Taiwan Semiconductor Manufacturing Company Ltd. and Subsidiaries

Consolidated Financial Statements as of December 31, 1999 and 1998

Together with Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

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

We have audited the consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries (“the Company“) as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the management of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their 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 in the Republic of China.

January 24, 2000

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 another jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 1999 and 1998
(In Thousand New Taiwan Dollars, Except Par Value)

	1999		1998	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 17,643,762	10	$ 9,679,273	7
Short-term investments (Notes 2 and 5)	927,216	1	5,906,339	4
Receivable from related parties (Note 14)	205,847	-	201,301	-
Notes receivable	164,134	-	34,868	-
Accounts receivable (Note 19)	13,380,253	7	7,940,062	6
Allowance for doubtful receivables (Note 2)	(422,202)	-	(283,090)	-
Allowance for sales returns and allowances (Note 2)	(706,886)	-	(441,973)	-
Inventories (Notes 2 and 6)	5,841,965	3	4,056,508	3
Deferred income tax assets (Notes 2 and 13)	2,447,163	1	411,350	-
Prepayments and other current assets (Notes 14 and 19)	2,202,895	1	1,035,862	1
Total Current Assets	41,684,147	23	28,540,500	21
LONG-TERM INVESTMENTS (Notes 2 and 7)	16,164,676	9	6,659,117	5
PROPERTIES (Notes 2, 8, 15 and 16)				
Cost				
Land and land improvements	783,809	-	807,087	-
Buildings	28,421,769	16	27,010,514	19
Machinery and equipment	123,940,807	68	88,466,784	63
Office equipment	2,728,204	1	2,312,238	2
Total cost	155,874,589	85	118,596,623	84
Accumulated depreciation	(61,879,509)	(34)	(41,489,543)	(29)
Prepayments and construction in progress	26,684,587	15	21,594,489	15
Net Properties	120,679,667	66	98,701,569	70
OTHER ASSETS				
Deferred charges – net (Note 2)	642,091	-	773,637	-
Deferred income tax assets (Notes 2 and 13)	4,485,340	2	6,039,395	4
Refundable deposits	20,814	-	23,755	-
Miscellaneous	10,039	-	23,509	-
Total Other Assets	5,158,284	2	6,860,296	4
TOTAL ASSETS	$ 183,686,774	100	$ 140,761,482	100

	1999		1998	
LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Payable to related parties (Note 14)	$ 1,029,964	-	$ 155,086	-
Accounts payable	2,927,915	2	2,176,023	2
Other payable - construction and equipment (Note 19)	8,663,286	5	3,601,832	3
Income tax payable (Notes 2 and 13)	155,127	-	777,424	-
Current portion of long term bank borrowings (Notes 9 and 16)	-	-	299,449	-
Accrued expenses and other current liabilities (Notes 15 and 19)	3,470,914	2	1,773,804	1
Total Current Liabilities	16,247,206	9	8,783,618	6
NONCURRENT LIABILITIES				
Bonds payables (Notes 2 and 10)	20,000,000	11	22,631,717	17
Guarantee deposits (Notes 17, 15 and 19)	5,185,362	3	6,123,825	4
Accrued pension obligations (Notes 2 and 12)	999,998	-	750,222	-
Bank loans (Notes 9 and 16)	12,952,462	7	8,620,864	6
Other (Note 15)	7,738	-	79,689	-
Total Noncurrent Liabilities	39,145,560	21	38,206,317	27
MINORITY INTEREST IN SUBSIDIARIES (Note 2)	7,524,168	4	9,700,881	7
Total Liabilities	62,916,934	34	56,690,816	40
SHAREHOLDERS' EQUITY (Notes 2 and 11)				
Capital stock, $10 par value				
Authorized – 9,100,000 Thousand shares in 1999 and 8,500,000 thousand in 1998				
Issued – 7,670,882 thousand shares in 1999 and 6,047,176 thousand shares in 1998	76,708,817	42	60,471,760	43
Capital surplus	11,831,411	6	164,219	-
Legal reserve	8,258,359	5	6,724,240	5
Unappropriated earnings	25,062,256	14	17,437,873	12
Cumulative translation adjustment	(1,091,003)	(1)	(727,426)	-
Total Shareholders' Equity	120,769,840	66	84,070,666	60
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 183,686,774	100	$ 140,761,482	100

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 1999 and 1998
(In Thousand New Taiwan Dollars, Except Earnings Per Share)

	1999		1998	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 14)	$74,060,145		$51,645,934	
SALES RETURNS AND ALLOWANCES (Note 2)	(993,624)		(1,223,521)	
NET SALES	73,066,521	100	50,422,413	100
COST OF SALES (Note 14)	41,560,169	57	32,282,644	62
GROSS PROFIT	31,506,352	43	18,139,769	38
OPERATING EXPENSES				
General and administrative (Note 14)	2,616,518	4	1,638,379	3
Marketing	1,669,399	2	736,834	2
Research and development	2,390,538	3	1,957,194	6
Total Operating Expenses	6,676,455	9	4,332,407	11
INCOME FROM OPERATIONS	24,829,897	34	13,807,362	27
NONOPERATING INCOME				
Interest	896,223	1	704,928	1
Insurance compensation	184,607	-	-	-
Gain on sale of short-term investments - net	48,575	-	-	-
Reversal of allowance for losses on short-term investments	140,137	-	-	-
Gain on disposal of long-term investments	67,772	-	781,647	2
Premium income (Notes 2 and 19)	63,809	-	8,280	-
Foreign exchange gain - net (Note 2)	-	-	105,509	-
Other	43,025	-	58,400	-
Total Nonoperating Income	1,444,148	1	1,658,764	3
NONOPERATING EXPENSES				
Interest (Notes 2, 8 and 19)	1,878,182	3	1,026,936	2
Investment loss recognized by equity method - net (Notes 2 and 7)	288,500	-	1,400,026	3
Issuance costs of bonds	114,839	-	143,644	-
Loss on option contracts	86,746	-	-	-
Foreign exchange loss - net (Note 2)	81,436	-	-	-

(Forward)

Loss on disposal of properties	$ 35,843	-	$ 4,421	-
Loss on decline in value of long- term investments (Note 2)	31,568	-	5,862	-
Other	99,576	-	99,568	-
Provision for loss on short-term investments	-	-	121,926	-
Total Nonoperating Expenses	2,616,690	3	2,802,383	5
INCOME BEFORE INCOME TAX	23,657,355	32	12,663,743	25
INCOME TAX CREDIT (Notes 2 and 13)	386,631	1	1,664,852	3
INCOME BEFORE MINORITY INTEREST	24,043,986	33	14,328,595	28
MINORITY INTEREST IN LOSS OF SUBSIDIARIES	515,898	1	1,015,608	2
NET INCOME	$24,559,884	34	$15,344,203	30
EARNINGS PER SHARE				
Based on weighted-average shares outstanding of 7,572,598 thousand in 1999 and 6,047,176 thousand in 1998	$3.24		$2.54	
Based on 7,548,483 thousand shares			$2.03	

