

Taiwan Semiconductor Manufacturing Company Ltd.

Financial Statements as of December 31, 2002 and 2001

Together with Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 16, 2003

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

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

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

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

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

We have also audited the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Ltd. as of and for the years ended December 31, 2002 and 2001, and have expressed a modified unqualified opinion and an unqualified opinion on such financial statements, respectively.

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

A S S E T S	2002		2001		LIABILITIES AND SHAREHOLDERS' EQUITY	2002		2001	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 61,656,795	16	\$ 33,403,706	10	Payable to related parties (Note 16)	\$ 2,466,998	1	\$ 2,082,606	1
Receivables from related parties (Note 16)	10,183,488	3	523,861	-	Accounts payable	4,849,234	1	1,123,894	-
Notes receivable	60,240	-	176,582	-	Payable to contractors and equipment suppliers	14,004,383	4	12,367,319	4
Accounts receivable	9,495,447	3	19,957,636	6	Accrued expenses and other current liabilities (Notes 2, 6, 10 and 19)	5,839,488	1	4,636,800	1
Allowance for doubtful receivables (Note 2)	(929,864)	-	(1,100,492)	-	Current portion of bonds (Note 9)	4,000,000	1	5,000,000	1
Allowance for sales returns and others (Note 2)	(2,363,067)	(1)	(2,581,551)	(1)	Total Current Liabilities	<u>31,160,103</u>	<u>8</u>	<u>25,210,619</u>	<u>7</u>
Inventories - net (Notes 2 and 5)	10,340,336	3	8,504,418	2	LONG-TERM LIABILITIES				
Deferred income tax assets (Notes 2 and 12)	3,320,000	1	2,347,000	1	Bonds - net of current portion (Note 9)	35,000,000	10	24,000,000	7
Prepaid expenses and other current assets (Notes 2, 16 and 19)	2,984,030	1	2,421,566	1	Other long-term payables (Notes 10 and 18)	4,281,665	1	-	-
Total Current Assets	<u>94,747,405</u>	<u>26</u>	<u>63,652,726</u>	<u>19</u>	Accrued pension cost (Notes 2 and 11)	2,210,542	1	1,854,853	1
LONG-TERM INVESTMENTS (Notes 2, 3, 6 and 18)	<u>34,978,495</u>	<u>9</u>	<u>32,869,391</u>	<u>10</u>	Guarantee deposits (Note 18)	1,395,066	-	7,210,972	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7 and 16)					Deferred gain on sales and leaseback (Note 2)	114,928	-	268,165	-
Cost					Total Long-term Liabilities	<u>43,002,201</u>	<u>12</u>	<u>33,333,990</u>	<u>10</u>
Buildings	68,488,180	18	52,527,184	16	Total Liabilities	<u>74,162,304</u>	<u>20</u>	<u>58,544,609</u>	<u>17</u>
Machinery and equipment	303,334,232	82	242,347,119	72	SHAREHOLDERS' EQUITY (Notes 2 and 13)				
Office equipment	5,697,828	2	4,754,183	1	Capital stock - \$10 par value				
	<u>377,520,240</u>	<u>102</u>	<u>299,628,486</u>	<u>89</u>	Authorized: 24,600,000 thousand shares				
Accumulated depreciation	(188,447,604)	(51)	(140,224,640)	(42)	Issued:				
Advance payments and construction in progress	28,119,627	8	56,095,396	17	Preferred - 1,300,000 thousand shares	13,000,000	4	13,000,000	4
Net Property, Plant and Equipment	<u>217,192,263</u>	<u>59</u>	<u>215,499,242</u>	<u>64</u>	Common - 18,622,887 thousand shares in 2002 and 16,832,554 thousand shares in 2001	186,228,867	50	168,325,531	50
GOODWILL (Note 2)	<u>2,612,926</u>	<u>1</u>	<u>2,961,317</u>	<u>1</u>	Capital surplus:				
OTHER ASSETS					Merger and others (Note 2)	56,961,753	15	57,128,433	17
Deferred charges - net (Notes 2, 8 and 18)	9,792,490	3	3,239,723	1	Treasury stock (Note 3)	43,036	-	-	-
Deferred income tax assets (Notes 2 and 12)	9,712,567	2	16,175,070	5	Retained earnings:				
Refundable deposits (Notes 16 and 18)	543,469	-	772,912	-	Appropriated as legal reserve	18,641,108	5	17,180,067	5
Idle assets (Note 2)	339,400	-	-	-	Appropriated as special reserve	-	-	349,941	-
Assets leased to others (Note 2)	87,246	-	555,053	-	Unappropriated earnings	22,151,089	6	19,977,402	6
Miscellaneous	9,250	-	9,250	-	Unrealized loss on long-term investments (Note 2)	(194,283)	-	-	-
Total Other Assets	<u>20,484,422</u>	<u>5</u>	<u>20,752,008</u>	<u>6</u>	Cumulative translation adjustments (Note 2)	945,129	-	1,228,701	1
TOTAL ASSETS	<u>\$ 370,015,511</u>	<u>100</u>	<u>\$ 335,734,684</u>	<u>100</u>	Treasury stock (at cost) - 42,001 thousand shares (Notes 2, 3 and 14)	(1,923,492)	-	-	-
					Total Shareholders' Equity	<u>295,853,207</u>	<u>80</u>	<u>277,190,075</u>	<u>83</u>
					TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 370,015,511</u>	<u>100</u>	<u>\$ 335,734,684</u>	<u>100</u>

The accompanying notes are an integral part of the 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.

