BALANCE, JANUARY 1, 2004	-	\$ -	20,266,619	\$ 202,666,189	-	\$ -	\$ 56,855,885	\$ 20,802,137	\$ 68,945	\$ 50,229,008	\$ 71,100,090	(\$ 35)	\$ 225,408	(\$ 1,633,228)	\$ 329,214,309
Appropriations of prior year's earnings															
Legal reserve	-	-	-	-	-	-	-	4,725,870	-	(4,725,870)	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	-	(68,945)	68,945	-	-	-	-	-	-
Bonus to employees—cash	-	-	-	-	-	-	-	-	(681,628)	(681,628)	-	-	-	(681,628)	-
Bonus to employees—stock	-	-	272,651	2,726,514	-	-	-	-	(2,726,514)	(2,726,514)	-	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	-	-	-	-	-	(184,493)	(184,493)	-	-	-	(184,493)	-
Cash dividends—6%	-	-	-	-	-	-	-	-	(12,159,971)	(12,159,971)	-	-	-	(12,159,971)	-
Stock dividends—14%	-	-	2,837,327	28,373,267	-	-	-	-	(28,373,267)	(28,373,267)	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(127,805)	(127,805)	-	-	-	(127,805)	-
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	-	42,198,802	42,198,802	-	-	-	42,198,802
Reversal of unrealized loss on long term investment of investees	-	-	-	-	-	-	-	-	-	-	-	26	-	-	26
Adjustment arising from changes in ownership percentage in investees	-	-	-	-	-	-	28,370	-	-	-	-	-	-	-	28,370
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	(172,276)	-	(172,276)	-
Treasury stock transaction	-	-	-	-	-	-	1,659	-	-	-	-	-	-	(7,043,239)	(7,041,580)
BALANCE, JUNE 30, 2004	-	\$ -	23,376,597	\$ 233,765,970	-	\$ -	\$ 56,885,914	\$ 25,528,007	\$ -	\$ 43,517,207	\$ 69,045,214	(\$ 9)	\$ 53,132	(\$ 8,676,467)	\$ 351,073,754
BALANCE, JANUARY 1, 2003	1,300,000	\$ 13,000,000	18,622,887	\$ 186,228,867	-	\$ -	\$ 57,004,789	\$ 18,641,108	\$ -	\$ 22,151,089	\$ 40,792,197	(\$ 194,283)	\$ 945,129	(\$ 1,923,492)	\$ 295,853,207
Appropriations of prior year's earnings															
Legal reserve	-	-	-	-	-	-	-	2,161,029	-	(2,161,029)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	68,945	(68,945)	-	-	-	-	-
Bonus to employees—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 for the six months ended June 30, 2003	-	-	-	-	-	-	-	-	-	16,087,834	16,087,834	-	-	-	16,087,834
Redemption and retirement of preferred stocks	(1,300,000)	(13,000,000)	-	-	-	-	-	-	-	-	-	-	-	-	(13,000,000)
Reversal of unrealized loss on long term investment of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	20,647	-	-	20,647
Reversal of unrealized loss on long term investment of investees	-	-	-	-	-	-	-	-	-	-	-	165,655	-	-	165,655
Adjustment arising from changes in ownership percentage in investees	-	-	-	-	-	-	(164,473)	-	-	-	-	-	-	-	(164,473)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	(189,693)	-	(189,693)	-
Treasury stock transaction	-	-	-	-	-	-	435	-	-	-	-	-	-	1,443	1,878
BALANCE, JUNE 30, 2003	-	\$ -	18,622,887	\$ 186,228,867	1,643,732	\$ 16,437,322	\$ 56,840,751	\$ 20,802,137	\$ 68,945	\$ 19,058,142	\$ 39,929,224	(\$ 7,981)	\$ 755,436	(\$ 1,922,049)	\$ 298,261,570

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

**STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousand New Taiwan Dollars)**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$42,198,802	\$ 16,087,834
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,086,443	30,840,186
Deferred income taxes	(921,333)	535,007
Investment loss (income) recognized by equity method—net	(2,053,966)	705,431
Loss on property, plant, and equipment, and idle assets	-	1,401,585
Gain on sales of long-term investments—net	(2,150)	(200)
Amortization of discount of long-term bond investments	327	-
Gain on disposal of property, plant and equipment—net	(81,189)	(33,588)
Pension cost accrued	246,798	221,397
Allowance for doubtful receivables	(32,945)	45,683
Allowance for sales returns and others	893,632	(293,345)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables from related parties	(3,130,117)	(5,003,502)
Notes receivable	(40,275)	46,781
Accounts receivable	(2,754,781)	(3,339,290)
Inventories—net	(818,030)	(1,015,198)
Other financial assets	(67,145)	170,997
Prepaid expenses and other current assets	976,976	1,059,169
Increase (decrease) in:		
Payables to related parties	161,861	1,124,019
Accounts payable	1,224,512	304,772
Accrued expenses and other current liabilities	<u>1,900,027</u>	<u>392,969</u>
Net cash provided by operating activities	<u>68,787,447</u>	<u>43,250,707</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments—net	(32,042,407)	(3,054,050)
Acquisitions of:		
Long-term investments	(5,943,022)	(1,015,301)
Property, plant and equipment	(39,179,243)	(16,207,787)
Proceeds from disposal of:		
Property, plant and equipment	250,080	132,387
Long-term investments	7,552	592
Increase in deferred charges	(640,653)	(711,056)
Decrease in refundable deposits	151,138	167,754
Decrease in other assets—miscellaneous	<u>-</u>	<u>9,250</u>
Net cash used in investing activities	<u>(77,396,555)</u>	<u>(20,678,211)</u>

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

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

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

(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

NOTES TO FINANCIAL STATEMENTS

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

1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates

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

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

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

Short-term Investments

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

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

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

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

Allowance for Doubtful Receivables

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Inventories

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

Long-term Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill

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

Deferred Charges

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

Pension Costs

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

Deferred Gain on Sale and Leaseback

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

Income Tax

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

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

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

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

Stock-Based Compensation

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

Treasury Stock

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

Foreign Currency Transactions

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

Derivative Financial Instruments

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

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

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

3. CASH AND CASH EQUIVALENTS

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

4. SHORT-TERM INVESTMENTS

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

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

5. INVENTORIES—NET

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

6. LONG-TERM INVESTMENTS

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

(Continued)

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

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

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

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

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

8. DEFERRED CHARGES—NET

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

9. BONDS

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

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

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

10. OTHER LONG-TERM PAYABLES

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

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

11. PENSION PLAN

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

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

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

12. INCOME TAX

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

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

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

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

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

	June 30	
	<u>2004</u>	<u>2003</u>
Current:		
Investment tax credits	(<u>\$ 6,144,000</u>)	(<u>\$ 3,320,000</u>)
Noncurrent:		
Investment tax credits	\$ 18,622,082	\$ 25,820,863
Temporary differences	(2,957,102)	(4,042,580)
Valuation allowances	(<u>11,495,051</u>)	(<u>12,600,723</u>)
	(<u>\$ 4,169,929</u>)	(<u>\$ 9,177,560</u>)