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1999 and 1998
(In Thousand New Taiwan Dollars)

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS (Note 2)					RETAINED EARNINGS (Note 11)			CUMULATIVE TRANSLATION ADJUSTMENT (Note 2)	TOTAL SHAREHOLDERS' EQUITY
	Shares (Thousand)	Amount	From Long-Term Investments	Excess on Foreign Bond Investments	Gain on Disposal of Properties	Donation	Total	Legal Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 1998	4,081,300	$ 40,813,000	$ -	$ -	$ 62,027	$ 55	$ 62,082	$ 4,928,532	$ 23,712,760	$ 28,641,292	($ 101,981)	$ 69,414,393
Appropriations of prior year's earnings (Note 10)												
Legal reserve	-	-	-	-	-	-	-	1,795,708	(1,795,708)	-	-	-
Bonus to employees – Stock	129,291	1,292,910	-	-	-	-	-	-	(1,292,910)	(1,292,910)	-	-
Stock dividends - 45%	1,836,585	18,365,850	-	-	-	-	-	-	(18,365,850)	(18,365,850)	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	(161,613)	(161,613)	-	(161,613)
Net income in 1998	-	-	-	-	-	-	-	-	15,344,203	15,344,203	-	15,344,203
Gain on disposal of properties	-	-	-	-	3,009	-	3,009	-	(3,009)	(3,009)	-	-
Adjustments arising from changes in ownership percentage in investees	-	-	99,128	-	-	-	99,128	-	-	-	-	99,128
Translation adjustment	-	-	-	-	-	-	-	-	-	-	(625,445)	(625,445)
BALANCE, DECEMBER 31, 1998	6,047,176	60,471,760	99,128	-	65,036	55	164,219	6,724,240	17,437,873	24,162,113	(727,426)	84,070,666
Appropriations of prior year's earnings (Note 10)												
Legal reserve	-	-	-	-	-	-	-	1,534,119	(1,534,119)	-	-	-
Bonus to employees – stock	110,457	1,104,566	-	-	-	-	-	-	(1,104,566)	(1,104,566)	-	-
Stock dividends – 23%	1,390,850	13,908,505	-	-	-	-	-	-	(13,908,505)	(13,908,505)	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	(138,071)	(138,071)	-	(138,071)
Net income in 1999	-	-	-	-	-	-	-	-	24,559,884	24,559,884	-	24,559,884
Conversion of foreign bonds	122,399	1,223,986	-	11,289,998	-	-	11,289,998	-	-	-	-	12,513,984
Gain on disposal of properties	-	-	-	-	4,022	-	4,022	-	(4,022)	(4,022)	-	-
Gain on disposal of properties of investees	-	-	246,218	-	-	-	246,218	-	(246,218)	(246,218)	-	-
Adjustments arising from changes in ownership percentage in investees	-	-	126,954	-	-	-	126,954	-	-	-	-	126,954
Translation adjustment	-	-	-	-	-	-	-	-	-	-	(363,577)	(363,577)
BALANCE, DECEMBER 31, 1999	7,670,882	$ 76,708,817	$ 472,300	$ 11,289,998	$ 69,058	$ 55	$ 11,831,411	$ 8,258,359	$ 25,062,256	$ 33,320,615	($ 1,091,003)	$ 120,769,840

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 1999 and 1998
(In Thousand New Taiwan Dollars)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$24,559,884	$15,344,203
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,416,590	15,295,238
Deferred income tax	(481,758)	(2,357,894)
Investment loss recognized by equity method	288,500	1,400,026
Gain on sales of long-term investments	(67,772)	(781,647)
Loss on disposal of properties – net	31,886	1,089
Accretion in redemption value of bonds	585,614	875,760
Loss on value reduction of long- term investments	31,568	5,862
Provisions for doubtful receivables	139,112	(9,997)
Provisions for sales returns and allowances	264,913	(93,241)
Accrued pension liabilities	249,777	261,105
Minority interest in subsidiaries	(515,898)	(1,015,608)
Changes in operating assets and liabilities:		
Receivable from related parties	(4,546)	215,588
Notes receivable	(129,266)	200,044
Accounts receivable	(5,440,191)	1,537,947
Inventories	(1,785,457)	819,784
Prepaid expenses and other current assets	(1,174,290)	435,324
Payable to related parties	874,878	(46,819)
Accounts payable	751,892	(960,921)
Income tax payable	(622,297)	774,057
Accrued expenses and other current liabilities	1,697,110	133,134
Net Cash Provided by Operating Activities	40,670,249	32,033,034
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (decrease) in restricted cash	7,255	(7,255)
Acquisitions of:		
Long-term investments	(10,057,902)	(1,555,849)
Properties	(38,485,424)	(41,113,609)
Proceeds from sales of:		
Long-term investments	150,015	1,523,492
Properties	388,296	3,476
Increase (decrease) in short-term investments	5,088,091	(860,189)
Increase in deferred charges	(433,187)	(322,735)
Decrease in refundable deposits	2,941	49,830

(Forward)

Decrease (increase) in other assets	$ 13,470	($ 775)
Decrease in minority interest in subsidiaries	(1,660,815)	-
Net Cash Used in Investing Activities	(44,987,260)	(42,283,614)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	9,450,634	9,772,500
Proceeds from long-term bank loans	4,215,986	894,413
Issuance cost of bank loans	(63,275)	(78,265)
Decrease in guarantee deposits	(938,463)	(2,392,657)
Increase (decrease) in other liabilities	(71,951)	73,732
Bonus to directors and supervisors	(138,071)	(161,613)
Increase (decrease) in commercial paper payable	-	(250,000)
Distribution to minority shareholders	-	(86,621)
Net Cash Provided by Financing Activities	12,454,860	7,771,489
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,137,849	(2,479,091)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(173,360)	(657,640)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,679,273	12,816,004
CASH AND CASH EQUIVALENTS, END OF YEAR	$17,643,762	$ 9,679,273
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized)	$ 2,005,137	$ 939,187
Income tax paid	$ 594,098	$ 53,644
Noncash investing and financing activities –		
Effect of exchange rate changes on cash and cash equivalents	($ 66,376)	($ 150,518)
Current portion of long-term bank loans	$ -	$ 299,449
Cash paid for acquisition of properties:		
Total acquisitions	$43,559,298	$34,650,650
Other payable – construction and equipment	(5,073,874)	6,462,959
	$38,485,424	$41,113,609
Conversion of foreign bonds into common stocks and capital surplus	$12,513,984	$ -

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousand New Taiwan Dollars, Except Per Share Amounts
and Unless Specified Otherwise)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), a company organized under the laws of the Republic of China, mainly engages in the manufacture, sale, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices, and the manufacture and design of masks.