STATEMENTS OF INCOME

For the Years Ended December 31, 2002 and 2001

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

	2002		2001	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 16)	\$ 164,805,296		\$ 128,563,819	
SALES RETURNS AND ALLOWANCES (Note 2)	(3,843,967)		(2,675,816)	
NET SALES	160,961,329	100	125,888,003	100
COST OF SALES (Note 16)	108,994,184	68	89,506,952	71
GROSS PROFIT	51,967,145	32	36,381,051	29
OPERATING EXPENSES (Note 16)				
Research and development	11,725,035	7	10,649,019	8
General and administrative	5,164,907	3	6,048,665	5
Marketing	900,897	1	2,341,081	2
Total Operating Expenses	17,790,839	11	19,038,765	15
INCOME FROM OPERATIONS	34,176,306	21	17,342,286	14
NON-OPERATING INCOME				
Interest (Note 2)	1,008,147	1	1,365,919	1
Gain on sales of property, plant and equipment (Note 2)	273,998	-	52,376	-
Technical service income (Notes 16 and 18)	204,350	-	55,077	-
Insurance compensation - net	-	-	860,835	1
Amortization of premium income from option contracts - net (Notes 2 and 19)	-	-	234,732	-
Other (Note 16)	276,398	-	322,618	-
Total Non-operating Income	1,762,893	1	2,891,557	2
NON-OPERATING EXPENSES				
Investment loss recognized by equity method - net (Notes 2 and 6)	5,716,510	4	6,429,631	5
Interest (Notes 2, 7 and 19)	2,119,935	1	1,951,830	2
Amortization of premium expense from option contracts - net (Notes 2 and 19)	419,513	-	-	-

(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>
Loss on sales of and provision for loss on property, plant and equipment (Note 2)	\$ 221,955	-	\$ 234,862	-
Foreign exchange loss - net (Notes 2 and 19)	120,568	-	695,620	-
Casualty loss - net (Note 2)	119,485	-	-	-
Amortization of bond issuance cost (Note 2)	18,523	-	12,504	-
Loss on sales of long-term investments (Note 2)	2,403	-	102,978	-
Other	<u>87,852</u>	<u>-</u>	<u>147,703</u>	<u>-</u>
Total Non-operating Expenses	<u>8,826,744</u>	<u>5</u>	<u>9,575,128</u>	<u>7</u>
 INCOME BEFORE INCOME TAX	 27,112,455	 17	 10,658,715	 9
 INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 12)	 (<u>5,502,164</u>)	 (<u>4</u>)	 <u>3,824,459</u>	 <u>3</u>
 NET INCOME	 <u>\$ 21,610,291</u>	 <u>13</u>	 <u>\$ 14,483,174</u>	 <u>12</u>
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>	<u>Tax</u>
EARNINGS PER SHARE (Note 15)				
Basic earnings per share	<u>\$ 1.43</u>	<u>\$ 1.14</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>
Diluted earnings per share	<u>\$ 1.43</u>	<u>\$ 1.14</u>	<u>\$ 0.55</u>	<u>\$ 0.75</u>

The pro forma net income and earnings per share, on the assumption that the stock of parent company held by its subsidiary is treated as an investment instead of the treasury stock, are shown as follows (Note 14):

	<u>Before</u>	<u>After</u>
	<u>Income</u>	<u>Income</u>
	<u>Tax</u>	<u>Tax</u>
NET INCOME	<u>\$27,086,546</u>	<u>\$21,584,382</u>
EARNINGS PER SHARE		
Basic earnings per share	<u>\$1.43</u>	<u>\$1.13</u>
Diluted earnings per share	<u>\$1.43</u>	<u>\$1.13</u>

The accompanying notes are an integral part of the 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.

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 13)								RETAINED EARNINGS (Note 13)				UNREALIZED LOSS ON LONG-TERM INVESTMENTS (Note 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TRESURY STOCK (Notes 2, 3 and 14)	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					
	Shares (Thousand)	Amount	Shares (Thousand)	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 from subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(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 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.

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	57,621,462	48,875,754
Deferred income taxes	5,489,503	(3,840,777)
Investment loss recognized by equity method - net	5,716,510	6,429,631
Loss on sales of long-term investments - net	2,403	102,978
Loss (gain) on sales of and provision for loss on property, plant and equipment - net	(52,043)	182,486
Accrued pension cost	355,689	345,318
Allowance for doubtful receivables	(170,628)	153,758
Allowance for sales returns and others	(218,484)	377,384
Changes in operation assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	(9,659,627)	470,954
Notes receivable	116,342	(51,407)
Accounts receivable - net	10,462,189	10,377,678
Inventories - net	(1,835,918)	2,463,517
Prepaid expenses and other current assets	(148,120)	359,342
Forward exchange contract receivable	(199,609)	49,480
Increase (decrease) in:		
Payable to related parties	384,392	(2,263,972)
Accounts payable	3,725,340	(6,866,059)
Forward exchange contracts payable	(379,579)	218,165
Accrued expenses and other current liabilities	<u>1,467,988</u>	<u>(201,096)</u>
Net Cash Provided by Operating Activities	<u>94,288,101</u>	<u>71,666,308</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(54,443,595)	(68,002,448)
Long-term investments	(10,187,730)	(4,563,682)
Proceeds from sales of:		
Property, plant and equipment	494,805	298,231
Long-term investments	1,402	162,334
Increase in deferred charges	(5,724,583)	(1,465,703)
Decrease in refundable deposits	<u>229,443</u>	<u>195,073</u>
Net Cash Used in Investing Activities	<u>(69,630,258)</u>	<u>(73,376,195)</u>