- d. Integrated income tax information:

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

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

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

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

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

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

	<u>Tax-Exemption Period</u>
Construction of Fab 6	2001 to 2004
Construction of Fab 8—module B	2002 to 2005
Expansion of Fab 2—modules A and B, Fab 3, Fab 4, Fab 5 and Fab 6	2003 to 2006
Construction of Fab 12	2004 to 2007

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

13. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

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

14. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

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

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

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

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

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

The amount of above appropriation of earnings for 2003 and 2002 is consistent with the resolution of the meetings of board of directors on February 17, 2004 and March 4, 2003, respectively. However, the Company Law of R.O.C. states that treasury stock shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolution. If the above employee bonus and remuneration to directors and supervisors had been paid in cash and charged against income for 2003 and 2002, the basic earnings per share for the years ended December 31, 2003 and 2002 would decrease from NT\$2.33 to NT\$2.15 and NT\$1.14 to NT\$1.05, respectively. The shares distributed as a bonus to employees represented 1.35 % and 0.83 % of the Company's total outstanding common shares as of December 31, 2003 and 2002, respectively.

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

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

Preferred Shareholders

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

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

Preferred shareholders

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

15. STOCK-BASED COMPENSATION PLANS

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

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

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

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

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

<u>Range of Exercise Prices (NT\$)</u>	Option Outstanding		
	Number of Outstanding Options (In Thousands)	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price (NT\$)
2003 Plan (49.9-57.8)	13,356	9.84	50.4
2002 Plan (32.8-46.2)	<u>53,582</u>	8.59	42.6
Total (32.8-57.8)	<u>66,938</u>	8.84	44.2

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

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

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

16. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

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

Proceeds from sale of treasury stock held by subsidiaries for the six months ended June 30, 2004 and 2003 were NT\$18,218 thousand and NT\$1,876 thousand, respectively. As of June 30, 2004 and 2003, the book value of the stock held by subsidiaries was NT\$1,616,669 thousand and NT\$1,922,049 thousand, respectively; the market value was NT\$2,247,024 thousand and NT\$2,463,723 thousand, respectively. Capital stock held by subsidiaries as an investment is recorded as treasury stock with the holder having the same rights as other common shareholders.

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

17. EARNINGS PER SHARE

EPS is computed as follows:

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (Thousand)</u>	<u>EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2004</u>					
Basic EPS					
Income available to common shareholders	\$ 41,555,958	\$ 42,198,802	23,291,848	<u>\$ 1.78</u>	<u>\$ 1.81</u>
Effect of diluted securities—stock option	-	-	<u>9,321</u>		
Diluted EPS					
Income available to common shareholders	<u>\$ 41,555,958</u>	<u>\$ 42,198,802</u>	<u>23,301,169</u>	<u>\$ 1.78</u>	<u>\$ 1.81</u>
<u>Six months ended June 30, 2003</u>					
Net income	\$ 16,752,445	\$ 16,087,834			
Less—preferred stock dividends	(<u>184,493</u>)	(<u>184,493</u>)			
Basic and diluted EPS					
Income available to common shareholders	<u>\$ 16,567,952</u>	<u>\$ 15,903,341</u>	<u>23,324,860</u>	<u>\$ 0.71</u>	<u>\$ 0.68</u>

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

18. RELATED PARTY TRANSACTIONS

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

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

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

	Six Months Ended June 30			
	2004		2003	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the period</u>				
Sales				
TSMC—North America	\$ 68,191,878	55	\$ 52,570,870	58
Philips and its affiliates	2,712,508	2	1,396,502	2
Others	<u>205,544</u>	<u>-</u>	<u>369,015</u>	<u>-</u>
	<u>\$ 71,109,930</u>	<u>57</u>	<u>\$ 54,336,387</u>	<u>60</u>
Purchases				
WaferTech	\$ 7,505,754	35	\$ 4,669,299	32
VIS	4,247,055	19	2,286,535	16
SSMC	<u>3,050,439</u>	<u>14</u>	<u>2,676,309</u>	<u>19</u>
	<u>\$ 14,803,248</u>	<u>68</u>	<u>\$ 9,632,143</u>	<u>67</u>
Manufacturing expenses—technical assistance fee (see Note 20a)				
Philips	<u>\$ 808,072</u>	<u>1</u>	<u>\$ 1,493,877</u>	<u>3</u>
Marketing expenses—commission				
TSMC—Japan	\$ 139,243	14	\$ 63,642	10
TSMC—Europe	<u>105,175</u>	<u>11</u>	<u>47,577</u>	<u>7</u>
	<u>\$ 244,418</u>	<u>25</u>	<u>\$ 111,219</u>	<u>17</u>
Sale of property, plant, and equipment				
VIS	<u>\$ 32,960</u>	<u>13</u>	<u>\$ 8,098</u>	<u>6</u>
Non-operating income and gain				
SSMC (mainly technical service income, see Note 20e)	\$ 149,362	5	\$ 54,811	6
VIS	29,763	1	271	-
WaferTech	<u>2,076</u>	<u>-</u>	<u>81</u>	<u>-</u>
	<u>\$ 181,201</u>	<u>6</u>	<u>\$ 55,163</u>	<u>6</u>
<u>At end of the period</u>				
Receivables				
TSMC—North America	\$ 17,029,287	94	\$ 14,490,662	96
Philips and its affiliates	922,713	5	508,535	3
Others	<u>178,742</u>	<u>1</u>	<u>187,793</u>	<u>1</u>
	<u>\$ 18,130,742</u>	<u>100</u>	<u>\$ 15,186,990</u>	<u>100</u>

(Continued)

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

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

19. SIGNIFICANT LONG-TERM OPERATING LEASES

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

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

<u>Year</u>	<u>Amount</u>
2004 (3rd to 4th quarter)	\$ 117,674
2005	235,348
2006	235,348
2007	235,348
2008	210,687
2009 and thereafter	<u>1,617,858</u>
	<u>\$2,652,263</u>

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

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

- i. In November 2002, the Company entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Motorola, Inc. and STMicroelectronics to jointly develop 90-nanometer to 65-nanometer advanced CMOS Logic and e-DRAM technologies. The Company also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. The Company will contribute process technologies and share a portion of the costs associated with this joint development project.
- j. In December 2003, the Company entered into a Technology Development and License Agreement with Motorola Inc. to jointly develop 65nm SOI (silicon on insulator) technology. The Company will also license related 90nm SOI technology from Motorola. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company will pay royalty to Motorola, Inc. and will share a portion of the costs associated with the joint development project.
- k. In December 2003, the Company filed a lawsuit in the US District Court for the Northern District of California against Semiconductor Manufacturing International Corporation (SMIC) and certain of its subsidiaries for patent infringement seeking injunctive relief and monetary damages. In May 2004, the Company filed a separate suit against SMIC and certain of its subsidiaries in Alameda County of California for trade secret misappropriation seeking injunctive relief and monetary damages. The probable outcome in either forum cannot be reasonably estimated.
- l. Amounts available under unused letters of credit as of June 30, 2004 were NT\$6,480 thousand, US\$15 thousand and SG\$85 thousand.

