1995 ANNUAL REPORT
八十四年度年報

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
台灣積體電路製造股份有限公司

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TSMC SPOKESMAN

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Title : Vice President
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Transfer Agency Department
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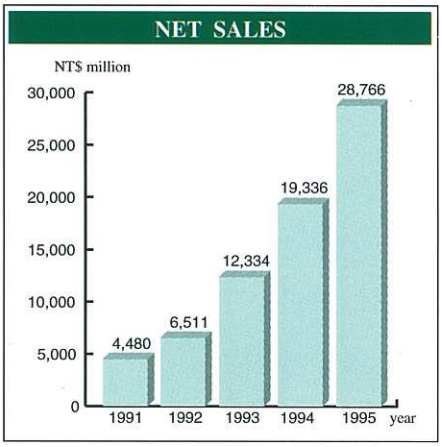
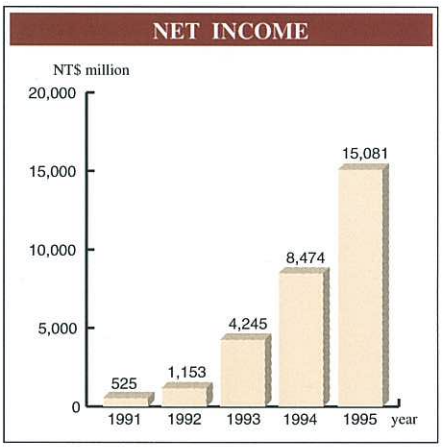
Taipei, Taiwan, R.O.C.
TEL : 886-2-361-3033 FAX : 886-2-311-6723





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LETTER TO THE SHAREHOLDERS

Morris Chang, Chairman

Dear Shareholders,

Last year, TSMC continued to build on its strong foundation, introducing new technologies, setting records in both output and revenue, and cementing plans for further globalization. Two particular achievements stand out in 1995: TSMC surpassed both the million wafer and the billion dollar mark. We believe we are the first independent company to reach US$1 billion in sales in less than ten years.

To meet rising demand, our newest fab, Fab III, came on line ahead of schedule, and we are expediting completion of Fab IVand Fab V. These expansion plans will allow us to maintain our status as the largest pure foundry in the world.

Another highlight of last year was the signing of letters of intent to establish our first joint venture relationship. Through our partnership with U.S.-based Altera and other companies, we plan to set-up a manufacturing facility in the U.S. Pacific Northwest.

Leading Technology

1995 was extremely significant in terms of technology conversion, as we moved to volume production levels of 0.6 micron and initial production of 0.5 micron. As a result of this conversion, our percentage of 0.8 micron decreased substantially, while the amount of 0.6 micron technology jumped from just 10% in 1994 to over 30% in 1995, and 0.5 micron accounted for 11% of total output, up from zero the year before. At the end of the year, TSMC was the only foundry in the world to offer volume levels of 0.5 micron technology with double- or triple-metal.

One of TSMC's greatest achievements in technology last year was the development of 0.35 micron logic process. This step once again affirms TSMC's commitment to providing its customers with early access to advanced technology.

Expanding Capacity

Total production output grew rapidly last year, from 0.9 million 6-inch wafers in 1994 to 1.2 million wafers in 1995. Throughout the year, TSMC's capacity remained fully booked. TSMC now has four main production lines going full steam, but we continue to require expanding capacity to keep up with rising demand. Since Fab III began ramp-up last September, its level of output has exceeded our expectations each month. By December, Fab III was producing 6,500 8-inch wafers per month. With this production capacity, Fab III broke even and began contributing to our profitability in December of 1995, well ahead of schedule.

TSMC also broke ground on Fab IV and Fab V, which will both be located in the Hsin-chu Science-Based Industrial Park, south of Taipei. Fab IV's construction schedule has been accelerated, and the first batch of wafers could be coming off the line by as early as January, 1997.

Capacity expansion is not only taking place in our home base of Taiwan but soon in the United States as well. Final site selection for our planned manufacturing facility will be made by the second quarter of 1996. Our future joint venture partner in this endeavor is U.S.-based Altera. We also currently have letters of intent with two other companies for this joint venture relationship.

In 1995, we passed the million wafer milepost. With our expansion plans both in Taiwan and the United States, we are now setting our sights on breaking the 4 million wafer mark by the year 2000.

Rising Sales and Profits

TSMC's advanced technology and dedicated foundry services have attracted leading IC companies from around the world, and our growing customer base has allowed us to continue to expand capacity, which in turn has led to higher sales and profits. By utilizing the latest technology, TSMC is able to give customers increased value while maintaining our price competitiveness. Providing added value to customers is a key reason why TSMC's net income soared 78% year-on-year to NT$15.08 billion in 1995. Sales, meanwhile, grew an impressive 48.8% over 1994 to NT$28.77 billion. This exceeds even the tremendous 40% growth the world semiconductor market experienced in 1995. This significant accomplishment can also be attributed to the strong customer satisfaction. TSMC's customer service will play an even more important role as sales continue to increase.

Geographically, the United States continues to account for the largest percentage of TSMC's sales, with U.S. companies purchasing 51% of TSMC's total wafer output in 1995, most of those computer or communication-related ICs. The Asian market, primarily Taiwan-based companies, accounted for 32% of TSMC's total sales, focusing on PC-related ICs and multimedia chip-sets. Our European customers accounted for 14% of total sales, with ICs produced being used in wireless communication and high-end consumer electronics products and micro-controllers. We are excited to also now include Japan among our growing client base. Orders from leading Japanese IC companies, such as NEC and Fujitsu, accounted for 3% of TSMC's sales. This number would have been much stronger if TSMC's capacity had not been fully booked by our current customers.

Looking to the Future

As we move into 1996, we will continue to distance ourselves from the competition by emphasizing the highest-level of technology, capacity, and service. To ensure our future financial viability, TSMC is focusing on clients, who, like TSMC, are leaders in their respective fields. These are the companies who have the staying power in today's competitive environment, control the right distribution channels, and are committed to utilizing the latest technologies in their products. For these customers, we have guaranteed capacity in return for their guarantee of orders. As of December 31, 1995, we had already received commitments for prepayments of NT$15,000 million (US$600 million), and we expect that number to rise in 1996.

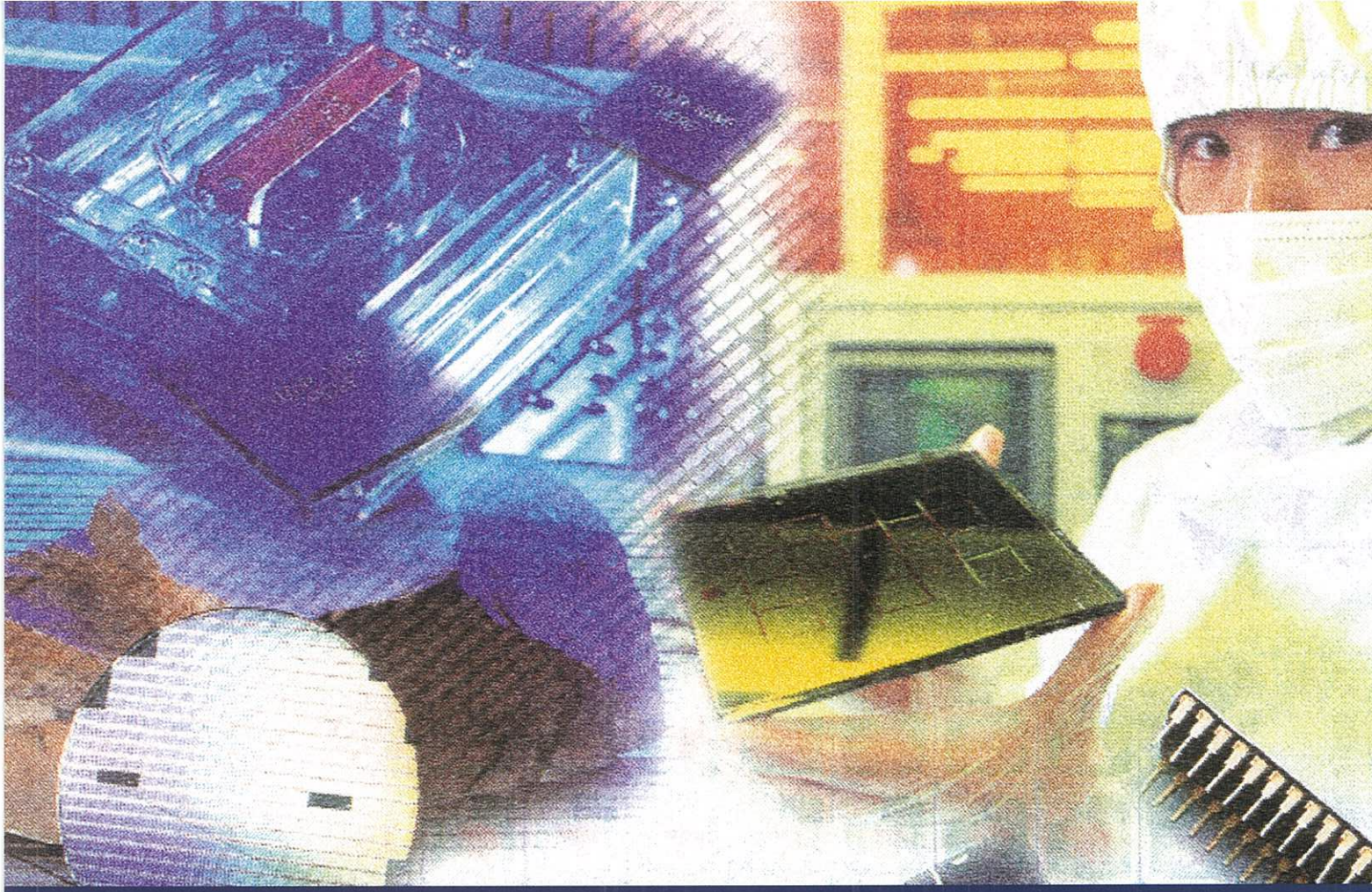
With the world semiconductor market expected to grow by at least 20% in 1996, we are confident of once again meeting or exceeding the global growth rate. Despite our expansion plans, TSMC's capacity will be once again highly utilized this year, and demand continues to rise from both current and prospective customers.

In closing, we want to thank TSMC's more than 3,000 hard-working employees, our customers, and, of course, the shareholders, for your continued support.

Chairman 

President 

Donald W. Brooks, President



A BRIEF INTRODUCTION TO TSMC

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1. Company Profile

Founded in 1987, Taiwan Semiconductor Manufacturing Company (TSMC) was the first pure integrated circuit (IC) foundry in the world. The company is based in Taiwan's "Silicon Valley", the Hsin-chu Science-Based Industrial Park, located about an hour outside of Taipei. TSMC is a joint venture between the government of the Republic of China on Taiwan, Philips Electronics N.V., and other private investors. In 1994, the company was listed on the Taiwan Stock Exchange.

