

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

March 31, 2004

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE

COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2004

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

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Form 20-F x Form 40-F "

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes " No x

(If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82:_____ .)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Taiwan Semiconductor Manufacturing Company Ltd.

Date: March 25, 2004

By /s/ Lora Ho

Lora Ho

Vice President & Chief Financial Officer

Taiwan Semiconductor Manufacturing Company Ltd.

Financial Statements as of December 31, 2003 and 2002

Together with Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. as of December 31, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China.

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

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

January 12, 2004

Notice to Readers

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

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(In Thousand New Taiwan Dollars, Except Par Value)

| | 2003 | | 2002 | |
|--|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 98,288,002 | 25 | \$ 61,656,795 | 16 |
| Short-term investments (Notes 2 and 5) | 12,559,019 | 3 | | |
| Receivables from related parties (Note 18) | 15,000,625 | 4 | 10,183,488 | 3 |
| Notes receivable | 9,893 | | 60,240 | |
| Accounts receivable | 13,907,914 | 4 | 9,495,447 | 3 |
| Allowance for doubtful receivables (Note 2) | (1,016,022) | | (929,864) | |
| Allowance for sales returns and others (Note 2) | (2,126,025) | (1) | (2,363,067) | (1) |
| Other financial assets | 1,081,742 | | 969,669 | |
| Inventories net (Notes 2 and 6) | 10,907,158 | 3 | 10,340,336 | 3 |
| Deferred income tax assets (Notes 2 and 13) | 8,322,000 | 2 | 3,320,000 | 1 |
| Prepaid expenses and other current assets (Notes 2 and 21) | 1,591,966 | | 2,014,361 | 1 |
| Total current assets | 158,526,272 | 40 | 94,747,405 | 26 |
| LONG-TERM INVESTMENTS (Notes 2, 3, 7 and 20) | | | | |
| Equity method | 37,262,237 | 10 | 33,042,029 | 9 |
| Cost method | 432,500 | | 849,666 | |
| Funds | 270,616 | | 237,440 | |
| Prepayment for subscribed stocks | | | 849,360 | |
| Total long-term investments | 37,965,353 | 10 | 34,978,495 | 9 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8 and 18) | | | | |
| Cost | | | | |
| Buildings | 71,277,031 | 18 | 68,488,180 | 18 |
| Machinery and equipment | 332,252,225 | 84 | 303,334,232 | 82 |
| Office equipment | 6,180,495 | 1 | 5,697,828 | 2 |
| | 409,709,751 | 103 | 377,520,240 | 102 |
| Accumulated depreciation | (247,514,312) | (62) | (188,447,604) | (51) |
| Advance payments and construction in progress | 26,091,313 | 6 | 28,119,627 | 8 |
| Net property, plant and equipment | 188,286,752 | 47 | 217,192,263 | 59 |

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| | | | | |
|---|-----------------------------|-------------------|-----------------------------|-------------------|
| GOODWILL (Note 2) | 2,264,536 | 1 | 2,612,926 | 1 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| OTHER ASSETS | | | | |
| Deferred charges net (Notes 2, 9 and 20) | 7,947,331 | 2 | 9,792,490 | 3 |
| Deferred income tax assets (Notes 2 and 13) | 1,070,596 | | 9,712,567 | 2 |
| Refundable deposits (Notes 18 and 20) | 177,379 | | 543,469 | |
| Idle assets (Note 2) | 94,296 | | 339,400 | |
| Assets leased to others (Note 2) | 84,347 | | 87,246 | |
| Miscellaneous | | | 9,250 | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total other assets | 9,373,949 | 2 | 20,484,422 | 5 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| TOTAL ASSETS | \$ 396,416,862 | 100 | \$ 370,015,511 | 100 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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

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

| | 2003 | | 2002 | |
|--|-----------------------|------------|-----------------------|------------|
| | Amount | % | Amount | % |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Payables to related parties (Note 18) | \$ 4,500,140 | 1 | \$ 2,466,998 | 1 |
| Accounts payable | 6,083,876 | 2 | 4,849,234 | 1 |
| Payables to contractors and equipment suppliers | 7,117,884 | 2 | 14,004,383 | 4 |
| Accrued expenses and other current liabilities (Notes 2, 11 and 21) | 7,836,084 | 2 | 5,839,488 | 1 |
| Current portion of bonds (Note 10) | 5,000,000 | 1 | 4,000,000 | 1 |
| Total current liabilities | 30,537,984 | 8 | 31,160,103 | 8 |
| LONG-TERM LIABILITIES | | | | |
| Bonds - net of current portion (Note 10) | 30,000,000 | 7 | 35,000,000 | 10 |
| Other long-term payables (Notes 11 and 20) | 3,300,829 | 1 | 4,281,665 | 1 |
| Total long-term liabilities | 33,300,829 | 8 | 39,281,665 | 11 |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 12) | 2,600,251 | 1 | 2,210,542 | 1 |
| Guarantee deposits (Note 20) | 763,489 | | 1,395,066 | |
| Deferred gain on sales and leaseback (Note 2) | | | 114,928 | |
| Total other liabilities | 3,363,740 | 1 | 3,720,536 | 1 |
| Total liabilities | 67,202,553 | 17 | 74,162,304 | 20 |
| SHAREHOLDERS' EQUITY (Notes 2 and 15) | | | | |
| Capital stock - \$10 par value | | | | |
| Authorized: 24,600,000 thousand shares | | | | |
| Issued: | | | | |
| Common - 20,266,619 thousand shares in 2003 and 18,622,887 thousand shares in 2002 | 202,666,189 | 51 | 186,228,867 | 50 |
| Preferred - 1,300,000 thousand shares | | | 13,000,000 | 4 |
| Capital surplus: | | | | |
| Merger and others (Note 2) | 56,802,829 | 14 | 56,961,753 | 15 |
| Treasury stock (Note 3) | 53,056 | | 43,036 | |
| Retained earnings: | | | | |
| Appropriated as legal reserve | 20,802,137 | 5 | 18,641,108 | 5 |
| Appropriated as special reserve | 68,945 | | | |
| Unappropriated earnings | 50,229,008 | 13 | 22,151,089 | 6 |
| Others: | | | | |
| Unrealized loss on long-term investments (Note 2) | (35) | | (194,283) | |
| Cumulative translation adjustments (Note 2) | 225,408 | | 945,129 | |
| Treasury stock (at cost) - 40,597 thousand shares in 2003 and 42,001 thousand shares in 2002 (Notes 2, 3 and 16) | (1,633,228) | | (1,923,492) | |
| Total shareholders' equity | 329,214,309 | 83 | 295,853,207 | 80 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 396,416,862 | 100 | \$ 370,015,511 | 100 |

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

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

(Continued)

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English Translation of Financial Statements Originally Issued in Chinese

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

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

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

| | | |
|----------------------------|---------------|---------------|
| NET INCOME | \$ 47,337,094 | \$ 21,584,382 |
| EARNINGS PER SHARE | | |
| Basic earnings per share | \$ 2.33 | \$ 1.05 |
| Diluted earnings per share | \$ 2.33 | \$ 1.05 |

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 CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousand New Taiwan Dollars)

| | Capital Stock Issued | | | | Capital Surplus | | | | | | | |
|---|----------------------|---------------|--------------|----------------|-----------------|----------------------------------|--------------------------------------|---|-----------------------------------|-----------|-------|---------------|
| | Preferred stock | | Common stock | | From merger | Additional paid-in capital | From long- term investments | Excess on foreign bond investments | Gain on sales of properties | Treasury | | Total |
| | Shares | | Shares | | | | | | | Donation | stock | |
| | (thousand) | Amount | (thousand) | Amount | | | | | | | | |
| BALANCE, JANUARY 1, 2002 | 1,300,000 | \$ 13,000,000 | 16,832,554 | \$ 168,325,531 | \$ 24,132,297 | \$ 23,172,550 | \$ 246,381 | \$ 9,410,632 | \$ 166,518 | \$ 55 | \$ | \$ 57,128,433 |
| Appropriations of prior year's earnings | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | |
| Bonus to employees' stock | | | 107,078 | 1,070,783 | | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | | |
| Stock dividends 10% | | | 1,683,255 | 16,832,553 | | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | | |
| Net income in 2002 | | | | | | | | | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings | | | | | | | | | | (166,518) | | (166,518) |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | | | | | (162) | | | | | (162) |

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| | | | | | | | | | | | | |
|--|-------------|--------------|----------------|---------------|---------------|------------|--------------|-----------|-------|-----------|---------------|--|
| Unrealized loss on long-term investments from investees | | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | | |
| Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stock | | | | | | | | | | | | |
| Capital surplus resulted from sales of treasury stock | | | | | | | | | | 43,036 | 43,036 | |
| BALANCE, DECEMBER 31, 2002 | 1,300,000 | 13,000,000 | 18,622,887 | 186,228,867 | 24,132,297 | 23,172,550 | 246,219 | 9,410,632 | 55 | 43,036 | 57,004,789 | |
| Redemption and retirement of preferred stock | (1,300,000) | (13,000,000) | | | | | | | | | | |
| Appropriations of prior year's earnings | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | |
| Bonus to employees' stock | | | 153,901 | 1,539,013 | | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | | |
| Stock dividends 8% | | | 1,489,831 | 14,898,309 | | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | | |
| Net income in 2003 | | | | | | | | | | | | |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | | | | | | |
| | | | | | | | | | | (158,924) | (158,924) | |
| Reversal of unrealized loss on long-term investment of investees | | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | | |
| Sale of treasury stock | | | | | | | | | | 10,020 | 10,020 | |
| BALANCE, DECEMBER 31, 2003 | \$ | 20,266,619 | \$ 202,666,189 | \$ 24,132,297 | \$ 23,172,550 | \$ 87,295 | \$ 9,410,632 | \$ | \$ 55 | \$ 53,056 | \$ 56,855,885 | |

| retained earnings | Unrealized Loss on | Cumulative Translation | Treasury Stock | Total Shareholders |
|-------------------|-----------------------|---------------------------|-------------------|-----------------------|
|-------------------|-----------------------|---------------------------|-------------------|-----------------------|

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| | Legal | Special | Unappropriated | Total | Long-term | Adjustments | | Equity |
|---|---------------|------------|----------------|---------------|-------------|--------------|---------------|----------------|
| | reserve | reserve | earnings | | Investments | | | |
| BALANCE, JANUARY 1, 2002 | \$ 17,180,067 | \$ 349,941 | \$ 19,977,402 | \$ 37,507,410 | \$ | \$ 1,228,701 | \$ | \$ 277,190,075 |
| Appropriations of prior year's earnings | | | | | | | | |
| Legal reserve | 1,448,317 | | (1,448,317) | | | | | |
| Special reserve | | (349,941) | 349,941 | | | | | |
| Bonus to employees' stock | | | (1,070,783) | (1,070,783) | | | | |
| Cash dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 10% | | | (16,832,553) | (16,832,553) | | | | |
| Remuneration to directors and supervisors | | | (133,848) | (133,848) | | | | (133,848) |
| Net income in 2002 | | | 21,610,291 | 21,610,291 | | | | 21,610,291 |
| Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings | 12,724 | | 153,794 | 166,518 | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | 162 | 162 | | | | |
| Unrealized loss on long-term investments from investees | | | | | (194,283) | | | (194,283) |
| Translation adjustments | | | | | | (283,572) | | (283,572) |
| Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stock | | | | | | | (1,923,492) | (1,923,492) |
| Capital surplus resulted from sales of treasury stock | | | | | | | | 43,036 |
| BALANCE, DECEMBER 31, 2002 | 18,641,108 | | 22,151,089 | 40,792,197 | (194,283) | 945,129 | (1,923,492) | 295,853,207 |
| Redemption and retirement of preferred stock | | | | | | | | (13,000,000) |
| Appropriations of prior year's earnings | | | | | | | | |
| Legal reserve | 2,161,029 | | (2,161,029) | | | | | |
| Special reserve | | 68,945 | (68,945) | | | | | |
| Bonus to employees' stock | | | (1,539,013) | (1,539,013) | | | | |
| Cash dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 8% | | | (14,898,309) | (14,898,309) | | | | |
| Remuneration to directors and supervisors | | | (58,485) | (58,485) | | | | (58,485) |
| Net income in 2003 | | | 47,258,700 | 47,258,700 | | | | 47,258,700 |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | | (158,924) |
| Reversal of unrealized loss on long-term investment of investees | | | | | 194,248 | | | 194,248 |
| Translation adjustments | | | | | | (719,721) | | (719,721) |
| Sale of treasury stock | | | | | | | 290,264 | 300,284 |
| BALANCE, DECEMBER 31, 2003 | \$ 20,802,137 | \$ 68,945 | \$ 50,229,008 | \$ 71,100,090 | (\$35) | \$ 225,408 | (\$1,633,228) | \$ 329,214,309 |

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

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

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousand New Taiwan Dollars)

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

(Continued)

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English Translation of Financial Statements Originally Issued in Chinese

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

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

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

(Concluded)

English Translation of Financial Statements Originally Issued in Chinese

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as follows:

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

Government bonds under repurchase agreements acquired with maturities less than three months from the date of purchase are classified as cash equivalents.

Short-term Investments

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

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

The market values of government bonds are determined using the daily-volume- weighted-average yield/price conversion. The market value of funds are determined using the net asset value of the funds, and the market value of listed stocks are determined using the average-closing price for the last month of the period.

Allowance for Doubtful Receivables

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

Revenue Recognition and Allowance for Sales Returns and Others

The four criteria used by the Company to recognize revenue are determining if there is a contractual arrangement, whether delivery or performance has occurred, whether the selling price is fixed or determinable and whether collectibility is reasonably assured. Allowance for sales returns and others is estimated based on historical experience and any known factors that would affect the allowance. Such provisions are deducted from sales in the year the products are sold and the estimated related costs are deducted from cost of sales.

Sales are determined using the fair value taking into account related sales discounts agreed by the Company and its customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period. Market value represents net realizable value for finished goods and work in process. Replacement value represents net realizable value for raw materials, supplies and spare parts. Scrap and slow-moving items are recognized in allowance for losses.

Long-term Investments

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method. The Company's proportionate share in the net income or net loss of investee companies is recognized as components of the investment income/loss recognized by equity method net account. When acquiring shares of stock, the difference between the cost of investment and the Company's proportionate share of investee's net book value is amortized using straight-line method over five years, and is also recorded as a component of the investment income/loss recognized by equity method net . The Company adopted Statements of Financial Accounting Standards (SFAS) No. 30, Accounting for Treasury Stock on January 1, 2002. SFAS No. 30 requires a parent company to reclassify its capital stock held by its subsidiaries from short/long-term investments to treasury stock.

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to capital surplus as well as the long-term investments accounts. In the event an investee uses its capital surplus, excluding any reserve for asset revaluation, to offset its accumulated deficit, the Company will record a corresponding entry equivalent to its proportionate share of the investee's adjustment. If an investee's functional currency is a foreign currency, cumulative translation adjustments will result from the process of translating the investee's financial statements into the reporting currency of the Company.

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Investments in companies wherein the Company does not exercise significant influence are accounted for using the cost method. Cash dividends are recognized as income in the year received but are accounted for as a reduction in the carrying values of the investment if the dividends are received in the same year that the related investment is acquired. Stock dividends are recognized neither as investment income nor increase of the investment but are recorded only as an increase in the number of shares held. An allowance is recognized for any decline in the market value of investments with readily determinable fair market value with the corresponding amount recorded as an unrealized loss within of shareholders equity. A reversal of the allowance will result from a subsequent recovery of the market value of such investments. The carrying values of investments whose fair market value is not readily determinable are reduced to reflect an other than temporary decline in their values with the related impairment loss charged to income.

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

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

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

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

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

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

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

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

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

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

Goodwill

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

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Deferred Charges

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

Pension Costs

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gain are amortized over 25 years.

Deferred Gain on Sale and Leaseback

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

Casualty Loss

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

Income Tax

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

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

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

As of January 1, 1998, income taxes on unappropriated earnings of 10% are expensed in the year of shareholder approval which is the year subsequent to the year incurred.

Foreign Currency Transactions

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

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Derivative Financial Instruments

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

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

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

Reclassification

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. CASH AND CASH EQUIVALENTS

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

5. SHORT-TERM INVESTMENTS

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

6. INVENTORIES NET

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

7. LONG-TERM INVESTMENTS

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

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| | | | | |
|--|----------------------|----|----------------------|----|
| Shin-Etsu Handotai Taiwan Company Ltd. | 105,000 | 7 | 105,000 | 7 |
| Hon Tung Venture Capital | 83,916 | 10 | 83,916 | 10 |
| W.K. Technology Fund IV | 50,000 | 2 | 50,000 | 2 |
| | <u>432,500</u> | | <u>849,666</u> | |
| Funds | | | | |
| Horizon Ventures | 229,669 | | 195,452 | |
| Crimson Asia Capital | 40,947 | | 41,988 | |
| | <u>270,616</u> | | <u>237,440</u> | |
| | <u>\$ 37,965,353</u> | | <u>\$ 34,978,495</u> | |

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

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

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

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

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

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

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

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

8. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

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

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

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

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

9. DEFERRED CHARGES NET

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

10. BONDS

2003 2002

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

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

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

11. OTHER LONG-TERM PAYABLES

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

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

12. PENSION PLAN

The Company has a pension plan for all regular employees that provide benefits based on length of service and average monthly salary for the six-month period prior to retirement. The Company contributes at an amount equal to 2% of salaries paid every month to a pension fund (the Fund). The Fund is administered by a pension fund monitoring committee (the Committee) and deposited in the Committee's name in the Central Trust of China.

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

a. Components of pension cost

| | <u>2003</u> | <u>2002</u> |
|--------------|-------------|-------------|
| Service cost | \$ 502,116 | \$ 442,294 |

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| | | |
|---------------------------------|-------------------|-------------------|
| Interest cost | 109,671 | 121,552 |
| Projected return on plan assets | (41,154) | (45,102) |
| Amortization | 2,409 | 1,681 |
| | <u> </u> | <u> </u> |
| Net pension cost | \$ 573,042 | \$ 520,425 |
| | <u> </u> | <u> </u> |

(Continued)

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

13. INCOME TAX

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

| | 2003 | 2002 |
|--|---------------|--------------|
| Income tax expense based on income before income tax at statutory rate (25%) | \$ 12,757,069 | \$ 6,778,114 |
| Tax-exempt income | (5,255,750) | (2,526,500) |
| Temporary and permanent differences | (728,904) | 452,684 |
| Current income tax expense before income tax credits | \$ 6,772,415 | \$ 4,704,298 |
| b. Income tax expense consists of: | | |
| Current income tax expense before income tax credits | \$ 6,772,415 | \$ 4,704,298 |
| Additional 10% on the unappropriated earnings | 1,271,759 | 162,938 |
| Income tax credits | (7,917,070) | (4,867,236) |
| Other income tax | 2,500 | 12,661 |
| Net change in deferred income tax liabilities (assets) | | |
| Investment tax credits | 917,759 | (2,510,192) |
| Temporary differences | (80,390) | 1,072,086 |
| Valuation allowance | 2,802,602 | 6,927,609 |
| | \$ 3,769,575 | \$ 5,502,164 |

(Continued)

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

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

- d. Integrated income tax information:

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

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

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

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

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

| <u>Regulation</u> | <u>Items</u> | <u>Total Creditable Amounts</u> | <u>Remaining Creditable Amounts</u> | <u>Expiry Year</u> |
|----------------------------------|---|---|---|------------------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment | \$ 8,203,531 | \$ 3,938,319 | 2004 |
| | | 3,792,734 | 3,792,734 | 2005 |
| | | 4,823,691 | 4,823,691 | 2006 |
| | | 1,680,360 | 1,680,360 | 2007 |
| | | <u>\$ 18,500,316</u> | <u>\$ 14,235,104</u> | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 2,258,828 | \$ 2,258,828 | 2004 |
| | | 3,111,472 | 3,111,472 | 2005 |
| | | 3,322,453 | 3,322,453 | 2006 |
| | | 2,275,560 | 2,275,560 | 2007 |
| | | <u>\$ 10,968,313</u> | <u>\$ 10,968,313</u> | |
| Statute for Upgrading Industries | Personnel training | \$ 48,097 | \$ 48,097 | 2004 |
| | | 28,886 | 28,886 | 2005 |
| | | 27,311 | 27,311 | 2006 |
| | | <u>\$ 104,294</u> | <u>\$ 104,294</u> | |
| | | | | |
| Statute for Upgrading Industries | Investments in important technology based enterprises | \$ 203,319 | \$ 203,319 | 2004 |
| | | 138,864 | 138,864 | 2005 |
| | | | | |
| | | <u>\$ 342,183</u> | <u>\$ 342,183</u> | |
| | | | | |

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

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

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

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

Year Ended December 31, 2003

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

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

15. SHAREHOLDERS EQUITY

Capital, Capital Surplus and Retained Earnings

The Company has issued a total of 585,898 thousand ADSs which were traded on the NYSE as of December 31, 2003. The total number of common shares represented by all issued ADSs is 2,929,491 thousand shares (one ADS represents five common shares).

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

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

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

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

Dividends are distributed in shares of common stock or a combination of cash and common stock. Since the Company is in a capital-intensive industry and is currently in the growth stage of its operation, distributions of profits is made preferably in the form of stock dividend. The total of cash dividends paid in any given year may not exceed 50% of total dividends distributed in that year.

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

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

A special reserve equivalent to the debit balance of any account shown in the shareholder's equity section of the balance sheet (except for the recorded cost of treasury stock held by subsidiaries) shall be made from unappropriated retained earnings pursuant to existing regulations promulgated by the SFC. The special reserve is allowed to be appropriated when the debit balance of such accounts is reversed.

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

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

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

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

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

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

Employee Stock Option Plans

On October 29, 2003 and June 25, 2002, the SFC approved the Company's Employee Stock Option Plans (the 2003 Plan and the 2002 Plan, respectively). The aforementioned plans provide qualified employees with 120,000 thousand and 100,000 thousand units of option rights, respectively, with each unit representing one common share of stock. The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of issuance. Under the terms of both plans, stock options are granted at an exercise price equal to the closing price of the Company's common shares listed on the TSE on the date of grant. Under the 2002 Plan, there were 51,485 thousand option rights that had never been granted, or had been granted but cancelled. These un-granted or cancelled option rights expired as of December 31, 2003.

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

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

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

Preferred Stock

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

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

Preferred shareholders

- are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- are not entitled to receive any common stock dividends (whether declared out of unappropriated earnings or capital surplus).
- have priority over the holders of common shares to the assets of the Company available for distribution to shareholders upon liquidation or dissolution; however, the pre-emptive rights to the assets shall not exceed the issue value of the shares.

- d. have voting rights similar to that of the holders of common shares.
- e. have no right to convert their shares into common shares. The preferred shares are to be redeemed within thirty months from their issuance. The preferred shareholders have the aforementioned rights and the Company's related obligations remain the same until the preferred shares are redeemed by the Company.

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16. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

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

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

17. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

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

| Basic and diluted earnings per share | | | | | |
|---|---------------|---------------|------------|---------|---------|
| Income available to common shareholders | \$ 26,657,455 | \$ 21,155,291 | 20,220,989 | \$ 1.32 | \$ 1.05 |

The potential common shares issuable under the employee stock option plans (see Note 15) are included in the denominator of the diluted EPS computation by using the treasury stock method under the SFAS No. 24, Earnings Per Share, but such shares resulted in a non-dilutive per share amount for the year ended December 31, 2002. The average number of shares outstanding for the EPS calculation has been adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic EPS before income tax and after income tax for the year ended December 31, 2002 to decrease from NT\$1.43 to NT\$1.32 and NT\$1.14 to NT\$1.05, respectively.

