

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

August 31, 2005

**1934 Act Registration No. 1-14700
SECURITIES AND EXCHANGE
COMMISSION**

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of August 2005

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

**No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
Taiwan**

(Address of Principal Executive Offices)

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

Form 20-F ☐

Form 40-F ☐

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

Yes ☐

No ☐

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

SIGNATURES

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

Taiwan Semiconductor Manufacturing Company Ltd.

Date: August 29, 2005

By /s/ Lora Ho

Lora Ho
Vice President & Chief Financial Officer

**Taiwan Semiconductor Manufacturing
Company, Ltd.
Financial Statements for the
Six Months Ended June 30, 2005 and 2004 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company, Ltd.

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company, Ltd. as of June 30, 2005 and 2004, and the related statements of income, changes in shareholders' equity and cash flows for the six months 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company, Ltd. as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of Taiwan Semiconductor Manufacturing Company, Ltd. and subsidiaries as of and for the six months ended June 30, 2005, and have expressed an unqualified opinion with an explanatory paragraph stating that single period presentation of consolidated financial statements is permitted at the initial filing of semi-annual consolidated financial statements..

July 13, 2005

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

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TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.**BALANCE SHEETS****JUNE 30, 2005 AND 2004****(In Thousands of New Taiwan Dollars, Except Par Value)**

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 3 and 4)	\$ 78,597,384	16	\$ 78,778,150	18
Short-term investments, net (Notes 2 and 4)	49,408,608	10	41,199,013	9
Receivables from related parties (Note 18)	14,999,678	3	17,983,732	4
Notes and accounts receivable	20,040,283	4	16,712,863	4
Allowance for doubtful receivables (Note 2)	(978,577)		(983,077)	
Allowance for sales returns and others (Note 2)	(3,945,057)		(3,019,657)	
Other receivables from related parties (Note 18)	1,565,784		147,010	
Other financial assets (Notes 2 and 21)	1,682,240		664,058	
Inventories, net (Notes 2 and 5)	14,113,615	3	11,725,188	3
Deferred income tax assets (Notes 2 and 12)	5,330,000	1	6,144,000	1
Prepaid expenses and other current assets	1,012,915		1,099,819	
 Total current assets	 181,826,873	 37	 170,451,099	 39
 LONG-TERM INVESTMENTS (Notes 2, 6, 16 and 20)				
Equity method	48,351,666	10	39,606,640	9
Cost method	784,939		716,377	
Long-term bonds	16,342,005	3	8,893,477	2
Other investments	10,955,960	2	3,364,250	1
 Total long-term investments	 76,434,570	 15	 52,580,744	 12
 PROPERTY, PLANT, AND EQUIPMENT (Notes 2, 7 and 18)				
Cost				
Buildings	88,695,499	18	72,030,258	16
Machinery and equipment	441,034,330	88	353,594,669	81
Office equipment	7,586,253	1	6,486,523	2
	537,316,082	107	432,111,450	99
Accumulated depreciation	(330,854,258)	(66)	(275,065,953)	(63)
Advance payments and construction in progress	18,601,286	4	43,236,290	10

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Net property, plant, and equipment	225,063,110	45	200,281,787	46
GOODWILL (Note 2)	1,741,951		2,090,341	
OTHER ASSETS				
Deferred charges, net (Notes 2, 8 and 20)	7,874,553	2	10,066,618	2
Deferred income tax assets (Notes 2 and 12)	6,313,825	1	4,169,929	1
Refundable deposits	87,542		26,241	
Assets leased to others, net (Note 2)	75,746		81,480	
Idle assets (Note 2)	13,995		78,609	
Total other assets	14,365,661	3	14,422,877	3
TOTAL	\$ 499,432,165	100	\$ 439,826,848	100

LIABILITIES AND SHAREHOLDERS EQUITY	2005	%	2004	%
	Amount		Amount	
CURRENT LIABILITIES				
Accounts payable	\$ 5,680,946	1	\$ 7,308,388	2
Payables to related parties (Note 18)	2,146,317		4,662,001	1
Payables to contractors and equipment suppliers	10,004,328	2	8,658,321	2
Cash dividends and bonus payable (Note 14)	49,590,312	10	12,841,599	3
Accrued expenses and other current liabilities (Notes 2, 10, 20 and 21)	8,802,291	2	10,576,449	2
Current portion of bonds payable (Note 9)	10,500,000	2	5,000,000	1
Total current liabilities	86,724,194	17	49,046,758	11
LONG-TERM LIABILITIES				
Bonds payable (Note 9)	19,500,000	4	30,000,000	7
Other long-term payables (Notes 10 and 20)	1,644,136		2,637,827	
Other payables to related parties (Notes 18 and 20)	1,727,133	1	3,622,369	1
Total long-term liabilities	22,871,269	5	36,260,196	8
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 11)	3,410,250	1	2,847,049	1
Guarantee deposits (Note 20)	1,517,584		599,091	
Deferred gain on intercompany transactions (Notes 2 and 18)	708,941			

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Total other liabilities	5,636,775	1	3,446,140	1
Total liabilities	115,232,238	23	88,753,094	20
SHAREHOLDERS' EQUITY (Notes 2, 14, 15 and 16)				
Capital stock - \$10 par value				
Authorized: 27,050,000 thousand shares in 2005, 24,600,000 thousand shares in 2004				
Issued: 24,726,129 thousand shares in 2005, 23,376,597 thousand shares in 2004	247,261,288	50	233,765,970	53
Capital surplus	56,720,875	11	56,885,914	13
Retained earnings				
Appropriated as legal reserve	34,348,208	7	25,528,007	6
Appropriated as special reserve	2,226,427			
Unappropriated earnings	47,808,698	10	43,517,207	10
Others				
Unrealized loss on long-term investments			(9)	
Cumulative translation adjustments	(2,612,996)	(1)	53,132	
Treasury stock (at cost) - 46,862 thousand shares in 2005 and 170,690 thousand shares in 2004	(1,552,573)		(8,676,467)	(2)
Total shareholders' equity	384,199,927	77	351,073,754	80
TOTAL	\$ 499,432,165	100	\$ 439,826,848	100

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

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TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 18)	\$ 116,819,058		\$ 124,982,265	
SALES RETURNS AND ALLOWANCES (Note 2)	2,649,624		2,599,819	
NET SALES	114,169,434	100	122,382,446	100
COST OF SALES (Notes 13 and 18)	69,315,398	61	71,514,061	59
GROSS PROFIT	44,854,036	39	50,868,385	41
OPERATING EXPENSES (Notes 13 and 18)				
Research and development	6,632,293	6	5,825,173	5
General and administrative	3,743,998	3	4,635,566	3
Marketing	617,811		733,496	1
Total operating expenses	10,994,102	9	11,194,235	9
INCOME FROM OPERATIONS	33,859,934	30	39,674,150	32
NON-OPERATING INCOME AND GAINS				
Interest (Notes 2 and 21)	1,625,725	1	558,592	
Settlement income (Note 20)	711,324	1		
Technical service income (Notes 18 and 20)	186,962		111,096	
Gain on disposal of property, plant, and equipment (Notes 2 and 18)	107,395		114,102	
Investment income recognized by equity method, net (Notes 2 and 6)			2,053,966	2
Gain on sales of investments (Note 2)			98,644	
Others (Note 18)	221,233		138,298	
Total non-operating income and gains	2,852,639	2	3,074,698	2
NON-OPERATING EXPENSES AND LOSSES				

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Interest (Notes 2, 7, 9 and 21)	1,387,359	1	602,981
Investment loss recognized by equity method, net (Notes 2 and 6)	786,018	1	
Foreign exchange loss, net (Notes 2 and 21)	197,684		542,591
Loss on sales of investments, net (Note 2)	111,808		
Loss on idle assets (Note 2)	106,972		

(Continued)

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	2005		2004	
	Amount	%	Amount	%
Loss on disposal of property, plant and equipment (Note 2)	\$ 53,599		\$ 32,913	
Unrealized valuation loss on short-term investments (Notes 2 and 4)	41,467			
Others	29,942		14,405	
Total non-operating expenses and losses	2,714,849	2	1,192,890	
INCOME BEFORE INCOME TAX	33,997,724	30	41,555,958	34
INCOME TAX BENEFIT (Notes 2 and 12)	1,189,610	1	642,844	
NET INCOME	\$ 35,187,334	31	\$ 42,198,802	34

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 17)				
Basic earnings per share	\$ 1.38	\$ 1.43	\$ 1.68	\$ 1.70
Diluted earnings per share	\$ 1.38	\$ 1.43	\$ 1.68	\$ 1.70

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

	2005	2004
NET INCOME	\$ 35,278,370	\$ 42,200,461
EARNINGS PER SHARE (NT\$)		
Basic earnings per share	\$ 1.43	\$ 1.70
Diluted earnings per share	\$ 1.43	\$ 1.70

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

(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

Shares (in thousands)	Capital Stocks Amount	Capital Surplus	Legal Capital Reserve	Retained Earnings		Total	Long-term Investments	Others Unrealized	Cumulative Treasury Stock
				Special Capital Reserve	Unappropriated Earnings			Loss on Translation Adjustments	
3,251,964	\$ 232,519,637	\$ 56,537,259	\$ 25,528,007	\$	\$ 88,202,009	\$ 113,730,016	\$	\$ (2,226,427)	\$ (1,595,180)
			8,820,201		(8,820,201)				
				2,226,427	(2,226,427)				
					(3,086,215)	(3,086,215)			
308,622	3,086,215				(3,086,215)	(3,086,215)			
					(46,504,097)	(46,504,097)			
1,162,602	11,626,024				(11,626,024)	(11,626,024)			
					(231,466)	(231,466)			
					35,187,334	35,187,334			
		4,774							

(386,569)

2,941 29,412 87,806

84,285

6,751

42,613

4,726,129	\$ 247,261,288	\$ 56,720,875	\$ 34,348,208	\$ 2,226,427	\$ 47,808,698	\$ 84,383,333	\$	\$ (2,612,996)	\$ (1,552,577)
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0,266,619	\$ 202,666,189	\$ 56,855,885	\$ 20,802,137	\$ 68,945	\$ 50,229,008	\$ 71,100,090	\$(35)	\$ 225,408	\$(1,633,22
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4,725,870 (4,725,870)

(68,945)	68,945
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(681,628) (681,628)

272,651	2,726,514	(2,726,514)	(2,726,514)
		(184,493)	(184,493)

(12,159,971) (12,159,971)

2,837,327 28,373,267 (28,373,267) (28,373,267)

(127,805) (127,805)

42,198,802 42,198,802

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Capital Stocks		Capital Surplus	Legal Reserve	Retained Earnings		Total Investment	Others		Cumulative Treasury Stock	Total Share Equity
Shares (in Thousands)	Amount			Special Reserve	Unappropriated Earnings		Long-term Assets	Unrealized Loss on Translation Adjustments		
	\$	\$ 28,370	\$	\$	\$	\$	\$	\$	\$	\$
							26			
								(172,276)		
		1,659							16,559	
									(7,059,798)	(7,059,798)
23,376,597	\$ 233,765,970	\$ 56,885,914	\$ 25,528,007	\$	\$ 43,517,207	\$ 69,045,214	\$ (9)	\$ 53,132	\$ (8,676,467)	\$ 351,000,000

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 35,187,334	\$ 42,198,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	34,330,028	31,086,443
Loss on idle assets	106,972	
Deferred income tax	(1,149,822)	(921,333)
Investment loss (income) recognized by equity method, net	786,018	(2,053,966)
Gain on sales of long-term investments	(94)	(2,150)
Amortization of premium from long-term bond investments	58,771	327
Gain on disposal of property, plant and equipment, net	(53,796)	(81,189)
Accrued pension cost	309,054	246,798
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables from related parties	1,186,405	(3,116,070)
Notes and accounts receivable	(4,713,402)	(2,795,056)
Allowance for doubtful receivables	(1,884)	(32,945)
Allowance for sales returns and others	617,143	893,632
Other receivables from related parties	(1,145,538)	(14,047)
Other financial assets	287,847	(120,308)
Inventories, net	58,330	(818,030)
Prepaid expenses and other current assets	888,434	1,030,139
Increase (decrease) in:		
Accounts payable	(807,671)	1,224,512
Payables to related parties	(1,619,155)	161,861
Accrued expenses and other current liabilities	(648,995)	1,900,027
 Net cash provided by operating activities	 63,675,979	 68,787,447
 CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	3,570,487	(32,042,407)
Acquisitions of:		
Long-term investments	(6,418,368)	(9,307,272)
Property, plant and equipment	(51,194,392)	(39,179,243)
Proceeds from disposal of:		
Long-term investments	1,515,356	7,552
Property, plant and equipment	1,430,769	250,080
Increase in deferred charges	(503,079)	(640,653)
(Increase) decrease in refundable deposits	(2,129)	151,138

Net cash used in investing activities	(51,601,356)	(80,760,805)
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	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	\$ 1,105,191	\$ (164,398)
Proceeds from exercise of stock options	117,218	
Bonus to directors and supervisors	(231,466)	(127,805)
Repurchase of treasury stock		(7,059,798)
Cash dividend paid for preferred stocks		(184,493)
Net cash provided by (used in) financing activities	990,943	(7,536,494)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,065,566	(19,509,852)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	65,531,818	98,288,002
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 78,597,384	\$ 78,778,150
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding the amount capitalized of NT\$157,109 thousand for the six months ended June 30, 2004; please see Note 7)	\$ 1,029,064	\$ 268,006
Income tax paid	\$ 87,315	\$ 11,689
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term bonds payable	\$ 10,500,000	\$ 5,000,000
Current portion of other payables to related parties (under payables to related parties)	\$	\$ 177,161
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 1,417,437	\$ 1,757,476
Reclassification of short-term investments to long-term investments	\$	\$ 3,402,413

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

(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Taiwan Semiconductor Manufacturing Company, Ltd. (the Company or 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; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

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

As of June 30, 2005 and 2004, the Company had 18,734 and 17,559 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Significant accounting policies are summarized as follows:

Use of Estimates

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

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

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

Short-term Investments

Short-term investments primarily consist of corporate bonds, agency bonds, asset-backed securities, bond funds, government bonds and others.

Short-term investments are recorded at historical cost and are carried at the lower of cost or market value as of the balance sheet date. An allowance for decline in value is provided and is charged to current income when the aggregate carrying amount of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the market value.

The costs of funds and listed stocks sold are accounted for using the weighted-average method; whereas other securities sold are accounted for using the specific identification method.

The market value of funds is determined using the net asset value of the funds at the end of the period, and the market value of listed stocks is determined using the average-closing price of the listed stocks for the last month of the period. The market value of other short-term investments is determined using the average of bid and ask prices as of the balance sheet date.

Cash dividends are recorded as investment income in the current period.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivables. The Company determines the amount of allowance for doubtful receivables 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 revenue when evidence of an arrangement exists, the shipment is made, price is fixed or determinable, and the collectibility is reasonably assured. Revenues from the design and manufacturing of photo masks, which are used as manufacturing tools in the fabrication process, are recognized when the photo masks are qualified by our customers. The Company records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made at a specific percentage based on historical experience, our management's judgment, and any known factors that would significantly affect the allowance.

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 a 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 to be 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 the period. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for finished goods and work in process. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Ending inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included 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 in 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 the investee's net equity is amortized using the straight-line method over five years and is also recorded in 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 investee differs from the amount of the 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 or credited to capital surplus.

Investments in companies wherein the Company does not exercise significant influence are recorded at historical cost. Cash dividends are recognized as investment income in the year received but are accounted for as reductions in the carrying amount 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.

Investments in mutual funds are stated at the lower of aggregate cost or net asset value. An allowance is recognized when the net asset value of the funds is lower than their cost, 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.

When an indication of significant impairment is identified in an investee company, the carrying amount of this investment is reduced to reflect an other-than-temporary decline, with the related impairment loss charged to current income.

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

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

When investments in publicly-traded stocks are reclassified from short-term investments to long-term investments or from long-term investments 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 amount, and the market value becomes the new basis.

If an investee company recognizes an unrealized loss on its long-term investments using the lower-of-cost-or-market method, the Company also recognizes a corresponding unrealized loss in proportion to its ownership percentage 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 percentages in the investee companies until realized through transactions with third parties. The entire amount of the gains or losses on sales to majority-owned subsidiaries is deferred until such gains or losses are realized through the subsequent sales of the related products to third parties. Gains or losses on sales from investee companies to the Company are deferred in proportion to the Company's ownership percentages in the investee companies until realized through transactions with third parties. Gains or losses on sales between investee companies accounted for using the equity method are deferred in proportion to the Company's weighted-average ownership percentages in the investee companies which record such gains or losses until realized through transactions with third parties.

If an investee's functional currency is a foreign currency, translation adjustments will result from the process of translating the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

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 indication of significant impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in the future period, the subsequent reversal of the impairment loss would be recognized as a gain. However, the increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognized for the asset in prior years. Idle assets are stated at the lower of net realizable value or book value. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed in the period incurred. Interest expense incurred during the purchase and construction period is also capitalized.

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

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

Goodwill

Goodwill represents the excess of the consideration paid for acquisition 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. If an event occurs or circumstances change that more likely than not reduce the fair value of goodwill below its carrying amount, an impairment loss is charged to current income. Subsequent recovery in the fair value of the goodwill may not be recorded such as to reverse the impairment loss previously recorded.

Deferred Charges

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized as follows: Technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract; software and system design costs and other charges 3 years. When an indication of significant impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Pension Costs

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

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 and unused tax credits. 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 noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Any tax credits arising from the purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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

Income tax on unappropriated earnings of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

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

Treasury Stock

When the Company repurchases its outstanding common stock, the cost of the reacquired stock is recorded as treasury stock as a reduction to shareholders' equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus - additional paid-in capital are reversed in proportionate to the equity percentage of the retirement. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount. The Company's stock held by its subsidiaries is also treated as treasury stock and reclassified from long-term investments to treasury stock. The cash dividends received by the subsidiaries from the Company are recorded under capital surplus - treasury stock transactions.

Foreign-currency Transactions

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

Derivative Financial Instruments

The Company enters into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts are recorded in New Taiwan dollars at the current rate of exchange of the contract date. The differences in the New Taiwan dollar amounts translated using the current rates 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 exchange rates at the balance sheet date with the resulting differences credited or charged to income. In addition, the receivables and payables related to the forward contracts of the same counter party are netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

The Company enters into cross-currency swap contracts to manage currency exposures on foreign-currency-denominated assets and liabilities. The principal amount is recorded using the current rate at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted rates on the contract dates are amortized over the terms of the contracts using the straight-line method. At the end of each period, the receivables or payables arising from cross-currency swap contracts are restated using the prevailing exchange rate with the resulting differences credited or charged to income. In addition, the receivables and payables related to the contracts of the same counter party are netted with the resulting amount presented as either an asset or a liability. The difference in interest computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as an adjustment to the interest income or expense associated with the hedged items. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

The Company enters into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. The cash settlement receivable or payable computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as an adjustment to interest income or expense associated with the hedged items.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2004 have been reclassified to conform to the financial statements as of and for the six months ended June 30, 2005.