TSMC is dedicated to providing manufacturing services for advanced ICs. The company's charter prevents it from designing or making its own brandname IC products. Therefore, TSMC is a partner, and not a competitor, for other semiconductor companies. Among TSMC's more than 150 active customers are most of the world's leading IC companies, which cover the range of the IC industry, from IC design houses to vertically-integrated IC firms and systems companies.

By the end of 1995, TSMC was manufacturing over 100,000 top-quality, high-yield 6-inch wafers per month in its Fab I and Fab II facilities and 6,500 8-inch wafers in Fab III, making TSMC the largest foundry in the world. The company continues to aggressively expand capacity to meet rising worldwide demand for semiconductors. In 1995, TSMC commenced construction of its state-of-the-art Fab IV and Fab V, which together will have a potential monthly output of 60,000 8-inch wafers. In addition, in November, 1995, the company announced plans to build its first U.S. foundry in a joint venture with several long-standing customers. All of these expansion plans will ensure TSMC's continued leadership in the global foundry business.

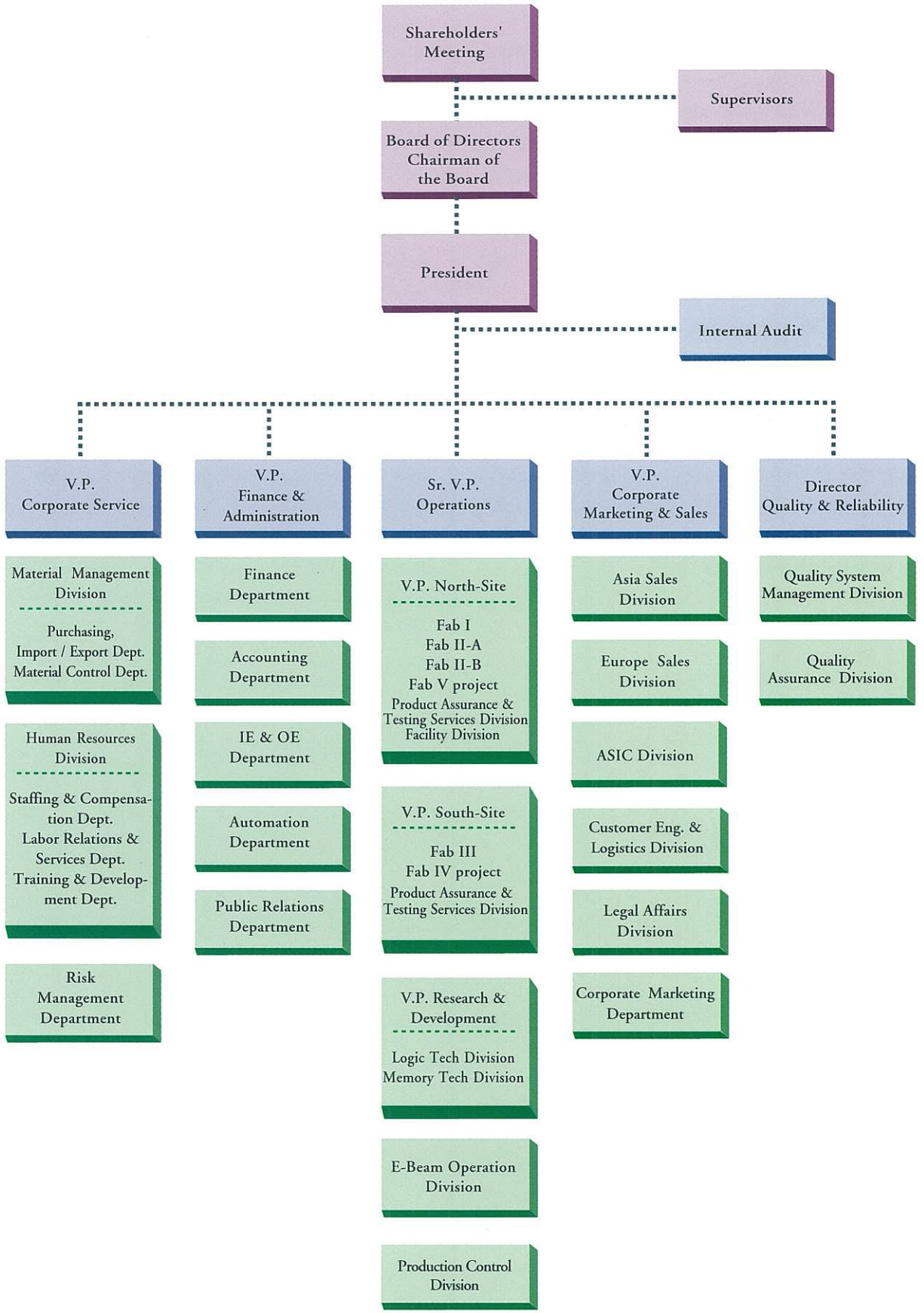
At the end of 1995, TSMC employed 3,412 people, over 50 percent of which hold college or advanced degrees. The average age of TSMC's employees is 28.

The Chairman of TSMC is Dr. Morris Chang, former president and chief operating officer of General Instrument Corp. and former corporate senior vice president of Texas Instruments, Inc., where he was responsible for TI's worldwide semiconductor business.

Integrated Circuit (IC) Manufacturing Process

Circuit Design | Mask Production | Wafer Manufacturing | Wafer | Integrated Circuit

2. Organization



3. Directors and Supervisors

(As of December 31, 1995)

Title Name	Date Elected	Term (Year)	Shareholding[1]	Spouse & Minor Shareholding	Education & Experience	Remarks
Chairman Morris Chang	1994.1.28	3	11,556,110	Nil	Ph.D. Electrical Engineering, Stanford University / Chairman,Vanguard International Semiconductor Corp. / Chairman, WYSE Technology Inc.	
Director Y.C. Lo	1994.1.28	3	350,591,512	Nil	B.S. Physics, National Cheng-Kung University / President, Philips Taiwan	Philips Electronics N.V. Representative of Legal Entity
Director Doug J. Dunn	1994.1.28	3	350,591,512	Nil	HNO Sheffield Polytechnic / Chairman and C.E.O., Philips Semiconductors International B.V.	Philips Electronics N.V. Representative of Legal Entity
Director J.C. Lobbezoo	1994.1.28	3	350,591,512	Nil	Erasmus University, Business Economics / Chief Finance Officer, Philips Semiconductors International B.V	Philips Electronics N.V. Representative of Legal Entity
Director L.P. Hsu	1994.1.28	3	350,591,512	Nil	B.S. Physics, National Cheng-Kung University / Vice President, Philips Taiwan	Philips Electronics N.V. Representative of Legal Entity
Director Ming-Te Lin	1994.1.28	3	334,959,082	Nil	M.S. Earth-Science, Massachusetts Institute of Technology / Vice President, Metal Industrial Development Center / Deputy Executive Secretary, Development Fund, Executive Yuan	Development Fund, Executive Yuan Representative of Legal Entity
Director F.S. Shiau	1994.1.28	3	334,959,082	Nil	Ph.D. Economics, Chinese Culture University / Director, Council for Economic Planning and Development, Executive Yuan	Development Fund, Executive Yuan Representative of Legal Entity
Director[2] Thomas M.F. Yeh	1994.1.28	3	334,959,082	Nil	M.A., Institute of Economics, National Taiwan University / Director, Financial Analysis Department, Council for Economic Planning & Development / Member of Securities & Exchange Commission, Ministry of Finance / Deputy Executive Secretary, Development Fund, Executive Yuan	Development Fund, Executive Yuan Representative of Legal Entity
Director Donald W. Brooks	1994.1.28	3	2,204,835	Nil	B.S. Electrical Engineering, Southern Methodist University / Vice President, Texas Instruments, Inc. / President, Fairchild Semiconductors, Inc.	
Director I-Kwei Wu	1994.1.28	3	5,277,600	Nil	China Junior College of Marine Technology / Chairman, Swanson Plastics Corp.	Mou-Chin Investment Company, Ltd. Representative of Legal Entity
Supervisor E.Th. Ausems	1994.1.28	3	350,591,512	Nil	Tilburg University, Economics / Executive Vice President, Philips Companies in Taiwan	Philips Electronics N.V. Representative of Legal Entity
Supervisor Chintay Shih	1994.1.28	3	334,959,082	Nil	Ph.D. Electrical Engineering, Princeton University / President, Industrial Technology Research Institute	Development Fund, Executive Yuan Representative of Legal Entity
Supervisor Jerome S.N. Hu	1994.1.28	3	2,246	Nil	M.S. Chemical Engineering, University of Michigan / Chairman, Chao Ting-Chen Cultural Educational Foundation	

4. Major Officers

President Donald W. Brooks	1991.3.15	2,204,835	Nil	B.S. Electrical Engineering, Southern Methodist University, USA / Vice President, Texas Instruments, Inc. / President, Fairchild Semiconductors, Inc.
Sr.Vice President F.C. Tseng	1987.2.21	2,029,729	172,348	Ph.D. Electrical Engineering, National Cheng-Kung University / Director of IC Demonstration Fab and Technology Development Division, ERSO, ITRI
Vice President Gary T.L. Tseng	1991.10.15	444,477	250	M.B.A., University of Missouri, Columbia ,USA/ Accounting & Finance Manager, Philips Electronic Building Element Industries
Vice President[3] Y. C. Huang	1995.8.15	798,776	135,976	M.B.A., Saginaw Valley State University, USA / Senior Director, TSMC Fab I / Senior Director,Corp. Services, TSMC
Vice President[3] Quincy Lin	1995.8.15	966,450	288,774	Ph. D., Business Administration, University of Kentucky, USA / Director, Strategy Planning & Development, TSMC / Senior Director,Corp. Marketing & Sales, TSMC
Vice President[3] Chin-yung Shu	1995.8.15	1,160,172	101,088	M.S., Electronics Engineering, National Chiao Tung University / Director, TSMC Fab II / Sr. Director, TSMC Fab II
Vice President[3] Rick Tsai	1995.8.15	920,283	Nil	Ph. D., Material Science, Cornell University, USA. / Director, TSMC Fab II Module A / Sr. Director,TSMC Fab III
Vice President[3] John Y. Chen	1995.8.15	400,320	Nil	Ph. D., Electrical Engineering & MBA, UCLA, USA / Director of Technology, Cypress Semiconductor Corp., USA /Sr.Director,Engineering Manufacturing Services,TSMC

NOTE1. As per the actual reported number of shares on December 31, 1995

NOTE2. Assigned by the Development Fund, Executive Yuan, to replace Mr. Bor-Hong Liu in May 1995.

NOTE3. Promoted from within the Company in August, 1995.

OPERATIONAL HIGHLIGHTS

OPERATIONAL HIGHLIGHTS

1. Business Activities

(1) Business Scope

Through its commitment to technology leadership, manufacturing excellence, and global marketing, TSMC provides the following services:

- ULSI and VLSI Wafer Manufacturing
- Wafer Probing
- Assembly and Testing
- Mask Production
- ASIC Service

(2) Customer Applications

The advanced ICs produced for TSMC's customers are used in a diverse range of end-product applications, including computers, communication systems, consumer goods, and industrial products.

