



Taiwan Semiconductor
Manufacturing Company, Ltd.

Annual Report 2002



• Taiwan Stock Exchange Market Observation Post System: <http://mops.tse.com.tw> • TSMC annual report is available at <http://www.tsmc.com/english/tsminfo/c0203.htm>

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MAJOR FACILITIES

Corporate Headquarters & FAB 2, FAB 5

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

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

1, Nan-Ke North Rd.
Science-Based Industrial Park
Shan-Hwa, Tainan, Taiwan 741-44, R.O.C.
Tel: 886-6-505-2000 Fax: 886-6-505-2057

FAB 7

6, Creation Rd. 2
Science-Based Industrial Park
Hsin-Chu, Taiwan 300-77, R.O.C.
Tel: 886-3-578-5112 Fax: 886-3-577-3628

FAB 8

25, Li-Hsin Rd.
Science-Based Industrial Park
Hsin-Chu, Taiwan 300-77, R.O.C.
Tel: 886-3-567-8888 Fax: 886-3-566-2051

FAB 12

6, Li-Hsin Rd. 6
Science-Based Industrial Park
Hsin-Chu, Taiwan 300-77, R.O.C.
Tel: 886-3-563-6688 Fax: 886-3-563-7000

TSMC North America

2585 Junction Avenue
San Jose, CA 95134, U.S.A.
Tel: 1-408-382-8000 Fax: 1-408-382-8008

TSMC Europe B.V.

World Trade Center, Strawinskyaan 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: 886-3-563-6688 Fax: 886-3-563-7000
Email: spokesperson@tsmc.com.tw

Acting Spokesperson

Name: J.H. Tzeng
Title: Public Relations Department Manager
Tel: 886-3-563-6688 Fax: 886-3-567-0121
Email: jhtzeng@tsmc.com.tw

AUDITORS

Company: T N SOONG & CO
Auditors: S. C. Huang, Edward Way
Address: 12F, 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.tns.com.tw>

STOCK TITLE TRANSFER

Company: China Trust Commercial Bank
Transfer Agency Department
Address: 5F, 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>

DEPOSITARY BANK (ADR)

Company: Citibank, N.A.
Depositary Receipts Services
Address: 111 Wall Street
New York, NY10005, U.S.A.
Website: <http://www.citibank.com/adr>

ADR Shareholder Information

Toll Free: 1-877-248-4237
Outside USA: 1-816-843-4281
Email: citibank@em.fcnbd.com

TSMC's depositary receipts of the common shares are listed on New York Exchange (NYSE) under the symbol TSM. The information relating to TSM is available at <http://www.nyse.com> and <http://mops.tse.com.tw>

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

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 for Employees and Shareholders, and Being A Good Corporate Citizen



LETTER TO THE SHAREHOLDERS

Dear Shareholders,

TSMC ("the Company") achieved financial results in 2002 better than those obtained by most semiconductor companies. TSMC also gained market share and continued technology leadership. We are pleased to report on these achievements below in detail:

Financial Results

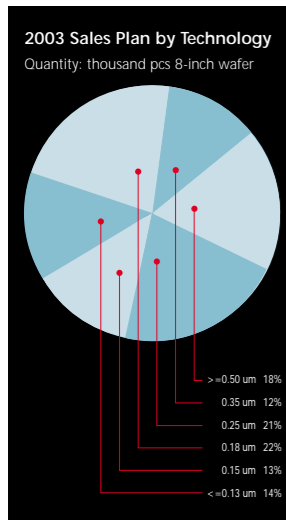
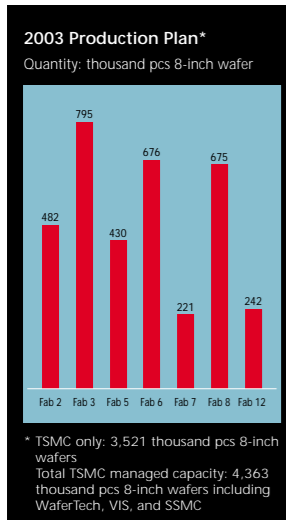
TSMC closed its 2002 books with revenue of NT\$160,961 million and net income after tax of NT\$21,610 million. Earnings per share (EPS) for the year 2002 was NT\$1.14 on a fully diluted basis. Compared with one year ago, these results represent a 27.9% growth rate in net sales, 49.2% growth rate in net income after tax, and 52% growth rate in EPS.

Marketing & Sales

TSMC has gained market share in the dedicated foundry segment of the semiconductor manufacturing sector continuously since 2000. By the estimates of *IC Insights*, TSMC's market share of the foundry segment reached 56% in 2002, after 53% in 2001, and 49% in 2000. TSMC had active business dealings with more than 200 customers in the past year.

Technology Advancement

TSMC kept its technology development at the forefront of the semiconductor industry in 2002. TSMC's 0.13um process technology is in volume production with high yields. The Company also implemented 90 nanometer process technology in a 300 mm facility (Fab 12) with the successful production of 8M SRAM with good yield. Other R&D accomplishments worthy of note include: silicon germanium (SiGe) RF BiCMOS process, 0.18 um CMOS Image Sensor Process, and 0.13um Embedded Memory technology. Exploratory research currently undertaken by TSMC includes: FinFET transistors; strained silicon and silicon-on-insulator (SOI) application; and Magnetic RAM (MRAM).



Capacity and Capital Expenditures

TSMC production capacity, expressed in the unit of 8-inch equivalent wafers, was 3.9 million wafers in 2002. Thirty-six percent of the production capacity was capable of advanced technologies (e.g. 0.18um, 0.15um and 0.13um). This is an improvement over 2001 when the advanced technology capacity represented only 22% of the annual production capacity of 4.4 million wafers.

Capital expenditure in 2002 amounted to approximately NT\$54.4 billion (equivalent to US\$1.6 billion), 20% lower than a year ago. The majority of the expenditure was for the ramp up of Fab 12 production capacity and infrastructure development for new 300mm fabs. With Fab 12 (Phase I) in commercial production, and Fab 14 (Phase I) ready for equipment installation, TSMC should be able to ramp up production capacity promptly along with market demand.

Recognition & Awards

TSMC's superior performance continues to attract recognition and credit from around the world. Among the numerous media surveys conducted in 2002 (e.g. *Asiamoney*, *Euromoney*, *FinanceAsia*, *IR Magazine*, *CommonWealth Magazine*, etc), TSMC continued to stand out as a corporate role model. The awards that TSMC received in 2002 covered areas ranging from overall management, financial management, investor relationship, quality management, to social responsibility. TSMC also received the Corporate Innovation Award from IEEE in June 2002.

Outlook

We are confident that the world semiconductor industry continues to be one of the higher growth industries. TSMC believes that the world semiconductor industry will register a moderate growth rate in 2003 over 2002. We believe that the foundry segment is likely to report a higher growth rate than that of the industry as a whole. TSMC subscribes to the view that the value of foundry output could account for about 30% world IC markets by 2010; up from 16% in 2001.

Acknowledgement

We would like to extend our deepest appreciation to our customers, shareholders, and employees for their continued support and dedication. We close this letter with sincere wishes for your good health and prosperity in 2003.

Morris Chang,
Chairman and CEO

F.C. Tseng,
Deputy CEO

Rick Tsai,
President and COO



Rick Tsai,
President and COO

Morris Chang,
Chairman and CEO

F.C. Tseng,
Deputy CEO

A BRIEF INTRODUCTION TO TSMC

1. Company Profile

TSMC was founded on February 21, 1987 at Hsinchu Science-Based Industrial Park, Taiwan. The common shares of TSMC are listed on Taiwan Stock Exchange (TSE); the depositary receipts of the common shares are listed on New York Stock Exchange (NYSE) under the symbol TSM.

The establishment of a dedicated integrated circuit (IC) foundry by TSMC was the first of its kind in the world. TSMC remains the world's largest dedicated IC foundry to this day. TSMC's charter prevents it from designing, manufacturing, or marketing IC products under its own brand name. This makes TSMC a desirable partner, free from potential conflict of business with its customers.

TSMC operates one 6-inch wafer fab (Fab 2), five 8-inch wafer fabs (Fab 3, 5, 6, 7, and 8), and two 12-inch fabs (Fab 12 and 14). The Company also has capacity commitments in its subsidiary WaferTech in the United States, its affiliate Vanguard International Semiconductor Corporation (VIS) in Taiwan, and a joint venture (with Philips Semiconductor) under the name of Systems on Silicon Manufacturing Company (SSMC) in Singapore. The total installed annual capacity of TSMC and affiliates amounted to 3.9 million 8-inch equivalent wafers by the end of 2002.

TSMC views its role as a responsible corporate citizen seriously. The Company is committed to community service and maintaining strong stakeholder relationships.

TSMC's Board of Directors (the "Board") is comprised of experienced businessmen and distinguished scholars. The Board upholds the financial integrity and management soundness of TSMC. Sir Peter Bonfield (formerly CEO and Chairman of Executive Committee, British Telecommunications) and Professor Lester Thurow of M.I.T., joined TSMC as independent directors in 2002. In addition, Professor Michael Porter became a Supervisor. An Audit Committee was established to oversee the integrity of TSMC's financial and audit systems.

1.1 Core Values

Integrity- Integrity is a fundamental value of the Company. This commitment to integrity can best be illustrated by our strong corporate governance efforts as well as the demand of honesty and uprightness for all TSMC employees.

Customer Orientation- TSMC believes that superior customer service has been what distinguished the Company from its peers in the dedicated IC foundry segment of the semiconductor industry. All in all, TSMC believes that premium service results in premium return to shareholders.

Innovation- TSMC believes in the potential and capability in everyone to innovate. Future emphasis will be to apply the spirit of innovation to every aspect of the Company's business, from the way we think to the way we act.

Commitment- TSMC believes that commitment is the driving force that makes things happen. TSMC asks its entire staff their personal commitments to their jobs and to the Company. TSMC believes that the welfare of the employees is best served when the welfare of the Company is duly taken care of.

1.2 Statement of Company Vision

Our vision is to be the most advanced, innovative and largest provider of foundry services, and in partnership with our customers, to forge a most powerful force in the semiconductor industry. To realize our vision, we must be:

- (1) a technology leader, competitive with industry leaders,
- (2) the manufacturing leader,
- (3) the most reputable and service-oriented; and the greatest total-benefits provider.



1.3 Corporate Recognition

The awards that honored TSMC in 2002 include:

- Most Popular Company in Taiwan (*Global Views Monthly*, June 2002);
- Most Admired Company in Taiwan (*CommonWealth Magazine*, October 2002- for the sixth consecutive year);
- Best Taiwan Company (*Euromoney*, December 2002);
- Best Managed Company & Best Investor Relations (*Asiamoney*, December 2002); and
- Corporate Innovation Award (IEEE, June 2002).

2. Market Overview

2.1 TSMC Achievements

TSMC not only maintained its leading position but also gained market share in the dedicated foundry segment of the semiconductor industry in 2002. The Company further solidified its leadership in manufacturing processes for geometries of 0.18um-and-below. In addition, TSMC embarked on a number of programs to introduce new technologies in anticipation of the upcoming System-on-a-Chip (SoC) era.

2.2 Market Analysis

IC foundry is a manufacturing sub-segment of the IC industry. The total revenue of the dedicated IC foundry segment amounted to US\$8.4 billion in 2002, up 20% from a year ago. According to *IC Insights*, an IC market research company, the largest geographic segment of the dedicated foundry market is the North America market; 63% of the dedicated foundry revenue came from companies based in North America in 2002. The second largest market segment is the Asia Pacific market. The companies based in this region accounted for 23% of the dedicated foundry revenue in 2002. This percentage is followed by 9% revenue contribution from companies based in Europe, and 5% revenue contribution from companies based in Japan.

IC Insights estimated that in 2002, TSMC had a 56% market share of the dedicated foundry segment of the semiconductor industry.

2.3 Industry Growth Forecast

TSMC believes that the semiconductor industry will grow at a rate of about 8-10% in the coming decade. We expect that the dedicated foundry segment will grow at a higher rate. The business associated with the faster growth fabless segment, when combined with the IDM outsourcing trend, are expected to generate a stronger business demand for dedicated foundries than that of the industry average.

2.4 Foundry Market Outlook: Opportunities and Threats

TSMC believes that foundry services will play an increasingly important role in the IC industry as the industry continues to consolidate worldwide. Industry analysts forecast that by 2005, about 25% of global IC production will come from foundries. However, falling wafer average selling prices caused by excess capacity is a threat facing the IC industry. To capitalize on opportunities, to minimize competitive threats, and to reduce risk, TSMC will continue focusing on the high growth segments.

Moreover, TSMC is committed to stay ahead of other foundry businesses in terms of advanced process development and services. TSMC's emphasis on the development and introduction of technologies and support services in 2003 includes the following:

- Advanced Technologies (0.13um, 90nm on 300mm) for SoC;
- MS/RF Technologies;
- Embedded Memory Processes;
- Special Logic Processes (CMOS Image Sensor, Color Filter, High Voltage, Liquid Crystal on Silicon);
- Premier Foundry Design Services; and
- Backend Services (In-House Bumping, Testing)

2.5 China Project

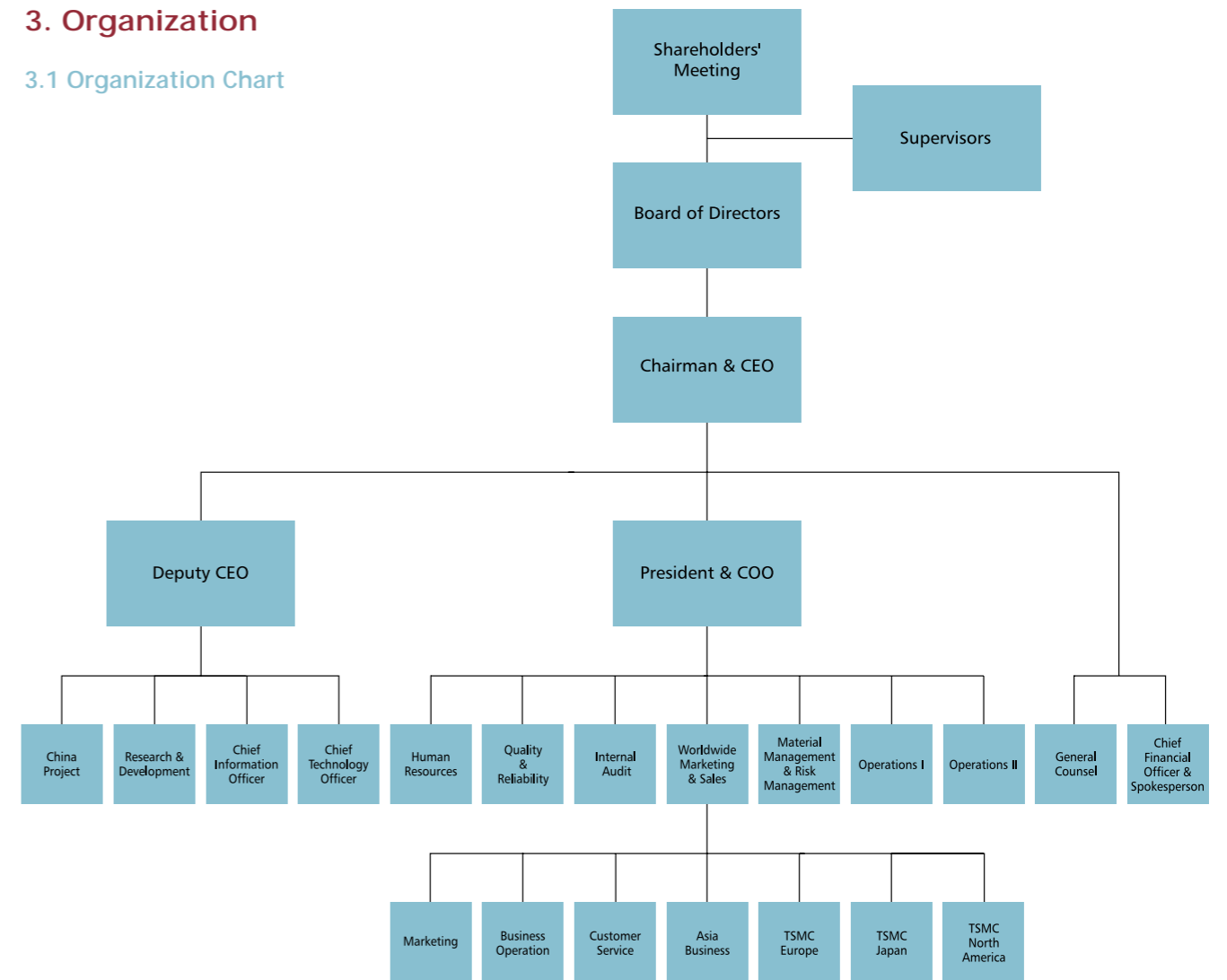
In September 2002, TSMC submitted to the Taiwan Government an application to invest in a semiconductor fabrication plant in China. TSMC plans to equip the plant initially with used tools and machinery to be relocated from TSMC fabs. At the end of February 2003, the Government granted a "Phase I" approval for TSMC to begin the investment process. We expect to begin installing the tools and machinery after the Government's Phase II approval is obtained.

TSMC earlier had entered into a Memorandum of Understanding (MOU) with the Songjiang Municipal Government. The MOU calls for TSMC to build a semiconductor complex at the outskirts of Shanghai under the two major preconditions: (1) TSMC must first receive all relevant Taiwan government approvals; and (2) there must be sufficient market demand for the plant's output.

The purpose for the investment is to enable TSMC to become a key participant in the Mainland China domestic semiconductor market.

