

MAJOR FACILITIES

Corporate Headquarters & FAB 2, FAB 5

No. 121, Park Ave. 3
Science-Based Industrial Park
Hsin-Chu, Taiwan 300-77, R.O.C.
Tel: 886-3-578-0221 Fax: 886-3-578-1546

FAB 3

No. 9, Creation Rd. 1
Science-Based Industrial Park
Hsin-Chu, Taiwan 300-77, R.O.C.
Tel: 886-3-578-1688 Fax: 886-3-578-1548

FAB 6

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Science-Based Industrial Park
Shan-Hwa, Tainan, Taiwan 741, R.O.C.
Tel: 886-6-505-2000 Fax: 886-6-505-2058

FAB 7

No. 6, Creation Rd. 2
Science-Based Industrial Park
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FAB 8

No. 25, Li-Hsin Rd.
Science-Based Industrial Park
Hsin-Chu, Taiwan 300-77, R.O.C.
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FAB 12

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Science-Based Industrial Park
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Tel: 886-3-563-6688 Fax: 886-3-563-7000

TSMC North America

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San Jose, CA 95134, U.S.A.
Tel: 1-408-382-8000 Fax: 1-408-382-8008

TSMC Europe B.V.

World Trade Center, Strawinskyiaan 1145
1077 XX Amsterdam, The Netherlands
Tel: 31-20-305-9900 Fax: 31-20-305-9911

TSMC Japan K.K.

21F, Queen's Tower C, 2-3-5, Minato Mirai
Nishi-ku, Yokohama, Kanagawa, 220-6221, Japan
Tel: 81-45-682-0670 Fax: 81-45-682-0673

TSMC Shanghai Representative Office

Suite 4605, Plaza 66, 1266 Nanjing W. Rd.
Shanghai, China Postcode: 200040
Tel: 86-21-6288-3558 Fax: 86-21-6288-2528

TSMC SPOKESPERSON

Name: Harvey Chang
Title: Senior Vice President & CFO
Tel: 886-3-578-0221 Fax: 886-3-578-1545
Email: spokesperson@tsmc.com.tw

Acting Spokesperson

Name: J.H. Tzeng
Title: Public Relations Department Manager
Tel: 886-3-567-3338 Fax: 886-3-567-0121
Email: jhtzeng@tsmc.com.tw

AUDITORS

Company: T N SOONG & CO
Auditors: S. C. Huang, Edward Way
Address: 12F, No. 156, Sec. 3, Min-Sheng E. Rd.
Taipei, Taiwan 105, R.O.C.
Tel: 886-2-2545-9988 Fax: 886-2-2545-9966
Website: <http://www.andersen.com.tw>

STOCK TITLE TRANSFER

Company: China Trust Commercial Bank
Transfer Agency Department
Address: 5F, No. 83, Sec. 1, Chung-Ching S. Rd.
Taipei, Taiwan 100, R.O.C.
Tel: 886-2-2361-3033 Fax: 886-2-2311-6723
Website: <http://www.chinatrust.com.tw>

ADR DEPOSITARY BANK

Company: Citibank, N.A.
Depositary Receipts Services
Address: 20F, No. 111 Wall Street, Zone 7
New York, NY10005, U.S.A.
Tel: 1-212-657-2770 Fax: 1-212-825-5398
Email: citibank@em.fcncd.com
Website: <http://www.citibank.com/adr>

TSMC WEBSITE: <http://www.tsmc.com>

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Business Philosophy

TSMC is committed to:

Integrity

Focus on Our Core Business - IC Foundry

Globalization

Long-term Vision and Strategies

Treating Customers as Partners

Building Quality into All Aspects of Our Business

Unceasing Innovation

Fostering a Dynamic and Fun Work Environment

Keeping Communication Channels Open

**Caring Employees and Shareholders, and
Being a Good Corporate Citizen**

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

The global IC market was contracted by over 30 percent in 2001, making it the worst-ever downturn in the history of the semiconductor industry. By continuously providing the most advanced manufacturing technologies and services to support our customers, TSMC was able to weather the downturn better than most other companies in the industry. We did experience a bottom earlier during 2001, but our monthly sales increased steadily during the second half of the year. In the end, while others in the foundry industry suffered losses in 2001, we still outperformed the overall semiconductor industry. We came up with a profit exceeding NT\$14,483 million and also strengthened our leadership in the foundry business by gaining significant market shares. Now we are pleased to report the following achievements.

Technology Advancement

Through 2001, TSMC persisted in helping our customers enhance their competitiveness in their markets by providing state-of-the-art manufacturing technologies. While maintaining our leadership in the mainstream 0.18um and 0.15um process technologies and volume production capability, we also started to provide customers with manufacturing services of the advanced 0.13um process technology. In addition, in the next generation 90nm technology development, we have not only completed the basic module design in 2001, but also formed strategic alliances with IDM customers as well as library, IP, and design service companies to increase future compatibility.

Capital Expense and Capacity

Responding to the downturn and the decline of orders in 2001, TSMC slowed the pace of its capital investment. As a result, capital expense for 2001 totaled US\$2.2 billion, a decrease of 40 percent from previous capital expense in 2000. The bulk of our investments were dedicated to increasing the capacity of our 0.18um, 0.15um and 0.13um processes. The company's utilization rate also remained well ahead of our competitors. As a result, TSMC is emerging from the downturn to a stronger market position than the position it held at the close of 2000.

Fab 12 is the center of future technology development at TSMC. The Company reached volume production on a 0.13um all-layer copper process in a full-scale 12-inch production plant (Fab 12) in 2001, making us the first dedicated foundry to achieve this goal. In addition, TSMC also completed a comprehensive study on the impact of high-speed railway vibrations in the vicinity of the Tainan Science-Based Industrial Park. The study confirmed that given proper plant engineering resources, such vibrations would not pose a threat to the quality of output at our production facilities in Tainan. As a result, the construction of our second 12-inch facility (Fab 14) that had been temporarily suspended due to concerns over the vibration issue was subsequently resumed.



Morris Chang, Chairman and CEO

Sales and Marketing

Maintaining a strong partnership with existing customers, expanding the scope of our foundry services and attracting new customers have consistently been TSMC's primary goals. During 2001, dozens of first-time customers decided to form partnership with us, bringing our total customer base up to around 400.

Our customers participate in a significant and wide range of the integrated circuit market; market segments include computers, communication and consumer electronics. The broad cross-distribution of our customer base and the market segments have also helped us better adapt the ups and downs of global economy.

On a geographic basis, sales from North America accounted for 68 percent of TSMC's 2001 revenue. Sales from the Asia Pacific region (excluding Japan) accounted for 16 percent of revenue, while Japan and Europe accounted for 10 percent and 6 percent of revenue respectively.

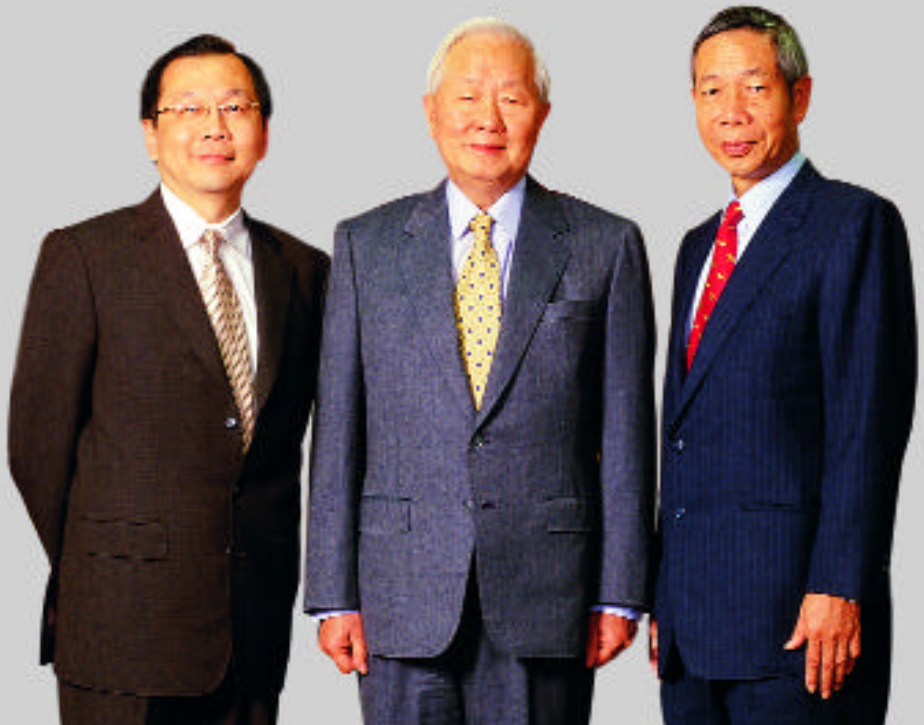
In 2001, TSMC also set up an office in Shanghai to commence our company's entry in the emerging semiconductor market in China. This initiative should put TSMC to a competitive position in the fast growing market in Mainland China.

Revenues and Net Profits

2001 was a difficult year for the semiconductor industry globally. Nevertheless, with our strong core competence in technology and our commitment to service innovation, TSMC outperformed the IC industry and ended the year with revenues totaled NT\$125,888 million and net profits totaled NT\$14,483 million. Earnings per share for 2001 were NT\$0.83.

Recognition and Awards

In 2001, our performance in business management and our commitment to technology, quality and services continued to receive recognition both at home and abroad. In its annual corporate survey for 2001, the *Common Wealth Magazine* ranked TSMC as Taiwan's number one company for the fifth consecutive year. TSMC was also ranked first in the corporate surveys conducted by *Far Eastern Economic Review*, *CFO Asia* and *Asiamoney*.



From left to right -
Rick Tsai, President and COO
Morris Chang, Chairman and CEO
F.C. Tseng, Deputy CEO

Future Outlook

The global semiconductor industry remains cyclical. However, we are confident in maintaining a healthy growth in 2002. The dedicated foundry industry, which was created by our company, will keep playing an increasingly important role and at the same time growing at a rate that is expected to surpass that of the overall IC industry. In the future, we will also strive to maintain our leadership in advanced technology development and customer partnerships. Greater efforts will be devoted to establish a new semiconductor "Virtually Integrated Value Chain" that combines our silicon foundry expertise with the expertise of our customers, equipment suppliers, design services partners, and packaging and testing service providers. It is our goal to further strengthen the bonds of partnership with these entities and to achieve a win-win situation for all of us.

Acknowledgement

Once again, we would like to thank all of our customers, suppliers, shareholders and employees for their continued support and dedication. These are the people who have made it possible for TSMC to steady its steps and continue its march towards success in solid strides. We would like to take this opportunity to offer our deepest appreciation to all of you out there.

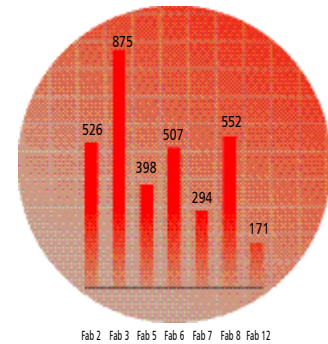
Morris Chang,
Chairman and CEO

F. C. Tseng,
Deputy CEO

Rick Tsai,
President and COO

2002 Production Plan*

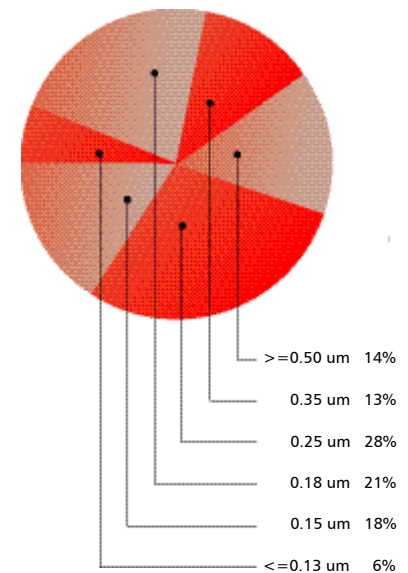
Quantity: thousand pcs 8" wafer



* TSMC only: 3,324 thousand pcs 8" wafers;
total TSMC managed capacity: 3,987 thousand pcs,
including WaferTech, VIS, and SSMC

2002 Sales Plan by Technology

Quantity: thousand pcs 8" wafer



A BRIEF INTRODUCTION TO TSMC

1. Company Profile

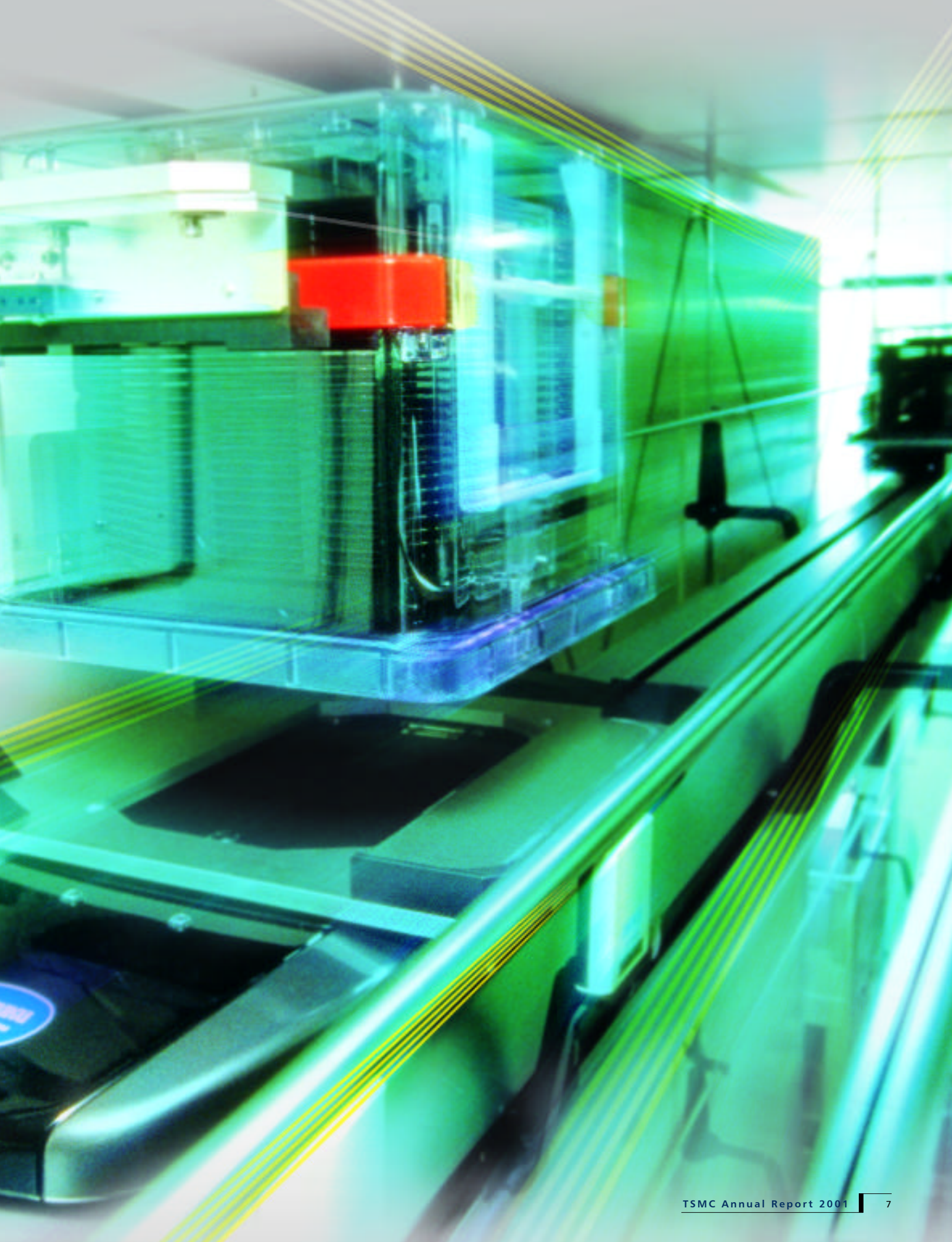
Founded on February 21, 1987, Taiwan Semiconductor Manufacturing Company (TSMC) is the world's largest dedicated integrated circuit (IC) foundry. Based in the Hsin-Chu Science-Based Industrial Park, known as Taiwan's Silicon Valley, TSMC is listed on both the Taiwan Stock Exchange (TSE) and the New York Stock Exchange (NYSE) under the symbol TSM.

TSMC is the first dedicated IC foundry in the world, and remains the industry leader. The goal of the Company was straightforward from its very inception, namely, to provide advanced IC manufacturing services to its customers. TSMC's charter prevents it from designing, manufacturing or marketing IC products under its own brand name, making it a true partner with and not a competitor to its customers. TSMC's success in the foundry industry has served as an inspiration for many companies, enhancing significant acceleration in technological innovation in general. With TSMC as the driving force of change since 1987, the number of global fabless IC companies has grown substantially. What was once only a concept, a "pure play" of the foundry industry, has played a vital role in technology advancement and generated billions of dollars in revenues. As the semiconductor industry faces constant consolidation and ever rising costs of IC fab construction, dedicated foundry companies like TSMC are expected to become an important source of IC manufacturing worldwide.

As a leader in the foundry sector, TSMC has built its reputation by offering cutting-edge technologies, advanced wafer production processes, and unparalleled manufacturing efficiency. From the very beginning, TSMC has consistently produced the foundry industry's leading technologies, including 0.18um, 0.15um and 0.13um complementary metal oxide semiconductor (CMOS) logic processes. TSMC now offers the foundry industry's most comprehensive set of technology processes, including CMOS logic, mixed-signal/radio frequency, flash, high-density embedded memory, BiCMOS and silicon germanium (SiGe) BiCMOS.

To further enhance its organizational efficiency, TSMC Fab 3 and 4 were consolidated in the first quarter of 2002. Fab 1, which TSMC had previously leased from Taiwan's Ministry of Economic Affairs and Industrial Technology Research Institute since the inception of the Company will be decommissioned on March 31, 2002. However, most of the processes in Fab 1 had been moved to other TSMC facilities to ensure continuing high-quality customer service. TSMC operates one 6-inch wafer fab (Fab 2), five 8-inch fabs (Fab 3, 5, 6, 7 and 8), and one 12-inch fab (Fab 12). The Company also has substantial capacity commitments to its subsidiary WaferTech in the United States; its affiliate Vanguard International Semiconductor Corporation (VIS) in Hsin-Chu; and its joint venture partner Philips Semiconductor, known as Systems on Silicon Manufacturing Company (SSMC) in Singapore. TSMC is currently constructing another 12-inch manufacturing facility, Fab 14, in Tainan, which is expected to begin production in 2003. Total installed annual capacity in 2002 is approximately 4 million 8-inch equivalent wafers.

Another one of TSMC's major objectives is to be its customers' "Virtual Fab". That is, to provide its customers with the benefits of an in-house fabrication plant without the associated expense or organizational complexity. Its intent is to make foundry services as transparent to customers as possible. To that end, TSMC launched the industry's first "e-foundry" service in 2000 that continued in 2001 to extend much of its structure of customer service onto the Internet to provide customers with a real-time and "personalized" view into our manufacturing operations.

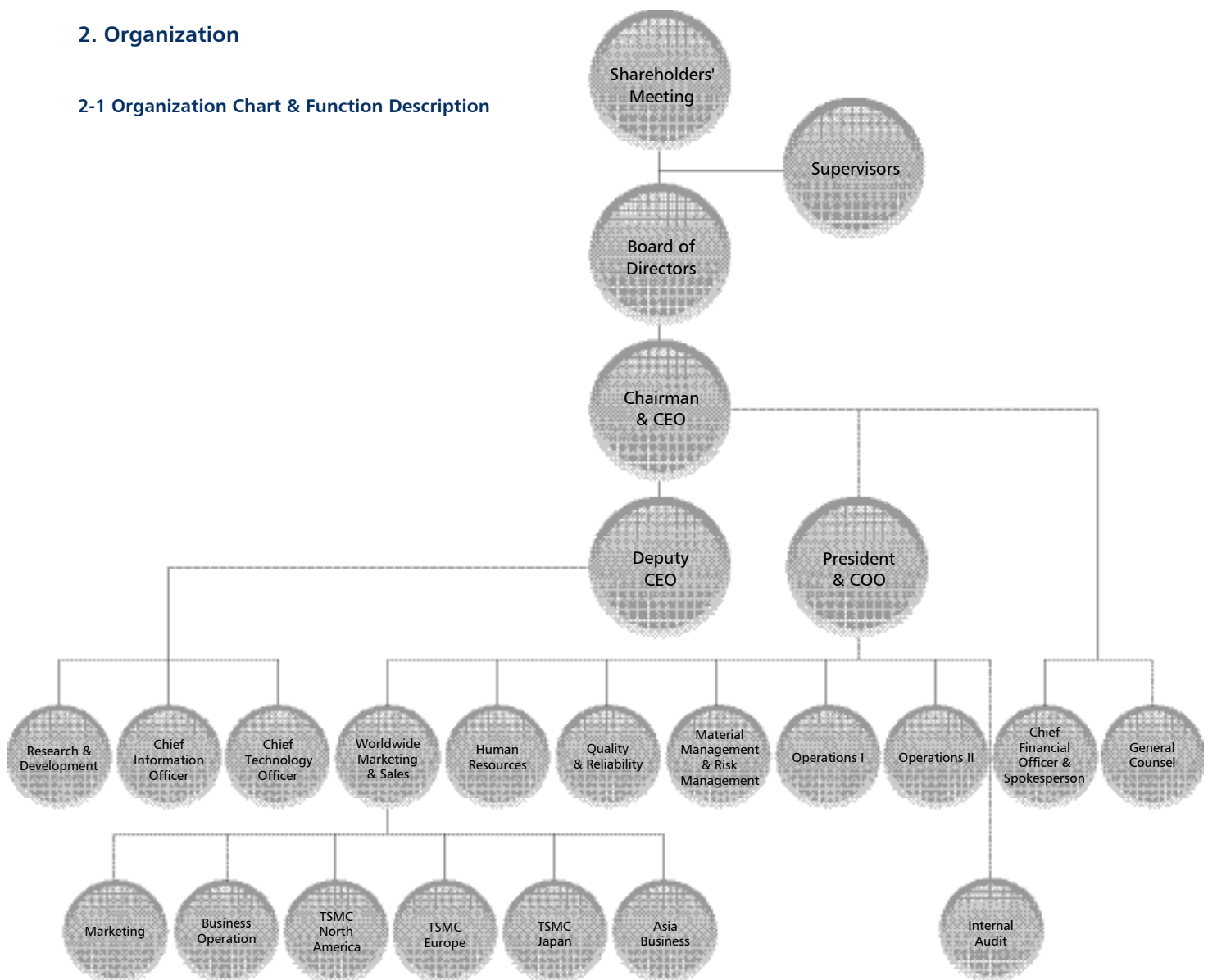


As a responsible corporate citizen, TSMC takes both community service and employee relations seriously. For example, TSMC's award-winning Culture and Education Foundation supports activities in Taiwan that promote education programs, social services, art and cultural activities both in the Company's immediate communities and in the country. The Foundation also strives to upgrade quality of life for Taiwan's society through long-term community development efforts.

TSMC's operating committee is comprised of many outstanding individuals, all of whom are committed to the success of the foundry industry in general and TSMC in particular. TSMC's Chairman and CEO Dr. Morris Chang has been at the forefront to lead this unique task force and has received both national as well as international recognition for his achievements. In 2001, both *Time Magazine* and CNN named Dr. Chang one of the 25 most influential global executives. In addition, the *Common Wealth Magazine* also ranked Dr. Chang number one among "The Most Admired Entrepreneurs in Taiwan" for the fourth consecutive year. In 2000, Dr. Chang received the first-ever Robert N. Noyce Medal from the Institute of Electrical and Electronics Engineers (IEEE) for his vision and leadership in pioneering the silicon integrated circuit foundry industry.

2. Organization

2-1 Organization Chart & Function Description



Research & Development:

Advanced technology research & development, mask operation, and design services

Chief Information Officer:

Company-wide information infrastructure and e-Business strategy

Chief Technology Officer:

Exploratory technology development and intellectual property strategy

Worldwide Marketing & Sales, include:

Marketing - Strategy, technology and services marketing

Business Operation - Business plan, customer service, and supply chain management

Regional Operations- Business development & account services for North America, Europe, Japan and Asian regions

Human Resources:

Human resources management and organization development

Quality & Reliability:

Quality and reliability management

Material Management & Risk Management:

Purchasing, warehousing, industrial safety, import & export, logistic support, and environmental protection

Operations I:

Manufacturing operations, product engineering, and back-end operation

Operations II:

New fab planning, manufacturing technology integration, production control, industrial engineering, and operation efficiency

Internal Audit:

Internal audit & process compliance

Chief Financial Officer :

Finance and accounting operation, including investor relations, treasurer, tax, assets management, financial and management accounting

Spokesperson:

Corporate representative to the public and press

General Counsel:

Corporate legal affairs, contracts, patent affairs, and intellectual property management

2-2 Directors & Supervisors

Title / Name	Date Elected	Term (Year)	Shareholding When Elected		Current Shareholding (Note 1)		Spouse & Minor Shareholding (Note 1)		Education & Experience	Current Position with Other Company	Managers are spouse or within 2 degrees of consanguinity to each other			Remark
			Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman Morris Chang	04/14/2000	3	45,109,604	0.59	81,160,464	0.45	82,432	0.00	Ph.D., Electrical Engineering, Stanford University Chairman, TSMC	Note 2	-	-	-	
Director A.P.M. van der Poel	04/14/2000	3	1,295,885,897	16.89	2,322,227,527	12.81	-	-	B.S., Electronic Engineering, Eindhoven Technical University Chairman & CEO, Philips Semiconductors International B.V.	Note 2	-	-	-	Koninklijke Philips Electronics N.V. Representative of Legal Entity
Director J.C. Lobbezoo	04/14/2000	3	1,295,885,897	16.89	2,322,227,527	12.81	-	-	B.A., Business Economics, Erasmus University Chief Financial Officer, Philips Semiconductors International B.V.	-	-	-	-	Koninklijke Philips Electronics N.V. Representative of Legal Entity

(Forward)

Director P.J. Zeven	04/14/2000	3	1,295,885,897	16.89	2,322,227,527	12.81	-	-	Nijerode School of Business President & CEO of Philips Taiwan / Chairman of Assebleon Taiwan	Note 2	-	-	-	Koninklijke Philips Electronics N.V. Representative of Legal Entity
Director Chintay Shih	04/14/2000	3	1,158,545,600	15.10	1,630,474,915	8.99	-	-	Ph.D., Electrical Engineering, Princeton University President, Industrial Technology Research Institute	Note 2	-	-	-	Development Fund, Executive Yuan Representative of Legal Entity
Director Stan Shih	04/14/2000	3	984,000	0.01	3,023,328	0.02	-	-	M.S., Electrical Engineering, National Chiao Tung University Chairman & CEO, The Acer Group	Note 2	-	-	-	Chi Cherng Investment Co., Ltd. Representative of Legal Entity
Director F.C. Tseng	04/14/2000	3	12,032,090	0.16	26,556,877	0.15	89,290	0.00	Ph.D., Electrical Engineering, National Cheng-Kung University Deputy CEO, TSMC	Note 2	-	-	-	
Supervisor Robbert Brakel	04/14/2000	3	1,295,885,897	16.89	2,322,227,527	12.81	-	-	Post Doctorate Controllers Programme (RC), Free University of Amsterdam V.P. & Financial Controller ASIA Pacific of Philips Semiconductors	-	-	-	-	Koninklijke Philips Electronics N.V. Representative of Legal Entity
Supervisor George C. Shiu	04/14/2000	3	1,158,545,600	15.10	1,630,474,915	8.99	-	-	Ph.D. Candidate in Economics, John Hopkins University Deputy Executive Secretary, Development Fund, Executive Yuan	Note 2	-	-	-	Development Fund, Executive Yuan Representative of Legal Entity
Supervisor S.J. Paul Chien	04/14/2000	3	641,500	0.01	1,407,168	0.01	-	-	M.S. and Engineer Degree in Chemical Engineering, Massachusetts Institute of Technology President, Vanguard International Semiconductor Corp.	Note 2	-	-	-	Hsin Ruey Investment Co., Ltd. Representative of Legal Entity

Note 1: Per the actual reported number of shares on 02/28/2002

Note 2: Current Position with Other Company

Morris Chang	Chairman of: Vanguard International Semiconductor Corp. Director of: TSMC Europe B. V. TSMC Japan K. K. TSMC International Investment Ltd. TSMC Development Inc. TSMC Technology Inc. WaferTech, LLC Goldman Sachs Group, Inc.
P.J. Zeven	Chairman of: Philips Electronic Building Elements Industries (Taiwan) Ltd. Assembleon Taiwan Ltd. Philips Electronics Industries (Taiwan) Ltd. Philips (Taiwan) Ltd. Philips Lighting (Taiwan) Ltd. EBT Technology Incorporation

A.P.M. van der Poel	Director of: Koninklijke Philips Electronics N.V.
Chintay Shih	Director of: Vanguard International Semiconductor Corp.
Stan Shih	Chairman of: Acer Incorporated Benq Corporation
F.C. Tseng	Director of: TSMC North America TSMC Japan K. K. TSMC Partners, Ltd. Kung Cherng Investment Co., Ltd. Chi Cherng Investment Co., Ltd. Vanguard International Semiconductor Corp.
George Shiu	Director of: Powerchip Semiconductor Corp.
S.J. Paul Chien	Director of: Powerchip Semiconductor Corp. Vanguard International Semiconductor Corp.

2-3 Information regarding the Legal Entity Shareholders as Directors and Supervisors of the Company

As of 02/28/2002

Name of Legal Entity Shareholders	Shareholders who owned more than ten percent outstanding shares or the top ten Shareholders of Legal Entity
Koninklijke Philips Electronics N.V.	Shareholders who owned more than ten percent outstanding shares: None Top ten shareholders: Unavailable in accordance with the regulations of the Netherlands
Development Fund, Executive Yuan	Development Fund
Chi Cherng Investment Co., Ltd.	TSMC, Kung Cherng, Chi Hsin, Po Cherng, Hsin Ruey and Cherng Huei Investment Co., Ltd.
Hsin Ruey Investment Co., Ltd.	TSMC, Kung Cherng, Chi Hsin, Po Cherng, Chi Cherng and Cherng Huei Investment Co., Ltd.

2-4 Information of Directors & Supervisors

	With experience for more than five years in business, finance, legal or areas required by the business of the Company	Not an employee of the Company; nor a director, supervisor or employee of the affiliated companies of the Company	Not a shareholder of natural person directly or indirectly owning more than 1% of the Company's outstanding shares nor one of the Company's top 10 shareholders of natural person	Not a spouse to nor having relationship within two degrees of lineal consanguinity with any person specified in columns 2 and 3	Not a director, supervisor or employee of a shareholder of legal entity of the company directly or indirectly owning more than 5% of the Company's outstanding shares nor one of the Company's top 5 shareholders of legal entity	Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of certain companies or institutions which have financial or business relationship with the Company	Not an owner, partner, director, supervisor, manager of any sole proprietor, partnership, company or institution and his/her spouse, or the specialist and his/her spouse, which provided finance, commerce, legal consultation and services to the Company or its affiliated companies within one year
Chairman Morris Chang	V			V	V		
Director A.P.M. van der Poel	V		V	V			V
Director J.C. Lobbezoo	V		V	V			V
Director P. J. Zeven	V		V	V			V
Director Chintay Shih	V		V	V	V	V	V
Director Stan Shih	V	V	V	V	V	V	V
Director F. C. Tseng	V			V	V		V
Supervisor Robbert Brakel	V		V	V			V
Supervisor George C. Shiu	V		V	V		V	V
Supervisor S.J. Paul Chien	V		V	V	V		V

"V" indicates meeting conditions specified above

2-5 Executive Officers

Title	Name	Date Effective	Shareholding (Note 1)	%	Spouse & Minor		Education & Experience	Current Position with Other Company	Managers are spouse or within 2 degrees of consanguinity to each other		
					Shareholding (Note 1)	%			Title	Name	Relation
Chairman & CEO	Morris Chang	03/03/1998	81,160,464	0.45	82,432	0.00	Ph.D., Electrical Engineering, Stanford University Chairman, TSMC	Note 2	-	-	-
Deputy CEO	F.C. Tseng	08/07/2001	26,556,877	0.15	89,290	0.00	Ph.D., Electrical Engineering, National Cheng-Kung University President, TSMC President, Vanguard International Semiconductor Corp.	Note 2	-	-	-
President & COO	Rick Tsai	08/07/2001	17,309,467	0.10	-	-	Ph.D., Materials Science, Cornell University Executive V.P., Worldwide Marketing and Sales, TSMC President, Vanguard International Semiconductor Corp.	Note 2	-	-	-
Senior Vice President & CIO	Quincy Lin	05/13/1997	17,499,626	0.10	1,824,186	0.01	Ph.D., Business Administration, University of Kentucky V.P., Corporate Sales and Marketing, TSMC	Note 2	-	-	-
Senior Vice President & CFO	Harvey Chang	02/03/1998	5,190,622	0.03	-	-	MBA, Wharton School, University of Pennsylvania Chairman, China Securities Investment Trust Corp. President, China Development Corp.	Note 2	-	-	-

(Forward)

Senior Vice President	S.Y. Chiang	11/07/2000	7,220,170	0.04	-	-	Ph.D., Electrical Engineering, Stanford University V.P., Research and Development, TSMC Manager, Hewlett Packard	-	-	-	-
Senior Vice President	Kenneth Kin	08/07/2001	1,150,000	0.01	-	-	Ph.D., Nuclear Engineering and Applied Physics, Columbia University V.P., IBM Corporation	-	-	-	-
Vice President	Y.C. Huang	08/15/1995	11,950,389	0.07	-	-	MBA, Saginaw Valley State University V.P., Corporate Services, TSMC	Note 2	-	-	-
Vice President	J. B. Chen	09/05/2000	4,635,849	0.03	37,826	0.00	Master, Physics, National Tsing Hua University V.P., Tainan Sites Operation, TSMC. President, TSMC-Acer Semiconductor Manufacturing Corp.	-	-	-	-
Vice President	Ping Yang	08/07/2001	4,764,313	0.03	114,627	0.00	Ph.D., Electrical Engineering, University of Illinois, Champaign-Urbana V.P., U.S. Subsidiary, TSMC North America	-	-	-	-
Vice President	C.C. Wei	03/03/1998	3,970,931	0.02	880	0.00	Ph.D., Electrical Engineering, Yale University V.P., South sites operation, TSMC Senior V.P., Chartered Semiconductor Manufacturing Ltd.	Note 2	-	-	-
Vice President	S.H. Lee	08/11/1998	3,478,946	0.02	-	-	Master, Management, Stanford University Regional V.P., Lucent Technologies, Asia Pacific Ltd.	-	-	-	-
Vice President	Mark Liu	05/11/1999	7,223,793	0.04	-	-	Ph.D., Electrical Engineering and Computer Science, University of California, Berkeley V.P., Fab. 12 Sites Operation, TSMC President, Worldwide Semiconductor Manufacturing Corp.	-	-	-	-
Vice President	John T. Yue	11/09/1999	2,813,611	0.02	-	-	Ph.D., Physics, Stanford University Director, Advanced Micro Devices Inc.	-	-	-	-
Vice President	Genda Hu	08/11/2000	502,111	0.00	-	-	Ph.D., Electrical Engineering, Princeton University V.P., Advanced Technology Development, TSMC General Director, Electronic Research and Service Organization	Note 2	CTO	Chenming Hu	Brother
Vice President	Chung-Shih Hsu	03/06/2001	491,940	0.00	-	-	Ph.D., Physics, Columbia University V.P., Vanguard International Semiconductor Corp.	-	-	-	-
CTO	Chenming Hu	08/07/2001	670,000	0.00	-	-	Ph.D., Electrical Engineering and Computer Science, University of California, Berkeley Founder and Chairman, Celestry Design Technologies, Inc.	-	V.P.	Genda Hu	Brother
Vice President	M.C. Tzeng	08/07/2001	2,902,271	0.02	367,046	0.00	Master, Applied Chemistry, Chung Yuan University Senior Director, Fab 2 Operation, TSMC	-	-	-	-
Vice President	Richard Thurston	02/08/2002	-	-	-	-	J.D., Rutgers School of Law, State University of New Jersey Partner, Kelt Capital Ventures, LP.	Note 2	-	-	-

Note 1: As of 02/28/2002

Note 2: Current Position with Other Company

Morris Chang	Chairman of: Vanguard International Semiconductor Corp. Director of: TSMC Europe B. V. TSMC Japan K. K. TSMC International Investment Ltd. TSMC Development Inc. TSMC Technology Inc. WaferTech, LLC Goldman Sachs Group, Inc.
F.C. Tseng	Director of: TSMC North America TSMC Japan K. K. TSMC Partners, Ltd. Kung Cherng Investment Co., Ltd. Chi Cherng Investment Co., Ltd. Vanguard International Semiconductor Corp.
Rick Tsai	Director of: TSMC North America TSMC Europe B. V. TSMC Japan K. K. TSMC Partners, Ltd. Cherng Huei Investment Co., Ltd. Hsin Ruey Investment Co., Ltd. WaferTech, LLC Vanguard International Semiconductor Corp.

Quincy Lin	Director of: TSMC Europe B. V. TSMC Partners, Ltd. Po Cherng Investment Co., Ltd. Shin-Easu Handotai Taiwan W. K. Technology Fund IV
Harvey Chang	Director of: TSMC Partners, Ltd. Chi Hsin Investment Co., Ltd. Systems on Silicon Manufacturing Company Pte. Ltd. Fubon Financial Holding Co., Ltd. Supervisor of: TSMC Japan K. K. Vanguard International Semiconductor Corp.
Y.C. Huang	Director of: United Industrial Gases Co., Ltd.
C.C. Wei	Director of: Systems on Silicon Manufacturing Company Pte. Ltd.
Genda Hu	Director of: Hontung Venture Capital Co., Ltd.
Richard Thurston	Director of: TSMC Partners, Ltd. IT Pizza, Inc. IP Net Fusion, Inc. JAVA and Cha, Ltd. QED Soft, Inc.

3. Capital and Shares

3-1 History of Capitalization

Unit: Share / NT\$

Month / Year	Price	Par Value	Authorized Shares	Authorized Amount	Issued Shares	Issued Amount	Sources of Capital	Non-Monetary Capital Expansion	Date of Approval & Approval Document No.
02/1987	10	1,000	5,510,000	5,510,000,000	1,377,500	1,377,500,000	Cash Founding	None	02/21/1987 (76) Ko Chu She Tzu No. 065
12/1988	10	1,000	5,510,000	5,510,000,000	2,204,000	2,204,000,000	Cash offering	None	12/19/1988 (77) Yuan Ching Tzu No. 15501
11/1989	10	1,000	5,510,000	5,510,000,000	3,306,000	3,306,000,000	Cash offering	None	11/24/1989 (78) Yuan Ching Tzu No. 12823
07/1990	-	1,000	5,510,000	5,510,000,000	3,360,797	3,360,797,000	Capitalization of Profits	-	07/23/1990 (79) Yuan Ching Tzu No. 08171
12/1990	10	1,000	5,510,000	5,510,000,000	3,911,797	3,911,797,000	Cash offering	None	12/21/1990 (79) Yuan Ching Tzu No. 14632
07/1991	-	10	551,000,000	5,510,000,000	391,179,700	3,911,797,000	Par value change from NT\$1000 to NT\$10		07/18/1991 (80) Yuan Ching Tzu No. 08651
12/1991	10	10	551,000,000	5,510,000,000	473,829,700	4,738,297,000	Cash offering	None	12/06/1991 (80) Yuan Ching Tzu No. 14252
12/1992	10	10	551,000,000	5,510,000,000	551,000,000	5,510,000,000	Cash offering:NT\$ 582,171,120 Capitalization of Profits:NT\$189,531,880	-	12/30/1992 (81) Yuan Ching Tzu No. 17304
08/1993	-	10	780,000,000	7,800,000,000	608,304,000	6,083,040,000	Capitalization of Profits	-	08/27/1993 (82) Yuan Ching Tzu No. 11830
07/1994	-	10	780,000,000	7,800,000,000	780,000,000	7,800,000,000	Capitalization of Profits	-	07/21/1994 (83) Yuan Ching Tzu No. 09791
06/1995	-	10	3,000,000,000	30,000,000,000	1,439,000,000	14,390,000,000	Capitalization of Profits	-	06/30/1995 (84) Yuan Shang Tzu No. 09473
05/1996	-	10	3,000,000,000	30,000,000,000	2,654,200,000	26,542,000,000	Capitalization of Profits	-	05/29/1996 (85) Yuan Shang Tzu No. 08703
07/1997	-	10	8,500,000,000	85,000,000,000	4,081,300,000	40,813,000,000	Capitalization of Profits	-	07/11/1997 (86) Yuan Shang Tzu No. 13347
07/1998	-	10	8,500,000,000	85,000,000,000	6,047,175,967	60,471,759,670	Capitalization of Profits	-	07/13/1998 (87) Yuan Shang Tzu No. 016805
07/1999	-	10	9,100,000,000	91,000,000,000	7,548,483,035	75,484,830,350	Capitalization of Profits	-	07/09/1999 (88) Yuan Shang Tzu No. 014308
11/1999	-	10	9,100,000,000	91,000,000,000	7,670,881,717	76,708,817,170	Conversion of ECB	-	11/24/1999 (88) Yuan Shang Tzu No. 025112
06/2000	-	10	17,800,000,000	178,000,000,000	9,990,849,423	99,908,494,230	Capitalization of Profits: NT\$21,320,311,040 Capital Surplus: NT\$ 1,879,366,020	-	06/05/2000 (89) Yuan Shang Tzu No. 011645
06/2000	220	10	17,800,000,000	178,000,000,000	10,105,849,423	101,058,494,230	Cash offering for ADR	None	06/30/2000 (89) Yuan Shang Tzu No. 013893
08/2000	-	10	17,800,000,000	178,000,000,000	11,689,364,587	116,893,645,870	Merger from WSMC & TSMC-ACER	-	08/11/2000 (89) Yuan Shang Tzu No. 018254
12/2000	10	10	17,800,000,000	178,000,000,000	12,989,364,587	129,893,645,870	Cash offering for Preferred A Share	None	12/18/2000 (89) Yuan Shang Tzu No. 027775
07/2001	-	10	24,600,000,000	246,000,000,000	18,132,553,051	181,325,530,510	Capitalization of Profits	-	07/19/2001 (90) Yuan Shang Tzu No. 018039

3-2 Capital & Shares

Unit: Share

Type of Stock	Authorized Capital					Total
	Issued Shares			Un-issued Shares	Reserved Shares for Convertible Bond	
	Listed	Non-Listed	Total			
Common Share	16,832,553,051	-	16,832,553,051	5,089,845,631	1,377,601,318	24,600,000,000
Preferred A Share	-	1,300,000,000	1,300,000,000			

3-3 Status of Shareholders

Stock: Common share

As of 03/09/2002

	Government Agency	Financial Institution	Other Legal Entity	Foreign Institution & Natural Person	Domestic Natural Person	Total
Number of Shareholders	8	123	894	1,579	375,918	378,522
Shareholding	1,880,345,616	778,589,766	2,073,053,964	8,754,280,980	3,346,282,725	16,832,553,051
Holding Percentage	11.17%	4.62%	12.32%	52.01%	19.88%	100.00%

Stock: Preferred A share

As of 03/09/2002

	Government Agency	Financial Institution	Other Legal Entity	Foreign Institution & Natural Person	Domestic Natural Person	Total
Number of Shareholders	0	0	1	0	59	60
Shareholding	0	0	1,299,925,653	0	74,347	1,300,000,000
Holding Percentage	0.00%	0.00%	99.99%	0.00%	0.01%	100.00%

3-4 Distribution of Common Shares and Preferred A Shares

Stock: Common share

As of 03/09/2002

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding	Holding Percentage
1 - 999	91,795	37,284,426	0.22%
1,000 - 5,000	199,218	450,285,580	2.67%
5,001 - 10,000	42,351	308,668,401	1.83%
10,001 - 15,000	13,876	171,722,602	1.02%
15,001 - 20,000	7,930	138,887,220	0.83%
20,001 - 30,000	7,237	177,887,129	1.06%
30,001 - 40,000	3,773	129,977,682	0.77%
40,001 - 50,000	2,415	108,842,797	0.65%
50,001 - 100,000	4,568	321,672,757	1.91%
100,001 - 200,000	2,406	337,853,330	2.01%
200,001 - 400,000	1,288	357,000,188	2.12%
400,001 - 600,000	448	220,288,745	1.31%
600,001 - 800,000	264	183,620,547	1.09%
800,001 - 1,000,000	147	130,617,572	0.78%
Over 1,000,001	806	13,757,944,075	81.73%
Total	378,522	16,832,553,051	100.00%

Stock: Preferred A share

As of 03/09/2002

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding	Holding Percentage
1 - 999	44	12,556	0.01%
1,000 - 5,000	12	23,650	
5,001 - 10,000	1	6,473	
15,001 - 20,000	2	31,668	
Over 1,000,001	1	1,299,925,653	99.99%
Total	60	1,300,000,000	100%

3-5 Net Worth, Earnings, Dividends and Market Price Per Share

Item	2000	2001	2002 (Jan.~Feb.)
Market Price Per Share			
Highest Market Price	222.0	105.5	92.5
Lowest Market Price	74.5	43.6	80.0
Average Market Price	146.3	77.7	86.9
Net Worth Per Share			
Before Distribution	21.28	15.7	15.94
After Distribution	14.74	Note 1	Note 1
Earnings Per Share			
Weighted Average Shares (Thousand Shares)	11,400,882	16,832,554	16,832,554
Earnings Per Share	5.71	0.83	0.24
Earnings Per Share (Note 2)	3.96		
Dividends Per Share			
Cash Dividends	-	Note 1	Note 1
Stock Dividends			
Dividends from Retained Earnings	2.555	4.000	Note 1
Dividends from Capital Surplus	0.245	-	-
Accumulated Undistributed Dividend	-	-	-
Return on Investment			
Price / Earning Ratio (Note 3)	25.62	93.61	362.19
Price / Dividend Ratio (Note 4)	-	Note 1	Note 1
Cash Dividend Yield Rate (Note 5)	-	Note 1	Note 1

Note 1: Subject to change after shareholders' meeting resolution

Note 2: Retroactive adjustment for capitalizations of unappropriation earnings and bonus to employees

Note 3: Price / Earning ratio = Average market price / Earnings per share

Note 4: Price / Dividend ratio = Average market price / Cash dividends per share

Note 5: Cash dividend yield rate = Cash dividends per share / Average market price

3-6 Dividend Policy

- a. TSMC shall distribute dividend, per resolution of the shareholders' meeting, according to the principles stated below:
 - i. Except distribution of reserve in accordance with item (ii) below, TSMC shall not pay dividends or bonuses when there is no profit; however, where the legal capital reserve reaches over 50% of the authorized capital or the sums set aside as capital reserve in profitable years have exceeded 20% of such profits, TSMC may distribute the amount in excess as dividends and bonuses. Profits may be distributed in total after taking into consideration financial, business and operational factors. Profits of TSMC may be distributed by way of cash dividend and/or stock dividend. Since TSMC is in a capital-intensive industry at the developmental stage of its business, distribution of profits shall be made preferably by way of stock dividend. Distribution of profits may also be made by way of cash dividend; provided however, the ratio for cash dividend shall not exceed 50% of total distribution.

ii. In case there is no profit for distribution in a certain year, or the profit of a certain year is far less than the profit actually distributed by TSMC in the previous year, or considering the financial, business or operational factors of TSMC, TSMC may allocate a portion or all of its reserves for distribution in accordance with relevant laws or regulations or the orders of the authorities in charge.