3. CASH AND CASH EQUIVALENTS

	June 30	
	2005	2004
Cash and bank deposits	\$ 48,158,582	\$ 66,348,727
Government bonds acquired under repurchase agreements	29,804,199	10,165,256
Treasury bills	349,892	842,873
Corporate issued notes	172,291	884,533
Agency notes	112,420	435,526
Commercial papers		101,235
	\$ 78,597,384	\$ 78,778,150

4. SHORT-TERM INVESTMENTS

	June 30	
	2005	2004
Corporate bonds	\$ 12,846,798	\$ 7,190,519
Agency bonds	11,554,410	6,974,162
Corporate issued asset-backed securities	11,482,685	6,720,188
Bond funds	10,140,224	9,900,000
Government bonds	2,750,355	7,052,471
Money market funds	491,465	
Corporate issued notes	158,052	
Commercial papers	94,770	
Listed stocks	6,528	6,528
Government bonds acquired under repurchase agreements		3,355,145
	49,525,287	41,199,013
Allowance for valuation losses	(116,679)	
	\$ 49,408,608	\$ 41,199,013
Market value	\$ 49,408,608	\$ 41,491,242

The Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage investment portfolios for the Company. In accordance with the investment guidelines and terms in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of June 30, 2005, the Company had investment portfolios with these fund managers that aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as corporate bonds, agency bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

5. INVENTORIES, NET

	June 30	
	2005	2004
Finished goods	\$ 2,600,225	\$ 2,372,138
Work in process	11,380,115	9,213,016
Raw materials	937,820	785,848
Supplies and spare parts	658,803	755,052
	15,576,963	13,126,054
Allowance for losses	(1,463,348)	(1,400,866)
	\$ 14,113,615	\$ 11,725,188

6. LONG-TERM INVESTMENTS

	June 30			
	2005		2004	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
Equity method				
TSMC International Investment Ltd. (TSMC International)	\$ 23,057,382	100	\$ 23,708,232	100
TSMC (Shanghai) Company Limited (TSMC-Shanghai)	9,967,851	100	1,758,405	100
Vanguard International Semiconductor Corporation (VIS)	5,115,164	27	4,667,952	28
TSMC Partners, Ltd. (TSMC Partners)	3,873,176	100	4,113,671	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	3,514,280	32	3,181,111	32
Emerging Alliance Fund, L.P. (Emerging Alliance)	820,765	99	912,982	99
TSMC North America (TSMC-North America)	794,692	100	474,695	100
VentureTech Alliance Fund II, L.P. (VTAF II)	469,749	98	165,190	98
Global Unichip Corporation (GUC)	403,208	46	362,629	47
TSMC Japan K. K. (TSMC-Japan)	95,013	100	100,521	100
Chi Cherng Investment Co., Ltd. (Chi Cherng)	77,971	36	42,990	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	77,256	36	42,673	36
VisEra Technologies Company, Ltd. (VisEra)	62,668	25	51,825	25
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe)	22,491	100	23,764	100
	48,351,666		39,606,640	
Cost method				
Non-publicly traded stocks	482,500		432,500	
Funds	302,439		283,877	
	784,939		716,377	
Long-term bonds				
Government bonds	11,817,146		8,893,477	
Corporate bonds				
China Steel Corporation	2,936,934			
Taiwan Power Company	908,645			
Nan Ya Plastics Corporation	272,612			
Formosa Plastics Corporation	271,181			
Formosa Chemical & Fiber Corporation	135,487			
	16,342,005		8,893,477	

Other investments	10,955,960	3,364,250
	\$ 76,434,570	\$ 52,580,744

For the six months ended June 30, 2005 and 2004, net investment loss and income recognized from the equity method investees was NT\$786,018 thousand and NT\$2,053,966 thousand, respectively. The carrying amounts of investments accounted for under the equity method and the related investment loss or income were determined based on the audited financial statements of the investees as of and for the same periods as the Company.

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Other investments consisted of the following structured time-deposits:

	Principal Amount	Interests Receivable	Range of Interest Rates	Maturity Date
<u>June 30, 2005</u>				
Step-up callable deposits				
Domestic bank	\$ 2,000,000	\$ 7,624	2.05-2.20%	Jul. 2007 to Aug. 2007
Foreign bank	2,000,000	10,403	1.40-2.44%	Jul. 2006 to Jul. 2007
Callable range accrual deposits				
Foreign bank	6,955,960	20,237	(See below)	Sep. 2009 to Jan. 2010
	\$ 10,955,960	\$ 38,264		

June 30, 2004

Step-up callable deposits

Foreign bank	\$ 3,364,250	\$ 2,474	1.44%-3.25%	Jun. 2007 to Jun. 2009
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The interest rate of the step-up callable deposits is determined by the Company and the related banks. The amount of interest earned by the Company for the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.1% and 3.45%. Based on the terms of the deposits, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the term of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of June 30, 2005 and 2004, deposits that resided in banks located in Hong Kong amounted to NT\$2,529,440 thousand and NT\$1,688,750 thousand, respectively; those that resided in banks located in Singapore amounted to NT\$632,360 thousand and NT\$675,500 thousand, respectively.

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	June 30	
	2005	2004
Buildings	\$ 39,229,473	\$ 32,452,205
Machinery and equipment	286,453,058	238,344,951
Office equipment	5,171,727	4,268,797
	\$ 330,854,258	\$ 275,065,953

There was no capitalized interest for the six months ended June 30, 2005. Interest expense for the six months ended June 30, 2004 was NT\$760,090 thousand (before deducting the amount capitalized of NT\$157,109 thousand for the six months ended June 30, 2004). The interest rate used for purposes of calculating the capitalized amount was 2.80% for the six months ended June 30, 2004.

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8. DEFERRED CHARGES, NET

	June 30	
	2005	2004
Technology license fees	\$ 5,836,060	\$ 7,518,432
Software and system design costs	1,942,091	2,444,985
Other	96,402	103,201
	\$ 7,874,553	\$ 10,066,618

9. BONDS PAYABLE

	June 30	
	2005	2004
Domestic unsecured bonds:		
Issued in October 1999 and repayable in October 2004, 5.95% interest payable annually	\$	\$ 5,000,000
Issued in December 2000 and repayable in December 2005 and 2007 in two payments, 5.25% and 5.36% interest payable annually, respectively	15,000,000	15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three payments, 2.60%, 2.75% and 3% interest payable annually, respectively	15,000,000	15,000,000
	\$ 30,000,000	\$ 35,000,000

As of June 30, 2005, future principal repayments for the Company's bonds were as follows:

Year of Repayment	Amount
2005 (3 rd to 4 th quarter)	\$ 10,500,000
2007	7,000,000
2009	8,000,000
2010 and thereafter	4,500,000
	30,000,000
Current portion	(10,500,000)
	\$ 19,500,000

10. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor-related patents. Future payments under the agreements as of June 30, 2005 were as follows:

Year of Repayment	Amount
2005 (3 rd to 4 th quarter)	\$ 1,144,732
2006	462,413
2007	442,652
2008	252,944
2009	252,944
2010 and thereafter	505,888
	3,061,573
Current portion (under accrued expenses and other current liabilities)	(1,417,437)
	\$ 1,644,136

11. PENSION PLAN

The Company has a defined benefit plan for all regular employees that provides benefits based on the employee's length of service and average monthly salary or wage for the six-month period prior to retirement.

The Company contributes an amount equal to 2% of salaries and wages paid each 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.

For the six months ended June 30, 2005 and 2004, the changes in the Fund and accrued pension cost are summarized as follows:

	Six Months Ended June 30	
	2005	2004
The Fund		
Balance, beginning of period	\$ 1,428,001	\$ 1,191,702
Contribution	122,103	116,844
Interest	15,629	15,562
Payment	(8,419)	
Balance, end of period	\$ 1,557,314	\$ 1,324,108
Accrued pension cost		
Balance, beginning of period	\$ 3,101,196	\$ 2,600,251
Accruals	309,054	246,798
Balance, end of period	\$ 3,410,250	\$ 2,847,049

The Labor Pension Act became effective on July 1, 2005 and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act

may choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee's monthly salary or wage.

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12. INCOME TAX

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

	Six Months Ended June 30	
	2005	2004
Income tax expense based on income before income tax at statutory rate (25%)	\$ (8,499,431)	\$ (10,388,989)
Tax-exempt income	4,734,183	6,233,394
Temporary and permanent differences	(635,273)	(294,984)
Current income tax expense before income tax credits	\$ (4,400,521)	\$ (4,450,579)

- b. Income tax benefit consisted of the following:

Current income tax expense before income tax credits	\$ (4,400,521)	\$ (4,450,579)
Additional tax at 10% on unappropriated earnings	(1,489,709)	(821,767)
Income tax credits	5,890,230	5,272,346
Other income tax adjustments	39,788	(278,489)
Net change in deferred income tax assets		
Investment tax credits	2,512,133	(883,812)
Temporary differences	1,708,642	528,349
Net change in valuation allowance of deferred income tax assets	(3,070,953)	1,276,796
Income tax benefit	\$ 1,189,610	\$ 642,844

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

	June 30	
	2005	2004
Current deferred income tax assets		
Investment tax credits	\$ 5,330,000	\$ 6,144,000
Noncurrent deferred income tax assets, net		
Investment tax credits	\$ 23,066,717	\$ 18,622,082
Temporary differences	(741,893)	(2,957,102)
Valuation allowance	(16,010,999)	(11,495,051)
	\$ 6,313,825	\$ 4,169,929

- d. Integrated income tax information:

The balance of the imputation credit account (ICA) as of June 30, 2005 and 2004 was NT\$15,569 thousand and NT\$347 thousand, respectively.

The expected and actual creditable ratios for distribution of earnings of 2004 and 2003 were 0.11% and 0.03%, respectively.

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

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

f. As of June 30, 2005, investment tax credits consisted of the following:

Regulation	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 134,467	\$	2005
		4,886,421	2,325,728	2006
		4,139,371	4,139,371	2007
		11,007,440	11,007,440	2008
		2,189,404	2,189,404	2009
		\$ 22,357,103	\$ 19,661,943	
Statute for Upgrading Industries	Research and development expenditures	\$ 3,127,586	\$	2005
		3,346,930	3,346,930	2006
		1,976,913	1,976,913	2007
		2,332,557	2,332,557	2008
		987,076	987,076	2009
		\$ 11,771,062	\$ 8,643,476	
Statute for Upgrading Industries	Personnel training	\$ 29,448	\$	2005
		27,311	27,311	2006
		26,780	26,780	2007
		37,207	37,207	2008
		\$ 120,746	\$ 91,298	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 38,036	\$	2005

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

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

h. The tax authorities have examined income tax returns of the Company through 2001.

13. LABOR COST, DEPRECIATION AND AMORTIZATION

Six Months Ended June 30, 2005			
	Classified		
	as		
	Classified	Operating	
	as		
	Cost of	Expenses	Total
	Sales		
Labor cost			
Salary	\$ 4,091,113	\$ 1,678,438	\$ 5,769,551
Labor and health insurance	303,436	144,065	447,501
Pension	295,506	140,296	435,802
Meal	208,186	67,904	276,090
Welfare benefit	72,159	40,344	112,503
Other	51,139	45,032	96,171
	\$ 5,021,539	\$ 2,116,079	\$ 7,137,618
Depreciation	\$ 31,158,607	\$ 1,489,769	\$ 32,648,376
Amortization	\$ 814,069	\$ 859,118	\$ 1,673,187

Six Months Ended June 30, 2004			
	Classified		
	as		
	Classified	Operating	
	as		
	Cost of	Expenses	Total
	Sales		
Labor cost			
Salary	\$ 4,166,565	\$ 2,020,169	\$ 6,186,734
Labor and health insurance	269,132	148,662	417,794
Pension	235,293	129,935	365,228
Meal	177,762	67,846	245,608
Welfare benefit	72,239	43,496	115,735
Other	60,436	243,058	303,494
	\$ 4,981,427	\$ 2,653,166	\$ 7,634,593
Depreciation	\$ 27,377,787	\$ 1,193,473	\$ 28,571,260
Amortization	\$ 1,381,976	\$ 1,123,581	\$ 2,505,557

14. SHAREHOLDERS EQUITY

The Company has issued a total of 668,351 thousand ADSs which are traded on the NYSE as of June 30, 2005. The number of common shares represented by the ADSs is 3,341,754 thousand (one ADS represents five common shares). On May 10, 2005, the Board of Directors approved the offering of up to 1,050,000 thousand common shares in the form of ADSs by certain existing shareholders. As of July 13, 2005, the proposed offering is still waiting for the approval by the R.O.C. Securities and Futures Bureau (SFB).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issue price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which is restricted to a certain percentage of the paid in common stock of the Company.

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As of June 30, 2005 and 2004, capital surplus consisted of the following:

	June 30	
	2005	2004
From merger	\$ 24,003,546	\$ 24,132,297
Additional paid-in capital	23,139,481	23,172,550
From convertible bonds	9,360,424	9,410,632
From long-term investments	126,128	115,665
From treasury stock transactions	91,241	54,715
Donations	55	55
	\$ 56,720,875	\$ 56,885,914

The Company's Articles of Incorporation as revised on May 10, 2005 provide that, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly:

- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the Company's total capital;
- Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- Bonus to directors and supervisors and bonus to employees of the Company equal to not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors and supervisors. The Company may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

The Company's Articles of Incorporation also stipulate that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided, however, the ratio for stock dividend shall not exceed 50% of total distribution.

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

The appropriation for legal capital 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 an accumulated deficit or the portion in excess of 50% of the outstanding capital stock can be distributed as dividends and bonuses when the reserve balance has reached 50% of the aggregate par value of the outstanding capital stock of the Company.

A special capital reserve equivalent to the net debit balance of the other components of shareholder's equity (for example, unrealized loss on long-term investments and cumulative translation adjustments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the SFB. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2004 and 2003 were approved in the shareholders' meetings on May 10, 2005 and May 11, 2004, respectively. The appropriations and dividends per share are as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2004	For Fiscal Year 2003	For Fiscal Year 2004	For Fiscal Year 2003
Legal capital reserve	\$ 8,820,201	\$ 4,725,870		
Special capital reserve	2,226,427	(68,945)		
Employees' profit sharing in cash	3,086,215	681,628		
Employees' profit sharing in stock	3,086,215	2,726,514		
Cash dividends to preferred shareholders		184,493	\$	\$ 0.35
Cash dividends to common shareholders	46,504,097	12,159,971	2.00	0.60
Stock dividends to common shareholders	11,626,024	28,373,267	0.50	1.41
Bonus to directors and supervisors	231,466	127,805		
	\$ 75,580,645	\$ 48,910,603		

The amounts of the above appropriations of earnings for 2004 and 2003 are consistent with the resolutions of the meetings of the Board of Directors on February 22, 2005 and February 17, 2004. However, the Company Law prescribes that TSMC, as a holder of treasury stock, shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolution. If the above bonus to employee, directors and supervisors had been paid entirely in cash and charged against income for 2004 and 2003, the after income tax basic earnings per share for the years ended December 31, 2004 and 2003 would have decreased from NT\$3.97 to NT\$3.70 and NT\$2.33 to NT\$2.15, respectively. The shares distributed as a bonus to employees represented 1.33% and 1.35% of the Company's total outstanding common shares as of December 31, 2004 and 2003, respectively.

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

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated since January 1, 1998.

15. STOCK-BASED COMPENSATION PLANS

The Company's Employee Stock Option Plans under the 2005 Plan, 2003 Plan and 2002 Plan were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of units authorized to be granted under the 2005 Plan, the 2003 Plan and the 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each unit eligible to subscribe to one common share when exercisable. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of the Company's common shares listed on the TSE on the grant date.

Under the 2003 Plan and the 2002 Plan, units that had never been granted, or had been granted and subsequently cancelled were expired as of June 30, 2005.

Information about outstanding stock options for the six months ended June 30, 2005 and 2004 was as follows:

	Number of Options (in Thousands)	Weighted- Average Exercise Price (NT\$)
<u>Six months ended June 30, 2005</u>		
Beginning balance	64,367	\$ 40.5
Options granted	14,864	48.4
Options exercised	(2,941)	39.9
Options cancelled	(2,931)	42.7
Ending balance	73,359	42.1
<u>Six months ended June 30, 2004</u>		
Beginning balance	49,357	\$ 43.0
Options granted	20,091	47.4
Options cancelled	(2,510)	45.1
Ending balance	66,938	44.2

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

As of June 30, 2005, information about outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (in Thousands)	Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options (in Thousands)	Weighted- average Exercise Price (NT\$)
29.9-42.1	50,195	7.60	38.8	25,032	38.8
47.0-54.5	23,164	9.33	49.2		
	73,359			25,032	

No compensation cost was recognized under intrinsic value method for the six months ended June 30, 2005 and 2004. Had the Company used the fair value based method (based on the Black-Scholes model) to evaluate the options granted after January 1, 2004, the assumptions and pro forma results of the Company for the six months ended June 30, 2005 and 2004 would have been as follows:

	Six Months Ended June 30	
	2005	2004
Assumptions:		
Expected dividend yield	1.00%-3.44%	1.00%
Expected volatility	43.77%-46.15%	43.19%-43.25%
Risk free interest rate	3.07%-3.85%	3.07%-3.85%
Expected life	5 years	5 years
Net income:		
Net income as reported	\$ 35,187,334	\$ 42,198,802
Pro forma net income	35,140,859	42,184,898
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 1.43	\$ 1.70
Pro forma basic EPS	1.42	1.70
Diluted EPS as reported	1.43	1.70
Pro forma diluted EPS	1.42	1.70

The estimated weighted average fair value per unit for the options granted during the six months ended June 30, 2005 and 2004 was NT\$17.69 and NT\$19.75, respectively.

16. TREASURY STOCK

	Beginning Shares	Increase/ Distribute	Decrease	(Shares in Thousands) Ending Shares
<u>Six months ended June 30, 2005</u>				
Reclassification of parent company stock held by subsidiaries from long-term investments	45,521	2,242	901	46,862
<u>Six months ended June 30, 2004</u>				
Reclassification of parent company stock held by subsidiaries from long-term investments	40,597	5,676	303	45,970
Repurchase under share buyback plan		124,720		124,720
	40,597	130,396	303	170,690

Proceeds from the sales of treasury stock for the six months ended June 30, 2005 and 2004 were NT\$49,364 thousand and NT\$18,218 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. As of June 30, 2005 and

2004, the book value of the treasury stock was NT\$1,552,573 thousand and NT\$1,616,669 thousand, respectively; the market value was NT\$2,648,643 thousand and NT\$2,247,024 thousand, respectively. The Company's stocks held by its subsidiaries are treated as treasury stock and the holders are entitled to the rights of shareholders. However, starting from June 24, 2005, in accordance with the revised Company Law, the holders will be no longer entitled to the right to vote.

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The Company held a special meeting of the board of directors and approved a share buyback plan to repurchase the Company's common shares listed on the TSE during the period from March 24, 2004 to May 23, 2004. The Company repurchased 124,720 thousand common shares for a total cost of NT\$7,059,798 thousand. All the treasury stock repurchased under the buyback plan was retired on August 16, 2004.

17. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (in Thousands)	EPS (NT\$)	
	Before	After		Before Income Tax	After Income Tax
	Income Tax	Income Tax			
<u>Six months ended June 30, 2005</u>					
Basic EPS					
Income available to common shareholders	\$ 33,997,724	\$ 35,187,334	24,676,592	\$ 1.38	\$ 1.43
Effect of dilutive potential common stock stock options			10,537		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	\$ 33,997,724	\$ 35,187,334	24,687,129	\$ 1.38	\$ 1.43
<u>Six months ended June 30, 2004</u>					
Basic EPS					
Income available to common shareholders	\$ 41,555,958	\$ 42,198,802	24,760,690	\$ 1.68	\$ 1.70
Effect of dilutive potential common stock stock options			9,703		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	\$ 41,555,958	\$ 42,198,802	24,770,393	\$ 1.68	\$ 1.70

18. RELATED PARTY TRANSACTIONS

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

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

c. Subsidiaries

TSMC-Shanghai

TSMC-North America

TSMC-Europe

TSMC-Japan

d. Investees

GUC (with controlling financial interest)

VisEra (with controlling financial interest)

VIS (accounted for using equity method)

SSMC (accounted for using equity method)

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e. Indirect subsidiaries

WaferTech, LLC (WaferTech)

TSMC Technology, Inc. (TSMC Technology)

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

	2005		2004	
	Amount	%	Amount	%
<u>For the six months ended June 30</u>				
Sales				
TSMC-North America	\$ 64,760,945	56	\$ 68,191,878	55
Philips and its affiliates	1,147,115	1	2,712,508	2
Others	186,880		205,544	
	\$ 66,094,940	57	\$ 71,109,930	57
Purchases				
WaferTech	\$ 5,117,622	31	\$ 7,505,754	35
VIS	2,168,998	13	4,247,055	19
SSMC	2,094,617	13	3,050,439	14
TSMC-Shanghai	234,333	1		
	\$ 9,615,570	58	\$ 14,803,248	68
Manufacturing expenses technical assistance fees				
Philips (Note 20a)	\$ 202,334		\$ 808,072	1
Marketing expenses commission				
TSMC-Japan	\$ 133,765	22	\$ 139,243	19
TSMC-Europe	116,034	19	105,175	14
	\$ 249,799	41	\$ 244,418	33
General and administrative expenses rental expense				
GUC	\$ 8,162		\$	
Proceeds from disposal of property, plant and equipment				
TSMC-Shanghai	\$ 106,412	38	\$	
VIS			32,960	13

	\$	106,412	38	\$	32,960	13
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Non-operating income and gains

SSMC (primarily technical service income, see Note 20f)

\$	146,655	5	\$	149,362	5
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VIS (primarily technical service income, see Note 20k)

77,504	3	29,763	1
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TSMC-Shanghai (primarily from deferred gain realized for disposal of property, plant and equipment)

75,743	3
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Others

10,752	2,076
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\$	310,654	11	\$	181,201	6
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(Continued)

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	2005		2004	
	Amount	%	Amount	%
<u>At end of June 30</u>				
Receivables				
TSMC-North America	\$ 14,513,699	97	\$ 16,954,566	94
Philips and its affiliates	467,843	3	922,713	5
Others	18,136		106,453	1
	\$ 14,999,678	100	\$ 17,983,732	100
Other receivables				
TSMC-Technology	\$ 715,306	46	\$ 3,852	3
TSMC-North America	415,650	27	74,721	51
TSMC-Shanghai	271,905	17		
SSMC	115,460	7	60,028	41
Others	47,463	3	8,409	5
	\$ 1,565,784	100	\$ 147,010	100
Payables				
VIS	\$ 883,144	41	\$ 1,844,800	40
WaferTech	793,200	37	1,296,351	28
SSMC	284,080	13	685,240	15
TSMC-Shanghai	70,080	3		
Philips and its affiliates			745,428	16
Others	115,813	6	90,182	1
	\$ 2,146,317	100	\$ 4,662,001	100
Other long-term payables				
Philips and its affiliates	\$ 1,727,133	100	\$ 3,622,369	100
Deferred gain on intercompany transactions				
TSMC-Shanghai (disposal of property, plant and equipment)	\$ 708,941	100	\$	

The terms of sales to related parties are not significantly different from those to third parties. For other related party transactions, prices are determined in accordance with the related contractual agreements.

19. SIGNIFICANT LONG-TERM LEASES

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

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As of June 30, 2005, future remaining lease payments were as follows:

Year	Amount
2005 (3 rd to 4 th quarter)	\$ 129,503
2006	251,415
2007	251,415
2008	233,250
2009	227,195
2010 and thereafter	1,292,511
	\$ 2,385,289

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of June 30, 2005 are as follows:

- a. On June 20, 2004, the Company and Philips revised the Technical Cooperation Agreement, which was originally signed on May 12, 1997, with an effective date from January 1, 2004 for five years. Upon expiration, this amended Technical Cooperation Agreement will be terminated at the expiration date and will not be automatically renewed. Under this amended Technical Cooperation Agreement, the Company will pay Philips royalties based on a fixed amounts mutually agreed-on, rather than under certain percentage of the Company's annual net sales. The Company and Philips agree to cross license the patents owned by each party. The Company also obtained through Philips a number of patent cross licenses.
- b. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA. The term of this agreement is for five years beginning January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. On October 28, 1992, the Company entered into a letter agreement with Philips under which Philips has an option on up to 30% of the Company's capacity as agreed in the agreement on most favored terms and conditions for similar orders, as long as Philips and its affiliates' shareholding in the Company remains at 24.8% or higher. As of June 30, 2005, Philips and its affiliates' shareholding in the Company is 18.74%.
- d. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of June 30, 2005, the Company had a total of US\$47,868 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 June 30, 2005, the Company's equity interest in SSMC was 32%. The Company and Philips committed to buy specific percentages of the production capacity of SSMC. The Company and Philips are required, in the aggregate, to purchase up to 70% of SSMC's full capacity, but the Company alone is not required to purchase more than 28% of the annual installed capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall 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 price of certain products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each 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, the Company shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the Termination Agreement, the Company will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- h. Beginning in 2001, the Company entered into several licensing arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be made in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability with the corresponding amounts recorded as deferred charges which are amortized and charged to cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.
- i. In November 2002, the Company entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Freescale Semiconductor, Inc. and STMicroelectronics to jointly develop 90-nm to 65-nm 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.
- j. In December 2003, the Company entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. The Company will also license related 90-nm SOI technology from Freescale Semiconductor, Inc. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company will pay royalties to Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- k. The Company provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into in August 2004. The Company receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for the Company certain products at prices as agreed by the parties.
- l. Amounts available under unused letters of credit as of June 30, 2005 were NT\$6,480 thousand.
- m. The Company provided guarantees on loans amounting to US\$30,000 thousand and US\$40,000 thousand for TSMC Development, Inc. (TSMC Development) and TSMC-North America, respectively.
- n. TSMC, TSMC-North America and WaferTech filed a series of lawsuits in late 2003 and 2004 in both state and federal courts in California and with the U.S. International Trade Commission against Semiconductor Manufacturing International Corporation (SMIC), SMIC (Shanghai) and SMIC Americas. The lawsuits alleged that SMIC companies infringed multiple TSMC patents and misappropriated TSMC's trade secrets. These suits have been settled out of court on January 30, 2005. As part of the settlement, SMIC will pay TSMC US\$175 million over six years to resolve TSMC's patent infringement and trade secret claims.

21. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB 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: None;
- 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 paid-in capital: Please see Table 5 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 7 attached;
- j. Financial instrument transactions:
 - 1) Derivative financial instruments

The Company entered into derivative financial instrument transactions during the six months ended June 30, 2005 and 2004 to manage exposures related to foreign-exchange rate and interest rate fluctuations. Certain information on these contracts was as follows:

- a) Outstanding forward exchange contracts as of June 30, 2005 and 2004

Financial Instruments	Currency	Maturity	Contract Amount (in Thousands)
<u>June 30, 2005</u>			
Sell	US\$/NT\$	Jul. 2005 to Aug. 2005	US\$103,000
<u>June 30, 2004</u>			
Sell	US\$/NT\$	July. 2004 to Apr. 2005	US\$2,158,000
Sell	EUR/US\$	Aug. 2004	EUR 20,000

As of June 30, 2005 and 2004, payables from forward exchange contracts (included in the other current liabilities account) aggregated NT\$38,173 thousand and NT\$903,322 thousand, respectively.

b) Cross currency swap contracts

Outstanding cross currency swap contracts as of June 30, 2005 were as follows:

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rate Paid	Range of Interest Rate Received
Jul. 2005 to Aug. 2005	US\$2,045,000 (US\$/NT\$)	3.10%-3.40%	1.03%-1.22%

The Company did not enter into any cross currency swap contracts during the six months ended June 30, 2004.

As of June 30, 2005, payables resulted from cross currency swap contracts (included in the other current liabilities account) were NT\$705,607 thousand.

During the six months ended June 30, 2005 and 2004, the net exchange gain or loss arising from forward exchange contracts and cross currency swap contracts was recognized in the foreign exchange loss, net account and the difference in interest was recorded in interest income or expense.

c) Interest rate swap contracts

The Company rescinded all outstanding interest rate swap contracts during the three months ended March 31, 2005 before their original maturities. The rescission loss of NT\$28,295 thousand was recognized in the interest expense account. There were no outstanding contracts at June 30, 2005.

Outstanding contracts as of June 30, 2004 were as follows:

Contract Date	Period	Contract Amount (in Thousands)
Sep. 2003	Sep. 2003 to Dec. 2005	NT\$ 500,000
Oct. 2003	Oct. 2003 to Dec. 2005	NT\$ 500,000
Oct. 2003	Oct. 2003 to Dec. 2005	NT\$ 500,000
Oct. 2003	Oct. 2003 to Dec. 2005	NT\$ 500,000
Oct. 2003	Oct. 2003 to Dec. 2005	NT\$ 500,000
Nov. 2003	Nov. 2003 to Dec. 2005	NT\$ 500,000

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 to be 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 exposure related to the potential default by those counter-parties is low.
- ii) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in foreign exchange rates and interest rates. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items. Thus, market price risk is believed to be low.

iii) Cash flow risk and the amount and period of future cash needs.

As of June 30, 2005, the Company's future cash needs for outstanding forward exchange contracts and cross currency swap contracts were as follows:

Term	Inflow (in Thousands)	Outflow (in Thousands)
Within one year	NT\$67,304,233	US\$ 2,148,000

The Company has sufficient operating capital to meet the above cash needs. In addition, there will be corresponding cash inflow for the cash outflow. Therefore, the cash flow risk is low.

2) Fair values of financial instruments were as follows:

	June 30, 2005		June 30, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Short-term investments	\$ 49,408,608	\$ 49,408,608	\$ 41,199,013	\$ 41,491,242
Long-term investments (securities with market price)	32,451,393	39,638,685	16,928,153	23,154,967
Liabilities Bonds payable (including current portion)	30,000,000	30,429,929	35,000,000	35,729,923
<u>Derivative financial instruments</u>				
Assets (liabilities)				
Forward exchange contracts (sell)	(39,969)	(36,560)	(761,592)	(538,407)
Cross currency swap contracts	(674,894)	(452,530)		
Interest rate swap contracts				(26,956)

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

The above financial instruments also exclude refundable deposits, guarantee deposits, long-term investments that do not have quoted market prices as well as other long-term payables. The future cash inflow and outflow of the deposits approximate their fair values. Some of long-term investments do not have quoted market prices; therefore, fair values for those long-term investments are not shown above. The fair value of other long-term payables is determined using the discounted value of expected cash flows, which approximates their carrying amount.

Fair values of financial instruments were determined as follows:

- a) Fair value of short-term and publicly traded long-term investments is based on quoted market prices.
- b) Fair value of bonds payable is based on their quoted market price.
- c) Fair value of derivative financial instruments is the amount receivable from or payable to the counter-party if the contracts were terminated on the 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.

k. Information on investment in Mainland China

- 1) The name of the investee company in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, ratio of ownership, equity in the net gain or net loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee company, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: Please see Note 18.

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TABLE 1
**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
FINANCING PROVIDED**
FOR THE SIX MONTHS ENDED JUNE 30, 2005
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Financing No.	Account Name	Statement Period	Maximum Balance	Ending	Interest Rate	Type of Financing (Note 1)	Amount	Reasons for Financing Short-term Debt	Allowance for Collateral Value	Each Borrowing Company	Financing Company's Financing Limit for	Financing Amount
			for the Period (US\$ in Thousand)	Balance (US\$ in Thousand)							Each Limits (US\$ in Thousand)	Limits
1	TSMC Inter-divisional	Other Developmentals	\$ 1,897,080 (US\$60,000)	\$ 1,897,080 (US\$60,000)	1.5%	2	\$	Operating capital	\$	N/A	\$ 31,237,580 (US\$987,968) (Note 2)	
2	TSMC Developmentals	Other Developmentals	2,529,440 (US\$80,000)	948,540 (US\$30,000)	1.5%	2		Operating capital		N/A	(Note 3)	

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

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

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

TABLE 2

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2005
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Endorsement/ Guarantee No. Provider	Counter-party Nature of Relationship (Note 2)	Limits on Each Counter-party's Endorsement/Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Value of Collateral Property, Plant and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0	The TSMC Development Corp.	Not exceed 10% of the net worth of the Company, and also limiting to the total capital issued of the endorsement/guarantee company, unless otherwise approved by Board of Directors.	\$ 1,897,080 (US\$60,000)	\$ 948,540 (US\$30,000)	\$	0.25%	\$ 96,049,982
	TSMC-North America	2	1,264,720 (US\$40,000)	1,264,720 (US\$40,000)		0.33%	

Note 1: 25% of the net worth of the Company as of June 30, 2005.

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

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

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
MARKETABLE SECURITIES HELD

JUNE 30, 2005

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

				June 30, 2005		Market Value	
						Net Asset	
						Percentage	
Relationship with	Financial Statement	Shares/Units	Carrying Value	of	Value	Value	
the Company	Account	(In	(US\$ in	Ownership	(US\$ in	(US\$ in	
Marketable Securities Type and Name		Thousand)	Thousand)		Thousand)	Thousand)	
<u>Government bonds</u>							
United States Treas NTS	Short-term investment		US\$ 80,106	N/A	US\$ 79,8		
Kreditanstalt Fur Wiederaufbau	Short-term investment		US\$ 6,881	N/A	US\$ 6,8		
2002 Government Bond Series B	Long-term investment		358,683	N/A	358,1		
2003 Government Bond Series I	Long-term investment		3,392,485	N/A	3,391,4		
2004 Government Bond Series A	Long-term investment		2,349,767	N/A	2,350,4		
2004 Government Bond Series E	Long-term investment		3,896,211	N/A	3,895,4		
2004 Kaohsiung Municipal Bond Series A	Long-term investment		620,000	N/A	619,9		
2005 Government Bond Series A	Long-term investment		1,200,000	N/A	1,200,2		
<u>Bond funds</u>							
JF Taiwan First Bond Fund	Short-term investment	73,993	1,003,701	N/A	1,019,4		
ABN AMRO Bond Fund	Short-term investment	134,906	1,956,175	N/A	1,991,3		
JF Taiwan Bond Fund	Short-term investment	78,698	1,153,209	N/A	1,176,4		
INVESCO R.O.C. Bond A Fund	Short-term investment	69,846	1,003,373	N/A	1,018,8		
Dresdner Bond DAM Fund	Short-term investment	69,303	771,617	N/A	786,4		
Barits Bond Fund	Short-term investment	64,049	752,149	N/A	763,5		
Shinkong Chi Shin Bond Fund	Short-term investment	151,594	2,100,000	N/A	2,129,5		
NITC Bond Fund		3,764	600,000	N/A	606,7		

		Short-term investment				
ABN AMRO Select Bond Fund		Short-term investment	18,235	200,000	N/A	202,4
HSBC NTD Money Management Fund		Short-term investment	41,568	600,000	N/A	605,8
<u>Stock</u>						
Taiwan Mask Corp.		Short-term investment	1,787	6,528		26,6
TSMC International	Subsidiary	Long-term investment	987,968	23,057,382	100	23,057,3
VIS	Investee accounted for using equity method	Long-term investment	437,891	5,115,164	27	12,449,2
TSMC Partners	Subsidiary	Long-term investment	300	3,873,176	100	3,873,1
SSMC	Investee accounted for using equity method	Long-term investment	382	3,514,280	32	3,514,2
TSMC-North America	Subsidiary	Long-term investment	11,000	794,692	100	1,429,1
GUC	Investee	Long-term investment	40,149	403,208	46	426,4
TSMC-Japan	Subsidiary	Long-term investment	6	95,013	100	95,0
VisEra	Investee	Long-term investment	5,100	62,668	25	63,5
TSMC-Europe	Subsidiary	Long-term investment		22,491	100	22,4

(Continued)

				June 30, 2005			
				Market Value or Net Assets			
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	Value (US\$ in Thousand)
	United Industrial Gases Co., Ltd.		Long-term investment	16,783	\$ 193,584	10	\$ 265,4
	Shin-Etsu Handotai Taiwan Co., Ltd.		Long-term investment	10,500	105,000	7	173,0
	W.K. Technology Fund IV		Long-term investment	5,000	50,000	2	54,0
	Hontung Venture Capital Co., Ltd.		Long-term investment	8,392	83,916	10	54,5
	Globaltop Partner I Venture Capital Corp.		Long-term investment	5,000	50,000	1	49,5
<u>Corporate bonds</u>							
	Taiwan Power Company		Short-term investment		816,282	N/A	802,2
	Formosa Petrochemical Corporation		Short-term investment		311,568	N/A	307,6
	AIG Sunamerica Global Fing Ix		Short-term investment		US\$ 1,032	N/A	US\$ 1,0
	Anz Cap Tr I		Short-term investment		US\$ 1,012	N/A	US\$ 9
	Abbott Labs		Short-term investment		US\$ 2,732	N/A	US\$ 2,6
	Abbott Labs		Short-term investment		US\$ 1,581	N/A	US\$ 1,5
	Ace Ltd.		Short-term investment		US\$ 1,046	N/A	US\$ 1,0
	Alltel Corp.		Short-term investment		US\$ 609	N/A	US\$ 6
	Allstate Life Global Fdg Secd		Short-term investment		US\$ 2,998	N/A	US\$ 2,9
	American Express Co.		Short-term investment		US\$ 3,550	N/A	US\$ 3,4
	American Gen Fin Corp.		Short-term investment		US\$ 1,768	N/A	US\$ 1,7
	American Gen Fin Corp. Mtn		Short-term investment		US\$ 3,130	N/A	US\$ 3,0
	American Gen Fin Corp. Mtn				US\$ 1,058	N/A	US\$ 1,0

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	Short-term investment						
American Honda Fin Corp. Mtn	Short-term investment	US\$	3,800	N/A	US\$	3,7	
American Intl Group Inc. Mtnf	Short-term investment	US\$	3,795	N/A	US\$	3,7	
Amgen Inc.	Short-term investment	US\$	3,005	N/A	US\$	2,9	
Amsouth Bk Birmingham Ala	Short-term investment	US\$	1,972	N/A	US\$	1,9	
Associates Corp. North Amer	Short-term investment	US\$	2,700	N/A	US\$	2,6	
Bank New York Inc.	Short-term investment	US\$	1,525	N/A	US\$	1,5	
Bank New York Inc.	Short-term investment	US\$	1,972	N/A	US\$	1,9	
Bank Scotland Treas Svcs Plc	Short-term investment	US\$	2,715	N/A	US\$	2,7	
Bank Utd Houston Tx Mtbn	Short-term investment	US\$	580	N/A	US\$	5	
Bear Stearns Cos Inc.	Short-term investment	US\$	3,757	N/A	US\$	3,7	
Bear Stearns Cos Inc.	Short-term investment	US\$	3,518	N/A	US\$	3,4	
Bear Stearns Cos Inc. Medium Te	Short-term investment	US\$	2,103	N/A	US\$	2,1	
Beneficial Corp. Mtn Bk Entry	Short-term investment	US\$	2,434	N/A	US\$	2,4	
Berkshire Hathaway Fin Corp.	Short-term investment	US\$	1,498	N/A	US\$	1,4	
British Telecommunications Plc	Short-term investment	US\$	2,104	N/A	US\$	2,0	
Cit Group Hldgs Inc.	Short-term investment	US\$	3,203	N/A	US\$	3,1	
Cit Group Inc.	Short-term investment	US\$	2,000	N/A	US\$	2,0	
Cargill Inc.	Short-term investment	US\$	2,120	N/A	US\$	2,0	
Chase Manhattan Corp. New	Short-term investment	US\$	2,246	N/A	US\$	2,2	
Chase Manhattan Corp. New	Short-term investment	US\$	1,628	N/A	US\$	1,5	
Citicorp	Short-term investment	US\$	1,473	N/A	US\$	1,4	
Cogentrix Energy Inc.	Short-term investment	US\$	2,885	N/A	US\$	2,8	
Colonial Pipeline Co.	Short-term investment	US\$	1,625	N/A	US\$	1,5	
Compaq Computer Corp.	Short-term investment	US\$	3,719	N/A	US\$	3,5	
Consolidated Edison Co. Ny Inc.	Short-term investment	US\$	3,688	N/A	US\$	3,5	

Corestates Cap Corp.	Short-term investment	US\$	1,062	N/A	US\$	1,062
Countrywide Fdg Corp. Mtn	Short-term investment	US\$	2,158	N/A	US\$	2,158

