

**Taiwan Semiconductor Manufacturing Company Ltd.
and Subsidiaries**

Consolidated Financial Statements as of December 31, 2002 and 2001

Together with Independent Auditors' Report

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

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 16, 2003

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

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries (the "Company") as of December 31, 2002, and 2001, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting and generally accepted accounting principles in the Republic of China.

As disclosed in Note 3 to the financial statements, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 30, “Accounting for Treasury Stock” on January 1, 2002. SFAS No. 30 requires a parent company to record stock held by its subsidiary as treasury stock. The adoption of SFAS No. 30 resulted in the decrease of long-term investments and simultaneous increase of the book value of treasury stock by NT\$1,923,492 thousand as of December 31, 2002. Furthermore, net income increased by NT\$25,909 thousand for the year ended December 31, 2002.

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Effective April 22, 2002
(Formerly a Member Firm of Andersen Worldwide, SC)
Taipei, Taiwan
The Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2002		2001		LIABILITIES AND SHAREHOLDERS' EQUITY	2002		2001	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 5)	\$ 67,790,204	17	\$ 37,556,295	10	Short-term bank loans (Note 11)	\$ 729,813	-	\$ 6,269,181	2
Short-term investments (Notes 2 and 6)	170,012	-	1,398,071	-	Payable to related parties (Note 20)	1,776,149	-	1,048,273	-
Receivable from related parties (Note 20)	439,659	-	494,732	-	Accounts payable (Note 23)	5,138,592	1	1,397,879	-
Notes receivable	60,240	-	176,582	-	Payable to contractors and equipment suppliers	14,132,100	4	12,867,236	4
Accounts receivable (Note 23)	19,530,702	5	19,957,636	5	Accrued expenses and other current liabilities (Note 23)	6,477,212	2	6,746,483	2
Allowance for doubtful receivables (Note 2)	(932,993)	-	(1,100,492)	-	Current portion of long-term liabilities (Notes 12, 13 and 14)	12,107,899	3	5,000,000	1
Allowance for sales returns and others (Note 2)	(2,372,515)	(1)	(2,581,551)	(1)	Total Current Liabilities	40,361,765	10	33,329,052	9
Inventories - net (Notes 2 and 7)	11,201,446	3	9,828,328	3					
Deferred income tax assets (Notes 2 and 16)	3,401,729	1	2,350,147	1	LONG-TERM LIABILITIES				
Prepaid expenses and other current assets (Notes 2, 20 and 23)	3,248,674	1	2,721,421	1	Long-term bank loans (Note 12)	11,051,454	3	22,399,360	6
Total Current Assets	102,537,158	26	70,801,169	19	Long-term bonds payables (Note 13)	35,000,000	9	24,000,000	7
					Other long-term payables (Note 14)	4,281,665	1	-	-
LONG-TERM INVESTMENTS (Notes 2, 3, 8, and 18)	10,635,496	3	11,599,150	3	Total Long-term Liabilities	50,333,119	13	46,399,360	13
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9, 12 and 20)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 15)	2,211,560	1	1,856,617	-
Land and land improvements	874,907	-	877,371	-	Guarantee deposits (Note 22)	1,395,066	-	7,212,688	2
Buildings	76,428,851	20	60,523,505	17	Deferred gain on sales and leaseback (Note 2)	114,928	-	268,165	-
Machinery and equipment	343,951,592	88	280,023,690	76	Others	177,256	-	141,498	-
Office equipment	6,996,027	2	6,062,496	2	Total Other Liabilities	3,898,810	1	9,478,968	2
Total cost	428,251,377	110	347,487,062	95					
Accumulated depreciation	(210,101,159)	(54)	(155,948,960)	(42)	MINORITY INTEREST IN SUBSIDIARIES (Note 2)	95,498	-	120,240	-
Advance payments and construction in progress	28,348,093	7	59,749,530	16					
Net Property, Plant and Equipment	246,498,311	63	251,287,632	69	Total Liabilities	94,689,192	24	89,327,620	24
GOODWILL (Note 2)	10,158,845	3	11,437,572	3	SHAREHOLDERS' EQUITY (Notes 2 and 17)				
					Capital stock - \$10 par value				
OTHER ASSETS					Authorized: 24,600,000 thousand shares				
Deferred charges - net (Notes 2 and 10)	9,873,825	3	3,769,750	1	Issued: Preferred - 1,300,000 thousand shares	13,000,000	3	13,000,000	3
Deferred income tax assets (Notes 2 and 16)	9,773,226	2	16,245,828	5	Common - 18,622,887 thousand shares in 2002 and 16,832,554 thousand shares in 2001	186,228,867	48	168,325,531	46
Refundable deposits (Note 20 and 22)	557,266	-	784,089	-					
Idle assets - net (Note 2)	386,317	-	-	-	Capital surplus:				
Assets leased to others (Note 2)	87,246	-	555,053	-	Merger and others (Note 2)	56,961,753	15	57,128,433	16
Miscellaneous	34,709	-	37,452	-	Treasury stock (Notes 3 and 18)	43,036	-	-	-
Total Other Assets	20,712,589	5	21,392,172	6	Retained earnings:				
					Appropriated as legal reserve	18,641,108	5	17,180,067	5
					Appropriated as special reserve	-	-	349,941	-
					Unappropriated earnings	22,151,089	5	19,977,402	6
					Unrealized loss on long-term investments (Note 2)	(194,283)	-	-	-
					Cumulative translation adjustments (Note 2)	945,129	-	1,228,701	-
					Treasury stock (at cost) - 42,001 thousand shares (Notes 2, 3 and 18)	(1,923,492)	-	-	-
					Total Shareholders' Equity	295,853,207	76	277,190,075	76
TOTAL ASSETS	\$ 390,542,399	100	\$ 366,517,695	100	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 390,542,399	100	\$ 366,517,695	100

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

(With T N Soong & Co report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2002 and 2001

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

	2002		2001	
	Amount	%	Amount	%
GROSS SALES (Notes 2, 20 and 24)	\$ 166,187,670		\$ 128,560,708	
SALES RETURNS AND ALLOWANCES (Note 2)	(3,886,462)		(2,675,816)	
NET SALES	162,301,208	100	125,884,892	100
COST OF SALES (Note 20)	<u>109,988,058</u>	<u>68</u>	<u>92,228,098</u>	<u>73</u>
GROSS PROFIT	<u>52,313,150</u>	<u>32</u>	<u>33,656,794</u>	<u>27</u>
OPERATING EXPENSES (Notes 20 and 24)				
Research and development	11,725,035	7	10,649,019	9
General and administrative	7,007,283	5	7,939,839	6
Marketing	<u>1,991,793</u>	<u>1</u>	<u>2,290,139</u>	<u>2</u>
Total Operating Expenses	<u>20,724,111</u>	<u>13</u>	<u>20,878,997</u>	<u>17</u>
INCOME FROM OPERATIONS	<u>31,589,039</u>	<u>19</u>	<u>12,777,797</u>	<u>10</u>
NON-OPERATING INCOME (Note 24)				
Interest	1,094,724	1	1,486,656	1
Royalty income (Note 22)	527,126	-	1,301,606	1
Gain on sales of property, plant and equipment (Note 2)	273,998	-	52,376	-
Technical service income (Notes 20 and 22)	162,149	-	55,077	-
Gain on sales of short-term investments - net (Note 2)	69,610	-	1,619,062	1
Insurance compensation - net	-	-	860,835	1
Premium income from option contracts - net (Notes 2 and 23)	-	-	234,732	-
Gain on sales of long-term investments - net (Note 2)	-	-	105,439	-
Other (Note 20)	<u>291,860</u>	<u>-</u>	<u>759,793</u>	<u>1</u>
Total Non-operating Income	<u>2,419,467</u>	<u>1</u>	<u>6,475,576</u>	<u>5</u>

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
NON-OPERATING EXPENSES (Note 24)				
Interest (Notes 2, 9 and 23)	\$ 2,616,740	2	\$ 3,144,042	3
Investment loss recognized by equity method - net (Notes 2 and 8)	1,976,847	1	3,959,020	3
Permanent loss on long-term investments (Note 2)	795,674	1	-	-
Loss on sales of and provision for loss on property, plant and equipment (Note 2)	466,385	-	235,629	-
Premium expense from option contracts - net (Notes 2 and 23)	419,513	-	-	-
Loss on sales of long-term investments - net (Note 2)	170,831	-	-	-
Foreign exchange loss - net (Notes 2 and 23)	120,568	-	695,620	-
Casualty loss - net (Note 2)	119,485	-	-	-
Amortization of bond issuance costs (Note 2)	18,523	-	12,504	-
Other	81,792	-	420,053	-
Total Non-operating Expenses	<u>6,786,358</u>	<u>4</u>	<u>8,466,868</u>	<u>6</u>
INCOME BEFORE INCOME TAX (Note 24)	27,222,148	16	10,786,505	9
INCOME TAX BENEFIT(EXPENSE) (Notes 2 and 16)	(<u>5,636,648</u>)	(<u>3</u>)	<u>3,740,678</u>	<u>3</u>
INCOME BEFORE MINORITY INTEREST	21,585,500	13	14,527,183	12
MINORITY INTEREST IN LOSS (INCOME) OF SUBSIDIARIES (Notes 2 and 24)	<u>24,791</u>	<u>-</u>	(<u>44,009</u>)	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 21,610,291</u>	<u>13</u>	<u>\$ 14,483,174</u>	<u>12</u>
	<u>Income</u>	<u>Consolidated</u>	<u>Income</u>	<u>Consolidated</u>
	<u>Before</u>	<u>Net Income</u>	<u>Before</u>	<u>Net Income</u>
	<u>Income Tax</u>		<u>Income Tax</u>	<u>Net Income</u>
CONSOLIDATED EARNINGS PER SHARE (Note 19)				
Basic earnings per share	<u>\$ 1.44</u>	<u>\$ 1.14</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>
Diluted earnings per share	<u>\$ 1.44</u>	<u>\$ 1.14</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>

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

(With T N Soong & Co report dated January 16, 2003)

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, 2002 and 2001
(In Thousand New Taiwan Dollars)