18. RELATED PARTY TRANSACTIONS

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

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

TSMC North America

TSMC Europe

TSMC Japan

- d. Investees

VIS

SSMC

GUC

- e. Indirect subsidiaries

WaferTech, LLC (WaferTech)

TSMC Technology

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

| | 2003 | | 2002 | |
|----------------------------|----------------|----|---------------|----|
| | Amount | % | Amount | % |
| For the years | | | | |
| Sales | | | | |
| TSMC North America | \$ 117,758,911 | 57 | \$ 94,433,401 | 57 |
| Philips and its affiliates | 3,577,054 | 2 | 2,909,008 | 2 |

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| | | | | |
|--------------------------|-----------------------|-----------|----------------------|-----------|
| GUC | 549,471 | | | |
| ITRI | 60,171 | | 94,409 | |
| SSMC | 873 | | 7,018 | |
| VIS | 19 | | 92,119 | |
| WaferTech | | | 1,152 | |
| | <u>\$ 121,946,499</u> | <u>59</u> | <u>\$ 97,537,107</u> | <u>59</u> |
| Purchase | | | | |
| WaferTech | 11,433,083 | 36 | 9,955,154 | 41 |
| SSMC | 5,519,805 | 17 | 2,751,297 | 11 |
| VIS | 4,910,810 | 15 | 3,469,198 | 14 |
| | <u>\$ 21,863,698</u> | <u>68</u> | <u>\$ 16,175,649</u> | <u>66</u> |
| Operating expense rental | | | | |
| ITRI | \$ | | \$ 40,401 | 3 |

(Continued)

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

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

19. SIGNIFICANT LONG-TERM OPERATING LEASES

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

Future remaining lease payments are as follows:

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

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

- Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fees at a percentage of net sales (as defined in the agreement) with respect to certain products. The agreement shall remain in force through July 8, 2007 and may be automatically renewed for successive periods of three years thereafter. Under the amended agreement, starting from the fifth anniversary date of the amended agreement, the fees are subject to reduction by the amounts the Company pays to any third party for settling any licensing/infringement disputes, provided that the fees to be paid after reduction will not be below a certain percentage of the net sales.
- Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of the Company's production capacity.
- Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.

- d. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers who have made guarantee deposits to the Company. As of December 31, 2003, the Company has a total of US\$22,557 thousand of guarantee deposits.

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- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, for the purpose of constructing an integrated circuit foundry in Singapore, and allowed the Company to invest in 32% of SSMC's capital. The Company and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- f. The Company provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling prices of certain products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. The Company provided guarantees on loans amounting to US\$60,000 thousand, US\$40,000 thousand and US\$440,000 thousand for TSMC Development, Inc. (TSMC Development), TSMC North America and WaferTech, respectively.
- h. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for license of certain technology to National. The agreement will remain in force for ten years and will be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the termination agreement, the Company will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request additional technology transfers under the same terms and conditions as the terminated TTA through January 2008.
- i. The Company entered into a Manufacturing Agreement with VIS. VIS agrees to reserve certain production capacity for the Company to manufacture certain logic devices or other technologies required by the Company's customers at selling prices agreed upon by the parties. The Company paid NT\$1,200,000 thousand to VIS as a guarantee deposit. VIS shall return portions of the guarantee deposit without any interest to the Company upon reaching certain levels of purchase commitment by the Company. The contract will remain in force for five years. As of December 31, 2003, the refundable deposit was NT\$150,840 thousand.
- j. Starting from 2001, the Company entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability and deferred charges which is amortized and charged to cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.
- k. In November 2002, the Company entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Motorola, Inc. and STMicroelectronics to jointly develop 90-nanometer to 65-nanometer advanced CMOS Logic and e-DRAW technologies. The Company also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. The Company will contribute process technologies and share a portion of the costs associated with this joint development project.
- l. In December 2003, the Company entered into a Technology Development and License Agreement with Motorola Inc., to jointly develop 65nm SOI (silicon on insulator) technology and license related 90nm SOI technology. The resultant works of the 65nm SOI technology co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company shall pay royalty to Motorola, Inc. and share a portion of the costs associated with this joint development project.

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

21. ADDITIONAL DISCLOSURES

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

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

The Company entered into derivative financial instrument transactions for the year ended December 31, 2003 to manage exposures related to foreign-currency denominated receivables or payables, and interest rate fluctuations. Certain information on these contracts is as follows:

- a) Outstanding forward exchange contracts as of December 31, 2003:

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

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

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

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

b) Interest rate swaps

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

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

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

c) Option contracts

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

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

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

d) Transaction risk

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

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

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

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

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

2) Fair value of financial instruments

| | 2003 | | 2002 | |
|--|---------------|---------------|---------------|---------------|
| | Carrying | Fair | Carrying | Fair |
| | Amount | Value | Amount | Value |
| | (In Thousand) | | (In Thousand) | |
| Non-derivative financial instruments | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 98,288,002 | \$ 98,288,002 | \$ 61,656,795 | \$ 61,656,795 |
| Short-term investments | 12,559,019 | 12,703,444 | | |
| Receivables from related parties | 15,000,625 | 15,000,625 | 10,183,488 | 10,183,488 |
| Notes and accounts receivable | 13,917,807 | 13,917,807 | 9,555,687 | 9,555,687 |
| Other financial assets | 1,081,742 | 1,081,742 | 969,669 | 969,669 |
| Long-term investments | 37,965,353 | 46,144,338 | 34,978,495 | 38,909,570 |
| Refundable deposits | 177,379 | 177,379 | 543,469 | 543,469 |
| Liabilities | | | | |
| Payables to related parties | 4,500,140 | 4,500,140 | 2,466,998 | 2,466,998 |
| Accounts payable | 6,083,876 | 6,083,876 | 4,849,234 | 4,849,234 |
| Payables to contractors and equipment suppliers | 7,117,884 | 7,117,884 | 14,004,383 | 14,004,383 |
| Bonds payable (includes current portion) | 35,000,000 | 35,850,377 | 39,000,000 | 39,762,245 |
| Other long-term payable (includes current portion) | 4,892,801 | 4,892,801 | 5,438,964 | 5,438,964 |

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| | | | | |
|-----------------------------------|----------|---------|-----------|-----------|
| Guarantee deposits | 763,489 | 763,489 | 1,395,066 | 1,395,066 |
| Derivative financial instruments | | | | |
| Forward exchange contracts (buy) | 2,351 | 3,037 | 38,369 | 26,089 |
| Forward exchange contracts (sell) | (99,984) | 40,638 | 143,702 | 139,913 |
| Interest rate swaps | | 2,093 | 23,994 | (164,342) |
| Option | | | (50,273) | (410,132) |

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Fair values of financial instruments were determined as follows:

- a) The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, payables to contractors and equipment suppliers are approximate to their fair values.
- b) Fair value of short-term and long-term investments is based on quoted market prices. If quoted market prices are unavailable, fair value is based on net asset value or book value of investment.
- c) Fair value of refundable deposits and guarantee deposits is based on carrying values.
- d) The fair value of bonds payable is the quoted market value. Fair value of other long-term payable is approximate to its carrying value.
- e) Fair value of derivative financial instruments is the estimated net receivable or (payable) if the contracts are terminated on the relevant balance sheet date.

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

3) Investment in Mainland China:

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

22. SEGMENT FINANCIAL INFORMATION

a. Gross export sales

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

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

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

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

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

TABLE 1**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****FINANCING PROVIDED FOR THE YEAR ENDED DECEMBER 31, 2003**

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

| No. | Financing Name | Counter-party | Financial Statement Account | Maximum Balance for the Period | Ending Balance | Interest Rate | Transaction Amounts | Reasons For Short-term Financing | Collateral | | | Financing Company's Financing Amount Limits (US\$ in Thousand) |
|-----|--------------------|------------------|-----------------------------|--------------------------------|------------------------------|---------------|---------------------|----------------------------------|------------------------|------------|--|--|
| | | | | (US\$ in Thousand) | (US\$ in Thousand) | | | | Allowance for Bad Debt | Item Value | Financing Limit for Each Borrowing Company | |
| 1 | TSMC International | TSMC Technology | Other receivables | \$ 538,585 (US\$15,851) | \$ 538,585 (US\$15,851) | 4.25% | \$ | Operating capital | \$ | | N/A | \$ 33,569,117 (US\$987,968) (Note 1) |
| | | TSMC Development | Other receivables | \$ 2,038,680 (US\$60,000) | \$ 2,038,680 (US\$60,000) | 1.50% | | Operating capital | | | | |
| 2 | TSMC Partners | TSMC Development | Other receivables | \$ 2,718,240 (US\$80,000) | \$ 2,718,240 (US\$80,000) | 1.50% | | Operating capital | | | N/A | (Note 2) |

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

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

TABLE 2**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****ENDORSEMENT/GUARANTEE PROVIDED FOR THE YEAR ENDED DECEMBER 31, 2003**

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

| No. | Endorsement/Guarantee Provider | Counter-party | | Limits on Each Counter-party Endorsement/ Guarantee Amounts | Maximum Balance for the Period (US\$ in Thousand) | Ending Balance (US\$ in Thousand) | Value of Collateral Property Plant and Equipment | Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement | Maximum Collateral/Guarantee Amounts Allowable (Note 1) |
|-----|--------------------------------|--------------------|---------------------------------|---|---|-----------------------------------|--|---|---|
| | | Name | Nature of Relationship (Note 2) | | | | | | |
| 0 | TSMC | TSMC Development | 3 | Not exceed 10% of the net worth of | \$ 6,795,600 (US\$200,000) | \$ 2,038,680 (US\$ 60,000) | \$ | 0.62% | \$ 82,303,577 |
| | | TSMC North America | 2 | TSMC, and also limiting to the total | 1,359,120 (US\$ 40,000) | 1,359,120 (US\$ 40,000) | | 0.41% | |
| | | WaferTech | 3 | paid-in capital of the endorsement/ guarantee company, unless otherwise approved by Board of Directors. | 14,950,320 (US\$440,000) | 14,950,320 (US\$440,000) | | 4.54% | |

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

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

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

TABLE 3**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****MARKETABLE SECURITIES HELD DECEMBER 31, 2003**

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

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (Thousand) | December 31, 2003 | | | Note |
|-------------------|-------------------------------------|-------------------------------|-----------------------------|-------------------------|-----------------------------------|-------------------------|--|---|
| | | | | | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value or Net Asset Value (US\$ in Thousand) | |
| TSMC | Liquidity fund | | | | | | | |
| | BOA Funds | | Short-term investment | 40,000 | \$ 1,359,120 (US\$40,000) | N/A | \$ 1,359,120 (US\$40,000) | |
| | GS Funds | | Short-term investment | 20,000 | 679,560 (US\$20,000) | N/A | 679,560 (US\$20,000) | |
| | Bond fund | | | | | | | |
| | JF Taiwan Bond Fund | | Short-term investment | 34,343 | 500,000 | N/A | 503,421 | |
| | ABN AMRO Bond Fund | | Short-term investment | 34,794 | 500,000 | N/A | 503,490 | |
| | Bond | | | | | | | |
| | 2002 Government Bond Series A | | Short-term investment | | 3,157,331 | N/A | 3,169,046 | |
| | 2002 Government Bond Series E | | Short-term investment | | 3,113,067 | N/A | 3,126,273 | |
| | 1994 Government Bond Series C | | Short-term investment | | 1,422,197 | N/A | 1,426,995 | |
| | Bonds with Repurchase Agreement | | Short-term investment | | 1,800,000 | N/A | 1,802,572 | |
| | Stock | | | | | | | |
| | Taiwan Mask Corp. | | Short-term investment | 7,094 | 27,744 | 2 | 132,967 | |
| | TSMC North America | Subsidiary | Long-term investment | 11,000 | 417,858 | 100 | 1,133,011 | The treasury stocks in amounts of NT\$ 715,153 thousand are deducted from the carrying value. |
| | TSMC Europe | Subsidiary | Long-term investment | | 24,622 | 100 | 24,622 | |
| | TSMC Japan | Subsidiary | Long-term investment | 6 | 101,722 | 100 | 101,722 | |
| | VIS | Investee | Long-term investment | 787,016 | 4,077,198 | 28 | 10,465,676 | |

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| | | | | | | | |
|------------------|------------|----------------------|---------|------------|-----|------------|--|
| TSMC | | | | | | | |
| International | Subsidiary | Long-term investment | 987,968 | 22,654,743 | 100 | 22,654,743 | |
| TSMC Partners | Subsidiary | Long-term investment | 300 | 4,116,934 | 100 | 4,116,934 | |
| SSMC | Investee | Long-term investment | 382 | 2,759,376 | 32 | 2,759,376 | |
| Emerging | | | | | | | |
| Alliance | Subsidiary | Long-term investment | | 704,744 | 99 | 704,744 | |
| GUC | Investee | Long-term investment | 39,040 | 368,434 | 47 | 403,962 | |
| Vis Era | Investee | Long-term investment | 5,100 | 50,231 | 25 | 50,231 | |
| United Gas Co., | | | | | | | |
| Ltd. | | Long-term investment | 16,783 | 193,584 | 11 | 282,754 | |
| Shin-Etsu | | | | | | | |
| Handotai Taiwan | | Long-term investment | 10,500 | 105,000 | 7 | 147,999 | |
| Co., Ltd. | | | | | | | |
| W.K. | | | | | | | |
| Technology | | Long-term investment | 5,000 | 50,000 | 2 | 57,051 | |
| Fund IV | | | | | | | |
| Hon Tung | | Long-term investment | 8,392 | 83,916 | 10 | 66,447 | |
| Ventures Capital | | | | | | | |
| Certificate | | | | | | | |
| Chi Cherng | Investee | Long-term investment | | 42,941 | 36 | 501,505 | The treasury stocks in amounts of NT\$458,564 thousand are deducted from the carrying value. |
| Investment | | | | | | | |

(Continued)

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

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| | | | | | | | |
|--|-------------------------|--------|------|-------|----|------|--------|
| Programmable Microelectronics (Taiwan), Inc. | Long-term investment | | | | | | |
| Global Testing Corp. | Long-term investment | 13,268 | US\$ | 5,295 | 10 | US\$ | 5,295 |
| Chipstrate Technologies, Inc. | Long-term investment | 6,660 | US\$ | 308 | 9 | US\$ | 308 |
| Capella Microsystems, Inc. | Long-term investment | 530 | US\$ | 156 | | US\$ | 156 |
| Signia Technologies, Inc. | Long-term investment | 701 | US\$ | 206 | 4 | US\$ | 206 |
| Advanced Power Electronics Corp. | Long-term investment | 2,750 | US\$ | 1,376 | 5 | US\$ | 1,376 |
| Richtek Technology Corp. | Long-term investment | 1,671 | US\$ | 204 | 3 | US\$ | 10,235 |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2003 | | | | Note |
|-------------------|--|-------------------------------|-----------------------------|------------------------------------|--|-------------------------|---|------|
| | | | | Shares/ Units (Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value or Net Asset Value (US\$ in Thousand) | |
| | | | | | | | | |
| | Preferred stock | | | | | | | |
| | Integrated Memory Logic, Inc. | | Long-term investment | 1,831 | US\$ 1,221 | 12 | US\$ 1,221 | |
| | SiRF Technology Holdings, Inc. | | Long-term investment | 306 | US\$ 1,333 | 1 | US\$ 1,333 | |
| | Sensory, Inc. | | Long-term investment | 1,404 | US\$ 312 | 5 | US\$ 312 | |
| | LightSpeed Semiconductor Corporation | | Long-term investment | 2,252 | US\$ 329 | 2 | US\$ 329 | |
| | Tropian, Inc. | | Long-term investment | 1,758 | US\$ 1,916 | 3 | US\$ 1,916 | |
| | Sonics, Inc. | | Long-term investment | 2,686 | US\$ 3,530 | 5 | US\$ 3,530 | |
| | Atheros Communications, Inc. | | Long-term investment | 1,607 | US\$ 3,593 | | US\$ 3,593 | |
| | NanoAmp Solutions, Inc. | | Long-term investment | 541 | US\$ 853 | 3 | US\$ 853 | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 2,521 | US\$ 2,000 | 12 | US\$ 2,000 | |
| | Memsic, Inc. | | Long-term investment | 2,727 | US\$ 1,500 | 12 | US\$ 1,500 | |
| | Reflectivity, Inc. | | Long-term investment | 1,064 | US\$ 1,192 | 5 | US\$ 1,192 | |
| | Match Lab, Inc. | | Long-term investment | 1,875 | US\$ 375 | 9 | US\$ 375 | |
| | Oridus, Inc. (Creosys, Inc.) | | Long-term investment | 1,500 | US\$ 300 | 8 | US\$ 300 | |
| | Incentia Design Systems, Inc. | | Long-term investment | 286 | US\$ 92 | 2 | US\$ 92 | |
| | IP Unity | | Long-term investment | 1,008 | US\$ 494 | 2 | US\$ 494 | |
| InveStar II | Stock | | | | | | | |
| | WatchGuard Technologies, Inc. | | Short-term investment | 5 | US\$ 30 | | US\$ 30 | |
| | RichTek Technology Corp | | Short-term investment | 465 | US\$ 346 | 1 | US\$ 2,848 | |
| | eChannel Option Holding, Inc. | | Long-term investment | 358 | US\$ 251 | 6 | US\$ 251 | |
| | Elcos Microdisplay Technology, Ltd. | | Long-term investment | 270 | US\$ 27 | 1 | US\$ 27 | |
| | Signia Technologies, Inc. | | Long-term investment | 351 | US\$ 101 | 2 | US\$ 101 | |
| | Procoat Technology | | Long-term investment | 4,165 | US\$ 1,940 | 10 | US\$ 1,940 | |
| | Programmable Microelectronics (Taiwan), Inc. | | Long-term investment | 177 | US\$ 50 | 1 | US\$ 834 | |
| | Auden Technology MFG Co., Ltd. | | Long-term investment | 953 | US\$ 834 | 4 | US\$ 1,151 | |
| | GeoVision, Inc. | | Long-term investment | 287 | US\$ 132 | 1 | US\$ 132 | |
| | EoNex Technologies, Inc. | | Long-term investment | 55 | US\$ 3,048 | 6 | US\$ 3,048 | |
| | | | | 2,800 | US\$ 979 | 14 | US\$ 979 | |

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| | | | | | | | |
|------------------------------------|----------------------|-------|------|-------|----|------|-------|
| Conwise Technology Co., Ltd. | Long-term investment | | | | | | |
| Eon Technology, Inc. | Long-term investment | 2,800 | US\$ | 965 | 8 | US\$ | 965 |
| Goyatek Technology, Inc. | Long-term investment | 2,088 | US\$ | 727 | 8 | US\$ | 727 |
| TrendChip Technologies Corp. | Long-term investment | 2,000 | US\$ | 861 | 5 | US\$ | 861 |
| Ralink Technologies, Inc. | Long-term investment | 1,833 | US\$ | 791 | 5 | US\$ | 791 |
| RichTek Technology Corp | Long-term investment | 785 | US\$ | 583 | 2 | US\$ | 4,804 |
| Preferred stock | | | | | | | |
| Capella Microsystems, Inc. | Long-term investment | 419 | US\$ | 122 | 3 | US\$ | 122 |
| Memsic, Inc. | Long-term investment | 2,289 | US\$ | 1,560 | 10 | US\$ | 1,560 |
| Oepic, Inc. | Long-term investment | 4,997 | US\$ | 1,317 | 8 | US\$ | 1,317 |
| NanoAmp Solutions, Inc. | Long-term investment | 250 | US\$ | 1,000 | 1 | US\$ | 1,000 |
| Advanced Analogic Technology, Inc. | Long-term investment | 948 | US\$ | 1,261 | 2 | US\$ | 1,261 |
| Monolithic Power Systems, Inc. | Long-term investment | 804 | US\$ | 1,946 | 4 | US\$ | 1,946 |
| Sonics, Inc. | Long-term investment | 3,082 | US\$ | 3,082 | 5 | US\$ | 3,082 |
| Newport Opticom, Inc. | Long-term investment | 1,157 | US\$ | 402 | 9 | US\$ | 402 |
| Silicon Data, Inc. | Long-term investment | 2,000 | US\$ | 750 | 7 | US\$ | 750 |

(Continued)

| December 31, 2003 | | | | | | | | |
|-------------------|-------------------------------------|-------------------------------|-----------------------------|-----------------------------|--------------------------------------|-------------------------|---|------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/ Units (Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value or Net Asset Value (US\$ in Thousand) | Note |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 6 | US\$ 1,500 | |
| | Angstrom Systems, Inc. | | Long-term investment | 1,567 | US\$ 500 | 6 | US\$ 500 | |
| | Tropian, Inc. | | Long-term investment | 1,464 | US\$ 1,595 | 2 | US\$ 1,595 | |
| | SiRF Technology, Inc. | | Long-term investment | 20 | US\$ 131 | | US\$ 131 | |
| | LeadTONE Wireless, Inc. | | Long-term investment | 433 | US\$ 131 | 6 | US\$ 131 | |
| | Match Lab, Inc. | | Long-term investment | 313 | US\$ 63 | 2 | US\$ 63 | |
| | Kilopass Technology, Inc. | | Long-term investment | 3,887 | US\$ 2,000 | 19 | US\$ 2,000 | |
| | Fang Tek, Inc. | | Long-term investment | 5,556 | US\$ 2,000 | 44 | US\$ 2,000 | |
| | Alchip Technologies Ltd. | | Long-term investment | 2,125 | US\$ 1,700 | | US\$ 1,700 | |
| | Elcos Microdisplay Technology, Ltd. | | Long-term investment | 2,667 | US\$ 3,500 | | US\$ 3,500 | |
| Emerging Alliance | Stock | | | | | | | |
| | Global Investment Holding, Inc. | Investee | Long-term investment | 10,000 | \$ 100,000 | 6 | \$ 100,000 | |
| | Preferred stock | | | | | | | |
| | Quake Technologies, Inc. | | Long-term investment | 467 | US\$ 334 | 1 | US\$ 334 | |
| | Pixim, Inc. | | Long-term investment | 1,721 | US\$ 2,382 | 3 | US\$ 2,382 | |
| | Newport Opticom, Inc. | | Long-term investment | 962 | US\$ 250 | 6 | US\$ 250 | |
| | NetLogic Microsystems, Inc. | | Long-term investment | 602 | US\$ 1,850 | 1 | US\$ 1,850 | |
| | Ikanos Communication, Inc. | | Long-term investment | 5,116 | US\$ 1,625 | 3 | US\$ 1,625 | |
| | Quicksilver Technology, Inc. | | Long-term investment | 963 | US\$ 2,488 | 4 | US\$ 2,488 | |
| | Mosaic Systems, Inc. | | Long-term investment | 2,481 | US\$ 12 | 6 | US\$ 12 | |
| | Accelerant Networks, Inc. | | Long-term investment | 441 | US\$ 460 | 1 | US\$ 460 | |
| | Zenesis Technologies, Inc. | | Long-term investment | 861 | US\$ 500 | 4 | US\$ 500 | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 5 | US\$ 1,500 | |
| | Iridigm Display, Co. | | Long-term investment | 254 | US\$ 500 | 1 | US\$ 500 | |
| | XHP Microsystems, Inc. | | Long-term investment | 2,280 | US\$ 750 | 6 | US\$ 750 | |
| | Axiom Microdevices, Inc. | | Long-term investment | 1,000 | US\$ 1,000 | 5 | US\$ 1,000 | |
| | Optichron, Inc. | | Long-term investment | 714 | US\$ 1,000 | 6 | US\$ 1,000 | |
| | Audience, Inc. | | Long-term investment | 1,654 | US\$ 250 | 2 | US\$ 250 | |
| | Next IO, Inc. | | Long-term investment | 800 | US\$ 500 | 3 | US\$ 500 | |

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| | | | | | | | |
|-----|-------------------------------|-----------------------|-------|------|---------|---|------------|
| | | Long-term investment | | | | | |
| | NuCORE Technology Inc. | Long-term investment | 1,821 | US\$ | 1,000 | 2 | US\$ 1,000 |
| GUC | Bond fund | | | | | | |
| | Entrust KIRIN | Short-term investment | 2,106 | | 22,324 | | 22,334 |
| | Entrust Phoenix | Short-term investment | 1,399 | | 20,207 | | 20,216 |
| | TISC | Short-term investment | 2,210 | | 30,000 | | 30,012 |
| | Ta-Hua | Short-term investment | 2,412 | | 30,003 | | 30,013 |
| | E. Sun New Era | Short-term investment | 962 | | 10,000 | | 10,004 |
| | Shenghua 1699 | Short-term investment | 1,009 | | 12,000 | | 11,995 |
| | Jihsun | Short-term investment | 764 | | 10,000 | | 10,157 |
| | Shenghua 5599 | Short-term investment | 931 | | 10,000 | | 10,004 |
| | Mega Diamond | Short-term investment | 2,734 | | 30,105 | | 30,118 |
| | Polar | Short-term investment | 1,968 | | 20,060 | | 20,068 |
| | Ta-Hua GC Dollar | Short-term investment | 38 | | 13,691 | | 13,732 |
| | Taiwan Security Overseas Fund | Short-term investment | 22 | | 102,694 | | 103,190 |

TABLE 4**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| | Financial Statement Account | Counter-Party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | Carrying Value (US\$ in Thousand) | Gain (Loss) on Disposal | Share Units (Thousand) |
|------|-----------------------------|--|------------------------|--------------------------|---------------------------|--------------------------|----------------------------|--------------------------|--------------|-----------------------------------|-------------------------|------------------------|
| | | | | Shares/ Units (Thousand) | Amount (US\$ in Thousand) | Shares/ Units (Thousand) | Amount (US\$ in Thousand) | Shares/ Units (Thousand) | Amount | | | |
| and | Short-term investment | BOA | | | \$ | 120,000 | \$ 4,161,760 (US\$120,000) | 80,000 | \$ 2,785,760 | \$ 2,785,760 (US\$80,000) | | 40 |
| | Short-term investment | Goldman Sachs | | | | 140,000 | 4,852,300 (US\$140,000) | 120,000 | 4,165,140 | 4,165,140 (US\$120,000) | | 20 |
| and | Short-term investment | JF Asset Management (Taiwan) Ltd. | | | | 34,343 | 500,000 | | | | | 34 |
| and | Short-term investment | ABN AMRO | | | | 97,782 | 1,400,000 | 62,988 | 902,881 | 900,000 | 2,881 | 34 |
| and | Short-term investment | ABN AMRO | | | | 81,744 | 879,000 | 81,744 | 881,719 | 879,000 | 2,719 | |
| with | Short-term investment | Several financial institutions | | | | | 1,800,000 | | | | | |
| ent | Short-term investment | BNP and several financial institutions | | | | | 3,157,331 | | | | | |
| ent | Short-term investment | BNP and several financial institutions | | | | | 3,113,067 | | | | | |
| ent | Short-term investment | Chung Shing Bills Finance Corp. and several financial institutions | | | | | 1,422,197 | | | | | |
| g | Long-term investment | Emerging Alliance | Subsidiary | | 767,239 | | 174,030 | | | | | |

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| | | | | | | | | | | | |
|--------------------|-----------------------|-------------------------------------|----------|----------|-----------|-------------|---------|-------------|-------------|------------|--------|
| | Long-term investment | VIS | Investee | 677,471 | 3,264,657 | 109,545 | 766,815 | | | | 787 |
| ogy ic Tech. | Long-term investment | | | 505 | 280,748 | | | 505 | 301,209 | 280,748 | 20,461 |
| | Long-term investment | | | 470 | 104,289 | | | 470 | 152,681 | 104,289 | 48,392 |
| | Short-term investment | | | 762 US\$ | 7,357 | | | 823 US\$ | 8,407 US\$ | 7,357 US\$ | 1,050 |
| | | | | | | | | (Note 2) | | | |
| | | | | | | | | | | | |
| play ogy, | Long-term investment | Elcos Microdisplay Technology, Ltd. | | | | 2,667 US\$ | 3,500 | | | | 2 |
| | | | | | | | | | | | |
| nd | Short-term investment | BOA | | | | 87,300 US\$ | 87,300 | 57,000 US\$ | 57,000 US\$ | 57,000 | 30 |
| nd | | | | | | | | | | | |
| s t | Short-term investment | | | | | | | | | | |
| | | | | | | 22 | 102,694 | | | | |

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

Note 2: Including stock dividend of 61 thousand units.