TSMC's shares have been listed on the Taiwan Stock Exchange since September 1994. In 1997, TSMC offered shares of stock on the New York Stock Exchange in the form of American Depositary Receipts (ADRs).

TSMC has eleven wholly-owned subsidiaries: TSMC-North America, Taiwan Semiconductor Manufacturing Company Europe B.V (TSMC-Europe), TSMC-Japan, TSMC International Investment, TSMC Partners, and 25%-owned affiliates - Po Cherng Investment, Chi Hsin Investment, Kung Cherng Investment, Chi Cherng Investment, Hsin Ruey Investment, and Cherng Huei Investment.

TSMC-North America, TSMC-Europe and TSMC–Japan engages mainly in trading; the other subsidiaries engage in investments. As of December 31, 1999, TSMC International Investment had two whollyowned subsidiaries -- TSMC Development, Inc. and TSMC Technology Inc. -- and a 97%-owned subsidiary -- InveStar Semiconductor Development Fund, Inc. TSMC Development Inc., in turn, had a 68%-owned subsidiary, WaferTech, LLC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation

The consolidated financial statements include the accounts of TSMC and the foregoing subsidiaries (hereinafter, referred to individually or collectively as "Company"). All significant intercompany accounts and transactions have been eliminated. Minority interests in InveStar and WaferTech are presented separately in the financial statements.

Cash equivalents

Government bonds acquired under repurchase agreements, commercial paper, and mutual fund acquired under repurchase agreements with original maturities of three months or less are classified as cash equivalents.

Short-term investments

Short-term investments are stated at the lower cost or market. The costs of investments sold are determined by the specific identification method.

Allowance for doubtful receivables

Allowance for doubtful receivables is provided on the basis of a review of the collectibility of individual receivables.

Sales and allowance for sales returns and others

Sales are recognized when products are shipped to customers. Allowance for sales returns and others are provided based on experience. These provisions are deducted from sales and the related costs are deducted from cost of sales.

Inventories

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

Long-term investments

Investments in shares of stock in which the Company exercises significant influence on the investees are accounted for by equity method. The difference between the investment cost and the Company's proportionate share in the net asset of the investee at the date of acquisition is amortized on a straight-line method over five years. Such amortization and the Company's proportionate share in the earnings or losses of the investee companies are recognized as part of the "Investment income or loss" account in the Statements of Income. The increase or decrease in the Company's share in the net assets of the investee companies because of the changes in its equity interest resulting from the issuance of additional new shares by the investee companies, to which the Company did not subscribe according to the original percentage of ownership, are accounted for as adjustment to the investment carrying value and capital surplus.

Other stock investments are accounted for by the cost method. These investments are stated at cost less decline in market value of listed stocks or decline in value of unlisted stocks that are considered irrecoverable; these reductions are charged to shareholders' equity or current income, respectively. Stock dividends received are recognized only as an increase in the number of stocks held on the ex-dividend date.

Investments in foreign mutual funds are stated at the lower of cost or net asset value (NAV). Write-downs of cost and write-ups to original acquisition cost resulting from subsequent recovery of the NAV are debited or credited to shareholders' equity.

Convertible notes and stock warrants are carried at cost.

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

If an investee company's net income or net loss includes gains from the disposal of properties, the after-tax amount of these gains will be recognized as investment gains in the year of occurrence in proportion to the Company's equity interest and then transferred to capital surplus from retained earnings. When the Company subsequently disposes of such investment in shares of stock, the resulting capital surplus will be transferred back to retained earnings.

Gains or losses on transactions with investee companies in which the Company owns at least 20% of the outstanding common stock but have less than a controlling interest are deferred in proportion to ownership percentage until they are realized through a subsequent transaction with a third party. If the unrealize gains or losses are due to sales by the subsidiary to the Company, an adjustment should be made in accordance with ownership percentage.

Properties

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

Depreciation is provided on the straight-line method over these estimated service lives: buildings - 10 to 20 years; machinery and equipment - 5 to 10 years; and office equipment - 3 to 7 years.

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 gain, less applicable income tax, is transferred to capital surplus at the end of the year.

The value of the leased property is the lower of the present value of all minimum future rental payments or of the market value of the leased property at the starting date of the lease. The lessee's rental payment includes the purchase price of the leased property and the interest expense.

Deferred charges

Deferred charges, consisting of software and system design costs, issuance costs of bonds, and short-term credit instruments, are amortized over three years, five years, and the contract period of credit instruments, respectively.

Convertible bonds

The excess of the contracted redemption price over the face value of the bond is amortized and recognized as interest expense over a period starting from the issue date to the last day of the redemption period or the actual redemption date, whichever is earlier, using the effective interest method.

Capital stock account is credited for the face value of the bond converted into the Company's shares of stock. The excess of the carrying value of the bond as of the date of its conversion over its face value is credited to capital surplus account.

Pension costs

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

Income tax

The Company uses interperiod tax allocation. Deferred income tax assets are recognized for the tax effects of temporary differences, unused tax credits, and operating loss carryforwards. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or noncurrent. However, if a deferred asset or liability cannot be related to a asset or liability in the financial statements, it should be classified as current or non-current based on the expected length of time before it is recovered.

Income taxes (10%) on undistributed earnings are recorded as expenses in the year when the shareholders have resolved that the earnings shall be retained.

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

Derivative financial instruments

Foreign currency forward exchange contracts (forward contracts), entered into for nontrading purposes other than trading, are recorded as follows: the differences in the New Taiwan dollar amounts translated at the spot rates and the amounts translated at the contracted forward rates are amortized over the terms of the forward contracts at the straight-line method. On the balance sheet dates, the receivables or payable arising from forward contracts are restated using the prevailing spot rates, and the resulting differences are recognized in income. Also, the receivables and payable related to the forward contracts are netted out, and the resulting net amount is presented as either an asset or liability.

One of subsidiaries of the Company also enters into foreign exchange contracts to hedge identifiable foreign currency purchase commitments. That is, these contracts are entered into to support firm purchases of properties made in the normal course of business, and accordingly, are not speculative in nature. Gains and losses are deferred and accounted for as adjustment to the carrying value of these purchases. The forward foreign exchange contracts are primarily denominated in Japanese yen and Dutch guilders and generally have terms of one year or less, which are consistent with the terms of the underlying transaction.

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

The notional amounts of the foreign currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates. However, premiums for call option are recognized as assets and premiums for put option are recognized as liabilities. These premises are amortized using the straight-line method over the period of the contracts and charged to current income. Gains or losses on the exercise of the options are also recognized as current income.