3. Organization

3.1 Organization Chart



3.2 Function Description

China Project

- China development strategy

Research & Development

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

Chief Information Officer

- Company-wide information infrastructure, e-Business strategy, information systems development and operation

Chief Technology Officer

- Exploratory technology development and patent affairs management

Human Resources

- Human resources management and organizational development

Quality & Reliability

- Quality and reliability management

Internal Audit

- Internal audit and process compliance

Worldwide Marketing & Sales

- Marketing - strategy, technology and services marketing
- Business Operation - business plan and supply chain management

- Customer Service - customer loyalty and solution effectiveness
- Regional Operations - business development & account services for North America, Europe, Japan, and Asian regions

Material Management & Risk Management

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

Operations I

- Manufacturing operations (Fab 2, 3, 5, 6, 7, and 8), product engineering, and back-end operations

Operations II

- Manufacturing operations (Fab 12 and 14), new fab planning, manufacturing technology integration, production control, industrial engineering, and operational efficiency

General Counsel

- Corporate legal affairs, contracts, patent and other intellectual property matters

Chief Financial Officer & Spokesperson

- Finance and accounting services, including investor relations, treasury, tax, assets management, financial and management accounting
- Corporate spokesperson

3.3 Directors & Supervisors

Title Name	Date Elected	Term Due	Shareholding when Elected		Current Shareholding (Note 1)		Spouse & Minor Shareholding (Note 1)		TSMC Shareholding by Nominee Arrangement (Share)	Education & Selected Past Positions	Selected Current Positions	Managers Are Spouse or Within Second-degree Relative of Consanguinity to Each Other			Cash Compensation in 2002 (NT\$)
			Shares	%	Shares	%	Shares	%				Title	Name	Relation	
Chairman Morris Chang	04/14/2000	June 2003	45,109,604	0.59%	91,669,112	0.46%	90,675	0.00%	0	Ph.D., Electrical Engineering, Stanford University Chairman, Industrial Technology Research Institute President & COO, General Instrument Corporation	Chairman of Vanguard International Semiconductor Corp. Chairman and/or Director of TSMC subsidiary companies	-	-	-	13,504,802
Director Peter Leahy Bonfield	05/07/2002	June 2003	0	0.00%	0	0.00%	0	0.00%	0	Engineering, Loughborough University of Technology CEO and Chairman of the Executive Committee, British Telecommunications Plc	Senior Non-Executive Director of AstraZeneca Group Plc, London Director of L.M. Ericsson, Sweden Director of Mentor Graphics Corporation Inc., Oregon, USA Vice President of the British Quality Foundation Member of the Citigroup International Advisory Board	-	-	-	67,742
Director Lester Carl Thurow	05/07/2002	June 2003	0	0.00%	0	0.00%	0	0.00%	0	Ph.D., Economics, Harvard University Dean of Sloan School of Management, M.I.T.	Jerome and Dorothy Lemelson Professor of Management and Economics, Sloan School of Management, M.I.T. Director of Analog Devices Inc.	-	-	-	67,742
Director F.C. Tseng	04/14/2000	June 2003	12,032,090	0.16%	30,356,889	0.15%	98,219	0.00%	0	Ph.D., Electrical Engineering, National Cheng-Kung University President, TSMC President, Vanguard International Semiconductor Corp.	President and/or Director of TSMC subsidiary companies Chairman of Global Unichip Corp. Director of Vanguard International Semiconductor Corp.	-	-	-	13,504,798
Koninklijke Philips Electronics N.V. Representatives: (Note 2)	04/14/2000	June 2003	1,295,885,897	16.89%	2,554,450,279	12.82%	-	-	0	-	-	-	-	-	54,019,192
Director A.P.M. van der Poel										B.S., Electronic Engineering, Eindhoven Technical University	Director of Koninklijke Philips Electronics N. V. Executive Vice President Koninklijke Philips Electronics N. V.				0
Director J. C. Lobbzoo										B.A., Business Economics, Erasmus University	Chief Financial Officer, Philips Semiconductors B.V.				0
Director Jaap van Oost										B.S., Economics, Erasmus University, Rotterdam	President & CEO, Philips Taiwan				0
Development Fund, Executive Yuan Representatives: (Note 2)	04/14/2000	June 2003	1,158,545,600	15.10%	1,793,522,406	9.00%	-	-	0	-	-	-	-	-	26,769,596
Director Chintay Shih										Ph.D., Electrical Engineering, Princeton University	Director of Vanguard International Semiconductor Corp. President, Industrial Technology Research Institute				120,000
Chi Cherng Investment Co., Ltd. Representative: (Note 2)	04/14/2000	June 2003	984,000	0.01%	12,738,029	0.06%	-	-	0	-	-	-	-	-	13,384,798
Director Stan Shih										M.S., Electrical Engineering, National Chiao Tung University Chairman, CEO, Co-Founder, The Acer Group	Chairman of Acer Group Director of Applied Materials, Inc.				120,000
Koninklijke Philips Electronics N.V. Representatives: (Note 2)	04/14/2000	June 2003	1,295,885,897	16.89%	2,554,450,279	12.82%	-	-	0	-	-	-	-	-	54,019,192
Supervisor Robbert Brakel										Post Doctorate Controllers Programme (RC), Free University of Amsterdam	Vice President & Financial Controller Asia Pacific of Philips Semiconductors				0
Development Fund, Executive Yuan Representatives: (Note 2)	04/14/2000	June 2003	1,158,545,600	15.10%	1,793,522,406	9.00%	-	-	0	-	-	-	-	-	26,769,596
Supervisor George C. Shiu										Ph.D., Candidate in Economics, John Hopkins University	Deputy Executive Secretary, Development Fund, Executive Yuan Director of Powerchip Semiconductor Corp.				120,000
Hsin Ruey Investment Co., Ltd. Representative: (Note 2)	04/14/2000	June 2003	641,500	0.01%	12,761,869	0.06%	-	-	0	-	-	-	-	-	13,384,798
Supervisor Michael E. Porter										Ph.D., Business Economics, Harvard University	Bishop William Lawrence University Professor, Harvard Business School				67,742

Note 1: As reported on 02/28/2003

Note 2: Information on Directors & Supervisors that are Representatives of Juridical Person Shareholders

Directors / Supervisors that are Representative of Juridical Person Shareholders	Juridical Person Shareholders	Top Ten Shareholders of Juridical Person Shareholders, or Shareholders Owning More than 10% of Juridical Person Shareholders
Director : A.P.M. van der Poel Director : J. C. Lobbzoo Director : Jaap van Oost Supervisor : Robbert Brakel	Koninklijke Philips Electronics N.V.	Top Ten Shareholders : Not Available Shareholders Owned More than 10% Shares: None
Director : Chintay Shih Supervisor : George C. Shiu	Development Fund, Executive Yuan	Not Applicable
Director : Stan Shih	Chi Cherng Investment Co., Ltd.	Chi Cherng is beneficially owned 100% by TSMC. TSMC has a 35.71% ownership interest in Chi Cherng, the balance of the 64.29% ownership interest is held by the TSMC subsidiary Hsin Ruey Investment Co., Ltd.
Supervisor : Michael E. Porter	Hsin Ruey Investment Co., Ltd.	Hsin Ruey is beneficially owned 100% by TSMC. TSMC has a 35.71% ownership interest in Hsin Ruey, the balance of the 64.29% ownership interest is held by the TSMC subsidiary Chi Cherng Investment Co., Ltd.

Independence Analysis of Board Members

Of the nine directors, seven are non-management members. Two (Messrs Peter Bonfield, Lester Thurow) out of these seven members are not shareholders and are also independent from any major shareholders of TSMC. Messrs Peter Bonfield, Lester Thurow, and Stan Shih meet the requirement of independency of directors under NYSE proposed rulings.

Independence Analysis of Board Members Under Taiwan SFC Criteria

Taiwan SFC provides a set of criteria to determine the independence of Board Members. The specific criteria, and their applicability on TSMC Board Members are shown below in details.

Independence Criteria of Directors & Supervisors

Name	Over five years of experience in business, finance, legal or areas required by the Company	Criteria						
		Not an employee of the Company, nor a director, supervisor or employee of affiliated companies	Not a natural person shareholder directly or indirectly owning more than 1% of the Company's outstanding shares, nor one of the Company's top ten natural person shareholders	Not a spouse nor first- or second-degree relative to any person specified in columns 3 and 4	Not a director, supervisor or employee of a shareholder of juridical person of the Company directly or indirectly owning more than 5% of the Company's outstanding shares nor one of the Company's top five shareholders of juridical person	Not a director, supervisor, manager or shareholder holding more than 5% of the outstanding shares of certain companies or institutions that 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, that provides finance, commerce, legal consultation and services to the Company or affiliated companies within one year	Not a juridical person or its representative as defined in Article 27 of Company Law
Chairman Morris Chang	V			V	V		V	V
Director Peter Leahy Bonfield	V	V	V	V	V	V	V	V
Director Lester Carl Thurow	V	V	V	V	V	V	V	V
Director A.P.M. van der Poel	V		V	V			V	
Director Jan Lobbezoo	V		V	V			V	
Director Jaap van Oost	V		V	V			V	
Director Chintay Shih	V		V	V	V		V	
Director Stan Shih	V	V	V	V	V	V	V	Note 1
Director F. C. Tseng	V		V	V	V		V	V
Supervisor Robbert Brakel	V		V	V			V	
Supervisor George C. Shiu	V		V	V		V	V	
Supervisor Michael E. Porter	V	V	V	V	V	V	V	Note 2

V indicates meeting conditions specified above.

Note 1: Stan Shih represents the juridical person shareholder- Chi Cherng Investment Co., Ltd. that is a TSMC affiliated company.

Note 2: Michael Porter represents the juridical person shareholder- Hsin Ruey Investment Co., Ltd. that is a TSMC affiliated company.

Board of Directors

Composition

TSMC's Board of Directors consists of nine distinguished members. Their outstanding careers and breadth of experience cover the high-technology industry, finance, business, as well as management sectors. Two independent directors, Sir Peter Bonefield, former CEO of British Telecommunications, and Professor Lester Thurow of M.I.T., joined the TSMC Board in 2002. A complete list of TSMC's directors, their qualifications and experiences can be found on page 10-11.

The Board convened four regular meetings and two special meetings in 2002. During each Board meeting, TSMC's senior managers presented progress reports and important business issues as required by Taiwan law. The following table summarizes the attendance of each Board member.

Name of Director	Number of Meetings of Board Directors Attended in 2002
Morris Chang	6
F.C. Tseng	6
Peter L. Bonfield (Appointed on May 7, 2002)	3
Lester C. Thurow (Appointed on May 7, 2002)	3
A.P.M. van der Poel	4
Jan Lobbezoo	4
Paul Zeven	3
Jaap van Oost (Appointed on November 1, 2002 to replace Paul Zeven.)	1
Stan Shih	5
Chintay Shih	6

Responsibilities

The Company's management is legally responsible, inter alia, for day-to-day operations, preparation of financial statements, fund raising, and investments. The activities of the Board do not supersede or alter those responsibilities. The Board's primary duty is to fulfill its oversight responsibilities for the overall business and affairs of TSMC. Also, in conjunction with the Company's staff, the Board monitors regulatory activities, such as amendments to Taiwan's laws, amendments to the U.S. SEC Rules and Regulations, and changes to the New York Stock Exchange's listing requirements.

CEO's Appointment and Responsibility

TSMC's Board appoints the Chief Executive Officer (CEO) who is responsible for the Company's operation and policy implementation. The CEO performs his duties in accordance with TSMC's Articles of Incorporation, applicable laws, and regulations.

Training Provided to Directors

From time to time, the company provides to TSMC directors and supervisors information from the Company concerning regulatory limitations on conflicts of interest, stock trading as well as various other requirements under applicable laws and regulations. TSMC management also arranges, periodically, orientation and training sessions for directors and supervisors. For example, in 2002, in addition to the orientation provided to new directors and supervisor, at the request of the ROC Securities and Futures Commission, TSMC also provided its directors with materials on the legal obligations and liabilities of directors of ROC listed companies.



3.4 Management Team

Title Name	Date Effective	Shareholding (Note 1)	%	Spouse & Minor		Education & Selected Past Positions	Selected Current Positions	Managers are Spouse or Within Second-degree Relative of Consanguinity to Each Other			TSMC Shareholding by Nominee Arrangement (Share)	Number of Employee Stock Option Granted
				Shareholding (Note 1)	%			Title	Name	Relation		
Chairman & Chief Executive Officer Morris Chang	03/03/1998	see page 10				see page 11	see page 11	-	-	-	0	-
Deputy Chief Executive Officer F.C. Tseng	08/07/2001	see page 10				see page 11	see page 11	-	-	-	0	-
President & Chief Operating Officer Rick Tsai	08/07/2001	19,591,738	0.10%	0	0.00%	Ph.D., Material Science, Cornell University, USA Executive Vice President, Worldwide Marketing and Sales, TSMC President, Vanguard International Semiconductor Corp.	Director of TSMC subsidiary companies Director of Vanguard International Semiconductor Corp.	-	-	-	0	-
Senior Vice President & Chief Information Officer Quincy Lin	05/13/1997	19,995,152	0.10%	2,006,603	0.01%	Ph.D., Business Administration, University of Kentucky, USA Vice President, Corporate Sales and Marketing, TSMC	Director of TSMC subsidiary companies Director of Shin-Etsu Handotai Taiwan Director of W. K. Technology Fund IV Director of Powertech Technology Inc.	-	-	-	0	-
Senior Vice President Chief Financial Officer & Spokesperson Harvey Chang	02/03/1998	6,394,499	0.03%	0	0.00%	MBA, Wharton School, University of Pennsylvania, USA Chairman, China Securities Investment Trust Corp. President, China Development Corp.	Director and/or Supervisor of TSMC subsidiary companies Director of System on Silicon Manufacturing Company Pte Ltd. Director of Fubon Financial Holding Co., Ltd. Supervisor of Vanguard International Semiconductor Corp.	-	-	-	0	-
Senior Vice President Research & Development Shang-Yi Chiang	11/07/2000	8,674,015	0.04%	0	0.00%	Ph.D., Electrical Engineering, Stanford University, USA Vice President, Research and Development, TSMC Department Manager, Device Research and Applications, Hewlett-Packard Company	-	-	-	-	0	-
Senior Vice President Worldwide Marketing & Sales Kenneth Kin	08/07/2001	1,458,172	0.01%	0	0.00%	Ph.D., Nuclear Engineering and Applied Physics, Columbia University, USA Vice President, Worldwide Sales & Services, IBM	-	-	-	-	0	-
Vice President Material Management & Risk Management J. B. Chen	09/05/2000	5,466,520	0.03%	41,608	0.00%	Master, Physics, National Tsing Hua University Vice President, Tainan Site Operation, TSMC President, TSMC-Acer Semiconductor Manufacturing Corp.	Director of United Industrial Gases Co., Ltd.	-	-	-	0	-
Vice President Research & Development Ping Yang	08/07/2001	5,069,556	0.03%	0	0.00%	Ph.D., Electrical Engineering, University of Illinois, Champaign-Urbana, USA Vice President, U.S. Subsidiary, TSMC North America Director, Device and Flow Design, Semiconductor Process and Device Center, Texas Instruments Incorporated	Director of Global Unichip Corp.	-	-	-	0	-
Vice President Operations I C.C. Wei	03/03/1998	3,574,322	0.02%	968	0.00%	Ph.D., Electrical Engineering, Yale University, USA Vice President, South Site Operation, TSMC Senior Vice President, Chartered Semiconductor Manufacturing Ltd.	-	-	-	-	0	-
Vice President Human Resources Swee-Huat Lee	08/11/1998	4,294,842	0.02%	0	0.00%	Master, Management, Stanford University, USA Regional Vice President, Lucent Technologies, Asia Pacific Ltd.	-	-	-	-	0	-
Vice President Operations II Mark Liu	05/11/1999	7,959,370	0.04%	0	0.00%	Ph.D., Electrical Engineering and Computer Science, University of California, Berkeley, USA Vice President, South Site Operation, TSMC President, Worldwide Semiconductor Manufacturing Corp.	Director of System on Silicon Manufacturing Company Pte Ltd.	-	-	-	0	-
Vice President Corporate Marketing Genda Hu	08/11/2000	839,508	0.00%	0	0.00%	Ph.D., Electrical Engineering, Princeton University, USA General Director, Electronic Research and Service Organization, Industrial Technology Research Institute President, Taiwan Semiconductor Industry Association	Director of Hontung Venture Capital Co., Ltd.	CTO	Chenming Hu	Brother	0	-
Vice President Business Operation Chung-Shih Hsu	03/06/2001	760,782	0.00%	0	0.00%	Ph.D., Physics, Columbia University, USA Senior Vice President, Winbond Electronics Corp. Vice President, Vanguard International Semiconductor Corp.	-	-	-	-	0	-
Chief Technology Officer Chenming Hu	08/07/2001	958,635	0.00%	0	0.00%	Ph.D., Electrical Engineering and Computer Science, University of California, Berkeley, USA	Co-Chairman, Celestry Design Technologies, Inc.	Vice President	Genda Hu	Brother	0	-
Vice President Operations I M.C. Tzeng	08/07/2001	3,504,556	0.02%	502,750	0.00%	Master, Applied Chemistry, Chung Yuan University Senior Director, Fab 2 Operation, TSMC	-	Manager	M.J. Tzeng	Brother	0	-
Vice President & General Counsel Richard Thurston (Note 2)	02/08/2002	250,000	0.00%	0	0.00%	J.D., Rutgers School of Law, State University of New Jersey, USA Ph.D., History, University of Virginia, USA Partner, Haynes Boone, LLP. Vice President Corporate Staff, Assistant General Counsel, Texas Instruments Incorporated	Director of TSMC Partners, Ltd.	-	-	-	0	-
Vice President Worldwide Customer Service Chiam Wu (Note 2)	05/07/2002	309,646	0.00%	0	0.00%	M.S., Materials Science and Engineering, Oregon State University, USA Group Vice President, Applied Materials, Inc. Vice Chairman, Applied Materials Taiwan, Ltd.	-	-	-	-	0	-

Note 1: As of 02/28/2003

Note 2: Appointed in 2002

Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Management and Shareholders of 10% Shareholdings or More:

Unit: Share

Title Name	2002		01/01/2003 ~ 02/28/2003	
	Net Change in Shareholding	Net Change in Shares Pledged (Note)	Net Change in Shareholding	Net Change in Shares Pledged (Note)
Chairman & CEO Morris Chang	1,956,648	0	0	0
Director Peter Leahy Bonfield	0	0	0	0
Director Lester Carl Thurow	0	0	0	0
Director & Supervisor Koninklijke Philips Electronics N.V. Representatives: A.P.M. van der Poel J. C. Lobbezoo Jaap van Oost Robbert Brakel	232,222,752	0	0	0
Director & Supervisor Development Fund, Executive Yuan Representative: Chintay Shih George C. Shiu	12,011,491	107,520,000	0	0
Director Chi Cherng Investment Co., Ltd. Representative: Stan Shih	9,714,701	0	0	0
Supervisor Hsin Ruey Investment Co., Ltd. Representative: Michael E. Porter	11,354,701	0	0	0
Director & Deputy CEO F.C. Tseng	2,544,012	0	0	0
President & COO Rick Tsai	1,040,271	0	(130,000)	0
Senior Vice President & CIO Quincy Lin	2,495,526	490,000		188,000
Senior Vice President & CFO Harvey Chang	167,877	0	0	0
Senior Vice President S.Y. Chiang	1,413,845	1,040,000	0	0
Senior Vice President Kenneth Kin	368,172	0	(60,000)	0
Vice President J. B. Chen	30,671	0	(81,000)	0
Vice President Ping Yang	305,243	0	0	0
Vice President C. C. Wei	(576,609)	(512,000)	0	0
Vice President Swee-Huat Lee	105,896	0	0	0
Vice President Mark Liu	777,577	0	(75,000)	0
Vice President Genda Hu	364,397	0	(27,000)	0
Vice President Chung-Shih Hsu	259,842	0	0	0
CTO Chenming Hu	288,635	0	0	0
Vice President M.C. Tzeng	88,285	0	0	0
Vice President & General Counsel Richard Thurston	250,000	0	0	0
Vice President Chiam Wu	255,422	0	0	0

Note: This refers to the creation of security interest over TSMC shares in favor of creditors, usually in connection with a shareholder's own financing activities.