21. ADDITIONAL DISCLOSURES

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

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

j. Financial instrument transactions:

1) Derivative financial instruments

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

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

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

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

b) Interest rate swaps

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

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

c) Transaction risk

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

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

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

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

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

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

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

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

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

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

Fair values of financial instruments were determined as follows:

- 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.
- The fair value of bonds payable is the quoted market value.

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

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

k. Information on investment in mainland china

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

**FINANCING PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Type of Financing (Note 1)	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	\$ 337,750 (US\$ 10,000)	\$ 337,750 (US\$ 10,000)	4.00%	2	\$ -	Operating capital	\$ -	-	\$ -	N/A	\$ 33,368,627 (US\$ 987,968) (Note 2)
		TSMC Development	Other receivables	2,026,500 (US\$ 60,000)	2,026,500 (US\$ 60,000)	1.50%	2	-	Operating capital	-	-	-		
2	TSMC Partners	TSMC Development	Other receivables	2,702,000 (US\$ 80,000)	2,702,000 (US\$ 80,000)	1.50%	2	-	Operating capital	-	-	-	N/A	(Note 3)

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

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

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

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

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousand)	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	The Company	TSMC Development	3	Not exceed 10% of the net worth of the Company, and also limiting to the total capital issued of the endorsement/guarantee company, unless otherwise approved by Board of Directors.	\$ 2,026,500 (US\$ 60,000)	\$ 2,026,500 (US\$ 60,000)	\$ -	0.58%	\$ 87,768,438
		TSMC—North America	2		1,351,000 (US\$ 40,000)	1,351,000 (US\$ 40,000)	-	0.38%	
		WaferTech	3		14,861,000 (US\$ 440,000)	14,861,000 (US\$ 440,000)	-	4.23%	