Foreign-currency transactions

Foreign-currency transactions, except those involving derivative financial instruments, 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 dollar, or when foreign-currency receivables and payable 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 at prevailing exchange rates, and the resulting differences are credited or charged to income.

Reclassifications

Certain accounts in 1998 had been reclassified to conform to 1999 classifications.

3. SIGNIFICANT ELIMINATING ENTRIES

The details of transactions with companies included in the consolidated financial statements are as follows:

Company	Account	Amount	Transaction Entity
TSMC	Payable to related parties	$ 125,637	TSMC-North America
		13,422	TSMC-Europe
		13,189	TSMC-Japan
		3,832	TSMC-Technology
		730,483	WAFERTECH, LLC
	Receivable from related parties	47,343	TSMC-Technology
		198,163	WAFERTECH, LLC
		17,550	TSMC-Japan
	Sales	59,438	WAFERTECH, LLC
	Purchase	4,636,780	WAFERTECH, LLC
	Marketing expenses (commissions)	692,927	TSMC-North America
	Marketing expenses (service charges)	99,087	TSMC- North America
	Marketing expenses (commissions)	87,414	TSMC-Europe

(Forward)

	Marketing expenses (commissions)	$ 81,951	TSMC-Japan
	Deferred revenue	8,175	WAFERTECH, LLC
TSMC International Investment	Interest receivable	1,672,552	TSMC-Development
		97,717	TSMC-Technology
	Notes Receivable	7,873,941	TSMC-Development
		313,950	TSMC-Technology
	Interest revenue	627,724	TSMC-Development
		25,029	TSMC-Technology
TSMC - Technology	Deferred revenue	142,957	WAFERTECH, LLC
	Licensing Fee	13,790	WAFERTECH, LLC
	Sales	64,055	WAFERTECH, LLC
	Receivable	63,050	WAFERTECH, LLC

4. CASH AND CASH EQUIVALENTS

	1999	1998
Bank deposits	$17,561,236	$ 8,775,696
Commercial paper	74,985	98,294
Mutual funds	7,541	719
Government bonds acquired under repurchase agreements	-	804,564
	$17,643,762	$ 9,679,273

5. SHORT-TERM INVESTMENTS

	1999	1998
Marketable equity securities	$ 927,216	$ 775,652
U.S. treasury bonds	-	4,625,769
Corporate bonds	-	626,844
	927,216	6,028,265
Allowance for losses	-	(121,926)
	$ 927,216	$ 5,906,339

6. INVENTORIES

	1999	1998
Finished goods	$ 759,181	$ 498,969
Work in process	4,653,307	2,439,159
Raw materials	527,344	557,932
Supplies and spare parts	860,417	677,721
	6,800,249	4,173,781
Allowance for losses	(958,284)	(117,273)
	$ 5,841,965	$ 4,056,508

7. LONG-TERM INVESTMENTS

	1999		1998	
	Carrying Value	% of Owner-Ship	Carrying Value	% of Owner-ship
Common Stocks				
Accounted for by the equity method				
Vanguard International Semiconductor (VIS)	$ 5,010,897	25	$ 4,723,014	26
TSMC-Acer Semiconductor	3,630,193	32	-	-
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	360,177	32	-	-
	9,001,267		4,723,014	
Accounted for by the cost method				
Taiwan Mask (Listed stock)	32,129	2	32,129	2
Taiwan Semiconductor Technology	500,000	19	500,000	19
Lian Ya	146,250	11	146,250	11
Shin-Etsu Handotai Taiwan	105,000	7	105,000	7
W.K. Technology Fund IV	50,000	4	50,000	4
Hong Tung Venture Capital	80,000	10	40,000	10
Global Test	71,613	5	73,791	13
ChipStrate Technology	32,927	2	33,929	10
Ritch Technology	7,407	1	-	-
Scenix Semiconductor	5,407	-	-	-
Enable Semiconductor	-	-	323	1
	1,030,733		981,422	
Preferred stocks				
TSMC-Acer Semiconductor	4,854,742	28	-	-
Programmable Microelectronics	47,092	3	48,525	3
Marvell Technology	139,055	10	127,271	5
Integrated Memory Logic	23,546	2	24,263	8
Divio	15,698	1	16,175	5
Integrated Micromachines	4,709	-	4,853	7
SiRF Technology	41,860	3	43,133	2
Rise Technology	47,092	3	48,525	3
Capella Microsystems	12,040	1	9,705	2
Sensory	39,244	3	40,438	7
Flow Wise Networks	15,697	1	16,175	1
Equator Technologies	42,011	3	32,445	1
LightSpeed Semiconductor	68,562	5	70,647	9
Centillium Technology	23,546	2	24,263	1
Scenix Semiconductor	66,277	5	40,437	6
Lara Technology	83,197	6	32,350	8
Rapidstream	32,965	2	17,793	11
Premier R. F.	31,395	2	16,175	6

(Forward)

Krypton Isolation	$ 39,244	3	$ 40,438	5
Pico Turbo	39,244	3	40,438	8
Sonics	31,395	2	32,350	4
3Dfx Interactive	9,326	-	12,455	-
Nanoamp Solutions	26,537	2	-	-
T-Span System	15,698	1	-	-
Memsic	47,088	3	-	-
Menolithie Power System	62,790	4	-	-
Formfactor	62,790	4	-	-
Reflectivity	62,790	4	-	-
Signia	47,090	3	-	-
XaQti	-	-	22,726	3
Chip LCD	-	-	5,661	39
Enable Semiconductor	-	-	32,539	4
Silicon Image	-	-	48,525	2
Omni Vision Technologies	-	-	40,438	2
Sage	-	-	48,525	6
	6,032,720		937,268	
Convertible note				
Integrated Memory Logic	31,395	2	-	-
Sonics	23,546	2	-	-
Rise	9,419	1	-	-
Scenix Semiconductor	-	-	4,044	-
	64,360		4,044	
Funds				
Crimson Asia Capital	34,534	-	19,030	-
Horizon Ventures Fund	31,744	-	-	-
	66,278		19,030	
Warrant				
Flow Wise Networks	6	-	-	-
Allowance for loss	(30,688)		(5,661)	
	$16,164,676		$ 6,659,117	

The carrying values of investments accounted for by the equity method and the related investment income and loss for the years ended December 31 1999 and 1998 were based on audited financial statements of the investees for the same years, as follows:

	1999	1998
VIS	($ 527,823)	($ 1,400,026)
Others	239,323	-
	($ 288,500)	($ 1,400,026)

Information on the investments is as follows:

	1999	1998
Market value of listed stocks	$19,753,642	$10,196,822
Equity in unlisted stocks	8,361,223	1,975,701
Net asset value of fund	66,278	18,504

The convertible note of Enable Semiconductor was converted into preferred stock on February 4, 1998.