TABLE 5**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

TABLE 6**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

TABLE 7**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

TABLE 8**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.****NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2003 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note 2) |
|-----------------------|---------------------------------|---|----------------------------|-------------------|---------------------------------|-------------------------|-------------------------|-----------------------------------|---------------------------------|
| | | | December 31, 2003 | December 31, 2002 | Shares (Thousand) | Percentage of Ownership | Carrying Value (Note 1) | | |
| TSMC North America | San Jose, California, U.S.A. | Marketing and engineering support | \$ 333,178 | \$ 333,178 | 11,000 | 100 | \$ 417,858 | \$ 234,639 | \$ 227,062 |
| TSMC Europe | Amsterdam, The Netherlands | Marketing and engineering support | 15,749 | 2,960 | | 100 | 24,622 | (13) | (13) |
| TSMC Japan | Yokohama, Japan | Marketing and engineering support | 83,760 | 83,760 | 6 | 100 | 101,722 | 2,451 | 2,451 |
| TSMC Shanghai | Shanghai, China | IC and other wafer equipment manufacturing and marketing | 1,890,952 | | | 100 | 1,901,428 | (1,306) | (1,306) |
| VIS | Hsin-Chu, Taiwan | IC design and manufacturing | 8,119,816 | 6,503,640 | 787,016 | 28 | 4,077,198 | 179,359 | 50,351 |
| TSMC International | Tortola, British Virgin Islands | Investment | 31,445,780 | 31,445,780 | 987,968 | 100 | 22,654,743 | 876,814 | 876,814 |
| Chi Cherng Investment | Taipei, Taiwan | Investment | 300,000 | 300,000 | | 36 | 42,941 | (840) | 108 |
| Hsin Ruey Investment | Taipei, Taiwan | Investment | 300,000 | 300,000 | | 36 | 42,006 | (1,290) | 1,252 |
| TSMC Partners | Tortola, British Virgin Islands | Investment | 10,350 | 10,350 | 300 | 100 | 4,116,934 | 199,401 | 197,394 |
| SSMC | Singapore | Wafer manufacturing | 6,408,190 | 6,408,190 | 382 | 32 | 2,759,376 | (971,314) | (310,821) |
| Emerging Alliance | Cayman Islands | Investment | 1,179,690 | 1,005,660 | | 99 | 704,744 | (219,190) | (218,094) |
| GUC | Hsin-Chu, Taiwan | IC research, development, manufacturing, | | | | | | | |
| | | testing and marketing | 409,920 | 341,250 (Note 3) | 39,040 | 47 | 368,434 | (88,517) | (33,005) |
| VisEra | Hsin-Chu, Taiwan | Electronic spare parts manufacturing, material wholeselling and retailing | 51,000 | | 5,100 | 25 | 50,231 | (3,076) | (769) |

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

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

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

Taiwan Semiconductor Manufacturing Company Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 2003 and 2002

Together with Independent Auditors' Report

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

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

January 12, 2004

The Board of Directors and the Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries (the Company) as of December 31, 2003, and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting and generally accepted accounting principles in the Republic of China.

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

Deloitte & Touche

(T N Soong & Co and Deloitte & Touche (Taiwan)

Established Deloitte & Touche Effective June 1, 2003)

Taipei, Taiwan

Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2003 AND 2002

(In Thousand New Taiwan Dollars, Except Par Value)

| | 2003 | | 2002 | |
|--|--------------------|------------|--------------------|------------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 5) | \$ 102,988,896 | 26 | \$ 67,790,204 | 17 |
| Short-term investments (Notes 2 and 6) | 13,611,536 | 3 | 170,012 | |
| Receivables from related parties (Note 22) | 1,052,175 | | 439,659 | |
| Notes receivable | 9,893 | | 60,240 | |
| Accounts receivable | 28,495,269 | 7 | 19,530,702 | 5 |
| Allowance for doubtful receivables (Note 2) | (1,020,398) | | (932,993) | |
| Allowance for sales returns and others (Note 2) | (2,135,843) | | (2,372,515) | (1) |
| Other financial assets (Note 25) | 1,373,705 | | 1,010,453 | |
| Inventories net (Notes 2 and 7) | 12,135,324 | 3 | 11,201,446 | 3 |
| Deferred income tax assets (Notes 2 and 16) | 8,398,205 | 2 | 3,401,729 | 1 |
| Prepaid expenses and other current assets (Note 2) | 1,632,908 | | 2,238,221 | 1 |
| Total current assets | 166,541,670 | 41 | 102,537,158 | 26 |
| LONG-TERM INVESTMENTS (Notes 2, 3, 8, and 20) | | | | |
| Equity method | 7,255,239 | 2 | 5,551,412 | 2 |
| Cost method | 3,222,159 | 1 | 3,997,284 | 1 |
| Funds | 270,616 | | 237,440 | |
| Prepayment for subscribed stocks | | | 849,360 | |
| Total long-term investments | 10,748,014 | 3 | 10,635,496 | 3 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9, 12 and 22) | | | | |
| Cost | | | | |
| Land and land improvements | 855,394 | | 874,907 | |
| Buildings | 79,778,533 | 20 | 76,428,851 | 20 |
| Machinery and equipment | 372,042,314 | 91 | 343,951,592 | 88 |
| Office equipment | 7,457,538 | 2 | 6,996,027 | 2 |
| Total cost | 460,133,779 | 113 | 428,251,377 | 110 |
| Accumulated depreciation | (275,013,069) | (68) | (210,101,159) | (54) |
| Advance payments and construction in progress | 26,733,553 | 7 | 28,348,093 | 7 |
| Net property, plant and equipment | 211,854,263 | 52 | 246,498,311 | 63 |
| GOODWILL (Note 2) | 8,720,917 | 2 | 10,158,845 | 3 |

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| | | | | |
|---|----------------|-----|----------------|-----|
| OTHER ASSETS | | | | |
| Deferred charges net (Notes 2 and 10) | 7,992,016 | 2 | 9,873,825 | 3 |
| Deferred income tax assets (Notes 2 and 16) | 1,111,367 | | 9,773,226 | 2 |
| Refundable deposits (Notes 22 and 24) | 199,522 | | 557,266 | |
| Idle assets (Note 2) | 94,296 | | 339,400 | |
| Assets leased to others (Note 2) | 84,347 | | 87,246 | |
| Miscellaneous | 54,119 | | 81,626 | |
| Total other assets | 9,535,667 | 2 | 20,712,589 | 5 |
| TOTAL ASSETS | \$ 407,400,531 | 100 | \$ 390,542,399 | 100 |

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

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

| | 2003 | | 2002 | |
|---|-----------------------|------------|-----------------------|------------|
| | Amount | % | Amount | % |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term bank loans (Note 11) | \$ 407,736 | | \$ 729,813 | |
| Payables to related parties (Note 22) | 3,248,289 | 1 | 1,776,149 | |
| Accounts payable | 6,438,604 | 2 | 5,138,592 | 1 |
| Payable to contractors and equipment suppliers | 7,232,103 | 2 | 14,132,100 | 4 |
| Accrued expenses and other current liabilities (Note 25) | 8,820,776 | 2 | 5,947,229 | 2 |
| Current portion of long-term liabilities (Notes 12, 13 and 14) | 5,000,000 | 1 | 12,107,899 | 3 |
| Total current liabilities | 31,147,508 | 8 | 39,831,782 | 10 |
| LONG-TERM LIABILITIES | | | | |
| Long-term bank loans (Note 12) | 8,800,302 | 2 | 11,051,454 | 3 |
| Long-term bonds payables (Note 13) | 30,000,000 | 7 | 35,000,000 | 9 |
| Other long-term payables (Note 14) | 3,300,829 | 1 | 4,281,665 | 1 |
| Total long-term liabilities | 42,101,131 | 10 | 50,333,119 | 13 |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 15) | 2,601,450 | 1 | 2,211,560 | 1 |
| Guarantee deposits (Note 24) | 763,889 | | 1,395,066 | |
| Others | 1,483,245 | | 822,167 | |
| Total other liabilities | 4,848,584 | 1 | 4,428,793 | 1 |
| MINORITY INTEREST IN SUBSIDIARIES (Note 2) | 88,999 | | 95,498 | |
| Total liabilities | 78,186,222 | 19 | 94,689,192 | 24 |
| SHAREHOLDERS' EQUITY (Notes 2 and 18) | | | | |
| Capital stock \$10 par value | | | | |
| Authorized: 24,600,000 thousand shares | | | | |
| Issued: Common 20,266,619 thousand shares in 2003 and 18,622,887 thousand shares in 2002 | 202,666,189 | 50 | 186,228,867 | 48 |
| Preferred 1,300,000 thousand shares | | | 13,000,000 | 3 |
| Capital surplus: | | | | |
| Merger and others (Note 2) | 56,802,829 | 14 | 56,961,753 | 15 |
| Treasury stock (Notes 3 and 20) | 53,056 | | 43,036 | |
| Retained earnings: | | | | |
| Appropriated as legal reserve | 20,802,137 | 5 | 18,641,108 | 5 |
| Appropriated as special reserve | 68,945 | | | |
| Unappropriated earnings | 50,229,008 | 12 | 22,151,089 | 5 |
| Others: | | | | |
| Unrealized loss on long-term investments (Note 2) | (35) | | (194,283) | |
| Cumulative translation adjustments (Note 2) | 225,408 | | 945,129 | |
| Treasury stock (at cost) 40,597 thousand shares in 2003 and 42,001 thousand in 2002 (Notes 2, 3 and 20) | (1,633,228) | | (1,923,492) | |
| Total shareholders' equity | 329,214,309 | 81 | 295,853,207 | 76 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 407,400,531 | 100 | \$ 390,542,399 | 100 |

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

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

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English Translation of Financial Statements Originally Issued in Chinese

| | 2003 | | 2002 | |
|--|---------------|----|---------------|----|
| | Amount | % | Amount | % |
| Loss on sales of investments net (Note 2) | \$ | | \$ 101,221 | |
| Casualty loss net (Note 2) | | | 119,485 | |
| Other | 164,069 | | 100,315 | |
| Total non-operating expenses and losses | 5,791,248 | 3 | 6,716,748 | 4 |
| INCOME BEFORE INCOME TAX (Note 26) | 51,178,645 | 25 | 27,222,148 | 16 |
| INCOME TAX EXPENSE (Notes 2 and 16) | 3,922,957 | 2 | 5,636,648 | 3 |
| INCOME BEFORE MINORITY INTEREST | 47,255,688 | 23 | 21,585,500 | 13 |
| MINORITY INTEREST IN LOSS OF SUBSIDIARIES (Notes 2 and 26) | 3,012 | | 24,791 | |
| CONSOLIDATED NET INCOME | \$ 47,258,700 | 23 | \$ 21,610,291 | 13 |

| | Income Before Income Tax and Minority Interest | | Income Before Income Tax and Minority Interest | |
|---|--|---------|--|---------|
| | Consolidated Net Income | | Consolidated Net Income | |
| CONSOLIDATED EARNINGS PER SHARE (Note 21) | | | | |
| Basic earnings per share | \$ 2.52 | \$ 2.33 | \$ 1.32 | \$ 1.05 |
| Diluted earnings per share | \$ 2.52 | \$ 2.33 | \$ 1.32 | \$ 1.05 |

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

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

(Concluded)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousand New Taiwan Dollars)

| | Capital Stock Issued | | | | Capital Surplus | | | | | | | |
|---|----------------------|---------------|----------------------|----------------|-----------------|----------------------------------|----------------------------------|---|-----------------------------------|----------|-------------------|---------------|
| | Preferred stock | | Common stock | | From merger | Additional paid-in capital | From long-term investments | Excess on foreign bond investments | Gain on sales of properties | Donation | Treasury stock | Total |
| | Shares (thousand) | Amount | Shares (thousand) | Amount | | | | | | | | |
| BALANCE, JANUARY 1, 2002 | 1,300,000 | \$ 13,000,000 | 16,832,554 | \$ 168,325,531 | \$ 24,132,297 | \$ 23,172,550 | \$ 246,381 | \$ 9,410,632 | \$ 166,518 | \$ 55 | \$ | \$ 57,128,433 |
| Appropriations of prior year's earnings | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | |
| Bonus to employees' stock | | | 107,078 | 1,070,783 | | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | | |
| Stock dividends 10% | | | 1,683,255 | 16,832,553 | | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | | |
| Net income in 2002 | | | | | | | | | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings | | | | | | | | | (166,518) | | | (166,518) |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | | | | | (162) | | | | | (162) |
| Unrealized loss on long-term | | | | | | | | | | | | |

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| | | | | | | | | | | | | |
|--|-------------|--------------|----------------|---------------|---------------|------------|--------------|-----------|-------|-----------|---------------|--|
| investments from investees | | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | | |
| Reclassification of stocks of parent company held by subsidiaries from long-term investments to treasury stock | | | | | | | | | | | | |
| Capital surplus resulted from sales of treasury stock | | | | | | | | | | 43,036 | 43,036 | |
| BALANCE, DECEMBER 31, 2002 | 1,300,000 | 13,000,000 | 18,622,887 | 186,228,867 | 24,132,297 | 23,172,550 | 246,219 | 9,410,632 | 55 | 43,036 | 57,004,789 | |
| Redemption and retirement of preferred stock | (1,300,000) | (13,000,000) | | | | | | | | | | |
| Appropriations of prior year's earnings | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | |
| Bonus to employees' stock | | | 153,901 | 1,539,013 | | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | | |
| Stock dividends 8% | | | 1,489,831 | 14,898,309 | | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | | |
| Net income in 2003 | | | | | | | | | | | | |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | | | | | | |
| Reversal of unrealized loss on long-term investment of investees | | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | | |
| Sale of treasury stock | | | | | | | | | | 10,020 | 10,020 | |
| BALANCE, DECEMBER 31, 2003 | \$ | 20,266,619 | \$ 202,666,189 | \$ 24,132,297 | \$ 23,172,550 | \$ 87,295 | \$ 9,410,632 | \$ | \$ 55 | \$ 53,056 | \$ 56,855,885 | |

| Retained Earnings | | | | Unrealized Loss on Long-term Investments | Cumulative Translation Adjustments | Treasury Stock | Total Shareholders Equity |
|-------------------|-----------------|-------------------------|-------|--|------------------------------------|----------------|---------------------------|
| Legal reserve | Special reserve | Unappropriated earnings | Total | | | | |

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| | | | | | | | | |
|---|---------------|------------|---------------|---------------|-----------|--------------|---------------|----------------|
| BALANCE, JANUARY 1, 2002 | \$ 17,180,067 | \$ 349,941 | \$ 19,977,402 | \$ 37,507,410 | \$ | \$ 1,228,701 | \$ | \$ 277,190,075 |
| Appropriations of prior year's earnings | | | | | | | | |
| Legal reserve | 1,448,317 | | (1,448,317) | | | | | |
| Special reserve | | (349,941) | 349,941 | | | | | |
| Bonus to employees' stock | | | (1,070,783) | (1,070,783) | | | | |
| Cash dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 10% | | | (16,832,553) | (16,832,553) | | | | |
| Remuneration to directors and supervisors | | | (133,848) | (133,848) | | | | (133,848) |
| Net income in 2002 | | | 21,610,291 | 21,610,291 | | | | 21,610,291 |
| Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings | 12,724 | | 153,794 | 166,518 | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | 162 | 162 | | | | |
| Unrealized loss on long-term investments from investees | | | | | (194,283) | | | (194,283) |
| Translation adjustments | | | | | | (283,572) | | (283,572) |
| Reclassification of stocks of parent company held by subsidiaries from long-term investments to treasury stock | | | | | | | (1,923,492) | (1,923,492) |
| Capital surplus resulted from sales of treasury stock | | | | | | | | 43,036 |
| BALANCE, DECEMBER 31, 2002 | 18,641,108 | | 22,151,089 | 40,792,197 | (194,283) | 945,129 | (1,923,492) | 295,853,207 |
| Redemption and retirement of preferred stock | | | | | | | | (13,000,000) |
| Appropriations of prior year's earnings | | | | | | | | |
| Legal reserve | 2,161,029 | | (2,161,029) | | | | | |
| Special reserve | | 68,945 | (68,945) | | | | | |
| Bonus to employees' stock | | | (1,539,013) | (1,539,013) | | | | |
| Cash dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 8% | | | (14,898,309) | (14,898,309) | | | | |
| Remuneration to directors and supervisors | | | (58,485) | (58,485) | | | | (58,485) |
| Net income in 2003 | | | 47,258,700 | 47,258,700 | | | | 47,258,700 |
| Adjustment arising from changes in ownership percentage in investees | | | | | | | | (158,924) |
| Reversal of unrealized loss on long-term investment of investees | | | | | 194,248 | | | 194,248 |
| Translation adjustments | | | | | | (719,721) | | (719,721) |
| Sale of treasury stock | | | | | | | 290,264 | 300,284 |
| BALANCE, DECEMBER 31, 2003 | \$ 20,802,137 | \$ 68,945 | \$ 50,229,008 | \$ 71,100,090 | (\$35) | \$ 225,408 | (\$1,633,228) | \$ 329,214,309 |

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

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousand New Taiwan Dollars)

| | 2003 | 2002 |
|--|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | \$ 47,258,700 | \$ 21,610,291 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 69,161,317 | 65,000,873 |
| Deferred income taxes | 3,665,383 | 5,421,020 |
| Investment loss recognized by equity method net | 294,244 | 1,976,847 |
| Loss on impairment of property, plant and equipment, and idle assets | 1,506,199 | 244,430 |
| Loss on impairment of long-term investments | 652,718 | 795,674 |
| Loss (gain) on sales of long-term investments net | (78,694) | 170,831 |
| Gain on sales of property, plant and equipment net | (64,683) | (52,043) |
| Accrued pension cost | 389,890 | 355,705 |
| Allowance for doubtful receivables | 87,405 | (167,499) |
| Allowance for sales returns and others | (236,672) | (209,036) |
| Minority interest in loss of subsidiaries | (3,012) | (24,791) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Receivable from related parties | (612,516) | 55,073 |
| Notes receivable | 50,347 | 116,342 |
| Accounts receivable | (8,964,567) | 426,934 |
| Inventories net | (933,878) | (1,373,118) |
| Other financial assets | (347,161) | (162,642) |
| Prepaid expenses and other current assets | 605,001 | (330,819) |
| Increase (decrease) in: | | |
| Payable to related parties | 1,472,140 | 727,876 |
| Accounts payable | 1,300,012 | 3,740,713 |
| Accrued expenses and other current liabilities | 834,941 | 184,564 |
| | <u> </u> | <u> </u> |
| Net cash provided by operating activities | 116,037,114 | 98,507,225 |
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease (increase) of short-term investments | (13,026,055) | 1,184,419 |
| Acquisitions of: | | |
| Long-term investments | (1,412,335) | (3,192,427) |
| Property, plant and equipment | (37,870,907) | (55,235,458) |
| Proceeds from sales of: | | |
| Long-term investments | 505,702 | 53,048 |
| Property, plant, and equipment | 177,312 | 495,878 |
| Increase in deferred charges | (2,138,087) | (5,724,583) |
| Decrease in refundable deposits | 357,744 | 226,823 |
| Decrease in other assets | 4,610 | 2,711 |

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| | | |
|--|--------------|--------------|
| Increase (decrease) in minority interest in subsidiaries | (3,487) | 49 |
| Net cash used in investing activities | (53,405,503) | (62,189,540) |

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

| | 2003 | 2002 |
|---|-----------------------|----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payments on: | | |
| Short-term bank loans | (\$309,807) | (\$5,539,368) |
| Long-term bank loans | (8,915,557) | (4,397,306) |
| Long-term bonds | (4,000,000) | |
| Decrease in guarantee deposits | (631,177) | (5,817,622) |
| Cash dividends paid for preferred stocks | (455,000) | (455,000) |
| Redemption of preferred stock | (13,000,000) | |
| Remuneration paid to directors and supervisors | (58,485) | (133,848) |
| Proceeds from issuance of long-term bonds | | 10,000,000 |
| Increase in issuance costs of financing | | (3,002) |
| Net cash used in financing activities | (27,370,026) | (6,346,146) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 35,261,585 | 29,971,539 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (62,893) | 262,370 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 67,790,204 | 37,556,295 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | \$ 102,988,896 | \$ 67,790,204 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid (excluding amounts capitalized of NT\$139,516 thousand and NT\$213,686 thousand in 2003 and 2002, respectively) | \$ 1,982,594 | \$ 2,301,765 |
| Income tax paid | \$ 218,954 | \$ 165,121 |
| Noncash investing and financing activities: | | |
| Current portion of long-term liabilities | \$ 5,000,000 | \$ 12,107,899 |
| Current portion of other long-term payables | \$ 1,591,972 | \$ 1,157,299 |
| Reclassification of long-term investments to short-term investment | \$ 140,984 | \$ 43,640 |
| Reclassification of parent company stock held by subsidiaries from long-term investments to treasury stock | \$ | \$ 1,923,492 |

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

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

(Concluded)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation

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

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

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

Government bonds under repurchase agreements acquired with maturities less than three months from date of purchase are classified as cash equivalents.