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

MARKETABLE SECURITIES HELD

JUNE 30, 2004

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004			Market Value or Net Asset Value (US\$ in Thousand)	Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership		
The Company	<u>Government bonds</u>							
	2003 Government Bond Series A	-	Short-term investment	-	\$ 1,207,409	N/A	\$ 1,211,054	
	2002 Government Bond Series J	-	Short-term investment	-	2,023,206	N/A	2,009,878	
	2003 Government Bond Series I	-	Long-term investment	-	3,401,654	N/A	3,430,432	
	2004 Government Bond Series A	-	Long-term investment	-	3,891,458	N/A	3,898,408	
	2004 Government Bond Series E	-	Long-term investment	-	1,600,365	N/A	1,610,748	
	United States Treas NTS	-	Short-term investment	-	US\$ 114,396	N/A	US\$ 114,087	
	<u>Bonds under repurchase agreement</u>	-	Short-term investment	-	3,355,145	N/A	3,371,419	
	<u>Bond funds</u>							
	JF Taiwan Bond Fund	-	Short-term investment	102,364	1,500,000	N/A	1,510,964	
	ABN AMRO Bond Fund	-	Short-term investment	186,363	2,700,000	N/A	2,714,860	
	JF Taiwan First Bond Fund	-	Short-term investment	110,580	1,500,000	N/A	1,504,797	
	INVESCO R.O.C. Bond A Fund	-	Short-term investment	69,692	1,000,000	N/A	1,003,512	
	Dresdner Bond DAM Fund	-	Short-term investment	80,833	900,000	N/A	902,368	
	Barits Bond Fund	-	Short-term investment	59,679	700,000	N/A	701,952	
	Shinkong Chi Shin Bond Fund	-	Short-term investment	115,606	1,600,000	N/A	1,601,928	
	<u>Stock</u>							
	Taiwan Mask Corp.	-	Short-term investment	1,787	6,528	-	30,136	
	TSMC—North America	Subsidiary	Long-term investment	11,000	474,695	100	1,173,288	Treasury stock of NT\$698,593 thousand is deducted from the carrying value.
	TSMC—Europe	Subsidiary	Long-term investment	-	23,764	100	23,764	
	TSMC—Japan	Subsidiary	Long-term investment	6	100,521	100	100,521	
	VIS	Investee	Long-term investment	787,016	4,667,952	28	10,884,427	
	TSMC International	Subsidiary	Long-term investment	987,968	23,708,232	100	23,708,232	
	TSMC Partners	Subsidiary	Long-term investment	300	4,113,671	100	4,113,671	
	SSMC	Investee	Long-term investment	382	3,181,111	32	3,181,111	
	GUC	Investee	Long-term investment	39,040	362,629	47	393,717	
	VisEra	Investee	Long-term investment	5,100	51,825	25	51,825	
	United Industrial Gases Co., Ltd.	-	Long-term investment	16,783	193,584	11	303,367	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	152,570	
	W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	58,433	
Hontung Ventures Capital Co., Ltd.	-	Long-term investment	8,392	83,916	10	60,326		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				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	-	42,990	36	501,554	Treasury stock of NT\$458,564 thousand is deducted from the carrying value.
	Hsin Ruey	Investee	Long-term investment	-	42,673	36	502,185	Treasury stock of NT\$459,512 thousand is deducted from the carrying value.
	<u>Corporate bonds</u>							
	Allstate Finl Global Fdg LLC	-	Short-term investment	-	US\$ 3,171	N/A	US\$ 3,151	
	American Express Cr Corp. Mtn	-	Short-term investment	-	US\$ 3,503	N/A	US\$ 3,506	
	American Gen Fin Corp. Mtn	-	Short-term investment	-	US\$ 6,832	N/A	US\$ 6,809	
	American Honda Fin Corp. Mtn	-	Short-term investment	-	US\$ 7,258	N/A	US\$ 7,253	
	American Intl Group Inc. Mtnf	-	Short-term investment	-	US\$ 3,795	N/A	US\$ 3,810	
	Amsouth Bk Birmingham Ala	-	Short-term investment	-	US\$ 1,972	N/A	US\$ 1,964	
	Bank New York Inc.	-	Short-term investment	-	US\$ 3,945	N/A	US\$ 3,933	
	Bank One Corp.	-	Short-term investment	-	US\$ 3,693	N/A	US\$ 3,691	
	Bear Stearns Cos Inc.	-	Short-term investment	-	US\$ 3,693	N/A	US\$ 3,691	
	Bristol Myers Squibb Co.	-	Short-term investment	-	US\$ 3,805	N/A	US\$ 3,791	
	Cardinal Health Inc.	-	Short-term investment	-	US\$ 3,819	N/A	US\$ 3,819	
	Cargill Inc.	-	Short-term investment	-	US\$ 3,837	N/A	US\$ 3,816	
	Citigroup Inc.	-	Short-term investment	-	US\$ 2,120	N/A	US\$ 2,110	
	Citigroup Inc.	-	Short-term investment	-	US\$ 3,583	N/A	US\$ 3,560	
	Compaq Computer Corp.	-	Short-term investment	-	US\$ 3,719	N/A	US\$ 3,690	
	Consolidated Edison Co NY Inc.	-	Short-term investment	-	US\$ 3,688	N/A	US\$ 3,691	
	Countrywide Fdg Corp. Mtn	-	Short-term investment	-	US\$ 3,688	N/A	US\$ 3,691	
	Credit Suisse Fb USA Inc.	-	Short-term investment	-	US\$ 3,534	N/A	US\$ 3,523	
	Credit Suisse First Boston USA	-	Short-term investment	-	US\$ 2,645	N/A	US\$ 2,627	
	Diageo PLC	-	Short-term investment	-	US\$ 3,177	N/A	US\$ 3,164	
	Fifth Third Bk Cincinnati OH	-	Short-term investment	-	US\$ 3,459	N/A	US\$ 3,458	
	General Elec Cap Corp. Mtn	-	Short-term investment	-	US\$ 2,419	N/A	US\$ 2,447	
	Genworth Finl Inc.	-	Short-term investment	-	US\$ 3,507	N/A	US\$ 3,502	
	Goldman Sachs Group LP	-	Short-term investment	-	US\$ 2,000	N/A	US\$ 1,998	
	Goldman Sachs Group LP	-	Short-term investment	-	US\$ 3,820	N/A	US\$ 3,790	
	Hershey Foods Corp.	-	Short-term investment	-	US\$ 1,100	N/A	US\$ 1,089	
	Hewlett Packard Co.	-	Short-term investment	-	US\$ 1,627	N/A	US\$ 1,622	
	Honeywell Inc.	-	Short-term investment	-	US\$ 3,373	N/A	US\$ 3,345	
	Household Fin Corp.	-	Short-term investment	-	US\$ 3,284	N/A	US\$ 3,266	
	Huntington Natl Bk	-	Short-term investment	-	US\$ 7,254	N/A	US\$ 7,218	
	Huntington Natl Bk Columbus	-	Short-term investment	-	US\$ 3,003	N/A	US\$ 3,002	
	ING Sec Life Ins Ingsf	-	Short-term investment	-	US\$ 2,954	N/A	US\$ 2,959	
	Intl Bk For Recon + Dev	-	Short-term investment	-	US\$ 3,012	N/A	US\$ 3,008	
	JP Morgan Chase + Co.	-	Short-term investment	-	US\$ 5,232	N/A	US\$ 5,218	
	KFW Intl Fin Inc.	-	Short-term investment	-	US\$ 6,766	N/A	US\$ 6,755	
	Lehman Brothers Hldgs Inc.	-	Short-term investment	-	US\$ 5,104	N/A	US\$ 5,088	
	Monumental Global Fdg II 2002A	-	Short-term investment	-	US\$ 3,417	N/A	US\$ 3,383	
		-	Short-term investment	-	US\$ 2,084	N/A	US\$ 2,086	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Morgan Stanley Group Inc.	-	Short-term investment	-	US\$ 3,712	N/A	US\$ 3,697	
	Morgan Stanley Group Inc.	-	Short-term investment	-	US\$ 2,104	N/A	US\$ 2,104	
	Nationsbank Corp.	-	Short-term investment	-	US\$ 3,644	N/A	US\$ 3,622	
	Nationalwide Bldg Soc	-	Short-term investment	-	US\$ 3,457	N/A	US\$ 3,468	
	Nationwide Life Global Mtn	-	Short-term investment	-	US\$ 3,413	N/A	US\$ 3,413	
	Pepsico Inc Mtn Book Entry	-	Short-term investment	-	US\$ 3,818	N/A	US\$ 3,837	
	Premark Intl Inc.	-	Short-term investment	-	US\$ 2,954	N/A	US\$ 2,922	
	Pricoa Global Fdg I Mtn	-	Short-term investment	-	US\$ 3,507	N/A	US\$ 3,505	
	Principal Life Global Fdg I Gl	-	Short-term investment	-	US\$ 3,168	N/A	US\$ 3,157	
	Protective Life Secd Trs	-	Short-term investment	-	US\$ 2,920	N/A	US\$ 2,942	
	Prudential Ins Co. Amer	-	Short-term investment	-	US\$ 2,648	N/A	US\$ 2,647	
	Salomon Smith Barney Hldgs Inc.	-	Short-term investment	-	US\$ 3,160	N/A	US\$ 3,143	
	SBC Communications Inc.	-	Short-term investment	-	US\$ 3,681	N/A	US\$ 3,667	
	SLM Corp.	-	Short-term investment	-	US\$ 2,498	N/A	US\$ 2,508	
	SLM Corp. Medium Term NTS	-	Short-term investment	-	US\$ 2,950	N/A	US\$ 2,961	
	TIAA Global Mkts Inc.	-	Short-term investment	-	US\$ 3,631	N/A	US\$ 3,627	
	Tribune Co. Med Trm NTS	-	Short-term investment	-	US\$ 2,943	N/A	US\$ 2,959	
	Unitedhealth Group Inc.	-	Short-term investment	-	US\$ 3,119	N/A	US\$ 3,124	
	US Bk Natl Assn Cincinnati OH	-	Short-term investment	-	US\$ 2,669	N/A	US\$ 2,674	
	Viacom Inc.	-	Short-term investment	-	US\$ 6,349	N/A	US\$ 6,315	
	Vodafone Group PLC New	-	Short-term investment	-	US\$ 2,559	N/A	US\$ 2,553	
	Wachovia Corp.	-	Short-term investment	-	US\$ 3,720	N/A	US\$ 3,697	
	Wal Mart Cda Venture Corp.	-	Short-term investment	-	US\$ 3,670	N/A	US\$ 3,649	
	Washington Mut Fin Corp.	-	Short-term investment	-	US\$ 3,725	N/A	US\$ 3,698	
	Wells Fargo + Co. New	-	Short-term investment	-	US\$ 3,697	N/A	US\$ 3,683	
	<u>Agency bonds</u>							