2. Marketing and Sales

TSMC's financial performance again exceeded expectations in 1995, with the company achieving record sales and profits of NT$28.77 billion and NT$15.08 billion respectively. Sales revenue from the Asia-pacific region (including Japan) posted a large gain, surging 76.5% over 1994. Sales from Europe also showed strong growth, increasing 55.1% year-on-year. Sales from U.S.-based customers rose 32.9% in 1995, accounting for more than half of TSMC's total revenues.

Last year, TSMC began to offer its customers a special contract option. Under the option, customers are guaranteed a determined amount of capacity in return for prepayment of the contract. This win-win measure was initiated by TSMC's customers, who require a long-term and stable IC manufacturing capacity. Such an arrangement allows customers to concentrate on their own product development plans and TSMC to expedite its capacity expansion plans. By the end of the year, many of TSMC's long-standing customers had signed such an agreement. TSMC expects total commitment under this option to increase in 1996.

Production over the Last Five Years

Unit:Capacity/Quantity(pcs) Amount(NT$k)

	Wafers			Package			Others		
Year	Capacity	Quantity	Amount	Capacity	Quantity	Amount	Capacity	Quantity	Amount
1991	335,200	290,866	3,211,017	--	--	--	--	--	--
1992	439,800	405,916	4,213,577	--	--	--	--	--	--
1993	627,500	664,985	6,282,643	--	--	--	--	--	--
1994	915,360	942,617	8,699,044	--	--	--	--	--	--
1995	1,158,500	1,217,604	11,507,350	--	--	--	--	--	--

Net Sales over the Last Five Years

Unit:Quantity(pcs) Amount(NT$k)

	Wafers				Package				Others				Total			
	Domestic		Exports		Domestic		Exports		Domestic		Exports		Domestic		Exports	
Year	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
1991	112,297	1,658,820	152,665	2,253,437	1,312	24,825	8,230	246,576	--	39,853	--	256,695	113,609	1,723,498	160,868	2,756,708
1992	183,139	2,469,661	169,157	2,756,970	4,129	136,185	32,015	921,878	--	25,614	--	200,459	187,268	2,631,460	201,172	3,879,307
1993	218,567	3,583,516	375,863	6,855,705	1,735	70,871	46,546	1,471,238	--	106,408	--	246,185	220,302	3,760,795	422,409	8,573,128
1994	282,590	5,526,433	578,784	10,748,451	2,883	99,647	56,356	2,212,963	--	312,873	--	435,704	285,473	5,938,953	635,140	13,397,118
1995	342,671	8,540,012	797,501	16,589,558	3,304	139,081	46,131	2,115,917	--	597,449	--	783,974	345,975	9,276,542	843,632	19,489,449

Integrated Circuit (IC) Manufacturing Process

TSMC transfers a customer's schematic design onto silicon wafers through a series of complex chemical, physical, and optical processes, including electroplating and photomasking. The wafer is then probed, cut, and packaged, resulting in hundreds or thousands of integrated circuits (ICs).

3. Market Outlook

The global IC market has experienced strong average annual growth of more than 30% over the past three years. It is expected that in the next five to ten years, the industry will grow at an average annual rate higher than that achieved during the past thirty years. This continued growth can be attributed to the many new applications for semiconductors and the use of more ICs in electronics products. The development of emerging markets for IC applications has also led to greater worldwide demand.

Another trend in today's IC industry is the increasing importance of the foundry business. TSMC is confident that it will retain its leadership position in the foundry market because of its world-class manufacturing capacity, product quality and yield rate, state-of-the-art technology, quality service, strong customer base, and diversified end-product applications.

Over the past few years, TSMC has cultivated a group of high-growth customers. In 1995, TSMC's top twenty fabless customers posted an average growth rate of over 50%, which is significantly higher than the global market's overall growth. With this group of customers, TSMC is confident of remaining in the high-growth segment of the foundry market. The company will continue to expand its quality customer base, thereby capturing greater market share in the growing computer and communications industries as well as other market segments.

To further ensure the company's success in 1996, TSMC will focus on the following technologies:

(1) Advanced CMOS Logic Process

TSMC began offering 0.5um CMOS Logic process in 1995 and will commence mass-production of this technology in 1996, while 0.35um CMOS wafer design rules were made available last year. The move into these advanced technologies will help TSMC's customers remain competitive in both performance and price in the high-density and high-performance IC markets.

(2) Advanced Mixed-Mode Process

TSMC has successfully developed the 0.5um double-poly, double-metal process to meet the demands of the mixed digital-and-analog market. This process will make it easier for TSMC's customers to integrate digital-signal processors and/or data-compression chips with analog circuitry for the fast-growing multimedia market.

4. Personnel Growth over the Last Three Years

	Number of Employees				Average Age	Average Years of Service	Percentage by Education					
Year	Direct Labor	Engineer	Manager	Total			Ph. D	MS/MA	BS/BA	High School	Other	Total
1993	1,114	859	321	2,294	28	2.6	1.3%	10.7%	37.9%	48.0%	2.1%	100.0%
1994	1,241	1,066	374	2,681	28	3.2	1.5%	13.0%	38.1%	46.7%	0.7%	100.0%
1995	1,578	1,372	462	3,412	28	3.3	1.6%	15.3%	38.7%	43.3%	1.1%	100.0%

ICs and Personal Computers

15 years ago, ICs accounted for less than 10% of the value of a personal computer. Today, ICs account for 40%. In addition, ICs are the reason computers are now smaller, can operate faster, and can perform many more functions.

(3) Advanced High-Speed SRAM Process

TSMC is developing the 0.35um high-speed SRAM process and will make it available in 1996. This process will enable TSMC customers to further reduce their costs.

(4) Advanced DRAM and Non-Volatile Processes

TSMC has developed the 0.5um DRAM process and is preparing for embedded DRAM opportunities in the graphics, disk storage, and communications markets. The company has also produced flash-memory processes.

(5) BiCMOS Process

For customers in the mass storage and wireless communications markets, TSMC is now producing 0.8um BiCMOS process and plans to commence mass-production in 1996.

(6) ASIC Technology

TSMC's ASIC group has developed 0.5um standard cells and gate array libraries and began including megacells in the library in 1995.

5. Environmental Protection Measures

TSMC is devoted to minimizing wastes and preventing pollution, using its "continuous improvement" policy and "environmental protection commitment" as guidelines. The company has invested significant amounts to set-up pollution prevention systems in each fab. In addition, to make environmental protection a part of everyone's daily life, TSMC implemented several activities in 1995, including "earth week", a waste recycling program, and tree planting. All these efforts not only increased environmental awareness but also produced tangible results, earning TSMC many awards, including:

1.Excellent Performance by a Plant:
1995 Industrial Waste Minimization award, presented by the Joint National Waste Reduction Task Force.

2.Excellent Performance by a Company:
Awarded by the Environmental Protection Administration.

3.Excellent Performance by a Company:
National Pollution Prevention award, presented by the Ministry of Economic Affairs.

4.Excellent Performance by a Plant:
Pollution Prevention Equipment Maintenance award, presented by the Ministry of Economic Affairs.

6. Long-term Investments

Unit:NT$k, except Investment Shares

Other Investments	Business Activities	Investment Costs	Book Value	Investment Shares		Net Worth	Market Value	Accounting Policy	Return on Investment		Investment to TSMC
				Number of Shares	Share (%)				Investment Income	Dividends	
Taiwan Mask Corp.	Mask Making	32,290	32,290	5,105,937	9.14	89,862*	--	Cost Method	--	10,212	Nil
TSMC-USA	Marketing & Engineering Support	25,587	69,350	1,000,000	100.0	69,350	--	Equity Method	28,645	--	Nil
TSMC-Europe	Marketing & Engineering Support	2,960	8,949	200	100.0	8,949	--	Equity Method	2,234	--	Nil
Caesar Technology Co., Ltd.	IC Assembly & Testing	225,292	203,902	15,076,110	18.27	196,257*	--	Cost Method	--	8,610	Nil
Vanguard Int'l Semiconductor Corp.	IC Design & Manufacturing	4,241,927	4,674,546	424,134,120	23.5	64,712,823	--	Equity Method	491,000	--	Nil

*Based on the company's 1995 unaudited financial reports.

ICs and Communications

By translating a person's image and voice into digital signals, ICs have made the world smaller, allowing people to see and hear greetings from the other side of the globe without traveling even a mile.

7. Labor Relations

TSMC's management works to build trust with all staff and places equal emphasis on internal and external communication. This principle encourages employees to treat each other with the same respect and service attitude as one deals with his or her outside customers. To build such an environment, TSMC is dedicated to improving the working environment, upgrading recreational and leisure activities and facilities, and ensuring adequate health benefits — all designed to promote the physical and psychological well-being of all employees.

Also, TSMC is committed to an open communication environment and fulfills this goal by holding monthly departmental meetings and round-table discussions, providing an employee suggestion box, offering employee counseling and guidance services, and conducting regular employee opinion surveys.

8. Important Contracts

Technology Cooperation Agreement

(1) Term of Agreement: 7/9/1987-7/8/1997

(2) Summary: Under the agreement, TSMC is committed to paying a technical assistance fee to N.V. Philips' Gloeilampenfabrieken (N.V.P.G.) of 3% of net sales for certain products.

(3) Contracting Party:
N.V. Philips' Gloeilampenfabrieken

Submicron Technology Licensing Agreement

(1) Term of Agreement: 11/20/1990-12/31/2000

(2) Summary: Under the agreement, TSMC is committed to paying a licensing fee of NT$ 129,400,000 to the Industrial Technology Research Institute over a five-year period plus a royalty fee of 0.5% to 3.5% of net sales for certain products.

(3) Contracting Party:
The Industrial Technology Research Institute

Building and Equipment Leasing Agreement

(1) Term of Agreement:4/1/1987-3/31/1997

(2) Summary: Under the agreement, TSMC is leasing certain buildings and equipment from the Industrial Technology Research Institute.

(3) Contracting Party:
The Industrial Technology Research Institute

Land and Public Facility Leasing Agreement

(1) Term of Agreement:4/1/1987-3/31/1997

(2) Summary: Under the agreement, TSMC is leasing certain land and public facilities from the Industrial Technology Research Institute.

(3) Contracting Party:
The Industrial Technology Research Institute

Manufacturing Agreement

(1) Term of Agreement: 11/1/1993-6/30/1997

(2) Summary: TSMC has provided certain equipment to Macronix, while Macronix has in turn manufactured wafer products for TSMC since May, 1994.

(3) Contracting Party:
Macronix International Co., Ltd.

ICs and Automobiles

ICs have made modern automobiles safer and more fun to drive.
The brain behind power windows, power mirrors, automatic transmissions, temperature controls, and air bags is the IC.

Deposit and Supply Agreement

(1) Term of Agreement: 9/23/1993-5/31/1997

(2) Summary: TSMC is committed to manufacturing a certain quantity of wafer products for Cirrus Logic, while Cirrus Logic agrees to place a certain amount of deposit.

(3) Contracting Party:
Cirrus Logic International, Ltd.