	CAPITAL STOCK ISSUED				CAPITAL SURPLUS (Notes 2 and 17)							RETAINED EARNINGS (Note 17)				UNREALIZED GAIN (LOSS) ON LONG-TERM INVESTMENTS (Note 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TREASURY STOCK (Notes 2, 3 and 18)	TOTAL SHAREHOLDERS' EQUITY	
	Preferred Stock		Common Stock		From Merger	Additional Paid-in Capital	From Long-term Investments	Excess on Foreign Bond Investment	Gain on Sales of Properties	Donation	Treasury Stock	Total	Legal Reserve	Special Reserve	Unappropriated Earnings					Total
(Thousand) Shares	Amount	(Thousand) Shares	Amount																	
BALANCE, JANUARY 1, 2001	1,300,000	\$ 13,000,000	11,689,365	\$116,893,646	\$22,329,129	\$23,172,550	\$ 246,219	\$ 9,410,632	\$ 127,236	\$ 55	\$ -	\$55,285,821	\$10,689,323	\$ 1,091,003	\$ 65,143,847	\$76,924,173	(\$ 71,564)	(\$ 278,377)	\$ -	\$261,753,699
Appropriations of prior year's earnings																				
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	6,490,744	-	(6,490,744)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	(741,062)	741,062	-	-	-	-	-	-
Bonus to employees - stock	-	-	467,443	4,674,426	-	-	-	-	-	-	-	-	-	-	(4,674,426)	(4,674,426)	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41,137)	(41,137)	-	-	-	(41,137)
Stock dividends - 40%	-	-	4,675,746	46,757,459	-	-	-	-	-	-	-	-	-	-	(46,757,459)	(46,757,459)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(584,303)	(584,303)	-	-	-	(584,303)
Net income in 2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,483,174	14,483,174	-	-	-	14,483,174
Reclassification of the accumulated deficits from the merged company	-	-	-	-	1,803,168	-	-	-	-	-	-	1,803,168	-	-	(1,803,168)	(1,803,168)	-	-	-	-
Gain on sales of property, plant and equipment	-	-	-	-	-	-	-	-	39,282	-	-	39,282	-	-	(39,282)	(39,282)	-	-	-	-
Gain on sales of property, plant and equipment from investees	-	-	-	-	-	-	162	-	-	-	-	162	-	-	(162)	(162)	-	-	-	-
Reversal of the unrealized loss on long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,564	-	-	71,564
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,507,078	-	1,507,078
BALANCE, DECEMBER 31, 2001	1,300,000	13,000,000	16,832,554	168,325,531	24,132,297	23,172,550	246,381	9,410,632	166,518	55	-	57,128,433	17,180,067	349,941	19,977,402	37,507,410	-	1,228,701	-	277,190,075
Appropriations of prior year's earnings																				
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	1,448,317	-	(1,448,317)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	(349,941)	349,941	-	-	-	-	-	-
Bonus to employees - stock	-	-	107,078	1,070,783	-	-	-	-	-	-	-	-	-	-	(1,070,783)	(1,070,783)	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(455,000)	(455,000)	-	-	-	(455,000)
Stock dividends - 10%	-	-	1,683,255	16,832,553	-	-	-	-	-	-	-	-	-	-	(16,832,553)	(16,832,553)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(133,848)	(133,848)	-	-	-	(133,848)
Net income in 2002	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,610,291	21,610,291	-	-	-	21,610,291
Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings	-	-	-	-	-	-	-	(166,518)	-	-	(166,518)	12,724	-	-	153,794	166,518	-	-	-	-
Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings	-	-	-	-	-	(162)	-	-	-	-	(162)	-	-	-	162	162	-	-	-	-
Unrealized loss on long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(194,283)	-	-	(194,283)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(283,572)	-	(283,572)
Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,923,492)	(1,923,492)
Capital surplus resulted from sales of treasury stock	-	-	-	-	-	-	-	-	-	-	43,036	43,036	-	-	-	-	-	-	-	43,036
BALANCE, DECEMBER 31, 2002	1,300,000	\$ 13,000,000	18,622,887	\$186,228,867	\$24,132,297	\$23,172,550	\$ 246,219	\$ 9,410,632	\$ -	\$ 55	\$ 43,036	\$57,004,789	\$18,641,108	\$ -	\$ 22,151,089	\$40,792,197	(\$194,283)	\$ 945,129	(\$ 1,923,492)	\$295,853,207

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

(With T N Soong & Co report dated January 16, 2003)

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, 2002 and 2001

(In Thousand New Taiwan Dollars)

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 21,610,291	\$ 14,483,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65,000,873	55,323,040
Deferred income taxes	5,421,020	(3,788,154)
Investment loss recognized by equity method - net	1,976,847	3,959,020
Permanent loss on long-term investments	795,674	-
Loss (gain) on sales of long-term investments - net	170,831	(105,439)
Loss on sales of and provision for loss on property, plant and equipment - net	192,387	183,253
Reversal of provision for losses on short-term investments - net	-	(13,146)
Pension cost accrued	355,705	345,340
Allowance for doubtful receivables	(167,499)	153,758
Allowance for sales returns and others	(209,036)	123,228
Minority interest in income (loss) of subsidiaries	(24,791)	44,009
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	55,073	453,994
Notes receivable	116,342	(51,407)
Accounts receivable	426,934	10,377,678
Inventories - net	(1,373,118)	2,957,395
Forward exchange contract receivable	(199,609)	49,480
Prepaid expenses and other current assets	(330,819)	202,303
Increase (decrease) in:		
Payable to related parties	727,876	(1,558,066)
Accounts payables	3,740,713	(7,109,948)
Forward exchange contract payables	(379,579)	218,165
Accrued expenses and other current liabilities	<u>601,110</u>	<u>(429,965)</u>
Net Cash Provided by Operating Activities	<u>98,507,225</u>	<u>75,817,712</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	1,184,419	117,173
Acquisitions of:		
Long-term investments	(3,192,427)	(5,120,580)
Property, plant and equipment	(55,235,458)	(70,201,205)
Proceeds from sales of:		
Long-term investments	53,048	559,137
Property, plant, and equipment	495,878	301,416
Increase in deferred charges	(5,724,583)	(1,805,250)
Decrease in refundable deposits	226,823	194,978
Decrease (increase) in other assets	2,711	(9,162)

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2002</u>	<u>2001</u>
Increase (decrease) in minority interest in subsidiaries	\$ 49	(\$ 249,166)
Increase in goodwill	-	(1,019,227)
Net Cash Used in Investing Activities	<u>(62,189,540)</u>	<u>(77,231,886)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of:		
Short-term bank loans	-	2,435,340
Long-term bonds	10,000,000	-
Payments on:		
Short-term bank loans	(5,539,368)	-
Long-term bank loans	(4,397,306)	(940,007)
Increase (decrease) in guarantee deposits	(5,817,622)	126,309
Decrease in lease obligation	-	(51,286)
Cash dividends paid for preferred stocks	(455,000)	(455,000)
Remuneration paid to directors and supervisors	(133,848)	(170,440)
Increase in issuance costs of financing	(3,002)	(47,689)
Net Cash (Used in) Provided by Financing Activities	<u>(6,346,146)</u>	<u>897,227</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,971,539	(516,947)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	262,370	(766,975)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>37,556,295</u>	<u>38,840,217</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$67,790,204</u>	<u>\$37,556,295</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding the amounts capitalized of NT\$213,686 thousand and NT\$507,094 thousand in 2002 and 2001, respectively)	<u>\$ 2,301,765</u>	<u>\$ 3,468,112</u>
Income tax paid	<u>\$ 165,121</u>	<u>\$ 20,767</u>
Noncash investing and financing activities:		
Reclassification of a parent company stock held by subsidiaries from long-term investments to treasury stock	<u>\$ 1,923,492</u>	<u>\$ -</u>
Effect of exchange rate changes on cash and cash equivalents	(\$ 142,438)	\$ 1,258,395
Current portion of long-term liabilities	<u>\$12,107,899</u>	<u>\$ 5,001,116</u>
Cash paid for acquisition of property, plant and equipment:		
Total acquisition	\$ 56,500,322	\$ 57,518,168
Decrease (increase) in payables to contractors and equipment suppliers	(1,264,864)	12,683,037
	<u>\$55,235,458</u>	<u>\$70,201,205</u>
Cash paid for acquisition of deferred charges:		
Total acquisition	\$ 10,401,176	\$ 1,805,250
Increase in other long-term payable (including current portion)	(4,676,593)	-
	<u>\$ 5,724,583</u>	<u>\$ 1,805,250</u>

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

(With T N Soong & Co report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

1. GENERAL

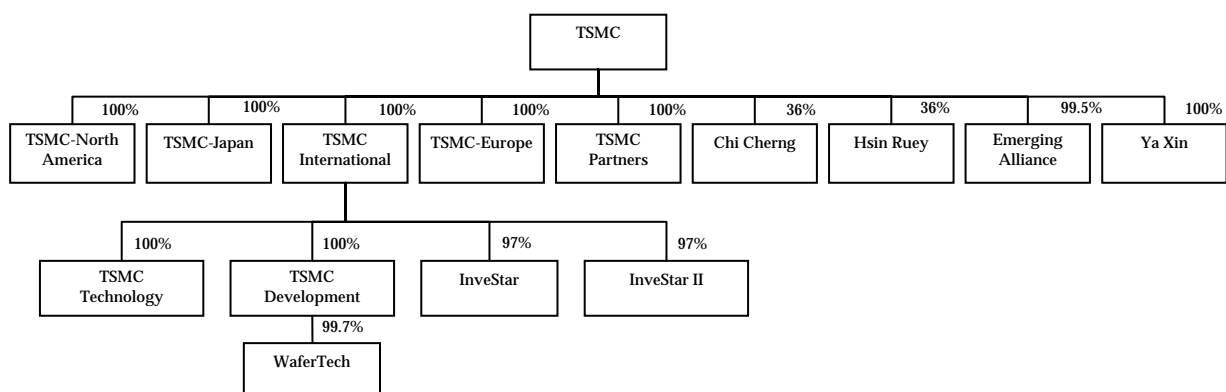
Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), a Republic of China corporation, was incorporated as a venture among the government of the ROC, acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private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

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

TSMC has six direct wholly-owned subsidiaries, namely, TSMC North America (TSMC-North America), Taiwan Semiconductor Manufacturing Company Europe B.V (TSMC-Europe), TSMC Japan K. K. (TSMC-Japan), TSMC International Investment Ltd. (TSMC International), TSMC Partners Ltd. (TSMC Partners), Ya Xin Technology, Inc. (Ya Xin), a 99.5% owned subsidiary, Emerging Alliance Fund, LP (Emerging Alliance) and two 36% owned affiliates – Chi Cherng Investment Co., Ltd. (Chi Cherng, which is 36% owned by TSMC and 64% owned by Hsin Ruey Investment Co., Ltd.) and Hsin Ruey Investment Co., Ltd. (Hsin Ruey, which is 36% owned by TSMC and 64% owned by Chi Cherng). TSMC International has two wholly-owned subsidiaries – TSMC Development, Inc. (TSMC Development), TSMC Technology, Inc. (TSMC Technology), and two 97%-owned subsidiaries – InveStar Semiconductor Development Fund, Inc. (InveStar) and InveStar Semiconductor Development Fund, Inc. (II) LDC (InveStar II). TSMC Development has a 99.7% owned subsidiary, WaferTech, LLC (WaferTech).

TSMC established Ya Xin in November 2002 and subsequently signed a merger agreement with Global UniChip Corp. (Global UniChip) in December 2002. The merger was effective on January 4, 2003 and Global UniChip is the surviving company. TSMC holds 52% of Global UniChips' shares after the completion of the merger.

The following diagram presents information regarding the relationship and ownership percentages among TSMC and its subsidiaries as of December 31, 2002:



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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

TSMC consolidates the accounts of all majority (directly and indirectly) owned subsidiaries. The consolidated financial statements include, as of and for the years ended December 31, 2002 and 2001, the accounts of TSMC, TSMC-North America, TSMC-Europe, TSMC-Japan, TSMC Partners, Emerging Alliance, Chi Cherng, Hsin Ruey, Ya Xin (a newly established entity in 2002) and TSMC International and its subsidiaries, InveStar, InveStar II, TSMC Development (including WaferTech) and TSMC Technology. TSMC and the foregoing subsidiaries are hereinafter referred to collectively as the "Company". All significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

TSMC's investees, Hsin Ruey, Chi Hsin Investment Co., Ltd. (Chi Hsin) and Kung Cherng Investment Co., Ltd. (Kung Cherng) were merged on October 30, 2002, with Hsin Ruey as the surviving company. In addition, TSMC's investees, Chi Cherng, Cherng Huei Investment Co., Ltd. (Cherng Huei) and Po Cherng Investment Co., Ltd. (Po Cherng) were merged on October 30, 2002 with Chi Cherng as the surviving company. Chi Hsin, Kung Cherng, Cherng Huei and Po Cherng were consolidated entities as of and for the year ended December 31, 2001.

Minority interests in Emerging Alliance (0.5%), InveStar (3%), InveStar II (3%) and WaferTech (0.3% in 2002 and 1% in 2001) are presented separately in the consolidated financial statements.

Cash and cash equivalents

Government bonds acquired under agreements that provide for their repurchase within less than three months from date of purchase are classified as cash equivalents.

Short-term investments

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

Allowance for doubtful receivables

Allowances for doubtful receivables are provided based on a review of the collectibility of accounts receivables.

Sales and sales returns and allowances

Sales are recognized when titles of products and risks of ownerships are transferred to customers, primarily upon shipment. Allowance and related provisions for sales returns and others are estimated based on historical experience. Such provisions are deducted from sales in the year the products are sold and the estimated related costs are deducted from cost of sales.