	Federal Home Ln Mtg Corp.	-	Short-term investment	-	US\$ 58,487	N/A	US\$ 58,522	
	Federal Natl Mtg Assn	-	Short-term investment	-	US\$ 78,423	N/A	US\$ 78,149	
	Federal Home Ln Bks	-	Short-term investment	-	US\$ 66,912	N/A	US\$ 66,850	
	Freddie Mac	-	Short-term investment	-	US\$ 4,929	N/A	US\$ 4,942	
	<u>Corporate issued asset—backed securities</u>							
	Americredit Automobile	-	Short-term investment	-	US\$ 6,949	N/A	US\$ 6,893	
	BMW Veh Owner Tr	-	Short-term investment	-	US\$ 4,978	N/A	US\$ 4,967	
	Capital One Auto Fin Tr	-	Short-term investment	-	US\$ 3,000	N/A	US\$ 2,996	
	Daimlerchrysler Auto Tr	-	Short-term investment	-	US\$ 9,879	N/A	US\$ 9,868	
	Fifth Third Auto Tr	-	Short-term investment	-	US\$ 3,000	N/A	US\$ 3,006	
	Ford Cr Auto Owner Tr	-	Short-term investment	-	US\$ 10,999	N/A	US\$ 10,979	
	GS Auto Ln Tr	-	Short-term investment	-	US\$ 2,948	N/A	US\$ 2,970	
	Honda Auto Receivables	-	Short-term investment	-	US\$ 5,000	N/A	US\$ 5,012	
	National City Auto Receivables	-	Short-term investment	-	US\$ 1,206	N/A	US\$ 1,204	
	Navistar Finl 2003 A Owner Tr	-	Short-term investment	-	US\$ 4,928	N/A	US\$ 4,908	
	Nissan Auto Receivables Own Tr	-	Short-term investment	-	US\$ 9,852	N/A	US\$ 9,861	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	ONYX Accep Owner Tr	-	Short-term investment	-	US\$ 4,913	N/A	US\$ 4,872	
	Toyota Auto Receivables 2003 B	-	Short-term investment	-	US\$ 4,970	N/A	US\$ 4,935	
	Triad Auto Receivables Tr	-	Short-term investment	-	US\$ 5,042	N/A	US\$ 5,027	
	Wachovia Auto Owner Tr	-	Short-term investment	-	US\$ 10,999	N/A	US\$ 10,998	
	WFS Financial Owner Trust	-	Short-term investment	-	US\$ 5,008	N/A	US\$ 5,002	
	Capital One Master Tr	-	Short-term investment	-	US\$ 3,093	N/A	US\$ 3,087	
	Capital One Secd NT Tr	-	Short-term investment	-	US\$ 5,032	N/A	US\$ 5,031	
	Citibank Cr Card Issuance Tr	-	Short-term investment	-	US\$ 4,959	N/A	US\$ 4,968	
	First USA Credit Cr Master Tr	-	Short-term investment	-	US\$ 5,011	N/A	US\$ 5,009	
	GE Cap Cr Card Master NT Tr	-	Short-term investment	-	US\$ 4,000	N/A	US\$ 4,000	
	Aesop Fdg II LLC	-	Short-term investment	-	US\$ 4,955	N/A	US\$ 4,962	
	Atlantic City Elc Trns Fdg LLC	-	Short-term investment	-	US\$ 1,045	N/A	US\$ 1,045	
	California Infr + Economic Dev	-	Short-term investment	-	US\$ 8,016	N/A	US\$ 8,042	
	California Infrs + Economic Dev	-	Short-term investment	-	US\$ 1,079	N/A	US\$ 1,077	
	California Infrastructure Dev	-	Short-term investment	-	US\$ 6,701	N/A	US\$ 6,717	
	Caterpillar Finl Asset Tr	-	Short-term investment	-	US\$ 4,999	N/A	US\$ 4,967	
	Centex Home Equity Ln Tr	-	Short-term investment	-	US\$ 3,500	N/A	US\$ 3,492	
	CIT Equip Coll Tr	-	Short-term investment	-	US\$ 4,999	N/A	US\$ 5,004	
	GS Mtg Secs Corp	-	Short-term investment	-	US\$ 4,000	N/A	US\$ 4,000	
	Monumentl Global Fdg II	-	Short-term investment	-	US\$ 3,500	N/A	US\$ 3,500	
	Permanent Fing No 1 PLC	-	Short-term investment	-	US\$ 5,102	N/A	US\$ 5,076	
	Providian Gateway Owner Tr	-	Short-term investment	-	US\$ 4,204	N/A	US\$ 4,199	
	Reliant Energy Transition Bd	-	Short-term investment	-	US\$ 5,185	N/A	US\$ 5,141	
	TXU Elec Delivery Transition	-	Short-term investment	-	US\$ 3,982	N/A	US\$ 3,930	
	World Omni Auto Receivables Tr	-	Short-term investment	-	US\$ 5,000	N/A	US\$ 5,000	
	Banc Amer Mtg Secs Inc.	-	Short-term investment	-	US\$ 4,030	N/A	US\$ 4,019	
	Citicorp Mtg Secs	-	Short-term investment	-	US\$ 2,941	N/A	US\$ 2,952	
	Cwmb Inc.	-	Short-term investment	-	US\$ 2,968	N/A	US\$ 2,915	
	First Union Lehman Bros Mtg Tr	-	Short-term investment	-	US\$ 4,177	N/A	US\$ 4,137	
	Holmes Fing No 8 PLC	-	Short-term investment	-	US\$ 5,001	N/A	US\$ 5,044	
	<u>Equity</u>							
	Crimson Asia Capital Ltd., L.P.	-	Long-term investment	-	37,392	N/A	37,392	
	Horizon Venture Fund I, L.P.	-	Long-term investment	-	246,485	N/A	246,485	
TSMC—North America	<u>Stock</u>							
	TSMC	Parent company	Short-term investment	14,600	698,593	-	713,655	
Chi Cherng	<u>Stock</u>							
	TSMC	Parent company	Short-term investment	15,670	458,564	-	765,967	
	<u>Certificate</u>							
	Hsin Ruey	Major shareholder	Long-term investment	-	903,612	64	903,612	
Hsin Ruey	<u>Stock</u>							
	TSMC	Parent company	Short-term investment	15,700	459,512	-	767,402	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
TSMC International	<u>Certificate</u> Chi Cherng	Major shareholder	Long-term investment	-	\$ 902,821	64	\$ 902,821	
	<u>Stock</u> InveStar	Subsidiary	Long-term investment	45,000	US\$ 51,447	97	US\$ 51,447	
	InveStar II	Subsidiary	Long-term investment	51,300	US\$ 36,923	97	US\$ 36,923	
	TSMC Development	Subsidiary	Long-term investment	1	US\$ 567,256	100	US\$ 567,256	
	TSMC Technology	Subsidiary	Long-term investment	1	(US\$ 8,029)	100	(US\$ 8,029)	
	3DFX Interactive Inc.	-	Long-term investment	68	-	-	-	
TSMC Development	<u>Money market fund</u> BOA Fund	-	Short-term investment	30,300	US\$ 30,300	N/A	US\$ 30,300	
	<u>Stock</u> WaferTech	Subsidiary	Long-term investment	-	US\$ 410,009	99	US\$ 410,009	
InveStar	<u>Common stock</u> PLX Technology, Inc.	-	Short-term investment	40	US\$ 77	-	US\$ 620	
	RichTek Technology Corp.	-	Short-term investment	619	US\$ 79	2	US\$ 2,158	
	Atheros Communications, Inc.	-	Short-term investment	1,205	US\$ 3,593	-	US\$ 14,576	
	Advanced Power Electronics Corp.	-	Short-term investment	843	US\$ 439	-	US\$ 908	
	Broadtek Electronics Corp.	-	Short-term investment	869	US\$ 275	1	US\$ 321	
	Programmable Microelectronics (Taiwan), Corp.	-	Long-term investment	575	US\$ 204	1	US\$ 204	
	Broadtek Electronics Corp.	-	Long-term investment	145	US\$ 44	2	US\$ 54	
	Global Testing Corp.	-	Long-term investment	13,268	US\$ 5,328	9	US\$ 5,328	
	RichTek Technology Corp.	-	Long-term investment	1,053	US\$ 129	-	US\$ 3,672	
	Signia Technologies, Inc.	-	Long-term investment	701	US\$ 208	3	US\$ 208	
	Incentia Design Systems, Inc.	-	Long-term investment	365	US\$ 91	1	US\$ 91	
	Advanced Power Electronics Corp.	-	Long-term investment	1,123	US\$ 533	-	US\$ 1,208	
	Capella Microsystems (Taiwan), Inc.	-	Long-term investment	530	US\$ 157	4	US\$ 157	
	<u>Preferred stock</u> SiRF Technology Holdings, Inc.	-	Short-term investment	306	US\$ 1,333	1	US\$ 4,275	
	Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$ 1,221	12	US\$ 1,221	
	Sensory, Inc.	-	Long-term investment	1,404	US\$ 125	5	US\$ 125	
	Sonics, Inc.	-	Long-term investment	2,686	US\$ 3,530	4	US\$ 3,530	
	NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$ 853	2	US\$ 853	
	Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$ 2,000	11	US\$ 2,000	
	Memsic, Inc.	-	Long-term investment	2,727	US\$ 1,500	10	US\$ 1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$ 741	3	US\$ 741	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$ 150	9	US\$ 150	
	Oridus, Inc. (CreOsys, Inc.)	-	Long-term investment	1,500	US\$ 300	8	US\$ 300	
IP Unity	-	Long-term investment	1,008	US\$ 494	2	US\$ 494		
Tropian, Inc.	-	Long-term investment	1,758	US\$ 940	3	US\$ 940		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
InveStar II	<u>Common stock</u>							
	RichTek Technology Corp.	-	Short-term investment	290	US\$ 216	-	US\$ 1,013	
	eChannel Option Holding, Inc.	-	Long-term investment	358	US\$ 251	-	US\$ 251	
	eLCOS Microdisplay Technology, Ltd.	-	Long-term investment	270	US\$ 27	-	US\$ 27	
	Signia Technologies (Taiwan), Inc.	-	Long-term investment	351	US\$ 101	1	US\$ 101	
	Procoat Technology, Inc.	-	Long-term investment	4,165	US\$ 1,940	10	US\$ 1,940	
	RichTek Technology Corp.	-	Long-term investment	494	US\$ 367	-	US\$ 1,387	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	177	US\$ 50	-	US\$ 50	
	Auden Technology MFG. Co., Ltd.	-	Long-term investment	953	US\$ 738	4	US\$ 738	
	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 Corporation, Ltd.	-	Long-term investment	2,800	US\$ 979	14	US\$ 979	
	EON Technology, Corp.	-	Long-term investment	3,276	US\$ 1,179	8	US\$ 1,179	