Deposit and Supply Agreement

(1) Term of Agreement: 10/29/1993-5/31/1997

(2) Summary: Under the agreement, TSMC is committed to manufacturing a certain quantity of wafer products for Adaptec, while Adaptec agrees to place a certain amount of deposit.

(3) Contracting Party:
Adaptec Manufacturing Pte., Ltd.

Syndicated Term Loan Agreement

(1) Term of Agreement: 12/29/1994-12/15/2001

(2) Summary: Under a contract with a consortium of 25 banks, TSMC can borrow up to US$260,000,000 to procure equipment and machinery for Fab III.

(3) Contracting Party:
25 banks, including ABN AMRO Bank, N.V., Taipei Branch, and the China Trust Commercial Bank.

Option Agreement

(1) Term of Agreement: 1995-2001

(2) Summary: Under this agreement, TSMC guarantees a determined capacity for a set number of years to customers in the United States, Europe, and Asia. To reserve this capacity, the customers agree to provide payment in advance. More than ten companies had signed an option agreement with TSMC as of December, 1995.

(3) Contracting Party:
More than 10 companies in U.S.A., Europe, and Asia.

9. Status of Previous Cash Capital Call or Corporate Bond

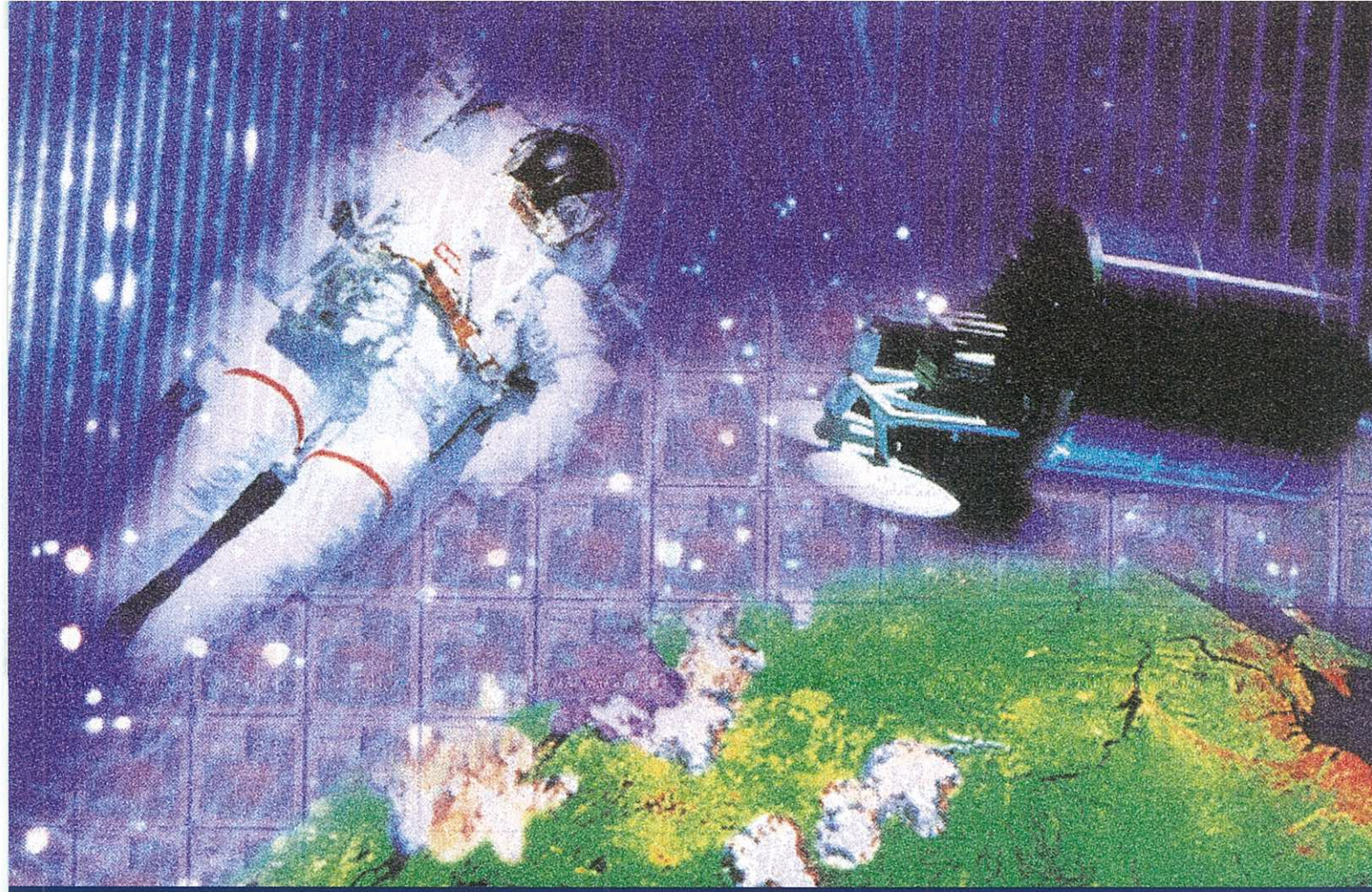
The recent cash capital call was approved on October 30, 1992, and completed in the second quarter of 1993.

10. Litigation Proceedings

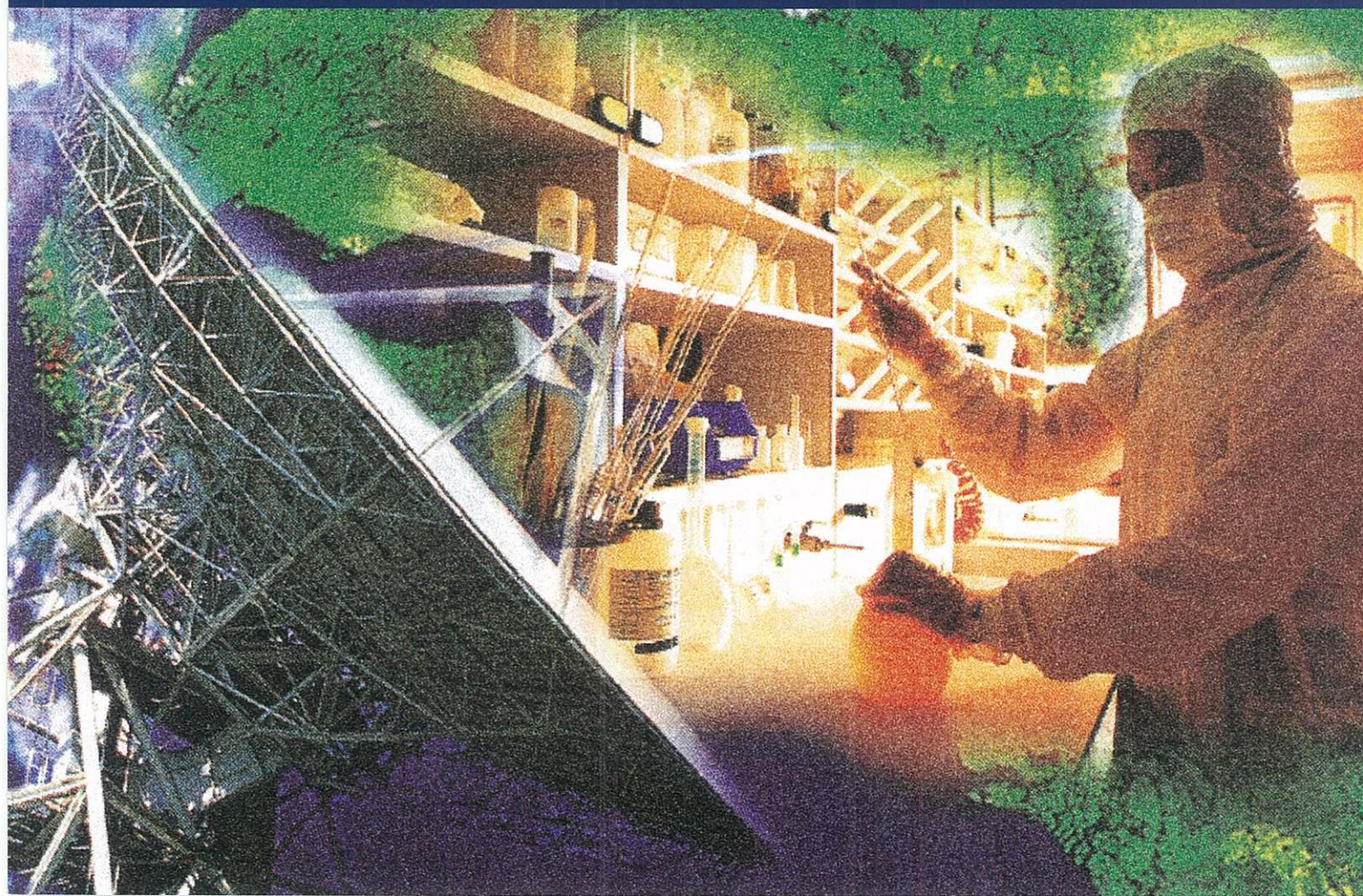
Nintendo of America, Inc., filed a suit against TSMC and TSMC-USA at the United States District Court Northern District of California in September, 1994. The suit alleged that TSMC and TSMC-USA infringed upon Nintendo's intellectual property rights and requested TSMC halt production of the alleged products and pay damages. In September, 1995, the case against TSMC-USA was dismissed. TSMC and Nintendo of America, Inc. reached a settlement in March, 1996.

ICs and Home Appliances

ICs have also made our homes more intelligent.
With a simple push of a button or flip of a switch,
ICs help you do the laundry, wash dishes, and adjust the temperature of the air-conditioner.



BUSINESS PLANS



BUSINESS PLANS

1. Production and Sales Projections for 1996

■Production Plan

Operation Unit	Quantity (thousand pcs-6")
FAB I	224
FAB II A	445
FAB II B	425
FAB III	329
FABCO	84

Total :1,507(Thousand pcs-6")

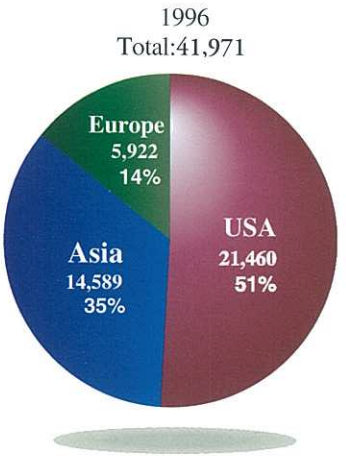
■Sales Plan

Technology	Quantity (thousand pcs-6")	Percentage
>1.0um	168	11.8%
1.0um & 0.8um	336	23.6%
0.6um	488	34.3%
<0.6um	431	30.3%

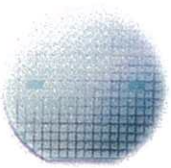
Total:1,423(Thousand pcs-6")

■Net Sales Analysis by Area

Unit:NT$Million



TSMC will expand its capacity by an overall 30% in 1996. Of that, Fab III will contribute a major part. 0.6um process and other advanced technologies will account for a larger portion of total capacity than in 1995. As a result of capacity expansion and advanced technology development, TSMC's sales revenue is expected to rise by 45.9% in 1996.