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost at the end of each period. 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 of companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method. The Company's proportionate share in the net income or net loss of investee companies are recognized as components of the "Investment income/loss recognized by equity method - net" account. The Company adopted Statements of Financial Accounting Standards ("SFAS") No. 30, "Accounting for Treasury Stock" on January 1, 2002. SFAS No. 30 requires a parent company to record stock held by its subsidiary as treasury stock. The recorded value of treasury stock is based on the carrying values of the short/long-term investments on the subsidiaries' books as of January 1, 2002.

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in equity investee differs from the amount of Company's proportionate share in the investee's net equity. The Company records such difference as an adjustment to "capital surplus" as well as the "long-term investments" accounts. In the event an investee has an accumulated deficit, it will record an offset to its capital surplus, excluding the reserve for asset revaluation, through retained earnings. The Company will also record a corresponding entry equivalent to its proportionate share of the investee capital surplus, excluding the reserve for asset revaluation, that was generated subsequent to any acquisition of equity interest in the investee.

Other stock investments are accounted for using the cost method. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying values of the long-term investments if the dividends are received in the same year that the related investments are acquired. Stock dividends are recognized neither as investment income nor increase of long-term investment but recorded only as an increase in the number of shares held. An allowance is recognized for any decline in the market value of investments using quoted market prices with the corresponding amount debited to shareholders' equity. A reversal of the allowance will result from a subsequent recovery of the market value. The carrying values of investments with no quoted market price are reduced to reflect an other than temporary decline in their values with the related impairment loss charged to income.

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

Investment in convertible notes and stock purchase warrants are carried at cost.

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

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

Gain or loss on transactions with investee companies wherein the Company owned at least 20% of the outstanding common stock but less than a controlling interest are deferred in proportion to the ownership percentage until realized through a transaction with a third party. The entire amount of the gains or losses on sales to majority-owned subsidiaries are deferred until such gains or losses are realized through the subsequent sale of the related products to third parties. Gains or losses from sales by investee companies to the Company are deferred in proportion to the ownership percentage until realized through transactions with third parties.

Property, plant and equipment, assets leased to others and idle assets

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Idle assets are stated at the lower of book value or net realized value. Significant additions, renewals, betterments and interest expense incurred during the construction period are capitalized. Maintenance and repairs are expensed in the period incurred. Property, plant and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum rent payments, or the market value of the property at the inception date of the lease. The lessee's periodic rental payment includes the purchase price of the leased property and the interest expense.

Depreciation is computed using the straight-line method over these estimated service lives, which range as follows: Land improvements - 20 years; buildings - 10 to 20 years; machinery and equipment - 5 years; and office equipment - 3 to 7 years.

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

Goodwill

Goodwill represents the excess of the consideration paid for acquisitions over the fair market value of identifiable net assets acquired and the difference between the investment cost and the Company's proportionate share in the net assets of acquired investee companies. Goodwill is amortized using the straight-line method over the estimated life of 10 years.

Deferred charges

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

Pension costs

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

Deferred gain on sales and leaseback

The gain on the sale of property that is simultaneously leased back is deferred by the Company. This deferred gain on sales and leaseback transactions is amortized as follows: (a) operating leases - adjustment of rental expenses over the term of the leases and (b) capital leases - adjustment of depreciation expenses over the estimated useful life of the property or the term of the lease; whichever is shorter.

Casualty loss

Casualty loss consists of the accrued loss caused by the earthquake on March 31, 2002 less the estimated insurance compensation.

Income tax

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

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

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

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

Derivative financial instruments

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

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

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

Foreign-currency transactions

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

Translation of foreign-currency financial statements

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

3. NEW ACCOUNTING PRONOUNCEMENTS

In accordance with the Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock" and other relevant regulations from Securities and Futures Commission (SFC), the Company is required to reclassify its common stock held by subsidiaries from short/long-term investments to treasury stock. The reclassification is based on the carrying value of NT\$2,115,695 thousand as recorded by the subsidiaries as of January 1, 2002. The adoption of SFAS No. 30 resulted in the decrease of long-term investments and the increase of treasury stock by NT\$1,923,492 thousand as of December 31, 2002, and an increase in net income for the year ended December 31, 2002 by NT\$25,909 thousand.

4. SIGNIFICANT ELIMINATION ENTRIES

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

<u>Company</u>	<u>Account</u>	<u>Amount</u>	<u>Transaction Entity</u>
TSMC	Payable to related parties	\$ 617,751	WaferTech
		29,520	TSMC-Europe
		19,643	TSMC-Japan
		14,511	TSMC-North America
		9,424	TSMC Technology
	Receivable from related parties	9,739,236	TSMC-North America
		4,545	TSMC Technology
	Sales	94,433,401	TSMC-North America
		1,152	WaferTech
	Purchases	9,955,154	WaferTech
Marketing expenses - commissions	208,226	TSMC-Japan	
	132,086	TSMC-Europe	
Other revenue	1,635	WaferTech	
TSMC	Notes receivable	347,530	TSMC Technology
International	Interest receivable	188,842	TSMC Technology
	Royalty income	455,778	TSMC Technology
	Interest revenue	26,660	TSMC Technology
TSMC Partners	Notes receivable	10,666,619	TSMC International
	Deferred revenue	9,398,140	TSMC International
	Royalty income	607,669	TSMC International
	Interest income	345,620	TSMC International
TSMC Technology	Accounts receivable	4,986	WaferTech
	Deferred revenue	13,356	TSMC Development
	Management service income	27,331	WaferTech
	Technical service income	14,758	TSMC Development
WaferTech	Deferred charges	31,278	TSMC Technology
	Administrative expense	34,563	TSMC Technology

5. CASH AND CASH EQUIVALENTS	<u>2002</u>	<u>2001</u>
Cash and bank deposits	\$ 65,051,337	\$ 35,830,636
Government bonds acquired under repurchase agreement	<u>2,738,867</u>	<u>1,725,659</u>
	<u>\$ 67,790,204</u>	<u>\$ 37,556,295</u>

6. SHORT-TERM INVESTMENTS	<u>2002</u>	<u>2001</u>
Listed stocks	<u>\$ 170,012</u>	<u>\$ 1,398,071</u>
Market value	<u>\$ 2,455,582</u>	<u>\$ 6,917,133</u>

The market values of listed stocks as of December 31, 2002 and 2001 were based on the average closing price for the month of December 2002 and 2001, respectively.

7. INVENTORIES – NET	<u>2002</u>	<u>2001</u>
Finished goods	\$ 3,837,245	\$ 1,790,305
Work in process	7,611,344	7,374,752
Raw materials	518,196	744,719
Supplies and spare parts	<u>970,960</u>	<u>1,110,323</u>
	12,937,745	11,020,099
Less – allowance for losses	<u>(1,736,299)</u>	<u>(1,191,771)</u>
	<u>\$ 11,201,446</u>	<u>\$ 9,828,328</u>

8. LONG-TERM INVESTMENTS	<u>2002</u>		<u>2001</u>	
	Carrying	% of	Carrying	% of
	Value	Owner-	Value	Owner-
	<u>Value</u>	Ship	<u>Value</u>	Ship
<u>Shares of stock</u>				
Equity method:				
Publicly traded				
Vanguard International				
Semiconductor (VIS)	\$ 2,415,297	25	\$ 3,377,526	25
Non-publicly traded				
Systems on Silicon Manufacturing				
Company Pte Ltd. (SSMC)	<u>3,136,115</u>	32	<u>2,907,967</u>	32
	<u>5,551,412</u>		<u>6,285,493</u>	
Prepayment for subscribed stocks				
VIS	<u>849,360</u>	-	-	-
	<u>849,360</u>		-	

(Forward)

<u>Cost method</u>	<u>2002</u>		<u>2001</u>	
	<u>Carrying Value</u>	<u>% of Owner-Ship</u>	<u>Carrying Value</u>	<u>% of Owner-Ship</u>
Common stock				
Publicly traded stock				
Amkor Technology	\$ 280,748	-	\$ 280,748	-
Monolithic System Tech.	104,289	2	-	-
Taiwan Mask	32,129	2	32,129	2
Non-publicly traded stock				
United Technology	193,584	11	193,584	11
Global Testing Corp. (GTC)	179,882	10	179,951	10
Shin-Etsu Handotai Taiwan Co., Ltd.	105,000	7	105,000	7
Global Investment Holding	100,000	6	107,270	6
Hong Tung Venture Capital	83,916	10	150,000	10
EoNEX Technologies, Inc.	70,305	6	-	-
Procoat Technology, Inc.	67,490	12	-	-
Conwise Technology Corp. Ltd.	67,039	14	-	-
Goyatek Technology, Inc.	62,104	8	-	-
Programmable Microelectronics (Taiwan) Corp.	59,358	4	59,296	4
W.K. Technology, Fund IV	50,000	2	50,000	2
RichTek Technology Corp.	46,986	9	45,015	10
APE	46,743	6	46,748	6
Auden Technology MFG. Co., Ltd.	38,819	4	-	-
Yi Yang Technology	33,606	9	-	-
TrendChip Technologies Corp.	29,992	5	-	-
ChipStrate Technology, Inc.	10,426	9	69,658	9
GeoVision, Inc.	4,518	2	-	-
Divio, Inc.	104	-	105	-
EmpowerTel Networks, Inc.	-	-	12,031	1
3DFX Interactive	-	-	10,396	-
Ubicom, Inc.	-	-	6,028	2
Capella Microsystems	-	-	4,740	2
Equator Technologies, Inc.	-	-	3,151	-
	<u>1,667,038</u>		<u>1,355,850</u>	
Preferred stock				
Non-publicly traded stock				
Sonics, Inc.	229,787	10	231,397	7
Tropian, Inc.	150,620	5	151,688	5
Reflectivity, Inc.	146,262	15	69,998	6
Monolithic Power Systems, Inc.	137,135	16	123,037	18
Atheros Communications, Inc.	124,868	3	125,754	2
Memsic, Inc.	106,344	23	107,088	20
Pixim, Inc.	87,845	3	87,498	3

(Forward)

	2002		2001	
	Carrying Value	% of Owner-Ship	Carrying Value	% of Owner-Ship
Quicksilver Technology	\$ 82,153	4	\$ 122,497	29
FormFactor, Inc.	69,506	1	69,998	1
Kilopass Technologies, Inc.	69,506	18	-	-
NetLogic Microsystems	65,005	1	64,748	1
NanoAmp Solutions, Inc.	64,397	4	64,838	3
Newport Opticom, Inc.	63,288	15	77,124	15
Integrated Memory Logic, Inc.	62,868	12	63,318	10
Match Lab, Inc.	60,818	11	61,249	10
IP Unity	56,856	2	-	-
Ikanos Communication	52,707	2	52,498	3
Ralink Technologies, Inc.	52,130	6	52,498	7
SiRF Technology Holdings, Inc.	50,878	1	51,248	1
LightSpeed Semiconductor Corp.	46,534	3	107,251	1
Advanced Analogic Technology, Inc.	43,824	2	44,131	2
OEpic, Inc.	43,094	7	87,497	6
Accelerant Networks	35,138	1	-	-
Litchfield Communications	35,138	6	34,999	6
Quake Technologies, Inc.	35,138	1	34,999	1
Spreadtrum	35,138	-	-	-
HiNT Corp.	34,753	5	34,999	5
Silicon Data, Inc.	34,753	7	8,750	2
XHP Microsystem	26,353	6	-	-
Angstrom Systems, Inc.	26,065	7	26,249	7
Equator Technologies, Inc.	24,675	2	99,358	2
Capella Microsystems, Inc.	23,667	12	80,441	8
Sensory, Inc.	21,720	5	43,749	4
Iridigm Display	17,639	2	-	-
Mosaic Systems	17,569	6	-	-
Zenesis Technologies	17,569	4	-	-
Divio, Inc.	17,377	4	17,500	4
Incentia Design Systems, Inc.	17,377	2	17,499	2
Oridus, Inc. (CreOsys, Inc.)	15,639	8	52,498	8
Signia Technologies, Inc.	15,639	12	78,748	20
LeadTONE Wireless, Inc.	8,270	6	-	-
eBest!, Inc.	3,370	1	-	-
EmpowerTel Networks, Inc.	-	-	179,480	7
RapidStream, Inc.	-	-	73,754	6
Y-Media Corp.	-	-	52,499	2
Rise Technology Company	-	-	52,498	2
Ubicom, Inc.	-	-	47,636	2
OmegaBand, Inc. (Seagull Semiconductor, Inc.)	-	-	43,749	6