Stock Trade with Related Party: None

Stock Pledge with Related Party: None

3.5 TSMC Long-Term Investments Ownership

As of 12/31/2002

Long-Term Investment	Ownership by TSMC (1)		Direct/Indirect Ownership by Directors, Supervisors, and Management (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Equity Method:						
TSMC International Investment Ltd.	987,968,244	100.0%	-	-	987,968,244	100.0%
TSMC Partners, Ltd.	300,000	100.0%	-	-	300,000	100.0%
Systems on Silicon Manufacturing Co. Pte Ltd.	382,264	32.0%	573,396	48.0% (Note 1)	955,660	80.0%
Vanguard International Semiconductor Corp.	556,133,496 (Note 2)	25.3%	649,827,621	29.5% (Note 3)	1,205,961,117	54.8%
Emerging Alliance Fund	Not Applicable (Note 4)	99.5%	-	-	Not Applicable (Note 4)	99.5%
Ya-Xin Technology Co., Ltd.	34,125,000	100.0%	-	-	34,125,000	100.0%
TSMC - North America	11,000,000	100.0%	-	-	11,000,000	100.0%
TSMC - Japan	6,000	100.0%	-	-	6,000	100.0%
Chi Cherng Investment Co., Ltd.	Not Applicable (Note 4)	35.7%	Not Applicable (Note 4)	64.3% (Note 5)	Not Applicable (Note 4)	100.0%
Hsin Ruey Investment Co., Ltd.	Not Applicable (Note 4)	35.7%	Not Applicable (Note 4)	64.3% (Note 6)	Not Applicable (Note 4)	100.0%
TSMC - Europe	200	100.0%	-	-	200	100.0%
Cost Method:						
Traded						
Amkor Technology	505,050	0.3%	Not Available (Note 7)	Not Available (Note 7)	505,050	0.3%
Monolithic System Tech.	470,346	1.6%	Not Available (Note 7)	Not Available (Note 7)	470,346	1.6%
Taiwan Mask Corp.	8,793,780	2.1%	Not Available (Note 7)	Not Available (Note 7)	8,793,780	2.1%
Non - Traded						
United Industrial Gases Co. Ltd.	16,782,937	10.8%	Not Available (Note 7)	Not Available (Note 7)	16,782,937	10.8%
Shin-Etsu Handotai Taiwan Company Ltd.	10,500,000	7.0%	Not Available (Note 7)	Not Available (Note 7)	10,500,000	7.0%
Hontung Venture Capital	8,391,608	10.5%	Not Available (Note 7)	Not Available (Note 7)	8,391,608	10.5%
W.K. Technology Fund IV	5,000,000	1.9%	Not Available (Note 7)	Not Available (Note 7)	5,000,000	1.9%
Funds:						
Horizon Ventures	Not Applicable (Note 4)	12.1%	Not Applicable (Note 4)	Not Available (Note 7)	Not Applicable (Note 4)	12.1%
Crimson Asia Capital	Not Applicable (Note 4)	1.0%	Not Applicable (Note 4)	Not Available (Note 7)	Not Applicable (Note 4)	1.0%

Note 1: Share interest held by Koninklijke Philips Electronics N.V.

Note 2: Did not include prepaid investment of NT\$849,360,442 and an additional investment of NT\$766,815,168 made in January, 2003. As a result, TSMC's ownership in Vanguard increased from 25.3% to 28.1%.

Note 3: 29.1% owned by Development Fund, Executive Yuan

Note 4: Not applicable: These firms do not issue shares. TSMC's investment is measured as a percentage of ownership interest

Note 5: Ownership interest held by Hsin Ruey Investment Co., Ltd.

Note 6: Ownership interest held by Chi Cherng Investment Co., Ltd.

Note 7: Not available: Not all information is available to TSMC as of the report date

4. Capital & Shares

4.1 History of Capitalization

As of 02/28/2003
Unit: Share/NT\$

Month Year	Price	Par Value	Authorized		Paid-in		Remark		
			Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets other than Cash	Date of Approval & Approval Document No.
02/1987	1,000	1,000	5,510,000	5,510,000,000	1,377,500	1,377,500,000	Founding	NO	02/21/1987 (76) Ko Chu She Tzu No. 065
12/1988	1,000	1,000	5,510,000	5,510,000,000	2,204,000	2,204,000,000	Cash Offering	NO	12/19/1988 (77) Yuan Ching Tzu No. 15501
11/1989	1,000	1,000	5,510,000	5,510,000,000	3,306,000	3,306,000,000	Cash Offering	NO	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	NO	07/23/1990 (79) Yuan Ching Tzu No. 08171
12/1990	1,000	1,000	5,510,000	5,510,000,000	3,911,797	3,911,797,000	Cash Offering	NO	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	NO	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	NO	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	NO	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	NO	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	NO	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	NO	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	NO	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	NO	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	NO	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	NO	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 and Capital Surplus: NT\$1,879,366,020	NO	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 (ADR)	NO	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 with WSMC & TSMC-ACER	NO	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 (Preferred Stock)	NO	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	NO	07/19/2001 (90) Yuan Shang Tzu No. 018039
07/2002	-	10	24,600,000,000	246,000,000,000	19,922,886,745	199,228,867,450	Capitalization of Profits	NO	07/15/2002 Yuan Shang Tzu No. 0910016373

4.2 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 Stock	18,622,886,745	-	18,622,886,745	3,299,511,937	1,377,601,318	24,600,000,000
Preferred Stock	-	1,300,000,000	1,300,000,000			

4.3 Status of Shareholders

Stock: Preferred A Share

As of 05/22/2002 (last record date)

	Government Agencies	Financial Institutions	Other Juridical Person	Foreign Institutions & Natural Persons	Domestic Natural Persons	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

Stock: Common Share

As of 06/25/2002 (last record date)

	Government Agencies	Financial Institutions	Other Juridical Person	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	8	122	939	1,645	422,284	424,998
Shareholding	1,932,597,885	911,277,493	2,431,203,807	9,253,781,911	4,094,025,649	18,622,886,745
Holding Percentage (%)	10.38	4.89	13.06	49.69	21.98	100.00

4.4 Distribution Profile of Shareholder Ownership

Stock: Preferred A Share

As of 05/22/2002 (last record date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Total Shares Owned	Ownership %
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	100.00%

Stock: Common Share

As of 06/25/2002 (last record date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Total Shares Owned	Ownership %
1 ~ 999	78,780	30,354,269	0.16%
1,000 ~ 5,000	230,933	520,123,773	2.79%
5,001 ~ 10,000	53,869	372,134,973	2.00%
10,001 ~ 15,000	21,686	257,132,644	1.38%
15,001 ~ 20,000	10,221	175,093,734	0.94%
20,001 ~ 30,000	9,884	237,005,623	1.27%
30,001 ~ 40,000	5,146	177,173,376	0.95%
40,001 ~ 50,000	2,737	122,672,028	0.66%
50,001 ~ 100,000	5,496	379,510,296	2.04%
100,001 ~ 200,000	2,889	398,759,920	2.14%
200,001 ~ 400,000	1,524	420,357,320	2.26%
400,001 ~ 600,000	484	236,762,227	1.27%
600,001 ~ 800,000	304	210,068,996	1.13%
800,001 ~ 1,000,000	172	153,878,778	0.83%
Over 1,000,001	873	14,931,858,788	80.18%
Total	424,998	18,622,886,745	100.00%

4.5 Major Shareholders

Stock: Preferred A Share

As of 05/22/2002 (last record date)

No.	Shareholders	Total Shares Owned	Ownership %
1	Philips Electronic Building Elements Industries (Taiwan), Ltd.	1,299,925,653	99.99%

Stock: Common Share

As of 06/25/2002 (last record date)

No.	Shareholders	Total Shares Owned	Ownership %
1	Koninklijke Philips Electronics N.V.	2,554,450,279	13.72%
2	Development Fund, Executive Yuan	1,793,522,406	9.63%
3	ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	1,753,357,072	9.42%
4	Philips Electronics Industries (Taiwan), Ltd.	1,490,108,183	8.00%
5	JPMorgan Chase Bank, Taipei Branch Emerging Markets Growth Fund, Inc.	440,684,965	2.37%
6	The Growth Fund of America, Inc.	309,023,000	1.66%
7	JPMorgan Chase Bank, Taipei Branch in Custody for Europacific Growth Fund	267,644,209	1.44%
8	Merrill Lynch International, Ltd.	248,499,234	1.33%
9	JPMorgan Chase Bank, Taipei Branch in Custody for The New Perspective Fund, Inc.	221,462,384	1.19%
10	Directorate General of Postal Remittances and Savings Banks	163,681,017	0.88%

4.6 Other Share Information

Net Worth, Earnings, Dividends and Market Price Per Share

Item	2001	2002	01/01/2003 - 02/28/2003
Market Price Per Share			
Highest Market Price	105.5	97.5	50.5
Lowest Market Price	43.6	34.9	40.2
Average Market Price	77.7	67.4	45.1
Net Worth Per Share			
Before Distribution	15.70	15.19	(Note 2)
After Distribution	15.67	(Note 1)	(Note 2)
Earnings Per Share			
Weighted Average Shares (thousand shares)	16,832,554	18,580,700	18,580,886
Earnings Per Share	0.83	1.14	(Note 2)
Earnings Per Share (Note 3)	0.75	(Note 1)	(Note 2)
Dividends Per Share			
Cash Dividends	-	-	(Note 2)
Stock Dividends			
Dividends from Retained Earnings	4.00	1.00	(Note 2)
Dividends from Capital Surplus	-	-	(Note 2)
Accumulated Undistributed Dividend	-	-	-
Return on Investment			
Price / Earning Ratio (Note 4)	93.61	59.12	(Note 2)
Price / Dividend Ratio (Note 5)	-	(Note 1)	(Note 2)
Cash Dividend Yield Rate (Note 6)	-	(Note 1)	(Note 2)

Note 1: Pending shareholders' meeting resolution

Note 2: Financials of the period not yet finalized

Note 3: Retroactive adjustment for stock dividends and bonus to employees

Note 4: Price / Earning Ratio = Average Market Price / Earnings Per Share

Note 5: Price / Dividend Ratio = Average Market Price / Cash Dividends Per Share

Note 6: Cash Dividend Yield Rate = Cash Dividends Per Share / Average Market Price

4.7 Dividend Policy

TSMC's dividend policy is set forth in its Articles of Incorporation. Except as otherwise specified in the Articles of Incorporation, TSMC shall not pay dividends when there is no profit for a particular fiscal year. TSMC profits may be distributed by way of cash dividend, stock dividend, or a combination of cash and stock. Since TSMC is in a capital-intensive industry, profit distribution generally has been made by way of stock dividend. The ratio for cash dividend shall not exceed 50% of the total distribution.

4.8 Distribution of Profit

The Board adopted the proposal for 2002 profit distribution at its Meeting on March 4, 2003. The proposed profit distribution will be effected upon the shareholders approval at the Regular Shareholder Meeting in June 2003.

	Proposal to Distribute 2002 Profits
Directors & Supervisors Compensation	NT\$58,484,489
Cash Dividends to Preferred A Shareholders	NT\$455,000,000
Stock Dividends to Common Shareholders (Note 1)	NT\$14,898,309,400
Employee Profit Sharing (Note 2) Employee Profit Sharing as % of the sum of Stock Dividends to Common Shareholders and Employee Profit Sharing	NT\$1,539,012,990 9.36%

Note 1: Equivalent to underlying number of shares: 1,489,830,940

Note 2: Equivalent to underlying number of shares: 153,901,299

2001 profit distribution set aside as Directors & Supervisors Compensation, and Employee Profit Sharing.

	Board Resolution (March 26, 2002)	Actual Result		
	Amount (NT\$)	Amount (NT\$)	Underlying Number of Shares	Dilution Rate % (on Common Shares Outstanding as of December 31, 2002)
Directors & Supervisors Compensation (Cash)	133,847,984	133,847,984	-	-
Employee Profit Sharing (Common Share)	1,070,783,880	1,070,783,880	107,078,388	0.57
Total	1,204,631,864	1,204,631,864	-	-

The EPS of 2001, 2002 may vary if "Directors & Supervisors Compensation" and "Employee Profit Sharing" were subject to different accounting treatments:

Accounting Treatments	2001 EPS	2002 EPS
Treatment as Profit Distribution	NT\$ 0.83	NT\$ 1.14
Treatment as Expenses (Employee Profit Sharing expensed at par value)	NT\$ 0.76	NT\$ 1.05

4.9 Impact to 2003 Business Performance, EPS, and ROE Resulting from Stock Dividend Distribution: Not Applicable

TSMC is not required by Taiwan law to provide a 2003 financial forecast (see "Guidelines for Disclosure of Financial Forecast by Public Companies").

4.10 Buyback of Treasury Stock during the period January 1, 2002 to February 28, 2003: None

5. Issuance of Corporate Bonds

5.1 Corporate Bonds

As of 02/28/2003

Issuance	Domestic Unsecured Bond (I)	Domestic Unsecured Bond (III)	Domestic Unsecured Bond (IV)	Domestic Unsecured Bond (V)
Issuing Date	03/04/1998	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\$10,000,000	NT\$1,000,000 NT\$5,000,000
Offering Price	Par	Par	Par	Par
Total Amount	NT\$4,000,000,000	NT\$10,000,000,000	NT\$15,000,000,000	NT\$15,000,000,000
Coupon Rate	7.71% p.a.	TrancheA: 5.67% p.a. TrancheB: 5.95% p.a.	TrancheA: 5.25% p.a. TrancheB: 5.36% p.a.	TrancheA: 2.60% p.a. TrancheB: 2.75% p.a. TrancheC: 3.00% p.a.
Tenure	5 years Maturity: 03/04/2003	TrancheA: 3 years Maturity: 10/21/2002 TrancheB: 5 years Maturity: 10/21/2004	TrancheA: 5 years Maturity: 12/04/2005- 12/15/2005 TrancheB: 7 years Maturity: 12/04/2007- 12/14/2007	TrancheA: 5 years Maturity: 01/10/2007- 01/22/2007 TrancheB: 7 years Maturity: 01/10/2009- 01/24/2009 TrancheC: 10 years Maturity: 01/10/2012- 01/24/2012
Guarantor	No	No	No	No
Trustee	The International Commercial Bank of China	TC Bank	The International Commercial Bank of China	TC Bank
Underwriter	Citibank Securities (Taiwan)	Grand Cathay Securities	Private Placement	Private Placement
Legal Counsel	Lee & Li	Lee & Li	Eluvzy International Law Office	Yan-an International Law Office
Auditor	TN Soong & Co	TN Soong & Co	TN Soong & Co	TN Soong & Co
Repayment	Bullet	Bullet	Bullet	Bullet
Outstanding	NT\$4,000,000,000	NT\$5,000,000,000	NT\$15,000,000,000	NT\$15,000,000,000
Redemption or Early Repayment Clause	No	No	No	No
Covenants	Customary Covenants	Customary Covenants	Customary Covenants	Customary Covenants
Credit Rating	Not Rated	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	Conversion Right	No	No	No
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities as of 02/28/2003	Not Applicable	Not Applicable	Not Applicable
Dilution Effect and Other Adverse Effects on Existing Shareholders	No	No	No	No
Custodian	No	No	No	No

5.2 Convertible Bonds: None

5.3 Exchangeable Bonds: None

5.4 Bonds with Warrants: None



6. Preferred Shares

6.1 Preferred A Share

As of 02/28/2003

Issue Date: 11/29/2000		
Par Value		NT\$10
Issue Price		NT\$10
Number of Shares Issued		1,300,000,000
Total Issue Amount		NT\$13,000,000,000
Rights and Obligations	Dividend	Cash Dividend of 3.5% p.a. ; Cumulative
	Distribution upon Liquidation	Up to Total Issue Amount (NT\$13,000,000,000)
	Voting Right	Same as Common Share
	Others	Not Entitled for Stock Dividend
Outstanding Shares	Redeemed/Converted	No
	Balance	NT\$13,000,000,000
	Condition for Redemption/Conversion	Redemption at Maturity (May 29, 2003) at Par
Market Price	High	Not traded
	Low	
	Average	
Conversion/ Subscription Rights	Conversion/Subscription as of the Date of the Annual Report Printed	None
	Issue/Conversion/Subscription	No Conversion into Common Shares
Impact/Dilution on Existing Shareholders and Preferred A Share Shareholders		Dividend Right of Preferred Share is Preferred to that of Common Share

6.2 Preferred Share with Warrant: None

7. Issuance of American Depositary Shares

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	04/17/2000	06/07/2000 ~ 06/15/2000	05/14/2001 ~ 06/11/2001	06/12/2001	11/27/2001	02/07/2002 ~ 02/08/2002	11/21/2002 ~ 12/19/2002
Issuance & Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
Total Amount (US\$)	594,720,000	184,554,440	35,500,000	296,499,641	158,897,089	379,134,599	224,640,000	1,167,873,850	240,999,660	297,649,640	320,600,000	1,001,650,000	160,097,914
Offering Price per ADS (US\$)	24.78	15.26	17.75	24.516	28.964	57.79	56.16	35.75	20.63	20.63	16.03	16.75	8.73
Units Issued	24,000,000	12,094,000	2,000,000	12,094,000	5,486,000	6,560,000	4,000,000	32,667,800	11,682,000	14,428,000	20,000,000	59,800,000	18,348,000
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)	TSMC Common Shares from Selling Shareholders	Cash Offering and 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	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	20,000,000	163,339,000	58,410,000	72,140,000	100,000,000	299,000,000	91,740,000
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	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	Same as those of Common Share Holders
Trustee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
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	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	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	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	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	87,453,859	144,608,739	156,290,739	170,718,739	259,006,235	318,806,235	369,019,413
Apportionment of expenses for the issuance and maintenance	All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while 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 issuance of ADSs were borne by the selling shareholders, while maintenance expenses such as annual listing fees and accountant fees were borne by TSMC
Terms and Conditions in the Deposit Agreement and Custody Agreement	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details
Closing Price per ADS (US\$)	2002	High	18.86										
		Low	5.35										
		Average	12.25										
	01/01/2003 - 02/28/2003	High	8.30										
		Low	6.45										
		Average	7.28										

Note: TSMC has in aggregate issued 223,159,800 ADSs since 1997, which, if taking into consideration of stock dividend distributed over the period, would amount to 369,496,454 ADSs.

As of February 28, 2003, total number of outstanding ADSs was 369,019,413 after 477,041 ADSs were redeemed.

Stock dividend distributed in 1998, 1999, 2000, 2001 and 2002 was 45%, 23%, 28%, 40% and 10% respectively.