As of December 31, 1999, the Company had unexercised stock warrants for purchase of shares, as follows:

Stock	Shares (Maximum)	Exercise Price Per Share (US$)	Exercise Period
Equator Technologies Preferred	6,082	6.5	03/27/98-03/27/00
Equator Technologies Common	63,525	0.65	03/27/98-03/27/03
Equator Technologies Common	69,642	0.7	08/11/98-08/11/04
Flow Wise Networks Common	190,177	0.001	04/25/97-03/25/02
Marvell Technology Preferred	34,616	4.333	12/10/97-06/27/00
Capella Microsystems Common	41,746	0.25	-
SiRF Technology Preferred	5,556	6	01/16/98-01/16/03
Sonics Preferred	225,000	2	09/25/98-09/25/01
Formfactor Preferred	66,666	7.5	07/30/99-07/30/04
Lara Common	317,307	1.625	01/29/99-01/29/09
Scenix Semiconductor Common	45,490	0.2	03/22/99-12/23/03
Scenix Semiconductor Preferred	90,980	2.0	12/23/98-12/23/03

8. PROPERTIES

Accumulated depreciation consisted of the following:

	1999	1998
Land improvements	$ 33,691	$ 6,915
Buildings	7,911,820	5,597,578
Machinery and equipment	52,447,393	34,713,249
Office equipment	1,486,605	1,171,801
	$61,879,509	$41,489,543

The status of the expansion plans as of December 31, 1999 is as follows:

Expansion Plan	Estimated Total Cost	Accumulated Expenditures	Date of Start of Operations
TSMC's sixth manufacturing plant	$66,846,000	$40,238,232	March 2000
TSMC's seventh manufacturing plant	9,711,000	266,063	June 2002
TSMC's twelfth manufacturing plant	9,392,000	252,415	June 2002

Interest expenses capitalized in 1999 amounted to $339,188 in 1999 and $722,347 in 1998.

9. BANK LOANS

	1999	1998
Bank acceptances: 6.95% interest; repayable by December 1999 but was prepaid in January 1999	$ -	$ 299,449
Commercial paper: 7%-7.08% interest; repayable by May 2003 but was prepaid in October 1999	-	2,393,489
Loans (thousands)		
US$345,000 in 1999 and US$192,500 in 1998, repayable by May 2001, interest of 6.408% in 1999 and 6.76% in 1998	10,831,275	6,227,375
US$67,565, repayable by October 2002, 6.83% interest	2,121,187	-
	12,952,462	8,920,313
Current portion	-	(299,449)
	$12,952,462	$ 8,620,864

Unused credit lines of TSMC and its subsidiaries as of December 31, 1999 and 1998 aggregated about $10,610,290 and US$ 5,000 thousand.

10. BONDS PAYABLE

	1999	1998
Foreign convertible bonds – US$350,000 thousand, noninterest – bearing, repayable in July 2002	$11,322,500	$ 11,322,500
Accretion in redemption value of bonds	1,894,831	1,309,217
	13,217,331	12,631,717
Converted into common stocks	(12,914,338)	-
Redeemed before maturity	(302,993)	-
	-	12,631,717
Unsecured domestic bonds		
Repayable in March 2003, 7.71% interest payable semiannually	4,000,000	4,000,000
Repayable in November 2003, 7.12% interest payable annually	6,000,000	6,000,000
Repayable in October 2002 and 2004, 5.67% and 5.95% interest payable annually, respectively	10,000,000	-
	$20,000,000	$22,631,717

The foreign convertible bonds can be converted into common stocks of the Company before bond maturity at a per share price determined through a formula agreed upon. The Company may also redeem the bonds before maturity when certain conditions are met. As of December 31, 1999, bonds with a face value totaling $1,223,986 were converted into 122,399 thousand shares of common stocks. The Company redeemed the unconverted part before maturity in November 1999.

The holders of the bonds with an aggregate face value of $6,000,000 issued by the Company between November 18, 1998 and December 1, 1998 and the Company can exercise resale agreements or repurchase agreements, respectively, 30 days before the second and third anniversaries of the issuance dates.

11. SHAREHOLDERS' EQUITY

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

The Articles of Incorporation of TSMC provide that the following should be appropriated from the annual net income (less any deficit):

a) 10% 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 should be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

The appropriation for legal reserve should be made until the reserve equals the Company's capital. This reserve can only be used to offset a deficit; also, when it has reached 50% of the paid-in capital, up to 50% thereof can be transferred to capital.

Under the Integrated Income Tax System which took effect on January 1, 1998, noncorporate resident shareholders are allowed a tax credit for the income tax paid or payable by TSMC on earnings generated in 1998 and onwards. An imputation credit account (ICA) is maintained by the Company for the income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

12. PENSION PLAN

TSMC has a pension plan to all regular employees, which provides benefits based on length of service and average monthly salary of the six months before retirement. TSMC makes monthly contributions, equal to 2% of salaries to a pension fund which is administered by the employees pension fund monitoring committee and deposited in the committee's name in the Central Trust of China.

Pension information is summarized as follows:

	1999	1998
a. Components of pension cost		
Service cost	$ 248,378	$ 212,398
Interest cost	78,961	69,390
Projected return on plan assets	(22,317)	(16,992)
Amortization of prior period service cost	8,300	8,300
	$ 313,322	$ 273,096
b. Reconciliation of the fund status of the plan and accrued pension liabilities		
Benefit obligation		
Vested benefit obligation	$ -	$ 579
Non-vested benefit obligation	428,257	310,430
Accumulated benefit obligation	428,257	311,009
Additional benefits based on future salaries	975,345	817,006
Projected benefit obligation	1,403,602	1,128,015
Fair value of plan assets	(364,994)	(287,493)
Fund status	1,038,608	840,522
Unrecognized net transitional obligation	(174,291)	(182,591)
Additional liability	135,448	91,059
Accrued pension liabilities	$ 999,765	$ 748,990
Vested benefit	$ -	$ 677
c. Actuarial assumptions		
Discount rated used in determining present values	6.5%	7%
Future salary increase rate	6.0%	6.5%
Expected rate of return plan on assets	6.5%	7%
d. Contributions to pension fund	$ 67,227	$ 51,055
e. Payments from pension fund	$ 3,591	$ -

13. INCOME TAX

	1999	1998
Current:		
Domestic	($ 21,300)	($ 546,781)
Foreign	(63,388)	(30,116)
Deferred:		
Domestic	1,679,368	2,471,089
Valuation allowance	(1,303,500)	-
	375,868	2,471,089
Foreign	7,818	660
	383,686	2,471,749
Adjustment of prior year's income taxes	87,633	(230,000)
Income tax benefit	$ 386,631	$ 1,664,852

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

	1999	1998
Current		
Investment tax credit	$2,329,000	$ 406,739
Accrued liabilities and others	118,163	4,611
	$2,447,163	$ 411,350
Noncurrent		
Investment tax credit	$5,806,891	$5,930,827
Interest expense	201,798	199,161
Deferred revenue	43,753	53,966
Organization cost	-	907
Others	(209,171)	(107,362)
	5,843,271	6,077,499
Valuation allowance	(1,357,931)	(38,104)
	$4,485,340	$6,039,395

Integrated income tax information:

	1999	1998
Ending balances of imputation Credit account	$ 1,497	$ 22,633

The expected credit rate for 1999 was 0.006% and the actual credit rate for 1998 was 3.51%.