ICs and the Future

Over the past few decades, silicon wafers have evolved from 2-inch to 8-inch, while IC technology has moved from 3 micron to 0.25 micron today, allowing ICs to be used in a multitude of applications.
Continued advances will make our vision broader and our lives more spectacular.

2. Capital Increase for Expansion Plans in 1996

■1996 Capital Investment Plans and Projected Results

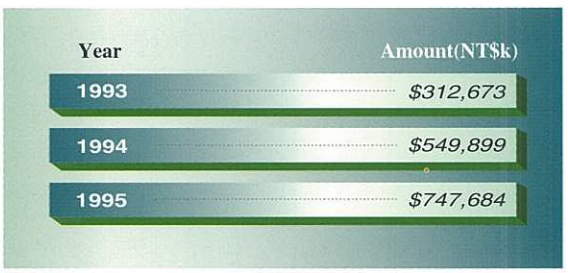
Item	Amount(NT$k)	Projected Results
Fab V Project	3,041,000	Scheduled for operation in September, 1997
Fab IV Project	8,863,000	Scheduled for operation in January, 1997
Fab III Capacity Expansion	8,850,000	Increase 8"wafer output capacity to 25,000 pcs/month by the end of 1996
Replacement and others	4,067,000	Maintain technology superiority

Total: 24,821,000

3. Research and Development Plans

(1) R&D Investment and Achievements (from 1993 to 1995)

■ R&D Investment



■ R&D Achievements

1995 was again a challenging and yet fruitful year for TSMC's technology development. To keep the company at the forefront of new process technologies, TSMC's Technology Development Division has been expanded and renamed the Research and Development Area and now includes several divisions and departments. As evidence of TSMC's commitment in this area, the company launched production of the following technology processes: 0.5um double-metal and triple-metal LOGIC, 0.5um Mixed-Mode, and 0.45um SRAM. All processes are achieving a steady high yield. Also now in pilot production is 0.5um DRAM process which is in preparation for the embedded application to LOGIC process.

(2) Direction of Future Developments

To stay ahead of the swift upgrades in technology, TSMC continuously introduces next-generation processes to its production facilities. Currently, technologies under development include: 0.35um LOGIC/ASIC, 0.35um Mixed-Mode, 0.35um SRAM, and 0.35um DRAM processes and 0.35um microprocessors. In early 1996, TSMC will begin development of 0.25um process technology, thereby increasing its investment in R&D efforts and working with its customers more closely than ever. TSMC's commitment to R&D not only ensures timely availability of advanced technologies but also supports customer's plans to quickly introduce new products to the market.

TSMC's Hope for the Future

TSMC has played an important role in the IC industry,
by upgrading process technology and producing ICs for products that help people's lives.
In the future, TSMC will continue to work hand-in-hand with its customers
to create a better future for everyone.

FINANCIAL STATEMENTS

1. Brief Balance Sheet (After Restatement)

Financial analysis from 1991 to 1995

UNIT:NT$k

Item	1991	1992	1993	1994	1995
Current assets	1,609,011	2,494,159	5,111,310	7,659,444	16,070,964
Fixed assets	7,519,236	8,719,163	10,436,047	14,986,932	26,643,665
Other assets	60,026	110,269	290,639	386,580	599,369
Current liabilities					
Before distribution	1,657,222	2,557,733	2,046,034	2,897,189	5,075,481
After distribution	1,797,377	2,765,256	2,789,825	3,233,580	*
Long-term liabilities	2,107,547	1,770,713	2,546,644	3,259,206	5,556,381
Capital stock	4,738,297	5,510,000	6,083,040	7,800,000	14,390,000
Capital surplus	106	817	822	875	19,428
Retained earnings					
Before distribution	729,000	1,551,508	5,016,046	11,029,256	19,165,640
After distribution	399,313	770,944	2,555,295	4,102,865	*
Total Assets	9,232,260	11,391,426	15,999,151	26,107,103	48,303,035
Total Liabilities					
Before distribution	3,764,857	4,329,101	4,898,050	7,276,275	14,723,790
After distribution	3,905,013	4,536,624	5,641,841	7,612,666	*
Total Equity					
Before distribution	5,467,403	7,062,325	11,101,101	18,830,828	33,579,245
After distribution	5,327,247	6,854,802	10,357,310	18,494,437	*

* Subject to change after shareholders' meeting resolution

2. Brief Statements of Income (After Restatement)

Financial analysis from 1991 to 1995

UNIT:NT$k
(EXCEPT EPS:NT$)

Item	1991	1992	1993	1994	1995
Net sales	4,480,206	6,510,767	12,333,923	19,336,071	28,765,991
Gross profit	1,376,223	1,981,261	5,718,409	10,497,341	16,325,390
Income(loss) from operation	706,668	1,242,860	4,419,143	8,615,119	13,897,006
Interest revenue	3,759	2,495	55,269	210,135	367,986
Interest expense	176,303	152,081	180,412	197,062	258,000
Profit (loss) before tax	524,519	1,152,906	4,245,106	8,580,744	14,314,528
Net profit(loss)	524,519	1,152,906	4,245,106	8,474,014	15,081,273
Earnings per share	1.30*	2.33*	6.98*	10.86*	10.48*
	0.48**	0.89**	2.95**	5.89**	
Capitalized interest	77,754	57,050	27,467	15,868	102,926

*Based on weighted average shares outstanding in each year

**Retroactive adjustment for capitalizations of unappropriated earnings and bonus to employees

3. Financial Analysis (After Restatement)

Financial analysis from 1991 to 1995

Item	1991	1992	1993	1994	1995
Capital Structure Analysis					
Debts ratio(%)	40.80	38.00	30.61	27.87	30.48
Long-term fund to fixed assets(%)	100.74	101.31	130.78	147.40	146.89
Liquidity Analysis					
Current ratio(%)	97.09	97.51	249.82	264.38	316.64
Quick ratio(%)	54.49	64.12	189.88	214.33	257.83
Times interest earned (times)	2.76	6.24	21.29	41.22	40.38
Operating Performance Analysis					
Average collection turnover (times)	5.35	5.60	7.51	8.55	8.12
Average collection days	68.22	65.18	48.60	42.69	44.95
Average inventory turnover (times)	6.29	6.83	7.25	7.84	7.59
Average inventory turnover days	58.03	53.44	50.34	46.56	48.09
Fixed assets turnover (times)	0.60	0.75	1.18	1.29	1.08
Total assets turnover (times)	0.49	0.57	0.77	0.74	0.60
Profitability Analysis					
Return on total assets(%)	8.73	12.66	32.31	41.17	41.23
Return ratio on stockholders' equity(%)	10.95	18.40	46.74	56.62	57.55
Operating income to capital stock(%)	14.91	22.56	72.65	110.45	96.57
Profit(loss) before tax to capital stock(%)	11.07	20.92	69.79	110.01	99.48
Profit(loss) after tax to net sales(%)	11.71	17.71	34.42	43.82	52.43
Net worth per share(NTD)	11.50	12.80	18.20	24.10	23.34
Earnings per share(NTD)	0 .48**	0.89**	2.95**	5.89**	10.48
Dividends per share(NTD)	0.50	1.04	3.48	8.00	*
Cash dividends(NTD)	0.10	--	1.00	--	*
Stock dividends(NTD)	0.40	1.04	2.48	8.00	*
Cash Flow					
Cash flow ratio(%)	92.31	93.68	299.84	394.12	348.45
Cash flow adequacy ratio(%)	27.78	41.53	69.78	103.20	111.94
Cash flow reinvestment ratio(%)	16.02	19.09	31.59	34.34	31.94
Leverage					
Operating leverage	4.62	3.66	2.08	1.70	1.69
Financial leverage	1.33	1.14	1.04	1.02	1.02

*Subject to change after shareholders' meeting resolution

**Retroactive adjustment for capitalizations of unappropriated earnings and bonus to employees

4. Auditors' Opinion from 1991 to 1995

Year	CPA	Audit Opinion
1991	Michael Chang, Jerry Tsai	An Unqualified Opinion
1992	Michael Chang, Jerry Tsai	An Unqualified Opinion
1993	Michael Chang, Jerry Tsai	An Unqualified Opinion
1994	S.C. Huang, Jerry Tsai	An Unqualified Opinion
1995	S.C. Huang, Edward Way	An Unqualified Opinion, except the adoption of Statement of Financial Accounting Standards No.22.

12Fl., No.156, Sec.3, Min-Sheng E. Rd., Taipei, Taiwan, R.O.C.
Tel :886-2-545-9988

5. Supervisors' Report

The Board of Directors have perpared and submitted to us the Company's 1995 business report, balance sheet, statement of profit and loss, inventories of major assets, statements of changes in shareholders' equity, statements of cash flows and proposal for allocating profit. The CPAs of T N SOONG & CO were retained to audit the balance sheet, inventories of major assets, statement of profit and loss, statements of changes in shareholders' equity and statements of cash flows and have submitted a report relating thereto. The above reports, statements and proposal have been further examined as being correct and accurate by the undersigned, the supervisors of Taiwan Semiconductor Manufacturing Co., Ltd.. According to Article 219 of the Company Law, we hereby submit this report.

Taiwan Semiconductor Manufacturing Co., Ltd.
Supervisor E. Th. Ausems

Supervisor Chintay Shih

Supervisor Jerome S.N. Hu

February 26 , 1996

6. Financial Statements & Independent Auditors' Report

We have examined the balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. as of December 31, 1995 and 1994, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. Our examinations were made in accordance with the regulations governing such examinations and generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 3, the Company in 1995 adopted Statement of Financial Accounting Standards No.22, "Accounting for Income Tax". The effect of this change was to increase the deferred income tax assets as of December 31, 1995 and the net income for the year then ended by NT$914,391 each.

In our opinion, the financial statements referred to above present fairly the financial position of Taiwan Semiconductor Manufacturing Company Ltd. as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended, in conformity with the regulations governing the preparation of financial statements of public companies and generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of accounting for income tax as stated in the preceding paragraph.