(Continued)

Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2005		
				Shares/Units	Carrying Value	Market Value or Net Asset
				(In Thousand)	(US\$ in Thousand)	(US\$ in Thousand)
	Countrywide Home Lns Inc.		Short-term investment		US\$5,210	N/A US\$5,079
	Countrywide Fdg Corp. Mtn		Short-term investment		US\$3,500	N/A US\$3,498
	Countrywide Finl Corp.		Short-term investment		US\$3,000	N/A US\$2,997
	Credit Suisse Fb USA Inc.		Short-term investment		US\$4,141	N/A US\$4,090
	Credit Suisse First Boston USA		Short-term investment		US\$2,249	N/A US\$2,231
	Credit Suisse First Boston		Short-term investment		US\$ 786	N/A US\$ 766
	Daimlerchrysler North Amer		Short-term investment		US\$ 997	N/A US\$ 979
	Daimlerchrysler North Amer Hld		Short-term investment		US\$ 749	N/A US\$ 746
	Dayton Hudson Corp.		Short-term investment		US\$2,104	N/A US\$2,108
	Deere John Cap Corp.		Short-term investment		US\$5,079	N/A US\$5,080
	Dell Computer Corp.		Short-term investment		US\$3,054	N/A US\$2,962
	Den Danske Bk Aktieselskab		Short-term investment		US\$2,192	N/A US\$2,116
	Diageo Plc		Short-term investment		US\$3,459	N/A US\$3,454
	Dow Chem Co.		Short-term investment		US\$ 921	N/A US\$ 885
	European Invt Bk		Short-term investment		US\$8,315	N/A US\$8,119
	European Invt Bk		Short-term investment		US\$3,918	N/A US\$3,927
	Fpl Group Cap Inc.		Short-term investment		US\$1,001	N/A US\$ 997
	Fpl Group Cap Inc.		Short-term investment		US\$ 860	N/A US\$ 853
	Shell Finance (U K) Plc				US\$3,604	N/A US\$3,515

	Short-term investment			
Fifth Third Bk Cincinnati Oh	Short-term investment	US\$2,419	N/A	US\$2,449
First Data Corp.	Short-term investment	US\$3,013	N/A	US\$2,973
Fleet Finl Group Inc. New	Short-term investment	US\$ 494	N/A	US\$ 482
Fleet Finl Group Inc. New	Short-term investment	US\$ 975	N/A	US\$ 946
Fleet Boston Corp.	Short-term investment	US\$2,850	N/A	US\$2,810
Ford Mtr Cr Co.	Short-term investment	US\$1,542	N/A	US\$1,503
Gte Corp.	Short-term investment	US\$2,134	N/A	US\$2,071
Gannett Co Inc.	Short-term investment	US\$2,999	N/A	US\$2,996
General Elec Cap Corp. Mtn	Short-term investment	US\$8,862	N/A	US\$8,857
General Elec Cap Corp. Mtn	Short-term investment	US\$3,989	N/A	US\$3,967
General Elec Cap Corp. Mtn	Short-term investment	US\$1,040	N/A	US\$1,023
General Re Corp.	Short-term investment	US\$3,500	N/A	US\$3,566
Genworth Finl Inc.	Short-term investment	US\$3,412	N/A	US\$3,404
Goldman Sachs Group L P	Short-term investment	US\$1,637	N/A	US\$1,563
Greenpoint Finl Corp.	Short-term investment	US\$ 974	N/A	US\$ 968
HSBC USA Inc. New	Short-term investment	US\$1,154	N/A	US\$1,113
Hancock John Global Fdg II Mtn	Short-term investment	US\$3,566	N/A	US\$3,562
Hancock John Global Fdg Mtn	Short-term investment	US\$1,003	N/A	US\$ 984
Hartford Finl Svcs Group Inc.	Short-term investment	US\$1,435	N/A	US\$1,406
Hartford Finl Svcs Group Inc.	Short-term investment	US\$ 296	N/A	US\$ 296
Heller Finl Inc.	Short-term investment	US\$2,071	N/A	US\$2,039
Hershey Foods Corp.	Short-term investment	US\$1,627	N/A	US\$1,570
Hewlett Packard Co.	Short-term investment	US\$3,373	N/A	US\$3,252
Honeywell Inc.	Short-term investment	US\$3,284	N/A	US\$3,150
Household Fin Corp.	Short-term investment	US\$ 532	N/A	US\$ 523

Household Fin Corp.	Short-term investment	US\$2,993	N/A	US\$2,972
Household Fin Corp. Mtn Bk Enty	Short-term investment	US\$3,542	N/A	US\$3,493
Huntington Natl Bk Columbus Oh	Short-term investment	US\$2,954	N/A	US\$2,958

(Continued)

Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2005		
				Shares/Units	Carrying Value	Market Value or Net Asset
				(In Thousand)	(US\$ in Thousand)	(US\$ in Thousand)
	Huntington Natl Bk		Short-term investment		US\$3,003	N/A US\$3,001
	ING Sec Life Instl Fdg		Short-term investment		US\$2,544	N/A US\$2,543
	Intl Bk For Recon + Dev		Short-term investment		US\$5,232	N/A US\$5,009
	International Business Machs		Short-term investment		US\$2,249	N/A US\$2,237
	International Lease Fin Corp.		Short-term investment		US\$2,455	N/A US\$2,457
	International Lease Fin Corp.		Short-term investment		US\$1,162	N/A US\$1,163
	Intl Lease Fin Corp. Mtn		Short-term investment		US\$3,028	N/A US\$2,993
	JP Morgan Chase + Co.		Short-term investment		US\$3,663	N/A US\$3,570
	Jackson Natl Life Global Fdg		Short-term investment		US\$1,036	N/A US\$1,020
	Jackson Natl Life Global Fdg S		Short-term investment		US\$1,999	N/A US\$2,000
	Key Bk Na Med Term Nts Bk Entry		Short-term investment		US\$4,450	N/A US\$4,479
	Keycorp Mtn Book Entry		Short-term investment		US\$3,500	N/A US\$3,505
	Kraft Foods Inc.		Short-term investment		US\$ 773	N/A US\$ 757
	Kraft Foods Inc.		Short-term investment		US\$1,037	N/A US\$1,021
	ING Bank		Short-term investment		US\$2,114	N/A US\$2,070
	Credit Suisse Fincl Products		Short-term investment		US\$1,507	N/A US\$1,504
	Lehman Brothers Hldgs Inc.		Short-term investment		US\$1,163	N/A US\$1,141
	Lehman Brothers Hldgs Inc.		Short-term investment		US\$3,705	N/A US\$3,562
	Lehman Brothers Hldgs Inc.		Short-term investment		US\$2,166	N/A US\$2,167

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	Short-term investment			
Lilly Eli + Co.	Short-term investment	US\$3,750	N/A	US\$3,751
Lincoln Natl Corp. In	Short-term investment	US\$ 519	N/A	US\$ 510
Ameritech Capital Funding Co.	Short-term investment	US\$ 510	N/A	US\$ 505
Merita Bk Ltd. Ny Brh	Short-term investment	US\$ 538	N/A	US\$ 522
Merrill Lynch + Co Inc.	Short-term investment	US\$3,486	N/A	US\$3,447
Metropolitan Life Global Mtn	Short-term investment	US\$1,907	N/A	US\$1,904
Monumental Global Fdg II	Short-term investment	US\$1,534	N/A	US\$1,511
Monumental Global Fdg II 2002a	Short-term investment	US\$1,045	N/A	US\$1,018
Morgan Stanley Group Inc.	Short-term investment	US\$5,557	N/A	US\$5,526
Morgan Stanley	Short-term investment	US\$2,136	N/A	US\$2,113
National City Corp.	Short-term investment	US\$3,426	N/A	US\$3,415
National Westminster Bk Plc	Short-term investment	US\$1,433	N/A	US\$1,391
Nationwide Bldg Soc	Short-term investment	US\$3,457	N/A	US\$3,467
Nationwide Bldg Soc Mtn	Short-term investment	US\$3,000	N/A	US\$2,995
Nationwide Life Global Mtn	Short-term investment	US\$1,463	N/A	US\$1,462
Northern Rock Plc Medium Term	Short-term investment	US\$2,002	N/A	US\$1,991
Pnc Fdg Corp.	Short-term investment	US\$1,080	N/A	US\$1,052
Pepsico Inc. Mtn Book Entry	Short-term investment	US\$3,818	N/A	US\$3,752
Popular North Amer Inc. Mtn	Short-term investment	US\$3,042	N/A	US\$2,984
Premark Intl Inc.	Short-term investment	US\$2,954	N/A	US\$2,875
Pricoa Global Fdg 1 Mtn	Short-term investment	US\$3,500	N/A	US\$3,500
Protective Life Secd Trs	Short-term investment	US\$2,920	N/A	US\$2,950
Prudential Ins Co Amer	Short-term investment	US\$2,774	N/A	US\$2,768
Prudential Ins Co Amer	Short-term investment	US\$2,648	N/A	US\$2,562
Reinsurance Group Amer Inc.	Short-term investment	US\$2,091	N/A	US\$2,046

	Short-term investment			
Royal Bk Scotland Group Plc	Short-term investment	US\$ 1,563	N/A	US\$ 1,515
Royal Bk Scotland Group Plc	Short-term investment	US\$ 369	N/A	US\$ 357
Sbc Communications Inc.	Short-term investment	US\$ 3,681	N/A	US\$ 3,559

(Continued)

				June 30, 2005				
				Market Value or Net Asset Value				
				Percentage of Ownership				
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousand)	Carrying Value (US\$ in Thousand)			Value (US\$ in Thousand)
	Sbc Communications Inc.		Short-term investment		US\$ 1,776	N/A	US\$	1,735
	Slm Corp. Medium Term Nts		Short-term investment		US\$ 2,950	N/A	US\$	2,900
	Slm Corp.		Short-term investment		US\$ 500	N/A	US\$	490
	Sp Powerassests Ltd. Global		Short-term investment		US\$ 991	N/A	US\$	980
	Safeco Corp.		Short-term investment		US\$ 765	N/A	US\$	740
	St Paul Cos Inc. Mtn Bk Ent		Short-term investment		US\$ 2,661	N/A	US\$	2,650
	Sara Lee Corp.		Short-term investment		US\$ 1,596	N/A	US\$	1,500
	Scotland Intl Fin B V 144a		Short-term investment		US\$ 1,533	N/A	US\$	1,480
	Suntrust Bks Inc.		Short-term investment		US\$ 1,062	N/A	US\$	1,030
	Swedbank Sparbanken Svenge Ab		Short-term investment		US\$ 1,084	N/A	US\$	1,040
	Tiaa Global Mkts Inc.		Short-term investment		US\$ 519	N/A	US\$	500
	Tribune Co Med Trm Nts		Short-term investment		US\$ 2,943	N/A	US\$	2,920
	US Bk Natl Assn Cincinnati Oh		Short-term investment		US\$ 2,669	N/A	US\$	2,680
	Unitedhealth Group Inc.		Short-term investment		US\$ 3,119	N/A	US\$	3,050
	Virginia Elec + Pwr Co		Short-term investment		US\$ 2,884	N/A	US\$	2,700
	Vodafone Group Plc New		Short-term investment		US\$ 2,559	N/A	US\$	2,540
	Wps Resources Corp.		Short-term investment		US\$ 1,107	N/A	US\$	1,100
	Wal Mart Cda Venture Corp.		Short-term investment		US\$ 3,670	N/A	US\$	3,540
	Washington Mut Inc.				US\$ 4,735	N/A	US\$	4,600

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	Short-term investment					
Washington Mut Fin Corp.	Short-term investment	US\$	1,043	N/A	US\$	1,043
Washington Post Co	Short-term investment	US\$	3,182	N/A	US\$	3,182
Wells Fargo + Co New	Short-term investment	US\$	3,697	N/A	US\$	3,697
Westfield Cap Corp. Ltd.	Short-term investment	US\$	1,999	N/A	US\$	2,000
China Steel Corporation	Long-term investment		2,936,934	N/A		2,936,470
Taiwan Power Company	Long-term investment		908,645	N/A		908,570
Nan Ya Plastics Corporation	Long-term investment		272,612	N/A		273,030
Formosa Plastics Corporation	Long-term investment		271,181	N/A		271,580
Formosa Chemicals & Fiber Corporation	Long-term investment		135,487	N/A		137,520
<u>Agency bonds</u>						
Fed Hm Ln Pc Pool G11295	Short-term investment	US\$	1,999	N/A	US\$	1,999
Fed Hm Ln Pc Pool E89857	Short-term investment	US\$	2,247	N/A	US\$	2,247
Federal Natl Mtg Assn Gtd	Short-term investment	US\$	1,842	N/A	US\$	1,842
Fnma Pool 254507	Short-term investment	US\$	2,731	N/A	US\$	2,731
Fnma Pool 254834	Short-term investment	US\$	1,967	N/A	US\$	1,967
Federal Natl Mtg Assn	Short-term investment	US\$	2,949	N/A	US\$	2,899
Federal Natl Mtg Assn	Short-term investment	US\$	1,064	N/A	US\$	1,064
Federal Home Ln Mtg Corp.	Short-term investment	US\$	6,096	N/A	US\$	6,096
Federal Natl Mtg Assn	Short-term investment	US\$	3,432	N/A	US\$	3,372
Federal Natl Mtg Assn	Short-term investment	US\$	4,051	N/A	US\$	4,051
Federal Home Ln Mtg Corp.	Short-term investment	US\$	3,993	N/A	US\$	3,993
Federal Home Ln Mtg Corp.	Short-term investment	US\$	3,558	N/A	US\$	3,498
Federal Home Ln Mtg Corp.	Short-term investment	US\$	2,466	N/A	US\$	2,466
Federal Home Ln Mtg Corp.	Short-term investment	US\$	5,335	N/A	US\$	5,335
Fnma Pool 685116		US\$	918	N/A	US\$	918

Fnma Pool 725095	Short-term investment	US\$	1,777	N/A	US\$	1,70
Fnma Pool 730033	Short-term investment	US\$	1,992	N/A	US\$	2,03

(Continued)

				June 30, 2005			Market
							Value or
							Net Asset
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Percentage			
				Shares/Units	Value	of	Value
				(In Thousand)	(US\$ in Thousand)	Ownership	(US\$ in Thousand)
	Fnma Pool 740934		Short-term investment		US\$ 1,997	N/A	US\$ 2,014
	Fnma Pool 790828		Short-term investment		US\$ 4,145	N/A	US\$ 4,096
	Fnma Pool 793025		Short-term investment		US\$ 3,767	N/A	US\$ 3,759
	Fnma Pool 793932		Short-term investment		US\$ 904	N/A	US\$ 897
	Fnma Pool 794040		Short-term investment		US\$ 964	N/A	US\$ 956
	Fnma Pool 795548		Short-term investment		US\$ 866	N/A	US\$ 859
	Fnma Pool 806642		Short-term investment		US\$ 1,856	N/A	US\$ 1,841
	Gnma II Pool 081150		Short-term investment		US\$ 941	N/A	US\$ 931
	Gnma II Pool 081153		Short-term investment		US\$ 3,525	N/A	US\$ 3,474
	Government Natl Mtg Assn		Short-term investment		US\$ 365	N/A	US\$ 355
	Federal Home Ln Mtg Corp.		Short-term investment		US\$ 6,978	N/A	US\$ 6,913
	Federal Home Ln Mtg Corp.		Short-term investment		US\$ 3,388	N/A	US\$ 3,410
	Federal Home Ln Mtg Corp. Mtn		Short-term investment		US\$ 4,930	N/A	US\$ 4,911
	Federal Home Loan Mtg Assn		Short-term investment		US\$ 4,847	N/A	US\$ 4,874
	Federal Home Loan Mtg Corp.		Short-term investment		US\$ 4,903	N/A	US\$ 4,916
	Federal Home Ln Mtg Corp.		Short-term investment		US\$ 9,997	N/A	US\$ 9,917
	Federal Home Loan Corp.		Short-term investment		US\$ 7,989	N/A	US\$ 7,985
	Federal Farm Cr Bks		Short-term investment		US\$ 3,985	N/A	US\$ 3,988
	Federal Home Ln Bks				US\$ 2,532	N/A	US\$ 2,481

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	Short-term investment			
Federal Home Ln Bks	Short-term investment	US\$ 1,042	N/A	US\$ 1,009
Federal Home Ln Bks	Short-term investment	US\$ 7,887	N/A	US\$ 7,822
Federal Home Ln Bks	Short-term investment	US\$ 3,379	N/A	US\$ 3,345
Federal Home Ln Bks	Short-term investment	US\$ 9,134	N/A	US\$ 9,142
Federal Home Ln Bks	Short-term investment	US\$ 4,927	N/A	US\$ 4,918
Federal Home Ln Bks	Short-term investment	US\$ 2,990	N/A	US\$ 2,975
Federal Home Ln Bks	Short-term investment	US\$ 2,962	N/A	US\$ 2,954
Federal Home Ln Bks	Short-term investment	US\$ 2,454	N/A	US\$ 2,471
Federal Home Ln Bks	Short-term investment	US\$ 3,932	N/A	US\$ 3,943
Federal Home Ln Bks	Short-term investment	US\$ 7,018	N/A	US\$ 6,947
Federal Home Ln Bks	Short-term investment	US\$ 4,997	N/A	US\$ 4,954
Federal Home Ln Bks	Short-term investment	US\$ 6,098	N/A	US\$ 6,032
Federal Home Ln Bks	Short-term investment	US\$ 3,976	N/A	US\$ 3,959
Federal Home Ln Bks	Short-term investment	US\$13,953	N/A	US\$13,868
Federal Home Ln Bks	Short-term investment	US\$ 4,939	N/A	US\$ 4,935
Federal Home Ln Bks	Short-term investment	US\$13,981	N/A	US\$13,882
Federal Home Ln Bks	Short-term investment	US\$ 4,136	N/A	US\$ 4,117
Federal Home Ln Bks	Short-term investment	US\$ 2,233	N/A	US\$ 2,234
Federal Home Ln Bks	Short-term investment	US\$ 4,965	N/A	US\$ 4,968
Federal Home Ln Bks	Short-term investment	US\$ 7,558	N/A	US\$ 7,576
Federal Home Ln Bks	Short-term investment	US\$ 8,594	N/A	US\$ 8,586
Federal Home Ln Mtg Corp.	Short-term investment	US\$ 999	N/A	US\$ 995
Federal Home Ln Mtg Corp.	Short-term investment	US\$ 4,933	N/A	US\$ 4,943
Federal Natl Mtg Assn	Short-term investment	US\$ 5,270	N/A	US\$ 5,228
Federal Natl Mtg Assn	Short-term investment	US\$ 5,337	N/A	US\$ 5,340

Federal Natl Mtg Assn	Short-term investment	US\$ 4,430	N/A	US\$ 4,421
Federal Natl Mtg Assn	Short-term investment	US\$ 4,921	N/A	US\$ 4,908
Federal Natl Mtg Assn	Short-term investment	US\$ 3,470	N/A	US\$ 3,466

(Continued)