8. Status of Employee Stock Option Plan (ESOP)

8.1 Issuance of Employee Stock Option

As of 02/28/2003

ESOP Granted	2002 - First Grant	2002 - Second Grant
Approval Date by the Securities and Futures Commission	06/25/2002	06/25/2002
Issue (Grant) Date	08/22/2002	11/08/2002
Number of Shares Issued	18,909,700	1,085,000
Percentage of Issued Shares to Outstanding Common Shares	0.10154%	0.00583%
Option Duration	10 years	10 years
Source of Option Shares	New Common Share	New Common Share
Vesting Schedule	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
Shares Exercised	0	0
Value of Shares Exercised (NT\$)	0	0
Shares Unexercised	18,909,700	1,085,000
Grant Price Per Unexercised Share	NT\$53	NT\$51
Percentage of Shares Unexercised to Outstanding Common Shares	0.10154%	0.00583%
Impact to Shareholders' Equity	Dilution to Shareholders' Equity is Limited	Dilution to Shareholders' Equity is Limited

8.2 ESOP Granted to Management Team and to Top Ten Employees with an Individual Grant Value over NT\$30,000,000: None

9. Status of Mergers and Acquisitions

TSMC acquired 52% of the shares of Global Unichip Corporation (GUC), a SoC design service company, through a merger of a wholly owned subsidiary of TSMC, Ya-Xin Technology Co., Ltd., and GUC in January 2003. TSMC's ownership in GUC was subsequently diluted to 47.3% in February 2003 after a capital call.

10. Corporate Governance

Maintaining the highest possible standards of corporate governance has been an integral part of TSMC's core values since its founding. TSMC upholds and advocates operational transparency and respect for shareholder rights. TSMC believes that a sound and efficient Board of Directors is the hub of successful corporate governance. In order to strengthen the structure and responsibilities of the Board in general, and to reinforce TSMC's commitment to good corporate governance practices in particular, during 2002, TSMC invited outside professionals to either join the Board (e.g. Sir Peter Bonfield, and Professor Lester Thurow) or to act as a Supervisor (e.g. Professor Michael Porter). TSMC also established an Audit Committee comprising of independent directors and supervisors. During 2002, TSMC was recognized by *Finance Asia* as having the best Corporate Governance of any Taiwan Corporation.

10.1 Summary of Articles of Incorporation

To fulfill the requirements of the ROC Company Law and regulatory requirements, the following sections of TSMC's Articles of Incorporation have been drafted and revised as needed:

- Section I - General Provisions
- Section II - Capital Stock
- Section III - Directors and Supervisors
- Section IV - Management of the Corporation
- Section V - Financial Reports
- Section VI - Supplementary Provisions

The last revision of these Articles of Incorporation was made at TSMC's Shareholder Meeting on May 7, 2002. Detailed information regarding these Articles of Incorporation is available at the Company's website www.tsmc.com.

10.2 Audit Committee

The Board established an Audit Committee on August 6, 2002 to assist the Board in fulfilling its oversight responsibilities. The Audit Committee reviews various matters, including: the Company's financial reports; the Company's auditing and accounting policies and procedures; and the Company's systems of internal control.

TSMC's Audit Committee is empowered to conduct any study or investigation which it deems appropriate to discharge its responsibilities. It has direct access to TSMC's internal auditors, the Company's outside independent auditors, as well as any employee of the Company. The Committee is authorized to retain and oversee special legal, accounting, or other consultants it deems appropriate fulfilling for its charter purposes.

The Audit Committee, by its charter, shall consist of 3-5 members. As of March 2003, four members comprised the Audit Committee: two of whom are directors, and the other two are supervisors of TSMC. The Committee meets at least four times a year. The Chairman of the Committee, when necessary, can call additional meetings. Audit Committee membership, rules and regulations may be changed from time to time in order to comply with changing rules and regulations of applicable government agencies.

The Audit Committee held its first meeting on November 5, 2002. Meeting attendance was as follows:

Name of Member	Number of Meetings of Audit Committee Attended In 2002
Peter L. Bonfield (Designated on August 6, 2002)	1
Lester C. Thurow (Designated on August 6, 2002)	1
Michael E. Porter (Designated on August 6, 2002)	1
Robbert Brakel (Designated on August 6, 2002)	1
Number of Meetings Held in 2002	1

10.3 Shareholder Meetings

Meetings of TSMC's shareholders include both regular meetings and special meetings. The Board, in accordance with the ROC Company Law, shall convene a regular shareholder meeting within six months of the end of each fiscal year. Generally, the shareholder meetings are held in Hsinchu, Taiwan, where TSMC's head office is located. Shareholders or supervisors may convene special shareholder meetings in accordance with relevant laws. The Board may also convene special shareholder meetings as needed. Notices of shareholder meetings must be in writing, setting forth the location, time and purpose of the meeting and shall 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.

Voting Rights

TSMC shareholders have one vote for each share held of record. Except as otherwise provided by relevant laws, shareholders may adopt a resolution by a simple majority of the total issued and outstanding shares that are represented at a shareholder meeting where a majority of the total issued and outstanding shares are present in person or by proxy. The election of directors and supervisors at a shareholder meeting is by cumulative voting. Ballots for the election of directors are cast separately from those for the election of supervisors.

Holders of Preferred A Shares have the same voting rights as holders of common shares.

Other Rights of Shareholders & Procedures for Exercising Shareholders' Rights

Under the ROC Company Law, dissenting shareholders are entitled to appraisal rights in the event of merger, spin-off, or certain other major corporate actions. A shareholder may exercise appraisal rights by serving written notice on TSMC prior to the related shareholder meeting and/or by raising an objection at the shareholder meeting. In addition to appraisal rights, shareholders may also bring other actions such as for the annulment of resolutions, or derivative actions in accordance with relevant laws and regulations.

Procedures of Putting Proposals at Shareholder Meetings

The Board proposes the agenda for shareholder meetings in accordance with the ROC Company Law and TSMC's "Rules and Procedures of Shareholder Meeting" (the "Rules"). Shareholders may also propose special motions during shareholder meetings in accordance with the Rules.

Ways that Shareholders Nominate Directors to Board and Supervisors

TSMC's directors and supervisors are elected in accordance with the ROC Company Law and TSMC's "Rules for Election of Directors and Supervisors". Except as provided in the Company Law, TSMC does not adopt special provisions for nominating directors or supervisors by any shareholder.

10.4 Taiwan Corporate Governance Implementation as Required by SFC

Item	Implemented or Not	Implementation Status	Reason for Non-Implementation	Improvement Plans
1. Corporate Governance Structure & Principles				
(1) Does the Company have Corporate Governance Model and cover all governance principles?	Yes	Please refer to "Corporate Governance" section on page 26 of this Annual Report.		
(2) Does the Company have good Internal Control System and implement it effectively?	Yes	TSMC has established a thorough internal control system. TSMC implements its internal control through the "Internal Control System" and "Internal Audit Program".		
2. Share Structure & Shareholders' Rights				
(1) Does the Company have Shareholder Meeting Rules?	Yes	TSMC has established "Rules and Procedures of Shareholder Meeting" based on the relevant rules and regulations of Taiwan.		
(2) Does the Company appoint responsible people to handle shareholder suggestions or disputes?	Yes	TSMC has designated relevant departments to handle shareholder's suggestions or disputes.		
(3) Does the Company have Principal Shareholder List?	Yes	TSMC keeps track of shareholdings of directors, supervisors, officers, and shareholders holding more than 10% of the outstanding shares of TSMC.		
(4) Does the Company disclose major shareholders' share transaction activities?	Yes	TSMC regularly discloses major shareholders' transaction activities according to the relevant laws and regulations of Taiwan.		
(5) Does the Company and its affiliates have Risk Management Mechanism and Fire Wall?	Yes	TSMC has established relevant guidelines in its "Internal Control System".		
3. Board Structure & Independency				
(1) Does the Company have two or more independent directors?		Sir Peter Leahy Bonfield, Prof. Lester Carl Thurow, and Mr. Stan Shih meet the requirement of independency of directors under NYSE proposed rulings. They meet all of the board independency criteria under Taiwan SFC except that the directorship of Stan Shih arises from being the Representative of juridical person shareholder Chi Cherg Investment Co., Ltd. Also refer to page 12 "Independency Analysis of Board Members Under Taiwan SFC Criteria" for details.		
(2) Does the Company's board have Audit Committee?	Yes	TSMC's Board of Directors established an Audit Committee on August 6, 2002.		
(3) Are Chairman and President different persons, and not connected by marriage or relationship of first-degree relative?	Yes	There is no family relationship between TSMC's Chairman and president.		
4. Responsibilities of Board & Management				
(1) Does the Company have board meeting rules?			This is a new Taiwan regulatory requirement.	Rules will be adopted in accordance with relevant regulations.
(2) Does the Company have any functional committees?	Yes	TSMC's Board of Directors has established an Audit Committee.		
(3) Does the board regularly evaluate the independency of external auditors?	Yes	The Audit Committee regularly evaluates the independency of external auditors.		
(4) Does the Company have responsibility insurance for directors?	Yes	TSMC has Directors & Officers Liability Insurance (D&O Insurance) for its directors.		
(5) Does the Company provide training to directors?	Yes	Please refer to "Corporate Governance" section on page 26 of this Annual Report.		
(6) Does the Company have risk management policy and risk measures and implement it?	Yes	TSMC has risk management policy and risk measures under various internal policies and internal audit system.		
5. Supervisor's Composition, Responsibilities, and Independency				
(1) Does the Company have one or more independent supervisor?		One of TSMC's Supervisors, Prof. Michael Porter, meets the requirement of independency under NYSE proposed rulings. Prof. Michael Porter meets all of the independency criteria set by Taiwan SFC except that his appointment arises from being the Representative of a juridical person shareholder Hsin Ruey Investment Co., Ltd. Also refer to page 12 "Independency Analysis of Board Members Under Taiwan SFC Criteria" for details.		
(2) Does the supervisor have communication channel with employees, shareholders, and stakeholders?			This is a new Taiwan regulatory requirement.	A formal channel will be established after consultation with SFC.
(3) Does the Company have supervisor meeting or meeting rules?			This is a new Taiwan regulatory requirement.	A formal channel will be established after consultation with SFC.
(4) Does the Company have responsibility insurance for supervisors?	Yes	TSMC has bought D&O Insurance for its supervisors.		
(5) Does the Company provide training to supervisors?	Yes	Please refer to "Corporate Governance" section on page 26 of this Annual Report.		
6. Stakeholders Relationship				
(1) Does the Company have communication channel with stakeholders?	Yes	TSMC has designated relevant departments to communicate with stakeholders.		
(2) Does the Company deem its social responsibility important?	Yes	TSMC established the "TSMC Education and Culture Foundation" in 1998 to perform its social responsibilities.		
(3) Are directors actually disqualified from voting during the meetings of board of directors on the matters in which his interest conflicts with TSMC's?	Yes	TSMC's Board has adopted this principle as a practice.		
(4) Does the Company have consumer or client protection policy and its implementation status?	Not Applicable	TSMC does not sell consumer goods.		
7. Information Disclosure				
(1) Does the Company appoint responsible people to handle information collection and disclosure?	Yes	TSMC has designated relevant departments to handle the collection and disclosure of information as required by relevant laws and regulations of Taiwan and other jurisdictions.		
(2) Does the Company have spokesperson?	Yes	TSMC has designated a spokesperson as required by relevant regulation.		
(3) Does the Company have corporate website to disclose financial and corporate governance information?	Yes	TSMC discloses its information through its website www.tsmc.com.tw.		

11. Social Responsibility Information

11.1 TSMC Education and Culture Foundation

TSMC believes that corporations can and should assume a more active role towards the society beyond their financial contributions. In this connection, the TSMC Education and Culture Foundation (the "TSMC Foundation") was established in 1998 as a formal vehicle to facilitate education and culture development in Taiwan.

Dr. F.C. Tseng, Deputy CEO of TSMC, was appointed Chairman of the Foundation in 2002. The Foundation's activities in the past year included:

Commitment to Education

The highlight of the year is TSMC Esthetics Education Program. Dr. F. C. Tseng led the Foundation to launch a project to promote esthetics education for elementary school students in rural Taiwan. By offering exposure to the fine arts at a young age, the Foundation hopes to enable children to develop talents, creativity, and enhance art appreciation skills. TSMC Foundation continued in 2002 three educational grant programs to National Tsing Hua University to help incubate emerging talents in high technology, corporate management, and intellectual property rights. The collaboration with the IMBA program of National Chengchi University also extended into 2002 to foster the cultivation of international business leaders.

Contribution to the Communities in which TSMC has fab operation

TSMC Foundation renders extensive services in communities where TSMC's facilities are located. The Foundation provides funding to build a better community for both TSMC employees and neighbors. The Foundation focuses on art and cultural activities, environmental protection issues, athletic events, as well as other programs to help enhance the quality of life.

Sponsorship of National Arts and Cultural Activities

Major national art and cultural events sponsored by TSMC Foundation in 2002 include: (1) *The Taipei House Project*- the restoration of the former American Ambassador's Residence into a film exchange gateway for Taiwan's movie industry, (2) *The World of Heavenly Khan- Treasure of Tang Dynasty Exhibition*- In addition to exhibition sponsorships, the Foundation also hosted trips to visit the exhibitions by students of elementary and junior high schools in the vicinity of TSMC fab sites.

Social Wellness and Other Programs

TSMC Foundation extended its sponsorship for the second year to support the training of 480 home caretakers by Red Cross of the Republic of China (Taiwan), in the interest of servicing self-care living by senior citizens. TSMC Foundation was also a major sponsor to an important student volunteer program with the purpose to promote student volunteer works in the community services of 319 towns in Taiwan.

Recognitions & Awards

TSMC Foundation received the Annual Gold Medal of the Wen-Hsin Award by the Council for Cultural Affairs for the fifth consecutive year. *CommonWealth Magazine* ranked TSMC No. 1 in Corporate Citizens for the third consecutive year. The Foundation also received Taipei Cultural Award from the Culture Bureau, Taipei City Government, as a tribute to the Foundation's educational and cultural services for the city.

11.2 Other Social Issues

Health and Safety Performance

Being both ISO 14001 and OHSAS 18001 certified since 1996, TSMC has gained the highest recognition in health-and-safety management and practice. TSMC offers comprehensive health care and employee assistance programs throughout all of its operating sites. Health care programs include on-site physician consultation, and 24-hour on site service nursing. In addition, on-site fitness facilities as well as annual physical check-ups are available for all employees.

Policies and Procedures Relating to Adherence to Health and Safety

TSMC believes that its health and safety actions should not only meet relevant ESH legal requirements, but also be benchmarked against recognized international practices. The Company's goals are to prevent incidents, improve employee safety and health, protect property, prevent pollution, and above all use all resources effectively.

Equal Opportunity

Employees are recruited in line with the Company's operating needs and strategic directions. TSMC believes in equal opportunity and values the diversity that its staff contributes. Recruitment is carried out via open selection based on merits of the candidates and matching needs of each position to ensure selection of the best talents irrespective of race, gender, age, lifestyle, religion, nationality and political affiliation.

Supplier Selection Process and Criteria Regarding Social and Environmental Parts

TSMC established an ESH Performance Evaluation System and linked it to the procurement system. This set-up helps the Company's procurement policy to achieve a balance between quality, price and ESH. In 2002, TSMC also established a "Green Procurement Procedure" to evaluate suppliers' environmental performances for supplier selection. The procedure requires suppliers to establish Environmental Management System (EMS) and disclose hazardous substances content in their products.

Social and Environmental Impacts of TSMC's Outsourced Operations or Contractors

TSMC communicates regularly with its suppliers on ESH issues and encourages their improvements on ESH constantly. TSMC also conducts periodical random audits to its suppliers and waste treatment contractors to assure that the required environmental compliances are strictly adhered to.

Social and Environmental Impacts of TSMC's Suppliers

A life cycle assessment (LCA) study for TSMC was conducted in 2002. The functional unit is defined as per 8-inch wafer produced; and the system boundary is investigated from internal data of TSMC to major suppliers and contractors. The study collected and calculated data from energies, raw materials, and pollutants from silica, wafer production, wafer processing, and major chemicals needed, i.e., from cradle to gate.



Foundation Chairman Dr. FC Tseng welcoming the first group of the students to join TSMC Esthetic Education Trip.

Chairman Morris Chang congratulating on the opening of Taipei House, the former American Ambassador's Residence.

Dr. Tseng accepting the Taipei Culture Award from Taipei City Mayor Ma on behalf of TSMC Foundation.

OPERATIONAL HIGHLIGHTS

1. Business Activities

1.1 TSMC Business Scope

TSMC's business focus is on IC foundry and associated services. The Company excels in every aspect of its business, namely, process technologies, wafer manufacturing, capacity utilization, customer services, as well as a wide range of support services including design services, mask manufacturing, wafer probing, in-house bumping and testing. Over the past 16 years, customers worldwide have relied on TSMC to manufacture chips that are used across the entire spectrum of electronic applications.

1.2 Customer Applications

TSMC's customers sell the advanced IC chips to a diverse range of electronic end products, including PCs, servers, computer peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, and also consumer electronics such as DVD players, game consoles and digital still cameras (DSC). The innovative evolution of end product applications drives the customers to utilize TSMC's technologies and service, and simultaneously steers TSMC to further its technology development as well.

1.3 Net Sales over the Last Two Years

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

Sales Quantity & Amount Major Product	Year	2002			
		Local		Export	
		Quantity	Amount	Quantity	Amount
Wafer		486,036	17,552,160	2,137,078	125,580,978
Package		85	13,407	51,903	3,521,966
Other		13,268	1,603,118	36,415	12,689,700
Total		499,389	19,168,685	2,225,396	141,792,644

Sales Quantity & Amount Major Product	Year	2001			
		Local		Export	
		Quantity	Amount	Quantity	Amount
Wafer		539,347	28,267,693	1,544,899	80,969,736
Package		19,209	1,241,470	55,022	3,556,057
Other		12,523	3,067,248	35,871	8,785,799
Total		571,079	32,576,411	1,635,792	93,311,592

1.4 Production over the Last Two Years

Unit: Capacity / Quantity (8-inch wafer) / Amount (NT\$K)

Year	Wafers		
	Capacity	Quantity (Note 1)	Amount (Note 2)
2001	4,378,925	2,234,163	83,741,166
2002	3,890,893	2,833,818	90,745,812

Note 1: Wafer out

Note 2: Total Manufacturing Cost = Wafer out x Actual Unit Cost



2. Customers

TSMC's customers are globally based, have diverse product specialties, and enjoy prominent standing in the various business segments of the semiconductor industry. Fabless segment customers include those such as Altera Corporation, Broadcom Corporation, NVIDIA Corporation, Qualcomm Incorporated and VIA Technology Inc. Examples of IDM customers include Analog Devices Inc., Motorola Inc., and Philips Electronics N.V.. TSMC's business with NVIDIA Corporation amounted to over 10% of TSMC's revenue in 2002. No other customer has business with TSMC that amounted to 10% or more of Company revenue in 2002.

2.1 Customer Service

TSMC has declared itself a service-oriented company in the belief that customer service is the critical factor in enhancing customer loyalty. TSMC believes that customer loyalty leads to higher levels of customer retention and expansion of relationships. It is TSMC's goal to become the most advanced and largest technology and foundry service provider. TSMC also believes that achieving this goal will attract, serve, and retain customers, meanwhile to enhance customer loyalty and partnership.

To facilitate customer interaction and information access on a real time basis, TSMC has established a range of internet based services covering applications in design collaboration, engineering collaboration, and logistic collaboration. They are collectively branded as *e-foundry*sm.