Short-term Investments

Short-term investments consist of government bonds, money market funds, government bonds acquired under repurchase agreements, bond funds and listed stocks. The investments are carried at the lower of cost or market value. Cash dividends are recorded as investment income in the current period. An allowance for decline in value is provided and is charged to current period earnings when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the market value. The cost of investments sold is accounted for using the weighted-average method.

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

Allowance for Doubtful Receivables

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Inventories

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

Long-term Investments

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method of accounting. The Company's proportionate share in the net income or net loss of investee companies is recognized as components of the Investment income/loss recognized by equity method net account. When equity investments are made, the difference, if any, between the cost of investment and the Company's proportionate share of investee's net book value is amortized using the straight-line method over five years and is recorded as a component of the investment income/loss recognized by equity method net account. The Company adopted Statements of Financial Accounting Standards (SFAS) No. 30, Accounting for Treasury Stock on January 1, 2002. SFAS No. 30 requires the

parent company to reclassify its capital stock held by its subsidiary from long-term investments to treasury stock.

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in the equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged to capital surplus. In the event an investee uses its capital surplus (excluding any reserve for asset revaluation) to offset its accumulated deficit, the Company records a corresponding entry equivalent to its proportionate share of the investee's adjustment.

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

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

Investments in convertible notes are carried at cost.

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

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

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

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

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

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

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

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements 20 years; buildings 10 to 20 years; machinery and equipment 5 to 10 years; and office equipment 3 to 7 years.

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

Goodwill

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

Deferred Charges

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

Pension Costs

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

Casualty Loss

Casualty losses are recorded when incurred. Any insurance recoveries are recorded up to the amount of the loss when such recoveries are probable. Recoveries in excess of the amount of the loss are recorded when realized.

Income Tax

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

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

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

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

Foreign-Currency Transactions

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

Derivative Financial Instruments

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

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

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

Translation of Foreign-Currency Financial Statements

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

Reclassification

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

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3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. SIGNIFICANT ELIMINATION ENTRIES

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

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

5. CASH AND CASH EQUIVALENTS

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

6. SHORT-TERM INVESTMENTS

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

7. INVENTORIES NET

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

8. LONG-TERM INVESTMENTS

| 2003 | | 2002 | |
|----------|------------|----------|------------|
| Carrying | % of | Carrying | % of |
| Value | Owner-Ship | Value | Owner-Ship |

| | | | | |
|--|--------------|----|--------------|----|
| Shares of stock | | | | |
| Equity method: | | | | |
| Publicly traded stocks | | | | |
| Vanguard International Semiconductor Corporation (VIS) | \$ 4,077,198 | 28 | \$ 2,415,297 | 25 |
| Non-publicly traded stocks | | | | |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 2,759,376 | 32 | 3,136,115 | 32 |
| GUC | 368,434 | 47 | | |
| VisEra Technology Company Ltd. (VisEra) | 50,231 | 25 | | |
| | | | | |
| | 7,255,239 | | 5,551,412 | |
| | | | | |
| Prepayment for subscribed stocks | | | | |
| VIS | | | 849,360 | |
| | | | | |

(Continued)

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

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

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

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

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

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

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

TSMC established Ya Xin in November 2002 and subsequently signed a merger agreement with GUC in December 2002. The merger was effective on January 4, 2003 and GUC is the surviving company. As of December 31, 2003, TSMC holds a 47% ownership interest in GUC.

9. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

10. DEFERRED CHARGES NET

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

11. SHORT-TERM BANK LOANS

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

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

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

12. LONG-TERM BANK LOANS

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

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

in compliance with these financial covenants as of December 31, 2003.

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

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

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

13. BONDS

| | 2003 | 2002 |
|---|----------------------|----------------------|
| Domestic unsecured bonds: | | |
| Issued on March 4, 1998 and payable on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually | \$ | \$ 4,000,000 |
| Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively | 5,000,000 | 5,000,000 |
| Issued from December 4 to 15, 2000 and payable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% annual interest payable annually, respectively | 15,000,000 | 15,000,000 |
| Issued from January 10 to 24, 2002 and payable in January 2007, 2009 and 2012 in three equal payments, 2.60%, 2.75% and 3% annual interest payable annually, respectively | 15,000,000 | 15,000,000 |
| | <u>\$ 35,000,000</u> | <u>\$ 39,000,000</u> |

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

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

14. OTHER LONG-TERM PAYABLES

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

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

15. PENSION PLAN

TSMC has a defined benefit plan for all regular employees that provide benefits based on length of service and average monthly salary for the six month period prior to retirement.

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

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

| | 2003 | 2002 |
|--|--------------|--------------|
| a. Components of pension cost | | |
| Service cost | \$ 502,116 | \$ 442,294 |
| Interest cost | 109,671 | 121,552 |
| Projected return on plan assets | (41,154) | (45,102) |
| Amortization | 2,409 | 1,681 |
| Net pension cost | \$ 573,042 | \$ 520,425 |
| b. Reconciliation of the fund status of the plan and unfunded accrued pension cost | | |
| Benefit obligation | | |
| Vested benefit obligation | \$ 21,895 | \$ 21,294 |
| Nonvested benefit obligation | 2,185,792 | 1,607,272 |
| Accumulated benefit obligation | 2,207,687 | 1,628,566 |
| Additional benefits based on future salaries | 1,752,208 | 1,300,712 |
| Projected benefit obligation | 3,959,895 | 2,929,278 |
| Fair value of plan assets | (1,207,264) | (1,014,086) |
| Funded status | 2,752,631 | 1,915,192 |
| Unrecognized net transitional obligation | (141,091) | (149,391) |
| Unrecognized net gain (loss) | (10,090) | 445,759 |
| Unfunded accrued pension cost | \$ 2,601,450 | \$ 2,211,560 |
| c. Actuarial assumptions | | |
| Discount rate used in determining present values | 3.25% | 3.75% |
| Future salary increase rate | 3.00% | 3.00% |
| Expected rate of return on plan assets | 3.25% | 3.75% |
| d. Contributions to pension fund | \$ 181,106 | \$ 164,720 |

| | | | |
|----|----------------------------|----------|----------|
| e. | Payments from pension fund | \$ 3,490 | \$ 5,360 |
|----|----------------------------|----------|----------|

16. INCOME TAX

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

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

- b. Income tax expense consists of:

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

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

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

d. Integrated income tax information:

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

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

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

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

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

| Regulation | Items | Total Creditable Amounts | Remaining Creditable Amounts | Expiry Year |
|----------------------------------|---|--------------------------|------------------------------|-------------|
| Statute for Upgrading Industries | Purchases of machinery and equipment | \$ 8,203,531 | \$ 3,938,319 | 2004 |
| | | 3,792,734 | 3,792,734 | 2005 |
| | | 4,823,691 | 4,823,691 | 2006 |
| | | 1,680,360 | 1,680,360 | 2007 |
| | | <u>\$ 18,500,316</u> | <u>\$ 14,235,104</u> | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 2,258,828 | \$ 2,258,828 | 2004 |
| | | 3,111,472 | 3,111,472 | 2005 |
| | | 3,322,453 | 3,322,453 | 2006 |
| | | 2,275,560 | 2,275,560 | 2007 |
| | | <u>\$ 10,968,313</u> | <u>\$ 10,968,313</u> | |
| Statute for Upgrading Industries | Personnel training | \$ 48,097 | \$ 48,097 | 2004 |
| | | 28,886 | 28,886 | 2005 |
| | | 27,311 | 27,311 | 2006 |
| | | <u>\$ 104,294</u> | <u>\$ 104,294</u> | |
| Statute for Upgrading Industries | Investments in important technology-based enterprises | \$ 203,319 | \$ 203,319 | 2004 |
| | | 138,864 | 138,864 | 2005 |
| | | <u>\$ 342,183</u> | <u>\$ 342,183</u> | |

g. As of December 31, 2003, the net operating loss carryforwards were generated from WaferTech, TSMC Development and TSMC Technology and will expire at various dates through 2023.

h. The sales attributable to the following expansion and construction of TSMC's manufacturing plants are exempt from income tax for the following periods:

| | Tax-Exemption Periods |
|-----------------------|-----------------------|
| Construction of Fab 6 | 2001 to 2004 |

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Construction of Fab 8 module B

2002 to 2005

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

2003 to 2006

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

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17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

| | For the Year Ended December 31, 2003 | | |
|----------------------------|--------------------------------------|----------------------|----------------------|
| | Classified as | | |
| | Classified as | Operating | |
| | Cost of Sales | Expense | Total |
| Labor cost | | | |
| Salary | \$ 9,014,068 | \$ 4,647,912 | \$ 13,661,980 |
| Labor and health insurance | 476,687 | 245,357 | 722,044 |
| Pension | 379,845 | 193,718 | 573,563 |
| Other | 339,500 | 304,398 | 643,898 |
| Depreciation | 61,988,138 | 2,398,768 | 64,386,906 |
| Amortization | 1,385,594 | 3,367,462 | 4,753,056 |
| | <u>\$ 73,583,832</u> | <u>\$ 11,157,615</u> | <u>\$ 84,741,447</u> |
| | | | |
| | For the Year Ended December 31, 2002 | | |
| | Classified as | | |
| | Classified as | Operating | |
| | Cost of Sales | Expense | Total |
| Labor cost | | | |
| Salary | \$ 7,831,036 | \$ 4,195,974 | \$ 12,027,010 |
| Labor and health insurance | 427,992 | 220,527 | 648,519 |
| Pension | 349,279 | 185,457 | 534,736 |
| Other | 291,439 | 348,707 | 640,146 |
| Depreciation | 57,404,004 | 2,493,369 | 59,897,373 |
| Amortization | 2,161,950 | 2,938,670 | 5,100,620 |
| | <u>\$ 68,465,700</u> | <u>\$ 10,382,704</u> | <u>\$ 78,848,404</u> |

18. SHAREHOLDERS EQUITY**Capital, Capital Surplus and Retained Earnings**

TSMC has issued 585,898 thousand ADSs which are traded on the NYSE as of December 31, 2003. The total number of common shares represented by all issued ADSs is 2,929,491 thousand shares (one ADS represents five common shares).

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

purchase of treasury stock) can be distributed as stock dividends.

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

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

- d. Dividends to holders of preferred shares at a 3.5% annual rate, based on the period which the preferred shares have been outstanding. Following the redemption of all of its issued and outstanding preferred shares in May 2003, TSMC amended its Articles of Incorporation on June 3, 2003 to remove the provision for issuance of any future dividends to preferred shareholders as of that date;
- e. The appropriation of any remaining balance shall be approved by the shareholders.

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

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

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

A special reserve equivalent to the debit balance of any account shown in the shareholder's equity section of the balance sheet (except for the recorded cost of treasury stock held by subsidiaries) shall be made from unappropriated retained earnings pursuant to existing regulations promulgated by the ROC SFC. The special reserve is allowed to be appropriated when the debit balance of such account is reversed.

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

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

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

total outstanding common shares as of December 31, 2002 and 2001, respectively.

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

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

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

Preferred Stock

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

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

Preferred shareholders

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

19. STOCK-BASED COMPENSATION PLANS

Stock Option Plans

On October 29, 2003 and June 25, 2002, the SFC approved TSMC's Employee Stock Option Plans (the 2003 Plan and the 2002 Plan, respectively). The maximum number of units authorized to be granted under the 2003 Plan and the 2002 Plan was 120,000 thousand and 100,000 thousand, respectively, with each unit representing one common share of stock. The option rights may be granted to qualified employees of TSMC and its subsidiaries, including TSMC North America and WaferTech. The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of both plans, stock option rights are granted at an exercise price equal to the closing price of TSMC's common shares listed on the TSE on the date of grant. Under the 2002 Plan, there were 51,485 thousand option rights that were never been granted, or had been granted but cancelled. These un-granted or cancelled option rights expired as of December 31, 2003.

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

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

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

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

WaferTech Stock Option Buyback Program

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

Stock Appreciation Rights

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

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20. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

| Purpose of Purchase | Beginning | Dividend | Share | Ending |
|---|-----------|-------------|-------|--------|
| | Shares | Distributed | Sold | Shares |
| Year ended December 31, 2003 | | | | |
| Reclassification of parent company stock held by subsidiaries from long-term investment | 42,001 | 3,357 | 4,761 | 40,597 |
| Year ended December 31, 2002 | | | | |
| Reclassification of parent company stock held by subsidiaries from long-term investment | 39,270 | 3,818 | 1,087 | 42,001 |

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

21. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

| Amounts (Numerator) | | | EPS (Dollars) | | |
|---|---------------|---------------|---------------|----------|--------------|
| Income | | | Income | | |
| Before Income | | | Before Income | | |
| Tax and | | | Tax and | | |
| Minority | Consolidated | | Share | Minority | Consolidated |
| Interest | Net Income | | (Denominator) | Interest | Net Income |
| | | | (Thousand) | | |
| Year ended December 31, 2003 | | | | | |
| Income | \$ 51,178,645 | \$ 47,258,700 | | | |
| Less preferred stock dividends | (184,493) | (184,493) | | | |
| Basic earnings per share | | | | | |
| Income available to common shareholders | 50,994,152 | 47,074,207 | 20,223,457 | \$ 2.52 | \$ 2.33 |
| Effect of diluted securities stock options | | | 8,282 | | |

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| | | | | | |
|---|---------------|---------------|------------|---------|---------|
| Diluted earnings per share | | | | | |
| Income available to common shareholders | \$ 50,994,152 | \$ 47,074,207 | 20,231,739 | \$ 2.52 | \$ 2.33 |
| Year ended December 31, 2002 | | | | | |
| Income | \$ 27,222,148 | \$ 21,610,291 | | | |
| Less preferred stock dividends | (455,000) | (455,000) | | | |
| Basic and diluted earnings per share | | | | | |
| Income available to common shareholders | \$ 26,767,148 | \$ 21,155,291 | 20,220,989 | \$ 1.32 | \$ 1.05 |

The potential common shares issuable under the employee stock option plans (see Note 19) are included in the denominator of the diluted EPS computation by using the treasury stock method under SFAS No. 24, Earnings Per Share ; however, such shares resulted in a non-dilutive per share amount for the year ended December 31, 2002. The average number of shares outstanding for the EPS calculation has been adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic and diluted EPS before income tax and after income tax for the year ended December 31, 2002 to decrease from NT\$1.43 to NT\$1.32 and NT\$1.14 to NT\$1.05, respectively.

22. RELATED PARTY TRANSACTIONS

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

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

VIS

SSMC

GUC

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

| | 2003 | | 2002 | |
|--|----------------------|-----------|---------------------|-----------|
| | Amount | % | Amount | % |
| For the year ended | | | | |
| Sales | | | | |
| Philips and its affiliates | \$ 3,577,054 | 2 | \$ 2,909,008 | 2 |
| GUC | 549,471 | | | |
| ITRI | 60,171 | | 94,409 | |
| SSMC | 873 | | 7,018 | |
| VIS | 19 | | 92,119 | |
| | <u>\$ 4,187,588</u> | <u>2</u> | <u>\$ 3,102,554</u> | <u>2</u> |
| Purchase | | | | |
| SSMC | \$ 5,519,805 | 17 | \$ 2,751,297 | 11 |
| VIS | 4,910,810 | 15 | 3,469,198 | 14 |
| | <u>\$ 10,430,615</u> | <u>32</u> | <u>\$ 6,220,495</u> | <u>25</u> |
| Operating expense Rental | | | | |
| ITRI | \$ | | \$ 40,401 | |
| Manufacturing expenses Technical assistance fees | | | | |
| Philips | \$ 3,023,741 | 3 | \$ 2,849,517 | 4 |

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| | | | | |
|---|------------|---|------------|---|
| | | | | |
| Sales of property, plant and equipment | | | | |
| VIS | \$ 15,125 | 3 | \$ | |
| | | | | |
| Non-operating income and gains | | | | |
| SSMC (primarily technical service income, see Note 24f) | \$ 201,869 | 4 | \$ 126,061 | 6 |
| VIS | 251 | | | |
| | | | | |
| | \$ 202,120 | 4 | \$ 126,061 | 6 |
| | | | | |

(Continued)

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

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

23. SIGNIFICANT LONG-TERM LEASES

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

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

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

| Year | Amount |
|------|------------|
| 2004 | \$ 349,236 |
| 2005 | 350,120 |
| 2006 | 349,867 |

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| | |
|---------------------|--------------|
| 2007 | 339,249 |
| 2008 | 318,379 |
| 2009 and thereafter | 1,797,827 |
| | <hr/> |
| | \$ 3,504,678 |
| | <hr/> |

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24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, with respect to certain products. The agreement shall remain in force through July 8, 2007 and may be automatically renewed for successive periods of three years thereafter. Under the amended agreement, starting from the fifth anniversary date of the amended agreement, the fees are subject to reduction by the amounts TSMC pays to any third party for settling any licensing/infringement disputes, provided that the fees to be paid after reduction will not be below a certain percentage of the net sales.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of TSMC's production capacity.
- c. Under a technical cooperation agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- d. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2003, TSMC has a total of US\$22,557 thousand of guarantee deposits.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, for the purpose of constructing an integrated circuit foundry in Singapore. As of December 31, 2003, TSMC's equity interest in SSMC was 32%. TSMC and Philips are committed to buy specific percentages of the production capacity of SSMC. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- f. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net sales of certain products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, TSMC shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, TSMC and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the termination agreement, TSMC is relieved of further obligation to transfer additional technology. In addition, TSMC granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- h. TSMC entered into a Manufacturing Agreement with VIS. VIS agrees to reserve certain production capacity for TSMC and agrees to manufacture certain logic devices or other products for TSMC's customers at prices agreed upon by TSMC and VIS. TSMC paid NT\$1,200,000 thousand to VIS as a guarantee deposit for the capacity reservation. VIS shall return portions of the guarantee deposit without any interest to TSMC upon reaching certain purchase commitments by TSMC. The contract will remain in force for five years. As of December 31, 2003, the refundable deposit was NT\$150,840 thousand.

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

25. ADDITIONAL DISCLOSURES

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

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

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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;

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

The Company entered into derivative financial instruments transactions for the year ended December 31, 2003 to manage exposures related to foreign-currency denominated receivables or payables, and interest rate fluctuations. Certain information on these contracts is as follows:

- a) Outstanding forward exchange contracts as of December 31, 2003

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

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

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

| Assets and Liabilities | (In Thousand) |
|-------------------------------|----------------|
| Time deposits | US\$ 1,137,704 |
| Accounts and notes receivable | US\$ 789,927 |
| Accounts payable | JPY 889,850 |
| Accounts payable | EUR 9,364 |

- b) Interest rate swaps

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

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

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

c) Option contracts

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

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

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

d) Transaction risk

- i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss incurred by the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter-parties are low.
- ii) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in currency exchange rates on the Company's foreign currency denominated receivables or payables and interest rate fluctuations on its floating rate long-term loans. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from the hedged receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks are believed to be minimal.
- iii) Liquidity and cash flow risk and uncertainty of amount and term of future cash demand.

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

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

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

2) Fair value of financial instruments

| | December 31 | | | |
|--|-----------------|----------------|-----------------|---------------|
| | 2003 | | 2002 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Non-derivative financial instruments | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 102,988,896 | \$ 102,988,896 | \$ 67,790,204 | \$ 67,790,204 |
| Short-term investments | 13,611,536 | 14,054,511 | 170,012 | 2,455,582 |
| Receivables from related parties | 1,052,175 | 1,052,175 | 439,659 | 439,659 |
| Notes and accounts receivables | 28,505,162 | 28,505,162 | 19,590,942 | 19,590,942 |
| Other financial assets | 1,373,705 | 1,373,705 | 1,010,453 | 1,010,453 |
| Long-term investments | 10,748,014 | 17,815,445 | 10,635,496 | 12,750,029 |
| Refundable deposits | 199,522 | 199,522 | 557,266 | 557,266 |
| Liabilities | | | | |
| Short-term bank loans | 407,736 | 407,736 | 729,813 | 729,813 |
| Payables to related parties | 3,248,289 | 3,248,289 | 1,776,149 | 1,776,149 |
| Accounts payable | 6,438,604 | 6,438,604 | 5,138,592 | 5,138,592 |
| Payable to contractors and equipment suppliers | 7,232,103 | 7,232,103 | 14,132,100 | 14,132,100 |
| Long-term bank loans (includes current portion) | 8,800,302 | 8,800,302 | 18,002,054 | 18,002,054 |
| Bonds payable (includes current portion) | 35,000,000 | 35,850,377 | 39,000,000 | 39,762,245 |
| Other long-term payables (includes current portion and other liabilities-others) | 5,649,461 | 5,649,461 | 5,616,220 | 5,616,220 |
| Guarantee deposits | 763,889 | 763,889 | 1,395,066 | 1,395,066 |
| Derivative financial instruments | | | | |
| Forward exchange contracts (buy) | 2,351 | 3,037 | 38,369 | 26,089 |
| Forward exchange contracts (sell) | (99,984) | 40,638 | 143,702 | 139,913 |
| Interest rate swaps | | 2,093 | 23,994 | (164,342) |
| Options | | | (50,273) | (410,132) |

Fair values of financial instruments were determined as follows:

- a) The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, payables to contractors and equipment suppliers are approximate to their fair values.
- b) Fair value of short-term and long-term investments is based on quoted market prices. If quoted market prices are unavailable, fair value is based on net asset value or book value of investment.

- c) Fair value of refundable deposits and guarantee deposits is based on carrying values.
- d) The fair value of long-term bank loans is its carrying value with the floating interest rate. The fair value of bonds payable is the quoted market value. Fair value of other long-term payables approximates the carrying value.
- e) Fair value of derivative financial instruments is the estimated net receivable or (payable) if the contracts are terminated on the relevant balance sheet date.

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

3) Investment in Mainland China:

TSMC filed an investment project with the Investment Commission of MOEA to establish a foundry in Mainland China. On February 27, 2003, the authority approved phase one of the aforementioned project and permitted direct investment in mainland China. Subsequently, TSMC entered into an investment related agreement with Shanghai Songjiang District People's Government on June 8, 2003. On August 4, 2003, TSMC Shanghai, a wholly-owned subsidiary of TSMC, was established. TSMC Shanghai is engaged mainly in the manufacturing and selling of integrated circuits. TSMC made a capital investment in TSMC Shanghai in the amount of US\$56,000 thousand on October 8, 2003.

26. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

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

(Continued)

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

b. Gross export sales

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

c. Major customer

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

TABLE 1**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****FINANCING PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| No. | Financing Name | Counter-party | Financial Statement Account | Maximum Balance for the Period (US\$ in Thousand) | Ending Balance (US\$ in Thousand) | Interest Rate | Transaction Amounts | Reasons For Short-term Financing | Collateral | | Financing Limit for Each Borrowing Company | Financing Company's Financing Amount Limits (US\$ in Thousand) |
|-----|--------------------|------------------|-----------------------------|---|-----------------------------------|---------------|---------------------|----------------------------------|------------------------|------------|--|--|
| | | | | | | | | | Allowance for Bad Debt | Item Value | | |
| 1 | TSMC International | TSMC Technology | Other receivables | \$ 538,585 (US\$15,851) | \$ 538,585 (US\$ 15,851) | 4.25% | \$ | Operating capital | \$ | \$ | N/A | \$ 33,569,117 (US\$987,968) (Note1) |
| | | TSMC Development | Other receivables | \$ 2,038,680 (US\$60,000) | \$ 2,038,680 (US\$ 60,000) | 1.50% | | Operating capital | | | | |
| 2 | TSMC Partners | TSMC Development | Other receivables | \$ 2,718,240 (US\$80,000) | \$ 2,718,240 (US\$ 80,000) | 1.50% | | Operating capital | | | N/A | (Note 2) |
| | | | | | | | | | | | | |

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

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

TABLE 2**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****ENDORSEMENT/GUARANTEE PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2003**

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

| No. | 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) | Ratio of Accumulated Amount of Collateral Net Equity Value of Collateral Property, Plant & Equipment at the Latest Financial Statement | | Maximum Collateral/Guarantee Amounts Allowable (Note 1) |
|-----|--------------------|--------------------|---|--|--|--|---|-------|---|
| | | Name | Nature of Relationship (Note 2) | | | | | | |
| 0 | TSMC | TSMC Development | 3 | Not exceed 10% of the net worth of TSMC, and also limiting to the total paid-in capital of the endorsement/guarantee company, unless otherwise approved by Board of Directors. | \$ 6,795,600 (US\$200,000) | \$ 2,038,680 (US\$60,000) | | 0.62% | \$ 82,303,577 |
| | | TSMC North America | 2 | | 1,359,120 (US\$40,000) | 1,359,120 (US\$40,000) | | 0.41% | |
| | | WaferTech | 3 | | 14,950,320 (US\$440,000) | 14,950,320 (US\$440,000) | | 4.54% | |

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

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

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

TABLE 3**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2003 | | | | Note |
|-------------------|-------------------------------------|-------------------------------|-----------------------------|-------------------------------|--------------------|-------------------------|---------------------------------|--|
| | | | | Shares/Units (In Thousand) | Carrying Value | Percentage of Ownership | Market Value or Net Asset Value | |
| | | | | | (US\$ in Thousand) | | (US\$ in Thousand) | |
| TSMC | Government bonds | | | | | | | |
| | 2002 Government Bond Series A | | Short-term investment | | \$ 3,157,331 | N/A | \$ 3,169,046 | |
| | 2002 Government Bond Series E | | Short-term investment | | 3,113,067 | N/A | 3,126,273 | |
| | 1994 Government Bond Series C | | Short-term investment | | 1,422,197 | N/A | 1,426,995 | |
| | Bonds with Repurchase Agreement | | Short-term investment | | 1,800,000 | N/A | 1,802,572 | |
| | Money market funds | | | | | | | |
| | BOA Funds | | Short-term investment | 40,000 | 1,359,120 | N/A | 1,359,120 | |
| | | | | | (US\$40,000) | | (US\$40,000) | |
| | GS Funds | | Short-term investment | 20,000 | 679,560 | N/A | 679,560 | |
| | | | | | (US\$20,000) | | (US\$20,000) | |
| | Bond funds | | | | | | | |
| | JF Taiwan Bond Fund | | Short-term investment | 34,343 | 500,000 | N/A | 503,421 | |
| | ABN AMRO Bond Fund | | Short-term investment | 34,794 | 500,000 | N/A | 503,490 | |
| | Stock | | | | | | | |
| | Taiwan Mask Corp. | | Short-term investment | 7,094 | 27,744 | 2 | 132,967 | |
| | TSMC North America | Subsidiary | Long-term investment | 11,000 | 417,858 | 100 | 1,133,011 | Treasury stock of NT\$ 715,153 thousand is deducted from the carrying value. |
| | TSMC Europe | Subsidiary | Long-term investment | | 24,622 | 100 | 24,622 | |
| | TSMC Japan | Subsidiary | Long-term investment | 6 | 101,722 | 100 | 101,722 | |
| | VIS | Investee | Long-term investment | 787,016 | 4,077,198 | 28 | 10,465,676 | |
| | TSMC International | Subsidiary | Long-term investment | 987,968 | 22,654,743 | 100 | 22,654,743 | |
| | TSMC Partners | Subsidiary | Long-term investment | 300 | 4,116,934 | 100 | 4,116,934 | |
| | SSMC | Investee | Long-term investment | 382 | 2,759,376 | 32 | 2,759,376 | |
| | Emerging Alliance | Subsidiary | Long-term investment | | 704,744 | 99 | 704,744 | |
| | GUC | Investee | Long-term investment | 39,040 | 368,434 | 47 | 403,962 | |
| | Vis Era | Investee | Long-term investment | 5,100 | 50,231 | 25 | 50,231 | |

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| | | | | | |
|--|----------------------|--------|---------|----|---------|
| United Gas Co., Ltd. | Long-term investment | 16,783 | 193,584 | 11 | 282,754 |
| Shin-Etsu Handotai Taiwan Co., Ltd. | Long-term investment | 10,500 | 105,000 | 7 | 147,999 |
| W.K. Technology Fund IV | Long-term investment | 5,000 | 50,000 | 2 | 57,051 |
| Hon Tung Ventures Capital | Long-term investment | 8,392 | 83,916 | 10 | 66,447 |

(Continued)

| December 31, 2003 | | | | | | | | |
|--------------------------|-----------------------|-------------------|-----------------------|---------------|--------------|---------------|--------------|---|
| Held | | | | | Carrying | | Market Value | |
| Company | Marketable | Relationship | Financial | Shares/Units | Value | Percentage of | or | |
| Name | Securities | with the | Statement | | (US\$ in | Ownership | Net Asset | |
| | Type and Name | Company | Account | (In Thousand) | Thousand) | | (US\$ in | Note |
| | | | | | | | Thousand) | |
| | Certificate | | | | | | | |
| | Chi Cherng | Investee | Long-term investment | | | | | Treasury stock of NT\$458,564 thousand is deducted from the carrying value. |
| | | | | | \$ 42,941 | 36 | \$ 501,505 | |
| | Hsin Ruey | Investee | Long-term investment | | | | | Treasury stock of NT\$459,511 thousand is deducted from the carrying value. |
| | | | | | 42,006 | 36 | 501,517 | |
| | Equity | | | | | | | |
| | Crimson Asia Capital | | Long-term investment | N/A | 40,947 | N/A | 40,947 | |
| | Horizon Ventures | | Long-term investment | N/A | 229,669 | N/A | 229,669 | |
| TSMC North America Stock | | | | | | | | |
| | TSMC | Parent company | Long-term investment | 13,101 | 715,153 | | 822,491 | |
| Chi Cherng | Stock | | | | | | | |
| | TSMC | Parent company | Short-term investment | 13,735 | 458,564 | | 862,340 | |
| | Certificate | | | | | | | |
| | Hsin Ruey | Major shareholder | Long-term investment | | 902,033 | 64 | 902,033 | |
| Hsin Ruey | Stock | | | | | | | |
| | TSMC | Parent company | Short-term investment | 13,761 | 459,511 | | 863,957 | |
| | Certificate | | | | | | | |
| | Chi Cherng | Major shareholder | Long-term investment | | 902,909 | 64 | 902,909 | |
| TSMC International | Stock | | | | | | | |
| | InveStar | Subsidiary | Long-term investment | 45,000 | US\$ 46,403 | 97 | US\$ 46,403 | |
| | InveStar II | Subsidiary | Long-term investment | 51,300 | US\$ 36,901 | 97 | US\$ 36,901 | |
| | TSMC Development | Subsidiary | Long-term investment | 1 | US\$ 537,716 | 100 | US\$ 537,716 | |
| | TSMC Technology | Subsidiary | Long-term investment | 1 | (US\$7,918) | 100 | (US\$7,918) | |
| | 3DFX Interactive Inc. | | Long-term investment | 68 | | | | |
| | Money market fund | | | | | | | |
| | BOA Fund | | Short-term investment | 30,300 | US\$ 30,300 | N/A | US\$ 30,300 | |
| TSMC Development | Stock | | | | | | | |
| | WaferTech | Subsidiary | Long-term investment | | US\$ 341,972 | 99 | US\$ 341,972 | |
| InveStar | Stock | | | | | | | |
| | PLX Technology, Inc. | | | 93 | US\$ 180 | | US\$ 786 | |

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| | | | | | | |
|--|-----------------------|--------|------|-------|----|------------|
| | Short-term investment | | | | | |
| RichTek Technology Corp. | Short-term investment | 947 | US\$ | 121 | 2 | US\$ 5,799 |
| Programmable Microelectronics (Taiwan), Inc. | Long-term investment | 575 | US\$ | 203 | 3 | US\$ 203 |
| Global Testing Corp. | Long-term investment | 13,268 | US\$ | 5,295 | 10 | US\$ 5,295 |

(Continued)

| December 31, 2003 | | | | | | | | |
|-------------------|--|-------------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|--|------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value or Net Asset Value (US\$ in Thousand) | Note |
| | Chipstrate Technologies, Inc. | | Long-term investment | 6,660 | US\$ 308 | 9 | US\$ 308 | |
| | Capella Microsystems, Inc. | | Long-term investment | 530 | US\$ 156 | | US\$ 156 | |
| | Signia Technologies, Inc. | | Long-term investment | 701 | US\$ 206 | 4 | US\$ 206 | |
| | Advanced Power Electronics Corp. | | Long-term investment | 2,750 | US\$ 1,376 | 5 | US\$ 1,376 | |
| | RichTek Technology Corp. | | Long-term investment | 1,671 | US\$ 204 | 3 | US\$ 10,235 | |
| | Preferred stock | | | | | | | |
| | Integrated Memory Logic, Inc. | | Long-term investment | 1,831 | US\$ 1,221 | 12 | US\$ 1,221 | |
| | SiRF Technology Holdings, Inc. | | Long-term investment | 306 | US\$ 1,333 | 1 | US\$ 1,333 | |
| | Sensory, Inc. | | Long-term investment | 1,404 | US\$ 312 | 5 | US\$ 312 | |
| | LightSpeed Semiconductor Corporation | | Long-term investment | 2,252 | US\$ 329 | 2 | US\$ 329 | |
| | Tropian, Inc. | | Long-term investment | 1,758 | US\$ 1,916 | 3 | US\$ 1,916 | |
| | Sonics, Inc. | | Long-term investment | 2,686 | US\$ 3,530 | 5 | US\$ 3,530 | |
| | Atheros Communications, Inc. | | Long-term investment | 1,607 | US\$ 3,593 | | US\$ 3,593 | |
| | NanoAmp Solutions, Inc. | | Long-term investment | 541 | US\$ 853 | 3 | US\$ 853 | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 2,521 | US\$ 2,000 | 12 | US\$ 2,000 | |
| | Memsic, Inc. | | Long-term investment | 2,727 | US\$ 1,500 | 12 | US\$ 1,500 | |
| | Reflectivity, Inc. | | Long-term investment | 1,064 | US\$ 1,192 | 5 | US\$ 1,192 | |
| | Match Lab, Inc. | | Long-term investment | 1,875 | US\$ 375 | 9 | US\$ 375 | |
| | Oridus, Inc. (Creosys, Inc.) | | Long-term investment | 1,500 | US\$ 300 | 8 | US\$ 300 | |
| | Incentia Design Systems, Inc. | | Long-term investment | 286 | US\$ 92 | 2 | US\$ 92 | |
| | IP Unity | | Long-term investment | 1,008 | US\$ 494 | 2 | US\$ 494 | |
| InveStar II | Stock | | | | | | | |
| | WatchGuard Technologies, Inc. | | Short-term investment | 5 | US\$ 30 | | US\$ 30 | |
| | RickTek Technology Corp | | Short-term investment | 465 | US\$ 346 | 1 | US\$ 2,848 | |
| | eChannel Option Holding, Inc. | | Long-term investment | 358 | US\$ 251 | 6 | US\$ 251 | |
| | Elcos Microdisplay Technology, Ltd. | | Long-term investment | 270 | US\$ 27 | 1 | US\$ 27 | |
| | Signia Technologies, Inc. | | Long-term investment | 351 | US\$ 101 | 2 | US\$ 101 | |
| | Procoat Technology | | Long-term investment | 4,165 | US\$ 1,940 | 10 | US\$ 1,940 | |
| | Programmable Microelectronics (Taiwan), Inc. | | Long-term investment | 177 | US\$ 50 | 1 | US\$ 834 | |
| | Auden Technology MFG Co., Ltd. | | Long-term investment | 953 | US\$ 834 | 4 | US\$ 1,151 | |
| | GeoVision, Inc. | | Long-term investment | 287 | US\$ 132 | 1 | US\$ 132 | |
| | EoNex Technologies, Inc. | | Long-term investment | 55 | US\$ 3,048 | 6 | US\$ 3,048 | |
| | Conwise Technology Co., Ltd. | | Long-term investment | 2,800 | US\$ 979 | 14 | US\$ 979 | |
| | Eon Technology, Inc. | | Long-term investment | 2,800 | US\$ 965 | 8 | US\$ 965 | |
| | Goyatek Technology, Inc. | | Long-term investment | 2,088 | US\$ 727 | 8 | US\$ 727 | |
| | TrendChip Technologies Corp. | | Long-term investment | 2,000 | US\$ 861 | 5 | US\$ 861 | |
| | Ralink Technologies, Inc. | | Long-term investment | 1,833 | US\$ 791 | 5 | US\$ 791 | |
| | RickTek Technology Corp | | Long-term investment | 785 | US\$ 583 | 2 | US\$ 4,804 | |
| | Preferred stock | | | | | | | |
| | Capella Microsystems, Inc. | | Long-term investment | 419 | US\$ 122 | 3 | US\$ 122 | |
| | Memsic, Inc. | | Long-term investment | 2,289 | US\$ 1,560 | 10 | US\$ 1,560 | |
| | Oepic, Inc. | | Long-term investment | 4,997 | US\$ 1,317 | 8 | US\$ 1,317 | |

(Continued)

December 31, 2003

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value or Net Asset Value (US\$ in Thousand) | Note |
|-------------------|-------------------------------------|-------------------------------|-----------------------------|----------------------------|-----------------------------------|-------------------------|--|------|
| | NanoAmp Solutions, Inc. | | Long-term investment | 250 | US\$ 1,000 | 1 | US\$ 1,000 | |
| | Advanced Analogic Technology, Inc. | | Long-term investment | 948 | US\$ 1,261 | 2 | US\$ 1,261 | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 804 | US\$ 1,946 | 4 | US\$ 1,946 | |
| | Sonics, Inc. | | Long-term investment | 3,082 | US\$ 3,082 | 5 | US\$ 3,082 | |
| | Newport Opticom, Inc. | | Long-term investment | 1,157 | US\$ 402 | 9 | US\$ 402 | |
| | Silicon Data, Inc. | | Long-term investment | 2,000 | US\$ 750 | 7 | US\$ 750 | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 6 | US\$ 1,500 | |
| | Angstrom Systems, Inc. | | Long-term investment | 1,567 | US\$ 500 | 6 | US\$ 500 | |
| | Tropian, Inc. | | Long-term investment | 1,464 | US\$ 1,595 | 2 | US\$ 1,595 | |
| | SiRF Technology, Inc. | | Long-term investment | 20 | US\$ 131 | | US\$ 131 | |
| | LeadTONE Wireless, Inc. | | Long-term investment | 433 | US\$ 131 | 6 | US\$ 131 | |
| | Match Lab, Inc. | | Long-term investment | 313 | US\$ 63 | 2 | US\$ 63 | |
| | Kilopass Technology, Inc. | | Long-term investment | 3,887 | US\$ 2,000 | 19 | US\$ 2,000 | |
| | Fang Tek, Inc. | | Long-term investment | 5,556 | US\$ 2,000 | 44 | US\$ 2,000 | |
| | Alchip Technologies Ltd. | | Long-term investment | 2,125 | US\$ 1,700 | | US\$ 1,700 | |
| | Elcos Microdisplay Technology, Ltd. | | Long-term investment | 2,667 | US\$ 3,500 | | US\$ 3,500 | |
| Emerging Alliance | Stock | | | | | | | |
| | Global Investment Holding, Inc. | Investee | Long-term investment | 10,000 | \$ 100,000 | 6 | \$ 100,000 | |
| | Preferred stock | | | | | | | |
| | Quake Technologies, Inc. | | Long-term investment | 467 | US\$ 334 | 1 | US\$ 334 | |
| | Pixim, Inc. | | Long-term investment | 1,721 | US\$ 2,382 | 3 | US\$ 2,382 | |
| | Newport Opticom, Inc. | | Long-term investment | 962 | US\$ 250 | 6 | US\$ 250 | |
| | NetLogic Microsystems, Inc. | | Long-term investment | 602 | US\$ 1,850 | 1 | US\$ 1,850 | |
| | Ikanos Communication, Inc. | | Long-term investment | 5,116 | US\$ 1,625 | 3 | US\$ 1,625 | |
| | Quicksilver Technology, Inc. | | Long-term investment | 963 | US\$ 2,488 | 4 | US\$ 2,488 | |
| | Mosaic Systems, Inc. | | Long-term investment | 2,481 | US\$ 12 | 6 | US\$ 12 | |
| | Accelerant Networks, Inc. | | Long-term investment | 441 | US\$ 460 | 1 | US\$ 460 | |
| | Zenesis Technologies, Inc. | | Long-term investment | 861 | US\$ 500 | 4 | US\$ 500 | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 5 | US\$ 1,500 | |
| | Iridigm Display, Co. | | Long-term investment | 254 | US\$ 500 | 1 | US\$ 500 | |
| | XHP Microsystems, Inc. | | Long-term investment | 2,280 | US\$ 750 | 6 | US\$ 750 | |
| | Axiom Microdevices, Inc. | | Long-term investment | 1,000 | US\$ 1,000 | 5 | US\$ 1,000 | |
| | Optichron, Inc. | | Long-term investment | 714 | US\$ 1,000 | 6 | US\$ 1,000 | |
| | Audience, Inc. | | Long-term investment | 1,654 | US\$ 250 | 2 | US\$ 250 | |
| | Next IO, Inc. | | Long-term investment | 800 | US\$ 500 | 3 | US\$ 500 | |
| | NuCORE Technology Inc. | | Long-term investment | 1,821 | US\$ 1,000 | 2 | US\$ 1,000 | |
| GUC | Bond funds | | | | | | | |
| | Entrust KIRIN | | Short-term investment | 2,106 | 22,324 | | 22,334 | |
| | Entrust Phoenix | | Short-term investment | 1,399 | 20,207 | | 20,216 | |
| | TISC | | Short-term investment | 2,210 | 30,000 | | 30,012 | |
| | Ta-Hua | | Short-term investment | 2,412 | 30,003 | | 30,013 | |
| | E. Sun New Era | | Short-term investment | 962 | 10,000 | | 10,004 | |
| | Shenghua 1699 | | Short-term investment | 1,009 | 12,000 | | 11,995 | |

(Continued)

| December 31, 2003 | | | | | | | | |
|-------------------------|-------------------------------------|----------------------------------|--------------------------------|-------------------------------|-----------------------|----------------------------|---------------------------------------|------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | | | Market Value or Net Asset Value | |
| | | | | Shares/Units (In Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | Note |
| | Jihsun | | Short-term investment | 764 | \$ 10,000 | | \$ 10,157 | |
| | Shenghua 5599 | | Short-term investment | 931 | 10,000 | | 10,004 | |
| | Mega Diamond | | Short-term investment | 2,734 | 30,105 | | 30,118 | |
| | Polar | | Short-term investment | 1,968 | 20,060 | | 20,068 | |
| | Ta-Hua GC Dollar | | Short-term investment | 38 | 13,691 | | 13,732 | |
| | Taiwan Security Overseas Fund | | Short-term investment | 22 | 102,694 | | 103,190 | |

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TABLE 4**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| Security 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) |
| Money market funds | | | | | | | | | | | | | |
| | BOA Fund | Short-term investment | BOA | | | \$ | 120,000 | \$ 4,161,760 (US\$120,000) | 80,000 | \$ 2,785,760 | \$2,785,760 (US\$80,000) | \$ | 40,000 |
| | GS Fund | Short-term investment | Goldman Sachs | | | | 140,000 | 4,852,300 (US\$140,000) | 120,000 | 4,165,140 | 4,165,140 (US\$120,000) | | 20,000 |
| Bond funds | | | | | | | | | | | | | |
| | JF Taiwan Bond Fund | Short-term investment | JF Asset Management (Taiwan) Ltd. | | | | 34,343 | 500,000 | | | | | 34,343 |
| | ABN AMRO Bond Fund | Short-term investment | ABN AMRO | | | | 97,782 | 1,400,000 | 62,988 | 902,881 | 900,000 | 2,881 | 34,793 |
| | ABN AMRO Select Bond Fund | Short-term investment | ABN AMRO | | | | 81,744 | 879,000 | 81,744 | 881,719 | 879,000 | 2,719 | |
| Government bonds | | | | | | | | | | | | | |
| | Bonds with Repurchase Agreement | Short-term investment | Several financial institutions | | | | | 1,800,000 | | | | | |
| | 2002 Government Bond Series A | Short-term investment | BNP and several financial institutions | | | | | 3,157,331 | | | | | |
| | 2002 Government Bond Series E | Short-term investment | BNP and several financial institutions | | | | | 3,113,067 | | | | | |
| | 1994 Government Bond Series C | Short-term investment | Chung Shing Bills Finance Corp. and several financial institutions | | | | | 1,422,197 | | | | | |
| Stock | | | | | | | | | | | | | |

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| | | | | | | | | | | | |
|-------------------------------------|-----------------------|-------------------------------------|------------|---------|-----------|---------|--------------|------------|------------|-------------|--------|
| Emerging Alliance | Long-term investment | Emerging Alliance | Subsidiary | | 767,239 | | 174,030 | | | | |
| VIS | Long-term investment | VIS | Investee | 677,471 | 3,264,657 | 109,545 | 766,815 | | | | 787,01 |
| Amkor Technology | Long-term investment | | | 505 | 280,748 | | 505 | 301,209 | 280,748 | 20,461 | |
| Monolithic System Tech. ADR | Long-term investment | | | 470 | 104,289 | | 470 | 152,681 | 104,289 | 48,392 | |
| TSMC | Short-term investment | | | 762 | US\$7,357 | | 823 (Note 2) | US\$ 8,407 | US\$ 7,357 | US\$ 1,050 | |
| Preferred stock | | | | | | | | | | | |
| Elcos Microdisplay Technology, Ltd. | Long-term investment | Elcos Microdisplay Technology, Ltd. | | | | 2,667 | US\$ 3,500 | | | | 2,66 |
| onal Money market fund | | | | | | | | | | | |
| BOA Fund | Short-term investment | BOA | | | | 87,300 | US\$ 87,300 | 57,000 | US\$57,000 | US\$ 57,000 | 30,30 |
| Bond funds | | | | | | | | | | | |
| Taiwan Securities Overseas Fund | Short-term investment | | | | | 22 | 102,694 | | | | 2 |

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

Note 2: Including stock dividend of 61 thousand units.

TABLE 5**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars)**

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

TABLE 6**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

TABLE 7**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

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TABLE 8**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES****NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2003 | | | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note 2) | Note |
|------------------|-----------------------|---------------------------------|--|----------------------------|-------------------|---------------------------------|-------------------------|-------------------------|-----------------------------------|---------------------------------|------------|
| | | | | December 31, 2003 | December 31, 2002 | Shares (Thousand) | Percentage of Ownership | Carrying Value (Note 1) | | | |
| TSMC | TSMC North America | San Jose, California, U.S.A. | Marketing and engineering support | \$ 333,178 | \$ 333,178 | 11,000 | 100 | \$ 417,858 | \$ 234,639 | \$ 227,062 | Subsidiary |
| | TSMC Europe | Amsterdam, The Netherlands | Marketing and engineering support | 15,749 | 2,960 | | 100 | 24,622 | (13) | (13) | Subsidiary |
| | TSMC Japan | Yokohama, Japan | Marketing and engineering support | 83,760 | 83,760 | 6 | 100 | 101,722 | 2,451 | 2,451 | Subsidiary |
| | TSMC Shanghai | Shanghai, China | IC and other wafer equipment manufacturing and marketing | 1,890,952 | | | 100 | 1,901,428 | (1,306) | (1,306) | Subsidiary |
| | VIS | Hsin-Chu, Taiwan | IC design and manufacturing | 8,119,816 | 6,503,640 | 787,016 | 28 | 4,077,198 | 179,359 | 50,351 | Investee |
| | TSMC International | Tortola, British Virgin Islands | Investment | 31,445,780 | 31,445,780 | 987,968 | 100 | 22,654,743 | 876,814 | 876,814 | Subsidiary |
| | Chi Cherng | Taipei, Taiwan | Investment | 300,000 | 300,000 | | 36 | 42,941 | (840) | 108 | Investee |
| | Hsin Ruey | Taipei, Taiwan | Investment | 300,000 | 300,000 | | 36 | 42,006 | (1,290) | 1,252 | Investee |
| | TSMC Partners | Tortola, British Virgin Islands | Investment | 10,350 | 10,350 | 300 | 100 | 4,116,934 | 199,401 | 197,394 | Subsidiary |
| | SSMC | Singapore | Wafer manufacturing | 6,408,190 | 6,408,190 | 382 | 32 | 2,759,376 | (971,314) | (310,821) | Investee |
| | Emerging Alliance GUC | Cayman Islands | Investment | 1,179,690 | 1,005,660 | | 99 | 704,744 | (219,190) | (218,094) | Subsidiary |
| | | Hsin-Chu, Taiwan | IC research, development, manufacturing, testing and marketing | 409,920 | 341,250 | 39,040 | 47 | 368,434 | (88,517) | (33,005) | Investee |
| | VisEra | | | 51,000 | (Note 3) | 5,100 | 25 | 50,231 | (3,076) | (769) | Investee |

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| | |
|---------------------|--|
| Hsin-Chu, Taiwan | Electronic spare parts manufacturing, material wholeselling and retailing |
|---------------------|--|

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

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

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

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Taiwan Semiconductor Manufacturing Company Ltd. and Affiliates

Combined Financial Statements as of December 31, 2003

Together with Independent Accountants' Report

REPRESENTATION LETTER

The combined balance sheet as of December 31, 2003 and the combined statement of income for the year ended December 31, 2003 of Taiwan Semiconductor Manufacturing Company Ltd., and affiliates are in conformity with the requirements on public companies and their affiliates, taken as a whole, of Securities and Futures Commission (SFC) in the Republic of China (ROC), the ROC regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

The accounting records underlying the combined balance sheet and the combined statement of income accurately and fairly reflect, in reasonable detail, the transactions of the Taiwan Semiconductor Manufacturing Company Ltd., its consolidated subsidiaries and affiliates. There are no plans or intentions that may materially affect the carrying values or classifications of assets and liabilities.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING
COMPANY LTD.