TSMC will distribute dividend in accordance with the principles above mentioned in the next three years. Since TSMC is at the growing stage, retained earnings therefore will primarily be kept for future investment. Distribution of earnings is expected to be mostly in the form of stock dividend in the next three years.

b. The proposal for distribution of 2001 profits was adopted at the Meeting of the Board of Directors as follows:

i. Stock dividends to common shares: Totaling NT\$16,832,553,060. Each shareholder of common shares will be entitled to receive a stock dividend of 100 common shares for each 1,000 common shares held by such shareholder, subject to the record date to be determined, after being approved at the Regular Shareholders' Meeting of the year and by the competent authority, by the Board of Directors.

ii. Cash dividends to Preferred A shares: Cash dividends of NT\$455,000,000 will be distributed on a record date to be determined, after being approved at the Regular Shareholders' Meeting of the year, by the Board of Directors.

3-7 Impact to business performance and EPS resulted from 2002 stock dividend distribution

Item		2002	
Paid in Capital (shares at beginning of year)		18,132,553,051	
Dividend Plan	Cash Dividend (per share)	-	
	Stock Dividend from Retained Earnings (share/per share)	0.1	
	Stock Dividend from Capital Surplus (share/per share)	-	
Business Performance	Income from Operations	N/A	
	% Change of Income from Operation (YOY)		
	Net Income		
	% Change of Net Income (YOY)		
	Earnings Per Share		
	% Change of EPS (YOY)		
	% Change Average Return on Investment (Reciprocal of Average P/E Ratio)		
Pro Forma EPS & P/E Ratio	If Retained Earnings Distributed in Cash Dividend	Pro Forma Earnings Per Share	N/A
		Pro Forma Average Return on Investment (%)	
	If Capital Surplus not Distributed in Stock Dividend	Pro Forma Earnings Per Share	N/A
		Pro Forma Average Return on Investment (%)	
	If Retained Earnings Distributed in Cash Dividend & Capital Surplus not Distributed in Stock Dividend	Pro Forma Earnings Per Share	N/A
		Pro Forma Average Return on Investment (%)	

4. Issuance of Corporate Bonds

4-1 Corporate Bonds

Issuance	Domestic Unsecured Bond (I)	Domestic Unsecured Bond (II)	Domestic Unsecured Bond (III)	Domestic Unsecured Bond (IV)	Domestic Unsecured Bond (V)
Issuing Date	03/04/1998	11/18/1998 - 12/01/1998	10/21/1999	12/04/2000 - 12/15/2000	01/10/2002 - 01/24/2002
Denomination	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000	NT\$ 1,000,000 NT\$10,000,000	NT\$1,000,000 NT\$5,000,000
Issuance & Listing	ROC OTC Securities Exchange	ROC OTC Securities Exchange	ROC OTC Securities Exchange	ROC OTC Securities Exchange	ROC OTC Securities Exchange
Offering Price	Par	Par	Par	Par	Par
Total Amount	NT\$4,000,000,000	NT\$6,000,000,000	NT\$10,000,000,000	NT\$15,000,000,000	NT\$15,000,000,000
Coupon Rate	7.71% p.a.	7.12% p.a.	Tranche A: 5.67% p.a. Tranche B: 5.95% p.a.	Tranche A: 5.25% p.a. Tranche B: 5.36% p.a.	Tranche A: 2.60% p.a. Tranche B: 2.75% p.a. Tranche C: 3.00% p.a.
Tenor	5 years Maturity: 03/04/2003	5 years Maturity: 11/18/2003 - 12/01/2003	Tranche A: 3 years Maturity: 10/21/2002 Tranche B: 5 years Maturity: 10/21/2004	Tranche A: 5 years Maturity: 12/04/2005 - 12/15/2005 Tranche B: 7 years Maturity: 12/04/2007 - 12/14/2007	Tranche A: 5 years Maturity: 01/10/2007 - 01/22/2007 Tranche B: 7 years Maturity: 01/10/2009 - 01/24/2009 Tranche C: 10 years Maturity: 01/10/2012 - 01/24/2012
Guarantor	N/A	N/A	N/A	N/A	N/A
Trustee	The International Commercial Bank of China	The International Commercial Bank of China	TC Bank	The International Commercial Bank of China	TC Bank
Underwriter	Citibank Securities (Taiwan)	Grand Cathay Securities	Grand Cathay Securities	N/A	N/A
Legal Counsel	Lee & Li	Lee & Li	Lee & Li	Eluzvy International Law Office	Yan-an International Law Office
Auditor	TN Soong & Co	TN Soong & Co	TN Soong & Co	TN Soong & Co	TN Soong & Co
Repayment	Bullet	Bullet	Bullet	Bullet	Bullet
Outstanding	NT\$4,000,000,000	–	NT\$10,000,000,000	NT\$15,000,000,000	NT\$15,000,000,000
Redemption or Early Repayment Clause	N/A	TSMC exercised the right to call back this bond two years after the respective issuance date	N/A	N/A	N/A
Covenants	N/A	N/A	N/A	N/A	N/A
Credit Rating	N/A	N/A	TSMC's Domestic Unsecured Bond III has received a rating of "twAA" from Taiwan Ratings Corporation on 09/20/1999	TSMC's Domestic Unsecured Bond IV has received a rating of "twAA" from Taiwan Ratings Corporation on 11/08/2000	TSMC's Domestic Unsecured Bond V has received a rating of "twAA" from Taiwan Ratings Corporation on 12/03/2001
Other Rights of Bondholders	Amounts Converted into or Exchanged for Common Shares, ADRs or Other Securities as of 02/28/2002	N/A	N/A	N/A	N/A
	Conversion Right	N/A	N/A	N/A	N/A
Dilution Effect and Other Adverse Effects on Existing Shareholders	N/A	N/A	N/A	N/A	N/A
Custodian	N/A	N/A	N/A	N/A	N/A

4-2 Convertible Bond: Not Applicable

4-3 Exchangeable Bond: Not Applicable

4-4 Bond with Warrants: Not Applicable

5. Preferred Share

5-1 Preferred A Share

Item		Issuing Date: 11/29/2000
Par Value		NT\$10
Issuing Price		NT\$10
Number of Shares Issued		1,300,000,000
Total Issued Amount		NT\$13,000,000,000
Right and Obligation	Dividend	Cash Dividend of 3.5% p.a.
	Distribution while Liquidation	Up to Total Issue Amount (NT\$13,000,000,000)
	Voting Right	Same as Common Share Shareholders
	Others	Fixed Rate for Cash Dividend Only, and Not Entitled for Stock Dividend.
Outstanding Shares	Redeemed/Converted	-
	Balance	NT\$13,000,000,000
	Condition for Redemption/Conversion	Redemption at Maturity (Note)
Market Price	High	N/A (Un-Listed)
	Low	
	Average	
Miscellaneous	Conversion Amount up to Printing Date of the Annual Report/Cash Subscription	None
	Issuing/Conversion	No Conversion into Common Share
Impact/Dilution on Existing Shareholders and Preferred A Share Shareholders		None

Note: Tenor=2.5 years

5-2 Preferred Share with Warrant: Not Applicable

6. Issuance of American Depositary Shares (ADSs)

Issuing Date	10/08/1997	11/20/1998	01/12/1999 - 01/14/1999	07/15/ 1999	08/23/1999 - 09/09/1999	02/22/2000 - 03/08/2000
Issuance & Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
Total Amount (US\$)	594,720,000	184,554,440	35,500,000	296,499,641	158,897,088.5	379,134,598.8
Offering Price per ADS (US\$)	24.78	15.26	17.75	24.516	28.964	57.79
Units Issued	24,000,000	12,094,000	2,000,000	12,094,000	5,486,000	6,560,000
Underlying Securities	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)
Common Shares Represented	120,000,000	60,470,000	10,000,000	60,470,000	27,430,000	32,800,000
Rights and Obligations of ADS Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders
Trustee	N/A	N/A	N/A	N/A	N/A	N/A
Depository Bank	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York
Custodian Bank	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch
ADSs Outstanding (Note)	24,000,000	46,222,650	48,222,650	71,407,859	76,893,859	83,453,859
Apportionment of the expenses for the issuance and the maintenance	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC
Terms and Conditions in the Deposit Agreement and the Custody Agreement	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details
Closing Price per ADS	2001	High	US\$ 25.25			
		Low	US\$ 8.85			
		Average	US\$ 17.36			
	01/01/2002 - 02/28/2002	High	US\$ 19.50			
		Low	US\$ 16.01			
		Average	US\$ 17.62			

(Forward)

Issuing Date	04/17/2000	06/07/2000 - 06/15/2000	05/14/2001 - 06/11/2001	06/12/2001	11/27/2001	02/07/2002
Issuance & Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
Total Amount (US\$)	224,640,000	1,167,873,850	240,999,660	297,649,640	320,600,000	1,001,650,000
Offering Price per ADS (US\$)	56.16	35.75	20.63	20.63	16.03	16.75
Units Issued	4,000,000	32,667,800	11,682,000	14,428,000	20,000,000	59,800,000
Underlying Securities	TSMC Common Shares from Selling Shareholders	Cash Offering TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders
Common Shares Represented	20,000,000	163,339,000	58,410,000	72,140,000	100,000,000	299,000,000
Rights and Obligations of ADS Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders
Trustee	N/A	N/A	N/A	N/A	N/A	N/A
Depository Bank	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York	Citibank, N.A. - New York
Custodian Bank	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch	Citibank, N.A. - Taipei Branch
ADSs Outstanding (Note)	87,453,859	144,608,739	156,290,739	170,718,739	259,006,235	318,806,235
Apportionment of the expenses for the issuance and the maintenance	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by TSMC and the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to the issuance of ADSs were borne by the selling shareholders, while the maintenance expenses such as annual listing fees and accountant fees were borne by TSMC
Terms and Conditions in The Deposit Agreement and the Custody Agreement	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details	Please See the Deposit Agreement and the Custody Agreement for Details
Closing Price per ADS	2001	High	US\$ 25.25			
		Low	US\$ 8.85			
		Average	US\$ 17.36			
	01/01/2002–02/28/2002	High	US\$ 19.50			
		Low	US\$ 16.01			
		Average	US\$ 17.62			

Note : TSMC has in aggregate issued 204,811,800 ADSs since 1997, which, if taking into consideration of stock dividend distributed over the periods, would amount to 319,269,235 ADSs. As of 02/28/2002, total number of outstanding ADSs was 318,806,235 after 463,000 ADSs were redeemed. Stock dividend distributed in 1998, 1999, 2000 and 2001 was 45%, 23%, 28% and 40% respectively.

7. Employee Stock Option: Not Applicable

8. Merge and Acquisition in 2001: Not Applicable

9. Corporate Citizen: the TSMC Education and Culture Foundation

TSMC takes pride in its role as an exemplary corporate citizen and its commitment to Taiwan's social and cultural development. In an attempt to identify and meet the ever-rising diversity of societal needs through a formal vehicle, TSMC established the TSMC Education and Culture Foundation (TSMC Foundation) in 1998. The Foundation's mission is guided by the following three principles.

Commitment to Education

TSMC Foundation established three educational grant programs to help incubate emerging talents in high technology, corporate management and intellectual property rights. They are: (1) The TSMC Undergraduate International Exchange Program Scholarship, (2) the TSMC Intellectual Property Scholarship and TSMC Visiting Chair Professorship and (3) The International MBA (IMBA) program. The first two programs offer major universities in Taiwan grants for scholarships, lectures and faculty study programs. The third program was newly established in 2001 in collaboration with National Chengchi University's existing IMBA program that aimed to foster the cultivation of international business leaders.

Contribution to Communities

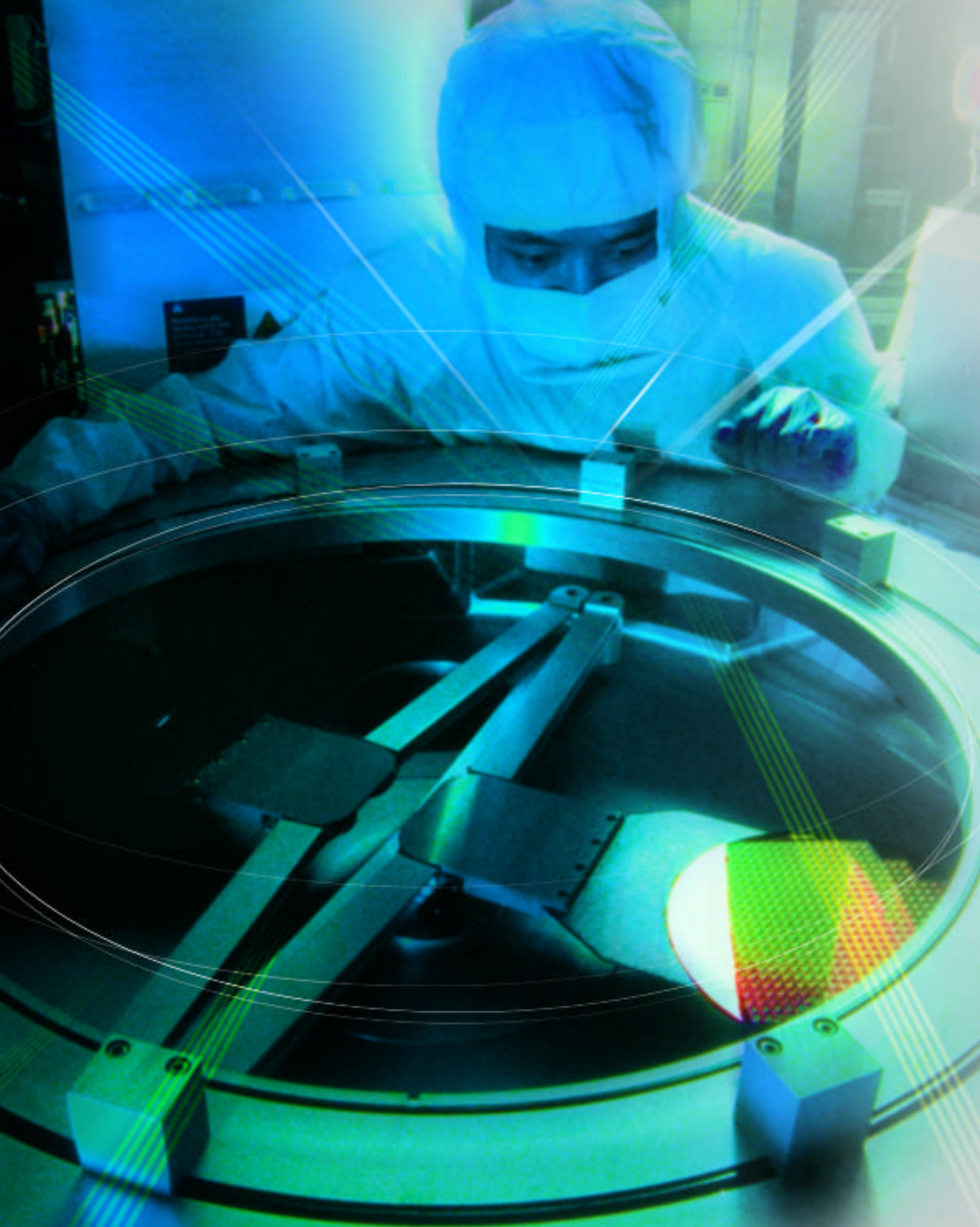
TSMC Foundation supports community service in both Hsin-Chu and Tainan City, Taiwan, where TSMC's facilities are located. The Foundation provides funding and also works hand in hand with volunteers to build a better community for both our employees and our neighbors. The Foundation focuses its attention on art and cultural activities, environmental protection issues, health care programs, athletic events, as well as other programs to help enhance the quality of life in those communities.

One of the highlights of the TSMC Foundation's activities in 2001 was the conservation of historic monuments. In Hsin-Chu City, the Foundation sponsored research projects that helped conserve a temple that stood as a historic monument and also the publication of *Hsin-Chu Historic Sites* and *Hsin-Chu Historic Map*, both edited by the Bureau of Culture of Hsin-Chu City, to help attract tourists to see the historic side of the city.

In 2001, the TSMC Foundation also teamed up with the Red Cross of the Republic of China (Taiwan) to sponsor a program entitled the "Training and Service of Home Care for Solitary Senior Citizens", underwriting the training of some 480 home caretakers in the next three years. Through this program, the Foundation succeeded in putting forth a model that demonstrated how resources from private sectors, volunteer groups and government agencies could join hands in servicing senior citizens' living by themselves.

Sponsorship of National Art and Cultural Activities

In 2001, TSMC Foundation made generous contributions to the establishment of the Taipei Contemporary Art Museum, a concrete gesture that aimed to foster and promote Taiwanese contemporary arts. In addition, the Foundation was also a major sponsor to "319 Towns in Taiwan", an important national cultural revival project launched by the *Common Wealth Magazine* in 2001. The goal of the project was to encourage citizens to target and explore some of the 319 towns in Taiwan to experience local cultures personally and to help revive them collectively. Four travel books on these 319 towns in Taiwan were published, serving also as documentation of the much recognized and appreciated revival project.



OPERATIONAL HIGHLIGHTS

1. Business Activities

1-1 Business Scope

TSMC manufactures semiconductor chips for the world's integrated circuit (IC) companies. The Company focuses solely on the IC Foundry business, neither manufactures nor markets any branded products of its own. TSMC excels in every aspect of the IC foundry business, coupling industry-leading process technologies in state-of-the-art, high-volume wafer manufacturing facilities with unmatched transparency to create world-class customer responsiveness. TSMC has also developed an industry-leading service organization featuring sophisticated design services, mask making, and wafer probing capabilities, as well as third-party alliances that match the Company and its customers with leading developers of electronic design automation (EDA) tools, libraries, intellectual property cores and assembly and testing services.

As TSMC's capabilities have expanded, customers have come to rely on TSMC to manufacture chips used across the entire IC application spectrum, including leading-edge microprocessors, graphics chips, wireless IC communications platforms and programmable logic devices. By its own estimates, TSMC produced about six to seven percent of the world's supply of ICs in 2001. TSMC's rich portfolio of customers includes nearly every leading integrated device manufacturer (IDM) and hundreds of highly innovative fabless semiconductor companies.

1-2 Research and Development Plans

R&D Mission and Vision

Semiconductor technology is one of TSMC's core competencies. TSMC's R&D mission is to provide our customers with the world's leading technology platforms and system-on-a-chip (SoC) solutions for state-of-the-art IC applications. This enables the Company to offer a broad spectrum of leading edge processes, e.g., logic, mixed-signal/RF, embedded memory, color image sensor, and high-voltage process technologies. These state-of-the-art processes are rapidly transferred to volume production, where our customers use them as platforms for the next generation of computing, graphics, communications (network and wireless), industrial and consumer electronics applications. Through its innovative and aggressive R&D work, TSMC not only strives to excel in semiconductor technology, but also helps facilitate that technology to benefit of mankind.

TSMC's research and development commitment is to continue to stay ahead of the International Technology Roadmap for Semiconductors (ITRS), extend semiconductor technology as far as the laws of physics allow, and explore the possibilities inherent in new technologies for future generations of integrated circuits. It is anticipated that only a handful of IC manufacturing companies worldwide, including TSMC, will have the R&D capability necessary to support these goals in the future.

TSMC continues to strengthen its global leadership through strategically appropriate partnerships, alliances, and collaborative activities with world leaders in both the academic and commercial sectors to develop new technologies, intellectual property (IP), process equipment, materials, and computer-aided design tools. As the sole Taiwanese member of International SEMATECH, TSMC hosted the first International SEMATECH board meeting in Taiwan in 2001, clearly demonstrating its reputation as the foundry industry R&D leader. The highly strategic nature of our collaborative efforts was also raised to a new level in 2001, when TSMC established global alliance in the 90nm technology generation and set up world-class 90nm ASIC/SoC technology platforms. To date, companies participating in this effort include leading integrated device manufacturers in Europe, Japan, Taiwan, and the United States.

R&D Organization and Investment

The success model of TSMC's has attracted the finest domestic and overseas researchers and technologists to join the Company's R&D task force, whose collective efforts continue to increase the relative strength and capability of the Company's R&D team. Already one of the highest-quality and largest-applied semiconductor research teams in the world, TSMC increased its R&D staff by over 25 percent between 2000 and 2001. The Company also expanded its research scope and manpower investment in exploratory research for technologies beyond conventional silicon CMOS and bipolar technologies, such as in 3D structures and novel memory devices for future SoC applications. A CTO office was established in 2001 to strengthen overall long term R&D focus as well as to extend technology limits.

To supplement its R&D talents and skills, TSMC increased its R&D expenditure in 2001 by 47 percent to over NT\$10.6 billion. For 2002, this investment is expected to exceed NT\$9.7 billion.

TSMC has increased significantly its R&D capital investments in 2001 and 2002 for exploratory research and 90nm- and 65nm-generation technology development. A brand-new billion-dollar (US\$) 12-inch-wafer R&D pilot line (part of the multi-billion dollar Fab 12) was established in 2001. It has an extensive set of advanced and critical R&D tools for the development of 90nm and 65nm generations, e.g., the industry's first 12-inch high-NA 193nm scanners, high-k gate dielectric, advanced silicide, Cu, and ultra-low-k interconnect dielectric tools, etc. An exploratory materials pilot line was established in 2001 to research novel and exotic materials. TSMC has also established a new characterization lab for low-k dielectrics and other materials; an advanced lithography center; and a process/material simulation lab that extends its fundamental and exploratory works in semiconductor technology. TSMC valued highly its development partnerships with and investment in key process tool and materials vendors. These initiatives allow TSMC to evaluate new materials and tools and accelerate manufacturing cost reduction. The same initiatives have also led to a variety of intellectual property developments for TSMC, strengthening its leadership in process and manufacturing technologies as well. Through close collaboration with vendors, TSMC is able to excel in equipment and materials sciences, providing advanced platforms for technology innovation and production efficiency.

R&D Accomplishments in 2001

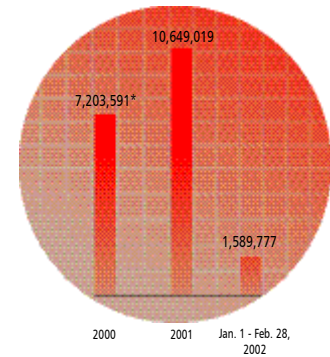
One of TSMC's business philosophies is "Unceasing Innovation". Reflecting its commitment to that value, TSMC was awarded 598 US patents and 861 ROC patents in IC process technology in 2001. TSMC also continued to accelerate the introduction of new technologies with high speed, maintaining its track record of releasing one technology generation per year.

TSMC's R&D organization posted many outstanding accomplishments in 2001. Notably, we demonstrated the feasibility of 90nm CMOS logic for SoC and MPU applications. Featuring sub-8 picosecond transistor gate delays and 1.26 μm^2 and smaller SRAM bit cells, this new process is destined to become a leading SoC platform in the industry. Furthermore, several breakthroughs were made in demonstrating spin-on and chemical vapor deposition-based low-k processes with dielectric constants below 2.5 for the 90nm technology node. In addition, high-k gate dielectric materials were investigated intensively for better device performance.

TSMC has enjoyed an acclaimed reputation for delivering the industry's broadest spectrum of leading-edge processes. This fact was further evidenced in 2001, as TSMC became the only foundry and one of only two companies worldwide to manufacture customer products in volume using a 0.13 μm CMOS logic process.

R&D Expense

Amount: NT\$K



*The number of R&D expenditure has been reclassified to conform to 2001 classification.

Our 0.13um process portfolio covers the entire spectrum of SoC applications with a family of high-performance, low power, and baseline processes. The high-performance, low-voltage technology is ideal for processor applications (such as microprocessors, network processors, and media processors). The low-power technology is among the best available for battery/wireless applications, such as cell phones, while the core or standard logic technology is a cost-effective option for many industrial and consumer electronics uses. The TSMC 0.13um process also features the most aggressive design rules in the world, including low-voltage and high-performance transistors with gate lengths of less than 70nm. Combining these fast transistors with advanced eight-layer copper and low-k interconnects, this technology is capable of supporting greater than 10-giga-bit-per-second (Gbps) network processors, multi-GHz microprocessors, and other high performance applications.

Spectrum of New Processes

It is worth noting that all of these developments cited below were achieved despite a sharp industry downturn in 2001. Numerous new process technology options were also introduced in this year.

a. 0.13um Mixed-Signal/RF Technology

TSMC R&D released the industry's first 0.13um mixed-signal/RF CMOS process in 2001. This process features a rich set of modular digital, analog, and RF devices (supporting 0.13um core, low power and low voltage technologies) and precision passive components, such as varactors, poly-si resistors, high-Q MIM capacitors and inductors. The process allows designers to combine logic with base-band, analog and RF features in a single SoC platform for Bluetooth and other communication applications.

b. SiGe RF BiCMOS Technology

TSMC released the foundry's first 0.35um SiGe RF BiCMOS technology in 2001 and is now developing next generation 0.18um SiGe RF BiCMOS technology. It features high performance and compatibility with TSMC's baseline CMOS logic processes, combined with precision RF passive components such as high-Q metal-insulator-metal capacitors and inductors, and provides RF, analog, and baseband features in a single chip for high speed, low power, low noise, wired and wireless communication.

c. 0.18um CMOS Image Sensor Process

TSMC's color CMOS image sensor (CIS) process is by far the most advanced technology in the industry. Based on TSMC's existing 0.80um to 0.25um production technology, the industry's first 0.18um CIS process offers a competitive pixel size (3.0um pitch) in an integrated technology including color filters and micro-lenses.

d. Embedded Memory Technology

During 2001, TSMC aggressively scaled its embedded memory technologies for SoC integration. These value-added technologies are fully compatible with their respective core logic platforms and are supported by compilers, design kits, and test structures for fast time-to-volume. Our embedded 6T SRAM cells are available in a variety of density, performance, and standby leakage variations. For example, the cell size for our 0.13um-generation 6T SRAM cell is as small as 2.14um², with compiler performance capable of greater than 1GHz. We also demonstrated a 1.27um² 6T SRAM cell for our 90nm node in 2001. These cells are also available for stand-alone SRAM devices with high speed, high bit density or low power consumption. Through our collaboration with Mosys, TSMC delivered 0.25um, 0.18um and 0.15um 1TRAM memory cells to volume production with very good results in 2001. Generic and ultra-low-power 1TRAM technologies were also verified on multiple versions of TSMC's 0.13um triple-oxide logic processes with excellent yield results. As a consequence, TSMC became the first foundry to successfully manufacture 0.13um 1TRAM products.

e. Flash/Embedded Flash Technology

In 2001, TSMC successfully completed product qualification for its 0.25um embedded Flash technology with a mixed signal option, and successfully entered mass production. A series of Flash and EEPROM-emulator IP blocks were verified to support a variety of applications ranging from one-time-programmability (OTP) to high-endurance and high-temperature long-term data retention requirements. TSMC's 0.18um embedded flash, with a mixed-signal/RF option, was made available at the end of 2001.

f. First 12-inch Production Wafers

In 2001, TSMC's R&D organization played a leading role in the delivery of the foundry industry's first 12-inch 0.15um and 0.13um CMOS logic prototype wafers from the Fab 6 12-inch pilot line in Tainan, as well as the production of 12-inch 0.15um wafers from Fab 12 in Hsin-Chu. R&D is also actively involved in qualifying 0.13um production wafers, scheduled for Fab12 delivery in early 2002. The organization is also actively involved in finalizing the equipment set for the Company's second dedicated 12-inch facility, Fab 14 in Tainan.

g. State-of-the-art Mask Technology

TSMC supports one of the largest in-house mask fabrication capabilities in the world. Our mask shops are known for excellent quality and cycle time to meet aggressive R&D, prototyping and production requirements. All of our facilities feature state-of-the-art E-beam mask writers and inspection tools for both R&D and production use, including advanced optical-proximity-correction (OPC) and phase-shift mask (PSM) technology for 0.13um, and 90nm logic processes.

R&D Plans for 2002

Moving forward, TSMC will continue to increase its R&D personnel and investment while accelerating its R&D activities. One of TSMC's key focus areas in R&D will be the qualification of 90nm logic/mixed signal technology platforms and related embedded memory for SoC applications. In addition, the Company will continue development of its 12-inch equipment set. Other research and development projects will include new 65nm logic technology, 90nm mixed-signal/RF, 0.13um embedded memory, 0.18um SiGe BiCMOS, 0.18um color image sensors, and 0.35um high-voltage process modules.

TSMC plans to continue to work closely with International SEMATECH and photolithography equipment suppliers to ensure timely development of 157nm scanners, EUV scanners, and E-beam projection technology to support process development of sub-90nm technology. By integrating advanced mask and lithography in-house, TSMC can extend its leadership in micro-patterning technology and manufacturing yield, as well as shorten development and manufacturing cycle time. In addition, TSMC's R&D team will also engage in exploratory work on processes beyond the 65nm generation, including geometries as low as 50nm and 35nm. Exploratory work is already under way on new transistors and process technologies such as SOI, 3D structures, MRAM, and strained-layer CMOS. Attention is being focused on developing advanced high-k gate insulators and extreme low-k ($k \leq 2.0$) interconnect insulator materials.

With its highly competent and dedicated R&D team and its long-lasting commitment to investment in the most advanced equipment and materials, TSMC is confident it will continue to deliver the world's best and most cost-effective SoC processes for its customers.

2. Marketing and Sales

2-1 Achievements in 2001

According to industry analysts, 2001 was the worst year in the history of the IC market, registering a decline of 32 percent. The confluence of global economic recession, significant excess inventories, weaker demand for electronic equipment, and excess IC manufacturing capacity appears to be the cause. Despite these factors, TSMC performed better than both the overall semiconductor industry and its competitors in the IC foundry industry.

The global IC industry slowed considerably at the beginning of 2001, prompting TSMC to quickly adjust its expansion plans, reduce operating costs and expand the availability of advanced processes to maintain its operating margins. As part of this cost reduction strategy, TSMC restructured operations to improve efficiency but did not lay off any employees - a unique achievement in 2001 when most IC companies cut costs by downsizing. By keeping our most valuable resource - the skill and experience of our employees - TSMC has preserved its ability to respond to the anticipated recovery in 2002.

On capacity expansion, In 2001, TSMC strategically added to its advanced process capacity for geometries of 0.18um and below. This was accomplished by upgrading facilities that had been tuned to 0.35um and 0.25um processes. To further bolster deliveries to customers, the Company continued the construction of its two 12-inch facilities, Fab12 in Hsin-Chu and Fab14 in Tainan, Taiwan, and its joint venture fab with Philips in Singapore, System-on-Semiconductor Manufacturing Company (SSMC). SSMC entered production in mid-2001, followed by Fab 12 at the end of 2001. Cleanroom construction for Fab 14 is expected to be completed in the second half of 2002.

In summary, the Company's superior performance can be attributed to three major factors. First, TSMC sustained strong partnerships with its diverse customer base worldwide through its focus on services. Second, TSMC extended its leadership in 0.18um, 0.15um and 0.13um processes and expanded its advanced process manufacturing capacity at multiple 8-inch and 12-inch fabs. Third, TSMC embarked upon a program to set an accelerating pace of introducing new technologies in anticipation of a stronger and immediate demand for its most advanced processes and options.

In a year when the overall IC industry was marked by a sharp downturn, and in particular the foundry market, TSMC's strategy succeeded in maintaining profit while gaining significant shares at the same time. The company estimates that, on a revenue basis, its share of the dedicated foundry market reached 53 percent in 2001, up from 48 percent in 2000.

2-2 Market Outlook

Analysts' predictions of the overall IC market growth for 2002 range from a decline of seven percent to an increase of 23 percent. The general consensus forecast for the logic IC market is a growth of approximately ten percent. However, fabless IC companies, which comprised 66 percent of TSMC's business in 2001, are expected by industry analysts to grow at nearly twice that rate.

TSMC continues to diversify its customer base while supporting growth for fabless IC companies. Major and long-term customer prospects have also begun to emerge from the ranks of IDMs. With their established customer bases and strong product portfolios, these companies can contribute significant acceleration to the foundry industry as their outsourcing activities increase.

Over the years, TSMC has strategically managed its exposure to the memory market by limiting the commitment of its memory manufacturing services to a very small percentage of sales revenue. Taking into consideration the highly

focused development of its logic technologies and the high volatility of memory markets in the industry's history, TSMC will still maintain the policy in 2002, even as it works to expand its share of the emerging markets for embedded memories and SoC products.

In 2001, TSMC's customer base increased in almost every market, including graphics, broadband communications, digital consumer electronics, and wireless communications. Many of these markets are high growth segments demanding advanced manufacturing technologies. New customers utilized large volumes of wafers in 2001 and are expected to benefit TSMC increasingly over the next several years as these markets continue to grow. End market leaders such as Altera, ATI, Broadcom, Nvidia, Qualcomm and VIA drive TSMC's demand from the fabless segment, while leading IDMs such as Motorola and Philips were also significant customers. Through 2002, TSMC will continue to target marketing efforts to engage customers in similar high growth segments of logic component markets.

TSMC believes that foundry services will play an increasingly important role in the IC industry worldwide. By definition, fabless companies have all their ICs manufactured by foundries. IDMs are expected to increase their business relationships with foundries while moving forward. Industry forecasts predict that by 2005, more than 20 percent of worldwide IC production will come from foundries, and increasing to more than 30 percent by 2010.

As design automation and IP integration tools improve, product development risks will decrease, facilitating system companies to shift their IC needs directly to foundries. TSMC will continue to be a leader in reducing the barriers to entry for these companies.

At the level of supply chain, TSMC leads the trend toward "disintegration", whereby fables, IDM and system companies focus on their core competencies, shifting manufacturing and other services to partners with expertise in foundries, EDA tools, reusable IP, library development, design services and other areas. Enabled by the Internet, seamless business processes increases the speed at which this trend accelerates, allowing customers and third parties to work directly with TSMC in a highly transparent operating environment. As TSMC continues to grow, it will also continue its positive influence in other supply chain partners to expand support for the foundry model. For example, leading equipment and material suppliers, such as Applied Materials, ASML, Komatsu, Shinetsu, Taisil, and Tokyo Electron, have already begun expanding their technology and service programs targeted to major foundries.

At the technological level, consumer demand for lower cost and higher performance is expected to encourage our customers to integrate more functionality into their device designs and in turn accelerate the demand for our advanced technologies. TSMC plans to maintain high average selling prices (ASPs) for wafers by migrating production capacity to increasingly advanced technologies.

TSMC's competitive landscape is evolving and dynamic. TSMC's current major competitors in the foundry industry include UMC and Chartered Semiconductor, the number two and three foundry service providers. Anticipating strong growth of foundry business, new entrants are emerging. TSMC believes that the anticipated high growth of the foundry business will continue to attract new competitors. However, the current leaders are best positioned to benefit from fast growth.

Moving into 2002, TSMC will focus on the following technologies:

Advanced Technologies for SoC

During 2001, TSMC delivered the foundry industry's first 0.13um process technology into production and became the only foundry company manufacturing customer products in volume at this node. With advanced features including copper interconnects and low-k dielectrics, the process is the most advanced available to designers today. By the end of 2001, TSMC had delivered 33 fully functional 0.13um devices to its customers and acknowledged more than 60 production tapeouts. Several customers were in volume production and nearly 100 Cybershuttle prototype tapeouts

were recorded. The Company expects a smooth ramp to high volume production for its 0.13um process in 2002 and beyond, when the process will represent a significant portion of overall sales.

TSMC has also made significant inroads into what it expects will be the next-generation SoC platform, the 90nm process node. Pointing to industry reports that the semiconductor industry will likely rally around only a few processes at this node, TSMC announced in 2001 an initiative to align first-tier technology companies to its 90nm process. The alignment is expected to result in nearly identical manufacturing steps carrying the minimum requirement of a common set of design rules, common electrical parameters, and identical transistor characteristics. The Company believes that by aligning with a single, open 90nm semiconductor manufacturing process, the IC industry can efficiently and rapidly build single-chip systems, accelerating innovation across multiple market segments. TSMC has already reached several agreements with IDMs and major fabless companies in Europe, Japan and the US by the end of 2001, and expects to begin initial production of its 90nm technology later in 2002.

In addition, the move to a standardized process technology also proved to have a number of other benefits for the industry. By standardizing, developers of intellectual property can focus their attention on rapid delivery of an increasing variety of drop-in, reusable IP products. Similarly, designers of libraries - the primary building blocks of today's ICs - can also target at this single process, eliminating the expense of supporting multiple processes that often provide only moderate returns on their investments.

In support of its SoC platform initiative, TSMC has dedicated significant resources to the accelerated development of technology options for its 0.13um and 90nm processes. Such options include mixed-signal/radio frequency (MS/RF), embedded flash, embedded SRAM, and single-transistor SRAM modules, all of which can be integrated into standard CMOS logic for complex SoC applications.

MS/RF Pushes the Roadmap Envelope

TSMC's 0.13um MS/RF process leads the industry by several quarters, and is fully compatible with its logic process. It has attracted numerous advanced designs for the communications market, even as the segment experienced a severe downturn in general in 2001. We expect the communications market to regain momentum, precipitating another round of high growth and therefore high-volume use of MS/RF silicon. TSMC will accelerate the development of its MS/RF process for the 90nm generation, providing significant competitive advantages to its customers in the communications arena.

Embedded Memory Processes

As an indicator of the strength of the SoC trend, TSMC gained significant business among customers requiring embedded memory in 2001. TSMC's 0.25um and 0.18um technology processes support embedded flash (EmbFlash™), embedded single transistor SRAM (Emb1TRAM™) and embedded 6T/8T SRAMs. TSMC was the first foundry to bring FlashIP™ and 32-bit RISC intellectual property (IP) cores together in a high performance, integrated customer product. The higher density embedded memory allows designers to integrate more memory into the same silicon real estate, significantly increasing performance and functionality. These benefits are increasingly important for computer, communications, consumer and automotive applications.

Special Logic Processes

In addition to its advanced CMOS logic processes, TSMC has developed a variety of specialty processes, including SiGe BiCMOS, CMOS image sensor, color filter, and high voltage processes. TSMC became the first foundry to offer SiGe BiCMOS process, providing high performance and low power consumption for communications applications including cellular phones and optical networking.

TSMC's development of a 0.35um enhanced version CMOS image sensor process was finished in the third quarter of 2001, while a 0.25um CMOS image sensor process was qualified at the end of 2000 and entered volume production

in the first quarter of 2001. The Company is now engaging in the development of a 0.18um CMOS image sensor process, which is expected to be completed by the end of 2002 and enter mass production in 2003. TSMC's 8-inch color filter processes were also available at the end of 2001.

In the realm of high-voltage technology, the development of 0.35um 1-layer-poly, 4-layer-metal CMOS high voltage and liquid-crystal-on-silicon (LCOS) processes was completed at the end of 2001 and will enter production in the beginning of 2002.

Premier Foundry Design Services

To facilitate customers' time-to-market, TSMC continues its tradition of providing unrivaled design services through its Design Service Alliance (DSA). Several alliance groups are included under the DSA umbrella, namely, IP, Library, EDA, and Design Center third-party partners.

TSMC raised the bar on IP quality in 2001 when it announced a *Five Star IP Alliance Program*. Under this program, IP vendors receive a one-star ranking if their IP is verified in TSMC silicon; a three-star ranking if it is implemented in a customer product; and a five-star ranking if it includes testability structures such as industry-standard JTAG or BIST, allowing designers to test the IP used in their SoC designs easily.

TSMC's Library Alliance similarly challenged the industry by providing the broadest portfolio of library elements for TSMC's 0.25um, 0.18um and 0.13um process technologies. At the end of 2001, TSMC had enlisted library developers to provide more than 100 high-value library elements for its 0.13um process.

TSMC's EDA Alliance was similarly busy, developing strategic thrusts with the leading EDA companies. Chief among its developments in 2001 was the release of a design reference flow and a variety of design kits allowing designers to quickly and easily port mixed-signal and RF designs to TSMC silicon using EDA tools from key vendors. TSMC's Design Center Alliance was also expanded to include 29 members total throughout Asia, Europe and the U.S.

Backend Services

a. Bumping Service

Highly integrated SoC designs increasingly require improved packaging technologies. Flip-chip packaging reduces overall device size, allows higher I/O counts and enhances overall performance. At the IC manufacturing level, this requires a new approach to I/O integration and solder bumping. TSMC is the only dedicated foundry to offer in-house bumping services for flip-chip applications. A turnkey packaging service is also available, featuring solder bumping, post-bumping wafer sorting, I/O pad redistribution, ground-up design, SPICE model, and back-end assembly subcontract management. Greatly simplified logistics and shortest possible cycle time were achieved due to this one-stop service.

TSMC's bumping process was fully qualified in 2001 with advanced technology partners. The bumping facility has a capacity of 15,000 wafers per month. TSMC's solder bumping services are also available on 0.13um CyberShuttle prototyping services to qualify customer designs.

For 2002, TSMC will continue to focus on ways to further improve its integrated flip-chip capabilities for advanced products.

b. Testing Service

TSMC's testing capabilities were advanced on both the engineering and manufacturing fronts in 2001. With the development of an integrated manufacturing execution system providing up to 12-inch wafer sorting, TSMC has embarked upon a new manufacturing planning system that is expected to elevate manufacturing efficiency, delivery and quality. The new system is targeted for implementation in 2002.

2-3 Customer Applications

Produced by TSMC's high quality processes, the advanced ICs are designed and marketed by our customers for a diverse range of end-product applications, including PCs, servers, computer peripherals, Internet appliances, wired and wireless networking and communication systems, consumer electronics, automotive and industrial equipment. TSMC is committed to installing sufficient capacity for customers' increasing demands from every application segment.

2-4 Major Materials Status

Major Materials	Major Suppliers	Market Status	Procurement Strategy
Wafer	MEMC (production plant: U.S.A. and Taiwan) SITIX (production plant: U.S.A. and Japan) S.E.H. (production plant: Japan, Malaysia and Taiwan) Wacker (production plant: Germany and Singapore)	These four wafer suppliers combined provide more than 70 percent of the world's wafer capacity. Each supplier has multiple manufacturing sites, including Asia, Europe and U.S.A. to meet customer and market demand.	TSMC's suppliers of silicon wafer are required to pass stringent quality certification procedures. For risk management, we procure wafers from multiple sources to ensure an adequate supply for volume manufacturing. TSMC maintains competitive price and service agreements with its wafer suppliers and may extend this relationship with key suppliers to include strategic and collaborative agreements. TSMC reviews the quality, delivery, cost and service performance of its wafer suppliers, responding dynamically to these reviews. An annual physical quality system audit for each wafer supplier ensures that TSMC's quality specifications are maintained.
Chemical	Merck-Kanto (TPS) Tai-Young High Tech (TYS)	These two companies are worldwide major bulk chemical suppliers. The chemical raw materials of these two suppliers are imported from Japan or Taiwan local producers, primarily to support the Taiwan market.	TSMC's chemical suppliers have localized many of their operations to be close to our major manufacturing centers. Because of this, inventory and quality control has improved significantly. An annual physical quality system audit for chemical suppliers ensures that TSMC's quality specifications for chemicals are maintained.
Photoresist	T.O.K. S.E.H. Sumitomo AZ/Clariant	These four companies are worldwide major photoresist suppliers. These four suppliers are mutual competitors in Taiwan market; they all provide JIT service.	TSMC provides a three-month rolling demand forecast to its photoresist suppliers, to provide them with adequate time to prepare these complex materials. TSMC monitors photoresist materials status through the monthly inventory reports provided by suppliers. A monthly physical inventory check at the supplier's warehouse confirms material availability. In addition, TSMC conducts an annual physical quality system audit for each supplier to ensure photoresist quality, supply, and availability.
Specialty gas	TAIYO TOYO SANSEI AIR PRODUCT AIR LIQUID BOC	These four companies are worldwide major specialty gas suppliers. These four suppliers are competitors. There are other suppliers trying to penetrate the Taiwan market, which will enable TSMC to get better commercial terms in future.	TSMC's four major specialty gas suppliers are located in Japan, the UK and U.S.A., providing sufficient geographic dispersion to minimize supply risk. These four suppliers compete against each other in Taiwan market, ensuring competitive pricing and quality service. Local inventory service ensures that TSMC's demands can be fulfilled; this is backed by monthly inventory reporting and monitoring. In addition, TSMC conducts yearly physical quality system audits for each supplier to ensure specialty gas quality and supply availability.

2-5 Production over the Last Two Years

Unit: Capacity and Quantity (8" wafer)/Amount (NT\$K)

Wafers			
Year	Capacity	Quantity	Amount
2000	3,263,236	3,467,270	76,545,082
2001	4,378,925	2,234,163	83,741,166

2-6 Net Sales over the Last Two Years

Unit : Quantity (8" wafer)/Amount (NT\$K)

Sales Quantity & Amount Major Product	2001		2000		2000		2000	
	Local		Export		Local		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
Wafer	539,347	28,267,693	1,544,899	80,969,736	651,604	29,999,959	2,662,803	122,595,893
Package	19,209	1,241,470	55,022	3,556,057	18,418	1,143,289	75,264	4,672,092
Other	12,523	3,067,248	35,871	8,785,799	7,911	1,536,839	32,331	6,280,347
Total	571,079	32,576,411	1,635,792	93,311,592	677,933	32,680,088	2,770,398	133,548,332

3. Personnel Growth over the Last Two Years

Year	Number of Employees					Average Age	Average Years of Service	Percentage by Education						
	Direct Labor	Engineer	Admin.	Manager	Total			Ph.D.	MS/MA	BS/BA	College	High School	Others	Total
2000	7370	5739	503	1024	14636	29	3.2	2.2%	23.7%	14.6%	26.3%	33.1%	0.1%	100.0%
2001	6807	5322	455	1092	13676	29	4.1	2.3%	24.2%	15.0%	25.9%	32.5%	0.1%	100.0%
02/28/2002	6625	5267	453	1083	13428	30	4.3	2.4%	24.4%	14.9%	25.9%	32.3%	0.1%	100.0%

4. Employee Relations

TSMC believes that the future growth of the Company lies largely in the dedication of its employees, and therefore strives continuously and consistently to create an environment that supports both personal challenge and career development. As a result, TSMC has maintained one of the highest employee retention rates in the industry.

TSMC's efforts in employee relations have been widely recognized. In 2001, TSMC was the only Taiwanese company awarded with the "Best Employers in Asia" from a regional study conducted by *Asian Wall Street Journal* and *Far Eastern Economic Review*. In a "Performance Management" study of high performing Asian Companies conducted by McKinsey & Company, Inc., TSMC also received high ratings.

Recruiting

TSMC remains organizationally lean and efficient, allowing it to focus continually on the quality and productivity of its people in preparation to meet future challenges in the industry. The downturn of 2001 has resulted in hiring freezes and employee layoffs across many semiconductor companies. While implementing a general hiring freeze to control and manage cost in 2001, TSMC still continued its strategic recruiting for key talents. A total of 450 key talents were recruited in 2001, 300 of them were brand new graduates from various colleges who were among the very best in each of their graduating classes.

Development Programs

TSMC fosters a "continuous learning" culture and places strong emphases on employees' growth and development to ensure that all of them are given the opportunities to maximize their potentials. In 2001, TSMC upgraded the "Performance Management & Development" (PMD) process to another level with e-PMD, which included the feature of on-line tracking of "Individual Development Plan" for every employee.

TSMC also conducted more than 1,400 training programs with 37,000 participants in 2001. In addition, more than 55,000 participants have benefited from the newly launched e-learning system. To support organizational

development, TSMC also provided tailor-made workshops on the bases of specific requirements from individual work teams. A total of 52 organizational development workshops were conducted in 2001. To ensure professional competency, each key function also designed their respective learning roadmaps for professional employees to facilitate individual development planning.