	Goya Technology, Corp.	-	Long-term investment	2,088	US\$ 545	8	US\$ 545	
	Trendchip Technologies Corp.	-	Long-term investment	2,000	US\$ 861	5	US\$ 861	
	Ralink Technology (Taiwan), Inc.	-	Long-term investment	1,833	US\$ 791	4	US\$ 791	
	Silicon Data, Inc.	-	Long-term investment	2,000	US\$ 204	5	US\$ 204	
	Capella Microsystems (Taiwan), Inc.	-	Long-term investment	419	US\$ 122	3	US\$ 122	
	<u>Preferred stock</u>							
	SiRF Technology Holding, Inc.	-	Short-term investment	20	US\$ 131	-	US\$ 282	
	Memsic, Inc.	-	Long-term investment	2,289	US\$ 1,560	8	US\$ 1,560	
	OEpic, Inc.	-	Long-term investment	4,997	US\$ 1,317	8	US\$ 1,317	
	NanoAmp Solutions, Inc.	-	Long-term investment	375	US\$ 1,500	2	US\$ 1,500	
	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\$ 241	9	US\$ 241	
	Reflectivity, Inc.	-	Long-term investment	4,255	US\$ 2,205	8	US\$ 2,205	
	Tropian, Inc.	-	Long-term investment	1,464	US\$ 783	2	US\$ 783	
	Match Lab, Inc.	-	Long-term investment	313	US\$ 25	2	US\$ 25	
	Kilopass Technology, Inc.	-	Long-term investment	3,887	US\$ 2,000	19	US\$ 2,000	
	eLCOS Microdisplay Technology, Ltd.	-	Long-term investment	2,667	US\$ 3,500	15	US\$ 3,500	
	FangTek, Inc.	-	Long-term investment	6,806	US\$ 3,250	34	US\$ 3,250	
Alchip Technologies, Ltd.	-	Long-term investment	2,125	US\$ 1,700	23	US\$ 1,700		
Emerging Alliance	<u>Common stock</u>							
	Global Investment Holding, Inc.	-	Long-term investment	10,000	100,000	6	100,000	
	RichWave Technology Corp.	-	Long-term investment	2,600	US\$ 867	13	US\$ 867	
	<u>Preferred stock</u>							
	Quake Technologies, Inc.	-	Long-term investment	601	US\$ 450	1	US\$ 450	
	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	7,446	US\$ 3,125	3	US\$ 3,125		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Quicksilver Technology, Inc.	-	Long-term investment	1,049	US\$ 2,011	4	US\$ 2,011	
	Mosaic Systems, Inc.	-	Long-term investment	2,481	US\$ 12	6	US\$ 12	
	Zenesis Technologies, Inc.	-	Long-term investment	861	US\$ 500	4	US\$ 500	
	Reflectivity, Inc.	-	Long-term investment	4,848	US\$ 2,479	6	US\$ 2,479	
	Iridigm Display, Co.	-	Long-term investment	254	US\$ 500	1	US\$ 500	
	Miriadia, Inc. (formerly XHP Microsystems, Inc.)	-	Long-term investment	3,040	US\$ 1,000	7	US\$ 1,000	
	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	
	Centrality Communications, Inc.	-	Long-term investment	809	US\$ 1,000	2	US\$ 1,000	
	Layer N Networks, Inc.	-	Long-term investment	1,905	US\$ 1,000	2	US\$ 1,000	
VTAF II	<u>Preferred stock</u>							
	Powerprecise Solutions, Inc.	-	Long-term investment	258	US\$ 250	3	US\$ 250	
	Iridigm Display, Co.	-	Long-term investment	163	US\$ 325	-	US\$ 325	
GUC	<u>Bond funds</u>							
	Grand Cathay	-	Short-term investment	3,213	40,271	N/A	40,274	
	TIIM	-	Short-term investment	2,595	35,519	N/A	35,523	
	Polaris Fu-Li	-	Short-term investment	2,204	22,640	N/A	22,642	
	EnTrust Kirin	-	Short-term investment	2,106	22,516	N/A	22,518	
	E. Sun New Era	-	Short-term investment	1,920	20,144	N/A	20,146	
	Jih Sun	-	Short-term investment	1,525	20,116	N/A	20,118	
	EnTrust Phoenix	-	Short-term investment	1,399	20,382	N/A	20,383	
	Mega Diamond	-	Short-term investment	1,281	14,220	N/A	14,221	
	Sheng Hua 1699	-	Short-term investment	1,009	12,107	N/A	12,108	
	Sheng Hua 5599	-	Short-term investment	931	10,086	N/A	10,087	
	Ta-Hua GC Dollar	-	Short-term investment	39	13,691	N/A	13,819	
	Taiwan Security Argent	-	Short-term investment	22	102,694	N/A	105,016	
	<u>Stock funds</u>							
	TIIM DaLi	-	Short-term investment	296	5,000	N/A	4,559	
	President Tung Hsin	-	Short-term investment	211	3,005	N/A	2,830	
	<u>Stock</u>							
	Global Unichip Corporation-North America	Subsidiary	Long-term investment	100	3,444	100	3,444	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of 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)	
The Company	<u>Money market funds</u>														
	BOA Fund	Short-term investment	BOA	-	40,000	\$ 1,359,120 (US\$ 40,000)	-	\$ -	40,000	\$ 1,359,120 (US\$ 40,000)	\$ 1,359,120 (US\$ 40,000)	\$ -	-	\$ -	
	GS Fund	Short-term investment	Goldman Sachs	-	20,000	679,560 (US\$ 20,000)	-	-	20,000	679,560 (US\$ 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	68,021	1,000,000	-	-	-	-	-	102,364	1,500,000
	ABN AMRO Bond Fund	Short-term investment	ABN AMRO	-	34,794	500,000	151,569	2,200,000	-	-	-	-	-	186,363	2,700,000
	JF Taiwan First Bond Fund	Short-term investment	JF Asset Management (Taiwan) Ltd.	-	-	-	110,580	1,500,000	-	-	-	-	-	110,580	1,500,000
	INVESCO R.O.C Bond A Fund	Short-term investment	INVESCO Asset Management Taiwan	-	-	-	69,692	1,000,000	-	-	-	-	-	69,692	1,000,000
	Dresdner Bond DAM Fund	Short-term investment	Allianz Dresdner Securities Investment Consulting Co., Ltd.	-	-	-	80,833	900,000	-	-	-	-	-	80,833	900,000
	Barits Bond Fund	Short-term investment	Barits Securities Investment Trust Co., Ltd.	-	-	-	59,679	700,000	-	-	-	-	-	59,679	700,000
	Shinkong Chi Shin Bond Fund	Short-term investment	Shinkong Investment Trust Co., Ltd.	-	-	-	115,606	1,600,000	-	-	-	-	-	115,606	1,600,000
	<u>Bonds under repurchase agreement</u>	Short-term investment	Chung Shing Bills Finance Corp. and several financial institutions	-	-	1,800,000	-	2,577,163	-	1,022,018	1,022,018	-	-	-	3,355,145
	<u>Government bonds</u>														
	1994 Government Bond Series C	Short-term investment	Chung Shing Bills Finance Corp. and several financial institutions	-	-	1,422,197	-	-	-	1,427,762	1,422,197	5,565	-	-	-
	2002 Government Bond Series A	Short-term investment	BNP and several financial institutions	-	-	3,157,331	-	-	-	3,169,750	3,157,331	12,419	-	-	-
	2002 Government Bond Series E	Short-term investment	BNP and several financial institutions	-	-	3,113,066	-	-	-	3,133,875	3,113,066	20,809	-	-	-
	2002 Government Bond Series J	Short-term investment	BNP and several financial institutions	-	-	-	-	2,023,206	-	-	-	-	-	-	2,023,206
	2003 Government Bond Series A	Short-term investment	BNP and several financial institutions	-	-	-	-	1,207,409	-	-	-	-	-	-	1,207,409
	2003 Government Bond Series I	Long-term investment	FCB and several financial institutions	-	-	-	-	3,418,984	-	-	-	-	-	-	3,401,654
	2004 Government Bond Series A	Long-term investment	China Bills Finance Corp. and several financial institutions	-	-	-	-	1,600,467	-	-	-	-	-	-	1,600,365
	2004 Government Bond Series E	Long-term investment	BNP and several financial institutions	-	-	-	-	3,890,925	-	-	-	-	-	-	3,891,458
	United States Treas NTS	Short-term investment	-	-	-	-	-	US\$269,539	-	US\$154,304	US\$155,123	(US\$ 819)	-	-	US\$114,396
	<u>Corporate bonds</u>														
	Allstate Finl Global Fdg LLC	Short-term investment	-	-	-	-	-	US\$ 3,171	-	-	-	-	-	-	US\$ 3,171
	American Express Cr Corp. Mtn	Short-term investment	-	-	-	-	-	US\$ 3,503	-	-	-	-	-	-	US\$ 3,503
	American Gen Fin Corp. Mtn	Short-term investment	-	-	-	-	-	US\$ 6,832	-	-	-	-	-	-	US\$ 6,832
	American Honda Fin Corp. Mtn	Short-term investment	-	-	-	-	-	US\$ 7,258	-	-	-	-	-	-	US\$ 7,258
	American Intl Group Inc. Mtnf	Short-term investment	-	-	-	-	-	US\$ 3,795	-	-	-	-	-	-	US\$ 3,795
	Bank New York Inc.	Short-term investment	-	-	-	-	-	US\$ 3,945	-	-	-	-	-	-	US\$ 3,945
	Bank One Corp.	Short-term investment	-	-	-	-	-	US\$ 3,693	-	-	-	-	-	-	US\$ 3,693
	Bear Stearns Cos Inc.	Short-term investment	-	-	-	-	-	US\$ 3,805	-	-	-	-	-	-	US\$ 3,805
	Bristol Myers Squibb Co.	Short-term investment	-	-	-	-	-	US\$ 3,819	-	-	-	-	-	-	US\$ 3,819
Cardinal Health Inc.	Short-term investment	-	-	-	-	-	US\$ 3,837	-	-	-	-	-	-	US\$ 3,837	
Citigroup Inc.	Short-term investment	-	-	-	-	-	US\$ 3,583	-	-	-	-	-	-	US\$ 3,583	
Compaq Computer Corp.	Short-term investment	-	-	-	-	-	US\$ 3,719	-	-	-	-	-	-	US\$ 3,719	
Consolidated Edison Co. NY Inc.	Short-term investment	-	-	-	-	-	US\$ 3,688	-	-	-	-	-	-	US\$ 3,688	
Countrywide Fdg Corp. Mtn	Short-term investment	-	-	-	-	-	US\$ 3,534	-	-	-	-	-	-	US\$ 3,534	