T. N. Soong & Co.

January 22, 1996

BALANCE SHEETS

December 31, 1995 and 1994

Expressed in Thousand New Taiwan Dollars except Par Value

	1995		1994	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 8,715,247	18.0	$ 3,491,289	13.4
Receivable from related parties (Note 13)	252,796	0.5	390,165	1.5
Notes receivable	139,946	0.3	48,620	0.2
Accounts receivable	4,583,874	9.5	2,676,306	10.2
Allowance for doubtful receivables (Note 2)	(156,627)	(0.3)	(107,814)	(0.4)
Allowance for sales returns and allowances (Note 2)	(449,294)	(0.9)	(288,912)	(1.1)
Inventories (Notes 2 and 5)	2,063,042	4.3	1,216,824	4.7
Deferred income tax (Notes 2 and 12)	585,197	1.2	-	-
Prepayments and other (Note 13)	336,783	0.7	232,966	0.9
TOTAL CURRENT ASSETS	16,070,964	33.3	7,659,444	29.4
LONG-TERM INVESTMENTS (Notes 2 and 6)	4,989,037	10.3	3,074,147	11.8
PROPERTIES (Notes 2, 7 and 14)				
Cost				
Buildings	8,269,121	17.1	3,619,287	13.9
Machinery and equipment	27,430,238	56.8	16,185,896	62.0
Office equipment	542,979	1.1	409,413	1.5
Total cost	36,242,338	75.0	20,214,596	77.4
Accumulated depreciation	(12,001,086)	(24.8)	(8,270,600)	(31.6)
Prepayments and construction in progress	2,402,413	5.0	3,042,936	11.6
NET PROPERTIES	26,643,665	55.2	14,986,932	57.4
OTHER ASSETS				
Deferred charges-net (Note 2)	44,873	0.1	56,308	0.2
Deferred income tax (Notes 2 and 12)	329,194	0.7	-	-
Refundable deposits (Note 14)	216,052	0.4	321,022	1.2
Miscellaneous	9,250	-	9,250	-
TOTAL OTHER ASSETS	599,369	1.2	386,580	1.4
TOTAL ASSETS	$ 48,303,035	100.0	$ 26,107,103	100.0

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

LIABILITIES AND SHAREHOLDERS' EQUITY	1995 Amount	1995 %	1994 Amount	1994 %
CURRENT LIABILITIES				
Payable to related parties (Note 13)	$ 596,155	1.2	$ 360,344	1.4
Accounts payable	3,272,287	6.8	1,749,565	6.7
Income tax payable (Notes 2 and 12)	170,579	0.4	89,549	0.3
Current portion of long-term bank loans (Notes 7 and 8)	-	-	103,000	0.4
Accrued expenses and other	1,036,460	2.1	594,731	2.3
TOTAL CURRENT LIABILITIES	5,075,481	10.5	2,897,189	11.1
Long-term bank loans (Notes 7 and 8)	5,556,381	11.5	3,259,206	12.5
Reserve for retirement benefits (Notes 2 and 11)	210,775	0.5	114,000	0.4
Other liabilities (Note 14)	3,881,153	8.0	1,005,880	3.9
TOTAL LIABILITIES	14,723,790	30.5	7,276,275	27.9
SHAREHOLDERS' EQUITY				
Capital stock, $10 par value; authorized-3,000,000 thousand shares in 1995 and 780,000 thousand shares in 1994; issued-1,439,000 thousand shares in 1995 and 780,000 thousand shares in 1994	14,390,000	29.8	7,800,000	29.9
Capital surplus	19,428	-	875	-
Retained earnings				
Legal reserve	1,486,151	3.1	638,755	2.4
Unappropriated earnings	17,679,489	36.6	10,390,501	39.8
Cumulative translation adjustment	4,177	-	697	-
TOTAL SHAREHOLDERS' EQUITY	33,579,245	69.5	18,830,828	72.1
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 48,303,035	100.0	$ 26,107,103	100.0

STATEMENTS OF INCOME

For the Years Ended December 31, 1995 and 1994

Expressed in Thousand New Taiwan Dollars except Earnings Per Share

	1995		1994	
	Amount	%	Amount	%
GROSS SALES (Note 13)	$ 29,180,217		$ 19,572,631	
SALES RETURNS AND ALLOWANCES	(414,226)		(236,560)	
NET SALES	28,765,991	100.0	19,336,071	100.0
COST OF SALES (Note 13)	12,440,601	43.2	9,041,186	46.8
GROSS PROFIT	16,325,390	56.8	10,294,885	53.2
OPERATING EXPENSES				
General and administrative	1,154,168	4.1	725,410	3.8
Selling (Note 13)	526,532	1.8	404,457	2.0
Research and development (Note 13)	747,684	2.6	549,899	2.8
Total Operating Expenses	2,428,384	8.5	1,679,766	8.6
INCOME FROM OPERATIONS	13,897,006	48.3	8,615,119	44.6
NON-OPERATING INCOME				
Interest	367,986	1.3	210,135	1.1
Investment income recognized by equity method (Notes 2 and 6)	530,207	1.8	-	-
Gain on sale of long-term investments	35,526	0.1	-	-
Gain on sale of properties	24,663	0.1	53	-
Other	12,127	0.1	53,770	0.3
Total Non-Operating Income	970,509	3.4	263,958	1.4
NON-OPERATING EXPENSES				
Interest (Note 7)	258,000	0.9	197,062	1.0
Foreign exchange loss-net (Note 2)	197,928	0.7	14,631	0.1
Loss on disposal of properties	2,011	-	3,928	-
Investment loss recognized by equity method-net (Notes 2 and 6)	-	-	49,028	0.3
Loss on sale of short-term investments	-	-	17,310	0.1
Other	95,048	0.3	16,374	0.1
Total Non-Operating Expenses	552,987	1.9	298,333	1.6
INCOME BEFORE INCOME TAX	14,314,528	49.8	8,580,744	44.4
INCOME TAX (Notes 2 and 12)	(766,745)	(2.6)	106,730	0.6
NET INCOME	$ 15,081,273	52.4	$ 8,474,014	43.8
EARNINGS PER SHARE				
Based on weighted-average shares outstanding-1,439,000 thousand shares in 1995 and 780,000 thousand shares in 1994	$10.48		$10.86	
Bassed on 1,439,000 thousand shares			$ 5.89	

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1995 and 1994

Expressed in Thousand New Taiwan Dollars except Per Share Dividends

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS(NOTE 2)			RETAINED EARNINGS(NOTE 9)			CUMULATIVE TRANSLATION ADJUSTMENT (Note 2)	TOTAL SHAREHOLDERS' EQUITY
	Thousand Shares	Amount	Gain on Sale of Properties	Donation	Total	Legal Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 1994	608,304	$ 6,083,040	$ 822	$ -$	822	$ 214,245	$ 4,801,801	$ 5,016,046	$ 1,193	$ 11,101,101
Appropriations of prior year's earnings (Note 9)										
Legal reserve	-	-	-	-	-	424,510	(424,510)	-	-	-
Cash dividends-$1 per share	-	-	-	-	-	-	(608,304)	(608,304)	-	(608,304)
Stock dividends-24.8%	150,859	1,508,594	-	-	-	-	(1,508,594)	(1,508,594)	-	-
Bonus to employees										
Cash	-	-	-	-	-	-	(97,281)	(97,281)	-	(97,281)
Stock	20,837	208,366	-	-	-	-	(208,366)	(208,366)	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	(38,206)	(38,206)	-	(38,206)
Net income for 1994	-	-	-	-	-	-	8,474,014	8,474,014	-	8,474,014
Gain on sale of properties	-	-	53	-	53	-	(53)	(53)	-	-
Translation adjustment on long-term investments	-	-	-	-	-	-	-	-	(496)	(496)
BALANCE, DECEMBER 31, 1994	780,000	7,800,000	875	-	875	638,755	10,390,501	11,029,256	697	18,830,828
Appropriations of prior year's earnings (Note 9)										
Legal reserve	-	-	-	-	-	847,396	(847,396)	-	-	-
Stock dividends-80%	624,000	6,240,000	-	-	-	-	(6,240,000)	(6,240,000)	-	-
Bonus to employees										
Cash	-	-	-	-	-	-	(260,125)	(260,125)	-	(260,125)
Stock	35,000	350,000	-	-	-	-	(350,000)	(350,000)	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	(76,266)	(76,266)	-	(76,266)
Net income for 1995	-	-	-	-	-	-	15,081,273	15,081,273	-	15,081,273
Gain on sale of properties	-	-	18,498	-	18,498	-	(18,498)	(18,498)	-	-
Dividends unclaimed over five years	-	-	-	55	55	-	-	-	-	55
Translation adjustment on long-term investments	-	-	-	-	-	-	-	-	3,480	3,480
BALANCE, DECEMBER 31, 1995	1,439,000	$ 14,390,000	$ 19,373	$ 55	$19,428	$ 1,486,151	$ 17,679,489	$ 19,165,640	$ 4,177	$ 33,579,245

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

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1995 and 1994

Expressed in Thousand New Taiwan Dollars

	1995 Amount	1994 Amount
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,081,273	$ 8,474,014
Depreciation and amortization	4,120,234	2,897,584
Investment loss (income) recognized by equity method-net	(530,207)	49,028
Foreign exchange loss on long-term bank loans	210,191	-
Loss(gain) on sale of short-term and long-term investments	(35,526)	17,310
Loss(gain) on disposal of properties-net	(22,652)	3,875
Other	776	-
Changes in operating assets and liabilities		
Receivable from related parties	137,369	(198,335)
Notes receivable	(91,326)	(33,017)
Accounts receivable	(1,907,568)	(752,804)
Allowance for doubtful receivables	48,813	1,268
Allowance for sales returns and allowances	160,382	67,238
Inventories	(846,218)	(126,154)
Deferred income tax	(914,391)	-
Prepayments and other current assets	(103,817)	(97,319)
Payable to related parties	235,811	109,020
Accounts payable	1,522,722	708,287
Income tax payable	81,030	89,549
Accrued expenses and other current liabilities	441,784	131,343
Reserve for retirement benefits	96,775	69,600
Net Cash Provided by Operating Activities	17,685,455	11,410,487
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(15,765,286)	(7,407,672)
Increase in long-term investments	(1,388,413)	(2,962,515)
Decrease(increase) in refundable deposits	104,970	(103,803)
Proceeds from sale of properties	45,690	519
Proceeds from sale of short-term and long-term investments	42,735	479,992
Increase in deferred charges	(24,059)	(28,080)
Increase in short-term investments	-	(497,302)
Other	-	(9,250)
Net Cash Used in Investing Activities	(16,984,363)	(10,528,111)

	1995 Amount	1994 Amount
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to long-term bank loans	$ 6,045,412	$ 1,953,078
Repayments of long-term bank loans	(4,061,428)	(1,379,515)
Increase in other liabilities	2,875,273	744,907
Bonus to employees	(260,125)	(97,281)
Bonus to directors and supervisors	(76,266)	(38,206)
Decrease in short-term loans	-	(48,044)
Cash dividends	-	(608,304)
Net Cash Provided by Financing Activities	4,522,866	526,635
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,223,958	1,409,011
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,491,289	2,082,278
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,715,247	$ 3,491,289
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 211,348	$ 195,652
Income tax paid	66,570	17,181
Noncash investing and financing activities-		
Effect of exchange rate changes on cash and cash equivalents	181,914	8,021

(1) ORGANIZATION AND OPERATIONS

The Company was initially established as a venture among the Development Fund of the Executive Yuan, N.V. Philip's Gloeilampenfabrieken and certain other private investors. In September 1994, its shares were listed on the Taiwan Stock Exchange.

The Company is engaged mainly in the manufacture, sale, testing and computer-aided design of integrated circuits and other semiconductor devices, and the manufacture and design of masks.

(2) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company, which conform to generally accepted accounting principles in the Republic of China, are summarized as follows:

■Cash equivalents

Government bonds and commercial papers acquired under resale agreements with original maturities of less than three months are classified as cash equivalents.

■Allowance for doubtful receivables

This allowance is provided based on a review of the collectibility of individual receivables.