Compensation

TSMC's Total Compensation Program is designed to attract and retain the right kind of talents, motivate them to perform to their maximum potential, and accomplish the Company's annual as well as long-term objectives. The program is also designed to reward high performance employees at every level with competitive compensation, with higher proportion in variable rewards for higher-level positions. The Company believes in "pay by performance" instead of creating an entitlement mindset. The Company's Total Compensation Program consists of Cash Compensation and Profit Sharing, the former includes Base Salary and Quarterly Incentive Bonus in cash, and the latter is delivered in the form of Stock Grants.

a. Base Salary

Base salary is scaled on employee's responsibilities, competencies, and level of contribution. Salaries are reviewed annually while increases are based on market practice, internal equity, individual responsibility and performance.

b. Quarterly Incentive Bonus

Quarterly Incentive Bonus equivalent to half month's base salary is granted to employees when the Company meets or exceeds its quarterly financial targets.

c. Profit Sharing

Eight percent of the Company's annual distributable income (net of legal reserve) is reserved for the Profit Sharing Plan for employees. This is awarded in the form of new issues of common shares to all employees, hence making every TSMC employee a shareholder of the Company. The size of individual awards is determined the individual's level of responsibility, and most importantly his/her performance and contribution. The value of the plan constitutes a very significant portion of the total compensation, especially for managers and executives. The Company encourages employees to hold the stocks and earn under the program, and therefore their long-term incentive is directly tied to creating shareholder value.

Benefits

TSMC provides a highly competitive benefit plan that covers both our employees and their families. Besides competitive medical and insurance coverage, TSMC also provides facilities including on-site sports and health facilities, clinics, canteens, coffee bars, convenience stores, bookstores, laundry services, child care center, dormitories, etc. Through our very active Employee Welfare Committee, a variety of activities were planned throughout the year. Highlights in 2001 included the favorite Sports Day and the Spring Concert, each bringing more than 10,000 employees and their families together in great team and community spirit.

5. Environmental Protection Measures

TSMC has always had its own rigorous principles of Environmental, Safety and Health (ESH) Policy. It has been in complete compliance with Taiwan Environmental Protection Administration (EPA) regulations and has also maintained international environmental standards. The Company has always contributed significant resources into ESH improvement programs and these efforts have not only led to recognition from the government but also have earned TSMC two national awards. They are the "Energy Conservation Excellence Award" from the Ministry of Economic Affairs, and the "Pollution Control Equipment Maintenance Outstanding Performance Plant Award" from the Industry Development Bureau.

Moreover, TSMC has also observed international environmental measures over the years. With the ISO (International Organization for Standardization) 14001 as the international standard for environmental management, TSMC is proud to report that its Fabs 1, 2, 3, 4, 5 and 7 have been ISO 14001-certified since 1996, while Fab 6 and 8 received ISO 14001 certification in 2001. In addition, TSMC's Fab 1, 2, 3, 4 and 5 were also OHSAS (Occupational Health and Safety Assessment Series) 18001-certified in 2000, making TSMC Taiwan's first semiconductor industry to receive OHSAS certification. Subsequently, the Company's Fab 6, 7 and 8 also received OHSAS 18001 certification in 2001.

TSMC's ESH improvement programs in 2001 included the following:

Energy Conservation

TSMC's continuous energy conservation and improvement programs include clean-room HEPA velocity reduction, process exhaust reduction, and lighting management.

Water Pollution Control

TSMC continues to make efficiency improvements to our plants' wastewater treatment facilities that result in significantly cleaner effluent than the current wastewater quality standards. For example, we have set up a new wastewater recovery system and modified existing systems to improve the water recovery ratio.

Air Pollution Control

TSMC not only installed air pollution prevention facilities to meet new environmental standards, but also implemented backup facilities in 2001 to reduce environmental impact in case of equipment failure.

Waste Management

Recycling has been an ever-ongoing goal. In 2001, TSMC received the EPA approval to recycle calcium fluoride sludge, waste solvent and sulfuric acid.

TSMC was the first to publish a Corporate Environmental Report (CER) in Taiwan's semiconductor industry in April 2000. In 2001, TSMC added new safety and health sections to the content and published the first "TSMC Environmental, Safety and Health (ESH) Annual Report". TSMC believes that its Corporate ESH Report is a very important component of the corporation's social commitment, and hopes the report also serves as a communication channel to all interested parties.

TSMC is fully aware of its commitment and responsibility in environmental protection to the society and will continue to channel significant resources into its environmental protection measurements and relevant company policies.

Other Disclosures

TSMC has always worked in complete compliance with Taiwan's EPA regulations and received no citations or penalties for non-compliance or hazardous incidents from 2001 until February 28, 2002. Nevertheless, TSMC plans to invest approximately NT\$399 million in additional improvements to its pollution control equipment for manufacturing facilities over the next three years.

6. Important Contracts

Technology Cooperation Agreement

Term of Agreement: 07/09/1997 - 07/08/2007

Contracting Party: Philips Electronics N.V. (now renamed Koninklijke Philips Electronics N.V.) (Philips)

Summary: Under this agreement, TSMC is obliged to pay to Philips royalties at a fixed percentage of net sales for certain products.

Building and Equipment Leasing Agreement (Fab 1)

Term of Agreement: 04/01/1997 - 03/31/2002

Contracting Party: Ministry of Economic Affairs

Summary: Under this agreement, TSMC leases certain buildings and equipment from the Ministry of Economic Affairs.

Land and Public Facility Leasing Agreement (Fab 1)

Term of Agreement: 04/01/1997 - 03/31/2002

Contracting Party: Industrial Technology Research Institute (ITRI)

Summary: Under this agreement, TSMC leases certain land and public facilities from ITRI.

Foundry Related Agreements

Term of Agreement: 1995 - 2004

Contracting Parties: More than 10 companies in Asia, Europe, and the U.S.A.

Summary: Under these agreements, TSMC guarantees a pre-determined capacity for a set number of years to customers who deposit certain fees with TSMC.

Manufacturing Agreement

Term of Agreement: 02/16/1996 - 12/31/2005, automatically renewed for one year unless terminated with a six-month prior written notice by TSMC.

Contracting Party: WaferTech, LLC

Summary: Under this agreement, TSMC has the right to purchase the entire calculated installed capacity of WaferTech, LLC during the production period.

Shareholders Agreement

Term of Agreement: Effective as of 03/30/1999 and may be terminated as provided in the agreement.

Contracting Parties: Philips Electronics N. V. (now renamed Koninklijke Philips Electronics N.V.) (Philips) and EDB Investments Pte Ltd. (EDBI)

Summary: Under this agreement, TSMC, Philips and EDBI agreed to form a joint venture "Systems on Silicon Manufacturing Company Pte Ltd." (SSMC) to build an IC foundry in Singapore. TSMC holds 32 percent of the shares. Philips and TSMC are committed to purchasing a certain percentage of SSMC's capacity.

Technology Cooperation Agreement

Term of Agreement: 03/30/1999 - 03/29/2009

Contracting Party: Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)

Summary: Under this agreement, TSMC shall transfer its certain process technologies to SSMC and SSMC shall pay TSMC remuneration at a certain percentage of the net selling prices of its products.

Technology Transfer Agreement

Term of Agreement: 06/27/2000 - 06/26/2010

Contracting Party: National Semiconductor Corporation (NS)

Summary: Under this agreement, TSMC shall transfer its process technologies to NS and NS shall pay license fees to TSMC.

Manufacturing Agreement

Term of Agreement: 02/14/2000 - 12/13/2005

Contracting Party: Vanguard International Semiconductor Corporation (VIS)

Summary: Under this agreement, VIS shall reserve a certain capacity to manufacture certain TSMC devices required by TSMC's customers, at prices as agreed upon by the parties involved.

Patent License Agreement

Term of Agreement: 10/26/2001 - 12/31/2006

Contracting Party: A U.S. based company

Summary: Under this agreement, the parties have entered into cross license arrangements for certain semiconductor patents. TSMC shall pay license fees to the said company.

7. Litigation Proceedings

Antidumping Investigation Against SRAMs

Micron Technology Inc. (Micron) filed a petition for antidumping investigation against SRAMs from Korea and Taiwan in February 1997. Following the U.S. International Trade Commission's (ITC) final determination in April 1998 that U.S. industry is materially injured by imports from Taiwan, the U.S. Department of Commerce announced the antidumping duty order. Taiwan industry subsequently appealed the ITC's determination to the U.S. Court of International Trade (CIT). In June 2000, ITC, pursuant to CIT's second remand order, voted that SRAMs from Taiwan are not causing or threatening to cause injury to the U.S. industry, which decision was later affirmed by CIT. Micron then appealed to the U.S. Court of Appeals for the Federal Circuit (CAFC). In September 2001, CAFC upheld CIT's decision. ITC appealed in November 2001 requesting CAFC to review its decision, which was subsequently denied by CAFC in December 2001. ITC and Micron are entitled to appeal the CAFC's decision to the U.S. Supreme Court by March 4, 2002. If both ITC and Micron do not appeal by that time, the entire SRAM antidumping investigation will be terminated.

8. Notes on Board and Shareholders

Articles of Incorporation

TSMC's Articles of Incorporation have been drafted and revised based on the Company Law and other relevant regulations of the Republic of China (for more details, please refer to <http://www.tsmc.com>).

To accommodate the need for capitalization of 2000 profits, it was resolved at the Regular Shareholders' Meeting of May 15, 2001 that TSMC's Articles of Incorporation be revised to raise the authorized capital from NT\$178 billion to NT\$246 billion.

Shareholders' Meeting

Meetings of TSMC's shareholders include Regular Shareholders' Meeting and Special Shareholders' Meeting. The Regular Shareholders' Meeting is convened by the Board of Directors in accordance with the Company Law of the Republic of China and generally held in Hsin-Chu, Taiwan, where TSMC's head office is located, within six months after the end of each fiscal year. Special Shareholders' Meeting may be convened by resolution of the Board of Directors whenever it deems necessary. Under certain circumstances, Special Shareholders' Meeting may be convened by shareholders or supervisors in accordance with the law.

For a public company such as TSMC, notice in writing of shareholders' meetings, stating the place, time and purpose thereof, must be sent to each shareholder at least thirty days (in the case of regular meetings) or fifteen days (in the case of special meetings) prior to the date of each meeting.

Shareholders' meetings of TSMC are conducted in accordance with TSMC's "Rules and Procedures of Shareholders' Meeting" and relevant laws, rules and regulations (for more details, please refer to <http://www.tsmc.com>).

In accordance with the "Rules and Procedures of Shareholders' Meeting", the agenda of the shareholders' meeting is set by the Board of Directors if the Meeting is convened by the Board of Directors and the Meeting shall proceed in accordance with the agenda. However, shareholders may make special motion during the shareholders' meeting. When a shareholder present at the shareholders' meeting wishes to speak, a Speech Note should be filled out with

summary of the speech, the shareholder's number (or the number of Attendance Card) and the name of the shareholder.

TSMC's 2001 Regular Shareholders' Meeting was held at the Auditorium in the Activity Center of Hsin-Chu Science-Based Industrial Park on May 15, 2001, in which the shareholders present in person or by proxy resolved to accept the 2000 Business Report and Financial Statements, approve the proposal for the distribution of 2000 profits, the capitalization of 2000 profits, and the revision of the Articles of Incorporation of TSMC.

Board of Directors

TSMC's directors and supervisors are elected in accordance with the Company Law of the Republic of China and TSMC's "Rules for Election of Directors and Supervisors" (for more details, please refer to www.tsmc.com). Other than those provided in the Company Law of the Republic of China, TSMC does not have special provisions for nominating directors or supervisors by any shareholder.

During 2001 and the period from January 1, 2002 to February 28, 2002, five regular meetings and three special meetings of TSMC's Board of Directors were held and the following resolutions were passed:

Approving 2000 Business Report and Financial Statements, the proposal for distribution of 2000 profits, 2001 normal capital expenditure, capital expenditure for setting up a solder bumping line, the revision of Articles of Incorporation, the convention of 2001 Regular Shareholders' Meeting and the agenda thereof, TSMC's sponsoring the issuance of ADRs by certain shareholders, the appointment of Dr. C.S. Hsu as Vice President, 2001 Financial Forecast, the increase of investment in TSMC Japan K.K., the sale of all TSMC's shareholding in Taiwan Semiconductor Technology Corporation to Amkor Technology Inc., the semi-annual Financial Statements for the first half of 2001, the appointment of Dr. F.C. Tseng as Deputy Chief Executive Officer, the appointment of Dr. Rick Tsai as President & Chief Operating Officer, the appointment of Dr. Kenneth L. Kin as Senior Vice President, the appointment of Dr. Chenming Hu as Chief Technology Officer, the promotion of Mr. M.C. Tzeng as Vice President, and the revision of TSMC's 2001 Financial Forecast; authorizing the Chairman to decide, within the limit of NT\$15 billion, the issuance of Corporate Bond in the domestic market; approving the second revision of 2001 Financial Forecast, 2001 Business Report and Financial Statements, the proposal for distribution of 2001 profits, the convention of 2002 Regular Shareholders' Meeting and the agenda thereof, 2002 normal capital appropriation, capital appropriation for expanding the capacity for the advanced processes and conducting Fab 12's mechanical and electrical related constructions, increase of investment in TSMC Development, Inc. and WaferTech, LLC, and the appointment of Dr. Richard L. Thurston as Vice President and General Counsel, etc.

9. Acquisition or Disposition of Real Estate

9-1 Amount of acquisition real estate up to NT\$300 million or 20% of paid in capital

As of 02/28/2002
Unit: NT\$K

Name of Real Estate	Acquisition Date	Price	Vendor	Relationship with Co.	Purpose
Fab6 Gas System & Piping	01/31/2001	382,619	SAN FU	None	For in house
Stepper	07/31/2001	334,959	ASML	None	For in house
Stepper	07/31/2001	315,860	ASML	None	For in house
Stepper	11/30/2001	339,744	ASML	None	For in house
EBO	06/30/2001	411,886	Toshiba	None	For in house
Process Hook-Up, SP2	03/16/2001	471,171	Zhurong	None	For in house
Process Hook-Up, SP2	01/31/2001	461,021	Tungkai	None	For in house

9-2 Amount of disposition real estate up to NT\$300 million or 20% of paid in capital: None

FINANCING PLANS AND IMPLEMENTATION

1. Preferred A Shares

1-1 Financing Plans

a. Source of Funds

Issuance	Issuing Date	Tenor	Rate	Outstanding
Preferred A Shares	11/29/2000	2.5 Years	3.50%	1,300,000,000 Shares

b. Use of Funds

Unit: NT\$K

Project	Use of Proceeds	Complete Date	Amount	Expending Plan				
				2001				2002
				Q1	Q2	Q3	Q4	Q1
Fab 12	Procurement of Equipment	03/31/2002	13,000,000	825,000	1,650,000	2,475,000	3,300,000	4,750,000

c. Date of posting on TSE's Web Site: 09/22/2000 (Approval date by the Securities and Futures Commission)

1-2 Status of Implementation & Benefits

- As of Dec. 31, 2001, complete 63.64% compares with expending plan.
- Commenced Pilot Run in 2001 and expect to benefit starting 2002.

2. Corporate Bond

2-1 Financing Plans

a. Source of Funds

Issuance	Issuing Date	Tenor	Coupon Rate (or YTM)	Outstanding
Corporate Bond	01/10/2002 - 01/24/2002	Class A: 5 years Class B: 7 years Class C: 10 years	Class A: 2.6% p.a. Class B: 2.75% p.a. Class C: 3.00% p.a.	Class A: NT\$ 2.5 billion Class B: NT\$ 8.0 billion Class C: NT\$ 4.5 billion

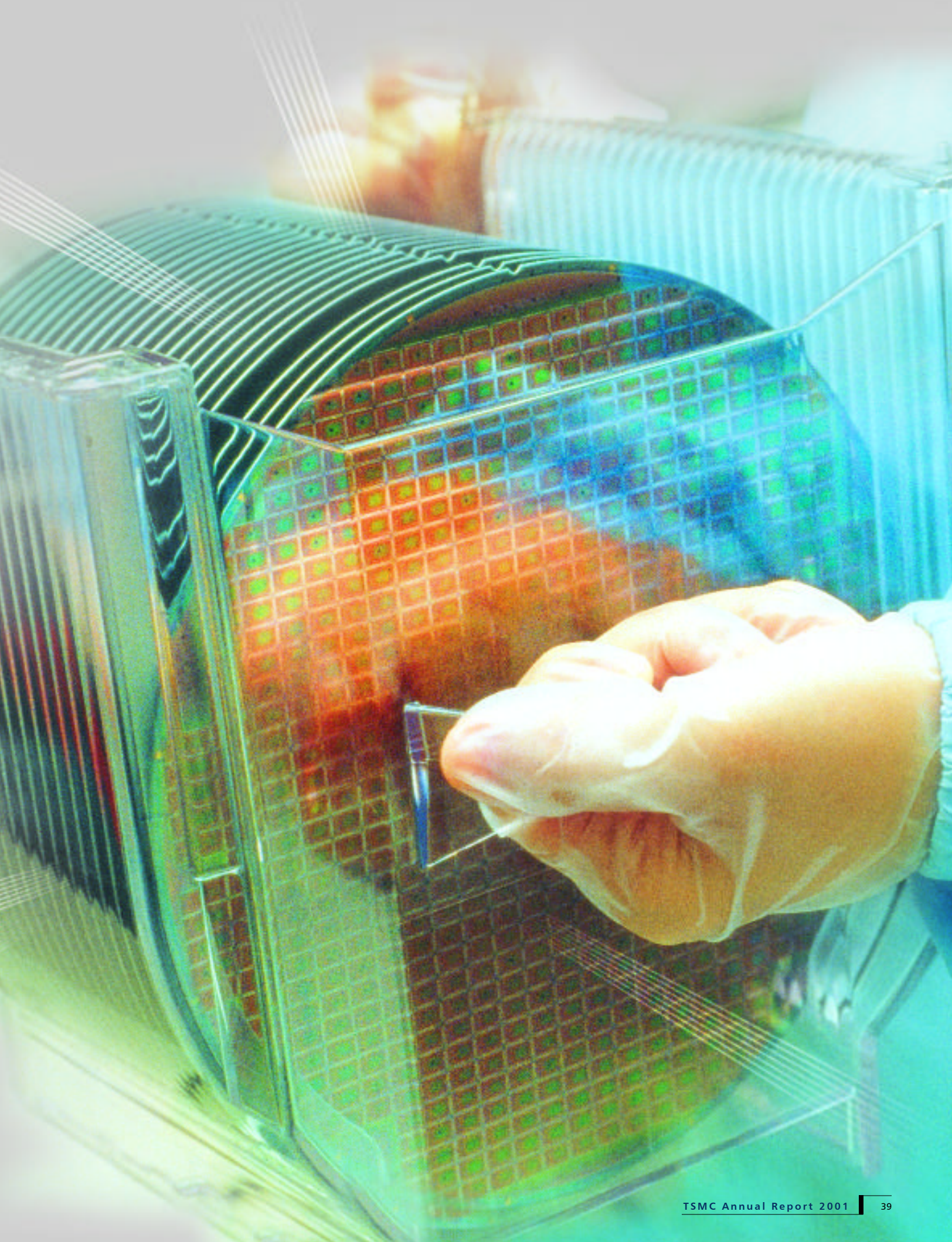
b. Use of Funds

Unit: NT\$K

Project	Use of Proceeds	Complete Date	Amount	Expending Plan					
				2002				2003	
				Q1	Q2	Q3	Q4	Q1	Q2
Fab 14	Procurement of Equipment	06/30/2003	15,000,000	1,017,000	629,000	833,000	799,000	369,000	11,353,000

c. Date of posting on TSE's Web Site: 12/17/2001 (Approval date by the Securities and Futures Commission)

2-2 Status of Implementation & Benefits: Commencing from 2002 and expect to benefit starting 2003.





FINANCIAL INFORMATION



1. Condensed Balance Sheet

Financial analysis from 1997-2001

Unit: NT\$K

Item	1997	1998	1999	2000	2001
Current assets	23,790,795	26,378,422	38,770,670	85,950,586	63,652,726
Long-term stock investments	19,220,371	17,537,765	28,208,643	33,422,010	32,869,391
Fixed assets	61,697,723	73,636,209	89,566,029	207,005,370	215,499,242
Other assets	3,804,923	6,554,817	4,877,392	14,594,492	23,713,325
Current liabilities					
Before distribution	10,088,672	8,138,796	14,469,329	41,188,662	25,210,619
After distribution	10,250,285	8,276,867	14,684,480	41,814,102	*
Long-term liabilities	20,009,357	25,025,206	20,000,000	29,000,000	24,000,000
Other liabilities	9,001,390	6,872,545	6,183,565	9,030,097	9,333,990
Capital stock	40,813,000	60,471,760	76,708,817	129,893,646	181,325,531
Capital surplus	62,082	164,219	11,831,411	55,285,821	57,128,433
Retained earnings					
Before distribution	28,641,292	24,162,113	33,320,615	76,924,173	37,507,410
After distribution	8,820,919	9,010,971	11,785,153	24,866,848	*
Unrealized loss on long-term investment	-	-	-	(71,564)	-
Cumulative transaction adjustments	(101,981)	(727,426)	(101,981)	(278,377)	1,228,701
Total Assets	108,513,812	124,107,213	161,422,734	340,972,458	335,734,684
Total Liabilities					
Before distribution	39,099,419	40,036,547	40,652,894	79,218,759	58,544,609
After distribution	39,261,032	40,174,618	40,868,045	79,844,199	*
Total Equity					
Before distribution	69,414,393	84,070,666	120,769,840	261,753,699	277,190,075
After distribution	69,252,780	83,932,595	120,554,689	261,128,259	*

*Subject to change after shareholders' meeting resolution

2. Condensed Statement of Income

Financial analysis from 1997-2001

Unit: NT\$K (Except EPS: NT\$)

Item	1997	1998	1999	2000	2001
Net sales	43,935,627	50,233,008	73,131,206	166,228,420	125,888,003
Gross profit*	20,134,920	20,336,042	32,215,693	75,996,839	36,381,051
Income from operations	15,489,780	16,202,245	25,916,619	60,541,105	17,342,286
Non-operating Income	857,713	1,024,981	1,249,706	5,409,307	2,891,557
Non-operating Expense	830,390	287,295	3,056,460	2,112,818	9,575,128
Interest revenue	501,434	566,020	808,616	1,575,460	1,365,919
Interest expense	546,490	981,388	1,415,527	1,858,197	1,951,830
Income from operations of continued segments-before tax	15,517,103	13,648,622	24,109,865	63,837,594	10,658,715
Income from operations of continued segments-after tax	17,960,075	15,344,203	24,559,884	65,106,194	14,483,174
Income from operations of discontinued segments	-	-	-	-	-
Extraordinary gain (loss)	-	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-	-
Earnings per share	4.40 **	2.54 **	3.24 **	5.71 **	0.83 **
	1.83 ***	1.56 ***	2.49 ***	3.96 ***	
Capitalized interest	255,054	661,414	305,312	72,903	207,297

* Certain accounts of 1997 through 2000 have been reclassified to conform to 2001 classifications

** Based on weighted average shares outstanding in each year

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

3. Financial Analysis

Financial analysis from 1997-2001

		1997	1998	1999	2000	2001
Capital	Debts ratio(%)	36.03	32.26	25.18	23.23	17.44
Structure Analysis	Long-term fund to fixed assets (%)	144.94	148.16	157.17	140.46	139.76
Liquidity Analysis	Current ratio (%)	235.82	324.11	267.95	208.68	252.48
	Quick ratio (%)	185.78	273.86	233.95	178.13	211.92
	Times interest earned (times)	20.04	8.91	14.83	34.02	5.84
Operating	Average collection turnover(times)	6.22	5.90	7.18	7.70	5.32
Performance	Average collection days	58.68	61.85	50.82	47.42	68.61
Analysis	Average inventory turnover (times)	6.12	6.82	9.96	10.77	9.19
	Average inventory turnover days	59.69	53.49	36.66	33.90	39.70
	Average payment turnover (times)	2.37	2.53	3.02	2.69	2.88
	Fixed assets turnover (times)	0.71	0.68	0.82	0.80	0.58
	Total assets turnover (times)	0.41	0.40	0.45	0.49	0.37
Profitability	Return on total assets (%)	20.35	14.04	18.19	24.12	4.76
Analysis	Return ratio on stockholders' equity (%)	29.56	19.99	23.98	31.43	5.37
	Operating income to capital stock(%)	37.95	26.79	33.79	46.61	9.56
	Profit before tax to capital stock (%)	38.02	22.57	31.43	49.15	5.88
	Profit after tax to net sales (%)	40.88	30.55	33.58	39.17	11.50
	Net worth per share (NTD)			15.74	21.28	15.70
	Earnings per share (NTD)	1.27	1.08	1.73	3.96	0.83
	Dividends per share (NTD)			2.30	2.80	4.00
	Cash dividends (NTD)					
	Stock dividends (NTD)			2.30	2.80	4.00
Cash flow	Cash flow ratio (%)	201.55	417.00	273.50	213.17	284.27
	Cash flow adequacy ratio (%)	97.96	102.04	106.00	106.03	105.73
	Cash flow reinvestment ratio (%)	16.28	21.65	19.31	22.47	16.00
Leverage	Operating leverage	2.15	2.69	2.47	2.34	2.34
	Financial leverage	1.04	1.06	1.06	1.03	1.13

*Subject to change after shareholders' meeting resolution

**The calculation formula of financial analysis was listed as follows :

1. Capital Structure Analysis

- (1) Debts ratio = Total Liabilities / Total Assets
 (2) Long-term fund to fixed assets = (Shareholders' Equity + Long-term Liabilities) / Net Properties

2. Liquidity Analysis

- (1) Current ratio = Current Assets / Current Liabilities
 (2) Quick ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
 (3) Times interest earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average collection turnover = Net Sales / Average Trade Receivables
 (2) Average collection days = 365 / Receivables Turnover rate
 (3) Average inventory turnover = Cost of Sales / Average Inventory
 (4) Average inventory turnover days = 365 / Inventory Turnover rate
 (5) Average payment turnover = Cost of Sales / Average Trade Payables
 (6) Fixed assets turnover = Net Sales / Net Properties
 (7) Total assets turnover = Net Sales / Total Assets

4. Profitability Analysis

- (1) Return on total assets = {Net Income + Interest Expenses * (1 - Effective tax rate)} / Average Total Assets
 (2) Return ratio on stockholders' equity = Net Income / Average Shareholders' Equity
 (3) Profit after tax to net sales = Net Income / Net Sales
 (4) Earnings per share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash flow

- (1) Cash flow ratio = Net Cash Provided by Operating Activities / Current Liabilities
 (2) Cash flow adequacy ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividends
 (3) Cash flow reinvestment ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Plant + Investment + Other Assets + Working Capital)

6. Leverage

- (1) Operating leverage = (Net Sales - Variable Cost) / Income from Operations
 (2) Financial leverage = Income from Operations / (Income from Operations - Interest Expenses)

4. 2001 Condensed Interim Balance Sheet by Quarterly

Unit: NT\$K

	March 31, 2001		June 30, 2001		September 30, 2001		December 31, 2001	
	Amount	%	Amount	%	Amount	%	Amount	%
ASSETS								
Current assets	73,631,544	22	64,793,235	19	54,110,594	16	63,652,726	19
Long-term investments	33,064,544	10	34,718,514	10	33,950,449	10	32,869,391	10
Fixed assets	211,037,780	62	216,594,103	64	219,577,703	66	215,499,242	64
Other assets	19,959,232	6	21,949,461	7	25,924,873	8	23,713,325	7
TOTAL ASSETS	337,693,100	100	338,055,313	100	333,563,619	100	335,734,684	100
LIABILITIES AND SHAREHOLDERS' EQUITY								
Current liabilities	29,863,304	9	28,854,509	8	23,073,125	7	25,210,619	7
Long-term liabilities	29,000,000	8	29,000,000	9	29,000,000	8	24,000,000	7
Other liabilities	8,810,582	3	9,216,070	3	9,323,880	3	9,333,990	3
Total liabilities	67,673,886	20	67,070,579	20	61,397,005	18	58,544,609	17
SHAREHOLDERS' EQUITY								
Capital stock	129,893,646	39	181,325,531	54	181,325,531	55	181,325,531	54
Capital surplus	55,285,821	16	55,285,821	16	55,285,821	17	57,128,433	17
Retained earnings:	85,344,547	25	33,599,624	10	34,836,301	10	37,507,410	11
Cumulative translation adjustments	(13,180)	-	(32,118)	-	(167,908)	-	-	-
Unrealized loss on long-term investment	(491,620)	-	805,876	-	886,869	-	1,228,701	1
Total Shareholders' Equity	270,019,214	80	270,984,734	80	272,166,614	82	277,190,075	83
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	337,693,100	100	338,055,313	100	333,563,619	100	335,734,684	100

5. 2001 Condensed Interim Statement of Income by Quarterly

Unit:NT\$K (Except EPS:NT\$)

	Q1		Q2		Q3		Q4		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
GROSS SALES	40,226,483		26,694,430		28,191,557		33,451,349		128,563,819	
SALES RETURNS AND ALLOWANCES	(705,737)		(396,681)		(1,251,665)		(321,733)		(2,675,816)	
NET SALES	39,520,746	100	26,297,749	100	26,939,892	100	33,129,616	100	125,888,003	100
COST OF SALES	26,043,096	66	21,299,201	81	20,124,129	75	22,040,526	67	89,506,952	71
GROSS PROFIT	13,477,650	34	4,998,548	19	6,815,763	25	11,089,090	33	36,381,051	29
OPERATING EXPENSES	4,221,116	10	4,714,140	18	4,873,671	18	5,229,838	16	19,038,765	15
INCOME FROM OPERATIONS	9,256,534	24	284,408	1	1,942,092	7	5,859,252	18	17,342,286	14
NON-OPERATING INCOME										
Interest	445,307	1	430,365	2	302,913	1	187,334	1	1,365,919	1
Insurance compensation	14,864	-	1,037	-	214,835	1	630,099	2	860,835	1
Premium income	-	-	27,403	-	71,148	-	136,181	-	234,732	-
Other	64,554	-	116,113	-	73,847	-	175,557	-	430,071	-
Total Non-Operating Income	524,725	1	574,918	2	662,743	2	1,129,171	2	2,891,557	2
NON-OPERATING EXPENSES										
Equity in net loss of investee companies -net	1,522,366	4	1,232,975	5	1,926,187	7	1,748,103	5	6,429,631	5
Interest	447,936	1	420,425	2	529,618	2	553,851	2	1,951,830	2
Foreign exchange loss-net	328,706	1	4,114	-	113,906	-	248,894	1	695,620	1
Other	52,670	-	70,832	-	235,382	-	139,163	-	498,047	-
Total Non-Operating Expenses	2,351,678	6	1,728,346	7	2,805,093	10	2,690,011	8	9,575,128	8
INCOME BEFORE INCOME TAX	7,429,581	19	(869,020)	(3)	(200,258)	(1)	4,298,412	13	10,658,715	8
INCOME TAX BENEFIT	990,793	2	1,181,422	4	1,436,935	5	215,309	1	3,824,459	3
NET INCOME	8,420,374	21	312,402	1	1,236,677	5	4,513,721	14	14,483,174	12
EARNINGS PER SHARE	0.71		(0.20)		0.06		0.26		0.83	

6. Auditors' Opinion from 1997 to 2001

Year	CPA	Audit Opinion
1997	S.C. Huang, Edward Way	An Unqualified Opinion
1998	S.C. Huang, Edward Way	An Unqualified Opinion
1999	S.C. Huang, Edward Way	An Unqualified Opinion
2000	S.C. Huang, Edward Way	An Unqualified Opinion
2001	S.C. Huang, Edward Way	An Unqualified Opinion

12F, No. 156, Sec. 3, Min-Sheng E. Rd., Taipei, Taiwan, R.O.C.
Tel : 886-2-2545-9988

7. Supervisors' Report

The Board of Directors have prepared and submitted to us the Company's 2001 Business Report, Financial Statements, and proposal for allocating profits. The CPAs of T. N. SOONG & CO. were retained to audit the Financial Statements and have submitted a report relating thereto. The above Business Report, Financial Statements and proposal have been further examined as being correct and accurate by the undersigned, the supervisors of Taiwan Semiconductor Manufacturing Company Limited. According to Article 219 of the Company Law, we hereby submit this report.

Taiwan Semiconductor Manufacturing Company Limited

Supervisor Robbert Brakel



Supervisor George C. Shiu



Supervisor S. J. Paul Chien



March 11, 2002

8. Review and Analysis of Financial Position and Operating Results

(1) Liquidity analysis

Item	Dec. 31, 2001	Dec. 31, 2000	Change %
Current ratio	252.48%	208.68%	20.99
Quick ratio	211.92%	178.13%	18.96

(2) Analysis of Operating Result

Item	2001	2000	Change Amount	Unit: NT\$K
				Change %
GROSS SALES	128,563,819	169,223,128	(40,659,309)	-24.03
SALES RETURNS AND ALLOWANCES	<u>(2,675,816)</u>	<u>(2,994,708)</u>	318,892	-10.65
NET SALES	125,888,003	166,228,420	(40,340,417)	-24.27
COST OF SALES	<u>(89,506,952)</u>	<u>(90,231,581)</u>	724,629	-0.80
GROSS PROFIT	36,381,051	75,996,839	(39,615,788)	-52.13
OPERATING EXPENSES	<u>(19,038,765)</u>	<u>(15,455,734)</u>	(3,583,031)	23.18
INCOME FROM OPERATIONS	<u>17,342,286</u>	<u>60,541,105</u>	(43,198,819)	-71.35
NON-OPERATING INCOME				
Interest	1,365,919	1,575,460	(209,541)	-13.30
Insurance compensation	860,835	1,623,832	(762,997)	-46.99
Premium income	234,732	8,115	226,617	2792.57
Technical service income	55,077	23,557	31,520	-
Gain on sales of property, plant and equipment	52,376	62,921	(10,545)	-16.76
Gain on sales of short-term investments	-	104,643	(104,643)	-100.00
Foreign exchange gain- net	-	828,025	(828,025)	-
Equity in net income of investee companies - net	-	779,326	(779,326)	-
Other	<u>322,618</u>	<u>295,295</u>	27,323	9.25
Total Non-operating Income	<u>2,891,557</u>	<u>5,301,174</u>	(2,409,617)	-45.45
NON-OPERATING EXPENSE				
Equity in net loss of investee companies -net	(6,429,631)	-	(6,429,631)	-
Interest	(1,951,830)	(1,858,197)	(93,633)	5.04
Foreign exchange loss-net	(695,620)	-	(695,620)	-
Loss on sales and provision for loss on property, plant, and equipment	(234,862)	(99,220)	(135,642)	136.71
Loss on sales of long-term investments	(102,978)	-	-	-
Amortization of bond issue cost	(12,504)	(32,658)	20,154	-61.71
Other	<u>(147,703)</u>	<u>(14,610)</u>	(133,093)	910.97
Total Non-operating Expense	<u>(9,575,128)</u>	<u>(2,004,685)</u>	(7,570,443)	377.64
INCOME BEFORE INCOME TAX	10,658,715	63,837,594	(53,178,879)	-83.30
INCOME TAX BENEFIT	<u>3,824,459</u>	<u>1,268,600</u>	2,555,859	201.47
NET INCOME	<u>14,483,174</u>	<u>65,106,194</u>	(50,623,020)	-77.75

9. Financial Statements & Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 18, 2002

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, 2001 and 2000, 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, 2001 and 2000, 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.

We have also audited the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Ltd. as of and for the years ended December 31, 2001 and 2000, and have expressed an unqualified opinion on such financial statements.

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2001		2000	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	\$33,403,706	10	\$35,664,440	11
Receivable from related parties (Note 12)	523,861	-	994,815	-
Notes receivable	176,582	-	125,175	-
Accounts receivable	19,957,636	6	30,335,314	9
Allowance for doubtful receivables (Note 2)	(1,100,492)	-	(946,734)	-
Allowance for sales returns and others (Note 2)	(2,581,551)	(1)	(2,204,167)	(1)
Inventories - net (Notes 2 and 4)	8,504,418	2	10,967,935	3
Deferred income tax assets (Notes 2 and 11)	2,347,000	1	8,122,000	2
Prepaid expenses and other current assets (Notes 2 and 12)	2,421,566	1	2,891,808	1
Total Current Assets	63,652,726	19	85,950,586	25
LONG-TERM INVESTMENTS (Notes 2 and 5)	32,869,391	10	33,422,010	10
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 6 and 12)				
Cost				
Buildings	52,527,184	16	46,307,643	14
Machinery and equipment	242,347,119	72	210,461,923	62
Office equipment	4,754,183	1	3,672,927	1
Total cost	299,628,486	89	260,442,493	77
Accumulated depreciation	(140,224,640)	(42)	(94,332,168)	(28)
Advance payments and construction in progress	56,095,396	17	40,895,045	12
Net Property, Plant and Equipment	215,499,242	64	207,005,370	61
GOODWILL (Note 2)	2,961,317	1	3,309,707	1
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 11)	16,175,070	5	6,559,293	2
Deferred charges - net (Notes 2 and 7)	3,239,723	1	3,122,610	1
Refundable deposits (Note 14)	772,912	-	967,985	-
Assets leased to others (Note 2)	555,053	-	625,647	-
Miscellaneous	9,250	-	9,250	-
Total Other Assets	20,752,008	6	11,284,785	3
TOTAL ASSETS	\$335,734,684	100	\$340,972,458	100

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

LIABILITIES AND SHAREHOLDERS' EQUITY	2001		2000	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Payable to related parties (Note 12)	\$2,082,606	1	\$4,346,578	1
Accounts payable	1,123,894	-	7,989,953	3
Payable to contractors and equipment suppliers	12,367,319	4	24,392,400	7
Accrued expenses and other current liabilities (Note 15)	4,636,800	1	4,409,731	1
Lease obligation	-	-	50,000	-
Current portion of bonds (Note 8)	5,000,000	1	-	-
Total Current Liabilities	25,210,619	7	41,188,662	12
NONCURRENT LIABILITIES				
Bonds - net of current portion (Note 8)	24,000,000	7	29,000,000	8
Guarantee deposits (Note 14)	7,210,972	2	7,086,379	2
Accrued pension cost (Notes 2 and 10)	1,854,853	1	1,509,535	1
Deferred gain on sale-leaseback (Note 2)	268,165	-	434,183	-
Total Noncurrent Liabilities	33,333,990	10	38,030,097	11
Total Liabilities	58,544,609	17	79,218,759	23
SHAREHOLDERS' EQUITY (Notes 2 and 9)				
Capital stock - \$10 par value ¹				
Authorized: 24,600,000 thousand shares in 2001 and 17,800,000 thousand shares in 2000				
Issued:				
Preferred - 1,300,000 thousand shares	13,000,000	4	13,000,000	4
Common - 16,832,554 thousand shares in 2001 and 11,689,365 thousand shares in 2000	168,325,531	50	116,893,646	34
Capital surplus	57,128,433	17	55,285,821	16
Retained earnings:				
Appropriated as legal reserve	17,180,067	5	10,689,323	3
Appropriated as special reserve	349,941	-	1,091,003	1
Unappropriated earnings	19,977,402	6	65,143,847	19
Cumulative translation adjustments	1,228,701	1	(278,377)	-
Unrealized loss on long-term investment	-	-	(71,564)	-
Total Shareholders' Equity	277,190,075	83	261,753,699	77
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$335,734,684	100	\$340,972,458	100

English Translation of Financial Statements Originally Issued in Chinese

STATEMENTS OF INCOME

For the Years Ended December 31, 2001 and 2000

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

	2001		2000	
	Amount	%	Amount	%
GROSS SALES (Notes 2, 12 and 16)	\$128,563,819		\$169,223,128	
SALES RETURNS AND ALLOWANCES (Note 2)	(2,675,816)		(2,994,708)	
NET SALES	125,888,003	100	166,228,420	100
COST OF SALES (Note 12)	89,506,952	71	90,231,581	54
GROSS PROFIT	36,381,051	29	75,996,839	46
OPERATING EXPENSES (Note 12)				
Research and development	10,649,019	8	7,203,591	5
General and administrative	6,048,665	5	5,299,135	3
Marketing	2,341,081	2	2,953,008	2
Total Operating Expenses	19,038,765	15	15,455,734	10
INCOME FROM OPERATIONS	17,342,286	14	60,541,105	36
NON-OPERATING INCOME				
Interest	1,365,919	1	1,575,460	1
Insurance compensation	860,835	1	1,623,832	1
Premium income (Notes 2 and 15)	234,732	-	8,115	-
Technical service income (Note 12)	55,077	-	23,557	-
Gain on sales of property, plant and equipment (Note 2)	52,376	-	62,921	-
Gain on sales of short-term investments (Note 2)	-	-	104,643	-
Foreign exchange gain - net (Note 2)	-	-	828,025	1
Equity in net income of investee companies - net (Notes 2 and 5)	-	-	779,326	-
Other (Note 12)	322,618	-	295,295	-
Total Non-Operating Income	2,891,557	2	5,301,174	3
NON-OPERATING EXPENSES				
Equity in net loss of investee companies - net (Notes 2 and 5)	6,429,631	5	-	-
Interest (Notes 6 and 15)	1,951,830	2	1,858,197	1
Foreign exchange loss - net (Notes 2 and 15)	695,620	-	-	-
Loss on sales of and provision for loss on property, plant and equipment (Note 2)	234,862	-	99,220	-
Loss on sale of long-term investments (Note 2)	102,978	-	-	-
Amortization of bond issue cost (Note 2)	12,504	-	32,658	-
Other	147,703	-	14,610	-
Total Non-Operating Expenses	9,575,128	7	2,004,685	1
INCOME BEFORE INCOME TAX	10,658,715	9	63,837,594	38
INCOME TAX BENEFIT (Notes 2 and 11)	3,824,459	3	1,268,600	1
NET INCOME	\$14,483,174	12	\$65,106,194	39
EARNINGS PER SHARE				
Based on weighted-average number of common shares outstanding - 16,832,554 thousand shares in 2001 and 11,400,882 thousand shares in 2000	\$0.83		\$5.71	
Based on 16,417,270 thousand shares			\$3.96	

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

English Translation of Financial Statements Originally Issued in Chinese

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	CAPITAL STOCK ISSUED				CAPITAL SURPLUS (Note 2)							RETAINED EARNINGS (Note 9)				UNREALIZED LOSS ON LONG-TERM INVESTMENT (NOTE 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (NOTE 2)	TOTAL SHAREHOLDERS' EQUITY
	Preferred Stock		Common Stock		Additional Paid-In Capital	From Long-term Investment	Excess on Foreign Bond Investment	Gain on Sale of Properties	Donation	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total				
	Shares (Thousand)	Amount	Shares (Thousand)	Amount											From Consolidation			
BALANCE, JANUARY 1, 2000	-	\$-	7,670,882	\$76,708,817	\$-	\$-	\$472,300	\$11,289,998	\$69,058	\$55	\$11,831,411	\$8,258,359	\$-	\$25,062,256	\$33,320,615	\$-	(\$1,091,003)	\$120,769,840
Appropriations of prior year's earnings																		
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	2,430,964	-	(2,430,964)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	1,091,003	(1,091,003)	-	-	-	-
Bonus to employees - stock	-	-	172,121	1,721,208	-	-	-	-	-	-	-	-	-	(1,721,208)	(1,721,208)	-	-	-
Stock dividends - 25.55%	-	-	1,959,910	19,599,103	-	-	-	-	-	-	-	-	-	(19,599,103)	(19,599,103)	-	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	(215,151)	(215,151)	-	-	(215,151)
Capital Transferred from capital surplus - 2.45%	-	-	187,937	1,879,366	-	-	(1,879,366)	-	-	(1,879,366)	-	-	-	-	-	-	-	-
Issuance of shares on June 8, 2000	-	-	115,000	1,150,000	-	23,172,550	-	-	-	-	-	-	-	-	-	-	-	24,322,550
Issuance of shares for the merge on June 30, 2000	-	-	1,583,515	15,835,152	22,329,129	-	-	-	-	-	22,329,129	-	-	(135,077)	(135,077)	-	-	38,029,204
Issuance of preferred stocks 1,300,000 on November 29, 2000	13,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,000,000
Net income in 2000	-	-	-	-	-	-	-	-	-	-	-	-	-	65,106,194	65,106,194	-	-	65,106,194
Gain on sales of property, plant and equipment	-	-	-	-	-	-	-	-	58,178	-	58,178	-	-	(58,178)	(58,178)	-	-	-
Gain on sales of property, plant and equipment from investees	-	-	-	-	-	5,502	-	-	-	5,502	-	-	-	(5,502)	(5,502)	-	-	-
Adjustment arising from changes in shareholders' equity of investees	-	-	-	-	-	(231,583)	-	-	-	(231,583)	-	-	-	231,583	231,583	-	-	-
Unrealized loss on long-term investment from investees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(71,564)	-	(71,564)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	812,626	812,626
BALANCE, DECEMBER 31, 2000	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	76,324,173	(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)	-	-	-
Bonus 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

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

English Translation of Financial Statements Originally Issued in Chinese

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$14,483,174	\$65,106,194
Net income of the merged companies	-	(135,077)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,875,754	33,051,197
Deferred income taxes	(3,840,777)	(1,059,841)
Equity in net loss (income) of investee companies - net	6,429,631	(779,326)
Loss on sales of long-term investments - net	102,978	-
Loss on sales of and provision for loss on property, plant and equipment - net	182,486	13,823
Accrued pension cost	345,318	360,673
Allowance for doubtful receivables	153,758	490,835
Allowance for sales returns and others	377,384	965,503
Changes in operation assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	470,954	(538,201)
Notes receivable	(51,407)	96,364
Accounts receivable	10,377,678	(14,268,429)
Inventories - net	2,463,517	(2,985,133)
Prepaid expenses and other current assets	359,342	729,775
Forward exchange contract receivable	49,480	7,108
Increase (decrease) in:		
Payable to related parties	(2,263,972)	3,552,646
Accounts payable	(6,866,059)	2,379,105
Forward exchange contract payable	218,165	76,168
Accrued expenses and other current liabilities	(201,096)	736,885
Net Cash Provided by Operating Activities	<u>71,666,308</u>	<u>87,800,269</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	-	236,250
Acquisitions of:		
Property, plant and equipment	(68,002,448)	(79,270,461)
Long-term investments	(4,563,682)	(11,866,583)
Proceeds from sales of:		
Property, plant and equipment	298,231	219,233
Long-term investments	162,334	-

(Forward)

	2001	2000
Increase in deferred charges	(\$1,465,703)	(\$1,089,730)
Decrease (increase) in refundable deposits	195,073	(770,733)
Cash inflow from the merged companies	-	1,412,404
Net Cash Used in Investing Activities	<u>(73,376,195)</u>	<u>(91,129,620)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of:		
Long-term bonds	-	9,000,000
Capital stock	-	37,322,550
Payments on:		
Short-term bank loans	-	(12,635,000)
Commercial paper	-	(5,479,288)
Lease obligation	(50,000)	-
Long-term bank loans	-	(7,550,000)
Increase in guarantee deposits	124,593	1,900,663
Bonus paid to directors and supervisors	(584,303)	(215,151)
Cash dividends paid on preferred shares	(41,137)	-
Net Cash Provided by (Used in) Financing Activities	<u>(550,847)</u>	<u>22,343,774</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,260,734)</u>	<u>19,014,423</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>35,664,440</u>	<u>16,650,017</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$33,403,706</u>	<u>\$35,664,440</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding the amounts of \$207,297 and \$72,903 capitalized in 2001 and 2000, respectively)	<u>\$1,980,399</u>	<u>\$2,366,026</u>
Income tax paid	<u>\$16,318</u>	<u>\$-</u>
Noncash investing and financing activities:		
Effect of exchange rate changes on cash and cash equivalents	<u>\$1,258,395</u>	<u>\$1,009,264</u>
Current portion of long-term liabilities	<u>\$5,000,000</u>	<u>\$50,000</u>
Cash paid for acquisitions of property, plant and equipment:		
Total acquisitions	\$55,977,367	\$89,963,658
Decrease (increase) in payables to contractors and equipment suppliers	12,025,081	(10,693,197)
	<u>\$68,002,448</u>	<u>\$79,270,461</u>

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

English Translation of Financial Statements Originally Issued in Chinese

NOTES TO FINANCIAL STATEMENTS

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Ltd (the "Company"), a Republic of China corporation, is engaged mainly in the manufacture, sale, packaging, and testing of integrated circuits and other semiconductor devices, and the manufacture and design of masks. TSMC 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 1997, TSMC listed its shares of stock on the New York Stock Exchange in the form of American Depositary Shares.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the Republic of China. The significant accounting principles adopted by the Company are as follows:

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 individual receivables.