The imputation credit allocated to each shareholder is based on the balance in the ICA on the date of distribution of dividends; thus the expected credit rate for 1999 may be adjusted according to the difference between the expected and actual imputation credit allowed under the regulation.

The unappropraited retained earnings as of December 31, 1999 and 1998 included the earnings before 1997 of $752,612 and $2,096,679, respectively.

The effective tax rates for deferred income tax of TSMC were 5.9%, in 1999 and 9.5% in 1998, but subsidiaries applied rates ranging from 32% to 40% in 1999 and 38% in 1998.

Unused investment tax credits arising from investments in machinery and equipment, and research and development expenditures as of December 31, 1999 will expire as follows:

Year of Expiry	Amount
2000	$1,588,644
2001	3,250,623
2002	2,222,961
2003	1,073,663

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

	Tax-Exemption Period
Expansion of second manufacturing plant and computer-aided design services, and third manufacturing plant	1996 to 1999
Expansion of first manufacturing plant, second manufacturing plant – modules A and B and third manufacturing plant, and fourth manufacturing plant	1997 to 2000
Expansion of first manufacturing plant, second manufacturing plants-modules A and B, third manufacturing plant and fourth manufacturing plant, and fifth manufacturing plant	1999 to 2002

Income tax returns through 1996 had been examined by the tax authorities.

14. RELATED PARTY TRANSACTIONS

The Company has business transactions with the following related parties:

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

b. Philips Electronics N.V., (Philips), a major shareholder.

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

d. TSMC–ACER Semiconductor Manufacturing Corporation (TASMC), an investee

e. Systems on Silicon Manufacturing Company Pte Ltd. (SSMC), an investee

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

	1999		1998	
	Amount	%	Amount	%
During the year				
Sales				
ITRI	$ 132,507	-	$ 173,375	-
Philips and its affiliates	2,864,149	4	3,422,090	7
VIS	48,473	-	65,301	-
TASMC	22,246	-	-	-
	$ 3,067,375	4	$ 3,660,766	7
Purchase				
TASMC	$ 808,926	7	$ -	-
VIS	381,989	3	-	-
	$ 1,190,915	10	$ -	-

(Forward)

Rental expense				
ITRI	$ 161,488	54	$ 161,477	67
Manufacturing expenses				
Technical assistance fee – Philips	$ 862,398	100	$ 637,136	100
General and administrative expenses				
Consulting fee – VIS	$ 20,400	-	$ -	-
At end of year				
Receivable				
ITRI	$ 18,458	9	$ 30,668	15
Philips and its affiliates	133,245	65	162,750	81
VIS	25,674	12	7,883	4
SSMC	5,353	3	-	-
TASMC	23,117	11	-	-
	$ 205,847	100	$ 201,301	100
Prepayments and other current assets				
Prepaid rental – ITRI	$ 42,541	2	$ 42,462	4
Payable				
Philips and its affiliates	$ 305,757	30	$ 155,086	100
VIS	184,741	18	-	-
TASMC	539,466	52	-	-
	$ 1,029,964	100	$ 155,086	100

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

15. LONG-TERM LEASES

TSMC leases the land, building and certain machinery and equipment of its first manufacturing plant from ITRI under agreements that will expire in March 2002; annual rentals and other charges aggregating $170,166. The agreements are renewable.

TSMC leases the land sites of its second through tenth manufacturing plants from the Hsinchu Science-Based Industrial Park Administration under agreements, which will expire on various dates from March 2008 to April 2018; annual rental is $42,149. The agreements are also renewable.

TSMC-North America leases its office premises and certain equipment under a non-cancelable operating agreement, which will expire in June 2003. TSMC Europe entered into an office lease agreement premises which will expire in 2001; annual rental is $ 37,328.

Future minimum rentals under the foregoing leases are as follows:

Year	Amount
2000	$ 249,643
2001	214,708
2002	84,690
2003	42,149
2004	42,149
2005-2018	313,250
	$ 946,589

16. PLEDGED OR MORTGAGED ASSETS

Certain assets had been pledged or mortgaged as collateral as follows:

	1999	1998
Cash – for revolving credit agreement	$ -	$ 7,255
Properties (net) – for bank loans	28,393,052	27,819,229
	$28,393,052	$27,826,484

17. COMMITMENTS AS OF DECEMBER 31, 1999

a. Under a technical cooperation agreement with Philips, as amended on May 12, 1997, the Company should pay a technical assistance fee at a percentage of net sales of certain products, less specified deductions. The agreement will remain in force up to July 9, 2007 and will be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to reduction by the amounts TSMC pays to any third party for settling any licensing/ infringement issue after the first five years of the amended agreement, if the fee after reduction does not go below a certain percentage of the net selling price.

b. Subject to certain equity ownership and notice requirements, Philips and its affiliates can avail themselves each year up to 30% of TSMC's production capacity.

c. Under a submicron technology license agreement with ITRI, TSMC should pay ITRI license fees of $129,400 (including 5% value-added tax) plus royalty fee at an agreed percentage of net sales of certain products through December 31, 1998. As of December 31, 1995, TSMC had fully paid the license fee.

d. Under a technical cooperation agreement with ITRI, TSMC shall reserve and allocate up to 35% of its production capacity, for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.

e. Under a purchase agreement between the Company and three customers, the customers should buy a certain portion of wafers produced by WaferTech, LLC. If the Company or any of the customers default on this agreement, the defaulting party should compensate the other party at the full price of the products, less certain variable costs.

f. Under several foundry agreements, the Company should allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US$164,765 thousand had been received as of December 31, 1999.

g. On February 27, 1998, the tax authorities assessed the Company additional income taxes of about $105,000 for 1994 and $125,000 for 1995 because they did not consider the Company's first manufacturing plant as a science-based industry under the Science-Based Industrial Park Regulations. The Company is contesting the assessment but has already accrued tax assessment amounts. The additional income tax for 1994 had been reassessed at $21,887.

h. Under a Shareholders Agreement entered into by Philips and EDB Investments Pte Ltd. Dated March 30, 1999, the parties agreed to: (a) form a joint venture company to be called Systems on Silicon Manufacturing Company Pte Ltd. (SSMC), which will build an integrated circuit foundry in Singapore, (b) set SSMC's total authorized capital at about S$1.2 billion (about NT$22,800,000), and, (c) allow the Company to invest 32% of SSMC's capital. TSMC and Philips committed to buy a certain percentage of the production capacity of SSMC. If any party is fails to meet the commitment term and the capacity utilization of SSMC falls below a certain percentage of total available capacity, the defaulting party should compensate SSMC for all related unavoidable costs.