(Forward)

	<u>2002</u>		<u>2001</u>	
	Carrying Value	% of Owner- Ship	Carrying Value	% of Owner- Ship
PicoTurbo, Inc.	\$ -	-	\$ 43,749	7
Procoat Technology, Inc.	-	-	<u>30,000</u>	10
	<u>2,329,412</u>		<u>2,868,509</u>	
Convertible notes				
eBest!, Inc.	834	-	-	-
PicoTurbo, Inc.	-	-	10,323	-
Rise Technology Company	-	-	10,500	-
OmegaBand, Inc. (Seagull Semiconductor, Inc.)	-	-	<u>6,730</u>	-
	<u>834</u>		<u>27,553</u>	
Funds				
Horizon Ventures	195,452	-	125,701	-
Crimson Asia Capital	41,988	-	27,091	-
BIAM Global Opportunity Fund	-	-	<u>908,944</u>	-
	<u>237,440</u>		<u>1,061,736</u>	
Warrant				
OEpic, Inc.	-	-	<u>9</u>	-
	<u>\$ 10,635,496</u>		<u>\$ 11,599,150</u>	

The carrying value of the investments accounted for using the equity method and the related investment losses were determined based on the audited financial statements of the investees in the same year. The investment losses of investee companies consist of the following:

	<u>2002</u>	<u>2001</u>
SSMC	\$ 1,155,076	\$ 1,722,080
VIS	<u>821,771</u>	<u>2,236,940</u>
	<u>\$ 1,976,847</u>	<u>\$ 3,959,020</u>

The market values and net asset values of the Company's long-term investments are as follows:

	<u>2002</u>	<u>2001</u>
Market value of publicly traded stocks	\$ 4,792,108	\$ 7,056,942
Equity in the net assets of non-publicly traded stocks	7,720,481	8,286,549
Net asset value of funds	237,440	1,202,453

On January 8, 2003, the Company's investee company, VIS, issued 600,000 thousand shares of common stock at a discounted price of NT\$7 per share. The Company prepaid NT\$849,360 thousand at the end of 2002 for the share subscription and paid an additional NT\$766,815 thousand in January 2003. In this round of equity offering, the Company purchased a total of 230,882 thousand shares of VIS stocks. As a result, its ownership in VIS increased from 25% to 28%.

9. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	<u>2002</u>	<u>2001</u>
Land improvements	\$ 127,341	\$ 108,770
Buildings	24,140,506	16,604,096
Machinery and equipment	181,998,606	136,033,250
Office equipment	<u>3,834,706</u>	<u>3,202,844</u>
	<u>\$ 210,101,159</u>	<u>\$ 155,948,960</u>

Information on the status of expansion or construction plans of TSMC's manufacturing facilities at December 31, 2002 is as follows:

<u>Manufacturing Plant</u>	<u>Estimated Cost</u>	<u>Accumulated Expenditures</u>	<u>Expected or Actual Date of Starting Operations</u>
Fab 6	\$ 93,932,000	\$ 87,054,700	March 2000
Fab 12 phase 1	80,318,400	47,095,400	March 2002
Fab 14 phase 1	30,411,000	22,169,900	June 2003

Interest expense (before deducting capitalized amounts of NT\$213,686 thousand and NT\$507,094 thousand in 2002 and 2001, respectively) for the years ended December 31, 2002 and 2001 were NT\$2,830,426 thousand and NT\$3,651,136 thousand, respectively. The interest rates used for purpose of calculating the capitalized amount were 2.07% to 5.283% in 2002 and 2.54% to 5.283% in 2001.

10. DEFERRED CHARGES – NET	<u>2002</u>	<u>2001</u>
Technology license fee	\$ 6,519,334	\$ 996,578
Software and system design costs	3,167,366	2,073,802
Bond issuance costs and financing costs	127,195	150,142
Technology know-how	49,500	103,500
Others	<u>10,430</u>	<u>445,728</u>
	<u>\$ 9,873,825</u>	<u>\$ 3,769,750</u>

11. SHORT-TERM BANK LOANS	<u>2002</u>	<u>2001</u>
Unsecured loan in US dollars:		
US\$21,000 thousand, refinanced in May 2002, repayable by May 2003, annual interest at 1.82% and 2.33% in 2002 and 2001, respectively	\$ 729,813	\$ 734,979
US\$82,000 thousand, repayable by March 2002, annual interest at 2.679%	-	2,869,918

(Forward)

	<u>2002</u>	<u>2001</u>
US\$5,500 thousand, repayable by June 2002, annual interest at 3.188%	\$ -	\$ 192,495
US\$21,565 thousand, repayable by October 2002, annual interest at 2.590%	-	754,735
US\$46,000 thousand, repayable by October 2002, annual interest at 2.548%	-	1,609,954
Secured loan in NT dollars:		
NT\$107,100 thousand, repayable by October 2002, annual interest at 3.2% to 3.8%	<u>-</u>	<u>107,100</u>
	<u>\$ 729,813</u>	<u>\$ 6,269,181</u>

As of December 31, 2002, TSMC provided NT\$1,390,120 thousand (US\$40,000 thousand) guarantee for the above US\$21,000 thousand loan.

Unused credit lines as of December 31, 2002 aggregated approximately NT\$7,930,000 thousand and US\$366,500 thousand.

12. LONG-TERM BANK LOANS

	<u>2002</u>	<u>2001</u>
Secured loan:		
US\$440,000 thousand, repayable by February 2005, US\$122,000 thousand repaid in 2002, annual floating interest at 2.078% and 2.578% in 2002 and 2001, respectively	\$ 11,051,454	\$ 15,399,560
Unsecured loan:		
US\$200,000 thousand, repayable by December 2003, annual interest at 2.0375% and 2.54% in 2002 and 2001, respectively	<u>6,950,600</u>	<u>6,999,800</u>
	<u>\$ 18,002,054</u>	<u>\$ 22,399,360</u>

As of December 31, 2002, all of the loans above were guaranteed by TSMC. In addition, the property and equipment of WaferTech with carrying amount of approximately NT\$29,053,508 thousand (US\$836,000 thousand) is pledged for the secured loan. Under the unsecured loan, TSMC is required to maintain certain financial covenants which, if violated, could result in the payment of this obligation becoming due prior to the originally scheduled maturity date. These financial covenants require TSMC to, among other things; maintain minimum levels of working capital, earnings before interest, taxes, depreciation and amortization, and net worth. TSMC was in compliance with these financial covenants as of December 31, 2002.

Unused credit lines for long-term bank loans as of December 31, 2002 aggregated approximately US\$122,000 thousand.

As of December 31, 2002, future minimum principal payments under the Company's long-term bank loan arrangements are as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 6,950,600
2004	-
2005	<u>11,051,454</u>
	<u>\$ 18,002,054</u>

13. BONDS

	<u>2002</u>	<u>2001</u>
Domestic unsecured bonds:		
Issued on March 4, 1998 and payable on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually	\$ 4,000,000	\$ 4,000,000
Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively	5,000,000	10,000,000
Issued from December 4 to 15, 2000 and payable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% annual interest payable annually, respectively	15,000,000	15,000,000
Issued from January 10 to 24, 2002 and payable in January 2007, 2009 and 2012 in three equal payments, 2.6%, 2.75% and 3% annual interest payable annually, respectively	<u>15,000,000</u>	-
	<u>\$ 39,000,000</u>	<u>\$ 29,000,000</u>

As of December 31, 2002, future principal payments for the Company's bond arrangements are as follows:

<u>Year of Repayment</u>	<u>Amount</u>
2003	\$ 4,000,000
2004	5,000,000
2005	10,500,000
2006	-
2007	7,000,000
2008 and thereafter	<u>12,500,000</u>
	<u>\$ 39,000,000</u>

14. OTHER LONG-TERM PAYABLES

TSMC entered into several license arrangements for certain semiconductor patents. Future payments under the agreements as of December 31, 2002 are as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 1,157,299
2004	1,226,805
2005	987,009
2006	469,189
2007	486,566
2008 and thereafter	<u>1,112,096</u>
	<u>\$ 5,438,964</u>

15. PENSION PLAN

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

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

The changes in the Fund and accrued pension costs are summarized as follows:

	<u>2002</u>	<u>2001</u>
a. Components of pension cost		
Service cost	\$ 442,294	\$ 417,967
Interest cost	121,552	95,920
Projected return on plan assets	(45,102)	(43,968)
Amortization	<u>1,681</u>	<u>8,300</u>
Net pension cost	<u>\$ 520,425</u>	<u>\$ 478,219</u>

b. Reconciliation of the fund status of the plan and accrued pension cost

	<u>2002</u>	<u>2001</u>
Benefit obligation		
Vested benefit obligation	\$ 21,294	\$ 739
Nonvested benefit obligation	<u>1,607,272</u>	<u>1,026,289</u>
Accumulated benefit obligation	1,628,566	1,027,028
Additional benefits based on future salaries	<u>1,300,712</u>	<u>1,407,014</u>
Projected benefit obligation	2,929,278	2,434,042
Fair value of plan assets	(1,014,086)	(835,583)
Funded status	1,915,192	1,598,459

(Forward)

	<u>2002</u>	<u>2001</u>
Unrecognized net transitional obligation	(\$ 149,391)	(\$ 157,691)
Unrecognized net gain	<u>445,759</u>	<u>415,849</u>
Accrued pension cost	<u>\$ 2,211,560</u>	<u>\$ 1,856,617</u>
c. Actuarial assumptions		
Discount rate used in determining present values	3.75%	5.0%
Future salary increase rate	3.00%	5.0%
Expected rate of return on plan assets	3.75%	5.0%
d. Contributions to pension fund	<u>\$ 164,720</u>	<u>\$ 131,894</u>
e. Payments from pension fund	<u>\$ 5,360</u>	<u>\$ -</u>

16. INCOME TAX BENEFIT (EXPENSE)

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

	<u>2002</u>	<u>2001</u>
Income tax expense based on "income before income tax" at statutory rate	(\$ 6,881,352)	(\$ 2,699,626)
Tax effect of:		
Tax-exempt income	2,526,500	1,089,000
Temporary and permanent differences	<u>(519,490)</u>	<u>(986,598)</u>
Current income tax expense before income tax credits	<u>(\$ 4,874,342)</u>	<u>(\$ 2,597,224)</u>

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

	<u>2002</u>	<u>2001</u>
Current income tax expense before income tax credits	(\$ 4,874,342)	(\$ 2,597,224)
Additional 10% tax on the unappropriated earnings	(179,362)	(322,292)
Income tax credits	4,867,236	2,888,358
Other income tax	<u>(29,160)</u>	<u>(16,318)</u>
Income tax expense	<u>(215,628)</u>	<u>(47,476)</u>
Net change in deferred income tax assets (liabilities)		
Net operating loss	4,074,264	4,304,821
Investment tax credits	2,510,192	3,044,170
Temporary differences	<u>(2,868,207)</u>	<u>(1,918,009)</u>
Valuation allowance	<u>(9,137,269)</u>	<u>(1,642,828)</u>
Income tax benefit (expense)	<u>(\$ 5,636,648)</u>	<u>\$ 3,740,678</u>

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

	<u>2002</u>	<u>2001</u>
Current		
Investment tax credits	\$ 3,320,000	\$ 2,347,000
Temporary differences	<u>81,729</u>	<u>3,147</u>
	<u>\$ 3,401,729</u>	<u>\$ 2,350,147</u>
Noncurrent		
Net operating loss	\$ 9,646,552	\$ 6,125,369
Investment tax credits	23,247,653	21,710,461
Temporary differences	(8,352,647)	(2,363,913)
Valuation allowance	<u>(14,768,332)</u>	<u>(9,226,089)</u>
	<u>\$ 9,773,226</u>	<u>\$ 16,245,828</u>

The effective tax rate used in determining TSMC's deferred tax asset as of December 31, 2002 and 2001 was 25%; the effective tax rates for the subsidiaries are 34% to 41% as of December 31, 2002 and 2001.