Sales and allowance for sales returns and others

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 provided based on experience; such provisions are deducted from sales and related costs are deducted from cost of sales.

Inventories

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

Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on their operating and financial policy decisions are accounted for using the equity method. The difference between the investment cost and the Company's proportionate equity in the net assets of the investee on the date of acquisition is amortized over five years using the straight-line method. Such amortization and the Company's proportionate share in the net income or net loss of investee companies are recognized as components of "Equity in net income or net loss in investee companies - net" account. When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in 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" and the "Long-term investments" accounts, respectively.

In the event an investee offsets its capital surplus, excluding reserve from asset revaluation, against its accumulated deficit, which is recorded as a debit to the "Capital surplus" account and a credit to "Retained earnings" account, the

Company also records the entry by its proportionate share of the investee capital surplus that was generated subsequent to its acquisition of investee interest, excluding reserve from asset revaluation.

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 using the cost method. These investments are stated at cost less declines in market value of listed stocks or declines in value of unlisted stocks which is considered irrecoverable; such reductions are charged to shareholders' equity or current income, respectively. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying value of the long-term investment if the dividends are received in the same year that the related investments are acquired.

Stock dividends are recognized only as an increase in the number of stocks held on the ex-dividend date.

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

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

The Company's proportionate share in the gains from sales of property, plant and equipment, net of the applicable income tax, included as its share in the net income or net loss of equity-accounted investee companies for the current year is reclassified to capital surplus from retained earnings. Such amount is reclassified back to retained earnings when the Company subsequently disposes the related investment. Also, if an investee company has unrealized loss on its own long-term investment which is evaluated using the lower-of-cost-or-market method, the Company recognizes that unrealized loss in proportion to the Company's equity interest and is recorded in an account that is 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. On the other hand, if the gains or losses arose from sales by the investee companies or majority-owned subsidiaries to the Company, such gains or losses are deferred in proportion to the ownership percentage until realized through transactions with third parties.

Property, plant and equipment and assets leased to others

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Major additions, renewals, betterment, and interest expenses incurred during the construction period are capitalized. Maintenance and repairs are expensed currently.

Property, plant and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of all minimum future rental payments, or the market value of the property at the inception date of the lease. The lessee's periodic rental payment includes the purchase price of the leased property, and the interest expense.

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

Upon sale or disposal of an item 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. Any such gain, less applicable income tax, is reclassified to capital surplus at the end of the year (before the relevant regulation was amended).

Goodwill

Goodwill arising from the business combinations is amortized using the straight-line method over 10 years.

Deferred charges

These consist of software and system design costs, technology know-how, bond issue costs and technology license fee. These are amortized as follows: software and system design costs - three years, technology know-how - five years, bond issue costs - the term of the bonds, and technology license fee - the term of the contract or economic useful lives of the related technology.

Pension costs

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

Deferred gain on sale-leaseback

The gain on the sale of property is deferred. Such deferred gain is then amortized as follows: (a) operating lease - adjustment of rental expenses over leasing period, and (b) capital lease - adjustment of depreciation over the estimated useful life or leasing period.

Income tax

The Company adopted inter-period income tax allocation method. Deferred income taxes are recognized for the tax effects of taxable temporary differences, unused tax credits, and operating loss carry forwards. Valuation allowance is provided for deferred income tax assets that are not certain to 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 asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or non-current based on the expected reversal date of temporary difference.

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

Income taxes (10%) on unappropriated earnings generated starting January 1, 1998 are recorded as expense in the year when the shareholders have resolved that the earnings shall be retained.

Derivative financial instruments

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

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

The notional amounts of the foreign currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates.

Other foreign-currency transactions

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

Reclassifications

Certain accounts in 2000 have been reclassified to conform to 2001 classifications.

3. CASH AND CASH EQUIVALENTS

	2001	2000
Cash and bank deposits	\$31,678,047	\$35,053,733
Government bonds acquired under repurchase agreements	1,725,659	610,707
	<u>\$33,403,706</u>	<u>\$35,664,440</u>

4. INVENTORIES - NET

	2001	2000
Finished goods	\$1,618,635	\$1,606,368
Work in process	6,685,094	8,422,401
Raw materials	521,680	423,444
Supplies and spare parts	870,780	1,083,348
	9,696,189	11,535,561
Less - allowance for losses	<u>(1,191,771)</u>	<u>(567,626)</u>
	<u>\$8,504,418</u>	<u>\$10,967,935</u>

5. LONG-TERM INVESTMENTS

	2001		2000	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Shares of stock				
Equity method:				
TSMC International Investment	\$19,987,814	100	\$23,678,522	100
Vanguard International Semiconductor	3,377,526	25	5,615,075	25
TSMC Partners	3,032,376	100	535,162	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	2,907,967	32	935,870	32
TSMC - North America	786,062	100	666,924	100
Emerging Alliance Fund	741,617	99	-	-
Kung Cherng Investment	177,812	25	158,752	25
Cherng Huei Investment	166,639	25	138,200	25
Po Cherng Investment	164,724	25	136,984	25
Chi Hsin Investment	158,252	25	139,000	25
Hsin Ruey Investment	157,352	25	128,100	25
Chi Cherng Investment	156,694	25	130,794	25
TSMC - Japan	80,156	100	37,803	100
TSMC - Europe	10,147	100	9,594	100
	<u>31,905,138</u>		<u>32,310,780</u>	
Cost method:				
Traded				
Amkor Technology	280,748	-	-	-
Taiwan Mask Corp.	32,129	2	32,129	2
Non-traded				
United Technology	193,584	11	146,250	10
Hon Tung Venture Capital	150,000	10	120,000	10
Shin-Etsu Handotai Taiwan Company Ltd.	105,000	7	105,000	7
W.K. Technology Fund IV	50,000	2	50,000	4
Taiwan Semiconductor Technology	-	-	500,000	19
	<u>811,461</u>		<u>953,379</u>	
Funds				
Horizon Ventures	125,701	-	93,304	-
Crimson Asia Capital	27,091	-	64,547	-
	<u>152,792</u>		<u>157,851</u>	
	<u>\$32,869,391</u>		<u>\$33,422,010</u>	

The equity in net income or (net loss) of subsidiaries and investee companies consisted of the following:

	2001	2000
TSMC International Investment	(\$4,855,844)	\$138,589
Vanguard International Semiconductor	(2,236,940)	597,812
TSMC Partners	2,357,405	494,966
SSMC	(1,722,080)	(473,661)
TASMC	-	(331,330)
Others	27,828	352,950
	<u>(\$6,429,631)</u>	<u>\$779,326</u>

The carrying values of equity-accounted investments and the related equity in net income or net loss were based on audited of financial statements in the same periods.

Information on the long-term investments is as follows:

	2001	2000
Market value of traded stocks	\$7,055,888	\$8,729,639
Equity in the net assets of unlisted stocks	29,124,386	27,597,593
Net asset value of funds	152,792	157,851

6. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	2001	2000
Buildings	\$15,181,445	\$9,816,698
Machinery and equipment	122,659,129	82,775,965
Office equipment	2,384,066	1,739,505
	<u>\$140,224,640</u>	<u>\$94,332,168</u>

Information on the status of the construction of the Company's manufacturing facilities as of December 31, 2001 is as follows:

Manufacturing Plant	Estimated Cost	Accumulated Expenditures	Expected or Actual Date of Start of Operations
Fab 6	\$76,889,000	\$69,986,000	March 2000
Fab 7	5,930,500	2,867,500	March 2001
Fab 8	28,322,100	11,355,300	March 2001
Fab 12 - 1 st stage	38,280,800	28,988,700	April 2002
Fab 14 - 1 st stage	9,711,000	8,449,600	June 2003

Interest expense (before deducting capitalized amounts \$207,297 in 2001 and \$72,903 in 2000) for the years ended December 31, 2001 and 2000 were \$2,159,127 and \$1,931,100, respectively. The interest rates used for purposes of calculating the capitalized amount were 5.283% in 2001 and 6.468% to 6.620% in 2000.

As of December 31, 2001, properties with an aggregate net book value of about \$1,378,184 were mortgaged as collateral for long-term loans.

7. DEFERRED CHARGES - NET

	2001	2000
Software and system design costs	\$2,073,752	\$1,420,528
Technology license fee	996,578	1,442,292
Technology know-how	103,500	157,500
Bond issue costs	33,091	45,595
Others	32,802	56,695
	<u>\$3,239,723</u>	<u>\$3,122,610</u>

8. BONDS

	2001	2000
Domestic unsecured bonds:		
Repayable in March 2003, 7.71% annual interest payable semi-annually	\$4,000,000	\$4,000,000
Repayable in October 2002 and 2004, 5.67% and 5.95% annual interest payable annually, respectively	10,000,000	10,000,000
Repayable in December 2005 and 2007, 5.25% and 5.36% annual interest payable annually, respectively	15,000,000	15,000,000
	<u>\$29,000,000</u>	<u>\$29,000,000</u>

Future minimum principal payments under the Company's bonds arrangements as of December 31, 2001 are as follows:

Year of Repay	Amount
2002	\$5,000,000
2003	4,000,000
2004	5,000,000
2005	10,500,000
2006 and thereafter	4,500,000
	<u>29,000,000</u>
Less - current portion	(5,000,000)
	<u>\$24,000,000</u>

On November 6, 2001, the board of directors approved the issuance of domestic unsecured bonds with an aggregate principal amount of \$15,000,000. The issuance of the domestic unsecured bond has been approved by the Securities and Futures Commission of ROC (SFC). As of January 18, 2002, the issuance is still in process.

9. SHAREHOLDERS' EQUITY

The Company has issued 259,006 thousand American Depositary Shares (ADS) as of December 31, 2001. The number of common shares represented by the ADSs is 1,295,031 thousand shares.

The SFC has, on January 4, 2002, approved the Company's sponsorship of the offer by certain existing shareholders of up to 350,000 thousand common shares in the form of ADSs. The decision to sponsor the offering of common shares in the form of ADSs was approved by the Board of Directors on December 3, 2001. The offering is still in process as of January 18, 2002.

Capital surplus except for that arising from the application of the equity method of accounting, pursuant to ROC Company Law, can only be used to offset a deficit or transferred to capital (as a stock dividend). Such transfer from capital surplus to capital can only be made once a year at a specific percentage. An amendment to the ROC Company Law issued on November 14, 2001, limited the nature of the capital surplus that can be used to offset a deficit or transferred to capital (as a stock dividend) to those that arise from donations (donated capital) and those attributable to the excess of the issue price over the par value of capital stock issued.

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. Bonuses to directors and supervisors and to employees equal to 1% and at least 1% of the remainder, respectively;
- d. Dividends to holders of preferred shares equal to a 3.5% annual rate, based on the period during which the preferred shares have been outstanding;
- e. The appropriation of the remaining balance after the above shall be decided at the shareholder's meeting;

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

Dividends are distributed in cash and/or in the form of shares of stock. Since the Company is in a capital-intensive industry, distribution of profits shall be made preferably by way of stock dividend. The total of cash dividend paid (in any given year) should not exceed 50% of total dividends paid and/or distributed.

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, when its balance has reached 50% of the aggregate par value of the outstanding capital stock of the Company, up to 50% thereof can be distributed as stock dividend.

Pursuant to existing regulations promulgated by the Securities and Futures Commission, a special reserve equivalent to the debit balance of any account shown in the shareholder equity section of the balance sheets, other than the deficit, shall be made from unappropriated retained earnings. The special reserve shall be adjusted accordingly based on the debit balance of such accounts as at year-end. As of December 31, 2001, prior year's accumulated deficit in the amount of \$1,803,168 from WSMC is included in the unappropriated retained earnings.

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 starting 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. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

The Company issued 1,300,000 thousand unlisted Series A - preferred shares to certain investors. The foregoing preferred shares will be redeemed within thirty months from their issuance. The terms and conditions in respect to the issuance of the preferred shares provides that, until the shares are redeemed, their holders:

- a. Are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- b. Are not entitled to receive any 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 of the Company. 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.

10. PENSION PLAN

The Company has a pension plan for all regular employees, which provides benefits based on length of service and average monthly salary for the final six months of employment.

The Company contributes at 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:

	2001	2000
a. Components of pension cost		
Service cost	\$417,967	\$376,689
Interest cost	95,920	91,234
Projected return on plan assets	(43,968)	(26,675)
Amortization	<u>8,300</u>	<u>8,300</u>
	<u>\$478,219</u>	<u>\$449,548</u>
b. Reconciliation of the fund status of the plan and accrued pension cost		
Benefit obligation		
Vested benefit obligation	\$739	\$-
Nonvested benefit obligation	<u>1,024,525</u>	<u>763,879</u>
Accumulated benefit obligation	1,025,264	763,879
Additional benefits based on future salaries	<u>1,407,014</u>	<u>1,550,009</u>
Projected benefit obligation	2,432,278	2,313,888

(Forward)

Fair value of plan assets	(835,583)	(661,099)
Funded status	1,596,695	1,652,789
Unrecognized prior service cost	-	-
Unrecognized net transitional obligation	(157,691)	(165,991)
Unrecognized net gain	415,849	22,737
Additional liability	-	-
Accrued pension cost	<u>\$1,854,853</u>	<u>\$1,509,535</u>
c. Actuarial assumptions		
Discount rate used in determining present values	5.0%	6.0%
Future salary increase rate	5.0%	6.0%
Expected rate of return plan on assets	5.0%	6.0%
d. Contributions to pension fund	<u>\$131,894</u>	<u>\$95,932</u>
e. Funds transferred from TASMC and WSMC	<u>\$-</u>	<u>\$173,339</u>
f. Payments from pension fund	<u>\$-</u>	<u>\$1,458</u>

11. INCOME TAX BENEFIT

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

	2001	2000
Income tax expense base on "income before income tax" at statutory rate	(\$2,664,679)	(\$12,760,503)
Tax-exempt income	1,089,000	7,770,000
Temporary difference	(993,679)	(49,497)
Income tax expense - current before tax credit	<u>(\$2,569,358)</u>	<u>(\$5,040,000)</u>

The statutory rate for 2001 and 2000 were 25% and 20%, respectively.

- b. Income tax benefits consist of:

	2001	2000
Income tax expense - current before tax credits	(\$2,569,358)	(\$5,040,000)
Additional 10% on the unappropriated earnings	(319,000)	(88,024)
Income tax credits	2,888,358	5,128,024
Other income tax	(16,318)	-
Income tax for the current year	(16,318)	-
Net change in deferred income tax assets (liabilities) for the period		
Investment tax credits	144,925	3,146,369
Temporary differences	(1,874,945)	(388,671)
Valuation allowance	5,570,797	(1,678,791)
Adjustment of prior years' taxes	-	189,693
	<u>\$3,824,459</u>	<u>\$1,268,600</u>

c. Deferred income tax assets and liabilities consisted of:

	2001	2000
Current:		
Investment tax credits	\$2,347,000	\$8,422,000
Less - valuation allowance	-	(300,000)
	<u>\$2,347,000</u>	<u>\$8,122,000</u>
Noncurrent:		
Investment tax credits	\$21,710,461	\$15,490,536
Temporary differences	(2,493,755)	(618,810)
	19,216,706	14,871,726
Less - valuation allowance	(3,041,636)	(8,312,433)
	<u>\$16,175,070</u>	<u>\$6,559,293</u>

The effective tax rates for deferred income tax as of December 31, 2001 and 2000 were 17.56% and 7.54%, respectively.

d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of December 31, 2001 and 2000 were \$9,365 and \$5,888, respectively.

The tax credit ratio computed as of December 31, 2001 was 0.02% while the tax credit on earnings as of December 31, 2000 on dividend distributed in 2001 was 0.01%.

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 2001 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, 2001 and 2000 included the earnings generated up to December 31, 1997 of \$4,827.

f. Unused investment tax credits arising from purchase of machinery and equipment, and research and development expenditures as of December 31, 2001 will expire as follows:

Year of Expiry	Amount
2002	\$4,487,894
2003	5,500,778
2004	10,720,895
2005	3,347,894
	<u>\$24,057,461</u>

g. The income from the following projects and services is exempt from income tax:

	Tax-Exemption Period
Expansion of first and second manufacturing plants-modules A and B, third manufacturing plant and fourth manufacturing plant, and construction of fifth manufacturing plant	1999 to 2002
Expansion of the seventh manufacturing plant	1998 to 2001

h. The tax authorities have examined income tax returns of TSMC through 1999, excluding 1998. However, TSMC is contesting the assessment of the tax authority for 1992, 1993, 1996 and 1997.

12. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI); the Chairman of the Company is one of the director of ITRI
- b. Philips Electronics N.V. (Philips); a major shareholder
- c. Subsidiaries
 - TSMC International Investment (TSMC-BVI)
 - TSMC - North America
 - TSMC - Europe
 - TSMC - Japan
- d. Investees
 - Vanguard International Semiconductor Corporation (VIS)
 - Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)
- e. TSMC Technology, a subsidiary of TSMC-BVI
- f. WAFERTECH, LLC, an indirect subsidiary of TSMC-BVI

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

<u>For the year</u>	2001		2000	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Sales				
Philips and its affiliates	\$2,389,257	2	\$5,289,927	3
VIS	1,177,094	1	17,012	-
ITRI	114,546	-	198,146	-
SSMC	48,972	-	-	-
WAFERTECH, LLC	3,111	-	30,816	-
	<u>\$3,732,980</u>	<u>3</u>	<u>\$5,535,901</u>	<u>3</u>
Purchase				
WAFERTECH, LLC	\$6,797,817	37	\$13,296,633	37
VIS	3,801,975	22	6,572,110	19
SSMC	42,984	-	-	-
	<u>\$10,642,776</u>	<u>59</u>	<u>\$19,868,743</u>	<u>56</u>
Rental expense - ITRI	<u>\$161,604</u>	<u>11</u>	<u>\$161,575</u>	<u>14</u>
Manufacturing expenses				
Technical assistance fee - Philips	<u>\$2,418,276</u>	<u>100</u>	<u>\$2,137,175</u>	<u>86</u>

(Forward)

Marketing expenses				
Commission				
TSMC - North America	\$1,028,725	42	\$994,686	34
TSMC - Japan	194,696	8	165,087	5
TSMC - Europe	124,384	5	143,461	5
Service Charge				
TSMC - North America	118,648	5	118,852	4
	<u>\$1,466,453</u>	<u>60</u>	<u>\$1,422,086</u>	<u>48</u>
Sales of property, plant and equipment				
VIS	\$268,871	79	\$87,189	37
WAFERTECH, LLC	24,645	7	-	-
	<u>\$293,516</u>	<u>86</u>	<u>\$87,189</u>	<u>37</u>
Non-operating income				
SSMC	\$95,284	3	\$152,347	3
WAFERTECH, LLC	4,612	-	1,749	-
VIS	467	-	5,604	-
Others	-	-	38	-
	<u>\$100,363</u>	<u>3</u>	<u>\$159,738</u>	<u>3</u>
<u>At end of the year</u>				
Receivables				
VIS	\$320,179	61	\$159,890	16
Philips and its affiliates	116,499	22	643,604	65
ITRI	37,383	7	56,078	6
WAFERTECH, LLC	25,251	5	20,361	2
SSMC	20,671	4	89,154	9
TSMC Technology	3,878	1	25,728	2
	<u>\$523,861</u>	<u>100</u>	<u>\$994,815</u>	<u>100</u>
Prepaid expense and other current asset				
Advance rent - ITRI	\$42,664	2	\$42,664	6
Payables				
WAFERTECH, LLC	\$817,616	39	\$1,487,181	34
VIS	548,472	26	1,808,964	42
Philips and its affiliates	499,331	24	797,375	18
TSMC - North America	136,443	7	166,063	4
TSMC - Europe	54,601	3	66,343	2
TSMC - Japan	15,355	1	16,165	-
TSMC Technology	10,318	-	4,487	-
SSMC	470	-	-	-
	<u>\$2,082,606</u>	<u>100</u>	<u>\$4,346,578</u>	<u>100</u>

Sales to related parties are based on normal selling prices and collection terms, except for disposal of properties and technical service, which were in accordance with the related contracts.

The amount payable to WAFERTECH, LLC represents the costs of finished goods purchased by TSMC. The costs of finished goods purchased were calculated in accordance with the related contractual agreements.

13. SIGNIFICANT LONG-TERM OPERATING LEASES

The Company leases from ITRI the land, building and certain machinery and equipment of its first manufacturing facility under agreements that will expire in March 2002. The annual rent under such agreement amounts to \$161,604.

The Company leases the land where its 2nd through 14th manufacturing facilities are located from the Science-Based Industrial Park Administration. The related agreements will expire on various dates from March 2008 to December 2020 and have annual rentals aggregating \$208,716. The agreements can be renewable upon their expiration.

Future annual minimum rentals under the aforementioned leases are as follows:

Year	Amount
2002	\$249,117
2003	208,716
2004	208,716
2005	208,716
2006	208,716
2007 and thereafter	<u>1,789,500</u>
	<u>\$2,873,481</u>

14. SIGNIFICANT COMMITMENTS AND CONTINGENCY AS OF DECEMBER 31, 2001

The Company's commitments and contingency as of December 31, 2001 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fee at a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 9, 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 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\$205,949 thousand had been received as of December 31, 2001.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. dated March 30, 1999, the parties agreed to: (a) form 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, (b) set SSMC's total

authorized capital at about S\$1.2 billion, and, (c) allow the Company to invest in 32% of SSMC's capital. As of December 31, 2001, the aggregate amount of investments from these parties has not reached S\$1.2 billion. 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. Provision 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 provides a guarantee for loans of US\$268,000 thousand, US\$40,000 thousand and US\$440,000 thousand obtained by TSMC Development, Inc., TSMC- North America and WAFERTECH, LLC, respectively.
- h. Under a Technical Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, TSMC shall receive payments for the technology transferred to National. The agreement will remain in force for ten years. After expiration, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions.
- i. The Company entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. ("VIS"). VIS agrees to reserve certain capacity to manufacture for the Company certain devices on logic or other technologies required by the Company's customers, at a discount to the selling prices as agreed by the parties. The Company paid \$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. Under a patent license agreement, the Company has entered into a cross license arrangement for certain semiconductor patents with a US-based company for a term starting from October 26, 2001 through December 31, 2006. TSMC shall pay royalty fees to the such company.
- k. Unused letter of credits as of December 31, 2001 were \$1,200 thousand.
- l. As of December 31, 2001, unused credit lines for short-term loans were NT\$6,430,000 thousand and US\$300,000 thousand.
- m. As of December 31, 2001, unused credit lines for long-term loans were NT\$3,000,000 thousand and US\$37,750 thousand.

15. 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 estates 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 estates 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 on which the Company exercises significant influence: Please see Table 8 attached;
- j. Financial instrument transactions:

1) Derivative financial instruments

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

a) Open forward exchange contracts as of December 31, 2001

	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date	Maturity (Thousand)
Sell	US\$	US\$17,912	NT\$618,206	Jan. 2002	NT\$620,600
Sell	US\$	US\$783,000	NT\$26,985,688	Jan. 2001~Mar.2002	NT\$27,013,402

Payables from forward exchange contracts (shown in the balance sheet as part of "Other current liabilities" account) as of December 31, 2001 aggregated to \$397,117. Net exchange loss for the year ended December 31, 2001 was \$1,872,979.

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

	Amount (Thousand)
Accounts receivable	US\$518,984
Accounts payable	US\$169,664
Time deposits	US\$707,416

b) Interest rate swaps

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

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

Interest expenses on these transactions for the year ended December 31, 2001 were \$473,413.

c) Option contracts

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

Outstanding option contracts as of December 31, 2001 were as follows:

Contract	Currency	Contract Amount (Thousand)	Carrying Value	Fair Value (Thousand)	Strike Price	Maturity
Put option sell	EUR	EUR 293,000	(\$39,500)	(\$252,833)	0.8940 ~ 0.9340(EUR/US\$)	Jan. ~ Feb., 2002

For the year ended December 31, 2001, the Company realized premium income of \$328,254 and premium expense of \$93,522.

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 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 receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks from exchange rate and interest rate fluctuations are minimal.

iii) Liquidity and cash flow requirements. The cash flow requirements on the derivative instruments are limited to the net differences between the spot rates and contracted forward rates at settlement dates (for forward contracts); and amounts payable arising from the differences in the rates (for interest rate swap contracts). Also, options may not have to be exercised at all in cases where the strike price is higher than the related market price at exercise dates. Management believes that the foregoing requirements are not material.

2) Fair value of financial instruments

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$33,403,706	\$33,403,706	\$35,664,440	\$35,664,440
Receivable from related parties	523,861	523,861	994,815	994,815
Notes and Accounts receivable	20,134,218	20,134,218	30,460,489	30,460,489
Long-term investments	32,869,391	36,333,066	33,422,010	36,485,083
Pledged deposits	25,356	25,356	46,856	46,856
Refundable deposits	772,912	772,912	967,985	967,985
Liabilities				
Payable to related parties	2,082,606	2,082,606	4,346,578	4,346,578
Accounts payable	1,123,894	1,123,894	7,989,953	7,989,953

(Forward)

Payables to contractors and equipment suppliers	12,367,319	12,367,319	24,392,400	24,392,400
Bonds	29,000,000	29,703,063	29,000,000	29,035,803
Guarantee deposits	7,210,972	7,210,972	7,086,379	7,086,379
<u>Derivative financial instruments</u>				
Forward exchange contracts (buy)	-	-	1,984,740	1,978,998
Forward exchange contracts (sell)	28,031,119	27,603,894	20,802,311	20,788,804
Interest rate swaps	26,969	(343,088)	1,601	234,017
Option	(39,500)	(252,833)	-	(456,068)

Fair values of financial instruments were determined as follows:

- a) Short-term financial instruments -- carrying values.
- b) Long-term investments -- market value for listed companies and net equity value for the others.
- c) Refundable deposits and guarantees deposits -- carrying values.
- d) Long-term bank loans -- based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable is discounted at present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.
- e) Derivative financial instruments -- based on the 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 equal the fair value of the Company.

16. SEGMENT FINANCIAL INFORMATION

a. Export sales

Area	2001	2000
America	\$63,896,732	\$81,686,803
Asia	23,874,375	42,906,968
Europe	7,523,873	11,360,517
	\$95,294,980	\$135,954,288

The export sales information is presented by billed regions.

- b. The Company only has one customer that accounts for at least 10% of its total sales. The sales to such customer amounted to \$21,789,769 in 2001 representing 17% of its total sales. The sales, however, to such customer amounted to only \$10,307,244 in 2000 representing only 6% of total sales.

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES**FINANCING PROVIDED****For the Year Ended December 31, 2001**

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

No.	Financing Name	Counter-Party	Financial Statement Account	Financing Limit for Each Borrowing Company	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons	Allowance for Bad Debt	Collateral Item	Collateral Value	Transaction Amount	Financing Company's Financing Amount Limits (US\$ in Thousand)
1	TSMC-BVI	TSMC Technology	Other receivables	-	US\$14,662	US\$14,662	7.75%	Operating capital	\$-	-	\$-	\$-	US\$779,968 (Note 1)
2	VIS	VIS Holding	Prepaid expenses	(Note 2)	\$1,232	\$-	-	Prepayments for product development	-	-	-	-	\$4,400,000 (Note 3)

Note 1: Not exceeding the issued capital of the Company.

Note 2: Not exceeding 10% of the issued capital of VIS for each transaction entity, and also limited to 30% of the issued capital of each transaction entity.

Note 3: Not exceeding 20% of the issued capital of VIS.

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES**ENDORSEMENT/GUARANTEE PROVIDED****For the Year Ended December 31, 2001**

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

No.	Endorsement/ Guarantee Provider	Counter-Party Name	Nature of Relationship (Note 2)	Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Value of Collateral Property, Plant and Equipment (Note 3)	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0	TSMC	TSMC Development Inc.	3	(Note 4)	\$9,379,732 (US\$268,000)	\$9,379,732 (US\$268,000)	\$-	3.38%	\$54,397,659
		TSMC - North America	2		1,399,960 (US\$40,000)	1,399,960 (US\$40,000)	-	0.51%	
		WAFERTECH, LLC	3		15,399,560 (US\$440,000)	15,399,560 (US\$440,000)	-	5.56%	

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 limiting to the issued capital of the transaction entity, unless otherwise approved by Board of directors.

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES**MARKETABLE SECURITIES HELD****December 31, 2001**

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

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: TSMC							
<u>Stock</u>							
TSMC - North America	Subsidiary	Long-term investment	11,000	\$786,062	100	\$786,062	
TSMC - Europe	Subsidiary	Long-term investment	-	10,147	100	10,147	
TSMC - Japan	Subsidiary	Long-term investment	6	80,156	100	80,156	
VIS	Investee	Long-term investment	556,133	3,377,526	25	6,584,620	
TSMC-BVI	Subsidiary	Long-term investment	779,968	19,987,814	100	19,987,814	
TSMC Partners	Subsidiary	Long-term investment	300	3,032,376	100	3,032,376	
SSMC	Investee	Long-term investment	301	2,907,967	32	2,907,967	
Emerging Alliance Fund	Subsidiary	Long-term investment	-	741,617	99	741,617	
Taiwan Mask Corp.	-	Long-term investment	7,782	32,129	2	183,658	
United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	274,107	
Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	118,726	
W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	64,855	
Hon Tung Ventures Capital	-	Long-term investment	15,000	150,000	10	139,086	
Amkor Technology	-	Long-term investment	505	280,748	-	287,610	
<u>Certificate</u>							
Po Cherng Investment	Investee	Long-term investment	-	164,724	25	164,724	
Chi Hsin Investment	Investee	Long-term investment	-	158,252	25	158,252	
Kung Cherng Investment	Investee	Long-term investment	-	177,812	25	177,812	
Chi Cherng Investment	Investee	Long-term investment	-	156,694	25	156,694	
Hsin Ruey Investment	Investee	Long-term investment	-	157,352	25	157,352	
Cherng Huei Investment	Investee	Long-term investment	-	166,639	25	166,639	
<u>Equity</u>							
Crimson Asia Capital Fund	-	Long-term investment	-	27,091	N/A	27,091	
Horizon Ventures Fund	-	Long-term investment	-	125,701	N/A	125,701	
Held Company Name: Chi Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	3,023	98,282	-	253,173	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: Chi Cherng Investment							
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	\$98,834	15	\$98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Kung Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	6,758	226,819	-	565,937	
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Po Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	4,240	187,508	-	355,058	Pledge 150 thousand shares
<u>Certificate</u>							
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Cherng Huei Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	4,917	198,896	-	411,724	Pledge 1,600 thousand shares
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Held Company Name: Chi Hsin Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	3,561	138,747	-	298,220	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: Chi Hsin Investment							
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	\$98,834	15	\$98,834	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Hsin Ruey Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	1,407	98,996	-	117,836	
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: TSMC-BVI							
<u>Stock</u>							
InveStar Semiconductor Development Fund Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US\$65,203	97	US\$65,203	
InveStar Semiconductor Development Fund (II) Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US\$45,766	97	US\$45,766	
TSMC Development Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US\$201,231	100	US\$201,231	
TSMC Technology Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US\$1,591	100	US\$1,591	
3DFX Interactive Inc.	-	Long-term investment	68	US\$297	-	US\$30	
Held Company Name: VIS							
<u>Bond fund</u>							
Qiong Ban	-	Short-term investment	28,409	40,000	-	401,960	
Yuan Da Duo Li #2	-	Short-term investment	26,278	350,000	-	352,465	
THE TP ROC	-	Short-term investment	25,923	350,000	-	355,763	
<u>Stock</u>							
VIS Associates Inc.	Subsidiary	Long-term investment	41,070	902,999	100	902,999	
PowerChip Semiconductor Inc.	Investee	Long-term investment	202,185	2,651,216	9	3,263,269	
Etron Technology Inc.	Investee	Long-term investment	5,617	275,766	3	281,864	
Walsin Technology Inc.	Investee	Long-term investment	34,551	414,481	10	358,864	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: VIS							
MEGIC Corporation	Investee	Long-term investment	16,500	\$177,000	9	\$188,581	
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	54,872	
Held Company Name: VIS Associates Inc.							
<u>Stock</u>							
VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term investment	68	US\$891	100	US\$891	
<u>Equity</u>							
Silicon Valley Equity Fund	-	Long-term investment	-	US\$7,894	35	US\$7,894	
Silicon Valley Equity Fund II	-	Long-term investment	-	US\$5,705	14	US\$5,705	
ABN AMRO Bank Equity Certificate	-	Short-term investment	23,168	US\$10,047	-	US\$11,319	
<u>Fund</u>							
Grand Palace Trust	-	Long-term investment	-	US\$2,800	100	US\$2,800	
Held Company Name: VIS Investment Holding, Inc.							
<u>Stock</u>							
VIS Micro, Inc.	Investee	Long-term investment	200	US\$258	100	US\$258	
Held Company Name: TSMC Development							
<u>Stock</u>							
WAFERTECH, LLC	Investee of TSMC Development and its chairman is also chairman of TSMC	Long-term investment	-	US\$226,541	99	US\$226,541	
Held Company Name: TSMC Partners							
<u>ADR</u>							
TSMC	Parent Company	Short-term investment	495	US\$7,357	-	US\$8,726	
Held Company Name: InveStar Semiconductor Development Fund Inc.							
<u>Stock</u>							
Silicon Image, Inc.	-	Short-term investment	297	US\$520	-	US\$1,236	
Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$3,350	-	US\$123,797	
Silicon Labo Ratories	-	Short-term investment	15	US\$472	-	US\$519	
Chang Yi Technology	-	Long-term investment	1,668	US\$1,643	-	US\$672	
Divio	-	Long-term investment	30	US\$3	-	US\$3	
Capella Microsystems, Inc.	-	Long-term investment	542	US\$135	-	US\$135	
Equator Technologies, Inc.	-	Long-term investment	133	US\$90	-	US\$90	
Empower Tel Networks, Inc.	-	Long-term investment	317	US\$344	-	US\$344	
Ubicom, Inc.	-	Long-term investment	861	US\$172	-	US\$172	
Global Test Corp.	-	Long-term investment	13,268	US\$5,672	-	US\$10,126	
Chip Strate	-	Long-term investment	6,660	US\$2,142	-	US\$2,073	
Ritch Tech	-	Long-term investment	1,023	US\$326	-	US\$1,743	
APE Fu Ding Technology	-	Long-term investment	2,750	US\$1,518	-	US\$1,336	
(Forward)							

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: InveStar Semiconductor Development Fund Inc.							
<u>Preferred stock</u>							
Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$1,809	-	US\$3,055	
Divio (Next wave)	-	Long-term investment	667	US\$500	-	US\$2,233	
SiRF Technology Inc.	-	Long-term investment	306	US\$1,333	-	US\$1,858	
Rise	-	Long-term investment	600	US\$1,500	-	US\$1,500	
Capella Microsystems, Inc.	-	Long-term investment	1,383	US\$1,298	-	US\$1,660	
Sensory, Inc.	-	Long-term investment	1,404	US\$1,250	-	US\$857	
Equator Technologies, Inc.	-	Long-term investment	443	US\$1,338	-	US\$864	
Light Speed Semiconductor Corporation	-	Long-term investment	2,252	US\$3,064	-	US\$764	
Empower Tel Networks, Inc.	-	Long-term investment	3,840	US\$5,128	-	US\$14,296	
Ubicom, Inc.	-	Long-term investment	1,056	US\$1,361	-	US\$2,433	
RapidStream	-	Long-term investment	2,056	US\$1,050	-	US\$7,286	
Tropian, Inc.	-	Long-term investment	1,758	US\$2,334	-	US\$2,388	
Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
Pico Turbo, Inc.	-	Long-term investment	1,050	US\$1,250	-	US\$1,300	
Atheros, Inc.	-	Long-term investment	1,607	US\$3,593	-	US\$9,025	
NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$853	-	US\$1,900	
Formfactor, Inc.	-	Long-term investment	267	US\$2,000	-	US\$3,600	
Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$2,000	-	US\$4,938	
Memic, Inc.	-	Long-term investment	2,727	US\$1,500	-	US\$2,894	
Reflectivity, Inc.	-	Long-term investment	1,064	US\$2,000	-	US\$2,000	
Signia	-	Long-term investment	3,000	US\$1,500	-	US\$3,900	
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	
Creosys, Inc.	-	Long-term investment	1,500	US\$1,500	-	US\$1,500	
Incentia Design Systems, Inc.	-	Long-term investment	286	US\$500	-	US\$500	
<u>Bond</u>							
Rise	-	Long-term investment	-	US\$300	-	US\$300	
Held Company Name: InveStar Semiconductor Development Fund (II) Inc.							
<u>Stock</u>							
HPL Aquisition Corporation	-	Short-term investment	187	US\$1,124	-	US\$2,669	
Richtek Technology Corporation	-	Long-term investment	480	US\$1,001	-	US\$987	
Chang Yi Technology	-	Long-term investment	487	US\$1,139	-	US\$139	
<u>Preferred stock</u>							
Procoat Technology	-	Long-term investment	2,500	US\$869	-	US\$857	
Omega Band, Inc.	-	Long-term investment	1,389	US\$1,250	-	US\$1,250	
Memic, Inc.	-	Long-term investment	2,289	US\$1,560	-	US\$2,489	
OEpic, Inc.	-	Long-term investment	2,696	US\$2,500	-	US\$3,023	
Equator Technologies, Inc.	-	Long-term investment	770	US\$1,501	-	US\$1,501	
NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$1,000	-	US\$1,000	
RapidStream, Inc.	-	Long-term investment	246	US\$1,057	-	US\$1,057	
Signia Technologies, Inc.	-	Long-term investment	500	US\$750	-	US\$750	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: InveStar Semiconductor Development Fund (II) Inc.							
Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$1,261	-	US\$1,261	
Y-MEDIA Corporation	-	Long-term investment	281	US\$1,500	-	US\$1,500	
Monolithic Power Systems, Inc.	-	Long-term investment	674	US\$1,515	-	US\$1,515	
Ralink Technology, Inc.	-	Long-term investment	1,833	US\$1,500	-	US\$1,767	
Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
Newport Opticom, Inc.	-	Long-term investment	1,157	US\$1,204	-	US\$1,204	
Silicon Data, Inc.	-	Long-term investment	500	US\$250	-	US\$250	
Capella Microsystems, Inc.	-	Long-term investment	800	US\$1,000	-	US\$1,000	
Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$750	-	US\$750	
Tropain, Inc.	-	Long-term investment	1,464	US\$2,000	-	US\$2,000	
SIRF Technology, Inc.	-	Long-term investment	20	US\$131	-	US\$131	
Match Lab, Inc.	-	Long-term investment	313	US\$250	-	US\$250	
OEpic, Inc.	-	Long-term investment	-	US\$-	-	US\$-	
<u>Bond</u>							
Omega Band, Inc.	-	Long-term investment	N/A	US\$192	-	US\$192	
Pico Turbo, Inc.	-	Long-term investment	N/A	US\$295	-	US\$295	
Held Company Name: Emerging Alliance Fund							
<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\$1,850	
Quickilver Technology, Inc.	-	Long-term investment	3,320	US\$3,500	29	US\$3,500	
Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$1,500	3	US\$1,500	
Litchfield Communications	-	Long-term investment	3,799	US\$1,000	6	US\$1,000	

TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEES**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, 2001**

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

Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
				Shares (Thousand)	Amount	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)
Company Name: TSMC													
<u>Stock</u>													
Emerging Alliance Fund	Long-term investment	Emerging Alliance Fund	Subsidiary	-	\$-	-	\$837,045	-	\$-	\$-	\$-	-	\$741,617
Systems on Silicon Manufacturing Company (SSMC)	Long-term investment	SSMC	Investee	90	935,870	211	3,553,862	-	-	-	-	301	2,907,967
Taiwan Semiconductor Technology	Long-term investment	Amkor Technology	-	50,000	500,000	-	-	50,000	395,748 (Note2)	500,000	(104,252)	-	-
Amkor Technology	Long-term investment	Amkor Technology	-	-	-	505	280,748	-	-	-	-	505	280,748
Company Name: Emerging Alliance Fund													
<u>Stock</u>													
Global Investment Holding, Inc.	Long-term investment	Global Investment Holding, Inc.	-	-	-	10,000	100,000	-	-	-	-	10,000	100,000
<u>Convertible Commercial Paper</u>													
VM Labs, Inc.	Long-term investment	VM Labs, Inc.	-	-	-	US\$4,000	-	US\$1,000	US\$4,000	(US\$3,000)	-	-	-
Company Name: VIS													
<u>Stock</u>													
VIS Associates Inc.	Long-term investment	Subsidiary	-	23,750	464,077	17,500	597,783	-	-	-	-	41,070	902,999
<u>Bond Fund</u>													
Qjung Ban	Short-term investment	-	-	-	-	35,548	500,000	7,139	100,263	100,000	263	28,409	400,000
THE TP ROC	Short-term investment	-	-	-	-	40,874	550,000	14,951	201,482	200,000	1,482	25,923	350,000
Yuan Da Duo Li #2	Short-term investment	-	-	-	-	49,017	650,000	22,739	302,698	300,000	2,698	26,278	350,000
NITC	Short-term investment	-	-	-	-	2,048	300,000	2,048	302,386	300,000	2,386	-	-
FUBON JU-I	Short-term investment	-	-	-	-	31,397	450,000	31,397	452,789	450,000	2,789	-	-
(Forward)													

Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
				Shares (Thousand)	Amount	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)
Capital Save Income	Short-term investment	-	-	-	-	15,295	200,000	15,295	201,139	200,000	1,139	-	-
Home Run	Short-term investment	-	-	-	-	51,811	650,000	51,811	656,159	650,000	6,159	-	-
Company Name: VIS Associates Inc.													
ABN AMRO Bank Equity Certificates	Short-term investment	-	-	-	-	223,168	US\$10,047	-	-	-	-	23,168	US\$10,047
Company Name: InveStar Semiconductor Development Fund. Inc.													
<u>Stocks</u>													
Centillum Tec. Corp	Short-term investment	-	-	165	US\$660	-	-	165	US\$7,474	US\$660	US\$6,814	-	-
Marvell Technology Group Ltd.	Short-term investment	-	-	4,665	US\$4,579	-	-	1,252	US\$38,094	US\$1,229	US\$36,865	3,413	US\$3,350
<u>Preferred Stocks</u>													
Lara Networks, Inc.	Short-term investment	-	-	1,544	US\$772	-	-	1,544	US\$8,170	US\$772	US\$7,398	-	-
Company Name: InveStar Semiconductor Development Fund (II) Inc.													
Sonic, Inc.	Long-term investment	-	-	-	-	3,082	US\$3,082	-	-	-	-	3,082	US\$3,082

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

Note 2: Disposal price included \$115,000 in cash and the agreed exchange 505 thousand shares of Amkor Technology.

The market value for the shares of Amkor Technology on the disposal day worth \$280,748.

TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES

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, 2001

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

Company Name	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 and office	Jan. 10, 2001	\$345,000	Depend on the progress of the construction	China Construction Co, Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		Jan. 29, 2001	476,200	Depend on the progress of the construction	Fu Tsu . Construction Co, Ltd	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****For the Year Ended December 31, 2001**

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

Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
		Purchase/Sale	Amount	% to Total*	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Company Name: TSMC										
Phillips and its affiliates	Major shareholder	Sales	\$2,389,257	2	Net 30 days from invoice date	None	None	\$116,499	22	
VIS	Investee	Sales	1,177,094	1	Net 45 days from monthly closing date	None	None	320,179	61	
ITRI	The company's chairman is one of its directors	Sales	114,546	-	Net 45 days from monthly closing date	None	None	37,383	7	
WAFERTECH, LLC	Indirect investee of the subsidiary (TSMC-BVI)	Purchase	6,797,817	37	Net 30 days from monthly closing date	None	None	(817,616)	39	
VIS	Investee	Purchase	3,801,975	22	Net 45 days from monthly closing date	None	None	(548,472)	26	

*Percentage for sales is of gross sales and percentage for purchase is of the total purchases of material and finished goods.

TABLE 7

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****December 31, 2001**

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

Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
				Amount	Action Taken		
Company Name: TSMC							
VIS	Investee	\$320,179	N/A	\$52,668	Accelerate demand on account receivables	\$92,345	-
Phillips and its affiliates	Major shareholder	116,499	58 days	20,820	Accelerate demand on account receivables	80,559	-

TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND INVESTEEES**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****December 31, 2001**

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

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2001			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
			Dec. 31, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value			
Investor Company: TSMC										
TSMC - North America	San Jose, California, U.S.A	Marketing and engineering support	\$333,718	\$333,718	11,000	100	\$786,062	\$4,560	\$4,560	Subsidiary
TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	10,147	420	420	Subsidiary
TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	35,142	6	100	80,156	(183)	(183)	Subsidiary
VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640	6,503,640	556,133	25	3,377,526	(8,692,423)	(2,236,940)	Investee
TSMC - BVI	Tortola, British Virgin Islands	Investment	24,165,780	24,159,958	779,968	100	19,987,814	(4,855,844)	(4,855,844)	Subsidiary
Po Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	164,724	110,960	27,740	Investee
Chi Hsin Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	158,252	77,008	19,252	Investee
Kung Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	177,812	76,241	19,060	Investee
Chi Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	156,694	103,603	25,901	Investee
Hsin Ruey Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	157,352	117,006	29,251	Investee
Cherng Huei Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	166,639	113,755	28,439	Investee
TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,032,377	2,357,405	2,357,405	Subsidiary
SSMC	Singapore	Manufacturing the wafer	4,986,344	1,432,482	301	32	2,907,967	(5,381,499)	(1,722,080)	Investee
Emerging Alliance Fund	Cayman Islands	Investment	837,045	-	-	99	741,617	(127,249)	(126,612)	Subsidiary

10. Consolidated Financial Statements

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report
January 18, 2002

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

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 2001, and 2000, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their consolidated 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.