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	\$ 10,000,000	\$ -
Payments on lease obligation	-	(50,000)
Increase (decrease) in guarantee deposits	(5,815,906)	124,593
Remuneration paid to directors and supervisors	(133,848)	(584,303)
Cash dividends paid for preferred stocks	(455,000)	(41,137)
Net Cash Provided by (Used in) Financing Activities	<u>3,595,246</u>	<u>(550,847)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	28,253,089	(2,260,734)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>33,403,706</u>	<u>35,664,440</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 61,656,795</u>	<u>\$ 33,403,706</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest of NT\$165,857 thousand and NT\$207,297 thousand in 2002 and 2001, respectively)	<u>\$ 1,771,682</u>	<u>\$ 1,980,399</u>
Income tax paid	<u>\$ 12,661</u>	<u>\$ 16,318</u>
Noncash investing and financing activities:		
Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stocks	<u>\$ 1,923,492</u>	<u>\$ -</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(\$ 142,438)</u>	<u>\$ 1,258,395</u>
Current portion of bonds	<u>\$ 4,000,000</u>	<u>\$ 5,000,000</u>
Cash paid for acquisitions of property, plant and equipment:		
Total acquisitions	\$ 56,080,659	\$ 55,977,367
Decrease (increase) in payables to contractors and equipment suppliers	<u>(1,637,064)</u>	<u>12,025,081</u>
	<u>\$ 54,443,595</u>	<u>\$ 68,002,448</u>
Cash paid for acquisitions of deferred charges:		
Total acquisition	\$ 10,401,176	\$ 1,465,703
Other long-term payable (including current portion)	<u>(4,676,593)</u>	<u>-</u>
	<u>\$ 5,724,583</u>	<u>\$ 1,465,703</u>

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Ltd. (the "Company" or "TSMC"), a Republic of China corporation, was incorporated as a venture among the Government of the Republic of China, acting through the Development Fund of the Executive Yuan; 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. In October 8, 1997, TSMC listed some of 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, and testing and designing of integrated circuits and other semiconductor devices, and the manufacturing of masks.

2. SIGNIFICANT ACCOUNTING POLICIES

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.

Allowance for doubtful receivables

Allowance 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 (standard cost and adjusted to approximate weighted-average cost at the end of each period) or market value. Market value represents net realizable value for finished goods and work in process, and replacement value for raw materials, supplies and spare parts.

Long-term investments

Investments in shares of stock 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 No. 30, "Accounting for Treasury Stock" (SFAS 30) on January 1, 2002. SFAS 30 requires a parent company to record stock held by its subsidiary as treasury stock. The recorded value of treasury stock is based upon 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. If an investee's functional currency is a foreign currency, "cumulative translation adjustments" would result from the process of translating the investees' financial statements into the functional currency of the Company.

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 another than temporary decline in their values with the related impairment loss charged to income.

Investments in foreign mutual funds are stated at the lower of aggregate cost or net asset value (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.

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 rent 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: Buildings - 10 to 20 years; machinery and equipment - 5 years; and office equipment - 3 to 5 years.

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

Goodwill

Goodwill represents the excess of fair market value of identifiable net assets acquired and consideration paid in connection with a business combination. The amount is amortized using the straight-line method over the estimated useful life of 10 years.

Deferred charges

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

Pension costs

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

Deferred gain on sales and leaseback

The gain on the sale of property by the Company that it simultaneously leased back is deferred. 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 or 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 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 current 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 current rate and the resulting differences are recognized in income. Also, the receivables and payables related to the forward contract are netted with the resulting amount presented as either an asset or 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.

3. NEW ACCOUNTING PRONOUNCEMENTS

In accordance with the Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock" (SFAS 30) 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 Company's subsidiaries as of January 1, 2002. The adoption of SFAS 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. CASH AND CASH EQUIVALENTS

	<u>2002</u>	<u>2001</u>
Cash and bank deposits	\$ 58,917,928	\$ 31,678,047
Government bonds acquired under repurchase agreements	<u>2,738,867</u>	<u>1,725,659</u>
	<u>\$ 61,656,795</u>	<u>\$ 33,403,706</u>

5. INVENTORIES - NET

	<u>2002</u>	<u>2001</u>
Finished goods	\$ 3,610,547	\$ 1,618,635
Work in process	7,227,129	6,685,094
Raw materials	389,164	521,680
Supplies and spare parts	<u>693,526</u>	<u>870,780</u>
	11,920,366	9,696,189
Less - allowance for losses	<u>(1,580,030)</u>	<u>(1,191,771)</u>
	<u>\$ 10,340,336</u>	<u>\$ 8,504,418</u>