By

MORRIS CHANG

Chairman

English Translation of a Report Originally Issued in Chinese

INDEPENDENT ACCOUNTANTS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

We have reviewed the combined balance sheet as of December 31, 2003 and the related combined statement of income for the year then ended of Taiwan Semiconductor Manufacturing Company Ltd. and affiliates. Our review was made in accordance with the Guidelines for the Review of Combined Financial Statements of Affiliates. It is substantially less in scope than an examination in accordance with auditing standards generally accepted in the Republic of China (ROC), the objective of which is the expression of an opinion regarding the combined balance sheet and the combined statement of income taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the combined balance sheet and the combined statement of income referred to above in order for them to be in conformity with Regulations Governing the Preparation of Affiliates' Combined Operating Report, Combined Financial Statements and Relationship Report in the ROC, and the ROC regulation governing the preparation of financial statements of public company and the generally accepted accounting principles in the ROC.

Deloitte & Touche

(T N Soong & Co and Deloitte & Touche (Taiwan))

Established Deloitte & Touche Effective June 1, 2003)

Taipei, Taiwan

Republic of China

January 12, 2004

Notice to Readers

The accompanying combined financial statements were not prepared with a view to comply with the published guidelines of the United States Securities and Exchange Commission or the American Institute of Certified Public Accountants (AICPA) and have not been examined or otherwise reported upon under AICPA guidelines. They are not presented in accordance with generally accepted accounting principles in the United States of America for consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES

COMBINED BALANCE SHEET

(UNAUDITED)

DECEMBER 31, 2003

(In Thousand New Taiwan Dollars, Except Par Value)

| | 2003 | |
|--|----------------|------|
| | Amount | % |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 103,426,957 | 26 |
| Short-term investments (Notes 2 and 5) | 13,922,621 | 3 |
| Receivables from related parties (Note 21) | 1,036,836 | |
| Notes receivable | 10,021 | |
| Accounts receivable | 28,644,803 | 7 |
| Allowance for doubtful receivables (Note 2) | (1,020,398) | |
| Allowance for sales returns and others (Note 2) | (2,135,843) | |
| Other financial assets (Note 24) | 1,389,123 | |
| Inventories net (Notes 2 and 6) | 12,195,066 | 3 |
| Deferred income tax assets (Notes 2 and 15) | 8,398,205 | 2 |
| Prepaid expenses and other current assets (Note 2) | 1,650,709 | |
| Total current assets | 167,518,100 | 41 |
| LONG-TERM INVESTMENTS (Notes 2, 7, and 19) | | |
| Equity method | 6,836,574 | 2 |
| Cost method | 3,222,159 | 1 |
| Funds | 270,616 | |
| Total long-term investments | 10,329,349 | 3 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8, 11 and 21) | | |
| Cost | | |
| Land and land improvements | 855,394 | |
| Buildings | 79,778,533 | 19 |
| Machinery and equipment | 372,186,920 | 91 |
| Office equipment | 7,458,561 | 2 |
| Total cost | 460,279,408 | 112 |
| Accumulated depreciation | (275,075,106) | (67) |
| Advance payments and construction in progress | 26,890,519 | 7 |

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| | | |
|---|----------------|-------|
| Net property, plant and equipment | 212,094,821 | 52 |
| | <hr/> | <hr/> |
| GOODWILL (Note 2) | 8,685,388 | 2 |
| | <hr/> | <hr/> |
| OTHER ASSETS | | |
| Deferred charges net (Notes 2 and 9) | 8,163,414 | 2 |
| Deferred income tax assets (Notes 2 and 15) | 1,111,367 | |
| Refundable deposits (Notes 21 and 23) | 200,390 | |
| Idle assets (Note 2) | 94,296 | |
| Assets leased to others (Note 2) | 84,347 | |
| Miscellaneous | 67,620 | |
| | <hr/> | <hr/> |
| Total other assets | 9,721,434 | 2 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | \$ 408,349,092 | 100 |
| | <hr/> | <hr/> |

| | 2003 | |
|--|-----------------------|------------|
| | Amount | % |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term bank loans (Note 10) | \$ 407,736 | |
| Payables to related parties (Note 21) | 3,248,289 | 1 |
| Accounts payable | 6,517,548 | 2 |
| Payables to contractors and equipment suppliers | 7,356,310 | 2 |
| Accrued expenses and other current liabilities (Note 24) | 8,930,551 | 2 |
| Current portion of long-term liabilities (Notes 11 and 12) | 5,005,489 | 1 |
| Total current liabilities | 31,465,923 | 8 |
| LONG-TERM LIABILITIES | | |
| Long-term bank loans (Note 11) | 8,817,506 | 2 |
| Long-term bonds payables (Note 12) | 30,000,000 | 7 |
| Other long-term payables (Note 13) | 3,306,388 | 1 |
| Total long-term liabilities | 42,123,894 | 10 |
| OTHER LIABILITIES | | |
| Accrued pension cost (Notes 2 and 14) | 2,608,443 | 1 |
| Guarantee deposits (Note 23) | 763,888 | |
| Others | 1,483,245 | |
| Total other liabilities | 4,855,576 | 1 |
| MINORITY INTEREST IN AFFILIATES (Note 2) | 689,390 | |
| Total liabilities | 79,134,783 | 19 |
| SHAREHOLDERS' EQUITY (Notes 2 and 17) | | |
| Common stock \$10 par value | | |
| Authorized: 24,600,000 thousand shares | | |
| Issued: 20,266,619 thousand shares | 202,666,189 | 50 |
| Capital surplus: | | |
| Merger and others (Note 2) | 56,802,829 | 14 |
| Treasury stock (Notes 3 and 19) | 53,056 | |
| Retained earnings: | | |
| Appropriated as legal reserve | 20,802,137 | 5 |
| Appropriated as special reserve | 68,945 | |
| Unappropriated earnings | 50,229,008 | 12 |
| Others: | | |
| Unrealized loss on long-term investments (Note 2) | (35) | |
| Cumulative translation adjustments (Note 2) | 225,408 | |
| Treasury stock (at cost) 40,597 thousand shares (Notes 2 and 19) | (1,633,228) | |
| Total shareholders' equity | 329,214,309 | 81 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 408,349,092 | 100 |

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

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES

COMBINED STATEMENT OF INCOME

(UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2003

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

| | 2003 | |
|--|----------------|-----|
| | Amount | % |
| GROSS SALES (Notes 2, 21 and 25) | \$ 207,675,137 | |
| SALES RETURNS AND ALLOWANCES (Note 2) | (4,285,314) | |
| NET SALES | 203,389,823 | 100 |
| COST OF SALES (Notes 16 and 21) | 128,363,461 | 63 |
| GROSS PROFIT | 75,026,362 | 37 |
| OPERATING EXPENSES (Notes 21 and 25) | | |
| Research and development | 12,864,899 | 6 |
| General and administrative | 8,241,084 | 4 |
| Marketing | 2,700,103 | 2 |
| Total operating expenses | 23,806,086 | 12 |
| INCOME FROM OPERATIONS | 51,220,276 | 25 |
| NON-OPERATING INCOME AND GAINS (Note 25) | | |
| Gain on sales of investments - net (Note 2) | 3,540,249 | 2 |
| Interest (Notes 2 and 24) | 894,381 | 1 |
| Gain on sales of property, plant and equipment (Note 2) | 438,809 | |
| Technical service income (Notes 21 and 22) | 209,764 | |
| Other (Note 21) | 595,959 | |
| Total non-operating income and gains | 5,679,162 | 3 |
| NON-OPERATING EXPENSES AND LOSSES (Note 25) | | |
| Interest (Notes 2, 8 and 24) | 1,891,450 | 1 |
| Loss on impairment of property, plant and equipment and idle assets (Note 2) | 1,506,199 | 1 |
| Foreign exchange loss - net (Notes 2 and 24) | 758,269 | 1 |
| Loss on impairment of long-term investments (Note 2) | 652,718 | |
| Loss on sales of property, plant and equipment (Note 2) | 374,132 | |
| Investment loss recognized by equity method - net (Notes 2 and 7) | 260,470 | |

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| | | |
|--|-----------|---|
| Amortization of premium from option contracts net (Notes 2 and 24) | 153,783 | |
| Other | 172,708 | |
| | | |
| Total non-operating expenses and losses | 5,769,729 | 3 |

(Continued)

English Translation of Financial Statements Originally Issued in Chinese

| | 2003 | |
|--|---------------|----|
| | Amount | % |
| INCOME BEFORE INCOME TAX (Note 25) | \$ 51,129,709 | 25 |
| INCOME TAX EXPENSE (Notes 2 and 15) | 3,922,957 | 2 |
| INCOME BEFORE MINORITY INTEREST | 47,206,752 | 23 |
| MINORITY INTEREST IN LOSS OF AFFILIATES (Notes 2 and 25) | 51,948 | |
| COMBINED NET INCOME | \$ 47,258,700 | 23 |

| | Income Before Income Tax and Minority Interest | Combined Net Income |
|---------------------------------------|---|---------------------------|
| COMBINED EARNINGS PER SHARE (Note 20) | | |
| Basic earnings per share | \$ 2.52 | \$ 2.33 |
| Diluted earnings per share | \$ 2.52 | \$ 2.33 |

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

(Concluded)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS

(UNAUDITED)

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

1. GENERAL

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

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

TSMC has six direct wholly-owned subsidiaries: TSMC International Investment Ltd. (TSMC International), TSMC North America (TSMC North America), Taiwan Semiconductor Manufacturing Company Europe B.V (TSMC Europe), TSMC Japan K. K. (TSMC Japan), TSMC Shanghai Company Limited (TSMC Shanghai; a newly established entity in 2003), and TSMC Partners Ltd. (TSMC Partners). In addition, TSMC has the following consolidating subsidiaries: A 99.5% owned subsidiary, Emerging Alliance Fund, L.P. (Emerging Alliance) and two 36% owned affiliates Chi Cherng Investment Co., Ltd. (Chi Cherng, which is 36% owned by TSMC and 64% owned by Hsin Ruey Investment Co., Ltd.) and Hsin Ruey Investment Co., Ltd. (Hsin Ruey, which is 36% owned by TSMC and 64% owned by Chi Cherng). TSMC International has two wholly-owned subsidiaries TSMC Development, Inc. (TSMC Development) and TSMC Technology, Inc. (TSMC Technology), and two 97% owned subsidiaries InveStar Semiconductor Development Fund, Inc. (InveStar) and InveStar Semiconductor Development Fund, Inc. (II) LDC (InveStar II). TSMC Development has a 99.996% owned subsidiary, WaferTech, LLC (WaferTech). TSMC has two affiliates over which TSMC exercises significant influence: A 47% owned affiliate, Global UniChip Corporation (GUC), and a 25% owned affiliate, VisEra Technology Co., Ltd. (VisEra, a newly established entity in 2003). GUC signed a merger agreement with TSMC's 100% owned subsidiary, Ya Xin Technology, Inc. in December 2002. The merger was effective on January 4, 2003 and GUC is the surviving company.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements are presented in conformity with the Regulations Governing the Preparation of Affiliates Combined Operating Report, Combined Financial Statements and Relationship Report in ROC and the ROC regulations governing the preparation of financial statements of public companies and generally accepted accounting principles in the ROC. Significant accounting policies are summarized as follows:

Combination

All significant inter-company balances and transactions have been eliminated in combined financial statements. The combined financial statements include, as of and for the year ended December 31, 2003, the accounts of all majority (directly and indirectly) owned subsidiaries of TSMC, and the accounts of GUC and VisEra that TSMC exercised significant influence on. Vanguard International Semiconductor Corporation (VIS), which was a combined entity in 2002, was already terminated the significant controlled relationship with TSMC, the combined financial statements as of and for the year ended December 31, 2003 do not include the accounts of VIS. TSMC and the foregoing affiliates are hereinafter referred to collectively as the Company.

Minority interests in the forementioned affiliates are presented separately in the combined financial statements.

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

Government bonds under repurchase agreements acquired with maturities less than three months from date of purchase are classified as cash equivalents.

Short-term Investments

Short-term investments consist of government bonds, money market funds, government bonds acquired under repurchase agreements, bond funds and listed stocks. The investments are carried at the lower of cost or market value. Cash dividends are recorded as investment income in the current period. An allowance for decline in value is provided and is charged to current period earnings when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the market value. The cost of investments sold is accounted for using the weighted-average method.

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

Allowance for Doubtful Receivables

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Inventories

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

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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. In the event an investee uses its capital surplus (excluding any reserve for asset revaluation) to offset its accumulated deficit, the Company records a corresponding entry equivalent to its proportionate share of the investee's adjustment.

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

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

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

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

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

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

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

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

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

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements 20 years; buildings 10 to 20 years; machinery and equipment 2 to 10 years; and office equipment 3 to 7 years.

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

Goodwill

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

Deferred Charges

Deferred charges consist of software and system design costs, technology license fees and other charges. The amounts are amortized as follows: software and system design costs 2 or 5 years, technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract.

Pension Costs

TSMC and GUC record net periodic pension costs on the basis of actuarial calculations. TSMC and GUC amortize unrecognized net gains or losses and unrecognized net transition obligation over 25 years and 15 years, respectively.

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

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non-current in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as current or non-current based on the expected length of time before it is realized.

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

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

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

Foreign-Currency Transactions

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

Derivative Financial Instruments

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

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

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

Translation of Foreign-Currency Financial Statements

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

3. SIGNIFICANT ELIMINATION ENTRIES

Significant transactions and balances with affiliates that have been eliminated upon combination are as follows:

| <u>Company</u> | <u>Account</u> | <u>Amount</u> | <u>Transaction Entity</u> |
|----------------|----------------|---------------|---------------------------|
|----------------|----------------|---------------|---------------------------|

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| | | | |
|------|----------------------------------|--------------|--------------------|
| TSMC | Payables to related parties | \$ 1,184,642 | WaferTech |
| | | 16,026 | TSMC Europe |
| | | 28,150 | TSMC Japan |
| | | 12,241 | TSMC North America |
| | | 10,792 | TSMC Technology |
| | Receivables from related parties | 13,946,638 | TSMC North America |
| | | 1,232 | TSMC Technology |
| | | 15,339 | GUC |

(Continued)

| Company | Account | Amount | Transaction Entity |
|--------------------|--------------------------------|----------------|--------------------|
| | Sales | \$ 117,758,911 | TSMC North America |
| | | 549,471 | GUC |
| | Purchases | 11,433,083 | WaferTech |
| | Marketing expenses commissions | 215,202 | TSMC Japan |
| | | 154,262 | TSMC Europe |
| | Other non-operating income | 2,794 | WaferTech |
| TSMC International | Other receivables | 2,038,680 | TSMC Development |
| | Other receivables | 339,780 | TSMC Technology |
| | Interest receivable | 198,805 | TSMC Technology |
| | Interest receivable | 1,787 | TSMC Development |
| | Deferred revenue | 670,970 | TSMC Technology |
| | Interest income | 14,343 | TSMC Technology |
| | Interest income | 1,810 | TSMC Development |
| TSMC Partners | Other receivables | 10,427,786 | TSMC International |
| | Other receivables | 2,718,240 | TSMC Development |
| | Interest receivable | 2,382 | TSMC Development |
| | Deferred revenue | 9,188,559 | TSMC International |
| | Interest income | 174,579 | TSMC International |
| | Interest income | 2,414 | TSMC Development |
| TSMC Technology | Accounts receivable | 2,194 | WaferTech |
| | Management service income | 25,112 | WaferTech |
| | Technical service income | 13,229 | WaferTech |

4. CASH AND CASH EQUIVALENTS

| | 2003 |
|---|-----------------------|
| Cash and bank deposits | \$ 97,479,598 |
| Government bonds acquired under repurchase agreements | 5,947,359 |
| | <u>\$ 103,426,957</u> |

5. SHORT-TERM INVESTMENTS

| | 2003 |
|---|----------------------|
| Government bonds | \$ 7,692,595 |
| Money market funds | 3,068,213 |
| Government bonds acquired under repurchase agreements | 1,800,000 |
| Bond funds | 1,311,085 |
| Listed stocks | 50,728 |
| | <u>\$ 13,922,621</u> |
| Market value | <u>\$ 14,366,355</u> |

6. INVENTORIES NET

| | 2003 |
|---------------------------|----------------------|
| Finished goods | \$ 2,896,769 |
| Work in process | 9,155,981 |
| Raw materials | 465,745 |
| Supplies and spare parts | 1,052,075 |
| | 13,570,570 |
| Less allowance for losses | (1,375,504) |
| | \$ 12,195,066 |

7. LONG-TERM INVESTMENTS

| | 2003 | |
|--|-----------------------|------------------------|
| | Carrying Value | % of Owner-Ship |
| Shares of stock | | |
| Equity method: | | |
| Publicly traded stocks | | |
| VIS | \$ 4,077,198 | 28 |
| Non-publicly traded stocks | | |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 2,759,376 | 32 |
| | 6,836,574 | |
| Cost method: | | |
| Common stocks | | |
| Publicly traded stocks | | |
| RichTek Technology Corp. | 26,728 | 5 |
| Non-publicly traded stocks | | |
| United Gas Co., Ltd. | 193,584 | 11 |
| Global Testing Corp. | 179,905 | 10 |
| Shin-Etsu Handotai Taiwan Co., Ltd. | 105,000 | 7 |
| Global Investment Holding, Inc. | 104,144 | 6 |
| EoNex Technologies, Inc. | 103,580 | 6 |
| Hong Tung Venture Capital | 83,916 | 10 |
| Procoat Technology Co., Ltd. | 65,922 | 10 |
| W.K. Technology Fund IV | 50,000 | 2 |
| Advanced Power Electronics Corp. | 46,761 | 5 |
| Conwise Technology Co., Ltd. | 33,268 | 14 |
| EON Technology, Inc. | 32,788 | 8 |
| TrendChip Technologies, Corp. | 29,262 | 5 |
| Auden Technology Mfg. Co., Ltd. | 28,341 | 4 |
| Ralink Technologies, Inc. | 26,889 | 5 |
| Goyatek Technology, Inc. | 24,689 | 8 |
| ChipStrate Technology, Inc. | 10,451 | 9 |
| Signia Technologies, Inc. | 10,442 | 6 |

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| | | |
|--|-----------|---|
| Programmable Microelectronics (Taiwan) Corp. | 8,612 | 4 |
| eChannel Option Holding, Inc. | 8,515 | 6 |
| Capella Microsystems, Inc. | 5,306 | |
| GeoVision, Inc. | 4,477 | 1 |
| eLCOS Microdisplay Technology, Ltd. | 917 | 1 |
| | <hr/> | |
| | 1,183,497 | |
| | <hr/> | |

(Continued)

| | 2003 | |
|--------------------------------------|-------------------|------------------------|
| | Carrying Value | % of Owner- Ship |
| Preferred stocks | | |
| Non-publicly traded stocks | | |
| Sonics, Inc. | \$ 224,646 | 10 |
| Reflectivity, Inc. | 142,436 | 15 |
| Monolithic Power Systems, Inc. | 134,092 | 16 |
| Atheros Communications, Inc. | 122,086 | |
| Tropian, Inc. | 119,306 | 5 |
| eLCOS Microdisplay Technology, Ltd. | 118,920 | |
| Memsic, Inc. | 103,964 | 23 |
| Quicksilver Technology | 84,548 | 4 |
| Pixim, Inc. | 80,932 | 3 |
| Kilopass Technology, Inc. | 67,956 | 19 |
| Fang Tek, Inc. | 67,956 | 44 |
| NanoAmp Solutions, Inc. | 62,946 | 4 |
| NetLogic Microsystems, Inc. | 62,859 | 1 |
| Alchip Technologies, Ltd. | 57,763 | |
| Ikanos Communication, Inc. | 55,206 | 3 |
| SiRF Technology Holdings, Inc. | 49,753 | 1 |
| OEpic Inc. | 44,741 | 8 |
| Advanced Analogic Technologies, Inc. | 42,844 | 2 |
| Integrated Memory Logic, Inc. | 41,480 | 12 |
| Axiom Microdevices Inc. | 33,978 | 5 |
| Optichron Inc. | 33,978 | 6 |
| NuCORE Technology, Inc. | 33,978 | 2 |
| Silicon Data, Inc. | 25,484 | 7 |
| XHP Microsystem, Inc. | 25,483 | 6 |
| Newport Opticom Inc. | 22,139 | 15 |
| Angstrom Systems, Inc. | 16,996 | 6 |
| Iridigm Display, Co. | 16,989 | 1 |
| NextIO, Inc. | 16,989 | 3 |
| Zenesis Technologies, Inc. | 16,989 | 4 |
| IP Unity | 16,781 | 2 |
| Accelerant Networks, Inc. | 15,630 | 1 |
| Match Lab, Inc. | 14,866 | 11 |
| Quake Technologies, Inc. | 11,340 | 1 |
| LightSpeed Semiconductor Corp. | 11,172 | 2 |
| Sensory, Inc. | 10,618 | 5 |
| Oridus, Inc. | 10,193 | 8 |
| Audience, Inc. | 8,495 | 2 |
| LeadTONE Wireless, Inc. | 4,462 | 6 |
| Capella Microsystems, Inc. | 4,134 | 3 |
| Incentia Design Systems, Inc. | 3,126 | 2 |
| Mosaic Systems | 408 | 6 |
| | 2,038,662 | |
| Funds | | |
| Horizon Ventures | 229,669 | |
| Crimson Asia Capital | 40,947 | |
| | 270,616 | |

\$ 10,329,349

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

| | 2003 |
|------|-------------|
| SSMC | (\$310,821) |
| VIS | 50,351 |
| | (\$260,470) |

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

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

8. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

| | 2003 |
|-------------------------|----------------|
| Land improvements | \$ 154,062 |
| Buildings | 31,665,779 |
| Machinery and equipment | 238,453,889 |
| Office equipment | 4,801,376 |
| | \$ 275,075,106 |

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

| Construction/ Expansion Plan | Estimated | | Actual Date | |
|--------------------------------------|---------------|---------------|-------------|--|
| | Complete | Accumulated | of Starting | Expected Date of |
| | Costs | Expenditures | Operations | Starting Operations |
| Fab 12 Phase 1 | \$ 85,364,800 | \$ 82,722,100 | March 2002 | |
| Fab 14 Phase 1 | 67,047,200 | 27,189,600 | | 2 nd half of 2004 at the earliest |
| Three in one construction (Note 23n) | 202,719 | 154,630 | | May 2004 |

For the year ended December 31, 2003, interest expense (before deducting capitalized amounts of NT\$139,516 thousand in 2003) was NT\$2,030,966 thousand. The interest rates used for the purposes of calculating the capitalized amount were between 1.770% and 5.283% in 2003.