■Allowance for sales returns and allowances

Provision for sales returns is based on experience. Provision for sales allowance is recorded when sales are recognized.

■Inventories

Inventories are stated at the lower of standard cost (adjusted to approximate weighted average cost) or market value. Market value represents replacement value for raw materials, supplies and spare parts, and net realizable value for finished goods and work in process.

■Long-term investments

Investments representing at least 20% of the voting stock of each investee and for which the Company exercises significant influence on the investees are accounted for by the equity method. Other investments are accounted for by the cost method.

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

■Properties

Properties are stated at cost less accumulated depreciation. Major additions, renewals and betterments, and interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Upon sale or disposal of properties, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income. Any such gain, less applicable income tax, is transferred to capital surplus at the end of the year.

Depreciation is provided on the straight-line method over estimated service lives which range as follows:
buildings - 10 to 20 years, machinery and equipment - 5 to 10 years, office equipment - 3 to 5 years.

■Deferred charges

Deferred charges, consisting of software and system design costs, are amortized over three years.

■Retirement benefits

Monthly contributions to the retirement fund and provisions for retirement benefits are charged to expense.

Retirement benefits are paid from the fund, and any excess of such benefits over the fund is charged to reserve first and any excess, if any, to expense when paid.

■ Income tax

Before 1995, provision for income tax is based on estimated tax currently payable and tax credits are recognized in the year when they reduce income tax payable. In 1995, the Company adopted Statement of Financial Accounting Standards No. 22, "Accounting for Income Tax", which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to operating losses carryforward, tax credit and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; valuation allowance is provided based on the review of the realizability of the related deferred tax assets.

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

■ Foreign-currency transactions

Foreign-currency transactions other than forward exchange contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by the application of different foreign exchange rates when cash in foreign currency is converted into New Taiwan dollars, or when foreign-currency receivables and payables are settled are credited or charged to income in the year of conversion or settlement. At year-end, the balances of foreign-currency assets and liabilities are restated based on prevailing exchange rates and the resulting differences are recorded as follows:

a. Long-term investments (foreign subsidiaries) accounted for by the equity method - as cumulative translation adjustment under shareholders' equity.

b. Other assets and liabilities - credited or charged to income.

Forward exchange contracts for hedging purposes are recorded at the spot rates on the contract dates. The foreign-currency amounts of the contracts multiplied by the differences between the spot rates on the contract dates and the contracted forward rates are amortized over the contract periods. At year-end, the balances of forward exchange receivables or payables are translated based on prevailing exchange rates and the resulting gains or losses are credited or charged to income.

■ Reclassifications

Certain accounts in 1994 have been reclassified to conform to 1995 classifications.

(3) CHANGE IN ACCOUNTING PRINCIPLES

In 1995, the Company adopted Statement of Financial Accounting Standards No. 22, "Accounting for Income Tax". The Company recognized deferred tax asset of $398,202 pertaining to the accumulated tax credits from investment, research and development and personnel training at the beginning of 1995, of which $235,282 has been realized in 1995; deferred tax assets from additional tax credits and deductible temporary differences arising in 1995 amounted to $748,954 and $2,517 respectively. The effect of this accounting change was to increase the deferred income tax assets by $914,391 as of December 31, 1995 and decrease income tax (and, consequently, increase net income) for the year then ended by the same amount.

(4) CASH AND CASH EQUIVALENTS

	1995	1994
Cash on hand	$ -	$ 250
Bank deposit	8,439,645	3,491,039
Government bonds acquired under resale agreements	273,250	-
Commercial papers	2,352	-
	$ 8,715,247	$ 3,491,289

(5) INVENTORIES

	1995	1994
Finished goods	$ 108,580	$ 92,634
Work in process	1,234,076	742,035
Raw materials	322,020	123,404
Supplies and spare parts	447,076	300,060
	2,111,752	1,258,133
Allowance for losses	(48,710)	(41,309)
	$ 2,063,042	$ 1,216,824

(6) LONG-TERM INVESTMENTS

	1995		1994	
	Carrying Value	% of Ownership	Carrying Value	% of ownership
Accounted for by equity method				
Vanguard International Semiconductor Corporation(VIS)	$ 4,674,546	24	$ 2,884,814	21
TSMC-U.S.A.	69,350	100	38,074	100
TSMC-Europe	8,949	100	5,866	100
Caesar Technology Inc.(CTI)	-	-	105,893	20
	4,752,845		3,034,647	
Accounted for by cost method				
Caesar Technology Inc.	203,902	18	-	-
Taiwan Mask Corporation	32,290	9	39,500	11
	236,192		39,500	
	$ 4,989,037		$ 3,074,147	

The Company did not proportionately subscribe to the increase in capital of CTI in September 1995, resulting in the decrease in its shareholdings to 18%. Accordingly, this investment was accounted for by cost method in 1995.

The investment income (loss) on the investments accounted for by equity method consists of:

	1995	1994
VIS	$ 491,000	($ 58,381)
TSMC-U.S.A.	28,645	4,140
TSMC-Europe	2,234	2,640
CTI	8,328	2,573
	$ 530,207	($ 49,028)

The investment income recognized in CTI pertains to the preceding year and was based on the audited financial statements of such years, because the current year's financial statements are not available.

In January 5, 1996, the Company subscribed to 6.5 million shares of common stock of Lein Ya Corporation for $162,500.

(7) PROPERTIES

Accumulated depreciation consists of the following:

	1995	1994
Buildings	$ 1,575,384	$ 1,082,492
Machinery and equipment	10,138,909	6,961,226
Office equipment	286,793	226,882
	$ 12,001,086	$ 8,270,600

The estimated total cost for expansion of the second manufacturing plant is about $11,544,700 as of December 31, 1995 of which about $363,803 is unused. The third manufacturing plant has an estimated total cost of about $19,472,500, of which about $10,973,581 has been incurred as of December 31, 1995. The plant has been completed and started operations in August 1995. The construction of the fourth manufacturing plant was started in April 1995. The plant is estimated to cost $24,464,000 of which about $407,827 have been incurred as of December 31, 1995. The plant is expected to start operations in January 1997.

The construction of the fifth manufacturing plant was started in November 1995. The plant is estimated to cost $1,534,000 for the first phase of which about $83,652 have been incurred as of December 31, 1995. The plant is expected to start operations in September 1997.

Interest costs capitalized for 1995 and 1994 are $102,926 and $15,868, respectively.

As of December 31, 1995, properties with an aggregate net book value of about $5,116,453 are mortgaged as collateral for long-term bank loans.

(8) LONG-TERM BANK LOANS

	1995	1994
New Taiwan dollar loans		
Repayable in quarterly installments throughFebruary 1997; 7.5% interest (prepaid in 1995)	$ -	$ 297,616
Repayable in quarterly installments through April 1998; 6.95%-7.25% interest in 1995 and 7.25% in 1994	141,817	246,577
Repayable in quarterly installments through March 1998; 6.95%-7.25% interest in 1995 and 7.25% in 1994	133,000	239,400
Repayable in semi-annual installments through April 2002; 6.7% - 7% interest	397,300	-
U.S. dollar loans (thousand)		
US$45,800 in 1994, repayable in quarterly or semi-annual installments on various dates through July 1999; 5.55% - 8.07% interest (prepaid in1995)	-	1,199,971
US$2,613 in 1995 and US$7,838 in 1994, repayable in semi-annual installments through April 1997; 6.74% - 7.33% interest in 1995 and 6.74% in 1994	71,321	205,343
US$10,000, repayable in May 1997; 6.87% - 7.2% interest in 1995 and 7.14% in 1994	273,000	262,000
US$3,838 in 1995 and US$11,513 in 1994, repayable in semi-annual installments through May 1997; 6.84%- 7.2%interest in 1995 and 7.17% in 1994	104,764	301,627
US$10,000, repayable in September 1997; 6.51% -7.11% interest in 1995 and 7.11% interest in 1994	273,000	262,000
US$2,842, repayable in December 1996; 6.98% - 7.19% interest (prepaid in 1995)	-	74,456
US$14,148, repayable in semi-annual installments through December 2001; 6.83% - 7.23% interest	386,248	-
US$130,000 in 1995 and $10,428 in 1994, repayable in semi-annual installments through December 2001; 6.83% - 7.56% interest in 1995 and 7.03% - 7.23% interest in 1994	3,549,000	273,216
US$8,313, repayable in semi-annual installments through June 2000; 6.83% - 7.56% interest	226,931	-
	5,556,381	3,362,206
Portion due within one year	-	103,000
	$ 5,556,381	$ 3,259,206

Unused long-term and short-term credit lines as of December 31, 1995 aggregate about $4,623,140 and $2,851,830, respectively.

(9) SHAREHOLDERS' EQUITY

According to the Company Law, capital surplus can only be used to offset a deficit or transferred to capital.

The Company's Articles of Incorporation provide that the following shall be appropriated from the annual net income (less deficit, if any):

a) 10% thereof as legal reserve;

b) Bonus to directors and supervisors, and to employees equal to 1% and at least 1% of the remainder, respectively.

These appropriations and the disposition of the remaining net income shall be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

Under the Company Law, the aforementioned appropriation for legal reserve shall be made until the reserve equals the Company's capital. Such reserve may be used to offset a deficit; also, when the reserve has reached 50% of the paid-in capital, up to 50% thereof can be transferred to capital.

(10) LONG-TERM OPERATING LEASES

The Company leases the land, building and certain machinery and equipment of its first manufacturing plant from the Industrial Technology Research Institute under two ten-year agreements which will expire on March 31, 1997, at annual rentals aggregating $164,534 (including service and administration charges). The renewal of the agreements are negotiable.

The Company leases the land for its second, third, fourth and fifth manufacturing plants from the Science-Based Industrial Park Administration under agreements which will expire on various dates from March 2008 to May 2013, at annual rentals aggregating $23,329. The agreements are renewable upon expiration.

Future minimum rentals under the aforementioned leases are as follows:

Year	Amount
1996	$ 187,862
1997	64,462
1998	23,329
1999	23,329
2000	23,329
2001-2013	226,870
	$ 549,181

(11) RETIREMENT PLAN

The Company has a retirement plan covering all regular employees. Benefits under this plan are based on length of service and average monthly salary at the time of retirement.

The Company makes monthly contributions, equal to 2% of salaries and wages, to a retirement fund which is administered by the employees retirement fund monitoring committee and deposited in the committee's name in the Central Trust of China which acts as trustee. In addition, the Company provides a reserve for retirement benefits at a percentage of salaries and wages (currently 7.3%).