6. LONG-TERM INVESTMENTS

	2002		2001	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
<u>Shares of stock</u>				
Equity method				
TSMC International Investment	\$22,265,157	100	\$19,987,814	100
TSMC Partners	3,753,733	100	3,032,376	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	3,136,115	32	2,907,967	32
Vanguard International Semiconductor (VIS)	2,415,297	25	3,377,526	25
Emerging Alliance Fund	767,239	99	741,617	99
Ya-Shin Technology	341,250	100	-	-
TSMC - North America	173,601	100	786,062	100
TSMC - Japan	94,258	100	80,156	100
Chi Cherng Investment	41,894	36	156,694	25
Hsin Ruey Investment	39,815	36	157,352	25
TSMC - Europe	13,670	100	10,147	100
Kung Cherng Investment	-	-	177,812	25
Cherng Huei Investment	-	-	166,639	25
Po Cherng Investment	-	-	164,724	25
Chi Hsin Investment	-	-	158,252	25
	<u>33,042,029</u>		<u>31,905,138</u>	
Prepayment for subscribed stocks				
VIS	<u>849,360</u>		<u>-</u>	
	<u>849,360</u>		<u>-</u>	
Cost method				
Traded				
Amkor Technology	280,748	-	280,748	-
Monolithic System Tech.	104,289	2	-	-
Taiwan Mask Corp.	32,129	2	32,129	2
Non-traded				
United Technology	193,584	11	193,584	11
Shin-Etsu Handotai Taiwan Company Ltd.	105,000	7	105,000	7
Hon Tung Venture Capital	83,916	10	150,000	10
W.K. Technology Fund IV	50,000	2	50,000	2
	<u>849,666</u>		<u>811,461</u>	
<u>Funds</u>				
Horizon Ventures	195,452	-	125,701	-
Crimson Asia Capital	41,988	-	27,091	-
	<u>237,440</u>		<u>152,792</u>	
	<u>\$34,978,495</u>		<u>\$32,869,391</u>	

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%.

The Company's investees, Hsin Ruey Investment, Chi Hsin Investment and Kung Cherng Investment were merged at the end of October 2002, with Hsin Ruey Investment as the surviving company. In addition, the Company's investees, Chi Cherng Investment, Cherng Huei Investment and Po Cherng Investment were also merged at the end of October 2002. Chi Cherng Investment is the surviving company of the merger. The Company's ownership is approximately 36% in Hsin Ruey Investment and approximately 36% in Chi Cherng Investment subsequent to the merger.

The Company established Ya Shin Technology ("Ya Shin") 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. The Company holds 52% of Global UniChips' shares after the completion of the merger.

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

	<u>2002</u>	<u>2001</u>
TSMC International Investment	(\$ 4,714,203)	(\$ 4,855,844)
SSMC	(1,155,076)	(1,722,080)
VIS	(821,771)	(2,236,940)
TSMC Partners	993,292	2,357,405
Others	(<u>18,752</u>)	<u>27,828</u>
	(<u>\$ 5,716,510</u>)	(<u>\$ 6,429,631</u>)

The market values and net asset values of the long-term investments is as follows:

	<u>2002</u>	<u>2001</u>
Market value of traded stocks	\$ 4,792,108	\$ 7,055,888
Equity in the net assets of non-traded stocks	33,880,022	29,124,386
Net asset value of funds	237,440	152,792

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	<u>2002</u>	<u>2001</u>
Buildings	\$ 22,289,909	\$ 15,181,445
Machinery and equipment	163,208,908	122,659,129
Office equipment	<u>2,948,787</u>	<u>2,384,066</u>
	<u>\$ 188,447,604</u>	<u>\$ 140,224,640</u>

The status of construction of the Company's manufacturing facilities at December 31, 2002 is as follows:

<u>Manufacturing Plant</u>	<u>Estimated Costs</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\$165,857 thousand in 2002 and NT\$207,297 thousand in 2001) for the years ended December 31, 2002 and 2001 were NT\$2,285,792 thousand and NT\$2,159,127 thousand, respectively. The interest rate used for purposes of calculating the capitalized amounts was 5.283% in 2002 and 2001.

8. DEFERRED CHARGES - NET

	<u>2002</u>	<u>2001</u>
Technology license fees	\$ 6,519,286	\$ 996,578
Software and system design costs	3,167,366	2,073,752
Technology know-how	49,500	103,500
Bond issuance costs	45,908	33,091
Other	<u>10,430</u>	<u>32,802</u>
	<u>\$ 9,792,490</u>	<u>\$ 3,239,723</u>

9. BONDS

Domestic unsecured bonds:

	<u>2002</u>	<u>2001</u>
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

(Forward)

	<u>2002</u>	<u>2001</u>
Issued 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 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>-</u>
	<u>\$ 39,000,000</u>	<u>\$ 29,000,000</u>

Future principal payments under the Company's bonds arrangements as of December 31, 2002 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>

10. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor patents. The future payments to be paid 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>
	5,438,964
Less - current portion	(<u>1,157,299</u>)
	<u>\$ 4,281,665</u>

11. PENSION PLAN

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

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

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

a. Components of pension cost

	<u>2002</u>	<u>2001</u>
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>1,604,027</u>	<u>1,024,525</u>
Accumulated benefit obligation	1,625,321	1,025,264
Additional benefits based on future salaries	<u>1,300,712</u>	<u>1,407,014</u>
Projected benefit obligation	2,926,033	2,432,278
Fair value of plan assets	(<u>1,014,086</u>)	(<u>835,583</u>)
Funded status	1,911,947	1,596,695
Unrecognized net transitional obligation	(149,391)	(157,691)
Unrecognized net gain	445,759	415,849
Accrued pension liabilities	<u>2,227</u>	<u>-</u>
Accrued pension cost	<u>\$ 2,210,542</u>	<u>\$ 1,854,853</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 \$ 164,720 \$ 131,894