9. DEFERRED CHARGES NET

| | 2003 |
|----------------------------------|---------------------|
| Technology license fees | \$ 5,084,684 |
| Software and system design costs | 2,764,305 |
| Others | 314,425 |
| | \$ 8,163,414 |

10. SHORT-TERM BANK LOANS

| | 2003 |
|---|-------------|
| Unsecured loan in US dollars: | |
| US\$12,000 thousand, annual interest at 1.52% | \$ 407,736 |

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

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

11. LONG-TERM BANK LOANS

| | 2003 |
|---|--------------|
| Secured loan: | |
| US\$199,000 thousand, repayable by February 2005, annual floating interest at 1.8275% | \$ 6,761,622 |
| Science Park Administration (SPA), repayable by October 2008, annual interest is zero | 22,693 |
| Unsecured loan: | |
| US\$60,000 thousand, repayable by December 2006, annual interest at 1.56% | 2,038,680 |
| | 8,822,995 |
| Current portion | (5,489) |
| | \$ 8,817,506 |

As of December 31, 2003, TSMC provided NT\$16,989,000 thousand (US\$500,000 thousand) guarantee for the benefit of TSMC Development and WaferTech's US\$ secured loan above. In addition, all assets of WaferTech with carrying amount of approximately NT\$18,876,007 thousand (US\$555,536 thousand) are pledged for the US\$ secured loan. WaferTech is required to be in compliance with certain financial covenants beginning December 31, 2002 under the US\$ secured loan agreement above. As of December 31, 2003, WaferTech was in compliance with all such financial covenants. Under the unsecured loan agreement above, the Company is required to be in compliance with certain financial covenants which, if violated, could result in the payment of this obligation becoming due prior to the originally scheduled maturity date. The Company was in compliance with these financial covenants as of December 31, 2003. As of December 31, 2003, NT\$17,250 thousand of time deposits of GUC is pledged for the aforementioned loan from SPA.

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

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

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| <u>Year</u> | <u>Amount</u> |
|-------------|---------------------|
| 2004 | \$ 5,489 |
| 2005 | 6,767,111 |
| 2006 | 2,044,169 |
| 2007 | 4,137 |
| 2008 | 2,089 |
| | <u>\$ 8,822,995</u> |

12. BONDS

| | 2003 |
|---|----------------------|
| Domestic unsecured bonds: | |
| Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively | \$ 5,000,000 |
| Issued from December 4 to 15, 2000 and payable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% annual interest payable annually, respectively | 15,000,000 |
| Issued from January 10 to 24, 2002 and payable in January 2007, 2009 and 2012 in three equal payments, 2.60%, 2.75% and 3% annual interest payable annually, respectively | 15,000,000 |
| | <u>\$ 35,000,000</u> |

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

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

13. OTHER LONG-TERM PAYABLES

Other long-term payables consist primarily of license arrangements entered by TSMC for certain semiconductor-related patents. Future minimum payments under the agreements as of December 31, 2003 are as follows:

| Year | Amount |
|---------------------|---------------------|
| 2004 | \$ 1,603,090 |
| 2005 | 1,284,698 |
| 2006 | 458,703 |
| 2007 | 475,692 |
| 2008 | 271,824 |
| 2009 and thereafter | 815,471 |
| | <u>\$ 4,909,478</u> |

14. PENSION PLAN

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TSMC and GUC have defined benefit plans for all regular employees that provide benefits based on length of service and average monthly salary for the six-month and one-month period prior to retirement, respectively.

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

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

| | 2003 |
|--|--------------|
| a. Components of pension cost | |
| Service cost | \$ 505,554 |
| Interest cost | 110,094 |
| Projected return on plan assets | (41,261) |
| Amortization | 2,657 |
| Net pension cost | \$ 577,044 |
| b. Reconciliation of the fund status of the plan and unfunded accrued pension cost | |
| Benefit obligation | |
| Vested benefit obligation | \$ 27,856 |
| Nonvested benefit obligation | 2,190,233 |
| Accumulated benefit obligation | 2,218,089 |
| Additional benefits based on future salaries | 1,762,504 |
| Projected benefit obligation | 3,980,593 |
| Fair value of plan assets | (1,212,553) |
| Funded status | 2,768,040 |
| Unrecognized net transitional obligation | (144,064) |
| Unrecognized net loss | (15,533) |
| Unfunded accrued pension cost | \$ 2,608,443 |
| c. Actuarial assumptions | |
| Discount rate used in determining present values | 3.25%-3.50% |
| Future salary increase rate | 3.00%-5.00% |
| Expected rate of return on plan assets | 2.75%-3.25% |
| d. Contributions to pension fund | \$ 183,012 |
| e. Payments from pension fund | \$ 3,490 |

15. INCOME TAX

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

| | 2003 |
|--|---------------|
| Income tax expense based on income before income tax and minority interest at the statutory rate | \$ 12,881,547 |
| Tax-exempt income | (5,255,750) |
| Temporary and permanent differences | (732,518) |

| | |
|--|--------------|
| Current income tax expense before income tax credits | \$ 6,893,279 |
|--|--------------|

(Continued)

b. Income tax expense consists of:

| | 2003 |
|--|--------------|
| Current income tax expense before income tax credits | \$ 6,893,279 |
| Additional 10% tax on the unappropriated earnings | 1,273,482 |
| Income tax credits | (7,917,070) |
| Other income tax | 7,988 |
| Net change in deferred income tax liabilities (assets) | |
| Net operating loss | (520,780) |
| Investment tax credits | 872,403 |
| Temporary differences | (2,388,217) |
| Valuation allowance | 5,701,814 |
| Adjustment of prior years' taxes | 58 |
| Income tax expense | \$ 3,922,957 |

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

| | |
|------------------------|--------------|
| Current | |
| Investment tax credits | \$ 8,339,288 |
| Temporary differences | 387,285 |
| Net operating loss | 3,093 |
| Valuation allowance | (331,461) |
| | \$ 8,398,205 |
| Noncurrent | |
| Net operating loss | \$ 8,438,732 |
| Investment tax credits | 17,414,604 |
| Temporary differences | (6,267,041) |
| Valuation allowance | (18,474,928) |
| | \$ 1,111,367 |

d. Integrated income tax information:

The balance of TSMC's imputation credit account as of December 31, 2003 was NT\$2,832 thousand.

The expected creditable ratio for 2003 was 0.01%.

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

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

- f. As of December 31, 2003, the Company's investment tax credits consisted of the following:

| <u>Regulation</u> | <u>Items</u> | <u>Total Creditable Amounts</u> | <u>Remaining Creditable Amounts</u> | <u>Expiry Year</u> |
|----------------------------------|---|---|---|------------------------|
| Statute for Upgrading Industries | Purchases of machinery and equipment | \$ 8,205,151 | \$ 3,939,939 | 2004 |
| | | 3,792,734 | 3,792,734 | 2005 |
| | | 4,823,863 | 4,823,863 | 2006 |
| | | 1,680,360 | 1,680,360 | 2007 |
| | | <u>\$ 18,502,108</u> | <u>\$ 14,236,896</u> | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 2,274,496 | \$ 2,274,496 | 2004 |
| | | 3,131,141 | 3,131,141 | 2005 |
| | | 3,342,245 | 3,342,245 | 2006 |
| | | 2,322,213 | 2,322,213 | 2007 |
| | | <u>\$ 11,070,095</u> | <u>\$ 11,070,095</u> | |
| Statute for Upgrading Industries | Personnel training | \$ 48,097 | \$ 48,097 | 2004 |
| | | 28,886 | 28,886 | 2005 |
| | | 27,357 | 27,357 | 2006 |
| | | 378 | 378 | 2007 |
| | | <u>\$ 104,718</u> | <u>\$ 104,718</u> | |
| Statute for Upgrading Industries | Investments in important technology-based enterprises | \$ 203,319 | \$ 203,319 | 2004 |
| | | 138,864 | 138,864 | 2005 |
| | | <u>\$ 342,183</u> | <u>\$ 342,183</u> | |

As of December 31, 2003, the net operating loss carryforwards were generated from WaferTech, TSMC Development, TSMC Technology and GUC, and will expire at various dates from 2008 to 2023.

- g. The sales attributable to the following expansion and construction of TSMC's manufacturing plants are exempt from income tax for the following period:

| | <u>Tax-Exemption Periods</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 and Fab 4, Fab 5 and Fab 6 | 2003 to 2006 |

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

16. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

| | For the Year Ended December 31, 2003 | | |
|----------------------------|--------------------------------------|----------------------|----------------------|
| | Classified as | | |
| | Classified as | Operating | |
| | Cost of Sales | Expense | Total |
| Labor cost | | | |
| Salary | \$ 9,023,743 | \$ 4,744,710 | \$ 13,768,453 |
| Labor and health insurance | 477,299 | 251,547 | 728,846 |
| Pension | 380,210 | 197,355 | 577,565 |
| Other | 339,547 | 305,127 | 644,674 |
| Depreciation | 61,990,348 | 2,423,189 | 64,413,537 |
| Amortization | 1,385,961 | 3,418,395 | 4,804,356 |
| | <u>\$ 73,597,108</u> | <u>\$ 11,340,323</u> | <u>\$ 84,937,431</u> |

17. SHAREHOLDERS EQUITY**Capital, Capital Surplus and Retained Earnings**

TSMC has issued 585,898 thousand ADSs, which are traded on the NYSE as of December 31, 2003. The total number of common shares represented by all issued ADSs is 2,929,491 thousand shares (one ADS represents five common shares).

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

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

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

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- d. Dividends to holders of preferred shares at a 3.5% annual rate, based on the period which the preferred shares have been outstanding. Following the redemption of all of its issued and outstanding preferred shares in May 2003, TSMC amended its Articles of Incorporation on June 3, 2003 to remove the provision for issuance of any future dividends to preferred shareholders as of that date;
- e. The appropriation of any remaining balance shall be approved by the shareholders.

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

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

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

A special reserve equivalent to the debit balance of any account shown in the shareholder's equity section of the balance sheet (except for the recorded cost of treasury stock held by subsidiaries) shall be made from unappropriated retained earnings pursuant to existing regulations promulgated by the ROC Securities and Futures Commission (SFC). The special reserve is allowed to be appropriated when the debit balance of such account is reversed.

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

| | Appropriation | Dividend |
|---|----------------------|------------------|
| | of Earnings | Per Share |
| | (NT\$) | (NT\$) |
| Legal reserve | \$ 2,161,029 | |
| Special reserve | 68,945 | |
| Bonus paid to employees in stock | 1,539,013 | |
| Preferred stock dividend in cash | 455,000 | 0.35 |
| Common stock dividend in stock | 14,898,309 | 0.80 |
| Remuneration to directors and supervisors in cash | 58,485 | |
| | \$ 19,180,781 | |

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

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

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

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

Preferred Stock

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

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

Preferred Shareholders

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

18. STOCK-BASED COMPENSATION PLANS

On October 29, 2003 and June 25, 2002, the SFC approved TSMC's Employee Stock Option Plans (the 2003 Plan and the 2002 Plan, respectively). The maximum number of units authorized to be granted under the 2003 Plan and the 2002 Plan was 120,000 thousand and 100,000 thousand, respectively, with each unit representing one common share of stock. The option rights may be granted to qualified employees of TSMC and its subsidiaries, including TSMC North America and WaferTech. The option rights of both plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of both plans, stock option rights are granted at an exercise price equal to the closing price of TSMC's common shares listed on the TSE on the date of grant. Under the 2002 Plan, there were 51,485 thousand option rights that were never been granted, or had been granted but cancelled. These un-granted or cancelled option rights expired as of December 31, 2003.

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

| 2003 Plan | | 2002 Plan | |
|--------------------------|----------|----------------|-------------|
| Number of | | Number of | |
| Outstanding | Range of | Outstanding | Range of |
| Stock Option | Exercise | Stock Option | Exercise |
| Rights | Price | Rights | Prices |
| (In Thousands) | (NT\$) | (In Thousands) | (NT\$) |
| Balance, January 1, 2003 | | 19,369 | 46.86-48.70 |

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| | | | | |
|----------------------------|-------|------|---------|-------------|
| Options granted | 843 | 66.5 | 32,031 | 38.23-53.76 |
| Options cancelled | (1) | 66.5 | (2,885) | 38.23-53.76 |
| | <hr/> | | <hr/> | |
| Balance, December 31, 2003 | 842 | | 48,515 | |
| | <hr/> | | <hr/> | |

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

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

WaferTech Buyback Program

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

Stock Appreciation Rights

In December 2000, WaferTech and TSMC North America implemented a stock appreciation rights program (Appreciation). The Appreciation plan is designed to provide employees with a long-term incentive plan that tracks the appreciation of TSMC common stock through Stock Appreciation Rights (SARs). SARs provide each participant the right to receive, upon exercise, an amount in cash from WaferTech and TSMC North America that is the excess of the market price of TSMC common stock on TSE on the date of exercise over the exercise price. As of December 31, 2003, WaferTech and TSMC North America accrued US\$1,735 thousand and US\$3,032 thousand, respectively, in connection with the Appreciation. During 2002, benefits under the Appreciation plan for TSMC North America were replaced by the stock option plans as described in Note 17. Accordingly, TSMC North America does not intend to provide additional Appreciation plan benefits subsequent to the adoption of the stock option plans.

19. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

| <u>Purpose of Purchase</u> | <u>Beginning Shares</u> | <u>Dividend Distributed</u> | <u>Share Sold</u> | <u>Ending Shares</u> |
|---|-----------------------------|---------------------------------|-----------------------|--------------------------|
| Year ended December 31, 2003 | | | | |
| Reclassification of parent company stock held by subsidiaries from long-term investment | 42,001 | 3,357 | 4,761 | 40,597 |

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

20. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

| | Amounts (Numerator) | | | EPS (Dollars) | |
|---|----------------------------|-------------------|----------------------|----------------------|-------------------|
| | Income | | | Income | |
| | Before Income | | | Before Income | |
| | Tax and | | Share | Tax and | |
| | Minority | Combined | (Denominator) | Minority | Combined |
| | Interest | Net Income | (Thousand) | Interest | Net Income |
| Year ended December 31, 2003 | | | | | |
| Income | \$ 51,129,709 | \$ 47,258,700 | | | |
| Less preferred stock dividends | (184,493) | (184,493) | | | |
| Basic earnings per share | | | | | |
| Income available to common shareholders | 50,945,216 | 47,074,207 | 20,223,457 | \$ 2.52 | \$ 2.33 |
| Effect of diluted securities stock options | | | | | |
| | | | 8,282 | | |
| Diluted earnings per share | | | | | |
| Income available to common shareholders | \$ 50,945,216 | \$ 47,074,207 | 20,231,739 | \$ 2.52 | \$ 2.33 |

The potential common shares issuable under the employee stock option plans (see Note 18) are included in the denominator of the diluted EPS computation by using the treasury stock method under SFAS No. 24, Earnings Per Share ; such shares resulted in a dilutive per share amount for the year ended December 31, 2003.

21. RELATED PARTY TRANSACTIONS

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

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

SSMC

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

| | 2003 | |
|---|----------------------|------------|
| | Amount | % |
| For the year ended | | |
| Sales | | |
| Philips and its affiliates | \$ 3,577,054 | 2 |
| ITRI | 60,171 | |
| SSMC | 873 | |
| VIS | 19 | |
| | <u>\$ 3,638,117</u> | <u>2</u> |
| Purchase | | |
| SSMC | \$ 5,519,805 | 17 |
| VIS | 4,910,810 | 15 |
| | <u>\$ 10,430,615</u> | <u>32</u> |
| Manufacturing expenses technical assistance fees | | |
| Philips | \$ 3,023,741 | 3 |
| Sales of property, plant and equipment | | |
| VIS | \$ 15,125 | 3 |
| Non-operating income and gains | | |
| SSMC (primarily technical service income; see Note 23f) | \$ 201,869 | 4 |
| VIS | 251 | |
| | <u>\$ 202,120</u> | <u>4</u> |
| At December 31 | | |
| Receivables | | |
| Philips and its affiliates | \$ 895,063 | 86 |
| VIS | 118,503 | 11 |
| SSMC | 14,489 | 2 |
| ITRI | 8,781 | 1 |
| | <u>\$ 1,036,836</u> | <u>100</u> |
| Payables | | |
| Philips and its affiliates | \$ 1,579,568 | 49 |
| VIS | 1,034,074 | 32 |
| SSMC | 634,647 | 19 |
| | <u>\$ 3,248,289</u> | <u>100</u> |
| Refundable deposits VIS (see Note 23h) | \$ 150,840 | 76 |

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

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22. SIGNIFICANT LONG-TERM LEASES

TSMC leases land from the SPA where its Fab 2 through Fab 14 manufacturing facilities reside. These agreements expire on various dates from March 2008 to December 2020 and have annual rent payments aggregating NT\$230,449 thousand. The agreements can be renewed upon their expiration.

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

GUC leases land from the SPA. The agreement will expire in December 2021 and has annual rent payment of NT\$1,892 thousand.

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

| Year | Amount |
|---------------------|---------------------|
| 2004 | \$ 351,128 |
| 2005 | 352,012 |
| 2006 | 351,759 |
| 2007 | 341,141 |
| 2008 | 320,271 |
| 2009 and thereafter | 1,822,420 |
| | \$ 3,538,731 |

23. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, with respect to certain products. The agreement shall remain in force through July 8, 2007 and may be automatically renewed for successive periods of three years thereafter. Under the amended agreement, starting from the fifth anniversary date of the amended agreement, the fees are subject to reduction by the amounts TSMC pays to any third party for settling any licensing/infringement disputes, provided that the fees to be paid after reduction will not be below a certain percentage of the net sales.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of TSMC's production capacity.
- c. Under a technical cooperation agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.

- d. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2003, TSMC has a total of US\$22,557 thousand of guarantee deposits.

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- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, for the purpose of constructing an integrated circuit foundry in Singapore. As of December 31, 2003, TSMC's equity interest in SSMC was 32%. TSMC and Philips are committed to buy specific percentages of the production capacity of SSMC. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- f. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net sales of certain products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, TSMC shall receive payments for licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, TSMC and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the termination agreement, TSMC is relieved of further obligation to transfer additional technology. In addition, TSMC granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- h. TSMC entered into a Manufacturing Agreement with VIS. VIS agrees to reserve certain production capacity for TSMC and agrees to manufacture certain logic devices or other products for TSMC's customers at prices agreed upon by TSMC and VIS. TSMC paid NT\$1,200,000 thousand to VIS as a guarantee deposit for the capacity reservation. VIS shall return portions of the guarantee deposit without any interest to TSMC upon reaching certain purchase commitment by TSMC. The contract will remain in force for five years. As of December 31, 2003, the refundable deposit was NT\$150,840 thousand.
- i. Beginning in 2001, TSMC entered into several licensing arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be made in the form of royalties over the term of the related contracts. TSMC has recorded the related amounts as a liability with the corresponding amounts recorded as deferred charges which are amortized and charged to the cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.
- j. In November 2002, TSMC entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Motorola, Inc. and STMicroelectronics to jointly develop 90-nanometer to 65-nanometer advanced CMOS Logic and e-DRAW technologies. TSMC also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. TSMC will contribute process technologies and share a portion of the costs associated with this joint development project.
- k. In December 2003, TSMC entered into a Technology Development and License Agreement with Motorola Inc. to jointly develop 65nm SOI (silicon on insulator) technology. TSMC will also license related 90nm SOI technology from Motorola. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, TSMC will pay royalties to Motorola, Inc. and share a portion of the costs associated with the joint development project.

- l. In December 2003, the Company filed a lawsuit in the US District Court of Northern California against Semiconductor Manufacturing International Corporation and certain of its subsidiaries for patent infringement and trade secret misappropriation. The suit also asks for injunctive relief along with monetary damages. The case is in the process of being reviewed by the court. The probable outcome cannot be reasonably estimated.
- m. Under an agreement with a certain company, TSMC Shanghai has the obligation to purchase certain assets within a specific period at the price agreed upon by both parties. TSMC Shanghai will compensate the other party in case of a breach of the agreement.
- n. GUC, DAVICOM Semiconductor Inc and AMIC Technology Inc entered into a joint construction project for offices and facilities (three in one construction). Under the joint construction project, GUC is required to pay NT\$202,719 thousand.
- o. Amounts available under unused letters of credit as of December 31, 2003 were NT\$6,480 thousand, US\$1,294 thousand, EUR21 thousand and Singapore dollar \$85 thousand. Among the unused letters of credit, TSMC North America has an outstanding irrevocable standby letter of credit with a financial institution for US\$1,294 thousand. The standby letter of credit was entered into as security to the landlord of TSMC North America's office spaces in San Jose, California. In the event TSMC North America defaults under this lease agreement, the landlord will draw on the standby letter of credit up to the amount of the default, but not to exceed the amount of the standby letter of credit. The standby letter of credit expires in October, 2004, and is renewable on an annual basis.

24. ADDITIONAL DISCLOSURES

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

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

j. Financial instrument transactions:

1) Derivative financial instruments

The Company entered into derivative financial instruments transactions for the year ended December 31, 2003 to manage exposures related to foreign-currency denominated receivables or payables, and interest rate fluctuations. Certain information on these contracts is as follows:

a) Outstanding forward exchange contracts as of December 31, 2003

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

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

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

| Assets and Liabilities | (In Thousand) |
|-------------------------------|---------------|
| Time deposits | US\$1,137,704 |
| Accounts and notes receivable | US\$ 789,927 |
| Accounts payable | JPY 889,850 |
| Accounts payable | EUR 9,364 |

b) Interest rate swaps

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

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

| Contract Date | Period | Contract |
|---------------|--------|----------|
| | | Amount |

| (In Thousand) | | |
|--------------------|---|--------------|
| July 1, 1999 | July 1, 1999 to June 28, 2004 | US\$ 2,857 |
| September 19, 2003 | September 22, 2003 to December 15, 2005 | NT\$ 500,000 |
| October 16, 2003 | October 20, 2003 to December 15, 2005 | NT\$ 500,000 |
| October 16, 2003 | October 20, 2003 to December 15, 2005 | NT\$ 500,000 |
| October 17, 2003 | October 21, 2003 to December 15, 2005 | NT\$ 500,000 |
| October 17, 2003 | October 20, 2003 to December 15, 2005 | NT\$ 500,000 |
| November 7, 2003 | November 11, 2003 to December 15, 2005 | NT\$ 500,000 |

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c) Option contracts

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

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

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

d) Transaction risk

- i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss incurred by the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter-parties are low.
- ii) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in currency exchange rates on the Company's foreign currency denominated receivables or payables and interest rate fluctuations on its floating rate long-term loans. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from the hedged receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks are believed to be minimal.
- iii) Liquidity and cash flow risk and uncertainty of amount and term of future cash demand.

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

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

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

2) Fair value of financial instruments

| | December 31, 2003 | |
|--|-------------------|----------------|
| | Carrying | |
| | Amount | Fair Value |
| Non-derivative financial instruments | | |
| Assets | | |
| Cash and cash equivalents | \$ 103,426,957 | \$ 103,426,957 |
| Short-term investments | 13,922,621 | 14,366,355 |
| Receivables from related parties | 1,036,836 | 1,036,836 |
| Notes and accounts receivable | 28,654,824 | 28,654,824 |
| Other financial assets | 1,389,123 | 1,389,123 |
| Long-term investments | 10,329,349 | 17,361,252 |
| Refundable deposits | 200,390 | 200,390 |
| Liabilities | | |
| Short-term bank loans | 407,736 | 407,736 |
| Payables to related parties | 3,248,289 | 3,248,289 |
| Accounts payable | 6,517,548 | 6,517,548 |
| Payables to contractors and equipment suppliers | 7,356,310 | 7,356,310 |
| Long-term bank loans (includes current portion) | 8,822,995 | 8,822,995 |
| Bonds payable (includes current portion) | 35,000,000 | 35,850,377 |
| Other long-term payables (includes current portion and other liabilities-others) | 5,666,138 | 5,666,138 |
| Guarantee deposits | 763,888 | 763,888 |
| Derivative financial instruments | | |
| Forward exchange contracts (buy) | 2,351 | 3,037 |
| Forward exchange contracts (sell) | (99,984) | 40,638 |
| Interest rate swaps | | 2,093 |
| Options | | |

Fair values of financial instruments were determined as follows:

- The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, payables to contractors and equipment suppliers are approximate to their fair values.
- 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.
- Fair value of refundable deposits and guarantee deposits is based on carrying values.
- The fair value of long-term bank loans is its carrying value with the floating interest rate. The fair value of bonds payable is the quoted market value. Fair value of other long-term payables approximates the carrying value.
- Fair value of derivative financial instruments is the estimated net receivable or (payable) if the contracts are terminated on the relevant balance sheet date.