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2001		2000	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$37,556,295	10	\$38,840,217	11
Short-term investments (Notes 2, 5 and 10)	1,398,071	-	1,502,098	1
Receivable from related parties (Note 16)	494,732	-	948,726	-
Notes receivable	176,582	-	125,175	-
Accounts receivable	19,957,636	5	30,335,314	8
Allowance for doubtful receivables (Note 2)	(1,100,492)	-	(946,734)	-
Allowance for sales returns and others (Note 2)	(2,581,551)	(1)	(2,458,323)	(1)
Inventories - net (Notes 2 and 6)	9,828,328	3	12,785,723	3
Deferred income tax assets (Notes 2 and 15)	2,350,147	1	8,178,016	2
Prepaid expenses and other current assets (Notes 16, 17 and 19)	2,721,421	1	3,034,624	1
Total Current Assets	<u>70,801,169</u>	<u>19</u>	<u>92,344,836</u>	<u>25</u>
LONG-TERM INVESTMENTS (Notes 2, 7 and 20)	<u>11,599,150</u>	<u>3</u>	<u>10,663,804</u>	<u>3</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8, 16 and 11)				
Cost				
Land and land improvements	877,371	-	829,239	-
Buildings	60,523,505	17	53,874,708	15
Machinery and equipment	280,023,690	76	241,995,862	65
Office equipment	6,062,496	2	4,865,610	1
Total cost	347,487,062	95	301,565,419	81
Accumulated depreciation	(155,948,960)	(42)	(103,884,879)	(28)
Advance payments and construction in progress	59,749,530	16	47,067,352	13
Net Property, Plant and Equipment	<u>251,287,632</u>	<u>69</u>	<u>244,747,892</u>	<u>66</u>
CONSOLIDATED DEBITS (Note 2)	<u>11,437,572</u>	<u>3</u>	<u>11,530,973</u>	<u>3</u>
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 15)	16,245,828	5	6,629,805	2
Deferred charges - net (Notes 2 and 9)	3,769,750	1	3,335,665	1
Refundable deposits (Note 18)	784,089	-	979,067	-
Assets leased to others (Note 2)	555,053	-	625,647	-
Miscellaneous	37,452	-	28,290	-
Total Other Assets	<u>21,392,172</u>	<u>6</u>	<u>11,598,474</u>	<u>3</u>
TOTAL ASSETS	<u>\$366,517,695</u>	<u>100</u>	<u>\$370,885,979</u>	<u>100</u>

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

	2001		2000	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
CURRENT LIABILITIES				
Short-term bank loans (Note 10)	\$6,269,181	2	\$3,833,841	1
Payable to related parties (Note 16)	1,048,273	-	2,606,339	1
Accounts payable	1,397,879	-	8,507,827	2
Payable to contractors and equipment suppliers (Note 20)	12,867,236	4	25,550,273	7
Income tax payable (Notes 2 and 15)	81,483	-	3,298	-
Current portion of bonds (Note 12)	5,000,000	1	-	-
Accrued expenses and other current liabilities (Note 19)	6,665,000	2	6,923,414	2
Total Current Liabilities	<u>33,329,052</u>	<u>9</u>	<u>47,424,992</u>	<u>13</u>
LONG-TERM LIABILITIES				
Long-term bank loans (Notes 11)	22,399,360	6	23,339,367	6
Bonds - net of current portion (Note 12)	24,000,000	7	29,000,000	8
Total Long-term Liabilities	<u>46,399,360</u>	<u>13</u>	<u>52,339,367</u>	<u>14</u>
OTHER LIABILITIES				
Guarantee deposits (Note 18)	7,212,688	2	7,086,379	2
Accrued pension cost (Notes 2 and 14)	1,856,617	-	1,511,277	-
Deferred gain on sale-leaseback (Note 2)	268,165	-	434,183	-
Miscellaneous	141,498	-	14,356	-
Total Other Liabilities	<u>9,478,968</u>	<u>2</u>	<u>9,046,195</u>	<u>2</u>
MINORITY INTEREST IN SUBSIDIARIES (Note 2)	<u>120,240</u>	<u>-</u>	<u>321,726</u>	<u>-</u>
Total Liabilities	<u>89,327,620</u>	<u>24</u>	<u>109,132,280</u>	<u>29</u>
SHAREHOLDERS' EQUITY (Notes 2 and 13)				
Capital stock - \$10 par value				
Authorized: 24,600,000 thousand shares in 2001 and 17,800,000 thousand shares in 2000				
Issued: Preferred - 1,300,000 thousand shares	13,000,000	3	13,000,000	3
Common - 16,832,554 thousand shares in 2001 and 11,689,365 thousand shares in 2000	168,325,531	46	116,893,646	32
Capital surplus	57,128,433	16	55,285,821	15
Retained earnings:				
Appropriated as legal reserve	17,180,067	5	10,689,323	3
Appropriated as special reserve	349,941	-	1,091,003	-
Unappropriated earnings	19,977,402	6	65,143,847	18
Cumulative translation adjustments	1,228,701	-	(278,377)	-
Unrealized loss on long-term investments	-	-	(71,564)	-
Total Shareholders' Equity	<u>277,190,075</u>	<u>76</u>	<u>261,753,699</u>	<u>71</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$366,517,695</u>	<u>100</u>	<u>\$370,885,979</u>	<u>100</u>

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2001 and 2000

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

	2001		2000	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
GROSS SALES (Notes 2, 16 and 20)	\$128,560,708		\$169,192,312	
SALES RETURNS AND ALLOWANCES (Note 2)	<u>(2,675,816)</u>		<u>(2,994,708)</u>	
NET SALES	125,884,892	100	166,197,604	100
COST OF SALES (Note 16)	<u>92,228,098</u>	<u>73</u>	<u>87,609,670</u>	<u>53</u>
GROSS PROFIT	<u>33,656,794</u>	<u>27</u>	<u>78,587,934</u>	<u>47</u>
OPERATING EXPENSES (Notes 16 and 20)				
Research and development	10,649,019	9	7,203,591	4
General and administrative	7,939,839	6	7,408,121	4
Marketing	<u>2,290,139</u>	<u>2</u>	<u>2,681,534</u>	<u>2</u>
Total Operating Expenses	<u>20,878,997</u>	<u>17</u>	<u>17,293,246</u>	<u>10</u>
INCOME FROM OPERATIONS	<u>12,777,797</u>	<u>10</u>	<u>61,294,688</u>	<u>37</u>
NON-OPERATING INCOME (Note 20)				
Gain on sales of short-term investments- net (Note 2)	1,619,062	1	1,060,919	1
Interest	1,486,656	1	1,679,736	1
Royalty income (Note 18)	1,301,606	1	524,194	-
Insurance compensation-net	860,835	1	1,623,832	1
Premium income-net (Notes 2 and 19)	234,732	-	8,115	-
Gain on sales of long-term investments - net	105,439	-	15,144	-
Technical service income (Notes 16 and 18)	55,077	-	138,514	-
Gain on sales of property, plant and equipment	52,376	-	62,921	-
Foreign exchange gain - net (Note 2)	-	-	828,025	-
Other	<u>759,793</u>	<u>1</u>	<u>178,403</u>	<u>-</u>
Total Non-Operating Income	<u>6,475,576</u>	<u>5</u>	<u>6,119,803</u>	<u>3</u>
NON-OPERATING EXPENSES (Note 20)				
Equity in net losses of investee companies - net (Notes 2 and 7)	3,959,020	3	187,179	-
Interest (Notes 2, 8, and 19)	3,144,042	3	2,717,035	2
Foreign exchange loss - net (Notes 2 and 19)	695,620	-	-	-
Loss on sales of and provision for loss on property, plant and equipment	235,629	-	114,768	-

(Forward)

Amortization of issuance costs of bonds (Note 2)	\$12,504	-	\$32,658	-
Other	<u>420,053</u>	<u>-</u>	<u>461,327</u>	<u>-</u>
Total Non-Operating Expenses	<u>8,466,868</u>	<u>6</u>	<u>3,512,967</u>	<u>2</u>
INCOME BEFORE INCOME TAX (Note 20)	10,786,505	9	63,901,524	38
INCOME TAX BENEFIT (Notes 2 and 15)	<u>3,740,678</u>	<u>3</u>	<u>1,167,884</u>	<u>1</u>
INCOME BEFORE MINORITY INTEREST	14,527,183	12	65,069,408	39
MINORITY INTEREST IN LOSS (INCOME) OF SUBSIDIARIES (Notes 2 and 20)	<u>(44,009)</u>	<u>-</u>	<u>36,786</u>	<u>-</u>
NET INCOME	<u>\$14,483,174</u>	<u>12</u>	<u>\$65,106,194</u>	<u>39</u>
CONSOLIDATED EARNINGS PER SHARE				
Based on weighted-average number of common shares outstanding - 16,832,554 thousand shares in 2001 and 11,400,882 thousand shares in 2000	<u>\$0.83</u>		<u>\$5.71</u>	
Based on 16,417,270 thousand shares			<u>\$3.96</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	CAPITAL STOCK ISSUED					CAPITAL SURPLUS (Note 2)							RETAINED EARNINGS (Note 13)				UNREALIZED LOSS ON LONG-TERM INVESTMENT (NOTE 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (NOTE 2)	TOTAL SHAREHOLDERS EQUITY
	Preferred Stock		Common Stock			From Consolidation	Additional Paid-In Capital	From Long-term Investment	Excess on Foreign Bond Investment	Gain on Disposal of Properties	Donation	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			
	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Subscribe Capital														
BALANCE, JANUARY 1, 2000	-	\$-	8,520,882	\$85,208,817	\$13,118,025	\$12,120,000	\$-	\$472,300	\$11,289,998	\$69,058	\$55	\$23,951,411	\$8,258,359	\$-	\$23,124,011	\$31,382,370	\$-	(\$1,090,106)	\$152,570,517
Appropriations of prior year's earnings																			
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	2,430,964	-	(2,430,964)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	1,091,003	(1,091,003)	-	-	-	-
Bonus to employees - stock	-	-	172,121	1,721,208	-	-	-	-	-	-	-	-	-	-	(1,721,208)	(1,721,208)	-	-	-
Stock dividends - 25.55%	-	-	1,959,910	19,599,103	-	-	-	-	-	-	-	-	-	-	(19,599,103)	(19,599,103)	-	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(215,151)	(215,151)	-	-	(215,151)
Capital Transferred from capital surplus - 2.45%	-	-	187,937	1,879,366	-	-	-	(1,879,366)	-	-	-	(1,879,366)	-	-	-	-	-	-	-
Issuance of shares January 28, 2000	-	-	300,000	3,000,000	(13,118,025)	12,000,000	-	-	-	-	-	12,000,000	-	-	-	-	-	-	1,881,975
Issuance of shares on June 8, 2000	-	-	115,000	1,150,000	-	23,172,550	-	-	-	-	-	23,172,550	-	-	-	-	-	-	24,322,550
Issuance of shares for the merge on June 30, 2000	-	-	433,515	4,335,152	-	(1,790,871)	-	-	-	-	-	(1,790,871)	-	-	1,803,168	1,803,168	-	(897)	4,346,552
Issuance of preferred stocks on November 29, 2000	1,300,000	13,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,000,000
Net income in 2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,106,194	65,106,194	-	-	65,106,194
Gain on sales of property, plant and equipment	-	-	-	-	-	-	-	-	58,178	-	-	58,178	-	-	(58,178)	(58,178)	-	-	-
Gain on sales of property, plant and equipment from investees	-	-	-	-	-	-	5,502	-	-	-	5,502	-	-	-	(5,502)	(5,502)	-	-	-
Adjustment arising from changes in shareholders' equity of investees	-	-	-	-	-	-	-	(231,583)	-	-	(231,583)	-	-	-	231,583	231,583	-	-	-
Unrealized loss on long-term investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(71,564)	-	(71,564)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	812,626	812,626
BALANCE, DECEMBER 31, 2000	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 stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41,137)	(41,137)	-	-	(41,137)
Stock dividends - 40%	-	-	4,675,746	46,757,459	-	-	-	-	-	-	-	-	-	-	(46,757,459)	(46,757,459)	-	-	-
Bonus 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

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$14,483,174	\$65,106,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,323,040	41,446,137
Deferred income taxes	(3,788,154)	(956,118)
Equity in net losses of investee companies - net	3,959,020	187,179
Gain on sales of long-term investments - net	(105,439)	(15,144)
Loss on sales of and provision for loss on property, plant and equipment - net	183,253	51,847
Reversal of provision for losses on short-term investment	(13,146)	-
Accrued pension cost	345,340	370,276
Allowance for doubtful receivables	153,758	524,532
Allowance for sales returns and others	123,228	1,679,309
Minority interest in income (loss) of subsidiaries	44,009	(36,786)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	453,994	(737,105)
Notes receivable	(51,407)	38,959
Accounts receivable	10,377,678	(15,467,155)
Inventories - net	2,957,395	(4,033,836)
Prepaid expenses and other current assets	202,303	351,988
Forward exchange contract receivable	49,480	(113,730)
Increase (decrease) in:		
Payable to related parties	(1,558,066)	2,334,247
Notes payable	-	(4,303)
Accounts payable	(7,109,948)	3,174,958
Income tax payable	78,185	(151,828)
Forward exchange contract payable	218,165	(987,604)
Accrued expenses and other current liabilities	(508,150)	2,024,180
Net Cash Provided by Operating Activities	<u>75,817,712</u>	<u>94,786,197</u>

(Forward)

	2001	2000
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	\$117,173	(\$524,154)
Decrease in pledged time deposits	-	3,161,693
Acquisitions of:		
Property, plant and equipment	(70,201,205)	(103,761,905)
Long-term investments	(5,120,580)	(2,956,758)
Proceeds from sales of:		
Property, plant, and equipment	301,416	364,875
Long-term investments	559,137	49,376
Increase in deferred charges	(1,805,250)	(1,793,209)
Decrease (increase) in refundable deposits	194,978	(915,559)
Decrease (increase) in other assets	(9,162)	77,451
Decrease in minority interest in subsidiaries	(249,166)	(7,165,656)
Increase in consolidated debit	(1,019,227)	(8,221,266)
Cash inflow from the merged companies	-	736,594
Net Cash Used in Investing Activities	<u>(77,231,886)</u>	<u>(120,948,518)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of:		
Short-term bank loans	2,435,340	-
Long-term bonds	-	9,000,000
Capital stock	-	39,204,525
Payments on:		
Short-term bank loans	-	(8,592,790)
Commercial paper	-	(4,241,048)
Long-term bank loans	(940,007)	(2,648,853)
Increase in guarantee deposits	126,309	2,978,984
Decrease in lease obligation	(51,286)	(1,052)
Bonus paid to directors and supervisors and cash dividends paid on preferred stocks	(625,440)	(215,151)
Increase in issuance cost of financing	(47,689)	(118,335)
Net Cash Provided by (Used in) Financing Activities	<u>897,227</u>	<u>35,366,280</u>
NET INCREASE (DECREASE) CASH AND CASHEQUIVALENTS	(516,947)	9,203,959
EFFECT OF EXCHANGES IN FOREIGN EXCHANGE RATE	<u>(766,975)</u>	<u>118,576</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>38,840,217</u>	<u>29,517,682</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$37,556,295</u>	<u>\$38,840,217</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding the amounts capitalized of NT\$507,094 thousand and NT\$541,078 thousand in 2001 and 2000, respectively)	<u>\$3,468,112</u>	<u>\$4,036,210</u>
Income tax paid	<u>\$20,767</u>	<u>\$96,523</u>
Noncash investing and financing activities:		
Effect of exchanges in foreign exchange rate on cash and cash equivalents	<u>\$1,258,395</u>	<u>\$1,009,264</u>

(Forward)

	2001	2000
Current portion of long-term liabilities	<u>\$5,001,116</u>	<u>\$51,055</u>
Cash paid for acquisition of property, plant and equipment:		
Total acquisitions	\$57,518,168	\$113,996,068
Decrease (increase) in payables to contractors and equipment suppliers	<u>12,683,037</u>	<u>(10,234,163)</u>
	<u>\$70,201,205</u>	<u>\$103,761,905</u>

SUPPLEMENTAL INFORMATION OF THE MERGERS:

TSMC had merged with Worldwide Semiconductor Manufacturing Corp. (WSMC) and had acquired TSMC-Acer Semiconductor Manufacturing Corp. (TASMC) by issuing new shares. The balance sheets as of June 30, 2000 of WSMC and TASMC were as follows:

	TASMC (Fair Value)	WSMC (Book Value)	Total
Cash	\$736,594	\$675,810	\$1,412,404
Inventories	1,647,845	1,805,243	3,453,088
Other current assets	2,308,391	3,150,257	5,458,648
Property, plant and equipment - net	19,846,708	40,512,706	60,359,414
Other assets	7,335,526	5,101,000	12,436,526
Current liabilities	(16,699,147)	(12,454,686)	(29,153,833)
Long-term liabilities	(2,000,000)	(4,950,000)	(6,950,000)
Other liabilities	<u>(654,863)</u>	<u>(23,498)</u>	<u>(678,361)</u>
Net assets acquired	12,521,054	33,816,832	46,337,886
Cancellation of stocks of the dissolved companies	(8,173,605)	-	(8,173,605)
Issuance of stocks from the surviving company	<u>(4,335,152)</u>	<u>(11,500,000)</u>	<u>(15,835,152)</u>
Capital surplus	<u>\$12,297</u>	<u>\$22,316,832</u>	<u>\$22,329,129</u>

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

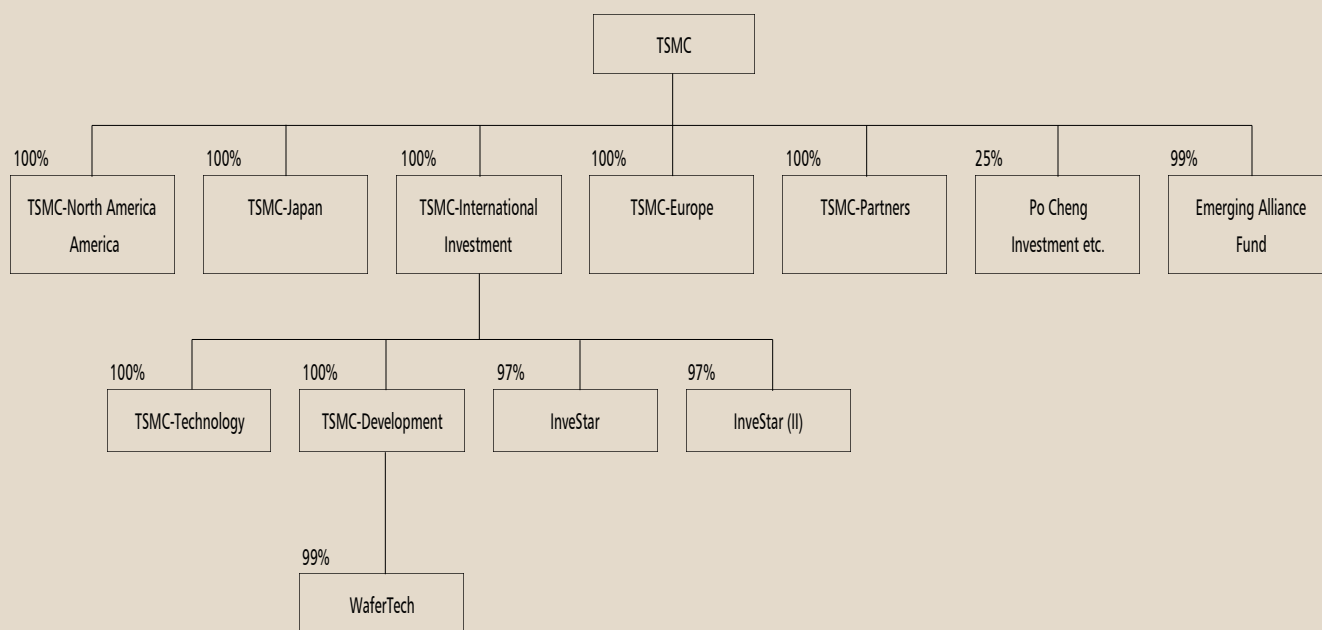
(Amounts in Thousand New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China corporation, is engaged mainly in the manufacture, sale, packaging, testing and design of integrated circuits and other semiconductor devices, and the manufacture masks. TSMC was incorporated as a venture among the Government of the ROC, acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. In September 1994, its shares were listed on the Taiwan Stock Exchange. In October 1997, TSMC listed its shares of stock on the New York Stock Exchange in the form of American Depositary Shares.

TSMC has five direct wholly-owned subsidiaries, namely, TSMC-North America, Taiwan Semiconductor Manufacturing Company Europe B.V (TSMC-Europe), TSMC-Japan, TSMC International Investment, TSMC Partners, a 99.5% owned subsidiary, Emerging Alliance Fund and several 25% owned affiliates - Po Cheng Investment, Chi Hsin Investment, Kung Cheng Investment, Chi Cherng Investment, Hsin Ruey Investment and Cherng Huei Investment. TSMC International Investment has two wholly-owned subsidiaries - TSMC Development, Inc. and TSMC Technology Inc., and two 97%-owned subsidiaries - InveStar Semiconductor Development Fund, Inc. and InveStar Semiconductor Development Fund (II), Inc., (incorporated in 2000). TSMC Development Inc. has a subsidiary, WaferTech, LLC, which has been 57% owned since its formation, increased to 68% owned in 1998; TSMC Development Inc. acquired an additional 29% and 2% at a purchase price of US\$474,640 thousand and US\$19,530 thousand in December 2000, and June 2001, respectively, thereby increasing its proportionate interest to 99% as of December 31, 2001.

The following diagram presents information regarding the relationship and ownership percentages among TSMC and its subsidiaries as of December 31, 2001:



TSMC-North America, TSMC-Europe and TSMC-Japan are engaged mainly in marketing and engineering support activities. Emerging Alliance Fund, TSMC Partners and Po Cherng Investment etc. are engaged in investments. TSMC International Investment and its subsidiaries are engaged in investing in affairs focused on the design, manufacture, and other related business of semiconductors. WaferTech, LLC. is engaged in the foundry business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The Company consolidates the accounts of all majority (directly and indirectly) owned subsidiaries. The consolidated financial statements included, as of and for the year ended December 31, 2000 and 2001, the accounts of TSMC, TSMC-North America, TSMC-Europe, TSMC-Japan, TSMC Partners, Emerging Alliance Fund, Po Cherng Investment, Chi Hsin Investment, Kung Cherng Investment, Chi Cherng Investment, Hsin Ruey Investment, Cherng Huei Investment, TSMC International Investment and its subsidiaries, InveStar Semiconductor Development Fund, Inc. and InveStar Semiconductor Development Fund (II) Inc., TSMC Development Inc. (including WaferTech, LLC) and TSMC Technology Inc. All significant inter-company accounts and transactions have been eliminated.

Minority interests in Emerging Alliance Fund, InveStar, InveStar (II) and WaferTech are presented separately in the consolidated financial statements.

Cash and cash equivalents

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

Short-term investments

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

Allowance for doubtful receivable

Allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable.

Sales and Allowance for sales returns and others

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 provided based on experience; such provisions are deducted from sales and related costs are deducted from cost of sales.

Inventories

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

Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on their operating and financial policy decisions are accounted for using the equity method. The difference between the investment cost and the Company's proportionate equity in the net assets of the investee on the date of acquisition is amortized over five years using the straight-line method. Such amortization and the Company's proportionate share in the net income or net loss of investee companies are recognized as components of "Equity in net income or net loss in investee companies - net" account. When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in 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" and the "Long-term investments" accounts, respectively.

In the event an investee offsets its capital surplus, excluding reserve from asset revaluation, against its accumulated deficit, which is recorded as debit to the "Capital surplus" account and a credit to "Retained earnings" account, the Company also records the entry by its proportionate share of the investee capital surplus that was generated subsequent to its acquisition of investee interest, excluding reserve from asset revaluation.

Other stock investments are accounted using the cost method. These investments are stated at cost less declines in market value of listed stocks or declines in value of unlisted stocks which is considered irrecoverable; such reductions are charged to shareholders' equity or current income, respectively. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying value of the long-term investment if the dividends are received in the same year that the related investments are acquired. Stock dividends are recognized only as an increase in the number of stocks held on the ex-dividend date.

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

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

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

The Company's proportionate share in the gains from disposal of property, plant and equipment, net of the applicable income tax, included as part of its share in the earnings or losses of investee companies accounted for using the equity method for the current year is reclassified into capital surplus from retained earnings. When the Company subsequently disposes such investment in shares of stock, such capital surplus shall be reclassified back retained earnings. Also, if an investee company has unrealized loss on long-term investment which is evaluated by lower-of-cost-or-market method, the Company should recognize that unrealized loss in proportion to the Company's equity interest and record in an account as a component of shareholders' equity.

Gains or losses on transactions with investee companies accounted using the equity method are eliminated in proportion to the Company's ownership percentage while those with majority-owned subsidiaries are eliminated entirely in consolidation.

Property, plant and equipment and assets leased to others

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

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

Upon sale or disposal of an item 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. Any such gain, less applicable income tax, is reclassified to capital surplus at the end of the year (before the relevant regulation was amended).

Consolidated debits

Consolidated debits include the goodwill arose from the business merger and the difference between the investment cost and the Company's proportionate share in the net asset of the investee companies at the date of acquisition. Consolidated debits are amortized by the straight-line method over 10 years.

Deferred charges

Deferred charges consist of software and system design costs, technology know-how, bond and financing issue costs, and technology license fee. These are amortized as follows: software and system design costs - three years, technology know-how - five years, bond issue costs - the term of the bonds; financing costs - term related line of credit, and technology license fee - the term of the contract or economic useful lives of the related technology.

Pension costs

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

Deferred gain on sale - leaseback

The gain resulting from the sale of leased property is deferred. Such deferred gain is then amortized as follows: (a) operating lease - adjustment of rental expenses over the term of the lease, and (b) capital lease - adjustment of depreciation over the estimate useful lives or term of the lease; whichever is shorter.

Income tax

The Company adopted inter-period income tax allocation method. Deferred income tax assets are recognized for the tax effects of temporary differences, unused tax credits and operating loss carry forwards. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability is, according to the classification of its related asset or liability, be classified as current or non-current. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, then it is classified as current or non-current based on the expected reversal date of temporary differences.

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

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

Derivative financial instruments

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

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

The notional amounts of the foreign currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates. The amount paid or received (or premiums) for the call or put

options are amortized using the straight-line method over the terms of the contracts.

Other foreign-currency transactions

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

Translation of foreign-currency financial statements

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

Reclassifications

Certain accounts in 2000 have been reclassified to conform to 2001 classifications.

Mergers

The acquisition of TASMIC was accounted for under the Statement of Financial Accounting Standards No. 25 "Business Combination - Purchase Method". On the other hand, the merger with WSMC was accounted for as pooling of interest with the results of operations of WSMC included in the statement of income for the year ended December 31, 2000.

Pro forma net sales, net income and earnings per share of TSMC on the assumption that the acquisition of TASMIC was completed as of January 1, 2000 are as follows:

	<u>2000</u>
Net sales	\$170,132,350
Net income	65,050,836
Earnings per share	
Based on weighted-average number of shares	\$3.89
outstanding - 16,729,401 thousand shares in 2000	

The individual operating results of TASMIC before the mergers on June 30, 2000 are as follows:

Net sales	\$3,934,746
Net loss	(55,358)

3. SIGNIFICANT ELIMINATING ENTRIES

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

Company	Account	Amount	Transaction Entity
TSMC	Payable to related parties	\$817,616	WaferTech, LLC
		136,443	TSMC-North America
		54,601	TSMC-Europe
		15,355	TSMC-Japan
		10,318	TSMC-Technology
	Receivable from related parties	25,251	WaferTech, LLC
		3,878	TSMC-Technology
	Sales	3,111	WaferTech, LLC
	Purchase	6,797,817	WaferTech, LLC
	Marketing expenses - commissions	1,028,725	TSMC-North America
		194,696	TSMC-Japan
		124,384	TSMC-Europe
	Marketing expenses - service charges	118,648	TSMC-North America
TSMC	Notes receivable	349,990	TSMC-Technology
International	Interest receivable	181,352	TSMC-Technology
Investment	Royalty income	1,223,373	TSMC-Technology
	Interest revenue	26,269	TSMC-Technology
TSMC Partners	Notes receivable	11,344,120	TSMC International Investment
	Accounts payable	6,888	TSMC-North America
	Deferred revenue	10,079,712	TSMC International Investment
	Royalty income	1,220,256	TSMC International Investment
	Interest revenue	712,046	TSMC International Investment
TSMC-Technology	Accounts receivable	7,960	WaferTech, LLC
	Deferred revenue	28,395	WaferTech, LLC
	Sales	57,501	WaferTech, LLC
	Royalty income	14,473	WaferTech, LLC

4. CASH AND CASH EQUIVALENTS

	2001	2000
Cash and bank deposits	\$35,830,636	\$38,229,510
Government bonds acquired under repurchase agreements	1,725,659	610,707
	<u>\$37,556,295</u>	<u>\$38,840,217</u>

5. SHORT-TERM INVESTMENTS

	2001	2000
Listed stocks	<u>\$1,398,071</u>	<u>\$1,502,098</u>
Market value	<u>\$6,917,133</u>	<u>\$6,117,525</u>

The market values of listed stocks as of December 31, 2001 and 2000 were based on average closing price in December 2001 and 2000, respectively.

6. INVENTORIES - NET

	2001	2000
Finished goods	\$1,790,305	\$1,762,287
Work in process	7,374,752	9,455,492
Raw materials	744,719	770,884
Supplies and spare parts	<u>1,110,323</u>	<u>1,364,686</u>
	11,020,099	13,353,349
Less - allowance for losses	<u>(1,191,771)</u>	<u>(567,626)</u>
	<u>\$9,828,328</u>	<u>\$12,785,723</u>

7. LONG-TERM INVESTMENTS

	2001		2000	
	Carrying Value	% of Owner-Ship	Carrying Value	% of Owner-Ship
<u>Common stocks</u>				
Accounted for by equity method:				
Vanguard International Semiconductor (VIS) (Publicly traded)	\$3,377,526	25	\$5,615,075	25
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) (non-traded)	<u>\$2,907,967</u>	32	<u>\$935,870</u>	32
	<u>6,285,493</u>		<u>6,550,945</u>	
Accounted for by cost Method:				
Traded				
Amkor Technology	280,748	-	-	-
Taiwan Mask	32,129	2	32,129	2
Non-traded				
Global Test Corp.	179,951	10	175,731	10
United Technology	193,584	11	146,250	10
Hong Tung Venture Capital	150,000	10	120,000	10
Shin-Etsu Handotai Taiwan Company Ltd.	105,000	7	105,000	7
Global Investment Holding	107,270	6	-	-
ChipStrate Technology	69,658	9	69,551	9

(Forward)

Programmable Microelectronics	59,296	4	49,619	4
APE	46,748	6	46,677	6
W.K. Technology Fund IV	50,000	2	50,000	4
Richtek Technology, Inc.	45,015	10	9,975	9
EmpowerTel Networks	12,031	1	-	-
3Dfx Interactive	10,396	-	9,826	-
Ubicom, Inc. (Scenix)	6,028	2	5,697	2
Capella Microsystems	4,740	2	345	-
EquatorTechnologies	3,151	-	2,978	-
Divio	105	-	-	-
Taiwan Semiconductor Technology	-	-	500,000	19
	<u>1,355,850</u>		<u>1,323,778</u>	
<u>Preferred stocks (all non-traded)</u>				
Sonics	231,397	7	116,752	7
EmpowerTel Networks	179,480	7	169,634	7
Tropian, Inc	151,688	5	77,209	5
Atheros Communications	125,754	2	-	-
Menolithic Power System	123,037	18	66,158	17
Quickilver Technology	122,497	29	-	-
LightSpeed Semiconductor	107,251	1	101,368	6
Memsic	107,088	20	82,689	24
Equator Technologies	99,358	2	93,908	2
Pixim	87,498	3	-	-
OEpic	87,497	6	24,809	-
Capella Microsystems	80,441	8	42,949	8
Signia	78,748	20	49,619	22
Newport Opticom	77,124	15	-	-
RapidStream	73,754	6	69,708	6
Formfactor	69,998	1	66,158	1
Reflectivity	69,998	6	66,158	6
NanoAmp Solutions	64,838	3	61,281	3
NetLogic Microsystems	64,748	1	-	-
Integrated Memory Logic	63,318	10	59,845	10
Match Lab	61,249	10	49,619	11
Y-MEDIA	52,499	2	-	-
Rise Technology	52,498	2	49,619	2
Creosys	52,498	8	49,619	8
Ikanos Communication	52,498	3	-	-
Ralink Technology	52,498	7	-	-
SiRF Technology	51,248	1	44,105	1
Ubicom, Inc. (Scenix)	47,636	2	45,023	2
Advanced Angalogic Technology	44,131	2	-	-
OmegaBand (Seagull)	43,749	6	41,349	14
Pico Turbo	43,749	7	41,349	9

(Forward)

Sensory	43,749	4	41,349	6
HINT Corporation	34,999	5	33,079	5
Litchfield	34,999	6	-	-
Quake Technology	34,999	1	-	-
Procoat Technology	30,000	10	-	-
Angstron System	26,249	7	-	-
Divio	17,500	4	16,540	4
Incentia Design Systems	17,499	2	16,539	2
Silicon Data, Inc.	8,750	2	-	-
T-Span System	-	-	45,829	3
Lara Networks Inc.	-	-	75,151	7
FabCentric	-	-	8,270	-
	<u>2,868,509</u>		<u>1,705,685</u>	
<u>Convertible notes</u> (all non-traded)				
Rise Technology	10,500	-	9,924	-
Pico Turbo	10,323	-	-	-
OmegaBand	6,730	-	-	-
FabCentric	-	-	8,270	-
Signia Technologies	-	-	16,540	-
Advanced Analogic Technology	-	-	41,349	-
	<u>27,553</u>		<u>76,083</u>	
<u>Funds</u>				
BIAM Global Opportunity Fund	908,944	-	959,561	-
Horizon Ventures	125,701	-	93,304	-
Crimson Asia Capital	27,091	-	64,547	-
	<u>1,061,736</u>		<u>1,117,412</u>	
<u>Warrant</u>				
OEpic	9	-	-	-
	11,599,150		10,773,903	
Less - allowance for losses	-		(110,099)	
	<u>\$11,599,150</u>		<u>\$10,663,804</u>	

The equity in net income or (net loss) of investee companies consisted of the following:

	2001	2000
VIS	(\$2,236,940)	\$597,812
SSMC	(1,722,080)	(473,661)
TASMC	-	(311,330)
	<u>(\$3,959,020)</u>	<u>(\$187,179)</u>

The carrying values of equity-accounted investments and the related equity in net income or net loss were based on audited of financial statements in the same periods.

Information on the long-term investments is as follows:

	2001	2000
Market value of traded stocks	\$7,056,942	\$8,729,639
Equity in the net assets of non-traded stocks	8,286,549	5,466,227
Net asset value of funds	1,202,453	1,007,313

8. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	2001	2000
Land improvements	\$108,770	\$64,006
Buildings	16,604,096	10,692,112
Machinery and equipment	136,033,250	90,956,200
Office equipment	3,202,844	2,172,561
	<u>\$155,948,960</u>	<u>\$103,884,879</u>

Information on the status of the expansion or construction of TSMC's manufacturing facilities as of December 31, 2001 is as follows:

	Estimated Accumulated Expected or Actual Cost Expenditures Operations Start Date		Manufacturing Plant
Fab 6	\$76,889,000	\$69,986,000	March 2000
Fab 7	5,930,500	2,867,500	March 2001
Fab 8	28,322,100	11,355,300	March 2001
Fab 12 - 1st stage	38,280,800	28,988,700	April 2002
Fab 14 - 1st stage	9,711,000	8,449,600	June 2003

Interest expense (before deducting capitalized amounts of NT\$507,094 thousand and NT\$541,078 thousand in 2001 and 2000, respectively) for the years ended December 31, 2001 and 2000 were NT\$3,651,136 thousand and NT\$3,258,113 thousand, respectively. The interest rates used for purpose of calculating the capitalized amount were 2.54% to 5.283% in 2001 and 6.62% to 7.663% in 2000.

9. DEFERRED CHARGES - NET

	2001	2000
Software and system design costs	\$2,073,802	\$1,420,635
Technology license fee	996,578	1,442,292
Bond and financing issue costs	150,142	142,881
Technology know-how	103,500	157,500
Others	445,728	172,357
	<u>\$3,769,750</u>	<u>\$3,335,665</u>

10. SHORT-TERM BANK LOANS

	2001	2000
Secured loan in NT dollars		
NT\$ 107,100 thousand, repayable by October 2002, annual interest at 3.2%~3.8%	\$107,100	\$-
NT\$ 329,375 thousand, repayable by October 2001, annual interest at 5.8%	-	329,375
Secured loan in US dollars:		
US\$6,942 thousand, repayable by December 2001, annual interest of 9.25%	-	229,645
Unsecured loan:		
US\$ 82,000 thousand, repayable by March 2002, annual interest at 2.679%	2,869,918	-
US\$5,500 thousand, repayable by June 2002, annual interest at 3.188%	192,495	-
US\$21,565 thousand, repayable by October 2002, annual interest at 2.590%	754,735	-
US\$46,000 thousand, repayable by October 2002, annual interest at 2.548%	1,609,954	-
US\$21,000 thousand, repayable by May 2002, annual interest at 2.33%	734,979	-
US\$70,000 thousand, repayable by March 2001, annual interest at 7.53%	-	2,315,530
US\$29,000 thousand, repayable by January, 2001, annual interest at 7.05%	-	959,291
	<u>\$6,269,181</u>	<u>\$3,833,841</u>

Unused credit lines as of December 31, 2001 aggregated approximately NT\$17,941,000 thousand (including NT\$6,571,900 thousand and US\$324,836 thousand).

As of December 31, 2001, the NT\$107,100 thousand loan is secured by short-term investment with carrying amount of NT\$71,400 thousand.

11. LONG-TERM BANK LOANS

	2001	2000
Secured loan:		
US\$440,000 thousand, repayable by February 2005, annual interest at 2.578%	\$15,399,560	\$-
US\$438,000 thousand, repayable by March 2005, annual interest at 7.663%	-	14,488,602
Unsecured loan:		
US\$200,000 thousand, repayable by December 2003, annual interest at 2.54% and 6.91% in 2001 and 2000, respectively	6,999,800	6,615,800
US\$46,000 thousand, repayable by October 2002, annual interest at 7.36%	-	1,521,634
US\$21,564 thousand, repayable by October 2002, annual interest at 7.41%	-	713,331
	<u>\$22,399,360</u>	<u>\$23,339,367</u>

Unused credit lines for long-term bank loans as of December 31, 2001 aggregated approximately NT\$4,321,000 thousand (including NT\$3,000,000 thousand and US\$37,750 thousand).

Future minimum principal payments under the Company's loan arrangements as of December 31, 2001 are as follows:

Year	Amount
2003	\$6,999,800
2004	-
2005	<u>15,399,560</u>
	<u>\$22,399,360</u>

As of December 31, 2001, the US\$440,000 thousand loan is secured by the total assets of WaferTech, LLC with carrying amount of approximately NT\$28,378,000 thousand (US\$811,000 thousand). In addition, a portion of the unused credit line for long-term bank loans is secured by properties owned by TSMC with carrying value of approximately NT\$1,378,000 thousand.

12. BONDS

	2001	2000
Domestic unsecured bonds:		
Repayable in March 2003, 7.71% annual interest payable semi-annually	\$4,000,000	\$4,000,000
Repayable in October 2002 and 2004, 5.67% and 5.95% annual interest payable annually, respectively	10,000,000	10,000,000
Repayable in December 2005 and 2007, 5.25% and 5.36% annual interest payable annually, respectively	<u>15,000,000</u>	<u>15,000,000</u>
	<u>\$29,000,000</u>	<u>\$29,000,000</u>

Future minimum principal payments under the Company's bonds arrangements as of December 31, 2001 are as follows:

Year of Repay	Amount
2002	\$5,000,000
2003	4,000,000
2004	5,000,000
2005	10,500,000
2006 and thereafter	<u>4,500,000</u>
	29,000,000
Less - current portion	<u>(5,000,000)</u>
	<u>\$24,000,000</u>

On November 6, 2001, the board of directors approved the issuance of domestic unsecured bonds with an aggregate principal amount of NT\$15,000,000 thousand. The issuance of the domestic unsecured bond has been approved by the Securities and Futures Commission of ROC (SFC). As of January 18, 2002, the issuance is still in process.

13. SHAREHOLDERS' EQUITY

As of December 31, 2001, the Company has issued 259,006 thousand American Depositary Shares (ADS) that are listed on the New York Stock Exchange. The number of common shares represented by the ADSs is 1,295,031 thousand shares.

The SFC has, on January 4, 2002, approved the Company's sponsorship of the offer by certain existing shareholders of up to 350,000 thousand common shares in the form of ADSs. The decision to sponsor the offering of common shares in the form of ADSs was approved by the Board of Directors on December 3, 2001. The offering is still in process as of January 18, 2002.

Capital surplus except for that arising from the application of the equity method of accounting, pursuant to ROC Company Law, can only be used to offset a deficit or transferred to capital (as a stock dividend). Such transfer from capital surplus to capital can only be made once a year at a specific percentage. An amendment to the ROC Company Law issued on November 14, 2001, limited the nature of the capital surplus that can be used to offset a deficit or transferred to capital (as a stock dividend) to those that arise from donations (donated capital) and those attributable to the excess of the issue price over the par value of capital stock issued.

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. Bonuses to directors and supervisors and to employees equal to 1% and at least 1% of the remainder, respectively;
- d. Dividends to holders of preferred shares equal to a 3.5% annual rate, based on the period during which the preferred shares have been outstanding;
- e. The appropriation of the remaining balance after the above shall be decided at the shareholder's meeting;

Dividends are distributed in cash and/or in the form of shares of stock. Since the Company is in a capital-intensive industry, distribution of profits shall be made preferably by way of stock dividend. The total of cash dividend paid (in any given year) should not exceed 50% of total dividends paid and/or distributed.

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

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, when its balance has reached 50% of the aggregate par value of the outstanding capital stock of the Company, up to 50% thereof can be distributed as stock dividend.

Pursuant to existing regulations promulgated by the Securities and Futures Commission, a special reserve equivalent to the debit balance of any account shown in the shareholder equity section of the balance sheets, other than the deficit, shall be made from unappropriated retained earnings. The special reserve shall be adjusted accordingly based on the debit balance of such accounts as at year-end. As of December 31, 2001, prior year's accumulated deficit in the amount of NT\$1,803,168 thousand from WSMC is included in the unappropriated retained earnings.

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 starting 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. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

The Company issued 1,300,000 thousand unlisted Series A - preferred shares to certain investors in November 29, 2000. The following are the rights of the preferred share holders and other terms and conditions:

- a. Are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- b. Are not entitled to receive any 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 of the Company. 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.
- f. Will be redeemed within thirty months from their issuance. The terms and conditions in respect to the issuance of the preferred shares provides that, until the shares are redeemed, their holders

14. PENSION PLAN

TSMC has a pension plans for all regular employees, which provides benefits based on length of service and average monthly salary for the final six months of employment.

TSMC makes monthly contributions, equal to 2% of salaries to a pension fund (the "Fund"). The Fund is administered by a pension fund monitoring committee and deposited in the committee's name in the Central Trust of China. In addition, the Company accrues unfunded pension cost.

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

	2001	2000
a. Components of pension cost		
Service cost	\$417,967	\$376,689
Interest cost	95,920	91,234
Projected return on plan assets	(43,968)	(26,675)
Amortization	8,300	8,300
	<u>\$478,219</u>	<u>\$449,548</u>
b. The details of the benefit obligation and reconciliation of the fund status of the plan and accrued pension cost is as follows		
Benefit obligation		
Vested benefit obligation	\$739	\$-
Nonvested benefit obligation	<u>1,024,525</u>	<u>763,879</u>
Accumulated benefit obligation	1,025,264	763,879
Additional benefits based on future salaries	<u>1,407,014</u>	<u>1,550,009</u>
Projected benefit obligation	2,432,278	2,313,888

(Forward)

Fair value of plan assets	<u>(835,583)</u>	<u>(661,099)</u>
Funded status	1,596,695	1,652,789
Unrecognized net transitional obligation	(157,691)	(165,991)
Unrecognized net gain	415,849	22,737
Accrued pension cost	<u>\$1,854,853</u>	<u>\$1,509,535</u>
c. Actuarial assumptions		
Discount rate used in determining present values	5.0%	6.0%
Future salary increase rate	5.0%	6.0%
Expected rate of return plan on assets	5.0%	6.0%
d. Contributions to pension fund	<u>\$131,894</u>	<u>\$95,932</u>
e. Funds transferred from TASMC and WSMC	<u>\$-</u>	<u>\$173,339</u>
f. Payments from pension fund	<u>\$-</u>	<u>\$1,458</u>

15. INCOME TAX

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

	2001	2000
Income tax expense on "income before income tax" at statutory rate	(\$2,699,626)	(\$12,787,660)
Tax-exempt income	1,089,000	7,770,000
Temporary differences	<u>(986,598)</u>	<u>(49,497)</u>
Income tax expense - current before tax credits	<u>(\$2,597,224)</u>	<u>(\$5,067,157)</u>

b. Income tax benefits consist of:

	2001	2000
Income tax expense - current before tax credits	(\$2,597,224)	(\$5,067,157)
Additional 10% on the unappropriated earnings	(322,292)	(88,024)
Income tax credits	2,888,358	5,128,024
Other income tax	<u>(16,318)</u>	<u>-</u>
Income tax for the current year	(47,476)	(27,157)
Net change in deferred income tax assets (liabilities) for the year		
Investment tax credits	3,044,170	3,146,369
Temporary differences	(1,918,009)	(462,230)
Valuation allowance	2,661,993	(1,678,791)
Adjustment of prior years' taxes	<u>-</u>	<u>189,693</u>
	<u>\$3,740,678</u>	<u>\$1,167,884</u>

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

	2001	2000
Current:		
Investment tax credit	\$2,347,000	\$8,422,000
Temporary differences	<u>3,147</u>	<u>56,016</u>
	2,350,147	8,478,016
Less - valuation allowance	<u>-</u>	<u>(300,000)</u>
	<u>\$2,350,147</u>	<u>\$8,178,016</u>
Noncurrent:		
Investment tax credits	\$21,710,461	\$12,591,291
Temporary differences	<u>(2,363,913)</u>	<u>(498,773)</u>
	19,346,548	12,092,518
Less - valuation allowance	<u>(3,100,720)</u>	<u>(5,462,713)</u>
	<u>\$16,245,828</u>	<u>\$6,629,805</u>

The effective rates for deferred income tax of TSMC were 17.56% and 7.54% as of December 31, 2001 and 2000, respectively, and 34%~41% and 32%~54% for TSMC's subsidiaries as of December 31, 2001 and 2000, respectively.

d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of December 31, 2001 and 2000 were \$9,365 thousand and \$5,888 thousand, respectively.

The tax credit ratio computed as of December 31, 2001 was 0.02% while the tax credit on earnings as of December 31, 2000 on dividend distributed in 2001 was 0.01%.

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 2001 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, 2001 and 2000 included the earnings generated up to December 31, 1997 of \$4,827 thousand.

f. Unused investment tax credits arising from purchase of machinery and equipment, and research and development expenditures as of December 31, 2001 will expire as follows:

Year of Expiry	Amount
2002	\$4,487,894
2003	5,500,778
2004	10,720,895
2005	<u>3,347,894</u>
	<u>\$24,057,461</u>

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

	Tax-Exemption Period
Expansion of Fab1 and Fab2-modules A and B, Fab3 and Fab4, and construction of Fab5	1999 to 2002
Expansion of Fab7	1998 to 2001

h. The tax authorities have examined income tax returns of TSMC through 1999, excluding 1998. However, TSMC is contesting the assessment of the tax authority for 1992, 1993, 1996 and 1997.

16. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC is one of the directors of ITRI.
- b. Philips Electronics N.V., (Philips), a major shareholder of TSMC.
- c. Investees of TSMC
 - Vanguard International Semiconductor Corporation (VIS)
 - Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)

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

	2001		2000	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
Philips and its affiliates	\$2,389,257	2	\$5,289,927	3
VIS	1,177,094	1	17,012	-
ITRI	114,546	-	198,146	-
SSMC	48,972	-	-	-
	<u>\$3,729,869</u>	<u>3</u>	<u>\$5,505,085</u>	<u>3</u>
Purchase				
VIS	\$3,801,975	22	\$6,572,110	19
SSMC	\$42,984	-	\$-	-
	<u>\$3,844,959</u>	<u>22</u>	<u>\$6,572,110</u>	<u>19</u>
Rental expense - ITRI	<u>\$161,604</u>	<u>11</u>	<u>\$161,575</u>	<u>14</u>
Manufacturing expenses				
Technical service fee - Philips	<u>\$2,418,276</u>	<u>100</u>	<u>\$2,137,175</u>	<u>86</u>
Sales of property, plant and equipment - VIS	<u>\$268,871</u>	<u>85</u>	<u>\$87,189</u>	<u>37</u>
Non-operating income				
SSMC	\$95,284	1	\$152,347	3
VIS	467	-	5,604	-
Others	-	-	38	-
	<u>\$95,751</u>	<u>3</u>	<u>\$157,989</u>	<u>3</u>

-(Forward)

<u>At end of the year</u>				
Receivables				
VIS	\$320,179	65	\$159,890	17
Philips and its affiliates	116,499	24	643,604	68
ITRI	37,383	7	56,078	6
SSMC	20,671	4	89,154	9
	<u>\$494,732</u>	<u>100</u>	<u>\$948,726</u>	<u>100</u>
Prepaid expense and other current asset				
Advance rent - ITRI	<u>\$42,664</u>	<u>2</u>	<u>\$42,664</u>	<u>6</u>
Payables				
VIS	\$548,472	52	\$1,808,964	69
Philips and its affiliates	499,331	48	797,375	31
SSMC	470	-	-	-
	<u>\$1,048,273</u>	<u>100</u>	<u>\$2,606,339</u>	<u>100</u>

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

17. SIGNIFICANT LONG-TERM OPERATING LEASES

TSMC leases from ITRI the land, building and certain machinery and equipment of its first manufacturing facility under agreements that will expire in March 2002. The annual rental under such agreement amounts to \$161,604 thousand.

TSMC leases the land where its 2nd through 14th manufacturing facilities are located from the Science-Based Industrial Park Administration. The related agreements will expire on various dates from March 2008 to December 2020 and have annual rentals aggregating NT\$208,716 thousand. The agreements can be renewable upon their expiration.

TSMC-North America, a subsidiary, leases its office premises and certain equipment under a non-cancelable operating agreement, which will expire in September 2020. TSMC-Europe entered into a lease agreement covering its office premise, which will expire in 2004. Annual rental currently totaled to \$101,395 thousand.

Future annual minimum rentals under the aforementioned leases are as follows:

Year	Amount
2002	\$347,699
2003	310,111
2004	312,924
2005	311,195
2006	314,180
2007 and thereafter	<u>2,218,404</u>
	<u>\$3,814,513</u>

18. SIGNIFICANT COMMITMENTS AND CONTINGENCY AS OF DECEMBER 31, 2001

The commitments and contingency of the Company and its subsidiaries as of December 31, 2001 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 9, 2007 and thereafter be automatically renewed once for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts TSMC pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year up of to 30% of TSMC production capacity.
- c. Under a Technical Cooperation Agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- d. Under several foundry agreements, TSMC shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$205,949 thousand had been received as of December 31, 2001.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. dated March 30, 1999, the parties agreed to: (a) form 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, (b) set SSMC's total authorized capital at about S\$1.2 billion, and, (c) allow TSMC to invest in 32% of SSMC's capital. As of December 31, 2001, the aggregate amount of investments from these parties has not reached S\$1.2 billion. TSMC and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.
- f. Provision of technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. TSMC should receive 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 once for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. Under a Technical Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, TSMC shall receive payments for the technology transferred to National. The agreement will remain in force for ten years. After expiration, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions.
- h. TSMC entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. ("VIS"). VIS agrees to reserve specific capacity to manufacture for TSMC certain devices on logic or other technologies required by TSMC's customers, at a discount to the selling prices as agreed by the parties. TSMC paid \$1,200,000 thousand to VIS as Security Bond. VIS shall return portions of the Bond without any interest to TSMC upon the purchase of wafers by TSMC. The contract will remain in force for five years.
- i. Under a management agreement, InveStar Capital In. (ISC) of the Cayman Islands, provides investment and administrative services to TSMC. ISC should receive quarterly, starting from October 1, 1996, a management fee of 2% each year of total weighted average paid-in capital and capital surplus of TSMC, excluding retained earnings and losses.

- j. Under a patent license agreement, TSMC has entered into a cross license arrangement for certain semiconductor patents with a US-based company for a term starting from October 26, 2001 through December 31, 2006. TSMC shall pay royalty fees to the such company.
- k. WaferTech, subsidiary, had recorded a reserve of US\$ 16,000 thousand for a litigation arising from a charge by certain contractors that WaferTech caused the contractors to incur additional labor and material costs outside the contracts. The reserve is reflected in accrued construction and equipment payable with the offset to construction in progress. Payment of the settlement amount will be made in four installments throughout fiscal year 2000. The remaining accrued serve of US\$5,250 thousand is sufficient for payments to the other construction contractors, in the year of 2002.
- l. In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan ("Plan") under which officers, key employees and nonemployee directors may be granted option rights. However, WaferTech is a limited liability company and does not have shares of stock. Thus, each option right granted under the Plan provides grantees rights to buy ownership interests in WaferTech. The Plans also provides for approximately 6% of the total ownership interests to be available for grant, represented by 15.15 million-option rights. For option rights granted to date, the option purchase price exceeded fair value as of the date of the grant. While WaferTech may grant employees option rights that are exercisable at different times or within different periods, it has generally granted option rights which are exercisable on a cumulative basis in annual instalments of 25% each on the first, second, third, and fourth anniversaries of the date of grant.

The following table summarizes information about the Plans:

	Option Rights Available For Grant	Outstanding Rights Option	
		Number of Option Rights	Exercise Price (US\$)
Balance, January 1, 2000	4,154,597	8,226,080	0.78
Additional option rights authorized	1,650,000	-	-
Options granted			
Option price > fair market value	(3,203,302)	3,203,302	1.86
Options exercised	-	(3,411,867)	0.74
Options cancelled	1,180,871	(1,180,871)	1.09
Balance, December 31, 2000	3,782,166	6,836,644	1.23
Options granted			
Option price > fair market value	-	-	-
Options exercised	-	(2,949,358)	1.02
Options cancelled	825,906	(825,906)	1.27
Balance, December 31, 2001	<u>4,608,072</u>	<u>3,061,380</u>	1.43

These options will expire if not exercised at specific dates between May 2006 to December 2010.

- m. WaferTech has received a tax assessment from State of Washington Department of Revenue assessing approximately US\$6,900 thousand in additional taxes related to State's sales and use tax. The tax amount resulted from a difference in interpretation of the current tax code and WaferTech intends to appeal the assessment. As of December 31, 2001, WaferTech has recorded a reserve that management believes is sufficient to address any exposure from potential tax.
- n. TSMC-North America started a stock appreciation right program from December 1, 2000 whereby the employees received cash bonuses based on the appreciation of the quoted market price of the shares of stock of TSMC. Compensation expenses are recorded based on the difference between the grant price and market price at the end

of each period. This expense is recognized ratably over the vesting period and adjusted based on period fluctuations in the stock. As of December 31, 2001, TSMC-North America has recorded compensation expense and related accrued liabilities of approximately US\$3,900 thousand.

- o. Unused letter of credits as of December 31, 2001 were \$1,200 thousand.

19. ADDITIONAL DISCLOSURES

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

- 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 estates 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 investee on which the Company exercises significant influences: Please see table 8 attach.
- j. Financial instrument transactions:

- 1) Derivative financial instruments

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

- a) Open forward exchange contracts as of December 31, 2001

Contract	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date	Maturity
Sell	US\$	US\$17,912	NT\$618,206	Jan. 2002	NT\$620,600
Sell	US\$	US\$783,000	NT\$26,985,688	Jan. 2002-Mar.2002	NT\$27,013,402

Payables from forward exchange contracts (shown in the balance sheet as part of "Other current liabilities" account) as of December 31, 2001 aggregated to \$397,117 thousand. Net exchange loss for the year ended December 31, 2001 was \$1,943,601 thousand.

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

	Amount (Thousand)
Accounts receivable	US\$518,984
Accounts payable	US\$169,664
Time deposits	US\$707,416

b) Interest rate swaps

TSMC has entered into interest rate swap contracts to hedge exposure to rising interest rates on its floating rate long-term loans. These significant transactions are summarized as follows:

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

Interest expenses on these transactions for the year ended December 31, 2001 were \$473,413 thousand.

c) Option contracts

TSMC has entered into foreign currency option contracts to hedge risks of exchange rate fluctuations arising from its anticipated U.S. dollar cash receipts from its export sales or Japanese Yen obligations related to its importation of machinery and equipment.

Outstanding option contracts as of December 31, 2001 were as follows:

Contract	Currency	Contract Amount (Thousand)	Carrying Value (Thousand)	Fair Value (Thousand)	Strike Price	Maturity
Put option sell	EUR	EUR293,000	(\$39,500)	(\$252,833)	0.8940-0.9340 (EUR/US\$)	Jan.-Feb., 2002

For the year ended December 31, 2001, TSMC realized premium income of \$328,254 thousand and premium expense of \$93,522 thousand.

2) Transaction risk

a) 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.

b) Market price risk: All derivative financial instruments are intended as hedges for fluctuations in currency exchange rates on the Company 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 receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks from exchange rate and interest rate fluctuations are minimal.

c) Liquidity and cash flow: The cash flow requirements on the derivative instruments are limited to the net differences between the spot rates and contracted forward rates at settlement dates (for forward contracts); and amounts payable arising from the differences in the rates (for interest rate swap contracts). Also, options may not have to be exercised at all in cases where the strike price is higher than the related market price at exercise dates. Management believes that the foregoing requirements are not material.

3) Fair value of financial instruments

	December 31, 2001		December 31, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$37,556,295	\$37,556,295	\$38,840,217	\$38,840,217
Short-term investments	1,398,071	6,917,133	1,502,098	6,117,525
Receivables from related parties	494,732	494,732	948,726	948,726
Notes and accounts receivable	20,134,218	20,134,218	30,460,489	30,460,489
Long-term investments	11,599,150	16,545,944	10,663,804	15,203,179
Refundable deposits	784,089	784,089	979,067	979,067
Pledged time deposits	26,183	26,183	10,768	10,768
Liabilities				
Short-term bank loans	6,269,181	6,269,181	3,833,841	3,833,841
Payable to related parties	1,048,273	1,048,273	2,606,339	2,606,339
Accounts payable	1,397,879	1,397,879	8,507,827	8,507,827
Payable to contractor and equipment suppliers	12,867,236	12,867,236	25,550,273	25,550,273
Long-term liabilities(including current portion)	22,402,445	22,402,445	23,393,738	23,393,738
Bonds (include current portion)	29,000,000	29,703,063	29,000,000	29,035,803
Guarantee deposits	7,212,688	7,212,688	7,086,379	7,086,379
<u>Derivative financial instruments</u>				
Forward exchange contracts (buy)	-	-	2,820,220	2,887,126
Forward exchange contracts (sell)	28,031,119	27,603,894	20,802,311	20,788,804
Interest rate swaps	26,969	(343,088)	1,601	234,017
Option	(39,500)	(252,833)	-	(456,068)

Fair values of financial instruments were determined as follows:

- a) Short-term financial instruments - carrying values.
- b) Short-term investments - market values.
- c) Long-term investments - market value for listed companies and net equity value for others.
- d) Refundable deposits and guarantees deposits - carrying values.
- e) Long-term liabilities - based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable are discounted at present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.
- f) Derivative financial instruments - based on outright forward rates and interest rate in each contract.

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 equal the fair value of the Company.

20. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	Overseas	Taiwan	Adjustments and Elimination	Consolidated
<u>2001</u>				
Sales to unaffiliated customers	\$-	\$125,884,892	\$-	\$125,884,892
Transfers between geographic areas	8,152,070	3,111	(8,155,181)	-
Total sales	<u>\$8,152,070</u>	<u>\$125,888,003</u>	<u>(\$8,155,181)</u>	<u>\$125,884,892</u>
Gross profit	<u>(\$1,224,832)</u>	<u>\$36,381,055</u>	<u>(\$1,499,429)</u>	<u>\$33,656,794</u>
Operating expenses				(20,878,997)
Non-operating income				6,475,576
Non-operating expenses				(8,466,868)
Income before income tax				<u>\$10,786,505</u>
Minority interest gain				<u>(\$44,009)</u>
Identifiable assets	<u>\$73,433,656</u>	<u>\$303,954,097</u>	<u>(\$22,469,208)</u>	<u>\$354,918,545</u>
Long-term investments				11,599,150
Total assets				<u>\$366,517,695</u>
<u>2000</u>				
Sales to unaffiliated customers	\$-	\$166,197,604	\$-	\$166,197,604
Transfers between geographic areas	14,451,231	30,816	(14,482,047)	-
Total sales	<u>14,451,231</u>	<u>\$166,228,420</u>	<u>(\$14,482,047)</u>	<u>\$166,197,604</u>
Gross profit	<u>\$3,970,099</u>	<u>\$75,996,839</u>	<u>(\$1,379,004)</u>	<u>\$78,587,934</u>
Operating expenses				(17,293,246)
Non-operating income				6,119,803
Non-operating expenses				(3,512,967)
Income before income tax				<u>\$63,901,524</u>
Minority interest gain				<u>\$36,786</u>
Identifiable assets	<u>\$63,810,250</u>	<u>\$320,273,323</u>	<u>(\$23,861,398)</u>	<u>\$360,222,175</u>
Long-term investments				10,663,804
Total assets				<u>\$370,885,979</u>

b. Gross export sales

Area	2001	2000
America	\$63,893,621	\$81,655,987
Asia	23,874,375	42,906,968
Europe	<u>7,523,873</u>	<u>11,360,517</u>
	<u>\$95,291,869</u>	<u>\$135,923,472</u>

The export sales information is presented by billed regions.

c Major customer

The customer with the sales amounted over 10% of the Company's total sales is as following:

Customer	2001		2000	
	Amount	%	Amount	%
A	\$21,789,769	17	\$10,307,244	6

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**FINANCING PROVIDED****For the Year Ended December 31, 2001**

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

No.	Financing Name	Counter-Party	Financial Statement Account	Financing Limit for Each Borrowing Company	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons	Allowance for Bad Debt	Collateral Item	Collateral Value	Transaction Amount	Financing Company's Financing Amount Limits (US\$ in Thousand)
1	TSMC-BVI	TSMC Technology	Other receivables	-	US\$14,662	US\$14,662	7.75%	Operating capital	\$-	-	\$-	\$-	US\$779,968 (Note 1)
2	VIS	VIS Holding	Prepaid expenses	(Note 2)	\$1,232	\$-	-	Prepayments for product development	-	-	-	-	\$4,400,000 (Note 3)

Note 1: Not exceeding the issued capital of the Company.

Note 2: Not exceeding 10% of the issued capital of VIS for each transaction entity, and also limited to 30% of the issued capital of each transaction entity.

Note 3: Not exceeding 20% of the issued capital of VIS.

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**ENDORSEMENT/GUARANTEE PROVIDED****For the Year Ended December 31, 2001**

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

No.	Endorsement/ Guarantee Provider	Counter-Party Name	Nature of Relationship (Note 2)	Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Value of Collateral Property, Plant and Equipment (Note 3)	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0	TSMC	TSMC Development Inc.	3	(Note 4)	\$9,379,732 (US\$268,000)	\$9,379,732 (US\$268,000)	\$-	3.38%	\$54,397,659
		TSMC - North America	2		1,399,960 (US\$40,000)	1,399,960 (US\$40,000)	-	0.51%	
		WAFERTECH, LLC	3		15,399,560 (US\$440,000)	15,399,560 (US\$440,000)	-	5.56%	

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 limiting to the issued capital of the transaction entity, unless otherwise approved by Board of directors.

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**MARKETABLE SECURITIES HELD****December 31, 2001**

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

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value(US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: TSMC							
<u>Stock</u>							
TSMC - North America	Subsidiary	Long-term investment	11,000	\$786,062	100	\$786,062	
TSMC - Europe	Subsidiary	Long-term investment	-	10,147	100	10,147	
TSMC - Japan	Subsidiary	Long-term investment	6	80,156	100	80,156	
VIS	Investee	Long-term investment	556,133	3,377,526	25	6,584,620	
TSMC-BVI	Subsidiary	Long-term investment	779,968	19,987,814	100	19,987,814	
TSMC Partners	Subsidiary	Long-term investment	300	3,032,376	100	3,032,376	
SSMC	Investee	Long-term investment	301	2,907,967	32	2,907,967	
Emerging Alliance Fund	Subsidiary	Long-term investment	-	741,617	99	741,617	
Taiwan Mask Corp.	-	Long-term investment	7,782	32,129	2	183,658	
United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	274,107	
Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	118,726	
W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	64,855	
Hon Tung Ventures Capital	-	Long-term investment	15,000	150,000	10	139,086	
Amkor Technology	-	Long-term investment	505	280,748	-	287,610	
<u>Certificate</u>							
Po Cherng Investment	Investee	Long-term investment	-	164,724	25	164,724	
Chi Hsin Investment	Investee	Long-term investment	-	158,252	25	158,252	
Kung Cherng Investment	Investee	Long-term investment	-	177,812	25	177,812	
Chi Cherng Investment	Investee	Long-term investment	-	156,694	25	156,694	
Hsin Ruey Investment	Investee	Long-term investment	-	157,352	25	157,352	
Cherng Huei Investment	Investee	Long-term investment	-	166,639	25	166,639	
<u>Equity</u>							
Crimson Asia Capital Fund	-	Long-term investment	-	27,091	N/A	27,091	
Horizon Ventures Fund	-	Long-term investment	-	125,701	N/A	125,701	
Held Company Name: Chi Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	3,023	98,282	-	253,173	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value(US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: Chi Cherng Investment							
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	\$98,834	15	\$98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Kung Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	6,758	226,819	-	565,937	
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Po Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	4,240	187,508	-	355,058	Pledge 150 thou- sand shares
<u>Certificate</u>							
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Cherng Huei Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	4,917	198,896	-	411,724	Pledge 1,600 thou- sand shares
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Held Company Name: Chi Hsin Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	3,561	138,747	-	298,220	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financia Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value(US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: Chi Hsin Investment							
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	\$98,834	15	\$98,834	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Hsin Ruey Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	1,407	98,996	-	117,836	
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: TSMC-BVI							
<u>Stock</u>							
InveStar Semiconductor Development Fund Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US\$65,203	97	US\$65,203	
InveStar Semiconductor Development Fund (II) Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US\$45,766	97	US\$45,766	
TSMC Development Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US\$201,231	100	US\$201,231	
TSMC Technology Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US\$1,591	100	US\$1,591	
3DFX Interactive Inc.	-	Long-term investment	68	US\$297	-	US\$30	
Held Company Name: VIS							
<u>Bond fund</u>							
Qiung Ban	-	Short-term investment	28,409	400,000	-	401,960	
Yuan Da Duo Li #2	-	Short-term investment	26,278	350,000	-	352,465	
THE TP ROC	-	Short-term investment	25,923	350,000	-	355,763	
<u>Stock</u>							
VIS Associates Inc.	Subsidiary	Long-term investment	41,070	902,999	100	902,999	
PowerChip Semiconductor Inc.	Investee	Long-term investment	202,185	2,651,216	9	3,263,269	
Etron Technology Inc.	Investee	Long-term investment	5,617	275,766	3	281,864	
Walsin Technology Inc.	Investee	Long-term investment	34,551	414,481	10	358,994	
MEGIC Corporation	Investee	Long-term investment	16,500	177,000	9	188,581	
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	54,872	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: VIS Associates Inc.							
<u>Stock</u>							
VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc	Long-term investment	68	US\$891	100	US\$891	
<u>Equity</u>							
Silicon Valley Equity Fund	-	Long-term investment	-	US\$7,894	35	US\$7,894	
Silicon Valley Equity Fund II	-	Long-term investment	-	US\$5,705	14	US\$5,705	
ABN AMRO Bank Equity Certificate	-	Short-term investment	23,168	US\$10,047	-	US\$11,339	
<u>Fund</u>							
Grand Palace Trust	-	Long-term investment	-	US\$2,800	100	US\$2,800	
Held Company Name: VIS Investment Holding, Inc.							
<u>Stoc</u>							
VIS Micro, Inc.	Investee	Long-term investment	200	US\$258	100	US\$258	
Held Company Name: TSMC Development							
<u>Stock</u>							
WaferTech, LLC	Investee of TSMC Development and its chairman is also chairman of TSMC	Long-term investment	-	US\$226,541	99	US\$226,541	
Held Company Name: TSMC Partners							
<u>ADR</u>							
TSMC	Parent Company	Short-term investment	495	US\$7,357	-	US\$8,726	
Held Company Name: InveStar Semiconductor Development Fund Inc.							
<u>Stock</u>							
Silicon Image, Inc.	-	Short-term investment	297	US\$520	-	US\$1,236	
Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$3,350	-	US\$123,797	
Silicon Labo Ratories	-	Short-term investment	15	US\$472	-	US\$519	
Chang Yi Technology	-	Long-term investment	1,668	US\$1,643	-	US\$672	
Divio	-	Long-term investment	30	US\$3	-	US\$3	
Capella Microsystems, Inc.	-	Long-term investment	542	US\$135	-	US\$135	
Equator Technologies, Inc.	-	Long-term investment	133	US\$90	-	US\$90	
Empower Tel Networks, Inc.	-	Long-term investment	317	US\$344	-	US\$344	
Ubicom, Inc.	-	Long-term investment	861	US\$172	-	US\$172	
Global Test Corp.	-	Long-term investment	13,268	US\$5,672	-	US\$10,126	
Chip Strate	-	Long-term investment	6,660	US\$2,142	-	US\$2,073	
Ritch Tech	-	Long-term investment	1,023	US\$326	-	US\$1,743	
APE Fu Ding Technology	-	Long-term investment	2,750	US\$1,518	-	US\$1,336	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: InveStar Semiconductor Development Fund Inc.							
<u>Preferred stock</u>							
Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$1,809	-	US\$3,055	
Divio (Next wave)	-	Long-term investment	667	US\$500	-	US\$2,233	
SIRF Technology Inc.	-	Long-term investment	306	US\$1,333	-	US\$1,858	
Rise	-	Long-term investment	600	US\$1,500	-	US\$1,500	
Capella Microsystems, Inc.	-	Long-term investment	1,383	US\$1,298	-	US\$1,660	
Sensory, Inc.	-	Long-term investment	1,404	US\$1,250	-	US\$857	
Equator Technologies, Inc.	-	Long-term investment	443	US\$1,338	-	US\$864	
Light Speed Semiconductor Corporation	-	Long-term investment	2,252	US\$3,064	-	US\$764	
Empower Tel Networks, Inc.	-	Long-term investment	3,840	US\$5,128	-	US\$14,296	
Uicom, Inc.	-	Long-term investment	1,056	US\$1,361	-	US\$2,433	
RapidStream	-	Long-term investment	2,056	US\$1,050	-	US\$7,286	
Tropian, Inc.	-	Long-term investment	1,758	US\$2,334	-	US\$2,388	
Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
Pico Turbo, Inc.	-	Long-term investment	1,050	US\$1,250	-	US\$1,300	
Atheros, Inc.	-	Long-term investment	1,607	US\$3,593	-	US\$9,025	
NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$853	-	US\$1,900	
Formfactor, Inc.	-	Long-term investment	267	US\$2,000	-	US\$3,600	
Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$2,000	-	US\$4,938	
Memic, Inc.	-	Long-term investment	2,727	US\$1,500	-	US\$2,894	
Reflectivity, Inc.	-	Long-term investment	1,064	US\$2,000	-	US\$2,000	
Signia	-	Long-term investment	3,000	US\$1,500	-	US\$3,900	
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	
Creosys, Inc.	-	Long-term investment	1,500	US\$1,500	-	US\$1,500	
Incentia Design Systems, Inc.	-	Long-term investment	286	US\$500	-	US\$500	
<u>Bond</u>							
Rise	-	Long-term investment	-	US\$300	-	US\$300	
Held Company Name: InveStar Semiconductor Development Fund (II) Inc.							
<u>Stock</u>							
HPL Aquisition Corporation	-	Short-term investment	187	US\$1,124	-	US\$2,669	
Richtek Technology Corporation	-	Long-term investment	480	US\$1,001	-	US\$987	
Chang Yi Technology	-	Long-term investment	487	US\$139	-	US\$139	
<u>Preferred stock</u>							
Procoat Technology	-	Long-term investment	2,500	US\$869	-	US\$857	
Omega Band, Inc.	-	Long-term investment	1,389	US\$1,250	-	US\$1,250	
Memic, Inc.	-	Long-term investment	2,289	US\$1,560	-	US\$2,489	
OEpic, Inc.	-	Long-term investment	2,696	US\$2,500	-	US\$3,023	
Equator Technologies, Inc.	-	Long-term investment	770	US\$1,501	-	US\$1,501	
NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$1,000	-	US\$1,000	
RapidStream, Inc.	-	Long-term investment	246	US\$1,057	-	US\$1,057	
Signia Technologies, Inc.	-	Long-term investment	500	US\$750	-	US\$750	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: InveStar Semiconductor							
Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$1,261	-	US\$1,261	
Held Company Name: Development Fund (II) Inc.							
Y-MEDIA Corporation	-	Long-term investment	281	US\$1,500	-	US\$1,500	
Monolithic Power Systems, Inc.	-	Long-term investment	674	US\$1,515	-	US\$1,515	
Ralink Technology, Inc.	-	Long-term investment	1,833	US\$1,500	-	US\$1,767	
Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
Newport Opticom, Inc.	-	Long-term investment	1,157	US\$1,204	-	US\$1,204	
Silicon Data, Inc.	-	Long-term investment	500	US\$250	-	US\$250	
Capella Microsystems, Inc.	-	Long-term investment	800	US\$1,000	-	US\$1,000	
Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$750	-	US\$750	
Tropain, Inc.	-	Long-term investment	1,464	US\$2,000	-	US\$2,000	
SIRF Technology, Inc.	-	Long-term investment	20	US\$131	-	US\$131	
Match Lab, Inc.	-	Long-term investment	313	US\$250	-	US\$250	
OEpic, Inc.	-	Long-term investment	-	US\$-	-	US\$-	
<u>Bond</u>							
Omega Band, Inc.	-	Long-term investment	N/A	US\$192	-	US\$192	
Pico Turbo, Inc.	-	Long-term investment	N/A	US\$295	-	US\$295	
Held Company Name: Emerging Alliance Fund							
<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\$1,850	
Quickilver Technology, Inc.	-	Long-term investment	3,320	US\$3,500	29	US\$3,500	
Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$1,500	3	US\$1,500	
Litchfield Communications	-	Long-term investment	3,799	US\$1,000	6	US\$1,000	

TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****For the Year Ended December 31, 2001**

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

Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
				Shares (Thousand)	Amount	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand)	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)
Company Name: TSMC													
<u>Stock</u>													
Emerging Alliance Fund	Long-term investment	Emerging Alliance	Subsidiary	-	\$-	-	\$837,045	-	\$-	\$-	\$-	-	\$741,617
Systems on Silicon Manufacturing Company (SSMC)	Long-term investment	Fund SSMC	Investee	90	935,870	211	3,553,862	-	-	-	-	3012,907,967	
Taiwan Semiconductor Technology	Long-term investment	Amkor Technology	-	50,000	500,000	-	-	50,000	395,748	500,000	(104,252)	-	-
Amkor Technology	Long-term investment	Amkor Technology	-	-	-	505	280,748	-	-	-	-	505	280,748
Company Name: Emerging Alliance Fund													
<u>Stock</u>													
Global Investment Holding, Inc.	Long-term investment	Global Investment Holding, Inc.	Investee	-	-	10,000	100,000	-	-	-	-	10,000	100,000
Convertible Commercial Paper VM Labs, Inc.	Long-term investment	VM Labs, Inc.	-	-	-	-	US\$4,000	-	US\$1,000	US\$4,000(US\$3,000)	-	-	-
Company Name: VIS													
<u>Stock</u>													
VIS Associates Inc.	Long-term investment	-	Subsidiary	23,750	464,077	17,500	597,783	-	-	-	-	41,070	902,999
<u>Bond Fund</u>													
Qitung Ban	Short-term investment	-	-	-	-	35,548	500,000	7,139	100,263	100,000	263	28,409	400,000
THE TP ROC	Short-term investment	-	-	-	-	40,874	550,000	14,951	201,482	200,000	1,482	25,923	350,000
Yuan Da Duo Li #2	Short-term investment	-	-	-	-	49,017	650,000	22,739	302,698	300,000	2,698	26,278	350,000
NITC	Short-term investment	-	-	-	-	2,048	300,000	2,048	302,386	300,000	2,386	-	-
FUBON JU-I	Short-term investment	-	-	-	-	31,397	450,000	31,397	452,789	450,000	2,789	-	-
Capital Save Income	Short-term investment	-	-	-	-	15,295	200,000	15,295	201,139	200,000	1,139	-	-
Home Run	Short-term investment	-	-	-	-	51,811	650,000	51,811	656,159	650,000	6,159	-	-
Company Name: VIS Associates Inc.													
ABN AMRO Bank Equity Certificates	Short-term investment	-	-	-	-	23,168	US\$10,047	-	-	-	-	23,168	US\$10,047
Company Name: InveStar Semiconductor Development Fund Inc.													
<u>Stocks</u>													
Centillum Tec. Corp	Short-term investment	-	-	165	US\$660	-	-	165	US\$7,474	US\$660	US\$6,814	-	-
Marvell Technology Group Ltd.	Short-term investment	-	-	4,665	US\$4,579	-	-	1,252	US\$38,094	US\$1,229	US\$36,865	3,413	US\$3,350
<u>Preferred Stocks</u>													
Lara Networks, Inc.	Short-term investment	-	-	1,544	US\$772	-	-	1,544	US\$8,170	US\$772	US\$7,398	-	-
Company Name: InveStar Semiconductor Development Fund (II) Inc.													
Sonic, Inc.	Long-term investment	-	-	-	-	3,082	US\$3,082	-	-	-	-	3,082	US\$3,082

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

Note 2: Disposal price included \$115,000 in cash and the agreed exchange 505 thousand shares of Amkor Technology. The market value for the shares of Amkor Technology on the disposal day worth \$280,748.

TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****For the Year Ended December 31, 2001**

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

Company Name	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 and office	Jan. 10, 2001	\$345,000	Depend on the progress of the construction	China Construction Co, Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		Jan. 29, 2001	476,200	Depend on the progress of the construction	Fu Tsu Construction Co, Ltd	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST****NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****For the Year Ended December 31, 2001**

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

Transaction Details Abnormal Transaction Note/Accounts Payable or Receivable										
Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
		Purchase/Sale	Amount	% to Total (Note 1)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Company Name: TSMC										
Phillips and its affiliates	Major shareholder	Sales	\$2,389,257	2	Net 30 days from invoice date	None	None	\$116,499	22	
VIS	Investee	Sales	1,177,094	1	Net 45 days from monthly closing date	None	None	320,179	61	
ITRI	The company's chairman is one of its directors	Sales	114,546	-	Net 45 days from monthly closing date	None	None	37,383	7	
WAFERTECH, LLC	Indirect investee of the subsidiary (TSMC-BVI)	Purchase	6,797,817	37	Net 30 days from monthly closing date	None	None	(817,616)	39	
VIS	Investee	Purchase	3,801,975	22	Net 45 days from monthly closing date	None	None	(548,472)	26	

Note 1: Percentage for sales is of gross sales and percentage for purchases is of the total purchases of material and finished goods.

TABLE 7

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****December 31, 2001**

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

Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
				Amount	Action Taken		
Company Name: TSMC							
VIS	Investee	\$320,179	N/A	\$52,668	Accelerate demand on account receivables	\$92,345	-
Phillips and its affiliates	Major shareholder	116,499	58 days	20,820	Accelerate demand on account receivables	80,559	-

TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****December 31, 2001**

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

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2001			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
			Dec. 31, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value			
Investor Company: TSMC										
TSMC - North America	San Jose, California, U.S.A	Marketing and engineering support	\$333,718	\$333,718	11,000	100	\$786,062	\$4,560	\$4,560	Subsidiary
TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	10,147	420	420	Subsidiary
TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	35,142	6	100	80,156	(183)	(183)	Subsidiary
VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640	6,503,640	556,133	25	3,377,526	(8,692,423)	(2,236,940)	Investee
TSMC - BVI	Tortola, British Virgin Islands	Investment	24,165,780	24,159,958	779,968	100	19,987,814	(4,855,844)	(4,855,844)	Subsidiary
Po Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	164,724	110,960	27,740	Investee
Chi Hsin Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	158,252	77,008	19,252	Investee
Kung Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	177,812	76,241	19,060	Investee
Chi Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	156,694	103,603	25,901	Investee
Hsin Ruey Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	157,352	117,006	29,251	Investee
Cherng Huei Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	166,639	113,755	28,439	Investee
TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,032,377	2,357,405	2,357,405	Subsidiary
SSMC	Singapore	Manufacturing the wafer	4,986,344	1,432,482	301	32	2,907,967	(5,381,499)	(1,722,080)	Investee
Emerging Alliance Fund	Cayman Islands	Investment	837,045	-	-	99	741,617	(127,249)	(126,612)	Subsidiary

11. Financial Forecast and Operation Results from 2000 to 2001

Year 2001

Unit: NT\$K

Item	2001 Financial Forecast (Reviewed by CPA)			2001 Financial Statement (Audited by CPA)		2001 Financial Forecast*
	Original	First Revised	Second Revised	Amount	Complete %	
Net Sales	149,038,964	121,893,177	125,562,194	125,888,003	100.26%	None
Cost of Sales	101,052,405	88,276,165	88,990,120	89,506,952	100.58%	
Gross Profit	47,986,559	33,617,012	36,572,074	36,381,051	99.48%	
Operating Expenses	18,610,914	19,336,062	18,909,731	19,038,765	100.68%	
Income from Operations	29,375,645	14,280,950	17,662,343	17,342,286	98.19%	
Non - Operating Income	1,560,592	2,476,136	2,691,210	2,891,557	107.44%	
Non - Operating Expenses	8,744,087	10,716,002	11,000,597	9,575,128	87.04%	
Income before Income Tax	22,192,150	6,041,084	9,352,956	10,658,715	113.96%	
Net Income	25,737,275	10,988,558	13,203,313	14,483,174	109.69%	

* Reasons for penalty charged by TSE, OTC and SFC, if any.

Year 2000

Unit: NT\$K

Item	2000 Financial Forecast (Reviewed by CPA)		2000 Financial Statement (Audited by CPA)	2000 Financial Forecast*
	Original	Amount	Complete %	
Net Sales	164,868,568	166,228,420	100.82%	None
Cost of Sales	93,196,686	92,303,675	99.04%	
Gross Profit	71,671,882	73,924,745	103.14%	
Operating Expenses	13,473,921	13,383,640	99.33%	
Income from Operations	58,197,961	60,541,105	104.03%	
Non - Operating Income	6,837,681	5,409,307	79.11%	
Non - Operating Expenses	2,155,271	2,112,818	98.03%	
Income before Income Tax	62,880,371	63,837,594	101.52%	
Net Income	64,002,300	65,106,194	101.72%	

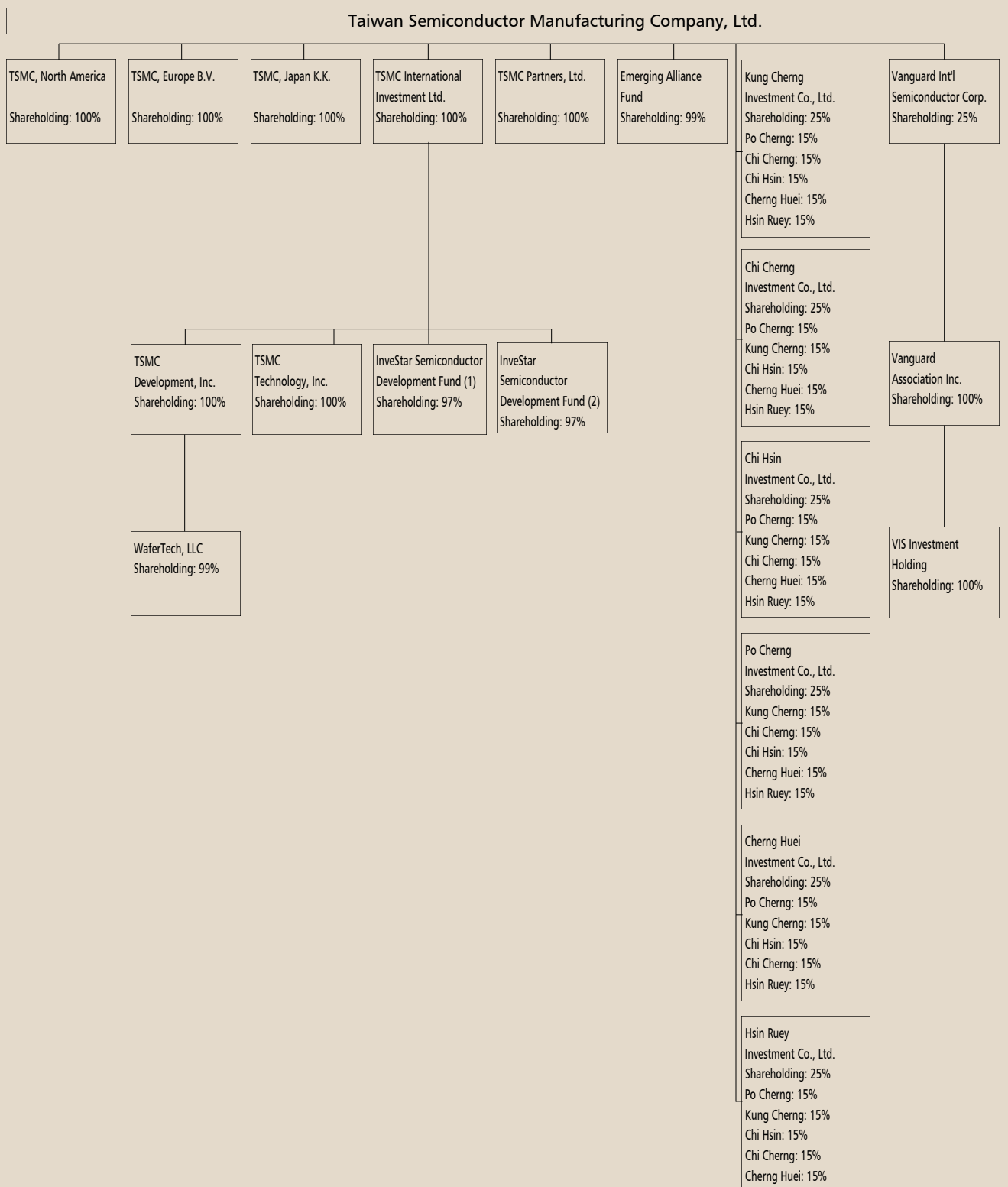
* Reasons for penalty charged by TSE, OTC and SFC, if any.

SPECIFIC NOTES

1. Affiliates Information

(1) TSMC Affiliated Companies Chart

Unit: Shares, %



(2) TSMC Affiliated Companies**December 31, 2001**

Unit : NT(US, NLG, JPY) \$K

Company	Date of Incorporation	Place of Registration	Paid-in Capital	Business Activities
TSMC, North America	Jan. 18, 1988	San Jose, California, USA	US\$11,000	Marketing & Engineering support
TSMC, Europe B.V.	Mar. 4, 1994	Amsterdam, The Netherlands	NLG 200	Marketing & Engineering support
TSMC, Japan K.K.	Sep. 10, 1997	Yokohama, Japan	JPY 300,000	Marketing & Engineering support
TSMC Int'l Investment Ltd.	Apr. 9, 1996	Tortola, British Virgin Islands	US\$779,968	Investment
TSMC Partners, Ltd.	Mar. 26, 1998	Tortola, British Virgin Islands	US\$300	Investment
TSMC Development, Inc.	Feb. 16, 1996	Delaware, USA	US\$734,583	Investment
TSMC Technology, Inc.	Feb. 20, 1996	Delaware, USA	US\$0.001	Investment
InveStar Semiconductor Development Fund Inc.	Sep. 10, 1996	Cayman Islands	US\$46,350	Investment
InveStar Semiconductor Development Fund (II) Inc.	Aug. 25, 2000	Cayman Islands	US\$46,350	Investment
Emerging Alliance Fund	Jan. 1, 2001	Cayman Islands	US\$25,050	Investment
Wafertech, LLC	Jun. 3, 1996	Washington, USA	US\$769,927	Wafer Manufacturing
Po Cherng Investment Co., Ltd.	Jul. 6, 1998	Taipei, Taiwan	NT\$400,000	Investment
Chi Hsin Investment Co., Ltd.	Jul. 6, 1998	Taipei, Taiwan	NT\$400,000	Investment
Cherng Huei Investment Co., Ltd.	Jul. 10, 1998	Taipei, Taiwan	NT\$400,000	Investment
Hsin Ruey Investment Co., Ltd.	Jul. 13, 1998	Taipei, Taiwan	NT\$400,000	Investment
Kung Cherng Investment Co., Ltd.	Jul. 14, 1998	Taipei, Taiwan	NT\$400,000	Investment
Chi Cherng Investment Co., Ltd.	Jul. 15, 1998	Taipei, Taiwan	NT\$400,000	Investment
Vanguard Int'l Semiconductor Corp.	Dec. 5, 1994	Hsin-Chu, Taiwan	NT\$22,000,000	IC Design & Manufacturing
VIS Associates Inc.	Sep. 24, 1996	Tortola, British Virgin Islands	US\$41,070	IC Related Investment
VIS Investment Holding, Inc.	Nov. 16, 1996	Delaware, USA	US\$6,750	IC Related Investment

Note: Foreign exchange rate on the reporting date is shown below:

US\$1 = NT\$34.999 NLG1 = NT\$14.08 JPY1 = NT\$0.2667

(3) Business Scope of TSMC and its Affiliated Companies

TSMC and its affiliates work together to provide dedicated foundry services to our customers around the world. In addition, few of TSMC's affiliate companies are focused on conducting investment business. In general, TSMC and its affiliates give each other support in technology, capacity, marketing and services with an aim to create the maximum synergy, enabling TSMC to provide our worldwide customers with the best dedicated foundry services worldwide. The ultimate goal of this strategy is to ensure TSMC's leading position in the global IC market.

(4) TSMC Shareholders Representing Both Holding Companies and Subordinates

December 31, 2001

Unit: NT\$K, except Shareholding

Reasoning	Name (Note 1)	Shareholding (Note 2)		Date of Incorporation	Place of Registration	Paid-in Capital	Business Activities
		Shares	Holding %				
None							

The presumed interested parties representing both holding companies and subordinates include the company's Director, the shareholders conducting business on behavior of the company, and the shareholders holding more than 50% shares of the company.

Note 1: The same legal and natural persons apply a company name and a personal name, respectively.

Note 2: It shows the shareholdings to the holding company (excluding the holdings to the subordinates).