i. Under a Technical Cooperation Agreement with SSMC signed on May 12, 1999, SSMC should pay TSMC remuneration for the technology service provided by SSMC at a certain percentage of net selling prices of its products. The agreement will remain in force for 10 years and will be automatically renewed for successive periods of five years unless the agreement is terminated by either party under certain conditions.

j. Under a Technical Cooperation Agreement with TSMC-Acer Semiconductor Manufacturing Corporation ("TASMC") signed on July 21, 1999, TASMC will remunerate pay TSMC by discounting the products sold to TSMC. The agreement will remain in force for 10 years, unless preterminated by either party under certain conditions. The parties should meet six months before the expiry to decide agreement renewal.

k. Under a management agreement, InveStar Capital Inc. (ISC) of the Cayman Islands provides investment and administrative services to TSMC. ISC should receive quarterly, starting from October 1, 1996, a management fee of 2% each year of total weighted average paid-in capital and capital surplus of TSMC, excluding retained earnings and losses.

l. WaferTech had recorded a reserve of USD 16,000 thousand for a litigation arising from a charge by certain contractors that the Company caused the contractors to incur additional labor and material costs outside the contracts. The reserve is reflected in accrued construction and equipment payable with the offset to construction in progress. On January 19, 2000, WaferTech entered into a settlement agreement with one of the construction contractors in the amount of USD $10,750 thousand. Payment of the settlement amount will be made in four installments throughout fiscal year 2000. The remaining accrued reserve of USD $5,250 is sufficient for payments to the other construction contractors.

m. In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan ("Plan") under which officers, key employees and nonemployee directors may be granted option rights. However, WaferTech is a limited liability company and does not have shares of stock. Thus, each option right granted under the Plan provides grantees rights to buy ownership interests in WaferTech. The Plans also provides for approximately 6% of the total ownership interests to be available for grant, represented by 13.5 million option rights. For option rights granted to date, the option purchase price exceeded fair value as of the date of the grant. While WaferTech may grant employees option rights that are exercisable at different times or within different periods, it has generally granted option rights which are exercisable on a cumulative basis in annual installments of 33-1/3% each on the third, fourth and fifth anniversaries of the date of grant.

The following table summarizes information about the Plans:

	Option Rights Available For Grant	Outstanding Option Rights	
		Number of Option Rights	Exercise Price
Balance, December 31, 1997	8,252,402	5,247,598	0.74
Options granted			
Option price > fair market value	(2,056,600)	2,056,600	0.74
Options exercised	-	-	-
Options canceled	204,450	(204,450)	0.74
Balance, December 31, 1998	6,400,252	7,099,748	0.74
Options granted			
Option price > fair market value	(3,084,305)	3,084,305	0.86
Options exercised	1,119,323	(1,119,323)	0.74
Options canceled	838,650	(838,650)	0.74
Balance, December 31, 1999	5,273,920	8,226,080	0.78

These options will expire if not exercised at specific dates between May 2006 to December 2009.

WaferTech follows U. S. APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its option plan. Under APB No. 25, because the exercise price of WaferTech's option rights exceeds the market value of the underlying ownership interests on the date of grant, no compensation expense is recognized in WaferTech's financial statements. WaferTech has computed for pro forma disclosure purposes the fair value of each option grant, as defined by U.S. Statement of Financial Accounting Standards No. 123, "Stock-Based Compensation" (SFAS 123), using the Black-Scholes option pricing model with the following assumptions:

	1999	1998
Risk-free interest rate	7.00%	6.00%
Expected dividend yield	0	0
Expected lives	5 years	5 years

WaferTech is not publicly traded; thus, a volatility factor was not utilized in the pricing computation.

n. As of TSMC provided a guarantee for loans of US$68,000 thousand obtained by TSMC Development, Inc.

o. Unused credit lines as of December 31, 1999 were approximately $138,738.

18. OTHER SIGNIFICANT EVENTS

TSMC signed two merger agreements with TASMC on December 30, 1999 and with WSMC on January 7, 2000. TSMC will acquire and merge TASMC and WSMC. TSMC will be the surviving company, and TASMC and WSMC will be dissolved after the merger. The consolidation date is tentatively scheduled for June 30, 2000. The agreed exchange ratio is five shares of TASMC to one share of TSMC, (The exchange ratio will be adjusted again to follow the same proportion of TSMC's stock dividends once such those dividends are declared by the consolidation date.), and two shares of WSMC to one share of TSMC. The Agreement will be further granted approval by the shareholders from both companies and the governing regulator. The capital of TSMC is expected to increase by 1,488,684 thousand shares of common stock (such number will be adjusted after declaration of TSMC's 1999 stock dividend.)

19. FINANCIAL INSTRUMENTS

The Company entered into derivative financial instrument transactions for the years ended December 31, 1999 and 1998 to hedge market price risks associated with foreign-currency denominated receivables or payable, interest rate fluctuations and identifiable foreign currency commitments. Certain information on these contracts is as follows:

a. Outstanding forward exchange contracts as of December 31, 1999 and 1998:

1999	Currency	Contract Amount (Thousands)		Fair Value (Thousands)		Maturity	Maturity Amount	
Buy	US$	US$	25,000	JPY	2,472,080	Jul. 2000	NTD	879,154
Buy	JPY	JPY	1,916,783	US$	19,050	Feb. to Aug. 2000	USD	18,957
Buy	NLG	NLG	65,133	US$	30,185	Mar. to Sep. 2000	USD	31,604
Sell	US$	US$	81,367	JPY	8,303,350	Jan. to July 2000	NTD	2,564,297
Sell	US$	US$	16,000	NLG	34,926	Jan. 2000	NTD	497,159
Sell	US$	US$	30,000	NTD	941,847	Jan. 2000	NTD	947,880
1998								
Buy	US$	US$	111,000	NTD	3,574,885	Jan. 1999	NTD	3,580,421
Sell	US$	US$	40,000	NTD	1,296,959	Jan. to Feb. 1999	NTD	1,262,120

Receivables and payable from forward exchange contracts (shown in the balance sheets as part of "Other current assets" or "Other current liabilities" accounts) as of December 31, 1999 and 1998 aggregated $22,062 and $147,314, respectively; and receivables (shown in the balance sheets as part of "Other current assets" account) as of December 31, 1998 aggregated $21,572.

Net exchange gains for the years ended December 31, 1999 and 1998 were $105,859 and $336,807, respectively.