(Continued)

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)
	Nissan Auto Receivables Owner	Short-term investment	-	-	-	\$ -	-	US\$ 9,852	-	\$ -	\$ -	\$ -	-	US\$ 9,852
	ONYX Accep Owner Tr	Short-term investment	-	-	-	-	-	US\$ 4,913	-	-	-	-	-	US\$ 4,913
	Permanent Fing No 1 PLC	Short-term investment	-	-	-	-	-	US\$ 5,102	-	-	-	-	-	US\$ 5,102
	Providian Gateway Owner Tr	Short-term investment	-	-	-	-	-	US\$ 4,204	-	-	-	-	-	US\$ 4,204
	Reliant Energy Transition Bd	Short-term investment	-	-	-	-	-	US\$ 5,185	-	-	-	-	-	US\$ 5,185
	TXU Elec Delivery Transition	Short-term investment	-	-	-	-	-	US\$ 3,982	-	-	-	-	-	US\$ 3,982
	Toyota Auto Receivables 2003 B	Short-term investment	-	-	-	-	-	US\$ 4,970	-	-	-	-	-	US\$ 4,970
	Triad Auto Receivables Tr	Short-term investment	-	-	-	-	-	US\$ 5,042	-	-	-	-	-	US\$ 5,042
	WFS Financial Owner Trust	Short-term investment	-	-	-	-	-	US\$ 5,008	-	-	-	-	-	US\$ 5,008
	Wachovia Auto Owner Tr	Short-term investment	-	-	-	-	-	US\$ 10,999	-	-	-	-	-	US\$ 10,999
	World Omni Auto Receivables Tr	Short-term investment	-	-	-	-	-	US\$ 5,000	-	-	-	-	-	US\$ 5,000
	Banc Amer Mtg Secs Inc.	Short-term investment	-	-	-	-	-	US\$ 4,030	-	-	-	-	-	US\$ 4,030
	Cwmbs Inc.	Short-term investment	-	-	-	-	-	US\$ 3,128	-	158	160	(2)	-	US\$ 2,968
	First Union Lehman Bros Mtg	Short-term investment	-	-	-	-	-	US\$ 4,177	-	-	-	-	-	US\$ 4,177
	Holmes Fing No 8 PLC	Short-term investment	-	-	-	-	-	US\$ 5,001	-	-	-	-	-	US\$ 5,001
InveStar	<u>Common stock</u> RichTek Technology Corp.	Short-term investment	-	-	947	US\$ 121	-	-	726	US\$ 4,393	US\$ 92	US\$ 4,301	221	US\$ 29
InveStar II	<u>Common stock</u> RichTek Technology Corp.	Short-term investment	-	-	465	US\$ 346	-	-	455	US\$ 2,781	US\$ 338	US\$ 2,443	10	US\$ 8