2.2 Customer Satisfaction

TSMC conducts regular reviews and surveys to ensure that customers needs are adequately addressed. Improvement plans and feedback to customers are integral parts of this business process.

2.3 Market Expansion/Penetration

TSMC continued to diversify its customer base while supporting growth of existing customers. Among all active customers in 2002, over 30 of them were new. TSMC's customers also gained market share in a number of end applications, include computer, wired communications, wireless communications, and consumer electronics.

3. Raw Material Supply

Major Materials	Major Suppliers	Market Status
Wafer	MEMC SUMCO S.E.H. Wacker	These four suppliers provide over 80% of the world's wafer capacity from multiple manufacturing sites, including USA, Asia and Europe.
Chemicals	Merck-Kanto Tai-Young High Tech	These two companies are major global bulk chemical suppliers. The chemical raw materials of these two suppliers are either imported from Japan or, sourced from local Taiwan producers.
Photoresist	T.O.K. S.E.H. Sumitomo AZ/Clariant	These four companies are worldwide major photoresist suppliers. They all store stock in Taiwan and provide just in time service.
Specialty Gases	TAIYO TOYO SANSO AIR PRODUCT AIR LIQUID BOC	These four companies are worldwide major specialty gas suppliers.

4. Employees

Attracting and retaining the right talent is one of the key objectives of TSMC's human resource strategy. TSMC's total workforce, by the end of 2002, reached 14,938 in number. New staff in 2002 consisted of 110 managers, 500 professionals and 700 technicians.

Gender-wise, female employees made up 57.8% of TSMC's total staff and 13% of its managerial personnel. Nationality-wise, 4.5% of TSMC's employees at the professional and managerial levels are non-Taiwan nationals. TSMC's staff are highly educated: 3% of employees hold Ph.D.'s, 25% Masters, 15% university bachelors, 26% college degrees, and 31% high school graduates. The following table shows the TSMC personnel structure from 2000 until February 28, 2003.

TSMC Personnel Structure by Job Title

	2000	2001	2002	As of 02/28/2003
Manager	1,249	1,286	1,465	1,477
Professional	4,950	4,600	5,077	4,978
Assistant Engineer/Clerical	1,063	982	914	904
Technician	7,360	6,801	7,482	7,343
Total	14,622	13,669	14,938	14,702

TSMC Personnel Structure by Gender, Age and Service Year

		2000	2001	2002	As of 02/28/2003
Gender	Male	41.7%	42.1%	42.2%	42.4%
	Female	58.3%	57.9%	57.8%	57.6%
Average Age		28.9	29.8	30.0	30.2
Average Service Year		3.2	4.1	4.2	4.5

4.1 Human Capital

TSMC strives to create an environment that provides favorable work set-ups, offers personal challenges, and supports career development. As a result, TSMC maintained a relatively high retention rate among its highly educated workforce. TSMC also endorses professional know-how, positive attitude, affirmative values, honest behavior and genuine commitment to succeed as part of its human capital base. There have been no major labor disputes or financial losses as a result of labor disputes from January 1, 2002 until February 28, 2003.

4.2 People Development

Continuous learning is the cornerstone of TSMC's employee development strategy. TSMC implemented the individual employee development plan initiative (IDP) in 2002. Each IDP is customized to meet the employees' personal development aspirations as well as duty-oriented needs.

4.3 Employee Satisfaction

TSMC conducts annual Employee Satisfaction Survey to determine improvement or degradation in employee involvement and engagement. As another indicia of employee satisfaction, TSMC has been recognized as "Best Employer in Asia" in the regional *Hewitt Associates*, *Asia Wall Street Journal*, and *Far Eastern Economic Review*.

4.4 Compensation

The Company's compensation program consists of cash compensation and profit sharing. Cash compensation includes base salary and quarterly cash incentive bonus; and profit sharing is awarded in the form of stock grants.

Profit Sharing

This is a variable incentive compensation for TSMC employees, which is designed to link employees' interest directly with that of the shareholders. The total budget for each year's profit sharing plan is based on the distributable net income for the year. Individual rewards are based on each employee's job responsibility, contribution, and performance. The value of profit sharing constitutes a significant portion of the employees' total compensation. The more senior in responsibility, the greater proportion of their total compensation is dependent on the variable profit sharing plan, especially for managers and executives.

Eight percent of the Company's 2001 distributable net income (net of legal reserve), in the form of 107,078,388 common shares, was approved by the shareholders for employee profit sharing awarded in July 2002.

To align with respective market practices, our overseas employees do not participate in the profit sharing plan, instead they participate in our ESOP. The options are granted for a period of 10 years with a vesting schedule of 50% in second year, 75% in third year and 100% in fourth year.

5. Innovation

5.1 R&D Organization and Investment

TSMC believes that its R&D team is among the highest-quality and largest-applied semiconductor research teams in the world. TSMC increased its process R&D staff by over 12% in 2002. The personnel engaged in exploratory technologies increased three-fold in order to strengthen long-term R&D focus. R&D expenditure increased in 2002 by 10% to NT\$ 11.7 billion.

TSMC started in Fab12 a 300mm RD pilot line in 2002 to extend the R&D of 90nm and future technology generations. Also established in 2002 were: a new characterization lab for advanced materials; an advanced lithography center; and a process/material simulation lab that extends its fundamental and exploratory work in semiconductor technology. TSMC also has developed strong relationships with key process tool and materials vendors.

5.2 R&D Accomplishments in 2002

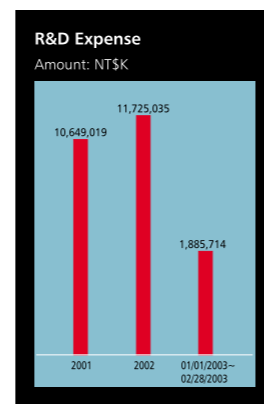
Reflecting its commitment to innovation, TSMC was awarded 462 US patents and 552 ROC patents in 2002. TSMC's R&D also demonstrated an industry-leading 90nm CMOS logic process. We believe that this new process can become a leading SoC platform in the industry. Several breakthroughs were also made in demonstrating spin-on and chemical vapor deposition-based low-k processes with dielectric constants below 2.5 for future technology nodes.

TSMC conducts exploratory technology research in several important areas, including new device structures, strained Si, SOI, and novel nonvolatile memory. For example, TSMC published several novel designs of transistors known as FinFETs that achieve higher performance and lower leakage than traditional transistors, meeting the stringent leakage and speed projections of the International Technology Roadmap. We believe that these devices should be able to meet the needs of most applications in 2010.

5.3 Spectrum of New Technologies

New process technology options were introduced in 2002:

- 0.13um Mixed-Signal/RF Technology
TSMC delivered more than 30 customer products within this technology field.
- Silicon Germanium RF BiCMOS Technology
TSMC succeeded in developing 0.18um SiGe RF BiCMOS technology. This process is compatible with TSMC's baseline 0.18um CMOS logic processes and, when combined with other features, can develop in a single chip for high speed, low power, low noise, wired and wireless applications.



- 0.18um CMOS Image Sensor Process
TSMC released 0.18um high performance CMOS Image Sensor Process. It was compatible with TSMC's 0.18um CMOS logic process and embedded memory process, thus providing a SoC platform for consumer and industrial imaging applications.
- Embedded Memory Technology
TSMC successfully manufactured 0.13um 1TRAM products.
- Flash/Embedded Flash Technology
TSMC released an embedded Flash technology for very stringent automotive applications. Additionally, TSMC served the smart card market segment by extending 0.25um embedded Flash technology. For 0.18um embedded Flash technology, TSMC also demonstrated 8 M IP block in both 2.5V and 1.8V operations.
- State-of-the-art Mask Technology
TSMC mask work facilities featured state-of-the-art E-beam mask writers and inspection tools for both R&D and production use.
- Design Services
TSMC enriched its advanced libraries/IP portfolio for 0.13um and 90nm process technologies. TSMC also further strengthened design services by launching the on-line technical information service - DocuFast™. The DocuFast service allows customers to download a set of TSMC technical documents that are well managed to ensure consistency and comprehensiveness.

5.4 R&D Plans for 2003

Moving forward in 2003, TSMC's R&D focus will be on Nexsys 90nm logic/mixed signal technology platforms and related embedded memory for SoC applications in 300mm wafers; 65nm logic technology; 0.13um embedded memory; 0.18um color image sensors; 0.25um high-voltage process modules, as well as low power, low cost, customized SiGe RF BiCMOS technologies and support process.

TSMC plans to continue to work closely with international consortia and photolithography equipment suppliers to ensure timely development of 193 high NA scanner, EUV scanner, E-Beam Projection technology and "liquid immersion lithography" to support process development of sub-90nm technology. TSMC's R&D team will also explore processes beyond the 65nm generation, including geometries as small as 40nm and 30nm. Exploratory work is already under way on new transistors and process technologies such as SOI, 3D structures, MRAM, and strained-layer CMOS. The new focus will be on developing advanced high-k gate insulators and extreme low-k interconnect insulator materials.

As companies worldwide have reduced their investments in advancing semiconductor technologies, TSMC plans to maintain its long-term lead over competitors in the foundry segment of the semiconductor industry through a strong exploratory technology research program. With its highly competent and dedicated R&D team, and its commitment to innovate, TSMC is confident of its ability to deliver the best and most cost-effective SoC processes for its customers.



6. Efficiency

6.1 Supply Chain Integration/Collaboration

One goal of TSMC is to be the most efficient partner of a customer's global supply chain integration and collaboration. Accordingly, since 2001, TSMC has initiated an enterprise supply chain management program to improve operational efficiency and increase customer satisfaction. TSMC expects that this program will reduce significantly a customer's response time demand and to improve delivery schedule accuracy.

6.2 Inventory Management

TSMC implemented a series of collaborative projects in 2002 to integrate information among Materials Management Division, IT Divisions, Accounting, and Fab users. We believe that the results have successfully enhanced the efficiency and effectiveness of the entire supply chain.

Two major noteworthy projects are Supply On-Line and Materials Planning Management System (MPMS). The former focuses on integrating suppliers' related information and to make the information accessible to suppliers. This has resulted in a significant reduction in inventory levels. The latter stresses improving demand forecasts, resulting in significant improvement in raw material service levels, thus reducing the risk of material shortage.

6.3 Value from Key Process in the Form of Time Saving and Cost Savings

Major TSMC business process re-engineering projects include:

Demand Fulfillment Process

Re-engineer key order fulfillment processes to improve TSMC overall responsiveness to customers' demands and management of the supply chain.

Customer Service and Satisfaction Process

Reconstruct the process flow for customer service by providing integrated service and offering active and effective solutions to meet customer demands.

Technology Deployment Process

Establish a process flow from new technology development to volume production that results in more effective cost performance and faster product-to-market time.

Recruiting and Development Process

This process is being re-engineered to ensure that we enhance our effectiveness in recruiting and developing the right talents, so that we have the right organizational capabilities and high performance culture to optimize TSMC's growth potential.

7. Quality

TSMC is committed to provide to its customers the best quality wafers for their products. TSMC Q&R ensures best quality wafer manufacturing from technology development to production through reliability evaluation, failure analysis, and qualification. Wafer manufacturing quality starts from material supply management, real time in-process monitoring, to customer feedback. TSMC Q&R also helps to steer the company towards the ultimate goal of zero defect through continuous improvement programs in terms of cost conscious, and efficient systems and effective methodologies.

Customers' feedback suggests that products shipped have either met or exceeded their field quality requirements in the marketplace. Also, in 2002, TSMC was the industry's first company to receive certification of the latest ISO automotive specification requirements - ISO/TS16949:2002.

8. Environmental Protection & Expenditures

8.1 Air Quality and PFC Emission

TSMC's air pollution prevention facilities meet rigorous environmental standards. For example, TSMC has achieved a lower than legal standard emission rate in terms of volatile organic compounds, acid gases, and alkali gases. Since 1993, TSMC has also phased out ozone-depleting substances in all manufacturing processes. TSMC has endorsed a memorandum by the Taiwan Semiconductor Industrial Association to reduce, until 2010, perfluorinated compounds (PFCs) emission a value of 10% compared with the averages of 1997 through 1999.

8.2 Water Consumption

TSMC successfully weathered through the 2002 drought through a series of water conservation measures. TSMC has also set priority to improve water recovery ratio and to reduce water usage by process tools.

8.3 Energy Consumption and Conservation

TSMC's Fab 8 won the "Energy Conservation Award" by the Ministry of Economic Affairs (MOEA), Taiwan in 2002.

8.4 Waste Disposal and Land Contamination

TSMC's industrial waste that cannot be reused or recycled is treated with incineration methods. In 2002, a small portion of general industrial waste was sent to landfills environmentally certified (2,000 tons). All lands on which are located TSMC's fabs are free from contamination, according to the standards set out by Soil and Groundwater Pollution Remediation Act of Taiwan's Environmental Protection Agency (EPA).

8.5 Environmental Performance

TSMC enforces a rigorous ESH Policy that complies with Taiwan's EPA regulations, and we believe, complies with most international environmental standards. There was only one non-compliance reportable incident in 2002. In that case, TSMC accidentally discharged a small amount of diesel oil into a storm sewer. TSMC took remedial actions and was fined by Hsinchu City Environmental Protection Bureau (EPB) for about NT\$ 60,000.

TSMC has contributed significant resources to ESH improvement programs. These efforts earned TSMC four national awards in 2002: (1) "Annual Environmental Protection Award for Enterprises" from the EPA, (2) "National Award for Outstanding Achievements in Operation and Maintenance for Pollution Control Facilities" from the Industry Development Bureau, (3) "Energy Conservation Award" from the MOEA, and (4) "Water Conservation Outstanding Performance Awards" from the Water Resources Agency.

In addition, TSMC was also one of the Dow Jones Sustainability Indexes (DJSI) components in 2001 and 2002. Components of the DJSI are selected among companies worldwide on exceptional corporate sustainability achievements. DJSI provides a linkage between companies implementing sustainability principles and investors wishing to profit from these companies' superior performance and favorable risk/return profiles.



9. 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.
- 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 Party: 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% 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.
- Patent License Agreement
Term of Agreement: 10/26/2001 - 12/31/2006
Contracting Party: A multinational company
Summary: Under this agreement, the parties have entered into cross license arrangements for certain semiconductor patents.
- Foundry Related Agreements
Term of Agreement: 1995 - 2004
Contracting Parties: Several multinational companies
Summary: Under these agreements, TSMC guarantees a pre-determined capacity for a set number of years to customers. In return, customers deposit certain money with TSMC.
- Manufacturing Agreement
Term of Agreement: 2/14/2000 - 2/13/2005
Contracting Party: Vanguard International Semiconductor Corporation (VIS)
Summary: Under this agreement, VIS shall reserve its certain capacity to manufacture for TSMC certain devices required by TSMC's customers, at prices as agreed by the parties.
- Patent License Agreement
Term of Agreement: 11/1/2002 - 10/31/2012
Contracting Party: A multinational 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.
- Patent License Agreement
Term of Agreement: 7/1/2002 - 6/30/2009
Contracting Party: A multinational 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.

- Patent License Agreement
Term of Agreement: 1/1/2001 - 12/31/2011
Contracting Party: A multinational 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.
- Amended and Restated Joint Technology Cooperation Agreement
Term of Agreement: 7/16/2001-12/31/2005
Contracting Party: STMicroelectronics NV, Philips Semiconductors International B.V., Motorola, Inc.
Summary: Under this agreement, the parties have entered into a joint technology cooperation arrangement for certain high-performance and advanced semiconductor technologies development.

10. Litigation Proceedings

To protect its intellectual capital, trade secrets, and other assets, TSMC may initiate as appropriate, litigation against former employees and third parties. Also, as is the case for many companies in the high-technology industry, TSMC receives from time to time communications from third parties asserting that TSMC's technologies, designs, and manufacturing processes may infringe certain patents or other intellectual property rights. TSMC takes these matters seriously. TSMC investigates all such claims and takes action as is appropriate under the circumstances.

TSMC was not involved in any material litigation in 2002 and is not currently involved in any material litigation.

11. Acquisition or Disposal of Property, Plant and Equipment

11.1 Acquisition of property, plant and equipment; in the amount no less than NT\$300 million, or 20% of paid-in capital

Unit: NT\$K

Property, Plant and Equipment	Acquisition Date	Total Price	Vendor	Relationship with the Company	Purpose
Fab12 Plant & Office	03/31/02	2,331,870	Fu Tsu Construction	None	in-house use
Fab12 Process Hook-Up, SP2	03/31/02	410,642	Marketch	None	in-house use
Fab12 Electrical Power Equip., GIS & Engineering	03/31/02	1,113,300	United Integrated Services	None	in-house use
Fab12 Cleanroom System	03/31/02	1,104,326	M+W Zander	None	in-house use
Fab12 Ultra Pure Water & Reclaim System, DI Water	03/31/02	392,193	Organo	None	in-house use
Fab12 Gas System & Piping	03/31/02	482,438	Confederate Technology	None	in-house use
Fab7 Cleanroom System	01/01/2002	307,457	M+W Zander	None	in-house use
Interbay System	03/31/2002	680,403	SHINKO	None	in-house use
Scanners	03/31/2002 ~ 12/31/2002	3,434,792	ASML	None	in-house use
Scanners	01/31/2003 ~ 02/28/2003	1,155,807	ASML	None	in-house use
Electronic Beam Operation	2002/06/30	364,334	KLA - TENCOR	None	in-house use

11.2 Disposal of property, plant and equipment up to NT\$300 million or 20% of paid-in capital: None

FINANCING PLANS AND IMPLEMENTATION

1. Preferred A Shares

1.1 Financing Plans

Source of Fund

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

Use of Fund

Project	Project Amount (NT\$K)	Expansion Plan	
		Fund Used in 2001 (NT\$K)	Fund Used in 2002 (NT\$K)
Fab 12 Equipment Procurement	32,700,000	8,250,000	24,450,000

Approved by the Securities and Futures Commission and disclosed on the Taiwan Stock Exchange Market Observation Post System on 09/22/2000.

1.2 Status of Implementation & Benefits

Expansion plan completed as of 12/31/2002.

2. Corporate Bond

2.1 Financing Plans

Source of Fund

Issuance	Issue Date	Tenor	Coupon Rate	Outstanding
Corporate Bond	01/10/2002 - 01/24/2002	Class A: 5 years Class B: 7 years Class C: 10 years	Class A: 2.60% 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

Use of Fund

Project	Expending Plan	
	Fund Used in 2002 (NT\$K)	Future Fund Use (NT\$K)
The proceeds of the bond finance a part of Fab 14 investment that is expected to amount to NT\$77.63 billion in total.	3,278,000	74,352,000

Approved by the Securities and Futures Commission and disclosed on the Taiwan Stock Exchange Market Observation Post System on 12/17/2001.

2.2 Status of Implementation & Benefits

Project commenced in 2002 and expected to last until 2004.