				June 30, 2005		
				Carrying	Percentage	Market
				Value	of	Value or
				(US\$ in	Ownership	Net Asset
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousand)	Value (US\$ in Thousand)	Value (US\$ in Thousand)
	Federal Natl Mtg Assn		Short-term investment	US\$ 6,903	N/A	US\$ 6,913
	Federal Natl Mtg Assn		Short-term investment	US\$ 4,981	N/A	US\$ 4,938
	Federal Natl Mtg Assn		Short-term investment	US\$ 4,061	N/A	US\$ 4,069
	Federal Natl Mtg Assn		Short-term investment	US\$ 7,892	N/A	US\$ 7,905
	Federal Natl Mtg Assn		Short-term investment	US\$ 4,943	N/A	US\$ 4,954
	Federal Natl Mtg Assn		Short-term investment	US\$ 17,888	N/A	US\$ 17,904
	Federal Natl Mtg Assn		Short-term investment	US\$ 14,952	N/A	US\$ 14,913
	Federal Natl Mtg Assn Mtn		Short-term investment	US\$ 15,787	N/A	US\$ 15,753
	Federal Natl Mtg Assn Mtn		Short-term investment	US\$ 9,758	N/A	US\$ 9,769
	Fed Hm Ln Pc		Short-term investment	US\$ 3,466	N/A	US\$ 3,465
	Federal Natl Mtg Assn Mtn		Short-term investment	US\$ 7,000	N/A	US\$ 6,932
	Corporate issued asset-backed securities					
	Aesop Fdg II L L C		Short-term investment	US\$ 4,955	N/A	US\$ 4,951
	Aegis Asset Backed Secs Tr		Short-term investment	US\$ 2,000	N/A	US\$ 2,007
	American Home Mtg Invt Tr		Short-term investment	US\$ 690	N/A	US\$ 690
	Americredit Automobile Rec Tr		Short-term investment	US\$ 1,055	N/A	US\$ 1,042
	Americredit Auomobile Receiv		Short-term investment	US\$ 513	N/A	US\$ 512
	Americredit Automobile Receivb		Short-term investment	US\$ 4,949	N/A	US\$ 4,902

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Americredit Automobile Rec Tr	Short-term investment	US\$ 2,000	N/A	US\$ 1,989
Atlantic City Elc Trns Fdg LLC	Short-term investment	US\$ 810	N/A	US\$ 802
Bmw Veh Owner Tr	Short-term investment	US\$ 4,978	N/A	US\$ 4,945
Banc Amer Coml Mtg Inc.	Short-term investment	US\$ 4,917	N/A	US\$ 4,862
Banc Amer Mtg Secs Inc.	Short-term investment	US\$ 4,030	N/A	US\$ 3,995
Bank Of Amer Lease Equip Tr	Short-term investment	US\$ 4,023	N/A	US\$ 3,974
Bear Stearns Alt A Tr	Short-term investment	US\$ 1,230	N/A	US\$ 1,232
Cit Equip Coll Tr	Short-term investment	US\$ 4,999	N/A	US\$ 4,957
Cnh Equip Tr	Short-term investment	US\$ 4,999	N/A	US\$ 4,920
Cwabs Inc.	Short-term investment	US\$ 1,030	N/A	US\$ 1,035
Cwabs Inc.	Short-term investment	US\$ 5,000	N/A	US\$ 5,008
Cwabs Inc.	Short-term investment	US\$ 2,895	N/A	US\$ 2,899
Cwalt Inc.	Short-term investment	US\$ 2,963	N/A	US\$ 2,938
Cwmbs Inc.	Short-term investment	US\$ 1,686	N/A	US\$ 1,667
Cwmbs Inc.	Short-term investment	US\$ 3,711	N/A	US\$ 3,721
California Infrastructure Dev	Short-term investment	US\$ 1,578	N/A	US\$ 1,546
Capital Auto Receivables Asset	Short-term investment	US\$ 2,622	N/A	US\$ 2,598
Capital One Auto Fin Tr	Short-term investment	US\$ 438	N/A	US\$ 436
Capital One Auto Fin Tr	Short-term investment	US\$ 3,000	N/A	US\$ 2,982
Capital One Auto Fin Tr	Short-term investment	US\$ 2,650	N/A	US\$ 2,649
Capital One Multi Asset Execut	Short-term investment	US\$ 4,957	N/A	US\$ 4,940
Caterpillar Finl Asset Tr	Short-term investment	US\$10,008	N/A	US\$ 9,880
Caterpillar Finl Asset Tr	Short-term investment	US\$ 3,299	N/A	US\$ 3,260
Cendant Rent Car Fdg Aesop LLC	Short-term investment	US\$11,626	N/A	US\$11,603
Centex Home Equity Ln Tr	Short-term investment	US\$ 3,500	N/A	US\$ 3,468
Citicorp Mtg Secs		US\$ 1,701	N/A	US\$ 1,693

Comm	Short-term investment	US\$ 4,600	N/A	US\$ 4,604
Credit Suisse First Boston Mtg	Short-term investment	US\$ 1,767	N/A	US\$ 1,752

(Continued)

				June 30, 2005			Market
							Value or
							Net Asset
				Carrying Percentage			Value
				Relationship with	Financial Statement	Shares/Unit	Value
				the Company	Account	(In Thousand)	(US\$ in Thousand)
Company Name	Marketable Securities Type and Name						
	Credit Suisse First Boston Mtg				Short-term investment	US\$ 2,593	N/A US\$ 2,591
	Daimlerchrysler Auto Tr				Short-term investment	US\$ 4,991	N/A US\$ 4,958
	Daimlerchrysler Auto Tr				Short-term investment	US\$ 2,927	N/A US\$ 2,924
	Daimlerchrysler Auto Tr				Short-term investment	US\$ 4,897	N/A US\$ 4,886
	Deere John Owner Tr				Short-term investment	US\$ 2,501	N/A US\$ 2,505
	Fifth Third Auto Tr				Short-term investment	US\$ 3,000	N/A US\$ 2,987
	First Horizon Abs Tr				Short-term investment	US\$ 1,554	N/A US\$ 1,557
	First Union Lehman Bros Mtg Tr				Short-term investment	US\$ 3,022	N/A US\$ 2,942
	Ford Cr Auto Owner Tr				Short-term investment	US\$10,999	N/A US\$10,918
	Gs Mtg Secs Corp.				Short-term investment	US\$ 1,347	N/A US\$ 1,347
	Gs Auto Ln Tr				Short-term investment	US\$ 2,948	N/A US\$ 2,973
	Granite Mtgs Plc				Short-term investment	US\$ 5,000	N/A US\$ 5,000
	Harley Davidson Motorcycle Tr				Short-term investment	US\$ 2,434	N/A US\$ 2,415
	Harley Davidson Motorcycle Tr				Short-term investment	US\$ 5,999	N/A US\$ 5,893
	Holmes Fing No 8 Plc				Short-term investment	US\$ 5,001	N/A US\$ 5,048
	Hyundai Auto Receivables Tr				Short-term investment	US\$ 3,500	N/A US\$ 3,444
	Hyundai Auto Receivables Tr				Short-term investment	US\$ 3,250	N/A US\$ 3,250
	Hyundai Auto Receivables Tr				Short-term investment	US\$ 3,999	N/A US\$ 3,999
	Impac Cmb Tr					US\$ 934	N/A US\$ 934

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	Short-term investment				
Impac Cmb Tr	Short-term investment	US\$	860	N/A	US\$ 862
Impac Secd Assets Corp.	Short-term investment	US\$	2,451	N/A	US\$ 2,451
Lb Ubs Coml Mtg Tr	Short-term investment	US\$	4,184	N/A	US\$ 4,197
Long Beach Accep Auto Receivab	Short-term investment	US\$	2,526	N/A	US\$ 2,493
Mbna Master Cr Card Tr II	Short-term investment	US\$	8,108	N/A	US\$ 8,080
Massachusetts Rrb Spl Purp Tr	Short-term investment	US\$	3,900	N/A	US\$ 3,871
Mastr Asset Backed Secs Tr	Short-term investment	US\$	2,680	N/A	US\$ 2,680
Mastr Asset Backed Secs Tr	Short-term investment	US\$	3,499	N/A	US\$ 3,498
Merrill Lynch Mtg Invs Inc.	Short-term investment	US\$	1,171	N/A	US\$ 1,171
Merrill Lynch Mtg Invs Inc.	Short-term investment	US\$	1,500	N/A	US\$ 1,504
Merrill Lynch Mtg Invs Inc.	Short-term investment	US\$	882	N/A	US\$ 882
Monumentl Global Fdg II	Short-term investment	US\$	1,000	N/A	US\$ 1,000
National City Auto Receivables	Short-term investment	US\$	1,206	N/A	US\$ 1,211
Navistar Finl 2003 A Owner Tr	Short-term investment	US\$	4,928	N/A	US\$ 4,878
Nissan Auto Receivables	Short-term investment	US\$	7,000	N/A	US\$ 6,948
Onyx Accep Owner Tr	Short-term investment	US\$	4,913	N/A	US\$ 4,927
Pg+E Energy Recovery Fdg LLC	Short-term investment	US\$	4,749	N/A	US\$ 4,747
Prime Cr Card Master Tr	Short-term investment	US\$	4,080	N/A	US\$ 4,044
Providian Gateway Owner Tr	Short-term investment	US\$	4,204	N/A	US\$ 4,205
Providian Gateway Owner Tr	Short-term investment	US\$	3,992	N/A	US\$ 3,956
Reliant Energy Transition Bd	Short-term investment	US\$	5,185	N/A	US\$ 5,059
Residential Asset Mtg Prods	Short-term investment	US\$	3,464	N/A	US\$ 3,399
Residential Asset Sec Mtg Pass	Short-term investment	US\$	3,000	N/A	US\$ 2,962
Residential Fdg Mtg Secs I Inc.	Short-term investment	US\$	3,112	N/A	US\$ 3,086
Residential Fdg Mtg Secs I Inc.	Short-term investment	US\$	5,475	N/A	US\$ 5,490

Revolving Home Equity Ln Tr	Short-term investment	US\$ 4,380	N/A	US\$ 4,384
Sequoia Mtg Tr	Short-term investment	US\$ 2,228	N/A	US\$ 2,236
Sequoia Mtg Tr	Short-term investment	US\$ 1,572	N/A	US\$ 1,572

(Continued)

				June 30, 2005				Market Value or Net Asset Value	
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	Value (US\$ in Thousand)		
	Sequoia Mtg Tr		Short-term investment		US\$ 1,689	N/A	US\$ 1,689		
	Sequoia Mtg Tr		Short-term investment		US\$ 2,851	N/A	US\$ 2,851		
	Sequoia Mtg Tr		Short-term investment		US\$ 2,330	N/A	US\$ 2,330		
	Sequoia Mtg Tr		Short-term investment		US\$ 3,075	N/A	US\$ 3,075		
	Structured Adj Rate Mtg Ln Tr		Short-term investment		US\$ 2,653	N/A	US\$ 2,653		
	Structured Adj Rate Mtg Ln Tr		Short-term investment		US\$ 943	N/A	US\$ 943		
	Structured Asset Invt Ln Tr		Short-term investment		US\$ 1,576	N/A	US\$ 1,576		
	Structured Asset Secs Corp.		Short-term investment		US\$ 1,041	N/A	US\$ 1,041		
	Txu Elec Delivery Transition		Short-term investment		US\$ 3,530	N/A	US\$ 3,530		
	Thornburg Mtg Secs Tr		Short-term investment		US\$ 1,669	N/A	US\$ 1,669		
	Toyota Auto Receivables 2003 B		Short-term investment		US\$ 4,970	N/A	US\$ 4,970		
	Triad Auto Receivables Tr		Short-term investment		US\$ 4,899	N/A	US\$ 4,899		
	Usaa Auto Owner Tr		Short-term investment		US\$ 3,718	N/A	US\$ 3,718		
	Wfs Financial Owner Trust		Short-term investment		US\$ 5,008	N/A	US\$ 5,008		
	Wfs Finl 2004 2 Owner Tr		Short-term investment		US\$ 4,994	N/A	US\$ 4,994		
	Wfs Finl 2004 4 Owner Tr		Short-term investment		US\$ 5,399	N/A	US\$ 5,399		
	Wfs Finl 2005 2 Oner Tr		Short-term investment		US\$ 2,250	N/A	US\$ 2,250		
	Wachovia Auto Owner Tr		Short-term investment		US\$ 3,039	N/A	US\$ 3,039		
	Wachovia Auto Owner Tr				US\$ 4,999	N/A	US\$ 4,999		

		Short-term investment				
Wells Fargo Finl Auto Owner Tr		Short-term investment	US\$	5,299	N/A	US\$ 5,299
Whole Auto Ln Tr		Short-term investment	US\$	1,954	N/A	US\$ 1,954
Whole Auto Ln Tr		Short-term investment	US\$	4,000	N/A	US\$ 3,999
Whole Auto Ln Tr		Short-term investment	US\$	3,000	N/A	US\$ 2,999
World Omni Auto Receivables Tr		Short-term investment	US\$	5,963	N/A	US\$ 5,963
<u>Commercial papers</u>						
Canadian Imperial		Short-term investment	US\$	2,997	N/A	US\$ 2,997
<u>Corporate issued notes</u>						
Canadian Imperial BK		Short-term investment	US\$	1,999	N/A	US\$ 1,999
Washiongton Mutual		Short-term investment	US\$	3,000	N/A	US\$ 3,000
<u>Money market funds</u>						
SSGA Cash Mgmt Global Offshore		Short-term investment	US\$	15,544	N/A	US\$ 15,544
<u>Equity</u>						
Horizon Venture Fund I, L.P.		Long-term investment		246,485	N/A	246,485
Crimson Asia Capital Ltd., L.P.		Long-term investment		55,954	N/A	55,954
orth TSMC stock	Parent company	Short-term investment	13,923	634,498		786,923
g TSMC stock	Parent company	Short-term investment	16,454	458,564		929,918
y TSMC stock	Parent company	Short-term investment	16,485	459,511		931,740

(Continued)

Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2005 Shares/Units (In Thousand)	Market Value or Net Asset Value			
					Carrying Value (US\$ in Thousand)	Percentage of Ownership	Value (US\$ in Thousand)	
International	Stock							
	TSMC Development	Subsidiary	Long-term investment	1	US\$584,414	100	US\$584,414	
	TSMC Technology	Subsidiary	Long-term investment	1	US\$ 5,608	100	US\$ 5,608	
	InveStar	Subsidiary	Long-term investment	18,505	US\$ 19,048	97	US\$ 19,048	
	InveStar II	Subsidiary	Long-term investment	51,300	US\$ 33,921	97	US\$ 33,921	
Development	WaferTech stock	Subsidiary	Long-term investment		US\$417,535	99	US\$417,535	
	Common stock							
	RichTek Technology Corp.		Short-term investment	787	US\$ 77	1	US\$ 2,600	
	Advanced Power Electronics Corp.		Short-term investment	633	US\$ 287	1	US\$ 5,000	
	Broadtek Electronics Corp.		Short-term investment	145	US\$ 46		US\$ 46	
	Monolithic Power Systems, Inc.		Short-term investment	1,975	US\$ 1,567	7	US\$ 17,200	
	SiRF Technology Holdings, Inc.		Short-term investment	10	US\$ 44		US\$ 44	
	Programmable Microelectronics (Taiwan), Corp.		Long-term investment	575	US\$ 218	1	US\$ 2,000	
	Capella Microsystems (Taiwan), Inc.		Long-term investment	530	US\$ 168	3	US\$ 1,000	
	Global Testing Corp.		Long-term investment	66,339	US\$ 5,611	9	US\$ 5,600	
	Signia Technologies, Inc.		Long-term investment	701	US\$ 222	3	US\$ 2,000	
	Advanced Power Electronics Corp.		Long-term investment	1,123	US\$ 495	2	US\$ 9,000	
	Incentia Design Systems, Inc.		Long-term investment	365	US\$ 97	1	US\$ 1,000	
	Broadtek Electronics Corp.			145	US\$ 47		US\$ 47	

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	Long-term investment						
RichTek Technology Corp.	Long-term investment	632	US\$	64	1	US\$	2,1
Preferred stock							
Integrated Memory Logic, Inc.	Long-term investment	1,831	US\$	1,221	9	US\$	1,2
Sensory, Inc.	Long-term investment	1,404	US\$	125	6	US\$	1
IP Unity, Inc.	Long-term investment	1,008	US\$	494	2	US\$	4
Sonics, Inc.	Long-term investment	2,686	US\$	3,530	4	US\$	3,5
NanoAmp Solutions, Inc.	Long-term investment	541	US\$	853	2	US\$	8
Memsic, Inc.	Long-term investment	2,727	US\$	1,500	10	US\$	1,5
Reflectivity, Inc.	Long-term investment	1,064	US\$	741	2	US\$	7
Common stock							
RichTek Technology Corp.	Short-term investment	373	US\$	213	1	US\$	1,2
Monolithic Power Systems, Inc.	Short-term investment	864	US\$	2,081	3	US\$	7,5
GeoVision, Inc.	Short-term investment	401	US\$	108	1	US\$	1,2
Signia Technologies, Inc.	Long-term investment	351	US\$	101	1	US\$	1
Ralink Technology (Taiwan), Inc.	Long-term investment	1,833	US\$	791	3	US\$	7
Silicon Data International Co., Inc.	Long-term investment	667	US\$	204	3	US\$	2
Procoat Technology, Inc.	Long-term investment	5,123	US\$	1,940	10	US\$	1,9
Capella Microsystems (Taiwan), Inc.	Long-term investment	419	US\$	122	2	US\$	1
Programmable Microelectronics (Taiwan), Inc.	Long-term investment	177	US\$	50		US\$	
Auden Technology MFG. Co., Ltd.	Long-term investment	953	US\$	738	4	US\$	7
EoNEX Technologies, Inc.	Long-term investment	55	US\$	3,048	5	US\$	3,0
Conwise Technology Corporation, Ltd.	Long-term investment	2,800	US\$	490	14	US\$	4
Goyatek Technology, Corp.	Long-term investment	2,088	US\$	545	7	US\$	5
Trendchip Technologies Corp.	Long-term investment	2,000	US\$	861	5	US\$	8

(Continued)

			June 30, 2005						
			Market Value		or		Net Assets		
			Carrying		Percentage		Value		
			Value		of		Value		
			(US\$ in		(US\$ in		(US\$ in		
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousand)	Value (US\$ in Thousand)	Ownership	Value (US\$ in Thousand)	Value (US\$ in Thousand)	
	EON Technology, Corp.		Long-term investment	3,264	US\$ 1,175	8	US\$ 1,175	1,175	
	eChannelOpen Holding, Inc.		Long-term investment	358	US\$ 251	4	US\$ 251	251	
	eLCOS Microdisplay Technology, Ltd.		Long-term investment	270	US\$ 27	1	US\$ 27	27	
	GeoVision, Inc.		Long-term investment	15	US\$ 4		US\$ 4	4	
	RichTek Technology Corp.		Long-term investment	296	US\$ 169		US\$ 169	169	
	Epic, Inc.		Long-term investment	191	US\$ 37	1	US\$ 37	37	
	<u>Preferred stock</u>								
	Memsic, Inc.		Long-term investment	2,289	US\$ 1,560	8	US\$ 1,560	1,560	
	NanoAmp Solutions, Inc.		Long-term investment	375	US\$ 1,500	1	US\$ 1,500	1,500	
	Advanced Analogic Technology, Inc.		Long-term investment	948	US\$ 1,261	2	US\$ 1,261	1,261	
	Sonics, Inc.		Long-term investment	3,082	US\$ 3,082	5	US\$ 3,082	3,082	
	eLCOS Microdisplay Technology, Ltd.		Long-term investment	2,667	US\$ 3,500	15	US\$ 3,500	3,500	
	Reflectivity, Inc.		Long-term investment	4,255	US\$ 2,205	5	US\$ 2,205	2,205	
	Kilopass Technologies, Inc.		Long-term investment	3,887	US\$ 2,000	18	US\$ 2,000	2,000	
	FangTek, Inc.		Long-term investment	6,806	US\$ 3,250	34	US\$ 3,250	3,250	
	Alchip Technologies Limited		Long-term investment	2,597	US\$ 2,950	18	US\$ 2,950	2,950	
	<u>Common stock</u>								
ing Alliance	Global Investment Holding, Inc.		Long-term investment	10,000	\$ 100,000	6	\$ 100,000	100,000	
	RichWave Technology Corp.			3,380	US\$ 1,247	13	US\$ 1,247	1,247	