(5) Rosters of Directors, Supervisors, and Presidents of TSMC's Affiliated Companies
December 31, 2001

Unit : NT\$, except shareholding

Company	Title	Name	Shareholding Amount	%
TSMC, North America	Director	F.C. Tseng	-	-
	Director	Rick Tsai	-	-
	President	Edward C. Ross	-	-
			(TSMC holds 11,000,000 shares)	(100%)
TSMC, Europe B. V.	Director	Morris Chang	-	-
	Director	Rick Tsai	-	-
	Director	Quincy Lin	-	-
	Director	Hans Richard Rohrer	-	-
	President	Hans Richard Rohrer	-	-
			(TSMC holds 200 shares)	(100%)
TSMC, Japan K.K.	Chairman	Sachiaki Nagae	-	-
	Director	Morris Chang	-	-
	Director	F.C. Tseng	-	-
	Director	Rick Tsai	-	-
	Director	Makoto Onodera	-	-
	Supervisor	Harvey Chang	-	-
			(TSMC holds 6,000 shares)	(100%)
TSMC International Investment Ltd.	Director	Morris Chang	-	-
	President	F.C. Tseng	-	-
			(TSMC holds 779,968,244shares)	(100%)
TSMC Partners, Ltd.	Director	F.C. Tseng	-	-
	Director	Rick Tsai	-	-
	Director	Quincy Lin	-	-
	Director	Steve Tso	-	-
	Director	Richard L. Thurston	-	-
	Director	Harvey Chang	-	-
			(TSMC holds 300,000 shares)	(100%)
TSMC Development, Inc.	Chairman	Morris Chang	-	-
	President	Morris Chang	-	-
			(TSMC International Investment Ltd. Holds 734,583,200,000 shares)	(100%)
TSMC Technology, Inc.	Chairman	Morris Chang	-	-
	President	Morris Chang	-	-
			(TSMC International Investment Ltd. Holds 1,000shares)	(100%)
InveStar Semiconductor Development Fund Inc.	Director	Kenneth Tai	-	-
			(TSMC International Investment Ltd. holds 45,000,000 shares)	(97%)
InveStar Semiconductor Development Fund Inc. (II) LDC	Director	Kenneth Tai	375,000 Shares	(0.8%)
				(TSMC International Investment Ltd. holds 45,000,000 shares)
Emerging Alliance Fund	NIL	NIL	TSMC's Investment US\$24,925,000)	(99.5%)
WaferTech, LLC	Director	Morris Chang	Common Share 328,125	0.13%
	Director	Rick Tsai	-	-
	Director	Steve Tso	-	-
	President	Steve Tso	-	-
				(TSMC Development, Inc. holds 253,901,734 Preferred Shares)

(Forward)

Unit : NT\$, except shareholding

Company	Title	Name	Shareholding	
			Amount	%
Po Cherng Investment Co., Ltd.	Director	Quincy Lin (Representative of Chi Hsin Investment Co., Ltd.)	(Chi Hsin's investment NT\$60,000,000)	(15%)
			(TSMC's investment NT\$ 99,999,960)	(25%)
Chi Hsin Investment Co., Ltd.	Director	Harvey Chang (Representative of Po Cherng Investment Co., Ltd.)	(Po Cherng's investment NT\$60,000,040)	(15%)
			(TSMC's investment NT\$99,999,960)	(25%)
Cherng Huei Investment Co., Ltd.	Director	Rick Tsai (Representative of Hsin Ruey Investment Co., Ltd.)	(Hsin Ruey's investment NT\$60,000,040)	(15%)
			(TSMC's investment NT\$99,999,960)	(25%)
Hsin Ruey Investment Co., Ltd.	Director	Rick Tsai (Representative of Cherng Huei Investment Co., Ltd.)	(Cherng Huei's investment NT\$ 60,000,000)	(15%)
			(TSMC's investment NT\$99,999,960)	(25%)
Kung Cherng Investment Co., Ltd.	Director	F.C.Tseng (Representative of Chi Cherng Investment Co., Ltd.)	(Chi Cherng's investment NT\$ 60,000,040)	(15%)
			(TSMC's investment NT\$99,999,960)	(25%)
Chi Cherng Investment Co., Ltd.	Director	F.C.Tseng (Representative of Kung Cherng Investment Co., Ltd.)	(Kung Cherng's investment NT\$ 60,000,000)	(15%)
			(TSMC's investment NT\$99,999,960)	(25%)
Vanguard International Semiconductor Corporation	Chairman	Morris Chang	3,240,448 shares	0.15%
	Director	Liu, Bor-Hong (Representative of The Development Fund, Executive Yuan, R.O.C.)	(The Development Fund holds 639,713,750 shares)	(29.08%)
	Director	Liou, Ming-Jong (Representative of The Development Fund, Executive Yuan, R.O.C.)		
	Director	Shih, Chin-Tay (Representative of The Development Fund, Executive Yuan, R.O.C.)		
	Director	Rick Tsai (Representative of TSMC)	(TSMC holds 556,133,496 shares)	(25.28%)
	Director	F.C.Tseng (Representative of TSMC)		
	Director	Paul Chien (Representative of TSMC)		
	Director	Robert Hsieh (Representative of TSMC)		
	Director	Wu, Quintin Y.G. (Representative of USI Far East Corp.)	(USI Far East Corp. holds 150,178,533 shares)	(6.83%)
	Director	Chiao, Yu-Heng (Representative of Walsin Lihwa Corp.)	(Walsin Lihwa Corp. holds 53,827,741 shares)	(2.45%)
	Supervisor	Yeh, Huey-Ching (Representative of The Development Fund, Executive Yuan, R.O.C.)		
	Supervisor	Harvey Chang (Representative of TSMC)		
	Supervisor	Chow, Sidney H. (Representative of Maw Chong Investment Co., Ltd.)	(Maw Chong Investment Co., Ltd. holds 38,392,356 shares)	(1.75%)
President	Paul Chien	2,478,229 shares	0.11%	
VIS Associates Inc.	Director	Morris Chang (Representative of VIS)		
	Director	Robert Hsieh (Representative of VIS)		
	Director	Paul Chien (Representative of VIS)		
			(VIS holds 41,070,000 shares)	(100%)
VIS Investment Holding, Inc.	Director	Morris Chang (Representative of VIS Associates Inc.)		
	Director	Robert Hsieh (Representative of VIS Associates Inc.)		
	Director	Paul Chien (Representative of VIS Associates Inc.)		
			(VIS Associates Inc. holds 6,750,000 shares)	(100%)

(6) Operational Highlights for TSMC Affiliated Companies
December 31, 2001

Company	Paid-in Capital	Assets	Liabilities	Net Worth	Net Sales*	Unit: NT\$K, except EPS (\$)		
						Income from Operation*	Net Income* (net of tax)	EPS* (net of tax)
TSMC, North America	384,989	1,887,121	960,342	926,779	1,145,285	34,330	4,561	0.41
TSMC, Europe B.V.	2,816	65,280	55,133	10,147	125,654	11,700	420	N.A.
TSMC, Japan K.K.	80,010	93,273	13,117	80,156	200,133	9,530	(183)	(30.57)
TSMC Int'l Investment Ltd.	27,298,109	21,673,328	11,345,238	10,328,090	(2,369,743)	(4,302,390)	(2,923,831)	(6.38)
TSMC Partners, Ltd.	10,500	13,363,198	10,330,821	3,032,377	-	(13,021)	1,928,783	642,928
TSMC Development, Inc.	25,709,677	16,411,548	9,368,658	7,042,890	-	(4,220)	(3,975,344)	N.A.
TSMC Technology, Inc.	0.035	256,444	547,005	(290,561)	1,404,261	92,540	58,435	N.A.
InveStar Semiconductor Development Fund Inc.	1,622,204	2,482,957	132,441	2,350,516	1,924,964	1,504,419	1,508,582	32.55
InveStar Semiconductor Development Fund(II) Inc.	1,622,204	1,652,409	2,593	1,649,816	97,998	24,227	24,227	0.52
Wafertech, LLC	26,946,683	28,378,704	20,818,792	7,559,912	6,650,318	(2,009,756)	(2,607,717)	N.A.
Po Cherng Investment Co., Ltd.	400,000	713,191	54,294	658,896	119,054	113,010	110,960	2.77
Chi Hsin Investment Co., Ltd.	400,000	633,142	133	633,009	78,283	77,405	77,008	1.93
Cherng Huei Investment Co., Ltd.	400,000	723,241	56,686	666,555	167,452	116,311	113,755	2.84
Hsin Ruey Investment Co., Ltd.	400,000	640,136	10,728	629,408	73,106	72,976	117,006	2.93
Kung Cherng Investment Co., Ltd.	400,000	711,380	133	711,247	78,537	76,937	76,241	1.91
Chi Cherng Investment Co., Ltd.	400,000	636,779	10,001	626,778	75,063	74,944	103,603	2.59
Emerging Alliance Fund, LP	876,734	745,343	0	745,343	5,600	(25,551)	(127,249)	N.A.
Vanguard Int'l Semiconductor Corp.	22,000,000	28,464,864	15,072,105	13,392,759	9,110,492	(4,714,841)	(8,692,423)	(3.95)
VIS Associates Inc.	1,437,409	994,040	91,042	902,998	(125,309)	(194,178)	(194,178)	(4.73)
VIS Investment Holding, Inc.	236,243	34,497	3,325	31,172	20,558	261	636	9.43

*For the year ended December 31, 2001

**Taiwan Semiconductor Manufacturing Company Ltd., and
Vanguard International Semiconductor Corporation**

Combined Financial Statements as of December 31, 2001

Representation Letter

The combined balance sheet as of December 31, 2001 and the combined statement of income for the year ended December 31, 2001 of TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION were in conformity with the requirements on public companies and their affiliates, taken as a whole, of Securities and Futures Committee (SFC) in the Republic of China (ROC), the ROC regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

The accounting records underlying the combined balance sheet and the combined statement of income accurately and fairly reflect, in reasonable detail, the transactions of the Taiwan Semiconductors Manufacturing Company, Ltd., its consolidated affiliates and Vanguard International Semiconductor Corporation. There are no plans or intentions that may materially affect the carrying values or classifications of assets and liabilities.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

By

MORRIS CHANG
Chairman

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

We have reviewed the combined balance sheet as of December 31, 2001 and the related combined statement of income for the year then ended of Taiwan Semiconductor Manufacturing Company Ltd. and Vanguard International Semiconductor Corporation. Our reviews were made in accordance with the Guidelines for the Review of Combined Financial Statements of Affiliates. It is substantially less in scope than an examination in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the combined balance sheet and the combined statement of income taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the combined balance sheet and the combined statement of income referred to above in order for them to be in conformity with "Regulations Governing the Preparation of Affiliates' Combined Operating Report, Combined Financial Statements and Relationship Report" in the Republic of China, and the ROC regulation governing the preparation of financial statements of public company and the ROC generally accepted accounting principles.

T N Soong & Co

A Member Firm of Andersen Worldwide, S.C.

Taipei, Taiwan

The Republic of China

January 18, 2002

Notice to Readers

The combined financial statements were not prepared with a view to comply with the published guidelines of the United States Securities and Exchange Commission or the American Institute of Certified Public Accountants ("AICPA") and have not been examined or otherwise reported upon under AICPA guidelines. They are not presented in accordance with generally accepted accounting principles in the United States of America for consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION COMBINED BALANCE SHEET

December 31, 2001

(In Thousand New Taiwan Dollars, Except Par Value)

<u>ASSETS</u>	<u>Amount</u>	<u>%</u>
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 and 4)	\$40,522,659	10
Short-term investments (Notes 2, 5 and 10)	2,498,071	1
Receivables from related parties (Note 17)	174,607	-
Notes receivable	176,582	-
Accounts receivable	20,486,089	5
Allowance for doubtful receivables (Note 2)	(1,127,995)	-
Allowance for sales returns and others (Note 2)	(2,659,592)	(1)
Inventories-net (Notes 2 and 6)	10,955,840	3
Deferred income tax assets (Notes 2 and 16)	2,700,422	1
Prepaid expenses and other current assets (Notes 17 and 20)	2,975,813	1
Total Current Assets	<u>76,702,496</u>	<u>20</u>
LONG-TERM INVESTMENTS (Notes 2, 7 and 21)	<u>12,746,162</u>	<u>3</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8, 12, 17 and 18)		
Cost		
Land and land improvements	877,371	-
Buildings	68,402,999	18
Machinery and equipment	313,488,096	80
Office and other equipment	6,335,976	2
Total cost	389,104,442	100
Accumulated depreciation	(183,581,965)	(47)
Advance payments and construction in progress	60,092,310	15
Net Property, Plant and Equipment	<u>265,614,787</u>	<u>68</u>
COMBINED DEBITS (Note 2)	<u>11,437,572</u>	<u>3</u>
OTHER ASSETS		
Deferred income taxes assets (Notes 2 and 16)	18,992,893	5
Deferred charges - net (Notes 2 and 9)	3,863,875	1
Refundable deposits	787,347	-
Assets leased to others (Note 2)	555,053	-
Miscellaneous	38,594	-
Total Other Assets	<u>24,237,762</u>	<u>6</u>
TOTAL ASSETS	<u>\$390,738,779</u>	<u>100</u>

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

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Amount</u>	<u>%</u>
CURRENT LIABILITIES		
Short-term bank loans (Note 10)	\$6,849,364	2
Commercial paper (Note 11)	1,270,000	-
Payable to related parties (Note 17)	553,305	-
Accounts payable	1,744,553	1
Payable to contractors and equipment suppliers	12,999,508	3
Income tax payable (Notes 2 and 16)	81,483	-
Current portion of long-term debt (Notes 12 and 13)	8,286,000	2
Accrued expenses and other current liabilities (Note 20)	<u>7,303,209</u>	<u>2</u>
Total Current Liabilities	<u>39,087,422</u>	<u>10</u>
LONG-TERM LIABILITIES		
Long-term bank loans (Note 12)	27,941,360	7
Bonds (Note 13)	<u>25,850,000</u>	<u>7</u>
Total Long-term Liabilities	<u>53,791,360</u>	<u>14</u>
OTHER LIABILITIES		
Guarantee deposits (Note 19 and 20)	7,964,078	2
Accrued pension costs (Notes 2 and 15)	2,156,367	1
Deferred gain on sale-leaseback (Note 2)	268,165	-
Miscellaneous	<u>154,003</u>	<u>-</u>
Total Other Liabilities	<u>10,542,613</u>	<u>3</u>
MINORITY INTEREST IN AFFILIATES (Note 2)	<u>10,127,309</u>	<u>2</u>
Total Liabilities	<u>113,548,704</u>	<u>29</u>
SHAREHOLDERS' EQUITY (Notes 2 and 14)		
Capital stock - \$10 par value		
Authorized: 24,600,000 thousand shares		
Issued: Preferred - 1,300,000 thousand shares	13,000,000	3
Common - 16,832,554 thousand shares	168,325,531	43
Capital surplus	57,128,433	15
Retained earnings:		
Appropriated as legal reserve	17,180,067	4
Appropriated as special reserve	349,941	-
Unappropriated earnings	19,977,402	5
Cumulative translation adjustments	<u>1,228,701</u>	<u>1</u>
Total Shareholders' Equity	<u>277,190,075</u>	<u>71</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$390,738,779</u>	<u>100</u>

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

English Translation of Financial Statements Originally Issued in Chinese

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.,
AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION
COMBINED STATEMENT OF INCOME**

For the Year Ended December 31, 2001

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

	Amount	%
GROSS SALES (Notes 2, 17 and 21)	\$133,248,102	
SALES RETURNS AND ALLOWANCES (Note 2)	<u>(3,040,708)</u>	
NET SALES	130,207,394	100
COST OF SALES (Note 17)	<u>99,823,070</u>	77
GROSS PROFIT	<u>30,384,324</u>	23
OPERATING EXPENSES (Notes 17 and 21)		
Research and development	11,280,348	9
General and administrative	8,486,544	6
Marketing	<u>2,378,757</u>	2
Total Operating Expenses	<u>22,145,649</u>	17
INCOME FROM OPERATIONS	<u>8,238,675</u>	6
NON-OPERATING INCOME (Notes 17 and 21)		
Interest	1,690,311	1
Gain on sales of short-term investments - net (Note 2)	1,635,978	1
Royalty income (Note 19)	1,301,606	1
Insurance compensation - net	860,835	1
Premium income (Notes 2 and 20)	234,732	-
Gain on sales of long-term investments - net	110,623	-
Technology service income (Notes 17 and 19)	55,077	-
Gain on sales of property, plant, and equipment	52,376	-
Other	<u>641,251</u>	1
Total Non-Operating Income	<u>6,582,789</u>	5
NON-OPERATING EXPENSES (Note 21)		
Interest (Notes 2, 8 and 20)	3,873,923	3
Losses on inventories (Note 2)	2,871,739	2
Equity in net loss of investee companies - net (Notes 2 and 7)	1,915,342	1
Loss on sales of and impairment loss on property, plant and equipment, and non-operating properties	1,192,335	1
Foreign exchange loss - net (Note 2)	704,749	1
Loss on write-down of royalty	144,125	-
Amortization of issuance costs of bonds (Note 2)	12,504	-
Other	<u>415,562</u>	-

(Forward)

	<u>Amount</u>	<u>%</u>
Total Non-Operating Expenses	<u>\$11,130,279</u>	<u>8</u>
INCOME BEFORE INCOME TAX (Note 21)	3,691,185	3
INCOME TAX BENEFIT (Notes 2 and 16)	<u>4,341,019</u>	<u>3</u>
INCOME BEFORE MINORITY INTEREST	8,032,204	6
MINORITY INTEREST IN LOSS OF AFFILIATES (Note 2 and 21)	<u>6,450,970</u>	<u>5</u>
COMBINED NET INCOME	<u>\$14,483,174</u>	<u>11</u>
COMBINED EARNINGS PER SHARE		
Based on weighted-average shares outstanding of 16,832,554 thousand shares	<u>\$0.83</u>	

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD., AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION NOTES TO COMBINED FINANCIAL STATEMENTS

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), a corporation incorporated in the Republic of China, and Vanguard International Semiconductor Corporation (VIS), TSMC's 25% owned affiliate are engaged mainly in the: (a) research, manufacture, sale, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices; and, (b) manufacture of masks.

Notice to Readers:

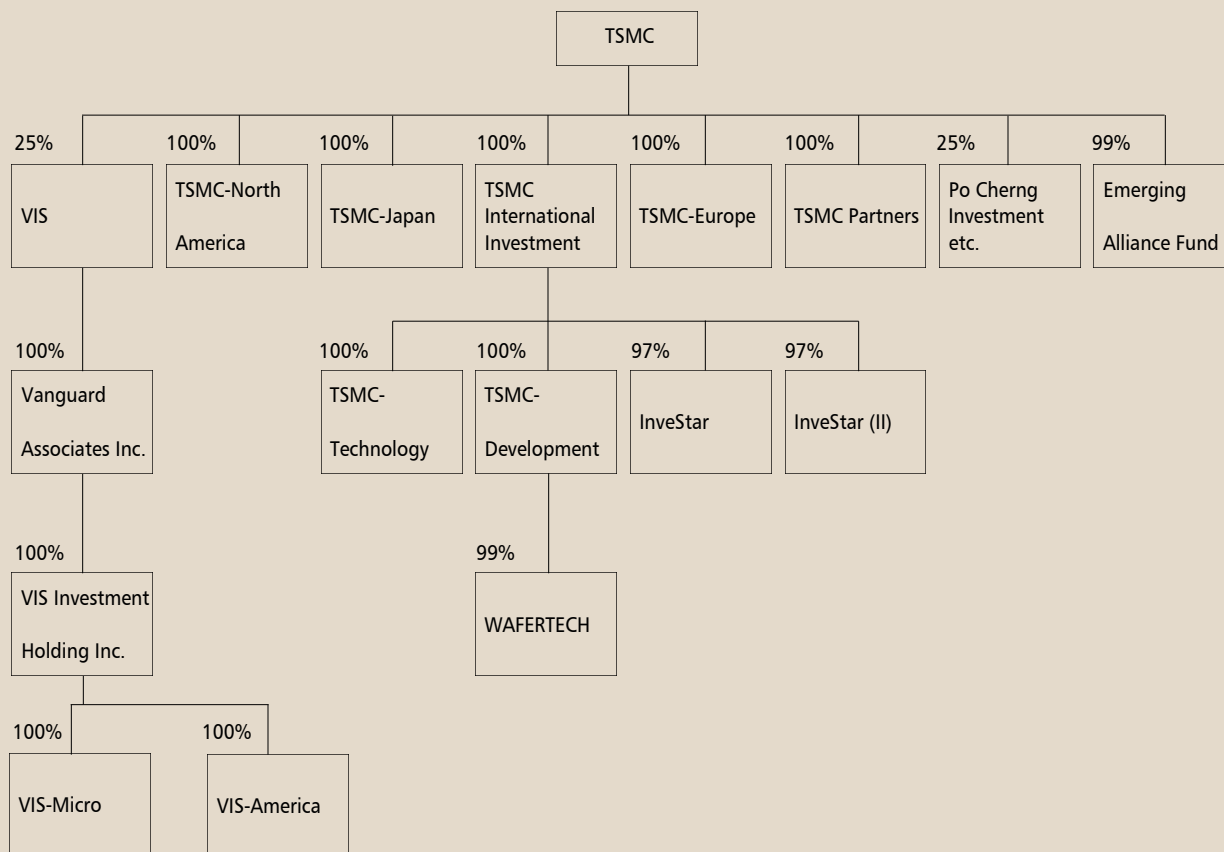
The combined financial statements include the consolidated accounts of TSMC plus the accounts of VIS, not a consolidated subsidiary of TSMC. TSMC's consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles, would not include the assets, liabilities, revenues or expenses of VIS.

In September 1994, TSMC's shares were listed on the Taiwan Stock Exchange. On October 8, 1997, TSMC listed its shares of stock on the New York Stock Exchange in the form of American Depositary Shares (ADSs). VIS's shares were listed on the Republic of China (ROC) Over-the-Counter Securities Exchange starting March 25, 1998.

TSMC has five direct wholly-owned subsidiaries, namely, TSMC-North America, Taiwan Semiconductor Manufacturing Company Europe B.V (TSMC-Europe), TSMC-Japan, TSMC International Investment, TSMC Partners, a 99.5% owned subsidiary, Emerging Alliance Fund; and several 25% owned investment holding affiliates - Po Cherng Investment, Chi Hsin Investment, Kung Cherng Investment, Chi Cherng Investment, Hsin Ruey Investment and Cherng Huei Investment. TSMC International Investment has two wholly-owned subsidiaries - TSMC Development, Inc. and TSMC Technology Inc., and two 97%-owned subsidiaries - InveStar Semiconductor Development Fund, Inc. and InveStar Semiconductor Development Fund (II), Inc. TSMC Development Inc. has a subsidiary, WaferTech, LLC, which has been 57% owned since its formation in 1996, increased to 68% owned in 1998; TSMC Development Inc. acquired an additional 29% equity interest for US\$474,640 and 2% equity interest for US\$19,530 thousand in December 2000 and June 2001, respectively, thereby increasing its equity interest to 99% as of December 31, 2001.

TSMC-North America, TSMC-Europe and TSMC-Japan are engaged mainly in marketing and engineering support activities. TSMC Partners, Emerging Alliance Fund and the investment holding affiliates are engaged in investments. TSMC International Investment and its subsidiaries invests in companies the business operations of which primarily focus on the design, manufacture and related semiconductor business WaferTech, LLC. is engaged in the foundry business and subsidiaries of VIS are engaged in marketing, research, development and investment.

The following diagram presents information regarding the relationship and ownership percentages among TSMC, VIS and their affiliates as of December 31, 2001:



2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Combination

The combined financial statements include the accounts of TSMC and the aforementioned affiliates (hereinafter, referred to individually or collectively as "Company"). All significant inter-company accounts and transactions have been eliminated. Minority interests in InveStar, InveStar (II), WaferTech, Emerging Alliance Fund (a new entity in 2001) are presented separately in the combined financial statements.

The total assets and/or revenues of investment of VIS in VIS Associates Inc. and its subsidiaries are less than 10% of those of Company and, therefore, TSMC is not required to, and did not prepare the combined financial statement.

Cash and cash equivalents

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

Short-term investments

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

Allowance for doubtful receivables

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

Sales and Allowance for sales returns and others

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 provided based on experience; such provisions are deducted from sales and related costs are deducted from cost of sales.

Inventories

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

Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on their operating and financial policy decisions are accounted for using the equity method. The difference between the investment cost and the Company's proportionate equity in the net assets of the investee on the date of acquisition is amortized over five years using the straight-line method. Such amortization and the Company's proportionate share in the net income or net loss of investee companies are recognized as components of "Equity in net income or net loss in investee companies - net" account. When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in 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" and the "Long-term investments" accounts, respectively.

In the event an investee offsets its capital surplus, excluding reserve from asset revaluation, against its accumulated deficit, which is recorded as a debit to the "Capital surplus" account and a credit to "Retained earnings" account, the Company also records the entry by its proportionate share of the investee capital surplus that was generated subsequent to its acquisition of investee interest, excluding reserve from asset revaluation.

Other stock investments are accounted using the cost method. These investments are stated at cost less declines in market value of listed stocks or other than temporary declines in value of unlisted stock. Such reductions are charged to shareholders' equity or current income, respectively. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying value of the long-term investment if the dividends are received in the same year that the related investments are acquired. Stock dividends are recognized only as an increase in the number of stocks held on the ex-dividend date.

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

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

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

The Company's proportionate share in the gains from disposal of property, plant and equipment, net of the applicable income tax, included as part of its share in the earnings or losses of investee companies accounted for using the equity method for the current year is reclassified into capital surplus from retained earnings. Such capital surplus is reclassified back to retained earnings when the Company subsequently disposes such investment. Also, if an investee company has unrealized loss on its own long-term investment which is evaluated by lower-of-cost-or-market method, the Company recognizes that unrealized loss in proportion to the Company's equity interest and record in an account as a component of shareholders' equity.

Gains or losses on transactions with investee companies accounted using the equity method are eliminated in proportion to the Company's ownership percentage while those with majority-owned subsidiaries are eliminated entirely in consolidation.

Property, plant and equipment and leased assets

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Major additions, renewals, betterment and interest expenses incurred during the construction period are capitalized. Maintenance and repairs are expensed currently.

Property, plant and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of all minimum future rental payments, or the market value of the property at the inception date of the lease. The lessee's periodic rental payment includes the purchase price of the leased property, and the interest expense.

Depreciation is computed using the straight-line method over these estimated service lives: Land improvements - 20 years; Buildings - 5 to 20 years; machinery and equipment - 5 to 10 years; office and other equipment - 2 to 7 years.

Upon sale or disposal of an item 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. Any such gain, less applicable income tax, is reclassified to capital surplus at the end of the year (before the relevant regulation was amended).

Combined debits

Combined debits arose from the business merger and the difference between the investment cost and the Company's proportionate share in the net asset of the investee companies at the date of acquisition. The combined debits are amortized using the straight-line method over 10 years.

Deferred charges

Deferred charges consist of technology, patent, software and system design costs, technology know-how, bond and financing issue cost and technology license fee. These are amortized as follows: Technology - ten years, patent - two to ten years, software and system design costs and technology know-how - three to five years, bond and financing issue costs - the term of the bonds and the related line of credit, and technology license fee - the term of the contract or economic useful lives of the related technology.

Pension costs

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gain of TSMC are amortized over 25 years, and unrecognized net transition asset of VIS is amortized over 26 years.

Deferred gain on sale-leaseback

The gain resulting from the sale of leased property is deferred. Such deferred gain is then amortized as follows: (a) operating lease - adjustment of rental expenses over the term of the lease, and (b) capital lease - adjustment of depreciation over the estimated useful lives or term of the lease; whichever is shorter.

Income tax

The Company adopted the inter-period income tax allocation method. Deferred income taxes are recognized for the tax effects of temporary differences, unused tax credits, and operating loss carry forwards. Valuation allowance is provided for deferred income tax assets that are not certain to 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 asset or liability cannot be related to an asset or liability in the financial statements, then, it is classified as current or non-current based on the expected reversal date of temporary differences.

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

Income taxes (10%) on unappropriated earnings of TSMC and VIS are recorded as expense in the year when the shareholders have resolved that the earnings shall be retained.

Derivative financial instruments

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

The foreign currency amount of forward contracts, entered into for the purposes of hedging foreign currency firm commitments, are recorded as receivable or payable at spot rate on the contract date. The difference between the foreign currency amount computed using the spot rate and the foreign currency amount computed using the forward rate at the inception dates of the contracts are amortized over the term of the forward contract using the straight-line method. At the balance sheet dates, the foreign currency amount of the forward contract are remeasured using prevailing rates. The difference arising from the re-measurement is deferred and included as adjustment to the transaction price when the commitments are realized. The receivables and/or payables related to the forward contract are netted out and the resulting net amount is presented as either an asset or liability. The foreign exchange difference arising from the settlement of the forward contract is presented as the adjustment to the transaction price when the commitment are realized.

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

The notional amounts of the foreign currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates. The amount paid or received (or premiums) for the call or put options are amortized using the straight-line method over the terms of the contracts.

Other foreign-currency transactions

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

Translation of foreign - currency financial statements

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

3. SIGNIFICANT ELIMINATING ENTRIES

Company	Account	Amount	Transaction Entity
TSMC	Payable to related parties	\$817,616	WAFERTECH, LLC
		548,472	VIS
		136,443	TSMC-North America
		54,601	TSMC-Europe
		\$15,355	TSMC-Japan
		10,318	TSMC-Technology
		320,179	VIS
	Receivable from related parties	25,251	WAFERTECH, LLC
		3,878	TSMC-Technology
		1,177,094	VIS
	Sales	3,111	WAFERTECH, LLC
		6,797,817	WAFERTECH, LLC
	Purchase	3,801,975	VIS
		1,028,725	TSMC-North America
	Marketing expenses - commissions	194,696	TSMC-Japan
		124,384	TSMC-Europe
		118,648	TSMC-North America
Marketing expenses - service charge	467	VIS	
Non-operating income	268,871	VIS	
Gain on sales of properties	1,223,373	TSMC-Technology	
TSMC- International	Royalty income	349,990	TSMC-Technology
Investment	Notes receivable	181,352	TSMC-Technology
	Interest receivable	26,269	TSMC-Technology
TSMC Partners	Interest revenue	11,344,120	TSMC International Investment
	Notes receivable	10,079,712	TSMC International Investment
	Deferred revenue	1,220,256	TSMC International Investment
	Royalty income	712,046	TSMC International Investment
	Interest income	6,888	TSMC-North America
TSMC - Technology	Accounts payable	57,501	WAFERTECH, LLC
	Sales	28,395	WAFERTECH, LLC
	Deferred revenue	14,473	WAFERTECH, LLC
	Royalty income	7,960	WAFERTECH, LLC
Accounts receivable			

4. CASH AND CASH EQUIVALENTS

Cash and bank deposits	\$38,677,000
Government bonds acquired under repurchase agreements	<u>1,845,659</u>
	<u>\$40,522,659</u>

5. SHORT TERM INVESTMENTS

Listed stocks	\$1,398,071
Mutual funds	<u>1,100,000</u>
	<u>\$2,498,071</u>
Market value	<u>\$8,027,321</u>

6. INVENTORIES - NET

Finished goods	\$2,668,580
Work in process	10,245,430
Raw materials	810,558
Supplies and spare parts	<u>1,409,049</u>
	15,133,617
Less - allowance for losses	<u>(4,177,777)</u>
	<u>\$10,955,840</u>

7. LONG-TERM INVESTMENTS

	Carrying Value	% of Owner Ship
<u>Common stocks</u>		
Accounted for equity method:		
VIS Associates Inc.	\$902,999	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	<u>2,907,967</u>	25
	<u>3,810,966</u>	
Accounted for cost method:		
Traded		
Powerchip Semiconductor Corporation	2,651,216	9
Amkor Technology	280,748	-
Etron Technology Inc.	275,766	3
Taiwan Mask	32,129	2

(Forward)

Non-traded

Walsin Advanced Electronics	414,481	10
United Technology	232,300	13
Global Test Corp.	179,951	10
Megic	177,000	9
Hong Tung Venture Capital	150,000	10
Global Investment Holding	107,270	6
Shin-Etsu Handotai Taiwan	105,000	7
ChipStrate Technology	69,658	9
Programmable Microelectronics	59,296	4
APE	46,748	6
W.K. Technology Fund IV	50,000	2
Richtek Technology, Inc.	45,015	10
EmpowerTel Networks	12,031	1
3Dfx Interactive	10,396	-
Ubicom, Inc. (Scenix)	6,028	2
Capella Microsystems	4,740	2
Equator Technologies	3,151	-
Divio	105	-
	<u>4,913,029</u>	

Preferred stocks (all non-traded)

Sonics	231,397	7
EmpowerTel Networks	179,480	7
Tropian, Inc.	151,688	5
Formfactor	134,358	2
Atheros Communications	125,754	2
Monolithic Power System	123,037	18
Quickilver Technology	122,497	29
LightSpeed Semiconductor	107,251	1
Memsic	107,088	20
Equator Technologies	99,358	2
Pixim	87,498	3
OEpic	87,497	6
Capella Microsystems	80,441	8
Signia	78,748	20
Newport Opticom	77,124	15
RapidStream	73,754	6
Reflectivity	69,998	6
NanoAmp Solutions	64,838	3
NetLogic Microsystems	64,748	1
Integrated Memory Logic	63,318	10
Match Lab	61,249	10
Y-MEDIA	52,499	2
Rise Technology	52,498	2
Creosys	52,498	8
Ikanos Communication	52,498	3

(Forward)

Ralink Technology	52,498	7
SiRF Technology	51,248	1
Uicom, Inc. (Scenix)	47,636	2
Advanced Angalogic Technology	44,131	2
OmegaBand (Seagull)	43,749	6
Pico Turbo	43,749	7
Sensory	43,749	4
HINT Corporation	34,999	5
Litchfield	34,999	6
Quake Technology	34,999	1
Procoat Technology	30,000	10
Angstron System	26,249	7
Divio	17,500	4
Incentia Design Systems	17,499	2
Silicon Data, Inc.	8,750	2
	<u>2,932,869</u>	
<u>Convertible note</u> (all non-traded)		
Rise Technology	10,500	-
Pico Turbo	10,323	-
OmegaBand (Seagull)	6,730	-
	<u>27,553</u>	
<u>Funds</u>		
Crimson Asia Capital	27,091	-
Horizon Ventures	125,701	-
BIAM Global Opportunity Fund	908,944	-
	<u>1,061,736</u>	
<u>Warrant</u>		
OEpic	9	-
	<u>\$12,746,162</u>	

The equity in net losses of subsidiaries and investee companies consisted of following:

VIS Associates Inc.	(\$193,262)
SSMC	(1,722,080)
	<u>(\$1,915,342)</u>

The carrying values of equity-accounted investments and the related equity in net income or net loss were based on audited of financial statements in the same period.

Information on long-term investments is as follows:

Market value of traded stocks	\$4,017,454
Equity in the net assets of unlisted stocks	9,856,355
Net asset value of funds	1,202,453

8. PROPERTY, PLANT, AND EQUIPMENT

Accumulated depreciation consists of the following:

Land improvements	\$108,770
Buildings	20,123,652
Machinery and equipment	159,908,115
Office and other equipment	3,441,428
	<u>\$183,581,965</u>

Information on the status of the construction of the manufacturing facilities of TSMC as of December 31, 2001 is as follows:

Manufacturing Plant	Estimated Cost	Accumulated Expenditures	Expected or Actual Date of Start of Operations
TSMC's Fab 6	\$76,889,000	\$69,986,000	March 2000
TSMC's Fab 7	5,930,500	2,867,500	March 2001
TSMC's Fab 8	28,322,100	11,355,300	March 2001
TSMC's Fab 12 - 1 st stage	38,280,800	28,988,700	April 2002
TSMC's Fab 14 - 1 st stage	9,711,000	8,449,600	June 2003

Interest expense (gross of capitalized amount of NT\$537,713 thousand), for the years ended December 31, 2001 was NT\$4,411,636 thousand. The interest rates used for purposes of calculating the capitalized amount were 2.54% to 6.755%.

9. DEFERRED CHARGES - NET

Software and system design costs	\$2,162,419
Technology licensing fee	996,578
Technology know - how	103,500
Bond and financing issue costs	155,650
Others	445,728
	<u>\$3,863,875</u>

10. SHORT-TERM BANK LOANS

Secured loan in NT dollars:

NT\$ 107,100 thousand, repayable by October 2002, annual interest at 3.2%~3.8% \$107,100

Unsecured loan:

NT\$ 20,000 thousand, repayable by January 2002,
annual interest 2.85% 20,000

US\$16,006 thousand, repayable by January to June 2001,
annual interest 2.38%-2.9% 560,183

US\$ 82,000 thousand, repayable by March 2002,
annual interest at 2.679% 2,869,918

US\$5,500 thousand, repayable by June 2002,
annual interest at 3.188% 192,495

US\$21,565 thousand, repayable by October 2002,
annual interest at 2.590% 754,735

US\$46,000 thousand, repayable by October 2002,
annual interest at 2.548% 1,609,954

US\$21,000 thousand, repayable by May 2002,
annual interest at 2.33% 734,979

\$6,849,364

Unused credit lines as of December 31, 2001 aggregated approximately NT\$25,099,000 thousand (consisting of NT\$13,729,900 thousand and US\$324,836 thousand).

The NT\$107,100 thousand loan is secured by short-term investment with carrying amount of NT\$71,400 thousand.

11. COMMERCIAL PAPER

These instruments, which bear annual interest rates ranging from 3.35% to 4.45%, are secured by bank guaranty and payable between March 2002 to June 2002.

12. LONG-TERM BANK LOANS

Unsecured loan:

US\$200,000 thousand, repayable by December 2003, annual interest at 2.54%	\$6,999,800
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Secured loan:

US\$440,000 thousand, repayable by February 28, 2005, annual interest at 2.578%	15,399,560
Loans for facility and importation of equipment - repayable in semi-annual installments starting from November 1999 to June 2004, floating interest 4%~ 6.35%	3,900,000
Loans for importation of equipment - repayable in semi-annual installments starting from October 2000 to October 2005, interest at 3.95~ 6.42%	2,920,000
Loans for importation of equipment - repayable in quarterly installments starting from January 2003 to July 2007, interest at 6.475%~6.765%	330,000
Loans for importation of equipment - repayable in semi-annual installments starting from February 2000 to February 2005, interest at 6.225%~6.765%	256,000
Loans for importation of equipment - repayable in semi-annual installments starting from July 1999 to July 2004, interest at 6.35%~6.64%	220,000
Loans for importation of equipment - repayable in semi-annual installments starting from February 1998 to February 2003, interest at 6.475%~6.765%	112,000
Loans for import of equipment - repayable in semi-annual installments starting from May 1997 to May 2002, interest at floating rate 6.475%~6.765%	40,000
Commercial paper - guaranteed by the bank, repayable in May 2004, interest at 2.41%.	<u>300,000</u>
	30,477,360
Less-current portion	<u>(2,536,000)</u>
	<u>\$27,941,360</u>

Future minimum principal payments under the Company's loan arrangements as of December 31, 2001 are as follows:

Year	Amount
2002	\$2,536,000
2003	9,518,800
2004	2,021,333
2005	16,272,893
2006 and thereafter	<u>128,334</u>
	<u>\$30,477,360</u>

As of December 31, 2001, the US\$440,000 thousand loan is secured by the assets of WaferTech, LLC with carrying amount of approximately NT\$28,378,000 thousand (US\$811,000 thousand). In addition, a portion of the unused credit line is secured by properties owned by TSMC with carrying value of approximately NT\$1,378,000 thousand. Properties of VIS with carrying value of NT\$7,520,540 thousand have been pledged or mortgaged as collateral mainly for long-term debts.

The bonds and loan agreements require, among other things, the maintenance of specific financial ratios. As of December 31, 2001, certain financial ratios were not in compliance with the agreements. The agreements also require the Corporation to either issue capital stock for cash (in which case, the board of directors need to approve it by February 1, 2002) or obtain additional financing with the concurrence of the bank syndicate before June 2002.

Unused credit lines for long-term bank loans as of December 31, 2001 aggregated approximately NT\$4,391,000 thousand (consisting of NT\$3,070,000 thousand and US\$37,750 thousand).

13. BONDS

Domestic unsecured bonds:

Repayable in March 2003, 7.71% annual interest payable semi-annually	\$4,000,000
Repayable in October 2002 and 2004, 5.67% and 5.95% annual interest payable annually, respectively	10,000,000
Repayable in December 2005 and 2007, 5.25% and 5.36% annual interest payable annually, respectively	15,000,000

Domestic secured bonds:

Repayable in annual installments from November 6, 2000 to November 6, 2003, interest at 6.59%, guaranteed by financial institution.	1,500,000
Repayable in annual installments from November 15, 2005 to November 15, 2006, interest at 3.5%~3.6%, guaranteed by financial institution.	1,100,000

31,600,000

Less-current portion

(5,750,000)

\$25,850,000

Future minimum principal payments under the Company's bonds arrangements as of December 31, 2001 are as follows:

Year	Amount
2002	\$5,750,000
2003	4,750,000
2004	5,000,000
2005	11,050,000
2006 and thereafter	5,050,000
	<u>31,600,000</u>
Less-current portion	(5,750,000)
	<u>\$25,850,000</u>

On November 6, 2001, the board of directors of TSMC approved the issuance of domestic unsecured bonds with an aggregate principal amount of NT\$15,000,000 thousand. The issuance of the domestic unsecured bond has been approved by the Securities and Futures Commission of ROC (SFC). As of January 18, 2002, the issuance is still in process.

VIS issued first bond amounting to NT\$1,500,000 thousand in 6.59% annual interest rate guaranteed by the financial institution that is repayable in annual installments from November 6, 2000 to November 6, 2003. The second bond amounting to NT\$1,100,000 thousand in 3.5%~3.6% annual interest rate is repayable in annual installment from November 15, 2005 to November 15, 2006, and current portion is NT\$750,000 thousand.

14. SHAREHOLDERS' EQUITY

TSMC has issued 259,006 thousand American Depositary Shares (ADS) as of December 31, 2001. The number of common shares represented by the ADSs is 1,295,031 thousand shares.

The SFC has, on January 4, 2002, approved TSMC's sponsorship of the offer by certain existing shareholders of up to 350,000 thousand common shares in the form of ADSs. The decision to sponsor the offering of common shares in the form of ADSs was approved by the Board of Directors on December 3, 2001. The offering is still in process as of January 18, 2002.

Capital surplus except for that arising from the application of the equity method of accounting, pursuant to ROC Company Law, can only be used to offset a deficit or transferred to capital (as a stock dividend). Such transfer from capital surplus to capital can only be made once a year at a specific percentage. An amendment to the ROC Company Law issued on November 14, 2001, limited the nature of the capital surplus that can be used to offset a deficit or transferred to capital (as a stock dividend) to those that arise from donations (donated capital) and those attributable to the excess of the issue price over the par value of capital stock issued (paid-in capital).

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

- a. 10% legal reserve;
- b. Special reserve in accordance with relevant laws or regulations;
- c. Bonuses to directors and supervisors and to employees equal to 1% and at least 1% of the remainder, respectively;
- d. Dividends to holders of preferred shares equal to a 3.5% annual rate, based on the period during which the preferred shares have been outstanding;
- e. The appropriation of the remaining balance after the above shall be decided at the shareholder's meeting;

Dividends are distributed in cash and/or in the form of shares of stock. Since the Company is in a capital-intensive industry, distribution of profits shall be made preferably by way of stock dividend. The total of cash dividend paid (in any given year) should not exceed 50% of total dividends paid and/or distributed.

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

The aforementioned appropriation for legal reserve is made until the reserve equals the aggregate par value of TSMC's outstanding capital stock. The reserve can only be used to offset a deficit; or, when its balance has reached 50% of the aggregate par value of TSMC's outstanding capital stock, up to 50% thereof can be distributed as stock dividend.

Pursuant to existing regulations promulgated by the Securities and Futures Commission, a special reserve equivalent to the debit balance of any account shown in the shareholder equity section of the balance sheets, other than the deficit, shall be made from unappropriated retained earnings. The special reserve shall be adjusted accordingly based on the debit balance of such accounts as at year-end. As of December 31, 2001, prior year's accumulated deficit in the amount of NT\$1,803,168 thousand from WSMC is included in the unappropriated retained earnings.

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 starting January 1, 1998. An

Imputation Credit Account (ICA) is maintained by TSMC and VIS for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

TSMC issued 1,300,000 thousand unlisted Series A - preferred shares to certain investors in November 29, 2000. The following are the rights of the preferred share holders and other terms and conditions:

- a. Are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- b. Are not entitled to receive any 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 of the Company. 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.
- f. Will be redeemed within thirty months from their issuance. The holders will have the foregoing rights and TSMC's related obligation would remain the same, until the shares are actually redeemed by TSMC

15. PENSION PLAN

TSMC and its affiliates have pension plans for all regular employees, which provide benefits based on length of service and average monthly salary for the final six months prior to retirement.

These companies make monthly contributions, equal to 2% of salaries to a pension fund (the "Fund"). The Fund is administered by the pension fund monitoring committee (the "Committee") and deposited in the committee's name in the Central Trust of China. The pension cost of VIS is accrued at an amount that is equal to a percentage (currently 6%) of salaries and wages.

Pension information are summarized as follows:

a. Components of pension cost	
Service cost	\$469,542
Interest cost	109,144
Projected return on plan assets	(50,438)
Amortization	3,461
	<u>\$531,709</u>
b. The details of the benefit obligation and reconciliation of the fund status of the plan and accrued pension cost is as follows:	
Benefit obligation	
Vested benefit obligation	\$739
Nonvested benefit obligation	1,122,768
Accumulated benefit obligation	1,123,507
Additional benefits based on future salaries	1,568,428
Projected benefit obligation	2,691,935
Fair value of plan assets	<u>(956,069)</u>
Funded status	1,735,866
Unrecognized prior service cost	-

(Forward)

Unrecognized net transitional assets	7,170
Unrecognized net transitional obligation	(157,691)
Unrecognized net gain	569,258
Additional liability	-
Accrued pension cost	<u>\$2,154,603</u>
c. Actuarial assumptions	
Discount rate used in determining present values	5%
Future salary increase rate	5%
Expected rate of return on plan assets	5%
d. Contributions to pension fund	<u>\$148,465</u>
e. Payments from pension fund	<u>\$-</u>

16. INCOME TAX

a. A reconciliation of income tax expense - current before tax credits and income tax expense on income before income tax at statutory rate is shown below:	
Income tax expense on "income before income tax" at statutory rate	(\$922,796)
Tax-exempt income	1,107,147
Temporary differences	<u>(2,781,575)</u>
Income tax expense - current before tax credits	<u>(\$2,597,224)</u>
b. Income tax benefits consists of:	
Income tax expense - current before tax credits	(\$2,597,224)
Income tax credits	2,928,317
Additional 10% on the unappropriated earnings	(362,251)
Other income tax	<u>(16,318)</u>
	(47,476)
Net change in deferred income tax assets (liabilities) for the year	
Investment tax credits	2,457,899
Loss carried forward	1,525,241
Temporary differences	(682,267)
Valuation allowance	<u>1,087,622</u>
	<u>\$4,341,019</u>
c. Deferred income tax assets (liabilities) consisted of :	
Current	
Investment tax credits	\$2,979,032
Loss carried forward	257,591
Temporary differences	<u>3,147</u>
	3,239,770
Less-valuation on allowance	<u>(539,348)</u>
	<u>\$2,700,422</u>
Noncurrent	
Investment tax credits	\$22,704,199
Loss carried forward	3,156,253
Temporary differences	<u>(1,184,204)</u>
	24,676,248
Less-valuation allowance	<u>(5,683,355)</u>
	<u>\$18,992,893</u>

The effective tax rates for deferred income tax of TSMC and its affiliates as of December 31, 2001 were 17.56%, and 25%-41%, respectively.

d. Integrated income tax information:

Balances of the imputation credit account

TSMC	<u>\$9,365</u>
VIS	<u>\$6,158</u>

TSMC and VIS's expected creditable ratio as of December 31, 2001 were 0.02% and 0%, 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 2001 may be adjusted according to the difference between the expected and actual imputation credit allowed under the regulation.

e. The unappropriated retained earnings of TSMC as of December 31, 2001 included the earnings generated up to December 31, 1997 of NT\$4,827 thousand.

Unused investment tax credits arising from purchase of machinery and equipment, and research and development expenditures as of December 31, 2001 will expire as follows:

Year of Expiry	Loss Carried Forward	Tax Credits
2002	\$1,030,365	\$5,119,926
2003	5,694,914	6,032,425
2004	2,380,345	11,097,088
2005	-	3,433,792
2006	<u>4,549,750</u>	-
	<u>\$13,655,374</u>	<u>\$25,683,231</u>

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

	Tax-Exemption Period
Expansion of Fab1 and Fab2-modules A and B, Fab3 and Fab4, and construction of Fab5	1999 to 2002
Expansion of Fab7	1998 to 2001
VIS's first expansion of manufacturing plant	2000 to 2003

The tax authorities have examined income tax returns of TSMC through 1999, excluding 1998. However, TSMC is contesting the assessment of the tax authority for 1992, 1993, 1996 and 1997.

The tax authorities have examined income tax returns of VIS through 1998.

17. RELATED PARTY TRANSACTIONS

TSMC and VIS engage in business transactions with the following related parties:

- a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC is one of the directors of ITRI.
- b. Philips Electronics N.V., (Philips), a major shareholder of TSMC.
- c. Systems on Silicon Manufacturing Company Pte Ltd. (SSMC), an investee of TSMC.
- d. VIS America, an investee of VIS's subsidiary (VIS Associates Inc.).
- e. VIS Micro, an investee of VIS's subsidiary (VIS Associates Inc.).
- f. Walsin Lihwa Corporation (WLC), a shareholder and director of VIS.
- g. Powerchip Semiconductor Corporation (PSC), VIS is one of the directors of PSC.
- h. Walsin Advanced Electronics (WAE), VIS is one of the directors of WAE.

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

	<u>Amount</u>	<u>%</u>
<u>During the year</u>		
Sales		
Philips and its affiliates	\$2,398,257	2
ITRI	114,546	-
WAE	67,664	-
SSMC	48,972	-
	<u>\$2,620,439</u>	<u>2</u>
Purchase		
PSC	\$69,770	1
SSMC	42,984	-
	<u>\$112,754</u>	<u>1</u>
Rental expenses - ITRI	<u>\$161,604</u>	<u>11</u>
Manufacturing expenses		
Technical service fee - Philips	\$2,418,276	100
WAE	123,949	-
ITRI	13,016	-
PSC	550	-
	<u>\$2,555,791</u>	<u>100</u>
General and administrative expenses - ITRI	<u>\$147</u>	<u>-</u>
Marketing expenses		
VIS Micro	\$20,427	1
ITRI	124	-
	<u>\$20,551</u>	<u>1</u>
Non-operating income		
SSMC	\$95,284	1
PSC	1,090	-

(Forward)

WAE	100	-
	<u>\$96,474</u>	<u>1</u>
Other equipment		
WLC	<u>\$2,292</u>	<u>-</u>
<u>At end of the year</u>		
Receivable		
Philips and its affiliates	\$116,499	67
ITRI	37,383	21
SSMC	20,671	12
PSC	54	-
	<u>\$174,607</u>	<u>100</u>
Prepayments and other current assets		
ITRI (rental)	<u>\$42,664</u>	<u>1</u>
Payable		
Philips and its affiliates	\$499,331	90
ITRI	33,034	6
WAE	17,889	3
VIS Micro	2,532	1
SSMC	470	-
PSC	49	-
	<u>\$553,305</u>	<u>100</u>

Transactions with related parties are based on normal prices and collection or payment terms except that VIS Micro perform research and development and marketing activities for VIS and VIS pays actual expenses incurred related to such undertakings plus a 5% mark-up and sales of technical service which were in accordance with the related contracts.

18. SIGNIFICANT LONG-TERM OPERATING LEASES

TSMC leases from ITRI the land, building and certain machinery and equipment of its first manufacturing facility under agreements that will expire in March 2002. The annual rent under such agreement amounts to NT\$161,604 thousand.

TSMC leases the land where its 2nd through 14th manufacturing facilities are located from the Science-Based Industrial Park Administration. The related agreements will expire on various dates from March 2008 to December 2020 and have annual rentals aggregating NT\$208,716 thousand. The agreements can be renewable upon their expiration.

TSMC-North America leases its office premises and certain equipment under a non-cancelable operating agreement, which will expire in September 2020. TSMC-Europe entered into an office lease agreement covering its office premise, which will expire in 2004; Annual rental currently is NT\$101,395 thousand.