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2004

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

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			
The Company	Fab 12	April 21, 2004	\$ 1,484,370	By the construction progress	IDC Taiwan, Inc., Taiwan Branch (U.S.A)	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	April 21, 2004	420,168	By the construction progress	CHRIST AG	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	April 22, 2004	224,800	By the construction progress	ALLIS ELECTRIC CO., LTD.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	May 12, 2004	340,307	By the construction progress	United Industry gas Corp., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	May 12, 2004	116,181	By the construction progress	United Industry gas Corp., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	May 12, 2004	133,092	By the construction progress	BOC EDWARDS, CMS	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 12	June 17, 2004	165,208	By the construction progress	Organo Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 2004

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Company	TSMC—North America	Subsidiary	Sales	\$ 68,191,878	55	Net 30 days from invoice date	None	None	\$ 17,029,287	49	
	Philips and its affiliates	Major shareholder	Sales	2,712,508	2	Net 30 days from invoice date	None	None	922,713	3	
	GUC	Investee	Sales	182,084	-	30 days after monthly closing	None	None	83,097	-	
	WaferTech	Subsidiary	Purchases	7,505,753	35	Net 30 days from invoice date	None	None	(1,296,351)	11	
	VIS	Investee	Purchases	4,247,055	19	Net 30 days from invoice date	None	None	(1,844,800)	15	
	SSMC	Investee	Purchases	3,050,439	14	Net 30 days from invoice date	None	None	(685,240)	6	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

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

JUNE 30, 2004

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

JUNE 30, 2004

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)	Note
				June 30, 2004	December 31, 2003	Shares (Thousand)	Percentage of Ownership	Carrying Value (Note 1)			
The Company	TSMC—North America	San Jose, California, U.S.A.	Marketing and engineering support	\$ 333,178	\$ 333,178	11,000	100	\$ 474,695	\$ 46,551	\$ 44,892	Subsidiary
	TSMC—Europe	Amsterdam, the Netherlands	Marketing and engineering support	15,749	15,749	-	100	23,764	137	137	Subsidiary
	TSMC—Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760	6	100	100,521	618	618	Subsidiary
	TSMC—Shanghai	Shanghai, China	IC and other wafer equipment manufacturing and marketing	1,890,952	1,890,952	-	100	1,758,405	(130,485)	(130,485)	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC design and manufacturing	8,119,816	8,119,816	787,016	28	4,667,952	2,020,305	580,383	Investee
	TSMC International	Tortola, British Virgin Islands	Investment	31,445,780	31,445,780	987,968	100	23,708,232	1,165,007	1,165,007	Subsidiary
	Chi Cherng	Taipei, Taiwan	Investment	300,000	300,000	-	36	42,990	138	49	Investee
	Hsin Ruey	Taipei, Taiwan	Investment	300,000	300,000	-	36	42,673	1,868	667	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	4,113,671	21,108	21,108	Subsidiary
	SSMC	Singapore	Wafer manufacturing	6,408,190	6,408,190	382	32	3,181,111	1,354,964	433,588	Investee
	Emerging Alliance	Cayman Islands	Investment	1,447,957	1,179,690	-	99	912,982	(56,086)	(55,805)	Subsidiary
	GUC	Hsin-Chu, Taiwan	IC research, development, manufacturing, testing and marketing	409,920	409,920	39,040	47	362,629	(21,684)	(5,820)	Investee
	VisEra	Hsin-Chu, Taiwan	Electronic spare parts manufacturing, material wholesaling and retailing	51,000	51,000	5,100	25	51,825	6,378	1,595	Investee
	VTAF II	Cayman Islands	Investment	164,701	-	-	98	165,190	(311)	(1,968)	Subsidiary

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

INFORMATION OF INVESTMENT IN MAINLAND CHINA

JUNE 30, 2004

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (RMB in Thousand)	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2004 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2004 (US\$ in Thousand)	Percentage of Ownership in Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2004	Accumulated Inward Remittance of Earnings as of June 30, 2004
					Outflow	Inflow					
TSMC (Shanghai) Company Limited	IC and other wafer equipment manufacturing and marketing	\$1,890,952 RMB463,512	(Note 1)	\$1,890,952 US\$56,000	\$ -	\$ -	\$1,890,952 US\$56,000	100%	(\$ 130,485)	\$ 1,758,405	\$ -

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

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

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