- d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of December 31, 2002 and 2001 were NT\$6,650 thousand and NT\$9,365 thousand, respectively.

The expected and actual creditable ratio for 2002 and 2001 was 0.03% and 0.04%, respectively.

The imputation credit allocated to each shareholder shall be based on the balance in the ICA on the date of distribution of dividends; thus the expected creditable ratio for 2002 may be adjusted according to the difference between the expected and actual imputation credit allowed under the regulation.

- e. As of December 31, 2002 and 2001, the unappropriated retained earnings generated up to December 31, 1997, was NT\$0 and NT\$4,827 thousand.
- f. As of December 31, 2002, TSMC's investment tax credits consisted of the following:

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expire Year</u>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 4,237,050	\$ -	2002
		4,767,347	4,767,347	2003
		8,180,857	8,180,857	2004
		3,110,906	3,110,906	2005
		<u>5,335,558</u>	<u>2,775,029</u>	2006
		<u>\$ 25,631,718</u>	<u>\$ 18,834,139</u>	

(Forward)

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expire Year</u>
Statute for Upgrading Industries	Research and development expenditures	\$ 562,158	\$ -	2002
		671,546	671,546	2003
		1,974,320	1,974,320	2004
		3,111,472	3,111,472	2005
		<u>1,540,000</u>	<u>1,540,000</u>	2006
		<u>\$ 7,859,496</u>	<u>\$ 7,297,338</u>	
Statute for Upgrading Industries	Personnel training	\$ 8,822	\$ -	2002
		16,104	16,104	2003
		43,264	43,264	2004
		<u>28,886</u>	<u>28,886</u>	2005
				<u>\$ 97,076</u>
Statute for Upgrading Industries	Reputation setting	\$ 10,133	\$ -	2002
		<u>319</u>	<u>319</u>	2003
				<u>\$ 10,452</u>
Statute for Upgrading Industries	Investments in important technology based enterprise	\$ 2,878	\$ -	2002
		5,420	5,420	2003
		201,372	201,372	2004
		138,864	138,864	2005
		<u>1,947</u>	<u>1,947</u>	2006
		<u>\$ 350,481</u>	<u>\$ 347,603</u>	

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

	<u>Tax-Exemption Period</u>
Expansion of Fab 1 and Fab 2 - modules A and B, Fab 3 and Fab 4, and construction of Fab 5	1999 to 2002
Construction of Fab 6	2001 to 2004

- h. The tax authorities have examined income tax returns of the Company through 1999. However, the Company is contesting the assessment by the tax authority for 1992, 1993, 1996 and 1997.

17. SHAREHOLDERS' EQUITY

TSMC has issued 369,019 thousand American Depositary Shares (ADS) on the New York Stock Exchange as of December 31, 2002. The number of common shares represented by the ADSs is 1,845,097 thousand shares (one ADS represents five common shares).

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

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

- a. 10% legal reserve;
- b. Special reserve in accordance with relevant laws or regulations;
- c. Remuneration to directors and supervisors and bonus to employees equal to 0.3% and at least 1% of the remainder, respectively. Individuals who receive bonus to employees may include employees of affiliated companies and are approved by the board of directors or a representative of the board of directors;
- d. Dividends to holders of preferred shares equal to a 3.5% annual rate, based on the period which the preferred shares have been outstanding;
- e. The appropriation of the remaining balance after the above shall be decided at the shareholders' meeting.

Dividends are distributed in cash, shares of common stock or a combination of cash and common stock. Distribution of profits is preferably made in the form of stock dividend. The total of cash dividends paid in any given year should not exceed 50% of total dividends distributed.

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

The bonus to employees and the remuneration to directors and supervisors appropriated from the earnings of 2001 were approved in the shareholders' meeting on May 7, 2002 as follows:

	<u>Amounts</u>	<u>Shares (Thousand)</u>
Bonus to employees – in stock	\$ 1,070,783	107,078
Remuneration to directors and supervisors – in cash	<u>133,848</u>	-
	<u>\$ 1,204,631</u>	

The shares distributed as a bonus to employees represent 0.64% of TSMC's total outstanding common shares as of December 31, 2001.

The above appropriation of the earnings is consistent with the resolution of the meeting of board of directors dated on March 26, 2002. If the above distributable earnings were both paid in cash and charged against the income of 2001, the consolidated basic EPS for the year ended December 31, 2001 would decrease from NT\$0.83 to NT\$0.76.

As of January 16, 2003, the appropriation of the earnings of 2002 has not yet been resolved by the board of directors.

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

The aforementioned appropriation for legal reserve shall be made until the reserve equals the aggregate par value of TSMC's outstanding capital stock. The reserve can only be used to offset a deficit; or distribute as a dividend when the balance is 50% of the aggregate par value of the outstanding capital stock of TSMC up to the half amount of the reserve balance.

A special reserve equivalent to the debit balance of any account shown in the shareholder's equity section of the balance sheets (except for the recorded costs of treasury stocks held by subsidiaries), other than the deficit, shall be made from unappropriated retained earnings pursuant to existing regulations promulgated by the Securities and Futures Commission. The special reserve is allowed to be appropriated when the debit balance of such accounts are reversed.

The gain on sales or disposal of property, plant and equipment generated prior to 2000, less the applicable income tax, was reclassified to capital surplus as of each year-end. A gain in the amount of NT\$39,282 thousand, less applicable income tax, was recognized and transferred to the capital surplus at the end of 2001 prior to the amended regulations. To comply with the amended regulations, the aforementioned capital surplus was transferred to retained earnings upon the approval of the shareholders' meeting on May 7, 2002. The shareholders also approved the accumulated capital surplus of NT\$127,236 thousand generated from gains prior to 2000 be transferred to retained earnings, after appropriating the required 10% legal reserve.

Under the Integrated Income Tax System that became effective on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by TSMC on earnings generated as of January 1, 1998. An Imputation Credit Account (ICA) is maintained by TSMC for such income tax and the tax credit allocated to each shareholder.

TSMC issued 1,300,000 thousand shares of unlisted Series A - preferred stock to certain investors on November 29, 2000. The following are the rights of the preferred shareholders and the related terms and conditions:

Preferred shareholders

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

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

On June 25, 2002, the SFC approved TSMC's Employee Stock Option Plan (the "Plan I"). Plan I provides qualified employees and non-employees with 100,000 thousand units of option rights with each unit representing one common share of stock. The option rights are valid for 10 years and exercisable at certain percentages subsequent to the second anniversary of issuance. Under the terms of the plan, stock options are granted at an exercise price equal to the closing price of TSMC's common shares listed on the Taiwan Stock Exchange at the date of grant. At December 31, 2002, the maximum number of shares authorized to be granted by TSMC, TSMC-North America and WaferTech under this plan are 70,000 thousand, 16,000 thousand and 14,000 thousand option rights, respectively. The initial grant of options will be vested 50% two years after the grant date, 75% three years after the grant date and 100% four years after the grant date.

Information with respect to stock option rights activities under Plan I is as follows:

	<u>Option Rights Available For Grant</u>	<u>Outstanding Option Rights Number of Option Rights</u>	<u>Weighted Average Exercise Price (NT\$)</u>
Option rights authorized	100,000	-	-
Options granted	(19,726)	19,726	53
Options exercised	-	-	-
Options cancelled	<u>357</u>	<u>(357)</u>	53
Balance, December 31, 2002	<u>80,631</u>	<u>19,369</u>	

In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan (the "Plan II") under which officers, key employees and non-employee directors may be granted option rights. Plan II provides 15,150 thousand option rights. 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 25% each on the first, second, third, and fourth anniversaries of the date of grant.

Information with respect to stock option rights activities under Plan II is as follows:

	Option Rights Available For Grant	Outstanding Option Rights	
		Number of Option Rights	Exercise Price (US\$)
Balance, January 1, 2001	3,782	6,837	1.23
Options granted			
Options exercised	-	(2,949)	1.02
Options cancelled	<u>826</u>	(<u>826</u>)	1.27
Balance, December 31, 2001	4,608	3,062	1.43
Options granted			
Options exercised	-	(1,260)	1.22
Options cancelled	<u>216</u>	(<u>216</u>)	1.93
Balance, December 31, 2002	<u>4,824</u>	<u>1,586</u>	

Options granted will expire if not exercised at specified dates between May 2006 and June 2011.

In December 2000, WaferTech implemented a Stock Option Buyback Program (“Buyback”) with its employees. The Buyback program provides employees with the right to sell back all vested stock options and outstanding ownership interests granted under the program to WaferTech. The repurchase price for outstanding ownership interests is US\$6. The repurchase price for vested stock options is US\$6 less the exercise price of the option. As of December 31, 2002, the Company has repurchased 2,476 thousand outstanding ownership interests at a cost of US\$15,466 thousand.

18. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

<u>Purpose of Purchase</u>	<u>Beginning Shares</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Shares</u>
<u>Year ended December 31, 2002</u>				
Reclassification of stocks held by subsidiaries from short/long-term investment to treasury stock	<u>39,270</u>	<u>3,818</u>	<u>1,087</u>	<u>42,001</u>

On January 1, 2002, TSMC reclassified its capital stock held by its subsidiaries with book value of NT\$2,115,695 thousand from short/long-term investments to treasury stock. Proceeds from sales of treasury stock for the year ended December 31, 2002 were NT\$96,501 thousand. The book value and market value of such treasury stock was NT\$1,923,492 thousand and NT\$2,048,164 thousand, respectively. Effective from January 1, 2002, capital stock held by a subsidiary as an investment is recorded as treasury stock with the holder having the same rights as other common shareholders.

19. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

	<u>Amounts (Numerator)</u>		<u>Share (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Income Before Income Tax</u>	<u>Consolidated Net Income</u>		<u>Income Before Tax</u>	<u>Consolidated Net Income</u>
<u>Year ended December 31, 2002</u>					
Income	\$ 27,222,148	\$ 21,610,291			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$ 26,767,148</u>	<u>\$ 21,155,291</u>	<u>18,580.700</u>	<u>\$ 1.44</u>	<u>\$ 1.14</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$ 26,767,148</u>	<u>\$ 21,155,291</u>	<u>18,580.700</u>	<u>\$ 1.44</u>	<u>\$ 1.14</u>
<u>Year ended December 31, 2001</u>					
Income	\$ 10,786,505	\$ 14,483,174			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$ 10,331,505</u>	<u>\$ 14,028,174</u>	<u>18,622.887</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$ 10,331,505</u>	<u>\$ 14,028,174</u>	<u>18,622.887</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>

The potential common shares from the employee stock option plan (see Note 17) are not included in the denominator of the diluted earning-per-share computation as such shares result in a non-dilutive per-share amount using the treasury stock method under the Statement of Financial Accounting Standards No. 24, "Earning Per Share".

The average number of shares outstanding for EPS calculation has been adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic EPS before income tax and after income tax for the year ended of December 31, 2001 to decrease from NT\$0.61 and NT\$0.83 to NT\$0.55 and NT\$0.75, respectively.

20. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC is one of its directors.