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

3) Investment in Mainland China:

TSMC filed an investment project with the Investment Commission of MOEA to establish a foundry in Mainland China. On February 27, 2003, the authority approved phase one of the aforementioned project and permitted direct investment in mainland China. Subsequently, TSMC entered into an investment related agreement with Shanghai Songjiang District People's Government on June 8, 2003. On August 4, 2003, TSMC Shanghai, a wholly-owned subsidiary of TSMC, was established. TSMC Shanghai is engaged mainly in the manufacturing and selling of integrated circuits. TSMC made a capital investment in TSMC Shanghai in the amount of US\$56,000 thousand on October 8, 2003.

25. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

| | Adjustments and | | | |
|------------------------------------|--------------------|----------------|-----------------|----------------|
| | Overseas | Taiwan | Elimination | Combined |
| 2003 | | | | |
| Sales to unaffiliated customers | \$ 119,640,412 | \$ 83,749,411 | \$ | \$ 203,389,823 |
| Transfers between geographic areas | 11,494,868 | 118,308,382 | (129,803,250) | |
| Total sales | \$ 131,135,280 | \$ 202,057,793 | (\$129,803,250) | \$ 203,389,823 |
| Gross profit | \$ 2,476,145 | \$ 72,951,581 | (\$401,364) | \$ 75,026,362 |
| Operating expenses | | | | (23,806,086) |
| Non-operating income and gains | | | | 5,679,162 |
| Non-operating expenses and losses | | | | (5,769,729) |
| Income before income tax | | | | \$ 51,129,709 |
| Minority interest loss | | | | \$ 51,948 |
| Identifiable assets | \$ 52,276,269 | \$ 359,859,703 | (\$14,116,229) | \$ 398,019,743 |
| Long-term investments | | | | 10,329,349 |
| Total assets | | | | \$ 408,349,092 |

b. Gross export sales

The export sales information is determined based on billed regions. Gross export sales for the year ended December 31, 2003 were NT\$60,633,527 thousand. There were no export sales to a region that accounted for more than 10% of the Company's total sales.

c. Major customer

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

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TABLE 1**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****FINANCING PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| No. | Financing Name | Counter-party | Financial Statement Account | Maximum Balance for the Period | Ending Balance | Interest Rate | Transaction Amount | Reasons for Short-term Financing | Collateral | Financing Limit for Each Borrowing Company | Financing Company's Financing Amount Limits |
|-----|--------------------|------------------|-----------------------------|--------------------------------|------------------------------|---------------|--------------------|----------------------------------|-----------------------------------|--|---|
| | | | | (US\$ in Thousand) | (US\$ in Thousand) | | | | Allowance for Bad Debt Item Value | | (US\$ in Thousand) |
| 1 | TSMC International | TSMC Technology | Other receivables | \$ 538,585 (US\$15,851) | \$ 538,585 (US\$15,851) | 4.25% | \$ | Operating capital | \$ | N/A | \$ 33,569,117 (US\$987,968) (Note 1) |
| | | TSMC Development | Other receivables | \$ 2,038,680 (US\$60,000) | \$ 2,038,680 (US\$60,000) | 1.50% | | Operating capital | | | |
| 2 | TSMC Partners | TSMC Development | Other receivables | \$ 2,718,240 (US\$80,000) | \$ 2,718,240 (US\$80,000) | 1.50% | | Operating capital | | N/A | (Note 2) |

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

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

TABLE 2**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****ENDORSEMENT/GUARANTEE PROVIDED FOR THE YEAR ENDED DECEMBER 31, 2003**

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

| Counter-party | | | | Maximum | Ratio of | | | |
|---------------------------------------|------|---------------------------------------|---|--|--|---|--|---|
| Endorsement/ Guarantee Provider | Name | Nature of Relationship (Note 2) | Limits on Each Counter-party's Endorsement/ Guarantee Amounts | Balance for the Period (US\$ in Thousand) | Ending Balance (US\$ in Thousand) | Value of Collateral Property, Plant and Equipment | Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement | Maximum Collateral/ Guarantee Amounts Allowable (Note 1) |
| | | | | | | | | |
| 0 | TSMC | TSMC Development | 3 | Not exceed 10% of the net worth of TSMC, and also limiting to the total paid-in capital of the endorsement/guarantee company, unless otherwise approved by Board of Directors. | \$ 6,795,600 (US\$200,000) | \$ 2,038,680 (US\$60,000) | 0.62% | \$ 82,303,577 |
| | | TSMC North America | 2 | | 1,359,120 (US\$40,000) | 1,359,120 (US\$40,000) | 0.41% | |
| | | WaferTech | 3 | | 14,950,320 (US\$440,000) | 14,950,320 (US\$440,000) | 4.54% | |

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

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

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

TABLE 3**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

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| | | | | | |
|---------------------------|----------------------|-------|--------|----|--------|
| W.K. Technology Fund IV | Long-term investment | 5,000 | 50,000 | 2 | 57,051 |
| Hon Tung Ventures Capital | Long-term investment | 8,392 | 83,916 | 10 | 66,447 |

(Continued)

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| December 31, 2003 | | | | | | | | |
|--------------------|--|-------------------------------------|--------------------------------|-------------------------------|-----------------------|----------------------------|---------------------------------------|---|
| Field Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | | | Market Value or Net Asset Value | |
| | | | | Shares/Units (In Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | Note |
| | Certificate | | | | | | | |
| | Chi Cherng | Investee | Long-term investment | | \$ 42,941 | 36 | \$ 501,505 | Treasury stock of NT\$458,564 thousand is deducted from the carrying value. |
| | Hsin Ruey | Investee | Long-term investment | | 42,006 | 36 | 501,517 | Treasury stock of NT\$459,511 thousand is deducted from the carrying value. |
| | Equity | | | | | | | |
| | Crimson Asia Capital | | Long-term investment | N/A | 40,947 | N/A | 40,947 | |
| | Horizon Ventures | | Long-term investment | N/A | 229,669 | N/A | 229,669 | |
| SMC North America | Stock | | | | | | | |
| | TSMC | Parent company | Long-term investment | 13,101 | 715,153 | | 822,491 | |
| Chi Cherng | Stock | | | | | | | |
| | TSMC | Parent company | Short-term investment | 13,735 | 458,564 | | 862,340 | |
| | Certificate | | | | | | | |
| | Hsin Ruey | Major shareholder | Long-term investment | | 902,033 | 64 | 902,033 | |
| Hsin Ruey | Stock | | | | | | | |
| | TSMC | Parent company | Short-term investment | 13,761 | 459,511 | | 863,957 | |
| | Certificate | | | | | | | |
| | Chi Cherng | Major shareholder | Long-term investment | | 902,909 | 64 | 902,909 | |
| SMC International | Stock | | | | | | | |
| | InveStar | Subsidiary | Long-term investment | 45,000 | US\$ 46,403 | 97 | US\$ 46,403 | |
| | InveStar II | Subsidiary | Long-term investment | 51,300 | US\$ 36,901 | 97 | US\$ 36,901 | |
| | TSMC Development | Subsidiary | Long-term investment | 1 | US\$ 537,716 | 100 | US\$ 537,716 | |
| | TSMC Technology | Subsidiary | Long-term investment | 1 | (US\$ 7,918) | 100 | (US\$ 7,918) | |
| | 3DFX Interactive Inc. | | Long-term investment | 68 | | | | |
| | Money market fund | | | | | | | |
| | BOA Fund | | Short-term investment | 30,300 | US\$ 30,300 | N/A | US\$ 30,300 | |
| SMC Development | Stock | | | | | | | |
| | WaferTech | Subsidiary | Long-term investment | | US\$ 341,972 | 99 | US\$ 341,972 | |
| InveStar | Stock | | | | | | | |
| | PLX Technology, Inc. | | Short-term investment | 93 | US\$ 180 | | US\$ 786 | |
| | RichTek Technology Corp. | | Short-term investment | 947 | US\$ 121 | 2 | US\$ 5,799 | |
| | Programmable Microelectronics | | | | | | | |
| | (Taiwan), Inc. | | Long-term investment | 575 | US\$ 203 | 3 | US\$ 203 | |
| | Global Testing Corp. | | Long-term investment | 13,268 | US\$ 5,295 | 10 | US\$ 5,295 | |

(Continued)

| December 31, 2003 | | | | | | | | |
|-------------------|--|-------------------------------|-----------------------------|----------------------------|--------------------|---------------------------------|-------------------------|-------------------------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | | Market Value or Net Asset Value | | |
| | | | | Shares/Units (In Thousand) | (US\$ in Thousand) | | Percentage of Ownership | (US\$ in Thousand) Note |
| | Chipstrate Technologies, Inc. | | Long-term investment | 6,660 | US\$ 308 | | 9 | US\$ 308 |
| | Capella Microsystems, Inc. | | Long-term investment | 530 | US\$ 156 | | | US\$ 156 |
| | Signia Technologies, Inc. | | Long-term investment | 701 | US\$ 206 | | 4 | US\$ 206 |
| | Advanced Power Electronics Corp. | | Long-term investment | 2,750 | US\$ 1,376 | | 5 | US\$ 1,376 |
| | RichTek Technology Corp. | | Long-term investment | 1,671 | US\$ 204 | | 3 | US\$ 10,235 |
| | Preferred stock | | | | | | | |
| | Integrated Memory Logic, Inc. | | Long-term investment | 1,831 | US\$ 1,221 | | 12 | US\$ 1,221 |
| | SiRF Technology Holdings, Inc. | | Long-term investment | 306 | US\$ 1,333 | | 1 | US\$ 1,333 |
| | Sensory, Inc. | | Long-term investment | 1,404 | US\$ 312 | | 5 | US\$ 312 |
| | LightSpeed Semiconductor Corporation | | Long-term investment | 2,252 | US\$ 329 | | 2 | US\$ 329 |
| | Tropian, Inc. | | Long-term investment | 1,758 | US\$ 1,916 | | 3 | US\$ 1,916 |
| | Sonics, Inc. | | Long-term investment | 2,686 | US\$ 3,530 | | 5 | US\$ 3,530 |
| | Atheros Communications, Inc. | | Long-term investment | 1,607 | US\$ 3,593 | | | US\$ 3,593 |
| | NanoAmp Solutions, Inc. | | Long-term investment | 541 | US\$ 853 | | 3 | US\$ 853 |
| | Monolithic Power Systems, Inc. | | Long-term investment | 2,521 | US\$ 2,000 | | 12 | US\$ 2,000 |
| | Memsic, Inc. | | Long-term investment | 2,727 | US\$ 1,500 | | 12 | US\$ 1,500 |
| | Reflectivity, Inc. | | Long-term investment | 1,064 | US\$ 1,192 | | 5 | US\$ 1,192 |
| | Match Lab, Inc. | | Long-term investment | 1,875 | US\$ 375 | | 9 | US\$ 375 |
| | Oridus, Inc. (Creosys, Inc.) | | Long-term investment | 1,500 | US\$ 300 | | 8 | US\$ 300 |
| | Incentia Design Systems, Inc. | | Long-term investment | 286 | US\$ 92 | | 2 | US\$ 92 |
| | IP Unity | | Long-term investment | 1,008 | US\$ 494 | | 2 | US\$ 494 |
| InveStar II | Stock | | | | | | | |
| | WatchGuard Technologies, Inc. | | Short-term investment | 5 | US\$ 30 | | | US\$ 30 |
| | RickTek Technology Corp | | Short-term investment | 465 | US\$ 346 | | 1 | US\$ 2,848 |
| | eChannel Option Holding, Inc. | | Long-term investment | 358 | US\$ 251 | | 6 | US\$ 251 |
| | Elcos Microdisplay Technology, Ltd. | | Long-term investment | 270 | US\$ 27 | | 1 | US\$ 27 |
| | Signia Technologies, Inc. | | Long-term investment | 351 | US\$ 101 | | 2 | US\$ 101 |
| | Procoat Technology | | Long-term investment | 4,165 | US\$ 1,940 | | 10 | US\$ 1,940 |
| | Programmable Microelectronics (Taiwan), Inc. | | Long-term investment | 177 | US\$ 50 | | 1 | US\$ 834 |
| | Auden Technology MFG Co., Ltd. | | Long-term investment | 953 | US\$ 834 | | 4 | US\$ 1,151 |
| | GeoVision, Inc. | | Long-term investment | 287 | US\$ 132 | | 1 | US\$ 132 |
| | EoNex Technologies, Inc. | | Long-term investment | 55 | US\$ 3,048 | | 6 | US\$ 3,048 |
| | Conwise Technology Co., Ltd. | | Long-term investment | 2,800 | US\$ 979 | | 14 | US\$ 979 |
| | Eon Technology, Inc. | | Long-term investment | 2,800 | US\$ 965 | | 8 | US\$ 965 |
| | Goyatek Technology, Inc. | | Long-term investment | 2,088 | US\$ 727 | | 8 | US\$ 727 |
| | TrendChip Technologies Corp. | | Long-term investment | 2,000 | US\$ 861 | | 5 | US\$ 861 |
| | Ralink Technologies, Inc. | | Long-term investment | 1,833 | US\$ 791 | | 5 | US\$ 791 |
| | RickTek Technology Corp | | Long-term investment | 785 | US\$ 583 | | 2 | US\$ 4,804 |
| | Preferred stock | | | | | | | |
| | Capella Microsystems, Inc. | | Long-term investment | 419 | US\$ 122 | | 3 | US\$ 122 |
| | Memsic, Inc. | | Long-term investment | 2,289 | US\$ 1,560 | | 10 | US\$ 1,560 |
| | Oepic, Inc. | | Long-term investment | 4,997 | US\$ 1,317 | | 8 | US\$ 1,317 |

(Continued)

December 31, 2003

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | | Percentage of Ownership | Market Value or Net Asset Value | | Notes |
|------------------------------|-------------------------------------|-------------------------------|-----------------------------|----------------------------|--------------------|-------------------------|---------------------------------|--|-------|
| | | | | Shares/Units (In Thousand) | (US\$ in Thousand) | | (US\$ in Thousand) | | |
| Emerging Alliance | NanoAmp Solutions, Inc. | | Long-term investment | 250 | US\$ 1,000 | 1 | US\$ 1,000 | | |
| | Advanced Analogic Technology, Inc. | | Long-term investment | 948 | US\$ 1,261 | 2 | US\$ 1,261 | | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 804 | US\$ 1,946 | 4 | US\$ 1,946 | | |
| | Sonics, Inc. | | Long-term investment | 3,082 | US\$ 3,082 | 5 | US\$ 3,082 | | |
| | Newport Opticom, Inc. | | Long-term investment | 1,157 | US\$ 402 | 9 | US\$ 402 | | |
| | Silicon Data, Inc. | | Long-term investment | 2,000 | US\$ 750 | 7 | US\$ 750 | | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 6 | US\$ 1,500 | | |
| | Angstrom Systems, Inc. | | Long-term investment | 1,567 | US\$ 500 | 6 | US\$ 500 | | |
| | Tropian, Inc. | | Long-term investment | 1,464 | US\$ 1,595 | 2 | US\$ 1,595 | | |
| | SiRF Technology, Inc. | | Long-term investment | 20 | US\$ 131 | | US\$ 131 | | |
| | LeadTONE Wireless, Inc. | | Long-term investment | 433 | US\$ 131 | 6 | US\$ 131 | | |
| | Match Lab, Inc. | | Long-term investment | 313 | US\$ 63 | 2 | US\$ 63 | | |
| | Kilopass Technology, Inc. | | Long-term investment | 3,887 | US\$ 2,000 | 19 | US\$ 2,000 | | |
| | Fang Tek, Inc. | | Long-term investment | 5,556 | US\$ 2,000 | 44 | US\$ 2,000 | | |
| | Alchip Technologies Ltd. | | Long-term investment | 2,125 | US\$ 1,700 | | US\$ 1,700 | | |
| | Elcos Microdisplay Technology, Ltd. | | Long-term investment | 2,667 | US\$ 3,500 | | US\$ 3,500 | | |
| | Stock | | | | | | | | |
| | Global Investment Holding, Inc. | Investee | Long-term investment | 10,000 | \$ 100,000 | 6 | \$ 100,000 | | |
| | Preferred stock | | | | | | | | |
| | Quake Technologies, Inc. | | Long-term investment | 467 | US\$ 334 | 1 | US\$ 334 | | |
| Pixim, Inc. | | Long-term investment | 1,721 | US\$ 2,382 | 3 | US\$ 2,382 | | | |
| Newport Opticom, Inc. | | Long-term investment | 962 | US\$ 250 | 6 | US\$ 250 | | | |
| NetLogic Microsystems, Inc. | | Long-term investment | 602 | US\$ 1,850 | 1 | US\$ 1,850 | | | |
| Ikanos Communication, Inc. | | Long-term investment | 5,116 | US\$ 1,625 | 3 | US\$ 1,625 | | | |
| Quicksilver Technology, Inc. | | Long-term investment | 963 | US\$ 2,488 | 4 | US\$ 2,488 | | | |
| Mosaic Systems, Inc. | | Long-term investment | 2,481 | US\$ 12 | 6 | US\$ 12 | | | |
| Accelerant Networks, Inc. | | Long-term investment | 441 | US\$ 460 | 1 | US\$ 460 | | | |
| Zenesis Technologies, Inc. | | Long-term investment | 861 | US\$ 500 | 4 | US\$ 500 | | | |
| Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 5 | US\$ 1,500 | | | |
| Iridigm Display, Co. | | Long-term investment | 254 | US\$ 500 | 1 | US\$ 500 | | | |
| XHP Microsystems, Inc. | | Long-term investment | 2,280 | US\$ 750 | 6 | US\$ 750 | | | |
| Axiom Microdevices, Inc. | | Long-term investment | 1,000 | US\$ 1,000 | 5 | US\$ 1,000 | | | |
| Optichron, Inc. | | Long-term investment | 714 | US\$ 1,000 | 6 | US\$ 1,000 | | | |
| Audience, Inc. | | Long-term investment | 1,654 | US\$ 250 | 2 | US\$ 250 | | | |
| Next IO, Inc. | | Long-term investment | 800 | US\$ 500 | 3 | US\$ 500 | | | |
| NuCORE Technology Inc. | | Long-term investment | 1,821 | US\$ 1,000 | 2 | US\$ 1,000 | | | |
| GUC | Bond funds | | | | | | | | |
| | Entrust KIRIN | | Short-term investment | 2,106 | 22,324 | | 22,334 | | |
| | Entrust Phoenix | | Short-term investment | 1,399 | 20,207 | | 20,216 | | |
| | TISC | | Short-term investment | 2,210 | 30,000 | | 30,012 | | |
| | Ta-Hua | | Short-term investment | 2,412 | 30,003 | | 30,013 | | |
| | E. Sun New Era | | Short-term investment | 962 | 10,000 | | 10,004 | | |
| | Shenghua 1699 | | Short-term investment | 1,009 | 12,000 | | 11,995 | | |

(Continued)

| | | | | December 31, 2003 | | | | |
|-------------------|--|----------------------------------|--------------------------------|-------------------------------|-----------------------|----------------------------|--|------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | | | Market Value or Net Asset Value | |
| | | | | Shares/Units (In Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | Note |
| | Jihsun | | Short-term investment | 764 | \$ 10,000 | | \$ 10,157 | |
| | Shenghua 5599 | | Short-term investment | 931 | 10,000 | | 10,004 | |
| | Mega Diamond | | Short-term investment | 2,734 | 30,105 | | 30,118 | |
| | Polar | | Short-term investment | 1,968 | 20,060 | | 20,068 | |
| | Ta-Hua GC Dollar | | Short-term investment | 38 | 13,691 | | 13,732 | |
| | Taiwan Security Overseas Fund | | Short-term investment | 22 | 102,694 | | 103,190 | |

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TABLE 4**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

| 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) |
| Key market securities | | | | | | | | | | | | |
| AMRO Fund | Short-term investment | BOA | | | \$ | 120,000 | \$4,161,760 (US\$120,000) | 80,000 | \$2,785,760 | \$2,785,760 (US\$80,000) | \$ | 40,000 |
| AMRO Fund | Short-term investment | Goldman Sachs | | | | 140,000 | 4,852,300 (US\$140,000) | 120,000 | 4,165,140 | 4,165,140 (US\$120,000) | | 20,000 |
| AMRO Fund | Short-term investment | JF Asset Management (Taiwan) Ltd. | | | | 34,343 | 500,000 | | | | | 34,343 |
| AMRO Fund | Short-term investment | ABN AMRO | | | | 97,782 | 1,400,000 | 62,988 | 902,881 | 900,000 | 2,881 | 34,794 |
| AMRO Bond | Short-term investment | ABN AMRO | | | | 81,744 | 879,000 | 81,744 | 881,719 | 879,000 | 2,719 | |
| Government securities | | | | | | | | | | | | |
| Government securities with purchase agreement | Short-term investment | Several financial institutions | | | | | 1,800,000 | | | | | |
| Government securities Series A | Short-term investment | BNP and several financial institutions | | | | | 3,157,331 | | | | | |
| Government securities Series E | Short-term investment | BNP and several financial institutions | | | | | 3,113,067 | | | | | |
| Government securities Series C | Short-term investment | Chung Shing Bills Finance Corp. and several financial institutions | | | | | 1,422,197 | | | | | |
| Emerging finance | Long-term investment | Emerging Alliance | Subsidiary | | 767,239 | | 174,030 | | | | | |

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| | | | | | | | | | | | |
|--------------|-----------------------|--------------|----------|---------|-----------|---------|------------|---------|------------|------------|-----------|
| | Long-term investment | VIS | Investee | 677,471 | 3,264,657 | 109,545 | 766,815 | | | | 787 |
| or | Long-term investment | | | 505 | 280,748 | | | 505 | 301,209 | 280,748 | 20,461 |
| nology | Long-term investment | | | 470 | 104,289 | | | 470 | 152,681 | 104,289 | 48,392 |
| olithic | Long-term investment | | | | | | | | | | |
| m Tech. | Long-term investment | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| C | Short-term investment | | | 762 | US\$7,357 | | | 823 | US\$8,407 | US\$7,357 | US\$1,050 |
| | | | | | | | | (Note2) | | | |
| ferred stock | | | | | | | | | | | |
| s | Long-term investment | Elcos | | | | | | | | | |
| odisplay | | Microdisplay | | | | | | | | | |
| nology, | | Technology, | | | | | | | | | |
| | | Ltd. | | | | 2,667 | US\$3,500 | | | | 2 |
| ey market | | | | | | | | | | | |
| | | | | | | | | | | | |
| A Fund | Short-term investment | BOA | | | | 87,300 | US\$87,300 | 57,000 | US\$57,000 | US\$57,000 | 30 |
| d funds | | | | | | | | | | | |
| ran | Short-term investment | | | | | | | | | | |
| rities | | | | | | 22 | 102,694 | | | | |
| seas Fund | | | | | | | | | | | |

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

Note 2: Including stock dividend of 61 thousand units.

TABLE 5**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars)**

| Types of Property | Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationship | Prior Transaction of Related Counter-party | | | | Price Reference | Purpose Acquisition |
|----------------------|------------------|-----------------------|------------------------------|------------------------------|---------------------------|---|--------------|------------------|--------|--------------------|------------------------|
| | | | | | | Owner | Relationship | Transfer Date | Amount | | |
| 14 | January 20, 2003 | \$ 180,665 | By the construction progress | United Integrated Services | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing |
| 12 | May 6, 2003 | 119,000 | By the construction progress | United Integrated Services | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing |
| 12 | June 17, 2003 | 134,500 | By the construction progress | United Integrated Services | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing |
| 12 | June 18, 2003 | 110,055 | By the construction progress | Liquid Air Far East Co. Ltd. | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing |
| 12 | December 2, 2003 | 230,000 | By the construction progress | China Steel Structure Co. | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing |
| 12 | December 2, 2003 | 285,000 | By the construction progress | Fu Tsu Construction Co. Ltd | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing |

TABLE 6**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

TABLE 7**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

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TABLE 8**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND AFFILIATES****NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****DECEMBER 31, 2003****(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)**

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

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| | |
|---------------------|---|
| Hsin-Chu, Taiwan | Electronic spare parts manufacturing, material wholesaling and retailing |
|---------------------|---|

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

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

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

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