FINANCIAL STATUS, OPERATING RESULTS, AND RISK MANAGEMENT

1. Financial Position

Unit: NTSK

Item	2002	2001	Variance	Variance %
Current Assets	94,747,405	63,652,726	31,094,679	49%
Fixed Assets	217,192,263	215,499,242	1,693,021	1%
Other Assets	23,097,348	23,713,325	(615,977)	-3%
Total Assets	370,015,511	335,734,684	34,280,827	10%
Current Liabilities	31,160,103	25,210,619	5,949,484	24%
Long-term Liabilities	43,002,201	33,333,990	9,668,211	29%
Total Liabilities	74,162,304	58,544,609	15,617,695	27%
Capital Stock	199,228,867	181,325,531	17,903,336	10%
Capital Surplus	57,004,789	57,128,433	(123,644)	0%
Retained Earnings	40,792,197	37,507,410	3,284,787	9%
Total Shareholders' Equity	295,853,207	277,190,075	18,663,132	7%

1.1 Variance Analysis for Deviation over 20%

- The increase in current assets was largely due to an increase in cash and cash equivalents, which in turn, resulted from operating activities and the issuance of corporate bonds.
- The increase in current liabilities was primarily due to an increase in payables to vendors, contractors and equipment suppliers.
- Long-term liabilities increased as a result of the issuance of corporate bonds.

1.2 Major Impact on Financial Position: There was no significant impact on financial position.

1.3 Future Plan on Financial Position: Not Applicable

2. Operating Results

Unit: NTSK

Item	2002	2001	Variance	Variance %
Gross Sales	164,805,296	128,563,819	36,241,477	28%
Less: Sales Returns and Allowances	(3,843,967)	(2,675,816)	(1,168,151)	44%
Net Sales	160,961,329	125,888,003	35,073,326	28%
Cost of Sales	108,994,184	89,506,952	19,487,232	22%
Gross Profit	51,967,145	36,381,051	15,586,094	43%
Operating Expense	17,790,839	19,038,765	(1,247,926)	-7%
Operating Income	34,176,306	17,342,286	16,834,020	97%
Non-operating Income	1,762,893	2,891,557	(1,128,664)	-39%
Non-operating Expense	8,826,744	9,575,128	(748,384)	-8%
Income Before Tax	27,112,455	10,658,715	16,453,740	154%
Tax Benefit (Expense)	(5,502,164)	3,824,459	(9,326,623)	-244%
Income After Tax	21,610,291	14,483,174	7,127,117	49%



2.1 Variance Analysis for Deviation over 20%

- Increase in net sales and gross profit: The increase was largely due to the increase in customer demand. The improved gross profit was primarily due to higher capacity utilization and improved product mix.
- Increase in sales returns and allowances: The sales returns and allowances increased as a result of a more conservative provision on the potential sales returns & allowance.
- Increase in cost of sales: The cost of sales increased as a result of higher sales activity.
- Reduction in non-operating income: The reduction was primarily due to inclusion in 2001 of a non-recurring insurance claim. In addition, interest income also decreased as the result of lowered interest rates.
- Increase in income tax expense: The increase was caused by lower tax credits and higher taxable profit.

2.2 Reasons for changing the Company's major business; explain the variance resulting from the adjustment of selling prices or costs, the increase or decrease of quantity and the combination of production and selling, or the replacement of old products. If the Company's operation strategy, market situation, economic environment or other internal or external factors has changed or expects to have any significant change, explain the fact, influencing factors and the possible impact to the Company's future finance and responding proposal: Not Applicable

2.3 Planned selling quantities and its base for next year. Explain the major factors that keep the Company's forecast sales quantity to rise or decline: Please refer to "Letter To The Shareholders".

2.4 Gross Profit Variance Analysis

Unit: NT\$Million

Gross Profit in 2001	Gross Profit in 2002	Variance	Variance Owing to Price Difference	Variance Owing to Cost Difference	Variance Owing to Product Mix and Quantity Difference
36,381	51,967	15,586	(13,677)	11,583	17,680
			1. Competition & excess capacity globally caused unfavorable price variance. 2. Technology advancement caused price level to erode.	Increased utilization from 51% in 2001 to 73% in 2002 resulted in cost savings due to efficient asset turnover.	1. Revenue from advanced technology increased from 32% in 2001 to 52% in 2002, this mix improvement results in higher Gross Profit. 2. Wafer shipment growth 24% in 2002, this quantity difference results in higher Gross Profit.



3. Cash Flow

Unit: NT\$K

Cash Balance as of December, 2001	Net Cash Provided by Operating Activities	Net Cash Outflows from Investing and Financing Activities	Cash Balance as of December, 2002	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
33,403,706	94,288,101	(66,035,012)	61,656,795	-	-

3.1 Analysis of Cash Flow

- NT\$94.2 billion net cash provided by operating activities: This represents the sum of (1) profit from operating activities, and (2) non cash charges such as depreciation and amortization expenses.
- NT\$66.0 billion net cash outflows from investing and financing activities: This represents the sum of (1) NT\$69.6 billion for investment activities mainly for capital expenditures; offset by (2) NT\$3.6 billion net cash inflow from financing activities (being the surplus of bond issue proceeds, less bond repayment and return/release of funds to customers).

3.2 Remedy for Cash Shortfall and Liquidity Analysis: Because TSMC enjoys a cashflow surplus, remedial actions are not required.

3.3 Cash Flow Projection for Next Year: TSMC does not provide financial projections, including cash flow projections.

4. Major Capital Expenditure

4.1 Major Capital Expenditure and Its Source of Capital

Unit: NT\$K

Project	Actual or Planned Source of Capital	Actual or Planned Completion Date in 2002	Total Amount	The Execution of Major Capital Expenditure				
				2001	2002	2003 (Note)	2004 (Note)	2005 (Note)
Production Equipment	Owner's Equity/Bond	Completed	99,657,084	51,059,596	48,597,488	-	-	-
R&D Equipment	Owner's Equity/Bond	Completed	11,146,037	8,929,830	2,216,207	-	-	-

Note: Can not be reasonably estimated at the time of preparation.

4.2 Estimated Possible Benefit

It is estimated that TSMC production capacity may be increased annually by 500,000 8-inch equivalent wafers in 2003 and onwards, owing to the above capital expenditure investment.

Other Benefits (e.g. Product Quality, Anti-Pollution, Cost Reduction and etc.): Please refer to "Operational Highlights".

5. Long-term Investment

None of the current year investments exceeded 5% of the Company's capital.

6. Risk Management

6.1 Environmental, Safety and Health (ESH) Risks and Emergencies and Natural Disasters

TSMC is committed to maintaining a comprehensive risk management system dedicated to the safety, security, and protection of our people, our assets, as well as those of our vendors and customers. Dedicated processes and procedures exist for: (1) ESH Management; (2) Risk Analysis; and (3) Accident Prevention and Loss Minimization.

TSMC has adopted the International Standard on Environmental Management Systems (ISO 14001) as its standard for environmental management. TSMC Fabs 2, 3, 5, 6, 7, 8 and 12 all have been ISO 14001 certified. TSMC is also Taiwan's first semiconductor company to receive OHSAS 18001 certification for Fabs 2, 3, 5, 6, 7, 8 and 12.

In order to deal with emergencies and natural disasters at each of our facilities, TSMC has developed comprehensive plans and procedures focusing on loss prevention, emergency response, crisis management, and business recovery. We maintain specialized prevention and response teams trained both to handle emergencies and to work closely with government agencies should an emergency situation ever arise.

6.2 Management of Financial Operations

Internal policies and procedures exist with respect to high-risk/high-leveraged investment, lending/endorsement and guarantee for other parties, financial derivatives transactions

Because TSMC focuses on running its foundry manufacturing operations both effectively and efficiently, it does not engage in high-risk/high-leveraged investments. To control and monitor various types of financial transactions, the Company has established internal policies and procedures based on sound financial and business practices, all in compliance with the relevant rules and regulations issued by the Taiwan Securities and Futures Commission. TSMC policies and procedures include "Policies and Procedures for Financial Derivatives Transactions", "Procedures for Lending Funds to Other Parties", "Procedures for Acquisition or Disposal of Assets," and "Procedures for Endorsement and Guarantee". The financial transactions of a derivative nature that TSMC enters into are strictly for hedging purposes and not for any trading or speculative purpose.

Covenants

Two of TSMC's subsidiaries, TSMC Development, Inc. and WaferTech, LLC, have entered into long-term syndicated loan facility agreements. In connection with those agreements, TSMC provides guarantees up to US\$680 million in the aggregate. Customary Borrower and/or Guarantor covenants exist in those agreements.

6.3 Internal Management of Economic Risk

Interest Rate Fluctuation

TSMC's exposure to interest rate risks derives primarily from long-term debt obligations that are incurred in the normal course of business. The Company's policy is to limit its exposure to risks associated with rising interest rates and, therefore, TSMC finances its needs through long-term, fixed-rate debt.

Foreign Exchange Volatility

The Company is exposed to foreign exchange risks for both revenues and procurement. Most of TSMC's revenues derive from the export of its products (88% in 2002). A substantial portion of the Company's procurement of equipment, tools and material is imported. Therefore, in order to protect against reduction in value resulting from foreign exchange rate volatility, TSMC utilizes mainly forward currency contracts to hedge its foreign exchange exposure.

Inflation

Inflation in Taiwan was approximately -0.2% in 2002. It did not have a significant impact on TSMC operations and profits.

6.4 Political and Regulatory Environment

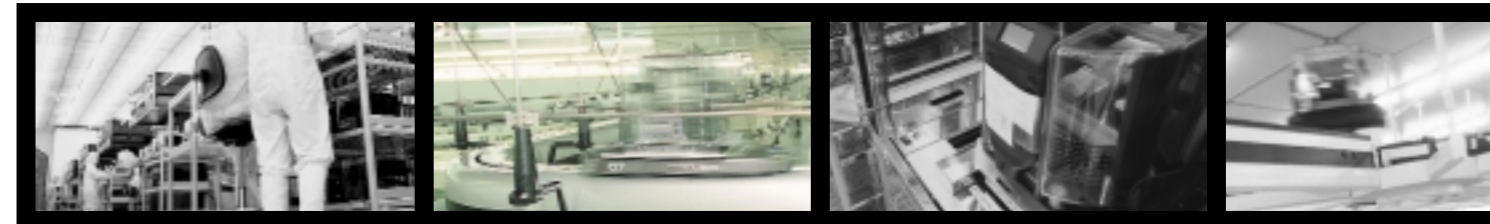
TSMC's management team monitors closely political and regulatory developments which could have an impact on TSMC business and operations. Political and regulatory developments did not have an adverse effect on TSMC during 2002.

Since TSMC is also a NYSE listed company, TSMC is required to comply with the provisions of Sarbanes-Oxley Act (and relevant regulations) that are applicable to non-US companies. Not only has TSMC taken measures to ensure compliance with applicable regulatory requirements, TSMC will continue to monitor regulatory developments and to implement changes as necessary for compliance.

6.5 Contingent Plans for Events That May Have a Significant Adverse Impact on the Company's Business

TSMC is dedicated to maintaining the highest degree of integrity, ethics, and fairness in managing and running its operations. TSMC management does not tolerate unethical behavior or compromise of its core values and principles.

TSMC pays special attention to emergency preparedness for natural and man-made disasters such as typhoons, earthquakes, and environmental contamination. We have established extensive contingency planning including the establishment of processes and procedures for creating emergency task forces as and when necessary. In such a situation, contingency planning would include the preparation of a thorough analysis of the emergency, its impact, alternatives, and solutions for each possible scenario, and appropriate precautionary and/or recovery measures. Each task force's responsibility would be to ensure TSMC's ability to conduct business with as little personal harm, business disruption, and financial impact as possible under the circumstances. As of the date of this Annual Report, there are no reportable material contingencies.





1. Condensed Balance Sheet

Financial Analysis from 1998-2002

Unit: NT\$K

Item	1998	1999	2000	2001	2002
Current assets	26,378,422	38,770,670	85,950,586	63,652,726	94,747,405
Long-term investments	17,537,765	28,208,643	33,422,010	32,869,391	34,978,495
Fixed assets	73,636,209	89,566,029	207,005,370	215,499,242	217,192,263
Other assets	6,554,817	4,877,392	14,594,492	23,713,325	23,097,348
Current liabilities					
Before distribution	8,138,796	14,469,329	41,188,662	25,210,619	31,160,103
After distribution	8,276,867	14,684,480	41,814,102	25,799,467	*
Long-term liabilities	25,025,206	20,000,000	29,000,000	24,000,000	39,281,665
Other liabilities	6,872,545	6,183,565	9,030,097	9,333,990	3,720,536
Capital stock	60,471,760	76,708,817	129,893,646	181,325,531	199,228,867
Capital surplus	164,219	11,831,411	55,285,821	57,128,433	57,004,789
Retained earnings					
Before distribution	24,162,113	33,320,615	76,924,173	37,507,410	40,792,197
After distribution	9,010,971	11,785,153	24,866,848	19,015,226	*
Unrealized loss on long-term investment	-	-	(71,564)	-	(194,283)
Cumulative transaction adjustments	(727,426)	(101,981)	(278,377)	1,228,701	945,129
Total Assets	124,107,213	161,422,734	340,972,458	335,734,684	370,015,511
Total Liabilities					
Before distribution	40,036,547	40,652,894	79,218,759	58,544,609	74,162,304
After distribution	40,174,618	40,868,045	79,844,199	59,133,457	*
Total Equity					
Before distribution	84,070,666	120,769,840	261,753,699	277,190,075	295,853,207
After distribution	83,932,595	120,554,689	261,128,259	276,601,227	*

*Subject to change after shareholders' meeting resolution

2. Condensed Statement of Income

Financial Analysis from 1998-2002

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

Item	1998	1999	2000	2001	2002
Net sales	50,233,008	73,131,206	166,228,420	125,888,003	160,961,329
Gross profit*	20,336,042	33,240,484	75,996,839	36,381,051	51,967,145
Income from operations	16,202,245	25,916,619	60,541,105	17,342,286	34,176,306
Non-operating Income	1,024,981	1,249,706	5,409,307	2,891,557	1,762,893
Non-operating Expense	287,295	3,056,460	2,112,818	9,575,128	8,826,744
Interest revenue	566,020	808,616	1,575,460	1,365,919	1,008,147
Interest expense	981,388	1,415,527	1,858,197	1,951,830	2,119,935
Income from operations of continued segments-before tax	13,648,622	24,109,865	63,837,594	10,658,715	27,112,455
Income from operations of continued segments-after tax	15,344,203	24,559,884	65,106,194	14,483,174	21,610,291
Net income	15,344,203	24,559,884	65,106,194	14,483,174	21,610,291
Earnings per share	2.54 **	3.24 **	5.71 **	0.83 **	1.14 **
	0.98 ***	1.56 ***	3.58 ***	0.75 ***	
Capitalized interest	661,414	305,312	72,903	207,297	165,857

* Certain accounts of 1998 through 2000 have been reclassified to conform to 2001 & 2002 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 1998-2002

		1998	1999	2000	2001	2002
Capital Structure	Debts ratio(%)	32.26	25.18	23.23	17.44	20.04
Analysis	Long-term fund to fixed assets (%)	148.16	157.17	140.46	139.76	154.30
Liquidity Analysis	Current ratio (%)	324.11	267.95	208.68	252.48	304.07
	Quick ratio (%)	273.86	233.95	178.13	211.92	264.11
	Times interest earned (times)	8.91	14.83	34.02	5.84	12.79
Operating	Average collection turnover (times)	5.90	7.18	7.70	5.32	9.08
Performance	Days sales outstanding	61.85	50.82	47.42	68.61	40.20
Analysis	Average inventory turnover (times)	6.82	9.96	10.77	9.19	11.57
	Average inventory turnover days	53.49	36.66	33.90	39.70	31.55
	Average payment turnover (times)	10.12	12.08	10.76	11.52	20.72
	Fixed assets turnover (times)	0.68	0.82	0.80	0.58	0.74
	Total assets turnover (times)	0.40	0.45	0.49	0.37	0.44
Profitability	Return on total assets (%)	14.04	18.19	24.12	4.76	6.63
Analysis	Return on equity (%)	19.99	23.98	31.43	5.37	7.54
	Operating income to capital stock (%)	26.79	33.79	46.61	9.56	17.15
	Profit before tax to capital stock (%)	22.57	31.43	49.15	5.88	13.61
	Cost to Revenue Ratio (%)	59.52	54.55	54.28	71.10	67.71
	Profit after tax to net sales (%)	30.55	33.58	39.17	11.50	13.43
	Net worth per share (NTD)	13.90	15.74	21.28	15.70	15.19
	Earnings per share (NTD) (Note)	0.98	1.56	3.58	0.75	1.14
	Dividends per share (NTD)	4.50	2.30	2.80	4.00	1.00
	Cash dividends (NTD)	-	-	-	-	-
	Stock dividends (NTD)	4.50	2.30	2.80	4.00	1.00
Cash flow	Cash flow ratio (%)	417.00	273.50	213.17	284.27	302.59
	Cash flow adequacy ratio (%)	102.04	106.00	106.03	105.73	122.72
	Cash flow reinvestment ratio (%)	21.65	19.31	22.47	16.00	17.88
Leverage	Operating leverage	2.69	2.47	2.34	6.14	3.88
	Financial leverage	1.06	1.06	1.03	1.13	1.07
Others	Royalty Expense (NT\$K)	637,136	1,032,167	2,477,021	3,715,200	6,232,338
	Royalty Revenue (NT\$K)	-	-	23,557	55,077	204,350
	Gross Margin (NT\$K)	20,336,042	33,240,484	75,996,839	36,381,051	51,967,145
	Sales and Marketing Costs (NT\$K)	809,302	1,810,701	2,953,008	2,341,081	900,897
	Effective Tax Rate (%)	9.50	5.90	7.54	17.56	16.55
	Working Capital (NT\$K)	18,239,626	24,301,341	44,761,924	38,442,107	63,587,302
	Capital Expenditure (NT\$K)	28,066,471	29,842,159	79,720,461	68,002,448	54,443,595

Note: Retroactive adjustment for capitalization of unappropriated earnings and bonus to employees.