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

12. 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 before tax credits is shown below:

	<u>2002</u>	<u>2001</u>
Income tax expense based on "income before income tax" at statutory rate of 25%	(\$ 6,778,114)	(\$ 2,664,679)
Tax-exempt income	2,526,500	1,089,000
Temporary and permanent differences	(452,684)	(993,679)
Current income tax expense - before tax credits	<u>(\$ 4,704,298)</u>	<u>(\$ 2,569,358)</u>

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

	<u>2002</u>	<u>2001</u>
Current income tax expense before tax credits	(\$ 4,704,298)	(\$ 2,569,358)
Additional 10% on unappropriated earnings	(162,938)	(319,000)
Income tax credits	4,867,236	2,888,358
Other income tax	(12,661)	(16,318)
Income tax paid in current year	(12,661)	(16,318)
Net change in deferred income tax assets (liabilities)		
Investment tax credits	2,510,192	144,925
Temporary differences	(1,072,086)	(1,874,945)
Valuation allowance	(6,927,609)	5,570,797
Income tax benefit (expense)	<u>(\$ 5,502,164)</u>	<u>\$ 3,824,459</u>

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

	<u>2002</u>	<u>2001</u>
Current		
Investment tax credits	<u>\$ 3,320,000</u>	<u>\$ 2,347,000</u>
Noncurrent		
Investment tax credits	\$ 23,247,653	\$ 21,710,461
Temporary differences	(3,565,841)	(2,493,755)
Valuation allowance	(9,969,245)	(3,041,636)
	<u>\$ 9,712,567</u>	<u>\$ 16,175,070</u>

- 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 credible 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. The unappropriated retained earnings as of December 31, 2002 and 2001 included earnings generated through December 31, 1997 was NT\$0 and NT\$4,827 thousand, respectively.
- f. As of December 31, 2002, investment tax credits consisted of the following:

<u>Regulation</u>	<u>Items</u>	<u>Total Creditable Amounts</u>	<u>Remaining Creditable Amounts</u>	<u>Expiry Year</u>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 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>	
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>	<u>\$ 88,254</u>	
Statute for Upgrading Industries	Reputation setting	\$ 10,133	\$ -	2002
		<u>319</u>	<u>319</u>	2003
		<u>\$ 10,452</u>	<u>\$ 319</u>	
Statute for Upgrading Industries	Investments in important technology based enterprises	\$ 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. Income from the following expansion and construction of the Company'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 of the tax authority for 1992, 1993, 1996 and 1997.

13. SHAREHOLDERS' EQUITY

The Company 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.

The Company'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 are 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:

	<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 the Company'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 income of 2001, the basic EPS after income tax for the year ended December 31, 2001 would be decreased from NT\$0.83 to NT\$0.76.

As of January 16, 2003, the appropriation of the earnings of 2002 has not been yet 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 the Company's outstanding capital stock. The reserve can only be used to offset a deficit; or distribute as stock dividend when the balance is 50% of the aggregate par value of the outstanding capital stock of the Company 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 sheet (except for the recorded cost of treasury stock 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 to 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 the Company on earnings generated as of January 1, 1998. An Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit allocated to each shareholder.

On June 25, 2002, the SFC approved the Company's Employee Stock Option Plan ("the Plan"). The Plan provides qualified employees with 100,000 thousand units of option rights with each unit representing 1 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 Taiwan stock exchange at the date of grant. As of December 31, 2002, there were 19,726 thousand shares granted at a weighted average price of approximately NT\$53.

The Company 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 other 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.

14. 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 stocks	<u>39,270</u>	<u>3,818</u>	<u>1,087</u>	<u>42,001</u>

On January 1, 2002, the Company reclassified its capital stock held by its subsidiaries with book value of NT\$2,115,695 thousand from long-term investments to treasury stock. Proceeds from the sale of treasury stock for the year ended December 31, 2002 were NT\$96,501 thousand. As of December 31, 2002, the book value and market value of the treasury stock was NT\$1,923,492 thousand and NT\$2,048,164 thousand, respectively. 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.

15. 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>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>December 31, 2002</u>					
Income	\$ 27,112,455	\$ 21,610,291			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$ 26,657,455</u>	<u>\$ 21,155,291</u>	<u>18,580,700</u>	<u>\$ 1.43</u>	<u>\$ 1.14</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$ 26,657,455</u>	<u>\$ 21,155,291</u>	<u>18,580,700</u>	<u>\$ 1.43</u>	<u>\$ 1.14</u>
<u>December 31, 2001</u>					
Income	\$ 10,658,715	\$ 14,483,174			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$ 10,203,715</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>\$ 10,203,715</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 13) are not included in the denominator of the diluted earning-per-share computation as such shares are not dilutive 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 December 31, 2001 to decrease from NT\$0.61 and NT\$0.83 to NT\$0.55 and NT\$0.75, respectively.

16. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI); the Chairman of the Company is a director of ITRI
- b. Philips Electronics N.V. (Philips); a major shareholder

c. Subsidiaries

TSMC - North America
TSMC - Europe
TSMC - Japan

d. Investees

VIS
SSMC

e. Indirect subsidiaries

TSMC Technology
WAFERTECH, LLC.

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 years</u>				
Sales				
TSMC - North America	\$ 94,433,401	57	\$ -	-
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	7,018	-	48,972	-
WAFERTECH, LLC	<u>1,152</u>	<u>-</u>	<u>3,111</u>	<u>-</u>
	<u>\$ 97,537,107</u>	<u>59</u>	<u>\$ 3,732,980</u>	<u>3</u>
Purchase				
WAFERTECH, LLC	9,955,154	41	6,797,817	37
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>\$ 16,175,649</u>	<u>66</u>	<u>\$ 10,642,776</u>	<u>59</u>
Rental expense - ITRI	<u>\$ 40,401</u>	<u>3</u>	<u>\$ 161,604</u>	<u>11</u>
Manufacturing expenses				
Technical assistance fee - Philips	<u>\$ 2,849,517</u>	<u>100</u>	<u>\$ 2,418,276</u>	<u>100</u>

(Forward)

	<u>2002</u>		<u>2001</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Marketing expenses				
Commission				
TSMC - Japan	\$ 208,226	23	\$ 194,696	8
TSMC - Europe	132,086	15	124,384	5
TSMC - North America	-	-	1,028,725	42
Service Charge				
TSMC - North America	-	-	118,648	5
	<u>\$ 340,312</u>	<u>38</u>	<u>\$ 1,466,453</u>	<u>60</u>
Sales of property, plant and equipment				
VIS	\$ -	-	\$ 268,871	79
WAFERTECH, LLC	-	-	24,645	7
	<u>\$ -</u>	<u>-</u>	<u>\$ 293,516</u>	<u>86</u>
Non-operating income				
SSMC (technical service income mainly)	\$ 126,061	3	\$ 95,284	3
WAFERTECH, LLC	1,635	-	4,612	-
VIS	-	-	467	-
	<u>\$ 127,696</u>	<u>3</u>	<u>\$ 100,363</u>	<u>3</u>
<u>At December 31</u>				
Receivables				
TSMC - North America	\$ 9,739,236	96	\$ -	-
Philips and its affiliates	352,706	3	116,499	22
VIS	58,301	1	320,179	61
ITRI	22,974	-	37,383	7
SSMC	5,678	-	20,671	4
Others	4,593	-	29,129	6
	<u>\$ 10,183,488</u>	<u>100</u>	<u>\$ 523,861</u>	<u>100</u>
Prepaid expense and other current asset				
Prepaid rent - ITRI	\$ -	-	\$ 42,664	2
Payables				
Philips and its affiliates	\$ 730,847	30	\$ 499,331	24
VIS	653,876	26	548,472	26
WAFERTECH, LLC	617,751	25	817,616	39
SSMC	391,426	16	470	-
TSMC - Europe	29,520	1	54,601	3
TSMC - Japan	19,643	1	15,355	1
TSMC - North America	14,511	1	136,443	7
TSMC Technology	9,424	-	10,318	-
	<u>\$ 2,466,998</u>	<u>100</u>	<u>\$ 2,082,606</u>	<u>100</u>
Refundable deposits - VIS	<u>\$ 514,846</u>	<u>95</u>	<u>\$ 750,788</u>	<u>97</u>

Sales to related parties are based on normal selling prices and collection terms. The payables to WAFERTECH represent the purchase of finished goods. The purchase prices of finished goods were calculated in accordance with the related contractual agreements.

The Company has authorized its exclusive distributor, TSMC - North America, to promote semiconductor products in North America and South America starting January 2002. The selling prices to TSMC - North America are approximately 99% of those to third parties and are invoiced with thirty day payment terms, which is not significantly different from third parties.

17. SIGNIFICANT LONG-TERM OPERATING LEASES

The Company 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 NTS\$225,576 thousand. The agreements can be renewed upon their expiration.

Future remaining lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 225,576
2004	225,576
2005	225,576
2006	225,576
2007	225,576
2008 and thereafter	<u>1,742,413</u>
	<u>\$ 2,870,293</u>

18. SIGNIFICANT COMMITMENTS AND CONTINGENCY AS OF DECEMBER 31, 2002

The Company's commitments and contingency as of December 31, 2002 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company 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 the Company 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 the Company's production capacity.
- c. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.

- d. Under several foundry agreements, the Company shall 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 to be named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, and allow the Company to invest in 32% of SSMC's capital. The Company and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.
- f. The Company provides of technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling prices of 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. The Company provided guarantee on loans amounting to US\$200,000 thousand, US\$40,000 thousand and US\$440,000 thousand for TSMC Development, Inc., TSMC- North America and WAFERTECH, LLC, respectively.
- h. Under a Technology Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, the Company shall receive payments for license of certain technology to National. The agreement will remain in force for ten years. 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 the Company will discontinue transferring any additional technology. The Company granted National the option to request additional technology transfers under the same terms and conditions of the original agreement through January 2008.
- i. The Company entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. ("VIS"). VIS agrees to reserve certain production capacity for the Company to manufacture certain logic devices or other technologies required by the Company's customers at selling prices as agreed by the parties. The Company paid NT\$1,200,000 thousand to VIS as security bond. VIS shall return portions of the bond without any interest to the Company upon the purchase of wafers by the Company. The contract will remain in force for five years.
- j. Starting from 2001, the Company entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability and a deferred charge to be amortized to cost of sales on a straight-line basis over the shorter of the estimated life of the technology or the term of the contract.
- k. Unused letter of credits as of December 31, 2002 were NT\$6,480 thousand, ¥ 51,000 thousand, Euro€520 thousand and SG\$85 thousand.