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	Long-term investment						
NetLogic Microsystems, Inc.	Long-term investment	113	US\$	1,388	1	US\$	1,8
Quake Technologies, Inc.	Long-term investment	46	US\$	35		US\$	
Pixim, Inc.	Long-term investment	1,924	US\$	512	4	US\$	5
<u>Preferred stock</u>							
Quake Technologies, Inc.	Long-term investment	555	US\$	415	1	US\$	4
Pixim, Inc.	Long-term investment	2,193	US\$	583		US\$	5
Ikanos Communication, Inc.	Long-term investment	7,446	US\$	3,125	3	US\$	3,1
Quicksilver Technology, Inc.	Long-term investment	1,049	US\$		4	US\$	
Mosaic Systems, Inc.	Long-term investment	2,481	US\$	12	6	US\$	
Zenesis Technologies, Inc.	Long-term investment	1,204	US\$	699	4	US\$	6
Reflectivity, Inc.	Long-term investment	4,848	US\$	2,479	4	US\$	2,4
Miradia, Inc.	Long-term investment	3,040	US\$	1,000	4	US\$	1,0
Axiom Microdevices, Inc.	Long-term investment	1,000	US\$	1,000	3	US\$	1,0
Optichron, Inc.	Long-term investment	714	US\$	1,000	4	US\$	1,0
NuCORE Technology Inc.	Long-term investment	2,254	US\$	1,455	2	US\$	1,4
Next IO, Inc.	Long-term investment	800	US\$	500	2	US\$	5
Audience, Inc.	Long-term investment	1,654	US\$	250	2	US\$	2
Centrality Communications, Inc.	Long-term investment	809	US\$	1,000	2	US\$	1,0
Layer N Networks, Inc.	Long-term investment	1,905	US\$	1,000	2	US\$	1,0
Teknovus, Inc.	Long-term investment	6,977	US\$	1,327	3	US\$	1,3
Optimal Corporation	Long-term investment	485	US\$	500	6	US\$	5
Mobilygen Corporation	Long-term investment	1,415	US\$	750	1	US\$	7
<u>Warrants</u>							
Pixim, Inc.	Long-term investment	242					

(Continued)

June 30, 2005									
Market Value or Net Asset									
Carrying Percentage									
Relationship with Financial Statement									
Shares/Units Value of Value									
(In (US\$ in (US\$ in									
Company Name	Marketable Securities Type and Name	the Company	Account	Thousand)	Thousand)	Thousand)	Ownership	Thousand)	Thousand)
I	Common stock								
	Yobon Technologies, Inc.		Long-term investment	1,675	US\$ 787	17	US\$ 78		
	Sentelic, Corp.		Long-term investment	600	US\$ 1,022	15	US\$ 1,02		
	Ultramedia Inc. (formerly Ivyon Technology, Inc.)		Long-term investment	200	US\$ 697	10	US\$ 69		
	Preferred stock								
			Long-term investment	1,032	US\$ 1,000	8	US\$ 1,00		
	Powerprecise Solutions, Inc.		Long-term investment	244	US\$ 500	2	US\$ 50		
	Tzero Technologies, Inc.		Long-term investment	1,809	US\$ 1,600	2	US\$ 1,60		
	Miradia, Inc.		Long-term investment	761	US\$ 776	2	US\$ 77		
	Axiom Microdevices, Inc.		Long-term investment	216	US\$ 182		US\$ 18		
	Next IO, Inc.		Long-term investment	1,149	US\$ 1,000	2	US\$ 1,00		
	Ageia Technologies, Inc.		Long-term investment	531	US\$ 102	1	US\$ 10		
	Audience, Inc.		Long-term investment	600	US\$ 600	1	US\$ 60		
	GemFire Corporation		Long-term investment	353	US\$ 869	2	US\$ 86		
	Optichron, Inc.		Long-term investment		US\$ 150		US\$ 15		
	Aquantia Corporation		Long-term investment	900	US\$ 431	5	US\$ 43		
	Leadtrend Technology, Inc.		Long-term investment						
	Open-ended funds								
	Fubon Ju-I Fund		Short-term investment	643	10,000	N/A	10,00		
Stock									

Global Unichip Corporation	NA	Subsidiary	Long-term investment	100	3,884	100	3,884
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TABLE 4

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2005**

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal	
		Shares/Units (Thousand)	Amount (US\$ in Thousand)	Shares/Units (Thousand)	Amount (US\$ in Thousand)	Shares/Units (Thousand)	Amount (US\$ in Thousand)
Allianz Dresdner Securities Investment Consulting Co., Ltd.		80,833	\$ 900,000		\$	11,530	\$ 130,000
JF Asset Management (Taiwan) Ltd.		84,886	1,151,463			10,893	150,000
Barits Securities Investment Trust Co., Ltd.		76,640	900,000			12,591	150,000
Chung Shing Bills Finance Corp. and several financial institutions			249,449				251,784
BNP and several financial institutions			1,207,409				1,216,500
					US\$ 6,881		
			US\$ 182,018		US\$ 256,453		US\$ 366,461
					360,050		US\$ 367,586

China Bills
Finance Corp.

China Bills
Finance Corp.

1,961,516

US\$ 3,086

US\$ 3,171

US\$ 3,583

US\$ 3,512

US\$ 3,583

US\$ 3,500

US\$ 3,000

US\$ 2,645

US\$ 4,141

US\$ 2,593

US\$ 2,645

US\$ 3,832

US\$ 3,780

US\$ 3,832

US\$ 5,079

US\$ 3,918

US\$ 3,467

US\$ 3,432

US\$ 3,467

US\$ 8,862

US\$ 3,989

US\$ 3,886

US\$ 3,822

US\$ 3,886

US\$ 3,500

US\$ 3,505

US\$ 3,506

US\$ 3,505

		US\$	3,566						
	US\$	3,012			US\$	3,008	US\$	3,012	U
			US\$	7,247		US\$	4,994	US\$	4,998
			US\$	3,028					
			US\$	4,450					
	US\$	3,638			US\$	3,571	US\$	3,638	U
	US\$	1,050		US\$	4,507				
				US\$	3,426				
	US\$	3,644			US\$	3,522	US\$	3,644	U
				US\$	3,000				
				US\$	3,571		US\$	3,674	US\$
							US\$	3,571	U

(Continued)

Special Investment	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Gross (Loss) Disposal (US\$ Thousand)	
			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)
Term Investment						US\$3,500				
Term Investment				US\$3,507				US\$3,510	US\$3,507	US\$
Term Investment				US\$3,050				US\$3,052	US\$3,050	US\$
Term Investment				US\$3,168				US\$3,049	US\$3,168	US\$
Term Investment				US\$3,160				US\$3,046	US\$3,160	US\$
Term Investment				US\$3,720				US\$3,568	US\$3,720	US\$
Term Investment				US\$4,768				US\$3,590	US\$3,725	US\$
Term Investment						US\$3,985				
Term Investment						US\$7,887				
Term Investment						US\$3,379				
Term Investment						US\$9,134				
Term Investment				US\$7,962				US\$4,954	US\$4,972	US\$
				US\$7,014				US\$6,884	US\$7,014	US\$

Term ent					
Term ent	US\$4,948		US\$4,947	US\$4,948	US\$
Term ent		US\$3,932			
Term ent	US\$7,042		US\$6,946	US\$7,042	US\$
Term ent		US\$4,939			
Term ent	US\$13,983		US\$13,865	US\$13,983	US\$
Term ent		US\$4,136			
Term ent		US\$4,965			
Term ent		US\$7,558			
Term ent		US\$8,594			
Term ent		US\$5,389			
Term ent		US\$6,925	US\$6,931	US\$6,925	US\$
Term ent	US\$4,953		US\$4,938	US\$4,953	US\$
Term ent		US\$7,989			
Term ent	US\$4,903	US\$9,819	US\$9,798	US\$9,819	US\$
Term ent		US\$4,051			
Term ent		US\$3,915	US\$146	US\$148	US\$
Term ent		US\$5,337			

Term ent		US\$4,430			
Term ent		US\$4,921			
Term ent	US\$6,940		US\$3,462	US\$3,470	US\$
Term ent	US\$6,997		US\$6,956	US\$6,997	US\$
Term ent		US\$4,061			
Term ent		US\$7,892			
Term ent		US\$4,943			
Term ent		US\$17,888			
Term ent		US\$14,952			
Term ent		US\$9,758			
Term ent	US\$4,929		US\$4,931	US\$4,929	US\$
Term ent					
Term ent	US\$3,445		US\$3,428	US\$3,445	US\$
Term ent	US\$4,298		US\$4,153	US\$4,298	US\$
Term ent	US\$6,126		US\$5,964	US\$6,126	US\$
Term ent		US\$3,299			
Term ent		US\$11,626			
Term ent	US\$4,959		US\$4,948	US\$4,959	US\$
Term ent	US\$1,903	US\$1,865	US\$3,773	US\$3,768	US\$
		US\$4,040	US\$4,059	US\$4,040	US\$

erm ent erm ent	US\$5,011		US\$5,007	US\$5,011	US\$
erm ent erm ent	US\$5,000		US\$4,984	US\$5,000	US\$
		US\$3,250			
erm ent		US\$3,999			
erm ent		US\$4,243	US\$60	US\$59	US\$

(Continued)

Financial Instrument	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Carrying Value (US\$ in Thousand)	Disposal Value (US\$ in Thousand)
			Shares/Units (Thousand)	Amount (US\$ in Thousand)	Shares/Units (Thousand)	Amount (US\$ in Thousand)	Shares/Units (Thousand)	Amount (US\$ in Thousand)		
term investment						US\$3,900				
term investment						US\$3,825		US\$1,145	US\$1,145	
term investment						US\$3,499				
term investment						US\$5,018		US\$5,015	US\$5,018	US\$
term investment						US\$8,108				
term investment				US\$4,999				US\$4,989	US\$4,999	US\$
term investment				US\$4,853				US\$4,879	US\$4,853	US\$
term investment						US\$4,749				
term investment						US\$4,080				
term investment						US\$5,589		US\$113	US\$114	US\$
term investment						US\$5,000		US\$620	US\$620	
term investment						US\$4,560		US\$4,560	US\$4,560	
term investment						US\$3,500				
term investment				US\$7,736				US\$4,185	US\$4,206	US\$
						US\$3,718				

term
ment
term
ment
term
ment

US\$4,000

US\$3,995 US\$4,000 US

US\$5,299

term
ment

US\$5,967

US\$5,973 US\$5,967 US

Note: The ending
balance
included the
bond premium
or discount
amortization
amount.

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TABLE 5

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100
MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2005**

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Related Party	Nature of Relationship	Purchase/Sale	Transaction Details			Abnormal Transaction		Notes/Accounts Payable or Receivable	
				Amount	% Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total Note
The Company	TSMC-North America	Subsidiary	Sales	\$64,760,945	56	Net 30 days after invoice date	None	None	\$14,513,699	41
	Philips and its affiliates	Major shareholder	Sales	1,147,115	1	Net 30 days after monthly closing	None	None	467,843	1
	GUC	Subsidiary	Sales	135,805		Net 30 days after monthly closing	None	None	11,917	
	WaferTech	Subsidiary	Purchases	5,117,622	31	Net 30 days after monthly closing	None	None	(793,200)	10
	VIS	Investee accounted for using equity method	Purchases	2,168,998	13	Net 30 days after monthly closing	None	None	(883,144)	11
	SSMC	Investee accounted for using equity method	Purchases	2,094,617	13	Net 30 days after monthly closing	None	None	(284,080)	4
	TSMC-Shanghai	Subsidiary	Purchases	234,333	1	Net 30 days after monthly	None	None	(70,080)	1

closing

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TABLE 6

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%
OF THE PAID-IN CAPITAL**

JUNE 30, 2005

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue Amount	Action Taken	Amounts Received in Subsequent Period	Allowance for Bad Debts
The Company	TSMC-North America	Subsidiary	\$ 14,929,349	43 days	\$ 3,909,354	Accelerate demand on account receivables	\$ 5,259,367	\$
	TSMC Technology	Indirect subsidiaries	715,306	Note				
	Philips and its affiliates	Major shareholder	467,843	83 days			227,462	
	TSMC-Shanghai	Subsidiary	271,905	Note	268,998	Accelerate demand on account receivables		
	SSMC	Investee accounted for using equity method	115,460	Note	5,092	Accelerate demand on account receivables		

Note: The ending balance included other receivables; therefore, it is not applicable for the calculation of the turnover rate.

TABLE 7

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY
EXERCISES SIGNIFICANT INFLUENCE
JUNE 30, 2005**

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2005 Percentage			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)
			June 30, 2005	December 31, 2004	Shares (Thousands)	Ownership	Value (Note 1)		
SMC-North America	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	\$ 333,718	\$ 333,718	11,000	100	\$ 794,692	\$ 259,665	\$ 231,366
SMC-Europe	Amsterdam, the Netherlands	Marketing activities	15,749	15,749		100	22,491	143	143
SMC-Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	95,013	327	327
SMC-Shanghai	Shanghai, China	Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers	12,180,367	9,187,962		100	9,967,851	(1,068,676)	(1,068,676)
IS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	8,119,816	8,119,816	437,891	27	5,115,164	1,685,395	379,350
SMC International	Tortola, British	Providing investment in	31,445,780	31,445,780	987,968	100	23,057,382	(495,885)	(495,885)

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	Virgin Islands	companies involved in the design, manufacture, and other related business in the semiconductor industry							
hi Cherng	Taipei, Taiwan	Investment activities	300,000	300,000		36	77,971	76,725	(3,937)
sin Ruey	Taipei, Taiwan	Investment activities	300,000	300,000		36	77,256	76,812	(3,965)
SMC Partners	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	3,873,176	1,427	1,427
SMC	Singapore	Fabrication and supply of integrated circuits	6,408,190	6,408,190	382	32	3,514,280	761,550	243,696
Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	1,526,074	1,447,957		99	820,765	(73,428)	(73,061)
UC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	409,920	409,920	40,149	46	403,208	21,350	13,215
isEra	Hsin-Chu, Taiwan	Manufacturing, material wholesaling and retailing of electronic spare parts	51,000	51,000	5,100	25	62,668	17,915	3,552
TAF II	Cayman Islands	Investing in new start-up technology companies	487,862	332,412		98	469,749	(12,245)	(13,570)

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

Note 2: The gains on disposal of the stocks held by subsidiaries

(treated as
treasury stocks)
are excluded.

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TABLE 8

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND INVESTEEES
INFORMATION OF INVESTMENT IN MAINLAND CHINA**

JUNE 30, 2005

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Total amount of paid-in capital MB in ousand)	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2005 (US\$ in Thousand)	Investment Flows Outflow (US\$ in Thousand)	Inflow	Accumulated Outflow of Investment from Taiwan as of June 30, 2005 (US\$ in Thousand)	Percentage of Ownership in Investment	Investment Gain (Loss) (Note 2)	Carrying Value as of June 30, 2005	Accumulated Inward Remittance of Earnings as of June 30, 2005	Acc Inv M C J (Th
0,367 3,070,623)	(Note 1)	\$9,187,962 (US\$276,000)	\$2,992,405 (US\$95,000)	\$	\$12,180,367 (US\$371,000)	100%	\$(1,068,676)	\$9,967,851	\$	\$12, (US\$

Note 1: Direct investment in TSMC-Shanghai US\$371,000 thousand.

Note 2: Amount was recognized based on the reviewed financial statements.

**Taiwan Semiconductor Manufacturing
Company, Ltd. and Subsidiaries
Consolidated Financial Statements for the
Six Months Ended June 30, 2005 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company, Ltd.

We have audited the accompanying consolidated balance sheet of Taiwan Semiconductor Manufacturing Company, Ltd and subsidiaries as of June 30, 2005, and the related consolidated statements of income, changes in shareholders equity and cash flows for the six months 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 audit.

We conducted our audit in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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 audit provides 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 June 30, 2005, and the results of their consolidated operations and their consolidated cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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As disclosed in Note 2 to the consolidated financial statements, in accordance with the rule regulated by the Securities and Futures Bureau of the Republic of China, beginning in 2005, public companies are required to file their semi-annual consolidated financial statements. The rule also states that single period presentation of consolidated financial statements is permitted at the initial adoption of the rule.

July 13, 2005

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.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

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TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

JUNE 30, 2005

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	Amount	%
CURRENT ASSETS		
Cash and cash equivalents (Notes 2, 3 and 4)	\$ 88,405,154	17
Short-term investments, net (Notes 2 and 4)	49,558,447	10
Receivables from related parties (Note 20)	740,202	
Notes and accounts receivable	36,302,501	7
Allowance for doubtful receivables (Note 2)	(984,650)	
Allowance for sales returns and others (Note 2)	(3,963,039)	(1)
Other receivables from related parties (Note 20)	161,859	
Other financial assets (Notes 2 and 23)	1,894,925	1
Inventories, net (Notes 2 and 5)	15,158,776	3
Deferred income tax assets (Notes 2 and 14)	5,408,883	1
Prepaid expenses and other current assets (Note 2)	1,273,612	
 Total current assets	 193,956,670	 38
 LONG-TERM INVESTMENTS (Notes 2, 6, 18 and 23)		
Equity method	8,629,444	2
Cost method	3,323,874	1
Long-term bonds	16,342,005	3
Other investments	10,955,960	2
 Total long-term investments	 39,251,283	 8
 PROPERTY, PLANT AND EQUIPMENT (Notes 2, and 7)		
Cost		
Land and land improvements	795,981	
Buildings	102,814,480	20
Machinery and equipment	488,162,101	95
Office equipment	9,108,552	2
Leased assets	560,957	
Other equipment	153,423	
 Total cost	 601,595,494	 117
Accumulated depreciation	(365,018,772)	(71)
Advance payments and construction in progress	20,429,713	4

Net property, plant and equipment	257,006,435	50
GOODWILL (Note 2)	6,441,721	1
OTHER ASSETS		
Deferred charges, net (Notes 2, 8 and 22)	8,210,644	2
Deferred income tax assets (Notes 2 and 14)	6,338,720	1
Refundable deposits	114,435	
Assets leased to others, net (Note 2)	75,746	
Others (Note 2)	25,594	
Total other assets	14,765,139	3
TOTAL	\$ 511,421,248	100

LIABILITIES AND SHAREHOLDERS' EQUITY

	Amount	%
CURRENT LIABILITIES		
Short-term bank loans (Note 9)	\$ 316,180	
Accounts payable	6,365,721	1
Payables to related parties (Note 20)	1,239,322	
Payables to contractors and equipment suppliers	11,383,836	3
Cash dividends and bonus payable (Note 16)	49,506,027	10
Accrued expenses and other current liabilities (Notes 2, 12, 22 and 23)	10,745,072	2
Current portion of long-term liabilities (Notes 10 and 11)	10,505,489	2
Total current liabilities	90,061,647	18
LONG-TERM LIABILITIES		
Long-term bank loans (Note 10)	957,510	
Bonds payable (Note 11)	19,500,000	4
Other long-term payables (Notes 12 and 22)	8,020,949	2
Other payables to related parties (Notes 20 and 22)	1,727,133	
Liability under capital leases (Note 2)	560,957	
Total long-term liabilities	30,766,549	6
OTHER LIABILITIES		
Accrued pension cost (Notes 2 and 13)	3,424,325	1
Guarantee deposits (Note 22)	1,518,850	
Others	709,043	

Total other liabilities	5,652,218	1
Total liabilities	126,480,414	25
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (Notes 2, 16, 17 and 18)		
Capital stock \$10 par value		
Authorized: 27,050,000 thousand shares		
Issued: 24,726,129 thousand shares	247,261,288	48
Capital surplus	56,720,875	11
Retained earnings:		
Appropriated as legal capital reserve	34,348,208	7
Appropriated as special capital reserve	2,226,427	1
Unappropriated earnings	47,808,698	9
Cumulative translation adjustments	(2,612,996)	(1)
Treasury stock (at cost) 46,862 thousand shares	(1,552,573)	
Total equity attributable to shareholders of the parent	384,199,927	75
MINORITY INTEREST IN SUBSIDIARIES (Note 2)	740,907	
Total shareholders' equity	384,940,834	75
TOTAL	\$ 511,421,248	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated July 13, 2005)