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

c. Investees of TSMC

VIS
SSMC

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

	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year ended</u>				
Sales				
Philips and its affiliates	\$ 2,909,008	2	\$ 2,389,257	2
ITRI	94,409	-	114,546	-
VIS	92,119	-	1,177,094	1
SSMC	<u>7,018</u>	<u>-</u>	<u>48,972</u>	<u>-</u>
	<u>\$ 3,102,554</u>	<u>2</u>	<u>\$ 3,729,869</u>	<u>3</u>
Purchase				
VIS	\$ 3,469,198	14	\$ 3,801,975	22
SSMC	<u>2,751,297</u>	<u>11</u>	<u>42,984</u>	<u>-</u>
	<u>\$ 6,220,495</u>	<u>25</u>	<u>\$ 3,844,959</u>	<u>22</u>
Operating expense – Rental				
ITRI	<u>\$ 40,401</u>	<u>-</u>	<u>\$ 161,604</u>	<u>-</u>
Manufacturing expenses – Technical service fee				
Philips	<u>\$ 2,849,517</u>	<u>100</u>	<u>\$ 2,418,276</u>	<u>100</u>
Sales of property, plant and equipment				
VIS	<u>\$ -</u>	<u>-</u>	<u>\$ 268,871</u>	<u>85</u>
Non-operating income				
SSMC (technical service income mainly)	\$ 126,061	6	\$ 95,284	1
VIS	<u>-</u>	<u>-</u>	<u>467</u>	<u>-</u>
	<u>\$ 126,061</u>	<u>6</u>	<u>\$ 95,751</u>	<u>1</u>
<u>At December 31</u>				
Receivables				
Philips and its affiliates	\$ 352,706	80	\$ 116,499	24
VIS	58,301	13	320,179	65
ITRI	22,974	5	37,383	7
SSMC	<u>5,678</u>	<u>2</u>	<u>20,671</u>	<u>4</u>
	<u>\$ 439,659</u>	<u>100</u>	<u>\$ 494,732</u>	<u>100</u>
(Forward)				

	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Prepaid expense and other current asset - Rent				
ITRI	<u>\$ -</u>	<u>-</u>	<u>\$ 42,664</u>	<u>2</u>
Payables				
Philips and its affiliates	\$ 730,847	41	\$ 499,331	48
VIS	653,876	37	548,472	52
SSMC	<u>391,426</u>	<u>22</u>	<u>470</u>	<u>-</u>
	<u>\$ 1,776,149</u>	<u>100</u>	<u>\$ 1,048,273</u>	<u>100</u>
Refundable deposits				
VIS	<u>\$ 514,846</u>	<u>92</u>	<u>\$ 750,788</u>	<u>96</u>

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

21. SIGNIFICANT LONG-TERM OPERATING LEASES

TSMC leases land from the Science-Based Industrial Park Administration where its Fab 2 through Fab 14 manufacturing facilities reside. These agreements expire on various dates from March 2008 to December 2020 and have annual rent payments aggregating NT\$225,576 thousand. The agreements can be renewed upon their expiration.

TSMC-North America leases its office premises and certain equipment under non-cancellable operating agreements, which will expire in 2020. TSMC-Europe and TSMC-Japan entered into lease agreements for their office premises, which will expire in 2004. Current annual rent payments aggregate to NT\$115,281 thousand.

Future remaining lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 340,857
2004	343,886
2005	339,821
2006	339,779
2007	336,857
2008 and thereafter	<u>2,073,229</u>
	<u>\$ 3,774,429</u>

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company and its subsidiaries as of December 31, 2002 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 8, 2007 and thereafter be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts TSMC pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of TSMC's production capacity.
- c. Under a technical cooperation agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- d. Under several foundry agreements, TSMC shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$39,810 thousand had been received as of December 31, 2002.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, and allow TSMC to invest in 32% of SSMC's capital. TSMC and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- f. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. Beginning in 2001, TSMC entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. TSMC has recorded the related amounts as a liability and a deferred charge to be amortized to cost of sales on a straight-line basis over the shorter of the estimated useful life of the technology or the term of the contract.

- h. Under a Technology Transfer Agreement with National Semiconductor Corporation (“National”) entered into on June 27, 2000, TSMC shall receive payments for license of certain technology to National. The agreement will remain in force for ten years. After the initial expiration date, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions. In January 2003, the agreement was amended such that National will discontinue making payments under the original terms and TSMC will discontinue transferring any additional technology. TSMC granted National the option to request additional technology transfers under the same terms and conditions of the original agreement through January 2008.
- i. TSMC entered into a Manufacturing Agreement with VIS. VIS agrees to reserve certain production capacity for TSMC to manufacture certain logic devices or other technologies required by TSMC’s customers at selling prices as agreed by the parties. TSMC paid NT\$1,200,000 thousand to VIS as a security bond. VIS shall return portions of the bond without any interest to TSMC upon the purchase of wafers by TSMC. The contract will remain in force for five years.
- j. In December 2000, TSMC-North America and WaferTech initiated stock appreciation right programs whereby the employees receive cash bonuses based on the appreciation of the quoted market price of the shares of stock of TSMC. At December 31, 2002, the exercise price of the stock appreciation right was higher than the market price of TSMC stock, therefore no compensation expense is recognized for the year ended December 31, 2002.
- k. WaferTech caused some contractors to incur additional labor and material costs outside the contracts. WaferTech recorded a reserve of US\$3,000 thousand during 2002 for a litigation arising from a charge by certain contractors.
- l. Unused letters of credit as of December 31, 2002 were NT\$6,480 thousand, US\$1,509 thousand, ¥ 51,000 thousand, Euro€520 thousand and S\$85 thousand.

23. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFC for the Company:

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of paid-in capital: Please see Table 5 attached;

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

1) Derivative financial instruments

The relevant information on the derivative financial instruments entered into by the Company is as follows:

a) Forward exchange contracts as of December 31, 2002

	<u>Currency</u>	<u>Contract Amount (Thousand)</u>	<u>Fair Value (Thousand)</u>	<u>Settlement Date</u>	<u>Maturity (Thousand)</u>
Sell	USD	\$ 715,000	NT\$ 24,874,483	Jan. 2, 2003 ~ Feb. 24, 2003	NT\$ 24,886,765
Buy	EUR	€ 89,000	NT\$ 3,231,707	Jan. 15, 2003 ~ Mar. 14, 2003	NT\$ 3,234,260
Buy	JPY	¥ 4,274,850	NT\$ 1,249,159	Jan. 6, 2003 ~ Jan 15, 2003	NT\$ 1,250,394

As of December 31, 2002, receivables from forward exchange contracts (included in "other current assets" account) aggregate to NT\$199,609 thousand, and payables from forward exchange contracts (included in "other current liabilities" account) aggregate to NT\$17,538 thousand. The net exchange gain for the year ended December 31, 2002 was NT\$1,522,383 thousand.

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

	<u>Amount (Thousand)</u>
Accounts receivable	US\$ 487,905
Accounts payable	JP ¥ 4,287,733
Accounts payable	EUR€ 49,026

b) Interest rate swaps

The Company entered into interest rate swap contracts to hedge exposures from rising interest rates on its floating rate long-term loans. Interest expense on these transactions for the year ended December 31, 2002 were NT\$261,107 thousand. Outstanding contracts as of December 31, 2002 were as follows:

<u>Contract Date</u>	<u>Period</u>	<u>Amount (Thousand)</u>
April 28, 1998	May 21, 1998 ~ May 21, 2003	NT\$ 2,000,000
April 29, 1998	May 21, 1998 ~ May 21, 2003	NT\$ 1,000,000
June 26, 1998	June 26, 1998 ~ June 26, 2003	NT\$ 1,000,000
June 26, 1998	July 6, 1998 ~ July 6, 2003	NT\$ 1,000,000
July 1, 1999	July 1, 1999 ~ June 28, 2004	US\$ 11,429

c) Option contracts

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

Outstanding option contracts as of December 31, 2002 were as follows:

<u>Type</u>	<u>Contract</u>	<u>Currency</u>	<u>Contract Amount (Thousand)</u>	<u>Carrying Value</u>	<u>Fair Value (Thousand)</u>	<u>Strike Price</u>	<u>Maturity</u>
European	Call option written	USD	\$ 230,000	\$ -	(\$404,884)	32.78~33.22 (US\$/NT\$)	Jan. 9, 2003~ Feb. 25, 2003
European	Call option written	USD	\$ 10,000	-	(3,652)	119.2 (US\$/JPY)	Jan. 30, 2003~ Feb. 27, 2003
European	Put option written	EUR	€ 10,000	-	(1,596)	1.017 (US\$/EUR)	Jan. 30, 2003~ Feb. 27, 2003

For the year ended December 31, 2002, the Company recognized premium income of NT\$228,030 thousand and premium expense of NT\$647,543 thousand.

d) Transaction risk

i) Credit risk. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter-parties are low.

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

iii) Liquidity and cash flow requirements. The cash flow requirements on forward contracts are limited to the net differences between the current exchange rates and the contracted forward rates at the date of settlement. The cash flow requirements for interest rate swap contracts is limited to the amounts payable arising from the differences in the rates. In addition, options may not be exercised in the event the strike price is higher than the related market price at the exercise date. Management believes that the foregoing cash flow requirements are not material.

2) Fair value of financial instruments

	December 31			
	2002		2001	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$ 67,790,204	\$ 67,790,204	\$ 37,556,295	\$ 37,556,295
Short-term investments	170,012	2,455,582	1,398,071	6,917,133
Receivables from related parties	439,659	439,659	494,732	494,732
Notes and accounts receivable	19,590,942	19,590,942	20,134,218	20,134,218
Long-term investments	10,635,496	12,750,029	11,599,150	16,545,944
Refundable deposits	557,266	557,266	784,089	784,089
Liabilities				
Short-term bank loans	729,813	729,813	6,269,181	6,269,181
Payable to related parties	1,776,149	1,776,149	1,048,273	1,048,273
Accounts payable	5,138,592	5,138,592	1,397,879	1,397,879
Payable to contractors and equipment suppliers	14,132,100	14,132,100	12,867,236	12,867,236
Long-term bank loans (includes current portion)	18,002,054	18,002,054	22,399,360	22,399,360
Bonds (includes current portion)	39,000,000	39,762,245	29,000,000	29,703,063
Other long-term liabilities (includes current portion and other liabilities-others)	5,616,220	5,616,220	141,498	141,498
Guarantee deposits	1,395,066	1,395,066	7,212,688	7,212,688
<u>Derivative financial instruments</u>				
Forward exchange contracts (buy)	38,369	26,089	-	-
Forward exchange contracts (sell)	143,702	139,913	(397,117)	(427,225)
Interest rate swaps	(23,994)	(164,342)	26,969	(343,088)
Options	(50,273)	(410,132)	(39,500)	(252,833)

Fair values of financial instruments were determined as follows:

- a) Short-term financial instruments - carrying values.
- b) Short-term investments - market values.
- c) Long-term investments - market value for traded companies and net equity value for non-traded companies.
- d) Refundable deposits, guarantee deposits and other long-term liabilities - carrying values.

- e) Long-term bank loan - fair values of long-term bank loans are their carrying values as they use floating interest rate.
- f) Long-term liabilities - based on forecasted cash flows discounted at interest rates. Bonds payable is discounted to present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rate.
- g) Derivative financial instruments - based on bank quotations.

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

3) Investment in Mainland China

TSMC filed an investment project with the Investment Commission of MOEA to establish a foundry in mainland China. As of January 16, 2003, the foregoing project has not been approved by the authority.

24. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	<u>Overseas</u>	<u>Taiwan</u>	<u>Adjustments and Elimination</u>	<u>Consolidated</u>
<u>2002</u>				
Sales to unaffiliated customers	\$ 95,774,432	\$ 66,526,776	\$ -	\$ 162,301,208
Transfers between geographic areas	<u>9,537,846</u>	<u>94,434,553</u>	(<u>103,972,399</u>)	<u>-</u>
Total sales	<u>\$ 105,312,278</u>	<u>\$ 160,961,329</u>	(<u>\$ 103,972,399</u>)	<u>\$ 162,301,208</u>
Gross profit	(<u>\$ 19,865</u>)	<u>\$ 51,967,145</u>	(<u>\$ 365,870</u>)	\$ 52,313,150
Operating expenses				(20,724,111)
Non-operating income				2,419,467
Non-operating expenses				(<u>6,786,358</u>)
Income before income tax				<u>\$ 27,222,148</u>
Minority interest loss				<u>\$ 24,791</u>
Identifiable assets	<u>\$ 75,840,416</u>	<u>\$ 336,405,063</u>	(<u>\$ 32,338,576</u>)	\$ 379,906,903
Long-term investments				<u>10,635,496</u>
Total assets				<u>\$ 390,542,399</u>
<u>2001</u>				
Sales to unaffiliated customers	\$ -	\$ 125,884,892	\$ -	\$ 125,884,892
Transfers between geographic areas	<u>8,152,070</u>	<u>3,111</u>	(<u>8,155,181</u>)	<u>-</u>
Total sales	<u>\$ 8,152,070</u>	<u>\$ 125,888,003</u>	(<u>\$ 8,155,181</u>)	<u>\$ 125,884,892</u>

(Forward)

	<u>Overseas</u>	<u>Taiwan</u>	<u>Adjustments and Elimination</u>	<u>Consolidated</u>
Gross profit	(\$ <u>1,224,832</u>)	\$ <u>36,381,055</u>	(\$ <u>1,499,429</u>)	\$ 33,656,794
Operating expenses				(20,878,997)
Non-operating income				6,475,576
Non-operating expenses				(<u>8,466,868</u>)
Income before income tax				<u>\$ 10,786,505</u>
Minority interest income				(<u>\$ 44,009</u>)
Identifiable assets	<u>\$ 73,433,656</u>	<u>\$ 303,954,097</u>	(<u>\$ 22,469,208</u>)	\$ 354,918,545
Long-term investments				<u>11,599,150</u>
Total assets				<u>\$ 366,517,695</u>

b. Gross export sales

<u>Area</u>	<u>2002</u>	<u>2001</u>
North Americas	\$ 95,139,355	\$ 63,893,621
Asia and others	42,020,560	23,874,375
Europe	<u>9,358,802</u>	<u>7,523,873</u>
	<u>\$ 146,518,717</u>	<u>\$ 95,291,869</u>

The export sales information is presented by billed regions.

c. Major customer

The customer with sales greater than 10% of the Company's total sales is as follows:

<u>Customers</u>	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
A Customer	<u>\$ 32,769,054</u>	<u>20</u>	<u>\$ 21,789,769</u>	<u>17</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

FINANCING PROVIDED
For the Year Ended December 31, 2002
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons (Note 1)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Amount Limits (US\$ in Thousand)
											Item	Value		
1	TSMC International	TSMC Technology Inc.	Other receivables	\$ 536,372 (US\$ 15,434)	\$ 536,372 (US\$ 15,434)	4.25%	2	\$ -	Operating capital	\$ -	-	\$ -	N/A	\$ 34,334,852 (US\$ 987,968) (Note 2)

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
For the Year Ended December 31, 2002
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Value of Collateral Property, Plant and Equipment (Note 3)	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
		Name	Nature of Relationship (Note 2)						
0	TSMC	TSMC Development Inc.	3	(Note 4)	\$ 9,313,804 (US\$ 268,000)	\$ 6,950,600 (US\$ 200,000)	\$ -	2.37%	\$ 59,768,660
		TSMC - North America	2		1,390,120 (US\$ 40,000)	1,390,120 (US\$ 40,000)	-	0.47%	
		WaferTech	3		15,291,320 (US\$ 440,000)	15,291,320 (US\$ 440,000)	-	5.21%	

Note 1: 30% of the issued capital of the Company.

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

Note 3: Promissory notes for collateral.

Note 4: Not exceeding 10% of the issued capital of the Company, and also limited to the issued capital of the transaction entity, unless otherwise approved by Board of directors.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

December 31, 2002

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

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
TSMC	<u>Stock</u> TSMC - North America	Subsidiary	Long-term investment	11,000	\$ 173,601	100	\$ 921,883	The treasury stocks in amounts of NT\$748,282 thousand are deducted from the carrying value.
	TSMC - Europe	Subsidiary	Long-term investment	-	13,670	100	13,670	
	TSMC - Japan	Subsidiary	Long-term investment	6	94,258	100	94,258	
	VIS	Investee	Long-term investment	556,133	2,415,297	25	4,326,719	The carrying value does not include prepayment for subscribed stock of NT\$849,360 thousand.
	TSMC International	Subsidiary	Long-term investment	987,968	22,265,157	100	22,265,157	The treasury stocks in amounts of NT\$459,285 thousand are deducted from the carrying value.
	Chi Cherng Investment	Investee	Long-term investment	-	41,894	36	501,179	
	Hsin Ruey Investment	Investee	Long-term investment	-	39,815	36	500,048	The treasury stocks in amounts of NT\$460,233 thousand are deducted from the carrying value.
	TSMC Partners	Subsidiary	Long-term investment	300	3,753,733	100	3,940,495	The treasury stocks in amounts of NT\$255,692 thousand are deducted from the carrying value.
	SSMC	Investee	Long-term investment	382	3,136,115	32	3,136,115	
	Emerging Alliance	Subsidiary	Long-term investment	-	767,239	99	767,239	
	Taiwan Mask Corp.	-	Long-term investment	8,794	32,129	2	160,574	
	United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	280,931	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	137,355	
	W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	59,866	
	Ya Xin Technology	Subsidiary	Long-term investment	34,125	341,250	100	341,250	
	Hon Tung Ventures Capital	-	Long-term investment	8,392	83,916	10	71,216	
Amkor Technology	-	Long-term investment	505	280,748	-	89,866		
Monolithic System Tech.	-	Long-term investment	470	104,289	2	214,949		

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Crimson Asia Capital	-	Long-term investment	N/A	\$ 41,988	N/A	\$ 41,988	
	Horizon Ventures	-	Long-term investment	N/A	195,452	N/A	195,452	
TSMC - North America	<u>Stock</u> TSMC	Parent company	Long-term investment	12,692	748,282	-	610,434	
Chi Cherng Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	12,738	459,285	-	612,636	
	<u>Certificate</u> Hsin Ruey Investment	Major shareholder	Long-term investment	-	900,109	64	900,109	
Hsin Ruey Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	12,762	460,233	-	613,782	
	<u>Certificate</u> Chi Cherng Investment	Major shareholder	Long-term investment	-	902,137	64	902,137	
TSMC International	<u>Stock</u> InveStar Semiconductor Development Fund, Inc.	Subsidiary	Long-term investment	45,000	US\$ 44,634	97	US\$ 44,634	
	InveStar Semiconductor Development Fund (II), Inc.	Subsidiary	Long-term investment	51,300	US\$ 43,179	97	US\$ 43,179	
	TSMC Development, Inc.	Subsidiary	Long-term investment	1	US\$ 307,094	100	US\$ 307,094	
	TSMC Technology, Inc.	Subsidiary	Long-term investment	1	US\$ 2,321	100	US\$ 2,321	
	3DFX Interactive, Inc.	-	Long-term investment	68	-	-	-	
VIS	<u>Stock</u> VIS Associates, Inc.	Subsidiary	Long-term investment	41,070	1,193,891	100	1,193,891	
	PowerChip Semiconductor, Inc.	Investee	Long-term investment	191,671	2,100,716	7	2,100,716	
	Etron Technology, Inc.	Investee	Long-term investment	4,859	101,839	2	101,839	
	Walsin Technology, Inc.	Investee	Long-term investment	34,551	302,559	8	302,559	
	MEGIC Corporation	Investee	Long-term investment	16,500	177,000	9	156,819	
	Form Factor, Inc.	Investee	Long-term investment	267	64,360	1	64,360	
	United Technology Co., Ltd.	Investee	Long-term investment	3,357	38,716	2	56,206	
VIS Associates Inc.	<u>Stock</u> VIS Investment Holding, Inc.	Subsidiary	Long-term investment	63	US\$ 397	100	US\$ 397	
	<u>Equity</u> Silicon Valley Equity Fund	-	Long-term investment	-	US\$ 7,317	34	US\$ 7,386	
	Silicon Valley Equity Fund II	-	Long-term investment	-	US\$ 5,355	14	US\$ 5,355	

The amount is shown in the carrying value.

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
VIS Investment Holding, Inc.	<u>Equity certificate</u> ABN AMRO Bank	-	Long-term investment	3,648	US\$ 817	-	US\$ 817	
	<u>Fund</u> Grand Palace Trust	-	Long-term investment	-	US\$ 2,719	100	US\$ 2,719	
	<u>Stock</u> VIS Micro, Inc.	Subsidiary	Long-term investment	200	US\$ 279	100	US\$ 279	
TSMC Development, Inc.	<u>Stock</u> WaferTech	Subsidiary	Long-term investment	-	US\$ 326,609	99	US\$ 326,609	
TSMC Partners	<u>ADR</u> TSMC	Parent company	Short-term investment	762	US\$ 7,357	-	US\$ 6,080	
InveStar Semiconductor Development Fund Inc.	<u>Stock</u> Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$ 3,350	-	US\$ 69,181	
	Silicon Laboratories	-	Short-term investment	9	US\$ 287	-	US\$ 202	
	WGRD	-	Short-term investment	104	US\$ 625	-	US\$ 635	
	Programmable Microelectronics, (Taiwan) Inc.	-	Long-term investment	1,580	US\$ 1,566	3	US\$ 1,566	
	Divio, Inc.	-	Long-term investment	30	US\$ 3	-	US\$ 3	
	Global Test Corp.	-	Long-term investment	13,268	US\$ 5,176	10	US\$ 5,176	
	Chipstrate Technologies, Inc.	-	Long-term investment	6,660	US\$ 300	9	US\$ 300	
	Richtek Technology Holding Corp.	-	Long-term investment	1,023	US\$ 346	6	US\$ 346	
	Advanced Power Electronics, Corp.	-	Long-term investment	2,750	US\$ 1,345	6	US\$ 1,345	
	<u>Preferred stock</u> Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$ 1,809	12	US\$ 1,809	
	Divio, Inc.	-	Long-term investment	667	US\$ 500	4	US\$ 500	
	SiRF Technology Holdings, Inc.	-	Long-term investment	306	US\$ 1,333	1	US\$ 1,333	
	Capella Microsystems, Inc.	-	Long-term investment	300	US\$ 481	8	US\$ 481	
	Sensory, Inc.	-	Long-term investment	1,404	US\$ 625	5	US\$ 625	
	Equator Technologies, Inc.	-	Long-term investment	300	US\$ 258	1	US\$ 258	
	LightSpeed Semiconductor Corporation	-	Long-term investment	2,252	US\$ 1,339	3	US\$ 1,339	
	Tropian, Inc.	-	Long-term investment	1,758	US\$ 2,334	3	US\$ 2,334	
	Sonics, Inc.	-	Long-term investment	2,686	US\$ 3,530	5	US\$ 3,530	
	Atheros Communications, Inc.	-	Long-term investment	1,607	US\$ 3,593	3	US\$ 3,593	
NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$ 853	3	US\$ 853		
FormFactor, Inc.	-	Long-term investment	267	US\$ 2,000	1	US\$ 2,000		
Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$ 2,000	12	US\$ 2,000		