- l. As of December 31, 2002, unused credit lines for short-term loans were NT\$7,930,000 thousand and US\$337,500 thousand.

19. ADDITIONAL DISCLOSURES

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

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

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

a) Forward exchange contracts as of December 31, 2002

	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date	Maturity (Thousand)
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 (shown in the balance sheets as part of "other current assets" account) aggregate to NT\$199,609 thousand, and payables from forward exchange contracts (shown in the balance sheets as part of "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 or 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

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$ 61,656,795	\$ 61,656,795	\$ 33,403,706	\$ 33,403,706
Receivables from related parties	10,183,488	10,183,488	523,861	523,861
Notes and accounts receivable	9,555,687	9,555,687	20,134,218	20,134,218
Long-term investments	34,978,495	38,909,570	32,869,391	36,333,066
Refundable deposits	543,469	543,469	772,912	772,912
<u>Liabilities</u>				
Payables to related parties	2,466,998	2,466,998	2,082,606	2,082,606
Accounts payable	4,849,234	4,849,234	1,123,894	1,123,894
Payables to contractors and equipment suppliers	14,004,383	14,004,383	12,367,319	12,367,319
Bonds (includes current portion)	39,000,000	39,762,245	29,000,000	29,703,063
Other long-term payables	4,281,665	4,281,665	-	-
Guarantee deposits	1,395,066	1,395,066	7,210,972	7,210,972
<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)
Option	(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) Long-term investments - market value for traded companies and net equity value for non-trade companies.

- c) Refundable deposits and guarantee deposits - carrying values.
- d) Long-term liabilities - based on forecasted cash flows discounted at interest rates of similar long-term liabilities. 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.
- e) Derivative financial instruments - based on quotations from banks.

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 as a whole.

3) Investment in Mainland China:

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

20. SEGMENT FINANCIAL INFORMATION

a. Gross export sales

<u>Area</u>	<u>2002</u>	<u>2001</u>
America	\$ 86,045,821	\$ 63,896,732
Asia and others	49,916,588	23,874,375
Europe	<u>9,216,429</u>	<u>7,523,873</u>
	<u>\$ 145,178,838</u>	<u>\$ 95,294,980</u>

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

b. Gross sales to major customer

Customers with sales exceeding 10% of the total sales are 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>	20	<u>\$ 21,789,769</u>	17

The sales to A customer in 2002 were completed through TSMC - North America, due to the Company authorized its exclusive distributor through TSMC - North America, to promote semiconductor products in North America and South America starting January 2002.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
 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-BVI	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.
 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, LLC	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.
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	The carrying value does not include prepayment for subscribed stock of NT\$849,360 thousand.
	VIS	Investee	Long-term investment	556,133	2,415,297	25	4,326,719	
	TSMC-BVI	Subsidiary	Long-term investment	987,968	22,265,157	100	22,265,157	
	Chi Cherng Investment	Investee	Long-term investment	-	41,894	36	501,179	The treasury stocks in amounts of NT\$459,285 thousand are deducted from the carrying value.
	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 Fund	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 Shin 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)	
TSMC - North America	Crimson Asia Capital	-	Long-term investment	N/A	\$ 41,988	N/A	\$ 41,988	The amount is shown in the carrying value.
	Horizon Ventures	-	Long-term investment	N/A	195,452	N/A	195,452	
	<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-BVI	<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	