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

CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2005

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

	Amount	%
GROSS SALES (Notes 2 and 20)	\$ 118,589,458	
SALES RETURNS AND ALLOWANCES (Note 2)	1,753,728	
NET SALES	116,835,730	100
COST OF SALES (Notes 15 and 20)	70,903,582	61
GROSS PROFIT	45,932,148	39
OPERATING EXPENSES (Notes 15 and 20)		
Research and development	6,973,117	5
General and administrative	4,766,049	4
Marketing	1,810,727	2
Total operating expenses	13,549,893	11
INCOME FROM OPERATIONS	32,382,255	28
NON-OPERATING INCOME AND GAINS		
Interest (Notes 2 and 23)	1,756,871	2
Settlement income (Note 22)	786,750	1
Investment income recognized by equity method (Notes 2 and 6)	623,046	
Subsidy income	311,846	
Technical service income (Notes 20 and 22)	186,962	
Gain on disposal of property, plant and equipment (Note 2)	35,808	
Others (Note 20)	220,040	
Total non-operating income and gains	3,921,323	3
NON-OPERATING EXPENSES AND LOSSES		
Interest (Notes 2, 11 and 23)	1,499,733	2

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Foreign exchange loss, net (Notes 2 and 23)	166,624
Loss on idle assets (Note 2)	106,972
Loss on impairment of long-term investments (Note 2)	88,486
Loss on disposal of investments, net (Note 2)	64,324
Loss on disposal of property, plant and equipment (Note 2)	53,625
Unrealized valuation loss of short-term investments (Note 2)	40,971
Others	75,003

Total non-operating expenses and losses	2,095,738	2
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(Continued)

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	Amount	%
INCOME BEFORE INCOME TAX	\$ 34,207,840	29
INCOME TAX BENEFIT (Notes 2 and 14)	1,003,785	1
NET INCOME	\$ 35,211,625	30
ATTRIBUTABLE TO:		
Shareholders of the parent	35,187,334	30
Minority interest	24,291	
	\$ 35,211,625	30
	Net Income Attributable to	
	Shareholders of the Parent	
	Before	After
	Tax	Tax
CONSOLIDATED EARNINGS PER SHARE (NT\$, Note 19)		
Basic earnings per share	\$ 1.39	\$ 1.43
Diluted earnings per share	\$ 1.38	\$ 1.43

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

(With Deloitte & Touche audit report dated July 13,
2005)

(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)

Paid-in Capital	Capital Surplus	Equity Attributable to Shareholders of the Parent				Cumulative Translation Adjustments	Treasury Stock	Total
		Legal Capital Reserve	Special Reserve	Retained Earnings	Unappropriated Earnings			
Amount	Capital Surplus	Legal Capital Reserve	Special Reserve	Retained Earnings	Unappropriated Earnings	Translation Adjustments	Treasury Stock	Total
\$ 232,519,637	\$ 56,537,259	\$ 25,528,007	\$	\$ 88,202,009	\$ 113,730,016	\$ (2,226,427)	\$ (1,595,186)	\$ 398,965,299
		8,820,201		(8,820,201)				
			2,226,427	(2,226,427)				
				(3,086,215)	(3,086,215)			(3,086,215)
3,086,215				(3,086,215)	(3,086,215)			
				(46,504,097)	(46,504,097)			(46,504,097)
11,626,024				(11,626,024)	(11,626,024)			
				(231,466)	(231,466)			(231,466)
				35,187,334	35,187,334			35,187,334
	4,774							4,774

29,412	87,806							117,218
	84,285							84,285
	6,751						42,613	49,364
						(386,569)		(386,569)

\$ 247,261,288 \$ 56,720,875 \$ 34,348,208 \$ 2,226,427 \$ 47,808,698 \$ 84,383,333 \$ (2,612,996) \$ (1,552,573) \$ 384,199,927

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated July 13, 2005)

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**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD.
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005
(In Thousands of New Taiwan Dollars)**

	Amount
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income attributable to shareholders of the parent	\$ 35,187,334
Net income attributable to minority interest	24,291
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	37,979,563
Loss on idle assets	106,972
Deferred income taxes	(1,179,638)
Investment income recognized by equity method	(623,046)
Amortization of premium of long-term bond investments	58,771
Loss on impairment of long-term investments	88,486
Gain on disposal of long-term investments, net	(94)
Loss on disposal of property, plant and equipment, net	17,817
Accrued pension cost	310,773
Net changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables from related parties	337,616
Notes and accounts receivable	(5,013,159)
Allowance for doubtful receivables	(1,710)
Allowance for sales returns and others	620,589
Other receivables from related parties	(50,559)
Other financial assets	224,073
Inventories	490,820
Prepaid expenses and other current assets	1,146,551
Increase (decrease) in:	
Accounts payable	(1,341,572)
Payables to related parties	(1,569,408)
Accrued expenses and other current liabilities	198,591
 Net cash provided by operating activities	 67,013,061
 CASH FLOWS FROM INVESTING ACTIVITIES	
Decrease in short-term investments	4,751,522
Acquisitions of:	
Long-term investments	(3,364,023)
Property, plant and equipment	(55,661,702)
Proceeds from disposal of:	
Long-term investments	1,533,220
Property, plant and equipment	127,264
Increase in deferred charges	(518,160)

Increase in refundable deposits	(7,483)
Decrease in other assets	4,626
Net cash used in investing activities	(53,134,736)

(Continued)

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	Amount
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments on short-term bank loans	\$ (63,236)
Repayments on long-term bank loans	(946,845)
Increase in guarantee deposits	1,105,969
Bonus to directors and supervisors	(231,466)
Proceeds from:	
Disposal of treasury stock	49,364
Exercise of employee stock options	117,218
Increase in minority interest	11,571
 Net cash provided by financing activities	 42,575
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 13,920,900
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	 (47,156)
 CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD (Note 2)	 74,531,410
 CASH AND CASH EQUIVALENTS, END OF THE PERIOD	 \$ 88,405,154
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	\$ 1,268,966
Income tax paid	\$ 148,831
 NONCASH INVESTING AND FINANCING ACTIVITIES	
Current portion of long-term liabilities	\$ 10,505,489
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 1,417,437
Reclassification of long-term investments to short-term investments	\$ 6,327
 The accompanying notes are an integral part of the consolidated financial statements.	
(With Deloitte & Touche audit report dated July 13, 2005)	(Concluded)

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2005

(Amounts in Thousands of 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; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSS).

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

As of June 30, 2005, TSMC and its subsidiaries had 20,991 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

In accordance with the rule regulated by the R.O.C. Securities and Futures Bureau (SFB), beginning in 2005, public companies are required to file their semi-annual consolidated financial statements. The rule also states that single period presentation of consolidated financial statements is permitted in the year of initial adoption of the rule.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

Consolidation

The consolidated financial statements include, as of and for the six months ended June 30, 2005, the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of Global UniChip Corporation (GUC), Global UniChip Corporation NA (GUC NA) and VisEra Technologies Company, Ltd. (VisEra) over which TSMC has control. All significant intercompany balances and transactions have been eliminated upon consolidation.

The consolidating entities as of June 30, 2005 were as follows:

Name of Investor	Name of Investee	Ownership % as of June 30, 2005	Remark
TSMC	TSMC North America (TSMC NA)	100%	As of June 30, 2005, TSMC NA held 13,923 thousand common shares in TSMC (approximately 0.06% of outstanding common shares).
	Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC Europe)	100%	
	TSMC Japan K. K. (TSMC Japan)	100%	
	TSMC (Shanghai) Company Limited (TSMC Shanghai)	100%	
	TSMC International Investment Ltd. (TSMC International)	100%	
	TSMC Partners, Ltd. (TSMC Partners)	100%	
	Chi Cherng Investment Co., Ltd. (Chi Cherng)	36%	TSMC and Hsin Ruey held in aggregate a 100% ownership of Chi Cherng. As of June 30, 2005, Chi Cherng held 16,454 thousand common shares in TSMC (approximately 0.07% of outstanding common shares).
	Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	36%	TSMC and Chi Cherng held in aggregate a 100% ownership of Hsin Ruey. As of June 30, 2005, Hsin Ruey held 16,485 thousand common shares in TSMC (approximately 0.07% of outstanding common shares).
	Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	
	GUC	46%	Starting from 2005, GUC became a consolidating entity of TSMC as GUC's president was assigned by TSMC and TSMC has control over the financial, operating and personnel hiring decisions of GUC.

(Continued)

Name of Investor	Name of Investee	Ownership % as of June 30, 2005	Remark
	VisEra	25%	Starting from 2005, VisEra became a consolidating entity of TSMC as VisEra's president was assigned by TSMC and TSMC has control over the financial, operating and personnel hiring decisions of VisEra.
TSMC International	TSMC Technology, Inc. (TSMC Technology)	100%	
	TSMC Development, Inc. (TSMC Development)	100%	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	
	InveStar Semiconductor Development Fund, Inc. (II) LDC (ISDF II)	97%	
TSMC Development GUC	WaferTech, LLC (WaferTech)	99.996%	
	GUC NA	100%	Starting from 2005, GUC NA became a consolidating entity of TSMC as TSMC has control over GUC.

The following diagram presents information regarding the relationship and ownership percentages between TSMC and the investees that are under its control as of June 30, 2005:

TSMC NA is engaged in the sales and marketing of integrated circuits and semiconductor devices. TSMC Europe and TSMC Japan are engaged mainly in marketing activities. TSMC Technology is engaged mainly in engineering support activities. TSMC Shanghai is engaged in the manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers. TSMC Partners, TSMC Development, Chi Cherng and Hsin Ruey are engaged in investing activities. TSMC International is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. Emerging Alliance, VTAF II, ISDF and ISDF II are engaged in investing in new start-up technology companies. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. GUC is engaged in the researching, developing, manufacturing, testing and marketing of integrated circuits. VisEra is engaged in the manufacturing, wholesaling and retailing of electronic spare parts. GUC NA is engaged in providing products consulting in North America.

TSMC and the foregoing consolidating entities are hereinafter referred to collectively as the Company.

Minority interest in subsidiaries and investees aforementioned is presented under minority interest in subsidiaries in the consolidated balance sheet.

Consolidated Cash Flows

In compliance with the revised R.O.C. Statement of Financial Accounting Standard (SFAS) No. 7 Consolidated Financial Statements, the Company retroactively adjusted the balance of cash and cash equivalents as of January 1, 2005 in the consolidated statement of cash flows for the six months ended June 30, 2005 so that it includes the cash and cash equivalent amounts for GUC, GUC NA, and VisEra as of January 1, 2005 since they became the consolidating entities of TSMC beginning in 2005.

Use of Estimates

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

Classification of Current and Noncurrent 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 noncurrent assets and liabilities, respectively.

Cash Equivalents

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

Short-term Investments

Short-term investments primarily consist of corporate bonds, agency bonds, asset-backed securities, bond and stock funds, government bonds and others.

Short-term investments are recorded at historical cost and are carried at the lower of cost or market value as of the balance sheet date. An allowance for decline in value is provided and is charged to current income when the aggregate carrying amount of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the market value.

The costs of funds and listed stocks sold are accounted for using the weighted-average method; whereas other securities sold are accounted for using the specific identification method.

The market value of funds is determined using the net asset value of the funds at the end of the period, and the market value of listed stocks is determined using the average-closing price of the listed stocks for the last month of the period. The market value of other short-term investments is determined using the average of bid and ask prices as of the balance sheet date.

Cash dividends are recorded as investment income in the current period.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivables. The Company determines the amount of allowance for doubtful receivables 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 revenue when evidence of an arrangement exists, the shipment is made, price is fixed or determinable, and the collectibility is reasonably assured. Revenues from the design and manufacturing of photo masks, which are used as manufacturing tools in the fabrication process, are recognized when the photo masks are qualified by our customers. The Company records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made at a specific percentage based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

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 a 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 to be 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 the period. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for finished goods and work in process. The Company assesses the impact of changing technology on its inventory on hand and writes off inventories that are considered obsolete. Ending inventories are evaluated for estimated excess quantities and obsolescence based on demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included 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 in 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 equity is amortized using the straight-line method over five years and is also recorded in 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 investee differs from the amount of the 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 or credited to capital surplus.

Investments in companies wherein the Company does not exercise significant influence are recorded at historical cost. Cash dividends are recognized as investment income in the year received but are accounted for as reductions in the carrying amount 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 in publicly traded stocks 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.

Investments in mutual funds are stated at the lower of aggregate cost or net asset value. An allowance is recognized when the net asset value of the funds is lower than their cost, 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.

When an indication of significant impairment is identified in an investee company, the carrying amount of this investment is reduced to reflect an other-than-temporary decline, with the related impairment loss charged to current income.

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

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

When investments in publicly-traded stocks are reclassified from short-term investments to long-term investments or from long-term investments 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 amount, and the market value becomes the new basis.

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

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

If an investee's functional currency is a foreign currency, translation adjustments will result from the process of translating the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

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. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease. Idle assets are stated at the lower of net realizable value or book value. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed in the period incurred. When an indication of significant impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in the future period, the subsequent reversal of the impairment loss would be recognized as a gain. However, the increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognized for the asset in prior years.

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements 20 years; buildings 10 to 50 years; machinery and equipment 3 to 10 years; office equipment 3 to 15 years; leased assets 20 years and other equipment 3 to 10 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 credited or charged to non-operating gains or losses in the period of sale or disposal.

Goodwill

Goodwill represents the excess of the consideration paid for acquisition 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. If an event occurs or circumstances change that more likely than not reduce the fair value of goodwill below its carrying value, an impairment loss is charged to current income. Subsequent recovery in the fair value of the goodwill may not be recorded such as to reverse the impairment loss previously recorded.

Deferred Charges

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized as follows: technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract, software and system design costs and other charges 2 or 3 years. When an indication of significant impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined (net of amortization), as if no impairment loss had been recognized.

Pension Costs

For employees under defined benefit pension plans, the related net periodic pension costs are recorded based on the actuarial calculations; unrecognized net transition obligation and unrecognized net gains or losses are amortized over 25 years or the average remaining service period of the employees. For employees under defined contribution pension plans, the related net periodic pension costs are recorded based on the actual contributions made to the pension funds.

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

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

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

Income taxes on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) of 10% are expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

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

Treasury Stock

TSMC's stock held by its subsidiaries is treated as treasury stock and reclassified from long-term investments to treasury stock. The cash dividends received by the subsidiaries from TSMC are recorded under capital surplus treasury stock transactions.

Foreign-currency Transactions

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

Derivative Financial Instruments

The Company enters into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts are recorded in New Taiwan dollars at the current rate of exchange of the contract date. The differences in the New Taiwan dollar amounts translated using the current rates 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 current rates at the balance sheet date with the resulting differences credited or charged to income. In addition, the receivables and payables related to the forward contracts of the same counter party are netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

The Company enters into cross-currency swap contracts to manage currency exposures on foreign-currency-denominated assets and liabilities. The principal amount is recorded using the current rate at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted rates on the contract date are amortized over the terms of the contracts using the straight-line method. At the end of each period, the receivables or payables arising from cross-currency swap contracts are restated using the prevailing current rate with the resulting differences credited or charged to income. In addition, the receivables and payables related to the contracts of the same counter party are netted with the resulting amount presented as either an asset or a liability. The difference in interest computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as an adjustment to the interest income or expense associated with the hedged items. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

The Company enters into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. The cash settlement receivable or payable computed pursuant to the contracts on each settlement date or balance sheet date is recorded as an adjustment to interest income or expense associated with the hedged items.

Translation of Foreign-currency Financial Statements

R.O.C. SFAS No. 14, Accounting for Foreign-currency Transactions, applies to foreign subsidiaries that use the local 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 the balance sheet date; shareholders equity historical rates; income and expenses average rate during the period. The resulting translation adjustments are recorded as a separate component under shareholders equity.

3. CASH AND CASH EQUIVALENTS

	June 30, 2005
Cash and bank deposits	\$ 57,966,352
Government bonds acquired under repurchase agreements	29,804,199
Treasury bills	349,892
Corporate issued notes	172,291
Agency notes	112,420
	\$ 88,405,154

4. SHORT-TERM INVESTMENTS

	June 30, 2005
Corporate bonds	\$ 12,846,798
Agency bonds	11,554,410
Corporate issued asset-backed securities	11,482,685
Bond and stock funds	10,150,224
Government bonds	2,750,355
Money market funds	491,465
Corporate issued notes	158,052
	(Continued)

	June 30, 2005
Listed stocks	\$ 146,367
Commercial papers	94,770
	49,675,126
Allowance for valuation losses	(116,679)
	\$ 49,558,447
Market value	\$ 50,391,628

TSMC entered into investment management agreements with three well-known financial institutions (fund managers) to manage investment portfolios. In accordance with the investment guidelines and terms in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of June 30, 2005, TSMC had investment portfolios with these fund managers that aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as corporate bonds, agency bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

5. INVENTORIES, NET

	June 30, 2005
Finished goods	\$ 2,746,425
Work in process	12,145,548
Raw materials	992,651
Supplies and spare parts	1,141,717
	17,026,341
Allowance for losses	(1,867,565)
	\$ 15,158,776

6. LONG-TERM INVESTMENTS

	June 30, 2005	% of
	Carrying	Owner-
	Amount	Ship
Equity method		
Vanguard International Semiconductor Corporation (VIS)	\$ 5,115,164	27
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	3,514,280	32
	8,629,444	
Cost method		
Common stocks		
Publicly traded stocks	68,516	
Non-publicly traded stocks	1,243,182	
Preferred stocks	1,709,737	

Funds

302,439

3,323,874

(Continued)

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	June 30, 2005	% of
	Carrying	Owner-
	Amount	Ship
Long-term bonds		
Government bonds	\$ 11,817,146	
Corporate bonds		
China Steel Corporation	2,936,934	
Taiwan Power Company	908,645	
Nan Ya Plastics Corporation	272,612	
Formosa Plastics Corporation	271,181	
Formosa Chemical & Fiber Corporation	135,487	
	16,342,005	
Other investments	10,955,960	
	\$ 39,251,283	

For the six months ended June 30, 2005, investment income recognized from the equity method investees was NT\$623,046 thousand. The carrying amounts of investments accounted for under the equity method and the related investment income were determined based on the audited financial statements of the investees as of and for the same period as the Company.

As of June 30, 2005, other investments consisted of the following structured time-deposits:

	Principal	Interest	Range of	Maturity
		Receivable	Interest	Date
			Rates	
<u>Step-up callable deposits</u>				
Domestic bank	\$ 2,000,000	\$ 7,624	2.05%-2.20%	Jul. 2007 to Aug. 2007
Foreign bank	2,000,000	10,403	1.40%-2.44%	Jul. 2006 to Jul. 2007
<u>Callable range accrual deposits</u>				
Foreign bank	6,955,960	20,237	(See below)	Sep. 2009 to Jan. 2010
	\$ 10,955,960	\$ 38,264		

The interest rate of the step-up callable deposits is determined by the Company and the related banks. The amount of interest earned by the Company for the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.10% and 3.45%. Based on the terms of the deposits, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the term of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of June 30, 2005, deposits that reside in banks located in Hong Kong and Singapore amounted to NT\$2,529,440 thousand and NT\$632,360 thousand, respectively.

As of June 30, 2005, the fair value of publicly traded long-term investments accounted for using the cost method was NT\$192,292 thousand.

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7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	June 30, 2005
Land improvements	\$ 184,622
Buildings	42,260,855
Machinery and equipment	316,242,660
Office equipment	6,231,969
Leased assets	46,704
Other equipment	51,962
	\$ 365,018,772

The Company entered into agreements to lease certain buildings that qualify as capital leases. The term of the lease is from December 2003 to December 2013.