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

1. Capital Structure Analysis					
(1) Debts ratio	= Total Liabilities / Total Assets			(2) Return on equity	= Net Income / Average Shareholders' Equity
(2) Long-term fund to fixed assets	= (Shareholders' Equity + Long-term Liabilities) / Net Properties			(3) Cost to Revenue Ratio	= Cost of Goods Sold / Net Sales
				(4) Profit after tax to net sales	= Net Income / Net Sales
				(5) Earnings per share	= (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
2. Liquidity Analysis				(6) Net worth per share	= (Shareholders' Equity - Preferred Stock) / Number of shares outstanding
(1) Current ratio	= Current Assets / Current Liabilities				
(2) Quick ratio	= (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities			5. Cash flow	
(3) Times interest earned	= Earnings before Interest and Taxes / Interest Expenses			(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. Operating Performance Analysis				(3) Cash flow reinvestment ratio	= (Cash Provided by Operating Activities - Cash Dividends) / (Gross Plant + Investment + Other Assets + Working Capital)
(1) Average collection turnover	= Net Sales / Average Trade Receivables			6. Leverage	
(2) Days sales outstanding	= 365 / Receivables Turnover rate			(1) Operating leverage	= (Net Sales - Variable Cost) / Income from Operations
(3) Average inventory turnover	= Cost of Sales / Average Inventory			(2) Financial leverage	= Income from Operations / (Income from Operations - Interest Expenses)
(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				

4. Condensed Interim Balance Sheet by Quarter

Unit: NT\$K

ASSETS	March 31, 2002		June 30, 2002		September 30, 2002		December 31, 2002	
	Amount	%	Amount	%	Amount	%	Amount	%
Current assets	92,433,940	26	106,364,142	28	100,404,633	26	94,747,405	26
Long-term investments	31,419,316	9	36,713,728	10	36,348,928	10	34,978,495	9
Fixed assets	209,025,911	58	211,233,052	56	217,505,497	58	217,192,263	59
Other assets	24,307,203	7	20,669,458	6	23,183,673	6	23,097,348	6
TOTAL ASSETS	357,186,370	100	374,980,380	100	377,442,731	100	370,015,511	100
LIABILITIES AND SHAREHOLDERS' EQUITY								
LIABILITIES								
Current liabilities	29,868,651	8	40,484,868	11	41,347,199	11	31,160,103	8
Long-term liabilities	36,470,000	10	36,470,000	10	38,648,931	10	39,281,665	11
Other liabilities	9,139,044	3	8,861,098	2	3,839,272	1	3,720,536	1
Total liabilities	75,477,695	21	85,815,966	23	83,835,402	22	74,162,304	20
SHAREHOLDERS' EQUITY								
Capital stock	181,325,531	51	199,228,867	53	199,228,867	53	199,228,867	54
Capital surplus	57,158,972	16	57,004,789	15	57,004,789	15	57,004,789	15
Retained earnings	44,095,242	12	35,079,257	9	38,239,423	10	40,792,197	11
Unrealized loss on long-term investment	-	-	-	-	(68,960)	-	(194,283)	-
Cummulative translation adjustments	1,232,851	-	(233,799)	-	1,117,910	-	945,129	-
Treasury stock (at cost)	(2,103,921)	-	(1,914,700)	-	(1,914,700)	-	(1,923,492)	-
Total Shareholders' Equity	281,708,675	79	289,164,414	77	293,607,329	78	295,853,207	80
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	357,186,370	100	374,980,380	100	377,442,731	100	370,015,511	100

5. Condensed Interim Statement of Income by Quarter

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

	Q1		Q2		Q3		Q4		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
GROSS SALES	37,324,313		44,770,649		40,622,990		42,087,344		164,805,296	
SALES RETURNS AND ALLOWANCES	(1,534,598)		(588,195)		(787,973)		(933,201)		(3,843,967)	
NET SALES	35,789,715	100	44,182,454	100	39,835,017	100	41,154,143	100	160,961,329	100
COST OF SALES	23,763,009	66	27,759,398	63	26,999,812	68	30,471,965	74	108,994,184	68
GROSS PROFIT	12,026,706	34	16,423,056	37	12,835,205	32	10,682,178	26	51,967,145	32
OPERATING EXPENSES	3,844,702	11	4,447,576	10	4,467,771	11	5,030,790	12	17,790,839	11
INCOME FROM OPERATIONS	8,182,004	23	11,975,480	27	8,367,434	21	5,651,388	14	34,176,306	21
NON-OPERATING INCOME										
Interest	214,746	-	264,275	1	291,187	1	237,939	1	1,008,147	1
Gain on sales of property, plant and equipment	254,581	1	(3,766)	-	4,665	-	18,518	-	273,998	-
Technical service income	13,806	-	70,631	-	58,292	-	61,621	-	204,350	-
Others	148,897	-	58,564	-	19,353	-	49,584	-	276,398	-
Total Non-operating Income	632,030	1	389,704	1	373,497	1	367,662	1	1,762,893	1
NON-OPERATING EXPENSES										
Recognized loss on investment by equity method-net	946,289	3	786,763	2	1,821,121	5	2,162,337	5	5,716,510	4
Interest	541,343	2	569,807	1	522,667	1	486,118	1	2,119,935	1
Casualty loss	104,828	-	12,642	-	-	-	2,015	-	119,485	-
Loss on sales of and provision for loss on property, plant and equipment	91,224	-	931	-	26,954	-	102,846	-	221,955	-
Foreign exchange loss-net	60,847	-	(414)	-	40,821	-	19,314	-	120,568	-
Amortization of premium of option contracts-net	-	-	-	-	291,721	1	127,792	1	419,513	-
Others	51,656	-	9,018	-	7,189	-	40,915	-	108,778	-
Total Non-operating Expenses	1,796,187	5	1,378,747	3	2,710,473	7	2,941,337	7	8,826,744	5
INCOME BEFORE INCOME TAX	7,017,847	19	10,986,437	25	6,030,458	15	3,077,713	7	27,112,455	17
INCOME TAX EXPENSE	(430,015)	(1)	(1,676,918)	(4)	(2,870,292)	(7)	(524,939)	1	(5,502,164)	(4)
NET INCOME	6,587,832	18	9,309,519	21	3,160,166	8	2,552,774	6	21,610,291	13
EARNINGS PER SHARE AFTER TAX	0.39		0.45		0.17		0.13		1.14	

6. Auditors' Opinion from 1998 to 2002




Year	CPA	Audit 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
2002	S.C. Huang, Edward Way	An Unqualified Opinion

T N Soong & Co
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 2002 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	Michael E. Porter	

March 11, 2003

8. Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies incur any financial or cash flow difficulties from 2002 until February 28, 2003: None

9. Financial Statements & Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 16, 2003

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

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

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

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

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

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



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

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2002		2001		LIABILITIES AND SHAREHOLDERS' EQUITY	2002		2001	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$61,656,795	16	\$33,403,706	10	Payable to related parties (Note 16)	\$2,466,998	1	\$2,082,606	1
Receivables from related parties (Note 16)	10,183,488	3	523,861	-	Accounts payable	4,849,234	1	1,123,894	-
Notes receivable	60,240	-	176,582	-	Payable to contractors and equipment suppliers	14,004,383	4	12,367,319	4
Accounts receivable	9,495,447	3	19,957,636	6	Accrued expenses and other current liabilities (Notes 2, 6, 10 and 19)	5,839,488	1	4,636,800	1
Allowance for doubtful receivables (Note 2)	(929,864)	-	(1,100,492)	-	Current portion of bonds (Note 9)	4,000,000	1	5,000,000	1
Allowance for sales returns and others (Note 2)	(2,363,067)	(1)	(2,581,551)	(1)	Total Current Liabilities	31,160,103	8	25,210,619	7
Inventories - net (Notes 2 and 5)	10,340,336	3	8,504,418	2					
Deferred income tax assets (Notes 2 and 12)	3,320,000	1	2,347,000	1	LONG-TERM LIABILITIES				
Prepaid expenses and other current assets (Notes 2, 16 and 19)	2,984,030	1	2,421,566	1	Bonds - net of current portion (Note 9)	35,000,000	10	24,000,000	7
Total Current Assets	94,747,405	26	63,652,726	19	Other long-term payables (Notes 10 and 18)	4,281,665	1	-	-
					Accrued pension cost (Notes 2 and 11)	2,210,542	1	1,854,853	1
LONG-TERM INVESTMENTS (Notes 2, 3, 6 and 18)	34,978,495	9	32,869,391	10	Guarantee deposits (Note 18)	1,395,066	-	7,210,972	2
					Deferred gain on sales and leaseback (Note 2)	114,928	-	268,165	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7 and 16)					Total Long-term Liabilities	43,002,201	12	33,333,990	10
Cost					Total Liabilities	74,162,304	20	58,544,609	17
Buildings	68,488,180	18	52,527,184	16					
Machinery and equipment	303,334,232	82	242,347,119	72	SHAREHOLDERS' EQUITY (Notes 2 and 13)				
Office equipment	5,697,828	2	4,754,183	1	Capital stock - \$10 par value				
	377,520,240	102	299,628,486	89	Authorized: 24,600,000 thousand shares				
Accumulated depreciation	(188,447,604)	(51)	(140,224,640)	(42)	Issued:				
Advance payments and construction in progress	28,119,627	8	56,095,396	17	Preferred - 1,300,000 thousand shares	13,000,000	4	13,000,000	4
Net Property, Plant and Equipment	217,192,263	59	215,499,242	64	Common - 18,622,887 thousand shares in 2002 and 16,832,554 thousand shares in 2001	186,228,867	50	168,325,531	50
					Capital surplus:				
GOODWILL (Note 2)	2,612,926	1	2,961,317	1	Merger and others (Note 2)	56,961,753	15	57,128,433	17
					Treasury stock (Note 3)	43,036	-	-	-
OTHER ASSETS					Retained earnings:				
Deferred charges - net (Notes 2, 8 and 18)	9,792,490	3	3,239,723	1	Appropriated as legal reserve	18,641,108	5	17,180,067	5
Deferred income tax assets (Notes 2 and 12)	9,712,567	2	16,175,070	5	Appropriated as special reserve	-	-	349,941	-
Refundable deposits (Notes 16 and 18)	543,469	-	772,912	-	Unappropriated earnings	22,151,089	6	19,977,402	6
Idle assets (Note 2)	339,400	-	-	-	Unrealized loss on long-term investments (Note 2)	(194,283)	-	-	-
Assets leased to others (Note 2)	87,246	-	555,053	-	Cumulative translation adjustments (Note 2)	945,129	-	1,228,701	1
Miscellaneous	9,250	-	9,250	-	Treasury stock (at cost) - 42,001 thousand shares (Notes 2, 3 and 14)	(1,923,492)	-	-	-
Total Other Assets	20,484,422	5	20,752,008	6	Total Shareholders' Equity	295,853,207	80	277,190,075	83
TOTAL ASSETS	\$370,015,511	100	\$335,734,684	100	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$370,015,511	100	\$335,734,684	100

The accompanying notes are an integral part of the financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME

For the Years Ended December 31, 2002 and 2001

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

	2002		2001			2002		2001	
	Amount	%	Amount	%		Amount	%	Amount	%
GROSS SALES (Notes 2 and 16)	\$164,805,296		\$128,563,819		Foreign exchange loss - net (Notes 2 and 19)	\$120,568	-	\$695,620	-
SALES RETURNS AND ALLOWANCES (Note 2)	(3,843,967)		(2,675,816)		Casualty loss - net (Note 2)	119,485	-	-	-
NET SALES	160,961,329	100	125,888,003	100	Amortization of bond issuance cost (Note 2)	18,523	-	12,504	-
COST OF SALES (Note 16)	108,994,184	68	89,506,952	71	Loss on sales of long-term investments (Note 2)	2,403	-	102,978	-
GROSS PROFIT	51,967,145	32	36,381,051	29	Other	87,852	-	147,703	-
OPERATING EXPENSES (Note 16)					Total Non-operating Expenses	8,826,744	5	9,575,128	7
Research and development	11,725,035	7	10,649,019	8	INCOME BEFORE INCOME TAX	27,112,455	17	10,658,715	9
General and administrative	5,164,907	3	6,048,665	5	INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 12)	(5,502,164)	(4)	3,824,459	3
Marketing	900,897	1	2,341,081	2	NET INCOME	\$21,610,291	13	\$14,483,174	12
Total Operating Expenses	17,790,839	11	19,038,765	15					
INCOME FROM OPERATIONS	34,176,306	21	17,342,286	14					
NON-OPERATING INCOME					EARNINGS PER SHARE (Note 15)				
Interest (Note 2)	1,008,147	1	1,365,919	1	Basic earnings per share	\$1.43	\$1.14	\$0.55	\$0.75
Gain on sales of property, plant and equipment (Note 2)	273,998	-	52,376	-	Diluted earnings per share	\$1.43	\$1.14	\$0.55	\$0.75
Technical service income (Notes 16 and 18)	204,350	-	55,077	-					
Insurance compensation - net	-	-	860,835	1					
Amortization of premium income from option contracts - net (Notes 2 and 19)	-	-	234,732	-					
Other (Note 16)	276,398	-	322,618	-					
Total Non-operating Income	1,762,893	1	2,891,557	2					
NON-OPERATING EXPENSES									
Investment loss recognized by equity method - net (Notes 2 and 6)	5,716,510	4	6,429,631	5					
Interest (Notes 2, 7 and 19)	2,119,935	1	1,951,830	2					
Amortization of premium expense from option contracts - net (Notes 2 and 19)	419,513	-	-	-					
Loss on sales of and provision for loss on property, plant and equipment (Note 2)	221,955	-	234,862	-					
(Forward)									

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

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

The accompanying notes are an integral part of the financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

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

The accompanying notes are an integral part of the financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$21,610,291	\$14,483,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57,621,462	48,875,754
Deferred income taxes	5,489,503	(3,840,777)
Investment loss recognized by equity method - net	5,716,510	6,429,631
Loss on sales of long-term investments - net	2,403	102,978
Loss (gain) on sales of and provision for loss on property, plant and equipment - net	(52,043)	182,486
Accrued pension cost	355,689	345,318
Allowance for doubtful receivables	(170,628)	153,758
Allowance for sales returns and others	(218,484)	377,384
Changes in operation assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	(9,659,627)	470,954
Notes receivable	116,342	(51,407)
Accounts receivable - net	10,462,189	10,377,678
Inventories - net	(1,835,918)	2,463,517
Prepaid expenses and other current assets	(148,120)	359,342
Forward exchange contracts receivable	(199,609)	49,480
Increase (decrease) in:		
Payable to related parties	384,392	(2,263,972)
Accounts payable	3,725,340	(6,866,059)
Forward exchange contracts payable	(379,579)	218,165
Accrued expenses and other current liabilities	1,467,988	(201,096)
Net Cash Provided by Operating Activities	<u>94,288,101</u>	<u>71,666,308</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(54,443,595)	(68,002,448)
Long-term investments	(10,187,730)	(4,563,682)
Proceeds from sales of:		
Property, plant and equipment	494,805	298,231
Long-term investments	1,402	162,334
Increase in deferred charges	(5,724,583)	(1,465,703)
Decrease in refundable deposits	229,443	195,073
Net Cash Used in Investing Activities	<u>(69,630,258)</u>	<u>(73,376,195)</u>
(Forward)		

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

The accompanying notes are an integral part of the financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

NOTES TO FINANCIAL STATEMENTS

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

1. GENERAL

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

Allowance for doubtful receivables

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

Sales and sales returns and allowances

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

Inventories

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

Long-term investments

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

When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulting carrying amount of the investment in equity investee differs from the amount of Company's proportionate share in the investee's net

equity. The Company records such difference as an adjustment to "capital surplus" as well as the "long-term investments" accounts. In the event an investee has an accumulated deficit, it will record an offset to its capital surplus, excluding the reserve for asset revaluation, through retained earnings. The Company will also record a corresponding entry equivalent to its proportionate share of the investee capital surplus, excluding the reserve for asset revaluation, that was generated subsequent to any acquisition of equity interest in the investee. If an investee's functional currency is a foreign currency, "cumulative translation adjustments" would result from the process of translating the investees' financial statements into the functional currency of the Company.

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

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

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

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

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

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

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

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

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

Goodwill

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

Deferred charges

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

Pension costs

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

Deferred gain on sales and leaseback

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

Casualty loss

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

Income tax

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

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

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

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

Derivative financial instruments

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

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

interest income or expense.

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

Foreign-currency transactions

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

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

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

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

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

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

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

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

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

Interest expense (before deducting capitalized amounts of NT\$165,857 thousand in 2002 and NT\$207,297 thousand in 2001) for the years ended December 31, 2002 and 2001 were NT\$2,285,792 thousand and NT\$2,159,127 thousand, respectively. The interest rate used for purposes of calculating the capitalized amounts was 5.283% in 2002 and 2001.

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

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

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

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

10. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor patents. The future payments to be paid under the agreements as of December 31, 2002 are as follows:

Year	Amount
2003	\$1,157,299
2004	1,226,805
2005	987,009
2006	469,189
2007	486,566
2008 and thereafter	1,112,096
	<u>5,438,964</u>
Less - current portion	<u>(1,157,299)</u>
	<u>\$4,281,665</u>

11. PENSION PLAN

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

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

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

a. Components of pension cost

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

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

	2002	2001
Benefit obligation		
Vested benefit obligation	\$21,294	\$739
Nonvested benefit obligation	1,604,027	1,024,525
Accumulated benefit obligation	1,625,321	1,025,264
Additional benefits based on future salaries	1,300,712	1,407,014
Projected benefit obligation	2,926,033	2,432,278
Fair value of plan assets	(1,014,086)	(835,583)
Funded status	1,911,947	1,596,695
Unrecognized net transitional obligation	(149,391)	(157,691)
Unrecognized net gain	445,759	415,849
Accrued pension liabilities	2,227	-
Accrued pension cost	<u>\$2,210,542</u>	<u>\$1,854,853</u>

c. Actuarial assumptions

	2002	2001
Discount rate used in determining present values	3.75%	5.0%
Future salary increase rate	3.00%	5.0%
Expected rate of return on plan assets	3.75%	5.0%

d. Contributions to pension fund	<u>\$164,720</u>	<u>\$131,894</u>
e. Payments from pension fund	<u>\$5,360</u>	<u>\$ -</u>

12. INCOME TAX BENEFIT (EXPENSE)

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

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

b. Income tax benefit (expense) consists of:

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

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

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

d. Integrated income tax information:

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

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

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

e. The unappropriated retained earnings as of December 31, 2002 and 2001 included earnings generated through December 31, 1997 was NT\$0 and NT\$4,827 thousand, respectively.

f. As of December 31, 2002, investment tax credits consisted of the following:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$4,237,050	\$-	2002
		4,767,347	4,767,347	2003
		8,180,857	8,180,857	2004
		3,110,906	3,110,906	2005
		5,335,558	2,775,029	2006
		<u>\$25,631,718</u>	<u>\$18,834,139</u>	
Statute for Upgrading Industries	Research and development expenditures	\$562,158	\$-	2002
		671,546	671,546	2003
		1,974,320	1,974,320	2004
		3,111,472	3,111,472	2005
		1,540,000	1,540,000	2006
		<u>\$7,859,496</u>	<u>\$7,297,338</u>	
Statute for Upgrading Industries	Personnel training	\$8,822	\$-	2002
		16,104	16,104	2003
		43,264	43,264	2004
		28,886	28,886	2005
		<u>\$97,076</u>	<u>\$88,254</u>	
Statute for Upgrading Industries	Reputation setting	\$10,133	\$-	2002
		319	319	2003
		<u>\$10,452</u>	<u>\$319</u>	
Statute for Upgrading Industries	Investments in important technology based enterprises	\$2,878	\$-	2002
		5,420	5,420	2003
		201,372	201,372	2004
		138,864	138,864	2005
		1,947	1,947	2006
		<u>\$350,481</u>	<u>\$347,603</u>	

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

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

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

13. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On June 25, 2002, the SFC approved the Company's Employee Stock Option Plan ("the Plan"). The Plan provides qualified employees with 100,000 thousand units of option rights with each unit representing 1 common share of stock. The option rights are valid for 10 years and exercisable at certain percentages subsequent to the second anniversary of issuance. Under the terms of the plan, stock options are granted at an exercise price equal to the closing price of TSMC's common shares listed on Taiwan Stock Exchange at the date of grant. As of December 31, 2002, there were 19,726 thousand shares granted at a weighted average price of approximately NT\$ 53.