VIS leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration under agreements which will expire on April 2010 and June 2015, but renewable upon expiration. Annual rentals aggregated to NT\$23,812 thousand.

VIS also leases machinery and equipment from Comdisco Trade Inc. under operating lease agreements through November 2002, December 2002 and December 2003, respectively. Annual rentals aggregated to NT\$271,655 thousand (US\$7,762 thousand).

Future annual minimum rentals under the aforementioned leases are as follows:

Year	Amount
2002	\$643,166
2003	346,723
2004	336,736
2005	335,007
2006	337,992
2007 and thereafter	2,366,328
	\$4,365,952

19. SIGNIFICANT COMMITMENTS AND CONTINGENCY AS OF DECEMBER 31, 2001

The significant commitments and contingency as of December 31, 2001 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 9, 2007 and thereafter be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts TSMC pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of TSMC's production capacity.
- c. Under a Technical Cooperation Agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- d. Under several foundry agreements, TSMC shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$205,949 thousand had been received as of December 31, 2001.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. dated March 30, 1999, the parties agreed to: (a) form 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, (b) set SSMC's total authorized capital at about S\$1.2 billion, and, (c) allow TSMC to invest in 32% of SSMC's capital. As of December 31, 2001, the aggregate amount of investments from these parties has not reached S\$1.2 billion. TSMC and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.
- f. Provision of technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed once for successive periods of five years unless pre-terminated by either party under certain conditions.

- g. Under a Technical Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, TSMC shall receive payments for the technology transferred to National. The agreement will remain in force for ten years. After expiration, this agreement will be automatically renewed once for successive periods of two years unless pre-terminated by either party under certain conditions.
- h. Under a patent license agreement, TSMC has entered into a cross license arrangement for certain semiconductor patents with a US-based company for a term starting from October 26, 2001 through December 31, 2006. TSMC shall pay royalty fees to the such company.
- i. VIS shall pay royalties under various patent/license agreements as follows:
- 1) ITRI - at a specific percentage of sales of certain products for five years from November 11, 1994.
 - 2) LUCENT Technologies, Inc. -(a) at a specific amount in three installments within three years and a percentage of net sales of certain products for three years from January 1998; (b) at a specific amount and a specific percentage of net sales of certain products within two years from January 1998.
 - 3) Texas Instruments Incorporated-at a specific percentage of net sales of certain products for ten years from January 1997.
 - 4) HITACHI Corporation-at a specific amount in semi-annual installments within five years from May 1997.
 - 5) NEC Corporation-at a specific amount in six installments from February 1999 to 2003.
 - 6) MITSUBISHI Corporation - at specific amount and a specific percentage of net sales of certain products within five years from August 1999.
- j. In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan ("Plan") under which officers, key employees and nonemployee directors may be granted option rights. However, WaferTech is a limited liability company and does not have shares of stock. Thus, each option right granted under the Plan provides grantees rights to buy ownership interests in WaferTech. The Plans also provides for approximately 6% of the total ownership interests to be available for grant, represented by 15.15 million-option rights. For option rights granted to date, the option purchase price exceeded fair value as of the date of the grant. While WaferTech may grant employees option rights that are exercisable at different times or within different periods, it has generally granted option rights which are exercisable on a cumulative basis in annual instalments of 25% each on the first, second, third, and fourth anniversaries of the date of grant.

The following table summarizes information about the Plans:

	Option Rights Available For Grant	Outstanding Option Rights	
		Number of Option Rights	Exercise Price (US\$)
Balance, January 1, 2001			
Options granted	3,782,166	6,836,644	1.23
Option price > fair market value	-	-	-
Options exercised	-	(2,949,358)	1.02
Options cancelled	825,906	(825,906)	1.27
Balance, December 31, 2001	<u>4,608,072</u>	<u>3,061,380</u>	1.43

These options will expire if not exercised at specific dates between May 2006 to December 2010.

- k. Under a management agreement, InveStar Capital Inc. (ISC) of the Cayman Islands provides investment and administrative services to TSMC. ISC should receive quarterly, starting from October 1, 1996, a management fee of 2% each year of total weighted average paid-in capital and capital surplus of TSMC, excluding retained earnings and losses.
- l. WaferTech had recorded a reserve of US\$ 16,000 thousand for a litigation arising from a charge by certain contractors that WaferTech caused the contractors to incur additional labor and material costs outside the contracts. The reserve is reflected in accrued construction and equipment payable with the offset to construction in progress. The remaining accrued reserve of US\$5,250 thousand is sufficient for payments to the other construction contractors in the year of 2002.
- m. WaferTech, was assessed by the Department of Revenue of the State of Washington for deficiency excise taxes of approximately US\$6,900 thousand. WaferTech, intends to appeal the assessment. As of December 31, 2001, WaferTech has recorded a reserve that management believes is sufficient to address any exposure related to this tax assessment.
- n. TSMC-North America started a stock appreciation right program from December 1, 2000, whereby the employees received cash bonuses based on the appreciation of the quoted market price of the shares of stock of TSMC. Compensation expenses are recorded based on the difference between the grant price and market price at the end of each period. This expense is recognized ratably over the vesting period and adjusted based on fluctuations of the stock in a period. As of December 31, 2001, TSMC North - America has recorded compensation expense and has related accrued liability of approximately US\$3,900 thousand.
- o. Unused letter of credits as of December 31, 2001 were NT\$21,962 thousand (consisting of NT\$1,200 thousand, US\$177 thousand and JPY¥54,619 thousand).

20. ADDITIONAL DISCLOSURES

The following are the additional disclosures required by the SFC for TSMC and its affiliates:

- 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 estates 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 estates 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 on which the Company exercises significant influence:
Please see Table 8 attached.

j. Financial instrument transactions:

The relevant information on derivative financial instruments entered into by TSMC, VIS and their affiliates are as follows:

1) Open forward exchange contracts as of December 31, 2001:

Contract	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date	Maturity Amount (Thousand)
<u>TSMC</u>					
Sell	US\$	US\$17,912	NT\$618,206	Jan. 2002	NT\$620,600
Sell	US\$	US\$783,000	NT\$26,985,688	Jan.2002~Mar.2002	NT\$27,013,402
<u>VIS</u>					
Sell	US\$	US\$1,000	(NT\$549)	Jan. 2002	NT\$34,452

The net payable from forward exchange contracts (shown in the balance sheet as part of "Other current liabilities" account) as of December 31, 2001 aggregated to NT\$400,378 thousand. Net exchange loss for the year ended December 31, 2001 was NT\$1,929,325 thousand.

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

	Amount (Thousands)
Accounts receivable	US\$525,425
Accounts payable	US\$169,664
Time deposits	US\$707,416

2) Interest rate swaps

TSMC has entered into interest rate swap contracts to hedge exposure to rising interest rates on its floating rate long-term bank loans. These significant transactions are summarized as follows:

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

Interest expense on these transactions for the years ended December 31, 2001 was NT\$473,413 thousand.

3) Option contracts

TSMC has entered into foreign currency option contracts to hedge risks of exchange rate fluctuations arising from its anticipated U.S. dollar cash receipts from its export sales or Japanese Yen obligations related to its importation of machinery and equipment.

Open option contracts as of December 31, 2001 were as follows:

Contract	Currency	Contract Amount (Thousand)	Carrying Value (Thousand)	Fair Value (Thousand)	Strike Price	Maturity
Put option sell	EUR	EUR293,000	(\$39,500)	(\$252,833)	0.8940~0.9340 (US\$/EUR)	Jan. ~Feb., 2002

For the year ended December 31, 2001, TSMC realized premium income of NT\$328,254 thousand and premium expenses of NT\$93,522 thousand.

4) Cross Currency SWAP

VIS enters into currency SWAP contracts with the bank to hedge exposure on foreign currency exchange rate fluctuations on various foreign currency transactions of VIS.

Open currency SWAP contracts as of December 31, 2001 were as follows:

	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date
<u>VIS</u>				
Sell	US\$	US\$5,000	(NT\$2,712)	Jan. 2002

5) Transaction risk

- a) 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.
- b) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in currency exchanges rates on the Company's foreign currency denominated receivables, payables and purchase commitments, and interest rate fluctuations on its floating rate long-term loans and. Gains or losses from forward exchange contracts are likely to be offset by gains or losses on foreign currency denominated receivables or payables while those gains or losses on forward contracts used to hedge firm commitments are included in the measurement of the related transaction when the hedged transaction occurs. Interest rate risks are also managed as the expected interest expense on long-term loans is fixed. Thus, market price risks on exchange rate and interest rate fluctuations are minimal.
- c) Liquidity and cash flow requirements: The cash flow requirements on the derivative instruments are limited to the net differences between the spot rates and contracted forward rates at settlement dates (for forward contracts); and foreign currency purchase commitments arising from the different foreign currency demand (for cross currency swap contracts); and amounts receivable/payable arising from the differences in the rates on interest rate swap contracts. Also, options may not have to be exercised at all in cases where the strike price is higher than the related market price at exercise dates. Management believes that the foregoing requirements are not material.

6) Fair value of financial instruments

	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Non-derivative financial instruments</u>		
Assets		
Cash and cash equivalents	\$40,522,659	\$40,522,659
Pledged time deposits	36,183	36,183
Short-term investments	2,498,071	8,027,321
Receivables from related parties	174,607	174,607
Accounts receivable	20,662,671	20,662,671
Long-term investments	12,746,162	15,076,262
Refundable deposits	787,347	787,347
Liabilities		
Short-term bank loans	6,849,364	6,849,364
Commercial paper payable	1,270,000	1,270,000
Payable to related parties	553,305	553,305
Notes and accounts payable	1,744,553	1,744,553
Payable to contractor and equipment suppliers	12,999,508	12,999,508
Long-term bank loans (including current portion)	30,480,445	30,480,445
Bonds (including current portion)	31,600,000	32,193,224
Guarantee deposits	7,964,078	7,964,078
<u>Derivative financial instruments</u>		
Forward exchange contracts (sell)	28,031,667	27,603,345
Interest rate swaps	26,969	(343,088)
Option	(39,500)	(252,833)
Currency swap	2,713	(2,712)

Fair values of financial instruments were determined as follows:

- a) Short-term financial instruments - carrying values.
- b) Short-term investments - market values.
- c) Long-term investments - market value for listed companies and net equity value for the others.
- d) Refundable deposits and guarantees deposits - carrying values.
- e) Long-term liabilities - based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable are discounted at present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.
- f) Derivative financial instruments - based on outright forward rates and interest rate in each contract.

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 are not equal the fair value of the Company.

21. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	Overseas	Domestic	Adjustments and Elimination	Combined
<u>2001</u>				
Sales to unaffiliated customers	\$-	\$130,207,394	\$-	\$130,207,394
Transfers between geographic areas	8,152,070	4,791,101	(12,943,171)	-
Total sales	<u>\$8,152,070</u>	<u>\$134,998,495</u>	<u>(\$12,943,171)</u>	<u>\$130,207,394</u>
Gross profit	<u>(\$1,224,832)</u>	<u>\$33,295,718</u>	<u>(\$1,686,562)</u>	<u>\$30,384,324</u>
Operating expenses				(22,145,649)
Non-operating income				6,582,789
Non-operating expenses				<u>(11,130,279)</u>
Income before income tax				<u>\$3,691,185</u>
Minority interest loss				<u>\$6,450,970</u>
Identifiable assets	<u>\$73,433,656</u>	<u>\$327,894,422</u>	<u>(\$23,335,461)</u>	<u>\$377,992,617</u>
Long-term investments				<u>12,746,162</u>
Total assets				<u>\$390,738,779</u>

b. Gross export sales

Area

America	\$65,131,432
Asia	23,929,350
Europe	<u>7,811,281</u>
	<u>\$96,872,063</u>

The export sales information is presented by billed regions.

c. Major customer

The customer with the sales amounted over 10% of the Company's total sales is as following:

<u>Customer</u>	<u>Amount</u>	<u>%</u>
A	\$21,789,769	17

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

FINANCING PROVIDED

For the Year Ended December 31, 2001

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

No.	Financing Name	Counter-Party	Financial Statement Account	Financing Limit for Each Borrowing Company	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons	Allowance for Bad Debt	Collateral Item Value	Transaction Amount	Financing Company's Financing Amount Limits (US\$ in Thousand)
1	TSMC-BVI	TSMC Technology	Other receivables	-	US\$14,662	US\$14,662	7.75%	Operating capital	\$-	-	\$-	US\$779,968 (Note 1)
2	VIS	VIS Holding	Prepaid expenses	(Note 2)	\$1,232	\$-	-	Prepayments for product development	-	-	-	\$4,400,000 (Note 3)

Note 1: Not exceeding the issued capital of the Company.

Note 2: Not exceeding 10% of the issued capital of VIS for each counterparty, and also limited to 30% of the issued capital of each counterparty.

Note 3: Not exceeding 20% of the issued capital of VIS.

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

ENDORSEMENT/GUARANTEE PROVIDED

For the Year Ended December 31, 2001

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

No.	Endorsement/ Guarantee Provider	Counter-Party Name	Nature of Relationship (Note 2)	Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Value of Collateral Property, Plant and Equipment (Note 3)	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0	TSMC	TSMC Development Inc.	3	(Note 4)	\$9,379,732 (US\$268,000)	\$9,379,732 (US\$268,000)	\$-	3.38%	\$54,397,659
		TSMC - North America	2		1,399,960 (US\$40,000)	1,399,960 (US\$40,000)	-	0.51%	
		WAFERTECH, LLC	3		15,399,560 (US\$440,000)	15,399,560 (US\$440,000)	-	5.56%	

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 limiting to the issued capital of the transaction entity, unless otherwise approved by Board of directors.

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES HELD

December 31, 2001

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

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: TSMC							
<u>Stock</u>							
TSMC - North America	Subsidiary	Long-term investment	11,000	\$786,062	100	\$786,062	
TSMC - Europe	Subsidiary	Long-term investment	-	10,147	100	10,147	
TSMC - Japan	Subsidiary	Long-term investment	6	80,156	100	80,156	
VIS	Investee	Long-term investment	556,133	3,377,526	25	6,584,620	
TSMC-BVI	Subsidiary	Long-term investment	779,968	19,987,814	100	19,987,814	
TSMC Partners	Subsidiary	Long-term investment	300	3,032,376	100	3,032,376	
SSMC	Investee	Long-term investment	301	2,907,967	32	2,907,967	
Emerging Alliance Fund	Subsidiary	Long-term investment	-	741,617	99	741,617	
Taiwan Mask Corp.	-	Long-term investment	7,782	32,129	2	183,658	
United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	274,107	
Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	118,726	
W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	64,855	
Hon Tung Ventures Capital	-	Long-term investment	15,000	150,000	10	139,086	
Amkor Technology	-	Long-term investment	505	280,748	-	287,610	
<u>Certificate</u>							
Po Cherng Investment	Investee	Long-term investment	-	164,724	25	164,724	
Chi Hsin Investment	Investee	Long-term investment	-	158,252	25	158,252	
Kung Cherng Investment	Investee	Long-term investment	-	177,812	25	177,812	
Chi Cherng Investment	Investee	Long-term investment	-	156,694	25	156,694	
Hsin Ruey Investment	Investee	Long-term investment	-	157,352	25	157,352	
Cherng Huei Investment	Investee	Long-term investment	-	166,639	25	166,639	
<u>Equity</u>							
Crimson Asia Capital Fund	-	Long-term investment	-	27,091	N/A	27,091	
Horizon Ventures Fund	-	Long-term investment	-	125,701	N/A	125,701	
Held Company Name: Chi Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	3,023	98,282	-	253,173	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: Chi Cherng Investment							
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	\$98,834	15	\$98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Kung Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	6,758	226,819	-	565,937	
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Po Cherng Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	4,240	187,508	-	355,058	Pledge 150 thousand shares
<u>Certificate</u>							
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Cherng Huei Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	4,917	198,896	-	411,724	Pledge 1,600 thousand shares
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Held Company Name: Chi Hsin Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	3,561	138,747	-	298,220	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: Chi Hsin Investment							
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	\$98,834	15	\$98,834	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	94,411	15	94,411	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: Hsin Ruey Investment							
<u>Stock</u>							
TSMC	Major shareholder	Short-term investment	1,407	98,996	-	117,836	
<u>Certificate</u>							
Po Cherng Investment	Major shareholder	Long-term investment	6,000	98,834	15	98,834	
Chi Hsin Investment	Major shareholder	Long-term investment	6,000	94,951	15	94,951	
Chi Cherng Investment	Major shareholder	Long-term investment	6,000	94,017	15	94,017	
Kung Cherng Investment	Major shareholder	Long-term investment	6,000	106,687	15	106,687	
Cherng Huei Investment	Major shareholder	Long-term investment	6,000	99,983	15	99,983	
Held Company Name: TSMC-BVI							
<u>Stock</u>							
InveStar Semiconductor Development Fund Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US\$65,203	97	US\$65,203	
InveStar Semiconductor Development Fund (II) Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US\$45,766	97	US\$45,766	
TSMC Development Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US\$201,231	100	US\$201,231	
TSMC Technology Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US\$1,591	100	US\$1,591	
3DFX Interactive Inc.	-	Long-term investment	68	US\$297	-	US\$30	
Held Company Name: VIS							
<u>Bond fund</u>							
Qiang Ban	-	Short-term investment	28,409	400,000	-	401,960	
Yuan Da Duo Li #2	-	Short-term investment	26,278	350,000	-	352,465	
THE TP ROC	-	Short-term investment	25,923	350,000	-	355,763	
<u>Stock</u>							
VIS Associates Inc.	Subsidiary	Long-term investment	41,070	902,999	100	902,999	
PowerChip Semiconductor Inc.	Investee	Long-term investment	202,185	2,651,216	9	3,263,269	
Etron Technology Inc.	Investee	Long-term investment	5,617	275,766	3	281,864	
Walsin Technology Inc.	Investee	Long-term investment	34,551	414,481	10	358,994	

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: VIS							
MEGIC Corporation	Investee	Long-term investment	16,500	\$177,000	9	\$188,581	
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	54,872	
Held Company Name: VIS Associates Inc.							
<u>Stock</u>							
VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term investment	68	US\$891	100	US\$891	
<u>Equity</u>							
Silicon Valley Equity Fund	-	Long-term investment	-	US\$7,894	35	US\$7,894	
Silicon Valley Equity Fund II	-	Long-term investment	-	US\$5,705	14	US\$5,705	
ABN AMRO Bank Equity Certificate	-	Short-term investment	23,168	US\$10,047	-	US\$11,319	
<u>Fund</u>							
Grand Palace Trust	-	Long-term investment	-	US\$2,800	100	US\$2,800	
Held Company Name: VIS Investment Holding, Inc.							
<u>Stock</u>							
VIS Micro, Inc.	Investee	Long-term investment	200	US\$258	100	US\$258	
Held Company Name: TSMC Development							
<u>Stock</u>							
WAFERTECH, LLC	Investee of TSMC Development and its chairman is also chairman of TSMC	Long-term investment	-	US\$226,541	99	US\$226,541	
Held Company Name: TSMC Partners							
<u>ADR</u>							
TSMC	Parent Company	Short-term investment	495	US\$7,357	-	US\$8,726	
Held Company Name: InveStar Semiconductor Development Fund Inc.							
<u>Stock</u>							
Silicon Image, Inc.	-	Short-term investment	297	US\$520	-	US\$1,236	
Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$3,350	-	US\$123,797	
Silicon Labo Ratories	-	Short-term investment	15	US\$472	-	US\$519	
Chang Yi Technology	-	Long-term investment	1,668	US\$1,643	-	US\$672	
Divio	-	Long-term investment	30	US\$3	-	US\$3	
Capella Microsystems, Inc.	-	Long-term investment	542	US\$135	-	US\$135	
Equator Technologies, Inc.	-	Long-term investment	133	US\$90	-	US\$90	
Empower Tel Networks, Inc.	-	Long-term investment	317	US\$344	-	US\$344	
Ubicom, Inc.	-	Long-term investment	861	US\$172	-	US\$172	
Global Test Corp.	-	Long-term investment	13,268	US\$5,672	-	US\$10,126	
Chip Strate	-	Long-term investment	6,660	US\$2,142	-	US\$2,073	
Ritch Tech	-	Long-term investment	1,023	US\$326	-	US\$1,743	
APE Fu Ding Technology	-	Long-term investment	2,750	US\$1,518	-	US\$1,336	

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: InveStar Semiconductor Development Fund Inc.							
<u>Preferred stock</u>							
Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$1,809	-	US\$3,055	
Divio (Next wave)	-	Long-term investment	667	US\$500	-	US\$2,233	
SiRF Technology Inc.	-	Long-term investment	306	US\$1,333	-	US\$1,858	
Rise	-	Long-term investment	600	US\$1,500	-	US\$1,500	
Capella Microsystems, Inc.	-	Long-term investment	1,383	US\$1,298	-	US\$1,660	
Sensory, Inc.	-	Long-term investment	1,404	US\$1,250	-	US\$857	
Equator Technologies, Inc.	-	Long-term investment	443	US\$1,338	-	US\$864	
Light Speed Semiconductor Corporation	-	Long-term investment	2,252	US\$3,064	-	US\$764	
Empower Tel Networks, Inc.	-	Long-term investment	3,840	US\$5,128	-	US\$14,296	
Ubicom, Inc.	-	Long-term investment	1,056	US\$1,361	-	US\$2,433	
RapidStream	-	Long-term investment	2,056	US\$1,050	-	US\$7,286	
Tropian, Inc.	-	Long-term investment	1,758	US\$2,334	-	US\$2,388	
Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
Pico Turbo, Inc.	-	Long-term investment	1,050	US\$1,250	-	US\$1,300	
Atheros, Inc.	-	Long-term investment	1,607	US\$3,593	-	US\$9,025	
NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$853	-	US\$1,900	
Formfactor, Inc.	-	Long-term investment	267	US\$2,000	-	US\$3,600	
Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$2,000	-	US\$4,938	
Memsic, Inc.	-	Long-term investment	2,727	US\$1,500	-	US\$2,894	
Reflectivity, Inc.	-	Long-term investment	1,064	US\$2,000	-	US\$2,000	
Signia	-	Long-term investment	3,000	US\$1,500	-	US\$3,900	
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	
Creosys, Inc.	-	Long-term investment	1,500	US\$1,500	-	US\$1,500	
Incentia Design Systems, Inc.	-	Long-term investment	286	US\$500	-	US\$500	
<u>Bond</u>							
Rise	-	Long-term investment	-	US\$300	-	US\$300	

Held Company Name: InveStar Semiconductor Development Fund (II) Inc.

Stock

HPL Aquisition Corporation	-	Short-term investment	187	US\$1,124	-	US\$2,669
Richtek Technology Corporation	-	Long-term investment	480	US\$1,001	-	US\$987
Chang Yi Technology	-	Long-term investment	487	US\$139	-	US\$139

Preferred stock

Procoat Technology	-	Long-term investment	2,500	US\$869	-	US\$857
Omega Band, Inc.	-	Long-term investment	1,389	US\$1,250	-	US\$1,250
Memsic, Inc.	-	Long-term investment	2,289	US\$1,560	-	US\$2,489
OEpic, Inc.	-	Long-term investment	2,696	US\$2,500	-	US\$3,023
Equator Technologies, Inc.	-	Long-term investment	770	US\$1,501	-	US\$1,501
NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$1,000	-	US\$1,000
RapidStream, Inc.	-	Long-term investment	246	US\$1,057	-	US\$1,057
Signia Technologies, Inc.	-	Long-term investment	500	US\$750	-	US\$750

(Forward)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
			Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Held Company Name: InveStar Semiconductor Development Fund (II) Inc.							
Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$1,261	-	US\$1,261	
Y-MEDIA Corporation	-	Long-term investment	281	US\$1,500	-	US\$1,500	
Monolithic Power Systems, Inc.	-	Long-term investment	674	US\$1,515	-	US\$1,515	
Ralink Technology, Inc.	-	Long-term investment	1,833	US\$1,500	-	US\$1,767	
Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
Newport Opticom, Inc.	-	Long-term investment	1,157	US\$1,204	-	US\$1,204	
Silicon Data, Inc.	-	Long-term investment	500	US\$250	-	US\$250	
Capella Microsystems, Inc.	-	Long-term investment	800	US\$1,000	-	US\$1,000	
Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$750	-	US\$750	
Tropain, Inc.	-	Long-term investment	1,464	US\$2,000	-	US\$2,000	
SIRF Technology, Inc.	-	Long-term investment	20	US\$131	-	US\$131	
Match Lab, Inc.	-	Long-term investment	313	US\$250	-	US\$250	
OEpic, Inc.	-	Long-term investment	-	US\$-	-	US\$-	
<u>Bond</u>							
Omega Band, Inc.	-	Long-term investment	N/A	US\$192	-	US\$192	
Pico Turbo, Inc.	-	Long-term investment	N/A	US\$295	-	US\$295	
Held Company Name: Emerging Alliance Fund							
<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\$1,850	
Quickilver Technology, Inc.	-	Long-term investment	3,320	US\$3,500	29	US\$3,500	
Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$1,500	3	US\$1,500	
Litchfield Communications	-	Long-term investment	3,799	US\$1,000	6	US\$1,000	

TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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, 2001

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

Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
				Shares (Thousand)	Amount	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)
Company Name: TSMC													
<u>Stock</u>													
Emerging Alliance Fund	Long-term investment	Emerging Alliance Fund	Subsidiary	-	\$-	-	\$837,045	-	\$-	\$-	\$-	-	\$741,617
Systems on Silicon Manufacturing Company (SSMC)	Long-term investment	SSMC	Investee	90	935,870	211	3,553,862	-	-	-	-	301	2,907,967
Taiwan Semiconductor Technology	Long-term investment	Amkor Technology	-	50,000	500,000	-	-	50,000	395,748 (Note2)	500,000	(104,252)	-	-
Amkor Technology	Long-term investment	Amkor Technology	-	-	-	505	280,748	-	-	-	-	505	280,748
Company Name: Emerging Alliance Fund													
<u>Stock</u>													
Global Investment holding, Inc.	Long-term investment	Global Investment holding, Inc.	-	-	-	10,000	100,000	-	-	-	-	10,000	100,000
<u>Convertible Commercial Paper</u>													
VM Labs, Inc.	Long-term investment	VM Labs, Inc.	-	-	-	US\$4,000	-	US\$1,000	US\$4,000	(US\$3,000)	-	-	-
Company Name: VIS													
<u>Stock</u>													
VIS Associates Inc.	Long-term investment	Subsidiary	-	23,750	464,077	17,500	597,783	-	-	-	-	41,070	902,999
<u>Bond Fund</u>													
Qiung Ban	Short-term investment	-	-	-	-	35,548	500,000	7,139	100,263	100,000	263	28,409	400,000
THE TP ROC	Short-term investment	-	-	-	-	40,874	550,000	14,951	201,482	200,000	1,482	25,923	350,000
Yuan Da Duo Li #2	Short-term investment	-	-	-	-	49,017	650,000	22,739	302,698	300,000	2,698	26,278	350,000
NITC	Short-term investment	-	-	-	-	2,048	300,000	2,048	302,386	300,000	2,386	-	-
FUBON JU-I	Short-term investment	-	-	-	-	31,397	450,000	31,397	452,789	450,000	2,789	-	-

(Forward)

Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
				Shares (Thousand)	Amount	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)	
Capital Save Income	Short-term investment	-	-	-	-	15,295	200,000	15,295	201,139	200,000	1,139	-	-	
Home Run	Short-term investment	-	-	-	-	51,811	650,000	51,811	656,159	650,000	6,159	-	-	
Company Name: VIS Associates Inc.														
ABN AMRO Bank Equity Certificates	Short-term investment	-	-	-	-	223,168	US\$10,047	-	-	-	-	-	23,168	US\$10,047
Company Name: InveStar Semiconductor Development Fund. Inc.														
<u>Stocks</u>														
Centillum Tec. Corp	Short-term investment	-	-	165	US\$660	-	-	165	US\$7,474	US\$660	US\$6,814	-	-	
Marvell Technology Group Ltd.	Short-term investment	-	-	4,665	US\$4,579	-	-	1,252	US\$38,094	US\$1,229	US\$36,865	3,413	US\$3,350	
<u>Preferred Stocks</u>														
Lara Networks, Inc.	Short-term investment	-	-	1,544	US\$772	-	-	1,544	US\$8,170	US\$772	US\$7,398	-	-	
Company Name: InveStar Semiconductor Development Fund (II) Inc.														
Sonic, Inc.	Long-term investment	-	-	-	-	3,082	US\$3,082	-	-	-	-	-	3,082	US\$3,082

Note 1: The ending balance included the equity in net income (net loss) recognized by the equity method and the accumulated translation adjustment.

Note 2: Disposal price included \$115,000 in cash and the 505 thousand shares of Amkor Technology.

The market value for the shares of Amkor Technology on the disposal day worth \$280,748.

TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

For the Year Ended December 31, 2001

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

Company Name	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 and office	Jan. 10, 2001	\$345,000	Depend on the progress of the construction	China Construction Co, Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		Jan. 29, 2001	476,200	Depend on the progress of the construction	Fu Tsu . Construction Co, Ltd	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND
VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

For the Year Ended December 31, 2001

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

Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
		Purchase/Sale	Amount	% to Total*	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Company Name: TSMC										
Phillips and its affiliates	Major shareholder	Sales	\$2,389,257	2	Net 30 days from invoice date	None	None	\$116,499	22	
VIS	Investee	Sales	1,177,094	1	Net 45 days from monthly closing date	None	None	320,179	61	
ITRI	The chairman of TSMC is a director of ITRI	Sales	114,546	-	Net 45 days from monthly closing date	None	None	37,383	7	
WAFERTECH, LLC	Indirect investee of a subsidiary (TSMC-BVI)	Purchase	6,797,817	37	Net 30 days from monthly closing date	None	None	(817,616)	39	
VIS	Investee	Purchase	3,801,975	22	Net 45 days from monthly closing date	None	None	(548,472)	26	

*Percentage for sales is of gross sales and percentage for purchase is of the total purchases of material and finished goods.

TABLE 7

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
December 31, 2001

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

Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
				Amount	Action Taken		
Company Name: TSMC							
VIS	Investee	\$320,179	N/A	\$52,668	Accelerate demand on account receivables	\$92,345	-
Phillips and its affiliates	Major shareholder	116,499	58 days	20,820	Accelerate demand on account receivables	80,559	-

TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

December 31, 2001

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

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2001			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
			Dec. 31, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value			
Investor Company: TSMC										
TSMC - North America	San Jose, California, U.S.A	Marketing and engineering support	\$333,718	\$333,718	11,000	100	\$786,062	\$4,560	\$4,560	Subsidiary
TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	10,147	420	420	Subsidiary
TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	35,142	6	100	80,156	(183)	(183)	Subsidiary
VIS	Hsin-Chu, Taiwan	IC design and manufacturing	6,503,640	6,503,640	556,133	25	3,377,526	(8,692,423)	(2,236,940)	Investee
TSMC - BVI	Tortola, British Virgin Islands	Investment	24,165,780	24,159,958	779,968	100	19,987,814	(4,855,844)	(4,855,844)	Subsidiary
Po Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	164,724	110,960	27,740	Investee
Chi Hsin Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	158,252	77,008	19,252	Investee
Kung Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	177,812	76,241	19,060	Investee
Chi Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	156,694	103,603	25,901	Investee
Hsin Ruey Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	157,352	117,006	29,251	Investee
Cherng Huei Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	166,639	113,755	28,439	Investee
TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,032,377	2,357,405	2,357,405	Subsidiary
SSMC	Singapore	Wafer manufacturing	4,986,344	1,432,482	301	32	2,907,967	(5,381,499)	(1,722,080)	Investee
Emerging Alliance Fund	Cayman Islands	Investment	837,045	-	-	99	741,617	(127,249)	(126,612)	Subsidiary

2. Internal Control System Execution Status

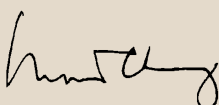
2-1 Statement of Internal Control

Taiwan Semiconductor Manufacturing Company Limited
Statement of Internal Control (Translation)

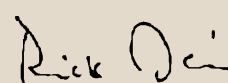
Date: February 8, 2002

TSMC has conducted a self-assessment of internal controls for the period of January 1, 2001 to December 31, 2001 based on TSMC's internal control system. The results are as follows:

1. TSMC acknowledges that the Board of Directors and management personnel are responsible for establishing, performing, and maintaining an internal control system, which has already been established. The purpose of the internal control system is to provide a reasonable assurance for achieving the company's goals, i.e. (i) efficient and effective operations (including profit, efficiency and the safeguard of assets, etc.), (ii) reliability of financial reports, and (iii) compliance with applicable laws and regulations.
2. The internal control system has an inherent constraint. No matter how impeccable the system is. It can only provide a reasonable assurance of achieving the three goals abovementioned. Due to the changes in the environment and changing circumstances, the effectiveness of the internal control system may vary accordingly. However, TSMC's internal control system has self-monitoring functions with which once a shortcoming is found, action will be taken to cure.
3. TSMC evaluates the effectiveness in the design and performance of its internal control system in accordance with the items for evaluating the effectiveness of internal control system as indicated in the Points Governing the Establishment of Internal Control Systems by Public Companies (the "Points") announced by the Securities and Futures Commission of the Ministry of Finance. Based on management control process, the items for assessing the internal control system specified in the Points divide internal control into five components: 1. Control Environment; 2. Risk Assessments; 3. Control Activities; 4. Information and Communication; 5. Monitoring. Each component comprises certain factors. For the said factors please refer to the Points.
4. TSMC has evaluated the effectiveness in the design and performance of its internal control system in accordance with the aforesaid factors.
5. Based upon the results of evaluation abovementioned, TSMC is of the opinion that the design and performance of its internal control, including the efficiency and effectiveness of operations, reliability of financial reports, and compliance with applicable laws and regulations, during the period of January 1, 2001 to December 31, 2001 is effective and provide a reasonable assurance of achieving the abovementioned goals.
6. This Statement of Internal Control will be a prominent feature of TSMC's annual report and prospectus, and will be released to the public. Should any statement herein involve forgery, concealment or any other illegality, Articles 20, 32, 171 and 174 of the Security Transaction Law shall apply.
7. This Statement of Internal Control has been approved by TSMC's Board of Directors at the meeting of February 8, 2002 with 7 directors present at the meeting and 0 director disagreeing with this Statement of Internal Control.



Morris Chang
Chairman of the Board & CEO



Rick Tsai
President & COO

Taiwan Semiconductor Manufacturing Company Limited

2-2 Under specified circumstances, Securities & Futures Commission may request the Company to engage CPA to examine the Company's internal control system and disclose the CPA's audit report: Not Applicable

3. Major contents of record or written statements made by any director or supervisor which specified his/her dissent to important resolutions passed by the Board of Directors during 2001 or the period from January 1, 2002 to February 28, 2002: None

4. Private Placement Securities: Not Applicable

5. Balance of TSMC Common Shares/ ADR acquired, disposed of and held by subsidiaries

As of 02/28/2002

Unit: NT\$K; Share; %

Name of Subsidiary	Paid-in Capital	Fund Source	Percentage of Ownership	Transaction Date	Acquisition		Disposal		Investment Income (Loss)	Balance as of 02/28/2002		Balance of Pledged Shares	Balance of Guarantee Provided by TSMC	Balance of Financing Provided by TSMC
					No. of Shares	Amount	No. of Shares	Amount		No. of Shares	Amount			
Kung Cherng Investment Co., Ltd.	400,000	Retained earnings	25%	Year 2001	1,930,934	-	-	-	-	6,758,269	226,819	-	-	-
				Year 2002	-	-	-	-	-	6,758,269	226,819	-	-	-
Chi Cherng Investment Co., Ltd.	400,000	Retained earnings	25%	Year 2001	863,808	-	-	-	-	3,023,328	98,282	-	-	-
				Year 2002	-	-	-	-	-	3,023,328	98,282	-	-	-
Chi Hsin Investment Co., Ltd.	400,000	Retained earnings	25%	Year 2001	1,017,504	-	-	-	-	3,561,264	138,747	-	-	-
				Year 2002	-	-	-	-	-	3,561,264	138,747	-	-	-
Po Cherng Investment Co., Ltd.	400,000	Retained earnings	25%	Year 2001	1,525,715	-	1,100,000	94,084	45,442	4,240,004	187,508	-	-	-
				Year 2002	-	-	300,000	26,706	13,440	3,940,004	174,242	-	-	-
Cherng Huei Investment Co., Ltd.	400,000	Retained earnings	25%	Year 2001	1,719,056	-	1,100,000	94,084	49,589	4,916,696	198,896	-	-	-
				Year 2002	-	-	300,000	26,706	14,571	4,616,696	186,761	-	-	-
Hsin Ruey Investment Co., Ltd.	400,000	Retained earnings	25%	Year 2001	402,048	-	-	-	-	1,407,168	98,996	-	-	-
				Year 2002	-	-	-	-	-	1,407,168	98,996	-	-	-
TSMC Partners, Ltd.	US\$300	Retained earnings	100%	Year 2001	197,886	-	-	-	-	692,601	US\$7,357	-	-	-
				Year 2002	-	-	-	-	-	692,601	US\$7,357	-	-	-

6. Other Necessary Supplement

Any Events in 2001 which had significant impact on shareholders' rights or the prices for the securities as stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of R.O.C.: None



US GAAP FINANCIAL INFORMATION

Please be advised that our 2001 full annual report that includes complete US GAAP reconciled financial statements and footnotes will be available when we file Form 20-F with the SEC. Our Form 20-F, or our 2001 full annual report, can be found at the SEC and on TSMC's website no later than June 30, 2002.



TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	2001	2000
	<u>Amount</u>	<u>Amount</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$37,556,295	\$38,840,217
Short-term investments	1,398,071	1,502,098
Receivable from related parties	494,732	948,726
Notes receivable	176,582	125,175
Accounts receivable	19,957,636	30,335,314
Allowance for doubtful receivables	(1,100,492)	(946,734)
Allowance for sales returns and others	(2,581,551)	(2,458,323)
Inventories - net	9,828,328	12,785,723
Deferred income tax assets	2,350,147	8,178,016
Prepaid expenses and other current assets	2,721,421	3,034,624
Total Current Assets	<u>70,801,169</u>	<u>92,344,836</u>
LONG-TERM INVESTMENTS	<u>11,599,150</u>	<u>10,663,804</u>
PROPERTY, PLANT AND EQUIPMENT		
Cost		
Land and land improvements	877,371	829,239
Buildings	60,523,505	53,874,708
Machinery and equipment	280,023,690	241,995,862
Office equipment	6,062,496	4,865,610
Total cost	<u>347,487,062</u>	<u>301,565,419</u>
Accumulated depreciation	(155,948,960)	(103,884,879)
Advance payments and construction in progress	59,749,530	47,067,352
Net Property, Plant and Equipment	<u>251,287,632</u>	<u>244,747,892</u>
CONSOLIDATED DEBITS	<u>11,437,572</u>	<u>11,530,973</u>
OTHER ASSETS		
Deferred income tax assets	16,245,828	6,629,805
Deferred charges - net	3,769,750	3,335,665
Refundable deposits	784,089	979,067
Assets leased to others	555,053	625,647
Miscellaneous	37,452	28,290
Total Other Assets	<u>21,392,172</u>	<u>11,598,474</u>
TOTAL ASSETS UNDER R.O.C. GAAP	<u>\$366,517,695</u>	<u>\$370,885,979</u>

(Forward)

	2001	2000
U.S. GAAP Adjustments :		
- Restatement of marketable securities to market - trading	3,936,191	3,304,949
- Technology transfer in payment of capital stock	(103,500)	(157,500)
- Goodwill	36,026,327	46,817,264
- Effect of U.S. GAAP adjustments on deferred income tax	(2,639)	(2,513)
- Effects of the adjustments on equity investments	(1,476,433)	(842,477)
- Unrealized gain on long-term investments		
- TSMC	168,926	40,183
- Investee	499,302	(14,063)
- Impairment loss	(10,916,070)	(10,916,070)
- Depreciation	1,455,476	-
- Treasury stock	(2,115,695)	(1,285,762)
	<u>27,471,885</u>	<u>36,944,011</u>
TOTAL ASSETS UNDER U.S. GAAP	<u>\$393,989,580</u>	<u>\$407,829,990</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	<u>2001</u>	<u>2000</u>
<u>LIABILITIES</u>	<u>Amount</u>	<u>Amount</u>
CURRENT LIABILITIES		
Short-term bank loans	\$6,269,181	\$3,833,841
Payable to related parties	1,048,273	2,606,339
Accounts payable	1,397,879	8,507,827
Payable to contractors and equipment suppliers	12,867,236	25,550,273
Income tax payable	81,483	3,298
Current portion of bonds	5,000,000	-
Accrued expenses and other current liabilities	6,665,000	6,923,414
Total Current Liabilities	<u>33,329,052</u>	<u>47,424,992</u>
LONG-TERM LIABILITIES		
Long-term bank loans	22,399,360	23,339,367
Bonds - net of current portion	24,000,000	29,000,000
Total Long-term Liabilities	<u>46,399,360</u>	<u>52,339,367</u>
OTHER LIABILITIES		
Guarantee deposits	7,212,688	7,086,379
Accrued pension cost	1,856,617	1,511,277
Deferred gain on sale-leaseback	268,165	434,183
Miscellaneous	141,498	14,356
Total Other Liabilities	<u>9,478,968</u>	<u>9,046,195</u>
MINORITY INTEREST IN SUBSIDIARIES	<u>120,240</u>	<u>321,726</u>
TOTAL LIABILITIES UNDER R.O.C. GAAP	<u>\$89,327,620</u>	<u>\$109,132,280</u>
U.S. GAAP Adjustments		
- Bonuses to employees, directors and supervisors	1,201,437	5,258,730
- Derivative financial instruments	962,215	443,838
- Pension expenses	48,360	49,079
	<u>2,212,012</u>	<u>5,751,647</u>
TOTAL LIABILITIES UNDER U.S. GAAP	<u>\$91,539,632</u>	<u>\$114,883,927</u>
Mandatorily redeemable preferred stock	<u>\$13,000,000</u>	<u>\$13,000,000</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars, Except Par Value)

	<u>2001</u>	<u>2000</u>
	<u>Amount</u>	<u>Amount</u>
SHAREHOLDERS' EQUITY		
Capital stock - \$10 par value		
Authorized: 17,800,000 thousand shares in 2000 and 24,600,000 thousand shares in 2001		
Issued: Preferred - 1,300,000 thousand shares	\$13,000,000	\$13,000,000
Common -11,689,365 thousand shares in 2000 and 16,832,554 thousand shares in 2001	168,325,531	116,893,646
Capital surplus	57,128,433	55,285,821
Retained earnings:		
Appropriated as legal reserve	17,180,067	10,689,323
Appropriated as special reserve	349,941	1,091,003
Unappropriated earnings	19,977,402	65,143,847
Cumulative translation adjustments	1,228,701	(278,377)
Unrealized loss on long-term investments	-	(71,564)
	<u>-\$277,190,075</u>	<u>\$261,753,699</u>
TOTAL SHAREHOLDERS' EQUITY UNDER R.O.C. GAAP		
U.S. GAAP Adjustments		
- Bonuses to employees, directors and supervisors	(1,201,437)	(5,258,730)
- Pension expenses	(48,360)	(49,079)
- Restatement of marketable securities to market		
- Trading	3,936,191	3,304,949
- Available-for-sale	168,926	40,183
- Technology transfer in payment of capital stock	(103,500)	(157,500)
- Effects of the adjustments on equity investments	(1,476,433)	(842,477)
- Unrealized gain on long-term investment from an investee	499,302	(14,063)
- Impairment loss	(10,916,070)	(10,916,070)
- Depreciation	1,455,476	-
- Treasury stock	(2,115,695)	(1,285,762)
- Goodwill	36,026,327	46,817,264
- Derivative financial instruments	(962,215)	(443,838)
- Mandatorily redeemable preferred stock	(13,000,000)	(13,000,000)
- Effect of U.S. GAAP adjustments on deferred income tax	(2,639)	(2,513)
	<u>12,259,873</u>	<u>18,192,364</u>
TOTAL SHAREHOLDERS' EQUITY UNDER U.S. GAAP	<u>\$289,449,948</u>	<u>\$279,946,063</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY UNDER U.S. GAAP	<u>\$393,989,580</u>	<u>\$407,829,990</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2001 and 2000

(In Thousand New Taiwan Dollars)

	2001	2000
	<u>Amount</u>	<u>Amount</u>
GROSS SALES	\$128,560,708	\$169,192,312
SALES RETURNS AND ALLOWANCES	<u>(2,675,816)</u>	<u>(2,994,708)</u>
NET SALES	125,884,892	166,197,604
COST OF SALES	<u>92,228,098</u>	<u>87,609,670</u>
GROSS PROFIT	<u>33,656,794</u>	<u>78,587,934</u>
OPERATING EXPENSES		
Research and development	10,649,019	7,203,591
General and administrative	7,939,839	7,408,121
Marketing	<u>2,290,139</u>	<u>2,681,534</u>
Total Operating Expenses	<u>20,878,997</u>	<u>17,293,246</u>
INCOME FROM OPERATIONS	<u>12,777,797</u>	<u>61,294,688</u>
NON-OPERATING INCOME		
Gain on sales of short-term investments- net	1,619,062	1,060,919
Interest	1,486,656	1,679,736
Royalty income	1,301,606	524,194
Insurance compensation - net	860,835	1,623,832
Premium income - net	234,732	8,115
Gain on sales of long-term investments - net	105,439	15,144
Technical service income	55,077	138,514
Gain on sales of property, plant and equipment	52,376	62,921
Foreign exchange gain - net	-	828,025
Other	<u>759,793</u>	<u>178,403</u>
Total Non-Operating Income	<u>6,475,576</u>	<u>6,119,803</u>
NON-OPERATING EXPENSES		
Equity in net losses of investee companies - net	3,959,020	187,179
Interest	3,144,042	2,717,035
Foreign exchange loss - net	695,620	-
Loss on sales of and provision for loss on property, plant and equipment	235,629	114,768
Amortization of issuance costs of bonds	12,504	32,658
Other	<u>420,053</u>	<u>461,327</u>
Total Non-Operating Expenses	<u>8,466,868</u>	<u>3,512,967</u>

	2001	2000
INCOME BEFORE INCOME TAX	10,786,505	63,901,524
INCOME TAX BENEFIT	<u>3,740,678</u>	<u>1,167,884</u>
INCOME BEFORE MINORITY INTEREST	14,527,183	65,069,408
MINORITY INTEREST IN LOSS (INCOME) OF SUBSIDIARIES	<u>(44,009)</u>	<u>36,786</u>
NET INCOME UNDER R.O.C. GAAP	<u>\$14,483,174</u>	<u>\$65,106,194</u>
U.S. GAAP Adjustments		
- Pension expenses	719	21,366
- Restatement of marketable securities to fair value - trading	587,401	2,092,506
- Bonus to employees		
- Accrual	(1,201,437)	(5,258,730)
- Adjustment to fair market value	(25,208,512)	(23,290,096)
- Income (loss) from equity investments	(633,955)	135,849
- Impairment loss	-	(10,916,070)
- Depreciation	1,455,476	-
- Gain on sales of treasury stock	(95,031)	(230,054)
- Derivative financial instruments	(518,377)	(434,145)
- Amortization of goodwill	(10,790,937)	(5,395,468)
- Technology transfer in payment of capital stock	54,000	54,000
- Amortization of compensation expense	(107,500)	(143,333)
- U.S. GAAP income tax adjustment	<u>(126)</u>	<u>(1,677)</u>
	<u>(36,458,279)</u>	<u>(43,365,852)</u>
NET INCOME UNDER U.S. GAAP	<u>(\$21,975,105)</u>	<u>\$21,740,342</u>