8. DEFERRED CHARGES, NET

	June 30, 2005
Technology license fees	\$ 5,929,347
Software and system design costs	2,114,718
Others	166,579
	\$ 8,210,644

9. SHORT-TERM BANK LOANS

	June 30, 2005
Unsecured loan:	
US\$10,000 thousand, repayable by June 2006, annual interest at 3.61%	\$ 316,180

10. LONG-TERM LOANS

	June 30, 2005
Unsecured loans:	
US\$30,000 thousand, repayable by December 2006, annual interest at 3.60%	\$ 948,540
Science Park Administration (SPA) SOC loan, repayable by July 2008 in 20 payments, interest-free	9,050
SPA DSP loan, repayable by April 2007 in 20 payments, interest-free	5,409
	962,999
Current portion	(5,489)
	\$ 957,510

As of June 30, 2005, future principal repayments for the Company's long-term bank loans were as follows:

Year of Repayment	Amount
2005 (3 rd to 4 th quarter)	\$ 2,744
2006	954,029
2007	4,137
2008	2,089
	\$ 962,999

11. BONDS PAYABLE

June 30, 2005

Domestic unsecured bonds:

Issued in December 2000 and repayable in December 2005 and 2007 in two payments, 5.25% and 5.36% interest payable annually, respectively	\$ 15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three payments, 2.60%, 2.75% and 3% interest payable annually, respectively	15,000,000
	\$ 30,000,000

As of June 30, 2005, principal repayments for the Company's bonds were as follows:

Year of Repayment	Amount
2005 (3 rd to 4 th quarter)	\$ 10,500,000
2007	7,000,000
2009	8,000,000
2010 and thereafter	4,500,000
	30,000,000
Current portion	(10,500,000)
	\$ 19,500,000

12. OTHER LONG-TERM PAYABLES

June 30, 2005

Payables for acquisition of property, plant and equipment (Note 22l)	\$ 6,376,813
Payables for royalties	3,061,573
	9,438,386
Current portion (under accrued expenses and other current liabilities)	(1,417,437)
	\$ 8,020,949

The payables for royalties were accrued for the future payment in connection with several license arrangements that the Company entered into for certain semiconductor related patents.

Future payments for the Company's other long-term payables under the agreements as of June 30, 2005 were as follows:

Year	Amount
2005 (3 rd to 4 th quarter)	\$ 1,144,732
2006	462,413
2007	442,652
2008	252,944
2009	252,944
2010 and thereafter	6,882,701
	9,438,386
Current portion (under accrued expenses and other current liabilities)	(1,417,437)
	\$ 8,020,949

13. PENSION PLANS

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

TSMC and GUC contribute at an amount equal to 2% of salaries and wages paid each month to their respective pension funds (the Funds). The Funds are administered by their respective pension fund monitoring committees (the Committees) and deposited in the Committees' name in the Central Trust of China.

The changes in the Funds and accrued pension cost are summarized as follows:

	Six Months Ended June 30, 2005
The Funds	
Balance, beginning of period	\$ 1,435,609
Contribution	123,331
Interest	15,629
Payment	(8,419)
Balance, end of period	\$ 1,566,150
Accrued pension cost	
Balance, beginning of period	\$ 3,113,041
Accruals	310,849
Balance, end of period	\$ 3,423,890

The Labor Pension Act became effective on July 1, 2005 and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same business entity after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee's month salary or wage.

14. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax at statutory rates and current income tax expense before income tax credits was as follows:

	Six Months Ended June 30, 2005
Income tax expense based on income before income tax at statutory rates	\$ (8,486,984)
Tax-exempt income	4,734,183
Temporary and permanent differences	(863,534)
Current income tax expense before income tax credits	\$ (4,616,335)

- b. Income tax benefit consisted of the following:

Current income tax expense before income tax credits	\$ (4,616,335)
Additional tax at 10% on unappropriated earnings	(1,495,145)
Income tax credits	5,896,073
Other income tax adjustments	39,554
Net change in deferred income tax assets	
Investment tax credits	2,534,406
Temporary differences	2,150,088
Net operating loss carryforwards	(409,319)
Net change in valuation allowance of deferred income tax assets	(3,095,537)
Income tax benefit	\$ 1,003,785

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

	June 30, 2005
Current deferred income tax assets	
Investment tax credits	\$ 5,347,938
Temporary differences	373,860
Net operating loss carryforwards	6,660
Valuation allowance	(319,575)
	\$ 5,408,883
Noncurrent deferred income tax assets	
Investment tax credits	\$ 23,190,292
Temporary differences	(5,659,538)
Net operating loss carryforwards	6,369,671
Valuation allowance	(17,561,705)
	\$ 6,338,720

- d. Integrated income tax information:

The balance of the imputation credit account of TSMC as of June 30, 2005 was NT\$15,569 thousand.

The expected creditable ratio for distribution of earnings of 2004 of TSMC was 0.11%.

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 actual distribution of the imputation credits is made.

e. TSMC's earnings generated prior to December 31, 1997 have been appropriated.

f. As of June 30, 2005, the Company's investment tax credits consisted of the following:

Regulation	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 134,467	\$	2005
		4,886,593	2,325,900	2006
		4,139,371	4,139,371	2007
		11,007,954	11,007,954	2008
		2,189,404	2,189,404	2009
		\$22,357,789	\$19,662,629	
Statute for Upgrading Industries	Research and development expenditures	\$ 3,145,893	\$ 17,938	2005
		3,367,335	3,367,335	2006
		2,015,531	2,015,531	2007
		2,374,242	2,374,242	2008
		1,008,986	1,008,986	2009
		\$11,911,987	\$ 8,784,032	
Statute for Upgrading Industries	Personnel training	\$ 29,448	\$	2005
		27,358	27,358	2006
		26,962	26,962	2007
		37,249	37,249	2008
		\$ 121,017	\$ 91,569	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 38,036	\$	2005

As of June 30, 2005, the net operating loss carryforwards were generated by WaferTech, TSMC Development, TSMC Technology and GUC and will expire at various dates through 2025.

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

	Tax-Exemption Periods
Construction of Fab 8 module B	2002 to 2005
Expansion of Fab 2 modules A and B, Fab 3, Fab 4, Fab 5 and Fab 6	2003 to 2006
Construction of Fab 12	2004 to 2007
h. The tax authorities have examined income tax returns of TSMC through 2001.	

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15. LABOR COST, DEPRECIATION AND AMORTIZATION

	Six Months Ended June 30, 2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	\$ 5,001,599	\$ 3,028,345	\$ 8,029,944
Labor and health insurance	306,336	154,502	460,838
Pension	300,353	150,980	451,333
Meal	208,373	76,789	285,162
Welfare benefit	72,674	42,701	115,375
Other	54,134	137,290	191,424
	\$ 5,943,469	\$ 3,590,607	\$ 9,534,076
Depreciation	\$ 34,223,394	\$ 1,589,927	\$ 35,813,321
Amortization	\$ 814,085	\$ 1,350,140	\$ 2,164,225

16. SHAREHOLDERS' EQUITY

TSMC has issued a total of 668,351 thousand ADSs which are traded on the NYSE as of June 30, 2005. The number of common shares represented by the ADSs is 3,341,754 thousand shares (one ADS represents five common shares). On May 10, 2005, TSMC's Board of Directors approved the offering of up to 1,050,000 thousand common shares of TSMC in the form of ADSs by certain existing shareholders. As of July 13, 2005, the proposed offering is still waiting for the approval by the SFB.

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issue price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which is restricted to a certain percentage of the paid-in common stock of TSMC.

As of June 30, 2005, capital surplus consisted of the following:

	Amount
From merger	\$ 24,003,546
Additional paid-in capital	23,139,481
From convertible bonds	9,360,424
From long-term investments	126,128
From treasury stock transactions	91,241
Donations	55
	\$ 56,720,875

TSMC's Articles of Incorporation as revised on May 10, 2005, provide that when allocating the net profits for each fiscal year, TSMC shall first offset its losses in previous years and then set aside the following items accordingly:

- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equalled TSMC's total capital;

- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- c. Bonus to directors and supervisors and bonus to employees of TSMC equal to not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors and supervisors. TSMC may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.
- TSMC's Articles of Incorporation also stipulate that profits of TSMC may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided however, the ratio for stock dividend shall not exceed 50% of total distribution.

Any appropriations of net income are recorded in the financial statements in the year of shareholder approval. The appropriation for legal capital 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 the portion in excess of 50% of outstanding capital stock can be distributed as dividends and bonuses when the reserve balance has reached 50% of the aggregate par value of the outstanding capital stock of TSMC.

A special capital reserve equivalent to the net debit balance of the other components of shareholder's equity (for example, unrealized loss on long-term investments and cumulative translation adjustments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the SFB. Any special capital reserve appropriated may be reversed to the extent that the net debit balance reverses.

TSMC's appropriation of earnings for 2004 was approved in the shareholders' meeting on May 10, 2005. The appropriations and dividends per share are as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal capital reserve	\$ 8,820,201	
Special capital reserve	2,226,427	
Employees' profit sharing in cash	3,086,215	
Employees' profit sharing in stock	3,086,215	
Cash dividends	46,504,097	\$ 2.00
Stock dividends	11,626,024	0.50
Bonus to directors and supervisors	231,466	
	\$ 75,580,645	

The amounts of the above appropriations of earnings for 2004 are consistent with the resolutions of the meeting of TSMC's Board of Directors on February 22, 2005. If the above bonus to employees, directors and supervisors had been paid in cash and charged against income for 2004, the after income tax basic earnings per share for the year ended December 31, 2004 would have decreased from NT\$3.97 to NT\$3.70. The shares distributed as a bonus to employees represented 1.33% of TSMC's total outstanding common shares as of December 31, 2004.

The above information about the appropriations of bonus to employees, directors and supervisors is available at Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by TSMC on earnings generated since January 1, 1998.

17. STOCK-BASED COMPENSATION PLANS

TSMC's Employee Stock Option Plans under the TSMC 2005 Plan, the TSMC 2003 Plan and the TSMC 2002 Plan, were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of units authorized to be granted under the TSMC 2005 Plan, the TSMC 2003 Plan and the TSMC 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each unit eligible to subscribe to one common share when exercisable. The options may be granted to qualified employees of TSMC or any of its domestic or foreign subsidiaries, in which TSMC's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of TSMC's common shares listed on the TSE on the grant date. Under the TSMC 2003 Plan and the TSMC 2002 Plan, units that had never been granted, or had been granted and subsequently cancelled were expired as of June 30, 2005.

Information about TSMC's outstanding stock options for the six months ended June 30, 2005 was as follows:

	Number of Options (in Thousands)	Weighted- Average Exercise Price (NT\$)
Beginning balance	64,367	\$ 40.5
Options granted	14,864	48.4
Options exercised	(2,941)	39.9
Options cancelled	(2,931)	42.7
Ending balance	73,359	42.1

The number of outstanding options and exercise prices have been adjusted to reflect the appropriation of dividends in accordance with the plans.

As of June 30, 2005, information about TSMC's outstanding and exercisable options was as follows:

	Options Outstanding			Options Exercisable	
	Number of Options (in Thousands)	Weighted- Average Remaining Contractual Life (Years)	Weighted- Average Exercise Price (NT\$)	Number of Options (in Thousands)	Weighted- Average Exercise Price (NT\$)
Range of Exercise Price (NT\$)					
\$29.9-\$42.1	50,195	7.60	\$ 38.8	25,032	\$ 38.8
47.0-54.5	23,164	9.33	49.2		
	73,359			25,032	

No compensation cost was recognized under intrinsic value method for the six months ended June 30, 2005. Had the Company used the fair value based method (based on the Black-Scholes model) to evaluate the options granted after January 1, 2004, the assumptions and pro forma results of the Company for the six months ended June 30, 2005 would have been as follows:

Assumptions:

Expected dividend yield	1.00%-3.44%
Expected volatility	43.77%-46.15%
Risk free interest rate	3.07%-3.85%
Expected life	5 years

Net income attributable to shareholders of the parent:

As reported	\$ 35,187,334
Pro forma	35,140,859

Consolidated earnings per share (EPS) after income tax (NT\$):

Basic EPS as reported	\$ 1.43
Pro forma basic EPS	1.42
Diluted EPS as reported	1.43
Pro forma diluted EPS	1.42

The estimated weighted average fair value per unit for the options granted during the six months ended June 30, 2005 was NT\$17.69.

18. TREASURY STOCK

(Shares in Thousands)

	Beginning Shares	Increase/ Distribute	Decrease	Ending Shares
<u>Six months ended June 30, 2005</u>				
Reclassification of parent company stock held by subsidiaries from long-term investments	45,521	2,242	901	46,862

Proceeds from the sales of treasury stock for the six months ended June 30, 2005 were NT\$49,364 thousand. As of June 30, 2005, the book value and the market value of the treasury stock was NT\$1,552,573 thousand and NT\$2,648,643 thousand, respectively. TSMC's capital stock held by a subsidiary as an investment is recorded as treasury stock. However, starting from June 24, 2005, in accordance with the revised Company Law, the holders will be no longer entitled to the right to vote.

19. CONSOLIDATED EARNINGS PER SHARE

Consolidated EPS for the six months ended June 30, 2005 is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator)	Consolidated EPS (NT\$)	
	Before Tax	After Tax	(Thousands)	Before Tax	After Tax
Consolidated Basic EPS					
Income available to common shareholders of the parent	\$ 34,183,549	\$ 35,187,334	24,676,592	\$ 1.39	\$ 1.43
Effect of dilutive potential common stock - stock options			10,537		
Consolidated Diluted EPS					
Income available to common shareholders of the parent (including effect of dilutive potential common stock)	\$ 34,183,549	\$ 35,187,334	24,687,129	\$ 1.38	\$ 1.43

20. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC is one of its directors
 - b. Philips, a major shareholder of TSMC
 - c. Investees of TSMC accounted for using equity method
VIS
SSMC
 - d. Omnivision International Holding, Ltd. (Omnivision), a shareholder holding a 25% ownership in VisEra
 - e. Huawei Semiconductor (Shanghai) Co., Ltd. (Huawei), the president of which is the president of VisEra
 - f. XinTec Inc. (XinTec), the Chairman of VisEra is one of the directors of XinTec
- The transaction with the aforementioned parties in addition to those disclosed in other notes are summarized as follows:

	2005	
	Amount	%
<u>For the six months ended June 30</u>		
Sales		
Omnivision	\$ 1,268,365	1
Philips and its affiliates	1,147,115	1
Others	45,689	
	\$ 2,461,169	2

	2005	
	Amount	%
Purchases		
VIS	\$ 2,168,998	3
SSMC	2,094,617	3
XinTec	321,924	1
Huawei	86,739	
	\$ 4,672,278	7
Manufacturing expenses technical assistance fees		
Philips (see Note 22a)	\$ 202,334	
Non-operating income and gains		
SSMC (primarily technical service income; see Note 22f)	\$ 146,655	4
VIS (primarily technical service income; see Note 22k)	77,504	2
	\$ 224,159	6
<u>At the end of June 30</u>		
Receivables		
Philips and its affiliates	\$ 467,843	63
Omnivision	266,276	36
VIS	6,083	1
	\$ 740,202	100
Other Receivables		
SSMC	\$ 115,460	71
VIS	46,399	29
	\$ 161,859	100
Payables		
VIS	\$ 883,144	71
SSMC	284,080	23
XinTec	45,308	4
Huawei	26,790	2
	\$ 1,239,322	100
Other long-term payables		
Philips and its affiliates	\$ 1,727,133	100

The terms of sales to related parties are not significantly different from those to third parties. For other related parties transactions, prices are determined in accordance with the related contractual agreements.

21. SIGNIFICANT LONG-TERM LEASES

TSMC and GUC lease land from the SPA. These lease agreements expire on various dates from March 2008 to December 2021 and can be renewed upon their expiration.

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TSMC NA leases its office premises and certain equipment under non-cancellable operating agreements. TSMC Japan, TSMC Europe and VisEra have also entered into lease agreements for their office premises. The leases will expire between 2005 and 2010. The agreements can be renewed upon their expiration.

As of June 30, 2005 future remaining lease payments were as follows:

Year	Amount
2005 (3 rd to 4 th quarter)	\$ 183,984
2006	361,218
2007	357,908
2008	340,247
2009	337,120
2010 and thereafter	1,383,690
	\$ 2,964,167

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of June 30, 2005 are as follows:

- a. On June 20, 2004, TSMC and Philips revised the Technical Cooperation Agreement, which was originally signed on May 12, 1997, with an effective date from January 1, 2004 for five years. Upon expiration, this amended Technical Cooperation Agreement will be terminated at the expiration date and will not be automatically renewed. Under this amended Technical Cooperation Agreement, TSMC will pay Philips royalties based on a fixed amounts mutually agreed-on, rather than under certain percentage of TSMC's annual net sales. TSMC and Philips agree to cross license the patents owned by each party. TSMC also obtained through Philips a number of patent cross licenses.
- b. 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. The term of this agreement is for five years beginning January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. On October 28, 1992, TSMC entered into a letter agreement with Philips under which Philips has an option on up to 30% of TSMC's capacity as agreed in the agreement on most favored terms and conditions for similar orders, as long as Philips and its affiliates' shareholding in TSMC remains at 24.8% or higher. As of June 30, 2005, Philips and its affiliates' shareholding in TSMC is 18.74%.
- 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 June 30, 2005, TSMC had a total of US\$47,868 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 June 30, 2005, TSMC's equity interest in SSMC was 32%. TSMC and Philips committed to buy specific percentages of the production capacity of SSMC. TSMC and Philips are required, in the aggregate, to purchase up to 70% of SSMC's full capacity, but TSMC alone is not required to purchase more than 28% of the annual installed capacity. 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 selling price of certain products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each 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 will be relieved of any further obligation to transfer any 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. 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 cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.
- i. In November 2002, TSMC entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Freescale Semiconductor, Inc. and STMicroelectronics to jointly develop 90-nm to 65-nm advanced CMOS Logic and e-DRAM technologies. TSMC also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. TSMC will contribute process technologies and share a portion of the costs associated with this joint development project.
- j. In December 2003, TSMC entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. TSMC will also license related 90-nm SOI technology from Freescale Semiconductor, Inc. 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 Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- k. TSMC provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into in August 2004. TSMC receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for TSMC certain products at prices as agreed by the parties.
- l. 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.
- m. Amounts available under unused letters of credit as of June 30, 2005 were NT\$6,480 thousand.
- n. TSMC, TSMC-NA and WaferTech filed a series of lawsuits in late 2003 and 2004 in both state and federal courts in California and with the U.S. International Trade Commission against Semiconductor Manufacturing

International Corporation (SMIC), SMIC (Shanghai) and SMIC Americas. The lawsuits alleged that SMIC companies infringed multiple TSMC patents and misappropriated TSMC s trade secrets. These suits have been settled out of court on January 30, 2005. As part of the settlement, SMIC will pay TSMC US\$175 million over six years to resolve TSMC s patent infringement and trade secret claims.

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23. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB 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 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 properties at costs of at least NT\$100 million or 20% of the paid-in capital: None;
- 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 amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees of which the Company exercises significant influence: Please see Table 7 attached;
- j. Financial instrument transactions:
 - 1) Derivative financial instruments

The Company entered into derivative financial instrument transactions during the six months ended June 30, 2005 to manage exposures related to foreign exchange rate and interest rate fluctuations. Certain information on these contracts was as follows:

- a) Outstanding forward exchange contracts

Outstanding forward exchange contracts as of June 30, 2005 were as follows:

Financial Instruments	Currency	Maturity Date	Contract Amount (in Thousands)
Sell	US\$/NT\$	Jul. 2005 to Aug. 2005	US \$103,000
Sell	US\$/JPY	Jul. 2005	US \$6,500

As of June 30, 2005, payables from forward exchange contracts (included in the other current liabilities account) were NT\$43,086 thousand.

b) Outstanding cross currency swap contracts

Outstanding cross currency swap contracts as of June 30, 2005 were as follows:

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rate Paid	Range of Interest Rate Received
Jul. 2005 to Aug. 2005	US\$2,045,000 (US\$/NT\$)		