(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, LLC	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	4	US\$ 1,566	
	Divio	-	Long-term investment	30	US\$ 3	-	US\$ 3	
	Global Test Corp.	-	Long-term investment	13,268	US\$ 5,176	12	US\$ 5,176	
	Chipstrate Technologies, Inc.	-	Long-term investment	6,660	US\$ 300	1	US\$ 300	
	Richtek Technology Corporation	-	Long-term investment	1,023	US\$ 346	1	US\$ 346	
	Advanced Power Electronics, Corp.	-	Long-term investment	2,750	US\$ 1,345	3	US\$ 1,345	
	<u>Preferred stock</u> Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$ 1,809	-	US\$ 1,809	
	Divio	-	Long-term investment	667	US\$ 500	-	US\$ 500	
	SiRF Technology, Inc.	-	Long-term investment	306	US\$ 1,333	-	US\$ 1,333	
	Capella Microsystems, Inc.	-	Long-term investment	300	US\$ 481	-	US\$ 481	
	Sensory, Inc.	-	Long-term investment	1,404	US\$ 625	-	US\$ 625	
	Equator Technologies, Inc.	-	Long-term investment	300	US\$ 258	-	US\$ 258	
	LightSpeed Semiconductor Corporation	-	Long-term investment	2,252	US\$ 1,339	-	US\$ 1,339	
	Tropian, Inc.	-	Long-term investment	1,758	US\$ 2,334	-	US\$ 2,334	
	Sonics, Inc.	-	Long-term investment	2,686	US\$ 3,530	-	US\$ 3,530	
	Atheros, Inc.	-	Long-term investment	1,607	US\$ 3,593	-	US\$ 3,593	
NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$ 853	-	US\$ 853		
Formfactor, Inc.	-	Long-term investment	267	US\$ 2,000	-	US\$ 2,000		
Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$ 2,000	-	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.	Memsic, Inc.	-	Long-term investment	2,727	US\$ 1,500	-	US\$ 1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$ 1,192	-	US\$ 1,192	
	Signia Technologies, Inc.	-	Long-term investment	3,000	US\$ 300	-	US\$ 300	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$ 1,500	-	US\$ 1,500	
	HINT Corporation	-	Long-term investment	1,000	US\$ 1,000	-	US\$ 1,000	
	Ordius, Inc. (Creosys, Inc.)	-	Long-term investment	1,500	US\$ 450	-	US\$ 450	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$ 500	-	US\$ 500	
	IP Unity	-	Long-term investment	1,008	US\$ 1,636	-	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	4	US\$ 1,942	
	Richtek Technology Corporation	-	Long-term investment	845	US\$ 1,006	2	US\$ 1,006	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	487	US\$ 140	-	US\$ 140	
	Auden Technology MFG. Co., Ltd.	-	Long-term investment	953	US\$ 1,117	2	US\$ 1,117	
	Geo Vision, Inc.	-	Long-term investment	180	US\$ 129	-	US\$ 129	
	EoNex Technologies, Inc.	-	Long-term investment	40	US\$ 2,024	-	US\$ 2,024	
	Conwise Technology Co., Ltd.	-	Long-term investment	2,800	US\$ 1,930	-	US\$ 1,930	
	Yi Yang Technology	-	Long-term investment	2,800	US\$ 967	-	US\$ 967	
	Goyatek Technology Inc.	-	Long-term investment	1,740	US\$ 1,787	-	US\$ 1,787	
	Trendchip Technologies Corp.	-	Long-term investment	2,000	US\$ 864	-	US\$ 864	
	<u>Preferred stock</u>							
	Memsic, Inc.	-	Long-term investment	2,289	US\$ 1,560	-	US\$ 1,560	
	Oepic, Inc.	-	Long-term investment	2,696	US\$ 1,240	-	US\$ 1,240	
	Equator Technologies, Inc.	-	Long-term investment	770	US\$ 452	-	US\$ 452	
	NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$ 1,000	-	US\$ 1,000	
	Signia Technologies, Inc.	-	Long-term investment	1,500	US\$ 150	-	US\$ 150	
	Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$ 1,261	-	US\$ 1,261	
	Monolithic Power Systems, Inc.	-	Long-term investment	804	US\$ 1,946	-	US\$ 1,946	
	Ralink Technology, Inc.	-	Long-term investment	1,833	US\$ 1,500	-	US\$ 1,500	
	Sonics, Inc.	-	Long-term investment	3,082	US\$ 3,082	-	US\$ 3,082	
	Newport Opticom, Inc.	-	Long-term investment	1,157	US\$ 810	-	US\$ 810	
	Silicon Data, Inc.	-	Long-term investment	2,000	US\$ 1,000	-	US\$ 1,000	
Reflectivity, Inc.	-	Long-term investment	1,596	US\$ 1,500	-	US\$ 1,500		
Capella Microsystems, Inc.	-	Long-term investment	800	US\$ 200	-	US\$ 200		
Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$ 750	-	US\$ 750		
Tropian, Inc.	-	Long-term investment	1,464	US\$ 2,000	-	US\$ 2,000		
SiRF Technology, Inc.	-	Long-term investment	20	US\$ 131	-	US\$ 131		
LeadTONE, Inc.	-	Long-term investment	680	US\$ 238	-	US\$ 238		
Match Lab, Inc.	-	Long-term investment	313	US\$ 250	-	US\$ 250		
eBest, Inc.	-	Long-term investment	185	US\$ 97	-	US\$ 97		
Kilopass Technology, Inc.	-	Long-term investment	3,887	US\$ 2,000	-	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 Fund	<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.

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-BVI	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 Fund	Long-term investment	Emerging Alliance Fund	Subsidiary	-	741,617	-	168,615	-	-	-	-	-	-	767,239
VIS	VIS	Long-term investment	VIS	Investee	556,133	3,377,526	121,338	849,360	-	-	-	-	-	677,471	3,264,657
	Ya-Shin Technology	Long-term investment	Ya-Shin Technology	Subsidiary	-	-	34,125	341,250	-	-	-	-	-	34,125	341,250
TSMC - BVI	<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, LLC	Long-term investment	WaferTech, LLC	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	-	-	
	JIHSUN	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.

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.

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, LLC	Subsidiary	Sales	(\$94,433,401)	(57)	30 days from invoice date	(See Note 16)	(See Note 16)	\$ 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	(See Note 16)	(See Note 16)	(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.

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.

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES 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 - BVI	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 Fund	Cayman Islands	Investment	1,005,660	837,045	-	99	767,239	(142,865)	(142,151)	Subsidiary
Ya-Shin 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, which was transferred to capital surplus, is not deducted from the investment gain (loss) was in amount of NTS43,036 thousand.

Note 3: The amount has not included the prepayment for the subscribed shares of 121,338 shares with total amount of NTS849,360 thousand.