The net assets or liabilities hedged by the above forward exchange contracts are as follows:

	Thousands 1999		Thousands 1998	
Accounts receivable	US$	375,749	US$	206,926
Accounts payable and other payable – construction and equipment		151,392		66,397
Guarantee deposits		764,765		189,058
Commitments for purchase of properties	JPY	1,916,783		-
	NLG	65,133		-

b. Interest rate swaps

The Company entered into interest rate swap transactions to hedge exposure to rising floating interest rates on long-term bank loans. These transactions are summarized as follows:

Contract Date	Period	Amount
April 28, 1998	May 21, 1998 to May 21, 2003	$ 2,000,000
April 29, 1998	May 21, 1998 to May 21, 2003	1,000,000
June 26, 1998	June 26, 1998 to June 26, 2003	1,000,000
June 26, 1998	July 6,1998 to July 6, 2003	1,000,000

Additional interest expenses on these loans for the years ended December 31, 1999 and 1998 were $112,213 and $13,367, respectively.

c. Option contracts

The Company entered into foreign currency option contracts to hedge risks arising from exchange rate fluctuations pertaining to U.S. dollar cash receipts from its export sales or Japanese yen obligations due to importation of materials and machinery and equipment.

Outstanding option contracts as of December 31, 1999 were as follows:

Contract	Currency	Contract Amount (Thousands)	Carrying Value	Fair Value	Strike Price	Maturity
Call option sell	US$	US$100,000	$ 3,911	$ 3,911	$0.9785~0.9940 (US$/EUR)	Jan 2000
Call option sell	US$	US$60,000	3,035	3,035	106.6 (US$/JPY)	Jan 2000

The Company had no outstanding option contracts as of December 31, 1998.

For the years ended December 31, 1999 and 1998, the Company realized premium income of $63,809 and $8,280, respectively, on foreign currency call options bought and incurred losses of $86,746 on foreign currency put options written for 1999.

d. Transaction risk

1) Credit risk. The banks with which the Company has entered into the above contracts are reputable. Therefore, the Company is not expected to be exposed to significant credit risks.

2) Market price risk. All derivative financial instruments are for hedging risks associated with receivables or payable denominated in foreign currencies, interest rate fluctuations and foreign currency commitments. Gains or losses from forward exchange contracts for hedging foreign currency-denominated assets or liabilities are likely to be offset by realized exchanged gains or losses. Gain or loss from hedging an identifiable foreign currency commitment is deferred to the actual transaction date and recorded as an adjustment to the transaction price. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks from exchange rate and interest rate fluctuations are minimal.

3) Liquidity and cash flow. The purpose of forward exchange contracts and option contracts is to limit the Company‘s exposure to loss resulting from adverse fluctuations in assets and liabilities denominated in foreign currency and foreign currency purchase commitments. Interest rate swap transactions result in adjustments for interest only. Therefore, no significant extra cash requirement is expected.

e. The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1999		December 31, 1998	
	Carrying / Notional Amount	Fair Value	Carrying / Notional Amount	Fair Value
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 17,643,762	$ 17,643,762	$ 9,679,273	$ 9,679,273
Short-term investments	927,216	2,554,428	5,906,339	5,699,143
Receivables from related parties	205,847	205,847	201,301	201,301
Accounts and notes receivable	13,544,387	13,544,387	7,974,930	7,974,930
Long-term investments	16,164,676	28,181,143	6,659,117	12,191,027
Refundable deposits	20,814	20,814	23,755	23,755
Liabilities				
Payable to related parties	$ 1,029,964	$ 1,029,964	$ 155,086	$ 155,086
Accounts payable	2,927,915	2,927,915	2,176,023	2,176,023
Other payable – construction and equipment	8,663,286	8,663,286	3,601,832	3,601,832
Bank loans (including current portion)	12,952,462	12,952,462	8,920,313	8,920,313
Bonds payable	20,000,000	20,013,774	22,631,717	21,948,204
Guarantee deposits	5,185,362	5,185,362	6,123,825	6,123,825
Derivative financial instruments				
Forward exchange contracts (buy)	2,372,219	2,306,638	3,590,850	3,574,885
Forward exchange contracts (sell)	3,998,698	3,998,108	1,294,000	1,296,959
Interest rate swaps	7,488	7,488	7,423	7,423
Option	6,946	6,946	-	-

Fair values of financial instruments were determined as follows:

1) Short-term financial instruments -- carrying values.

2) Short-term investments -- market values.

3) Long-term investments – market value for listed companies and net equity value for the others.

4) Refundable deposits -- carrying values.

5) Long-term bank loans are forecasted using cash flows discounted at present value, using discount rates that are interest rates of similar long-term liabilities. Long-term bonds payable are discounted at present values. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.

6) Derivative financial instruments -- based on outright forward rates and interest rate in each contract.

7) Financial instruments or nonfinancial instruments are not necessarily all disclosed at fair value; thus, the sum of the fair values of the financial instruments listed above is not equal to the fair value of the Company.

20. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	Overseas	Domestic	Adjustments and Elimination	Consolidated
1999				
Sales to unaffiliated customers	$ 4,631,533	$ 68,434,988	$ -	$ 73,066,521
Transfers between geographic areas	975,431	4,696,218	(5,671,649)	-
Total sales	$ 5,606,964	$ 73,131,206	($ 5,671,649)	$ 73,066,521
Gross profit	$ 4,962,308	$ 32,215,693	($ 5,671,649)	$ 31,506,352
Operating expenses				(6,676,455)
Nonoperating income				1,519,514
Nonoperating expenses				(2,692,056)
Income before income tax				$ 23,657,355
Minority interest				($ 515,898)
Identifiable assets	$ 34,807,935	$ 133,836,962	($ 1,122,799)	$ 167,522,098
Long-term investments				16,164,676
Total assets				$ 183,686,774
1998				
Sales to unaffiliated customers	$ 227,857	$ 50,194,556	$ -	$ 50,422,413
Transfers between geographic areas	640,667	38,452	(679,119)	-
Total sales	$ 868,524	$ 50,233,008	($ 679,119)	$ 50,422,413
Gross profit	($ 1,517,154)	$ 21,540,943	($ 679,119)	$ 19,344,670
Operating expenses				(5,537,308)
Nonoperating income				1,658,764
Nonoperating expenses				(2,802,383)
Income before income tax				$ 12,663,743
Minority interest				$ 1,015,608
Identifiable assets	$ 27,160,972	$ 107,174,822	($ 233,429)	$ 134,102,365
Long-term investments				6,659,117
Total assets				$ 140,761,482

b. Gross export sales

Area	1999	1998
America	$38,108,080	$26,666,721
Asia	16,493,721	9,667,353
Europe	4,778,646	3,595,809
	$59,380,447	$39,929,883

The export sales information is presented by billed regions.

c. No single customer accounted for more than 10% of total sales.