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
InveStar Semiconductor Development Fund (II) Inc.	Memic, Inc.	-	Long-term investment	2,727	US\$ 1,500	12	US\$ 1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$ 1,192	4	US\$ 1,192	
	Signia Technologies, Inc.	-	Long-term investment	3,000	US\$ 300	8	US\$ 300	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$ 1,500	9	US\$ 1,500	
	HiNT Corporation	-	Long-term investment	1,000	US\$ 1,000	6	US\$ 1,000	
	Ordius, Inc. (Creosys, Inc.)	-	Long-term investment	1,500	US\$ 450	8	US\$ 450	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$ 500	2	US\$ 500	
	IP Unity	-	Long-term investment	1,008	US\$ 1,636	2	US\$ 1,636	
	<u>Stock</u>							
	WGRD	-	Short-term investment	105	US\$ 630	-	US\$ 640	
	Procoat Technology	-	Long-term investment	3,500	US\$ 1,942	12	US\$ 1,942	
	Richtek Technology Corporation	-	Long-term investment	845	US\$ 1,006	3	US\$ 1,006	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	487	US\$ 140	1	US\$ 140	
	Auden Technology MFG. Co., Ltd.	-	Long-term investment	953	US\$ 1,117	4	US\$ 1,117	
	Geo Vision, Inc.	-	Long-term investment	180	US\$ 129	2	US\$ 129	
	EoNEX Technologies, Inc.	-	Long-term investment	40	US\$ 2,024	6	US\$ 2,024	
	Conwise Technology Co., Ltd.	-	Long-term investment	2,800	US\$ 1,930	14	US\$ 1,930	
	Yi Yang Technology	-	Long-term investment	2,800	US\$ 967	9	US\$ 967	
	Goyatek Technology Inc.	-	Long-term investment	1,740	US\$ 1,787	8	US\$ 1,787	
	Trendchip Technologies Corp.	-	Long-term investment	2,000	US\$ 864	5	US\$ 864	
	<u>Preferred stock</u>							
	Memic, Inc.	-	Long-term investment	2,289	US\$ 1,560	11	US\$ 1,560	
	OEpic, Inc.	-	Long-term investment	2,696	US\$ 1,240	7	US\$ 1,240	
	Equator Technologies, Inc.	-	Long-term investment	770	US\$ 452	1	US\$ 452	
	NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$ 1,000	1	US\$ 1,000	
	Signia Technologies, Inc.	-	Long-term investment	1,500	US\$ 150	4	US\$ 150	
	Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$ 1,261	2	US\$ 1,261	
	Monolithic Power Systems, Inc.	-	Long-term investment	804	US\$ 1,946	4	US\$ 1,946	
	Ralink Technologies, Inc.	-	Long-term investment	1,833	US\$ 1,500	6	US\$ 1,500	
	Sonics, Inc.	-	Long-term investment	3,082	US\$ 3,082	5	US\$ 3,082	
	Newport Opticom, Inc.	-	Long-term investment	1,157	US\$ 810	9	US\$ 810	
	Silicon Data, Inc.	-	Long-term investment	2,000	US\$ 1,000	7	US\$ 1,000	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$ 1,500	6	US\$ 1,500	
Capella Microsystems, Inc.	-	Long-term investment	800	US\$ 200	4	US\$ 200		
Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$ 750	7	US\$ 750		
Tropian, Inc.	-	Long-term investment	1,464	US\$ 2,000	2	US\$ 2,000		
SiRF Technology Holdings, Inc.	-	Long-term investment	20	US\$ 131	-	US\$ 131		
LeadTONE Wireless, Inc.	-	Long-term investment	680	US\$ 238	6	US\$ 238		
Match Lab, Inc.	-	Long-term investment	313	US\$ 250	2	US\$ 250		
eBest!, Inc.	-	Long-term investment	185	US\$ 97	1	US\$ 97		
Kilopass Technologies, Inc.	-	Long-term investment	3,887	US\$ 2,000	18	US\$ 2,000		

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Emerging Alliance	<u>Bond</u> eBest!, Inc.	-	Long-term investment	-	US\$ 24	-	US\$ 24	Prepayment for subscribed stock
	<u>Stock</u> Global Investment Holding, Inc.	Investee	Long-term investment	10,000	\$ 100,000	6	\$ 100,000	
	<u>Preferred stock</u> Quake Technologies, Inc.	-	Long-term investment	467	US\$ 1,000	1	US\$ 1,000	
	Pixim, Inc.	-	Long-term investment	833	US\$ 2,500	3	US\$ 2,500	
	Newport Opticom, Inc.	-	Long-term investment	962	US\$ 1,000	6	US\$ 1,000	
	NetLogic Microsystems, Inc.	-	Long-term investment	602	US\$ 1,850	1	US\$ 2,932	
	Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$ 1,500	2	US\$ 1,500	
	Quicksilver Technology, Inc.	-	Long-term investment	1,475	US\$ 2,338	4	US\$ 2,338	
	Litchfield Communications	-	Long-term investment	3,799	US\$ 1,000	6	US\$ 1,000	
	Mosaic Systems	-	Long-term investment	2,481	US\$ 500	6	US\$ 500	
	Accelerant Networks	-	Long-term investment	441	US\$ 1,000	1	US\$ 1,000	
	Zenesis Technologies	-	Long-term investment	861	US\$ 500	4	US\$ 500	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$ 1,500	5	US\$ 1,500	
	Iridigm Display	-	Long-term investment	305	US\$ 502	2	US\$ 502	
	Spreadtrum	-	Long-term investment	-	US\$ 1,000	-	US\$ 1,000	
XHP Microsystem	-	Long-term investment	2,279	US\$ 750	6	US\$ 750		

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Year Ended December 31, 2002

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

Acquiring or Selling Company Name	Type and Name of Marketable Security	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand)	Carrying Value (US\$ in Thousand)	Gain (Loss) on Disposal (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)
TSMC	<u>Stock</u> SSMC	Long-term investment	SSMC	Investee	301	\$ 2,907,967	81	\$ 1,421,846	-	\$ -	\$ -	\$ -	382	\$ 3,136,115
	TSMC International	Long-term investment	TSMC-BVI	Subsidiary	779,968	19,987,814	208,000	7,280,000	-	-	-	-	987,968	22,265,157
	Monolithic System Tech.	Long-term investment	Monolithic System Tech.	Investee	-	-	470	104,289	-	-	-	-	470	104,289
	Emerging Alliance	Long-term investment	Emerging Alliance Fund, LP	Subsidiary	-	741,617	-	168,615	-	-	-	-	-	767,239
	VIS	Long-term investment	VIS	Investee	556,133	3,377,526	121,338 (Note 2)	849,360 (Note 2)	-	-	-	-	677,471	3,264,657
	Ya Xin Technology	Long-term investment	Ya Xin Technology	Subsidiary	-	-	34,125	341,250	-	-	-	-	34,125	341,250
TSMC International	<u>Stock</u> TSMC Development, Inc.	Long-term investment	TSMC Development, Inc.	Subsidiary	1	US\$ 201,231	-	US\$ 208,000	-	-	-	-	1	US\$ 307,094
	InveStar Semiconductor Development Fund (II) Inc.	Long-term investment	InveStar Semiconductor Development Fund (II), Inc.	Subsidiary	45,000	US\$ 45,766	6,300	US\$ 6,300	-	-	-	-	51,300	US\$ 43,179
TSMC Development, Inc.	WaferTech	Long-term investment	WaferTech	Subsidiary	-	US\$ 226,541	-	US\$ 120,000	-	-	-	-	-	US\$ 326,609
VIS	<u>Bond fund</u> Yuan Da Duo Li #2	Short-term investment	-	-	26,278	350,000	33,108	450,000	59,386	807,970	800,000	7,970	-	-
	Da-Hua	Short-term investment	-	-	-	-	70,860	850,000	70,860	853,974	850,000	3,974	-	-
	THE TP ROC	Short-term investment	-	-	25,923	350,000	-	-	25,923	356,458	350,000	6,458	-	-
	NITC	Short-term investment	-	-	-	-	3,814	580,000	3,814	582,977	580,000	2,977	-	-
	JHSUN	Short-term investment	-	-	-	-	43,630	550,000	43,630	554,407	550,000	4,407	-	-
	Tung Yi Chian Pang	Short-term investment	-	-	28,409	400,000	-	-	28,409	402,869	400,000	2,869	-	-
VIS Associates, Inc.	<u>Equity certificate</u> ABN AMRO Bank	Long-term investment (Note 3)	-	-	23,168	US\$ 10,047	1,194	US\$ 536	20,714	US\$ 14,806	US\$ 9,766 (Note 4)	US\$ 5,706	3,648	US\$ 817

Note 1: The ending balance included the recognition of the investment income (loss) by the equity method and the accumulated translation adjustment.

Note 2: Prepayment for the subscribe stock

Note 3: This equity certificate had been reclassified from short-term investment to long-term investment starting from July 2002.

Note 4: The total book value for sale is US\$9,100 thousand and with the unrealized loss on long-term investment is US\$666 thousand.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Year Ended December 31, 2002

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

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
TSMC	Fab 12	June 19, 2002	\$ 263,000	By the construction progress	Mandartech Interiors, Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		July 11, 2002	137,402	By the construction progress	UISC	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		August 6, 2002	124,775	By the construction progress	Meissner & Wurst	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		November 15, 2002	244,654	By the construction progress	Fu Tsu Construction Co, Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab 14	April 9, 2002	135,000	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		April 12, 2002	109,880	By the construction progress	Great Construction System, Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		June 24, 2002	984,995	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL

For the Year Ended December 31, 2002

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
TSMC	TSMC - North America Philips and its affiliates WaferTech	Subsidiary	Sales	\$94,433,401	57	30 days from invoice date	None	None	\$ 9,739,236	96	
		Major shareholder	Sales	2,909,008	2	30 days from invoice date	None	None	352,706	3	
		Subsidiary	Purchase	9,955,154	41	30 days from monthly closing date	None	None	(617,751)	(25)	
	VIS	Investee	Purchase	3,469,198	14	45 days from monthly closing date	None	None	(653,876)	(26)	
	SSMC	Investee	Purchase	2,751,297	11	30 days from invoice date	None	None	(391,426)	(16)	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

December 31, 2002

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC - North America Philips and its affiliates	Subsidiary Major shareholder	\$ 9,739,236 352,706	18 days 29 days	\$ 3,709,733 55,050	Accelerate demand on accounts receivable Accelerate demand on accounts receivable	\$ 2,155,511 69,090	\$ - -

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

December 31, 2002

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2002			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)	Note
				December 31, 2002	Dec. 31, 2001	Shares (Thousand)	Percentage of Ownership	Carrying Value (Note 1)			
TSMC	TSMC - North America	San Jose, California, U.S.A.	Marketing and engineering support	\$ 333,178	\$ 333,178	11,000	100	\$ 173,601	\$ 140,654	\$ 139,021	Subsidiary
	TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	13,670	(1,615)	1,615	Subsidiary
	TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760	6	100	94,258	3,145	6,045	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640	6,503,640	556,133	25	2,415,297	(3,250,831)	(821,771)	Investee
	TSMC International	Tortola, British Virgin Islands	Investment	31,445,780	24,165,780	987,968	100	22,265,157	(4,714,203)	(4,714,203)	Subsidiary
	Chi Cherng Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	41,894	13,821	13,122	Investee
	Hsin Ruey Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	39,815	12,533	6,632	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,753,733	924,362	993,292	Subsidiary
	SSMC	Singapore	Manufacturing wafers	6,408,190	4,986,344	382	32	3,136,115	(3,609,569)	(1,155,076)	Investee
	Emerging Alliance	Cayman Islands	Investment	1,005,660	837,045	-	99	767,239	(142,865)	(142,151)	Subsidiary
	Ya Xin Technology	Taipei, Taiwan	Electronic manufacturing	341,250	-	34,125	100	341,250	-	-	Subsidiary

Note 1: The treasury stocks are not deducted from the carrying values.

Note 2: The gain from sales of treasury stock of NT\$43,036 thousand, which was transferred to capital surplus, was not deducted from the investment gain (loss).

Note 3: The amount has not included the prepayment for the subscribed shares of 121,338 shares with total amount of NT\$849,360 thousand.