The changes in the retirement fund are summarized as follows:

	1995	1994
Retirement fund		
Balance, beginning of year	$ 79,495	$ 52,895
Contributions (including accrued contributions)	26,761	22,328
Interest income	5,658	4,272
Balance, end of year	$ 111,914	$ 79,495

Certain information on the retirement plan as required by Statement of Financial Accounting Standards No.18, "Accounting for Pensions" are as follows:

Reconciliation between retirement fund status and liabilities:	
Actuarial present value of benefit obligations:	
Vested benefit obligation	$ -
Unvested benefit obligation	122,995
Accumulated benefit obligation	122,995
Effect of increase in compensation level	411,030
Projected benefit obligation	534,025
Market-related value of plan asset (including accrued interest income of $3,845)	(115,759)
Projected benefit obligation in excess of plan assets	418,266
Unrecognized net obligation at transition	(207,491)
Accrued retirement liability	$ 210,775

Actuarial assumptions of benefit obligation	
Discount rates	7.5%
Rates in increase in compensation level	7.5%
Expected rate of return on assets	7.5%

(12) INCOME TAX

A reconciliation of the income tax calculated on pretax financial statement income based on the statutory tax rate and the income tax provision is as follows:

	1995	1994
Income tax at statutory rate(20%)	**$ 2,862,906**	$ 1,716,149
Add(deduct) tax effects of		
Tax-exempt income	**(2,382,638)**	(1,414,423)
Tax credits	**(235,282)**	(190,514)
Temporary differences	**(17,139)**	-
Permanent differences	**(25,378)**	-
Other	**(5,322)**	(4,482)
Currently payable	**197,147**	106,730
Deferred income tax	**(914,391)**	-
Adjustment of prior years' income taxes	**(49,501)**	-
Income tax expense(credit)	**($ 766,745)**	$ 106,730
Effective tax rate	**(5.4%)**	1.2%

The income attributable to the following projects and services are exempt from income tax:

	Tax-Exemption Period
Second manufacturing plant	
Module A	1992 to 1995
Module B	1993 to 1996
Computer-aided design services	1994 to 1997
Expansions of first and second manufacturing plants	1994 to 1997

Deferred income tax consists of:	
Tax credits	
Balance, beginning of year	$ 398,202
Addition	748,954
Realized	(235,282)
Balance, end of year	911,874
Temporary differences	2,517
	$ 914,391

Deferred income tax as of December 31, 1995, arose mainly from tax credits expiring as follows:

Year of Expiry	Amount
1998	$ 179,721
1999	732,153
	$ 911,874

Income tax payable as of December 31, 1995 and 1994 is net of prepayments of $26,568 and $17,181, respectively. Income tax returns have been examined by the tax authorities through 1992.

(13) RELATED PARTY TRANSACTIONS

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

a. Industrial Technology Research Institute (ITRI); its supervisor is the Company's chairman.

b. N.V. Philips' Gloeilampenfabrieken (PHILIPS), a shareholder representing 35.27% of the voting stock.

c. Subsidiaries: TSMC - U.S.A. TSMC - Europe

d. Caesar Technology Inc. (CTI), an investee.

e. Vanguard International Semiconductor Corporation (VIS), an investee.

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

	1995		1994	
	Amount	%	Amount	%
During the year:				
Sales				
ITRI	$ 168,370	0.6	$ 30,285	0.2
PHILIPS and its affiliates	2,880,828	10.0	2,209,311	11.3
	$ 3,049,198	10.6	$ 2,239,596	11.5
Rental expense				
ITRI	$ 130,634	68.2	$ 84,129	85.6
Manufacturing expenses				
Technical assistance fee-PHILIPS	$ 707,074	99.9	$ 445,476	96.6
Processing charges-CTI	$ 86,929	26.9	$ 148,438	38.2
Service Charges-TSMC-U.S.A.	$ 9,175	100.0	-	-
Selling expenses(commissions)				
TSMC-U.S.A.	$ 287,922	54.7	$ 238,614	59.0
TSMC-Europe	38,934	7.4	39,118	9.7
	$ 326,856	62.1	$ 277,732	68.7
Research and development expenses				
License fee-ITRI	$ 17,143	2.3	$ 24,762	4.5

Nonoperating income-VIS	$ -	-	$ 16,736	6.3
At end of year:				
Receivable				
ITRI	$ 32,782	0.7	$ 11,141	0.4
PHILIPS and its affiliates	219,971	4.4	361,730	11.6
VIS	43	-	17,294	0.6
	$ 252,796	5.1	$ 390,165	12.6
Prepayments and other current assets				
Prepaid rental-ITRI	$ 22,768	6.8	$ 21,106	9.1
Payable				
PHILIPS and its affiliates	$ 276,799	7.2	$ 176,802	8.4
TSMC-U.S.A.	218,485	5.6	148,584	7.0
TSMC-Europe	16,858	0.4	15,236	0.7
CTI	28,443	0.7	15,122	0.7
ITRI	55,570	1.4	4,600	0.2
	$ 596,155	15.3	$ 360,344	17.0

Sales to related parties are based on normal selling prices and collection terms. Processing charges are also based on normal rates and payment terms.

(14) COMMITMENTS AS OF DECEMBER 31, 1995

a. The Company has entered into a ten-year technical cooperation agreement with PHILIPS, under which the Company shall pay technical assistance fee at an agreed percentage of net sales of certain products starting January 1, 1988. At expiration, the agreement shall automatically continue for successive periods of five years, unless terminated by either party under certain circumstances. The Company shall continue to pay the fee for three years after the final expiration of the agreement.

b. Subject to certain equity ownership requirement, PHILIPS and its affiliates are entitled to avail each year up to 30% of the Company's capacity, provided that sufficient and timely notice is given to the Company.

c. The Company has entered into an agreement to pay submicron technology license fee of $129,400 (including 5% value-added tax) to ITRI for five years, plus royalty fee at an agreed percentage of net sales of certain products through December 31, 2000. As of December 31, 1995, the Company has paid the entire license fee. In addition, the Company has entered into another technical cooperation agreement with ITRI, under which the Company shall reserve production capacity up to 35% to be allocated and utilized by the Ministry of Economic Affairs.

d.In September and October 1993, the Company entered into two guaranty deposits and supply agreements with two customers under which (1) the customers shall make available US$34,200 thousand to the Company as guarantee deposits (included in other liabilities), (2) the Company shall use these deposits to purchase machinery in order to supply the customers with 252,000 wafers from May 1994 to June 1997 at most favored prices, and (3) if the customers are unable to purchase the agreed quantity and the Company is also unable to sell such quantity to other customers, the customers shall compensate the Company at most favored prices or specified prices, whichever is less.

In order to supply the abovementioned wafers, the Company entered into a manufacturing agreement with a contractor in October 1993 under which (1) the Company shall purchase machinery valued at about $2,000,000 which shall be installed in the contractor's plant (as of December 31, 1995, about $1,999,206 had been purchased), (2) the contractor shall supply the Company with 252,000 wafers from May 1994 to June 1997, (3) the contractor shall purchase about 2,000 wafers per month for its own account from the Company at a specified price, (4) the contractor shall purchase the machinery at its net book value in June 1997 and make monthly advance payments to the Company from May 1994 to June 1997 (as of

December 31, 1995, such payments aggregated $439,296 which are included in other liabilities) and (5) if the Company is unable to purchase the agreed quantity and the contractor is also unable to sell or use the unused capacity, the Company shall compensate the contractor at a specified price per wafer. In October 1993, the Company placed a guaranty deposit of $200,000 with the contractor, to be refunded based on quantities produced by the contractor during the contract period.

e. The Company has entered into several foundry agreements with certain major customers, under which the Company shall reserve certain production capacity to customers who have placed guaranty deposits in advance. As of December 31, 1995, such guaranty deposits aggregated US$91,582 thousand which are accounted for under other liabilities.

f. On May 12, 1994, the Company entered into a five-year interest swap contract through May 17, 1999 with a bank for US$10,000 thousand. As of December 31, 1995, no material gain or loss has been occurred.

(15) LITIGATION

In September 1994, Nintendo of America, Inc. sued the Company and its subsidiary, TSMC-U.S.A., for infringement of intellectual property rights and sought compensation and termination of the production and sale of the products involved. In September 1995, TSMC-U.S.A. was dismissed from the lawsuit without prejudice. As of December 31, 1995, settlement between the Company and Nintendo of America, Inc. is under negotiation.

(16) SEGMENT FINANCIAL INFORMATION

a. Export sales

Area	1995	1994
U.S.A.	$ 14,879,665	$11,172,106
Europe	4,028,326	2,590,959
Other	862,107	72,889
	$ 19,770,098	$ 13,835,954

b. Sales to major customers

Customers whose sales exceed 10% of the total sales are as follows:

	1995		1994	
	Amount	% of Total	Amount	% of Total
CIRRUS	$ 3,186,783	10.92	$ 1,729,563	8.84
Philips and its affiliates	2,880,828	9.87	2,209,311	11.29

7.Review and Analysis of Financial Status and Operating Results

(1) Liquidity Analysis

Item	December 31, 1995	December 31, 1994	Change%
Current ratio	316.64%	264.38%	19.77%
Quick ratio	257.83%	214.33%	20.30%

(2) Analysis of Operating Results

Unit: Thousand New Taiwan Dollars

Item	1995	1994	Change amount	Change%
Gross sales	$ 29,180,217	$ 19,572,631	$ 9,607,586	49.09%
Less:Sales returns and allowances	(414,226)	(236,560)	(177,666)	75.10%
Net sales	28,765,991	19,336,071	9,429,920	48.77%
Cost of sales	(12,440,601)	(9,041,186)	(3,399,415)	37.60%
Gross profit	16,325,390	10,294,885	6,030,505	58.58%
Operating expenses	(2,428,384)	(1,679,766)	(748,618)	44.57%
Income from operations	13,897,006	8,615,119	5,281,887	61.31%
Add:Non-operating income				
Interest	367,986	210,135	157,851	75.12%
Investment income recognized by equity method	530,207	-	530,207	-
Gain on sale of long-term investments	35,526	-	35,526	-
Gain on sale of properties	24,663	53	24,610	46433.96%
Other	12,127	53,770	(41,643)	(77.45%)
Total non-operating income	970,509	263,958	706,551	267.68%
Non-operating expenses				
Interest	(258,000)	(197,062)	(60,938)	30.92%
Foreign exchange loss-net	(197,928)	(14,631)	(183,297)	1252.80%
Loss on disposal of properties	(2,011)	(3,928)	1,917	(48.80%)
Investment loss recognized by equity method-net	-	(49,028)	49,028	-
Loss on sale of short-term investments	-	(17,310)	17,310	-
Other	(95,048)	(16,374)	(78,674)	480.48%
Total non-operating expenses	(552,987)	(298,333)	(254,654)	85.36%
Income before income tax	14,314,528	8,580,744	5,733,784	66.82%
Income tax(gain)	(766,745)	106,730	(873,475)	(818.40%)
Net income	15,081,273	8,474,014	6,607,259	77.97%

TSMC'S BUSINESS PHILOSOPHY

TSMC is committed to:

- maintaining ethical business practices
- focusing on our core foundry business
- marketing our services globally
- developing an international and professional management
- pursuing long-term business interests not short-term profits
- treating customers as partners
- building quality into all aspects of our business
- encouraging constant innovation
- creating a dynamic and enjoyable work environment
- providing open communication channels
- being a good corporate citizen by contributing to society and caring for the welfare of employees and shareholders

Taiwan Semiconductor
Manufacturing Company Ltd.

Morris Chang, Chairman

Printed on March 20,1996

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