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

Preferred shareholders

- are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- are not entitled to receive any common stock dividends (whether declared out of unappropriated earnings or capital surplus).
- have priority over the holders of common shares to the assets of the Company available for distribution to shareholders upon liquidation or dissolution, however, the preemptive rights to the assets shall not exceed the issue value of the shares.
- have voting rights similar to that of the holders of common shares.
- have no right to convert their shares into common shares. The preferred shares are to be redeemed within thirty months from their issuance. The preferred shareholders have the aforementioned rights and the Company's related obligations remain the same until the preferred shares are redeemed by the Company.

14. TREASURY STOCK (COMMON STOCK)

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

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

15. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

	Amounts (Numerator)		Share (Denominator) (Thousand)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>December 31, 2002</u>					
Income	\$27,112,455	\$21,610,291			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$26,657,455</u>	<u>\$21,155,291</u>	<u>18,580,700</u>	<u>\$1.43</u>	<u>\$1.14</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$26,657,455</u>	<u>\$21,155,291</u>	<u>18,580,700</u>	<u>\$1.43</u>	<u>\$1.14</u>
<u>December 31, 2001</u>					
Income	\$10,658,715	\$14,483,174			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$10,203,715</u>	<u>\$14,028,174</u>	<u>18,622,887</u>	<u>\$0.55</u>	<u>\$0.75</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$10,203,715</u>	<u>\$14,028,174</u>	<u>18,622,887</u>	<u>\$0.55</u>	<u>\$0.75</u>

The potential common shares from the employee stock option plan (see Note 13) are not included in the denominator of the diluted earning-per-share computation as such shares are not dilutive using the treasury stock method under the Statement of Financial Accounting Standards No. 24, "Earning Per Share".

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

16. RELATED PARTY TRANSACTIONS

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

- Industrial Technology Research Institute (ITRI); the Chairman of the Company is a director of ITRI
- Philips Electronics N.V. (Philips); a major shareholder
- Subsidiaries
 - TSMC - North America
 - TSMC - Europe
 - TSMC - Japan

- d. Investees
 VIS
 SSMC
- e. Indirect subsidiaries
 TSMC Technology
 WAFERTECH, LLC.

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

	2002		2001	
	Amount	%	Amount	%
<u>For the years</u>				
Sales				
TSMC - North America	\$94,433,401	57	\$ -	-
Philips and its affiliates	2,909,008	2	2,389,257	2
ITRI	94,409	-	114,546	-
VIS	92,119	-	1,177,094	1
SSMC	7,018	-	48,972	-
WAFERTECH, LLC	1,152	-	3,111	-
	<u>\$97,537,107</u>	<u>59</u>	<u>\$3,732,980</u>	<u>3</u>
Purchase				
WAFERTECH, LLC	\$9,955,154	41	\$6,797,817	37
VIS	3,469,198	14	3,801,975	22
SSMC	2,751,297	11	42,984	-
	<u>\$16,175,649</u>	<u>66</u>	<u>\$10,642,776</u>	<u>59</u>
Rental expense - ITRI	<u>\$40,401</u>	<u>3</u>	<u>\$161,604</u>	<u>11</u>
Manufacturing expenses				
Technical assistance fee - Philips	<u>\$2,849,517</u>	<u>100</u>	<u>\$2,418,276</u>	<u>100</u>
Marketing expenses				
Commission				
TSMC - Japan	\$208,226	23	\$194,696	8
TSMC - Europe	132,086	15	124,384	5
TSMC - North America	-	-	1,028,725	42
Service Charge				
TSMC - North America	-	-	118,648	5
	<u>\$340,312</u>	<u>38</u>	<u>\$1,466,453</u>	<u>60</u>
Sales of property, plant and equipment				
VIS	\$ -	-	\$268,871	79
WAFERTECH, LLC	-	-	24,645	7
	<u>\$ -</u>	<u>-</u>	<u>\$293,516</u>	<u>86</u>

(Forward)

	2002		2001	
	Amount	%	Amount	%
Non-operating income				
SSMC (technical service income mainly)	\$126,061	3	\$95,284	3
WAFERTECH, LLC	1,635	-	4,612	-
VIS	-	-	467	-
	<u>\$127,696</u>	<u>3</u>	<u>\$100,363</u>	<u>3</u>
<u>At December 31</u>				
Receivables				
TSMC - North America	\$9,739,236	96	\$-	-
Philips and its affiliates	352,706	3	116,499	22
VIS	58,301	1	320,179	61
ITRI	22,974	-	37,383	7
SSMC	5,678	-	20,671	4
Others	4,593	-	29,129	6
	<u>\$10,183,488</u>	<u>100</u>	<u>\$523,861</u>	<u>100</u>
Prepaid expense and other current asset				
Prepaid rent - ITRI	<u>\$ -</u>	<u>-</u>	<u>\$42,664</u>	<u>2</u>
Payables				
Philips and its affiliates	\$730,847	30	\$499,331	24
VIS	653,876	26	548,472	26
WAFERTECH, LLC	617,751	25	817,616	39
SSMC	391,426	16	470	-
TSMC - Europe	29,520	1	54,601	3
TSMC - Japan	19,643	1	15,355	1
TSMC - North America	14,511	1	136,443	7
TSMC Technology	9,424	-	10,318	-
	<u>\$2,466,998</u>	<u>100</u>	<u>\$2,082,606</u>	<u>100</u>
Refundable deposits - VIS	<u>\$514,846</u>	<u>95</u>	<u>\$750,788</u>	<u>97</u>

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

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

17. SIGNIFICANT LONG-TERM OPERATING LEASES

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

Future remaining lease payments are as follows:

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

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

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

- Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 8, 2007 and thereafter be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts the Company pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of the Company's production capacity.
- 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.
- Under several foundry agreements, the Company shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$39,810 thousand had been received as of December 31, 2002.
- Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company to be named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, and allow the Company to invest in 32% of SSMC's capital. The Company and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.
- The Company provides of technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.

- The Company provided guarantee on loans amounting to US\$200,000 thousand, US\$40,000 thousand and US\$440,000 thousand for TSMC Development, Inc., TSMC- North America and WAFERTECH, LLC, respectively.
- Under a Technical Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, the Company shall receive payments for license of certain technology to National. The agreement will remain in force for ten years. After the initial expiration date, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions. In January 2003, the agreement was amended such that National will discontinue making payments under the original terms and the Company will discontinue transferring any additional technology. The Company granted National the option to request additional technology transfers under the same terms and conditions of the original agreement through January 2008.
- The Company entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. ("VIS"). VIS agrees to reserve certain production capacity for the Company to manufacture certain logic devices or other technologies required by the Company's customers at selling prices as agreed by the parties. The Company paid NT\$1,200,000 thousand to VIS as security bond. VIS shall return portions of the bond without any interest to the Company upon the purchase of wafers by the Company. The contract will remain in force for five years.
- Starting from 2001, the Company entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability and a deferred charge to be amortized to cost of sales on a straight-line basis over the shorter of the estimated life of the technology or the term of the contract.
- Unused letter of credits as of December 31, 2002 were NT\$6,480 thousand, ¥51,000 thousand, Euro€520 thousand and SG\$85 thousand.
- As of December 31, 2002, unused credit lines for short-term loans were NT\$7,930,000 thousand and US\$337,500 thousand.

19. ADDITIONAL DISCLOSURES

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

- Financing provided: Please see Table 1 attached;
- Endorsement/guarantee provided: Please see Table 2 attached;
- Marketable securities held: Please see Table 3 attached;
- 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;
- 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;
- Disposal of individual real estate at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- 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;
- Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- Names, locations, and related information of investees of which the Company exercises significant influence: Please see Table 8 attached;
- Financial instrument transactions:
 - Derivative financial instruments

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

a) Forward exchange contracts as of December 31, 2002

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

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

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

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

b) Interest rate swaps

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

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

c) Option contracts

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

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

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

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

d) Transaction risk

- i) Credit risk. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter-parties are low.
- ii) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in currency exchange rates on the Company's foreign currency denominated receivables or payables and interest rate fluctuations on its floating rate long-term loans. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from the hedged receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks are believed to be minimal.
- iii) Liquidity and cash flow requirements. The cash flow requirements on forward contracts are limited to the net differences between the current exchange rates and the contracted forward rates at the date of settlement. The cash flow requirements for interest rate swap contracts is limited to the amounts payable arising from the differences in the rates. In addition, options may not be exercised in the event the strike price is higher than the related market price at the exercise date. Management believes that the foregoing cash flow requirements are not material.

2) Fair value of financial instruments

	2002		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$61,656,795	\$61,656,795	\$33,403,706	\$33,403,706
Receivables from related parties	10,183,488	10,183,488	523,861	523,861
Notes and accounts receivable	9,555,687	9,555,687	20,134,218	20,134,218
Long-term investments	34,978,495	38,909,570	32,869,391	36,333,066
Refundable deposits	543,469	543,469	772,912	772,912
Liabilities				
Payables to related parties	2,466,998	2,466,998	2,082,606	2,082,606
Accounts payable	4,849,234	4,849,234	1,123,894	1,123,894
Payable to contractors and equipment suppliers	14,004,383	14,004,383	12,367,319	12,367,319
Bonds (includes current portion)	39,000,000	39,762,245	29,000,000	29,703,063
Other long-term payables	4,281,665	4,281,665	-	-
Guarantee deposits	1,395,066	1,395,066	7,210,972	7,210,972
<u>Derivative financial instruments</u>				
Forward exchange contracts (buy)	38,369	26,089	-	-
Forward exchange contracts (sell)	143,702	139,913	(397,117)	(427,225)
Interest rate swaps	(23,994)	(164,342)	26,969	(343,088)
Option	(50,273)	(410,132)	(39,500)	(252,833)

Fair values of financial instruments were determined as follows:

- Short-term financial instruments - carrying values.
- Long-term investments - market value for traded companies and net equity value for non-trade companies.
- Refundable deposits and guarantee deposits - carrying values.
- Long-term liabilities - based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable is discounted to present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rate.
- Derivative financial instruments - based on quotations from banks.

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

3) Investment in Mainland China:

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

20. SEGMENT FINANCIAL INFORMATION

a. Gross export sales

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

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

b. Gross sales to major customer

Customers with sales exceeding 10% of the total sales are as follows:

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

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

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

FINANCING PROVIDED

For the Year Ended December 31, 2002

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

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons(Note1)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Amount Limits (US\$ in Thousand)
											Item	Value		
1	TSMC-BVI	TSMC Technology Inc.	Other receivables	\$536,372 (US\$15,434)	\$536,372 (US\$15,434)	4.25%	2	\$-	Operating capital	\$-	-	\$-	N/A	\$ 34,334,852 (US\$987,968)(Note 2)

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

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

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

ENDORSEMENT/GUARANTEE PROVIDED

For the Year Ended December 31, 2002

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

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

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

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

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

Note 3: Promissory notes for collateral.

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

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

MARKETABLE SECURITIES HELD

December 31, 2002

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

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
TSMC	<u>Stock</u> TSMC - North America	Subsidiary	Long-term investment	11,000	\$173,601	100	\$921,883	The treasury stocks in amounts of NT\$748,282 thousand are deducted from the carrying value.
	TSMC - Europe	Subsidiary	Long-term investment	-	13,670	100	13,670	
	TSMC - Japan	Subsidiary	Long-term investment	6	94,258	100	94,258	
	VIS	Investee	Long-term investment	556,133	2,415,297	25	4,326,719	The carrying value does not include prepayment for subscribed stock of NT\$849,360 thousand.
	TSMC-BVI	Subsidiary	Long-term investment	987,968	22,265,157	100	22,265,157	
	Chi Cherng Investment	Investee	Long-term investment	-	41,894	36	501,179	The treasury stocks in amounts of NT\$459,285 thousand are deducted from the carrying value.
	Hsin Ruey Investment	Investee	Long-term investment	-	39,815	36	500,048	The treasury stocks in amounts of NT\$460,233 thousand are deducted from the carrying value.
	TSMC Partners	Subsidiary	Long-term investment	300	3,753,733	100	3,940,495	The treasury stocks in amounts of NT\$255,692 thousand are deducted from the carrying value.
	SSMC	Investee	Long-term investment	382	3,136,115	32	3,136,115	
	Emerging Alliance Fund	Subsidiary	Long-term investment	-	767,239	99	767,239	
	Taiwan Mask Corp.	-	Long-term investment	8,794	32,129	2	160,574	
	United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	280,931	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	137,355	
	W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	59,866	
	Ya Shin Technology	Subsidiary	Long-term investment	34,125	341,250	100	341,250	
	Hon Tung Ventures Capital	-	Long-term investment	8,392	83,916	10	71,216	
	Amkor Technology	-	Long-term investment	505	280,748	-	89,866	
	Monolithic System Tech.	-	Long-term investment	470	104,289	2	214,949	
	Crimson Asia Capital	-	Long-term investment	N/A	41,988	N/A	41,988	
	Horizon Ventures	-	Long-term investment	N/A	195,452	N/A	195,452	
TSMC - North America	<u>Stock</u> TSMC	Parent company	Long-term investment	12,692	748,282	-	610,434	
Chi Cherng Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	12,738	459,285	-	612,636	
	<u>Certificate</u> Hsin Ruey Investment	Major shareholder	Long-term investment	-	900,109	64	900,109	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Hsin Ruey Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	12,762	\$460,233	-	\$613,782	
	<u>Certificate</u> Chi Cherng Investment	Major shareholder	Long-term investment	-	902,137	64	902,137	
TSMC-BVI	<u>Stock</u> InveStar Semiconductor Development Fund Inc.	Subsidiary	Long-term investment	45,000	US\$44,634	97	US\$44,634	
	InveStar Semiconductor Development Fund (II) Inc.	Subsidiary	Long-term investment	51,300	US\$43,179	97	US\$43,179	
	TSMC Development Inc.	Subsidiary	Long-term investment	1	US\$307,094	100	US\$307,094	
	TSMC Technology Inc.	Subsidiary	Long-term investment	1	US\$2,321	100	US\$2,321	
	3DFX Interactive Inc.	-	Long-term investment	68	-	-	-	
VIS	<u>Stock</u> VIS Associates, Inc.	Subsidiary	Long-term investment	41,070	1,193,891	100	1,193,891	
	PowerChip Semiconductor, Inc.	Investee	Long-term investment	191,671	2,100,716	7	2,100,716	
	Etron Technology, Inc.	Investee	Long-term investment	4,859	101,839	2	101,839	
	Walsin Technology, Inc.	Investee	Long-term investment	34,551	302,559	8	302,559	
	MEGIC Corporation	Investee	Long-term investment	16,500	177,000	9	156,819	
	Form Factor, Inc.	Investee	Long-term investment	267	64,360	1	64,360	The amount is shown in the carrying value.
VIS Associates Inc.	United Technology Co., Ltd. <u>Stock</u>	Investee	Long-term investment	3,357	38,716	2	56,206	
	VIS Investment Holding, Inc. <u>Equity</u>	Subsidiary	Long-term investment	63	US\$397	100	US\$397	
	Silicon Valley Equity Fund	-	Long-term investment	-	US\$7,317	34	US\$7,386	
	Silicon Valley Equity Fund II <u>Equity certificate</u>	-	Long-term investment	-	US\$5,355	14	US\$5,355	
	ABN AMRO Bank <u>Fund</u>	-	Long-term investment	3,648	US\$817	-	US\$817	
VIS Investment Holding, Inc.	Grand Palace Trust <u>Stock</u>	-	Long-term investment	-	US\$2,719	100	US\$2,719	
	VIS Micro, Inc.	Subsidiary	Long-term investment	200	US\$279	100	US\$279	
TSMC Development, Inc.	<u>Stock</u> WAFERTECH, LLC	Subsidiary	Long-term investment	-	US\$326,609	99	US\$326,609	
TSMC Partners	<u>ADR</u> TSMC	Parent company	Short-term investment	762	US\$7,357	-	US\$6,080	
InveStar Semiconductor Development Fund Inc.	<u>Stock</u> Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$3,350	-	US\$69,181	
	Silicon Laboratories	-	Short-term investment	9	US\$287	-	US\$202	
	WGRD	-	Short-term investment	104	US\$625	-	US\$635	
	Programmable Microelectronics, (Taiwan) Inc.	-	Long-term investment	1,580	US\$1,566	4	US\$1,566	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Divio	-	Long-term investment	30	US\$3	-	US\$3	
	Global Test Corp.	-	Long-term investment	13,268	US\$5,176	12	US\$5,176	
	Chipstrate Technologies, Inc.	-	Long-term investment	6,660	US\$300	1	US\$300	
	Richtek Technology Corporation	-	Long-term investment	1,023	US\$346	1	US\$346	
	Advanced Power Electronics, Corp.	-	Long-term investment	2,750	US\$1,345	3	US\$1,345	
	<u>Preferred stock</u>							
	Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$1,809	-	US\$1,809	
	Divio	-	Long-term investment	667	US\$500	-	US\$500	
	SIRF Technology, Inc.	-	Long-term investment	306	US\$1,333	-	US\$1,333	
	Capella Microsystems, Inc.	-	Long-term investment	300	US\$481	-	US\$481	
	Sensory, Inc.	-	Long-term investment	1,404	US\$625	-	US\$625	
	Equator Technologies, Inc.	-	Long-term investment	300	US\$258	-	US\$258	
	LightSpeed Semiconductor Corporation	-	Long-term investment	2,252	US\$1,339	-	US\$1,339	
	Tropian, Inc.	-	Long-term investment	1,758	US\$2,334	-	US\$2,334	
	Sonics, Inc.	-	Long-term investment	2,686	US\$3,530	-	US\$3,530	
	Atheros, Inc.	-	Long-term investment	1,607	US\$3,593	-	US\$3,593	
	NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$853	-	US\$853	
	Formfactor, Inc.	-	Long-term investment	267	US\$2,000	-	US\$2,000	
	Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$2,000	-	US\$2,000	
	Memsic, Inc.	-	Long-term investment	2,727	US\$1,500	-	US\$1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$1,192	-	US\$1,192	
	Signia Technologies, Inc.	-	Long-term investment	3,000	US\$300	-	US\$300	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$1,500	-	US\$1,500	
	HINT Corporation	-	Long-term investment	1,000	US\$1,000	-	US\$1,000	
	Ordius, Inc. (Creosys, Inc.)	-	Long-term investment	1,500	US\$450	-	US\$450	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$500	-	US\$500	
	IP Unity	-	Long-term investment	1,008	US\$1,636	-	US\$1,636	
InveStar Semiconductor Development Fund (II) Inc.	<u>Stock</u>							
	WGRD	-	Short-term investment	105	US\$630	-	US\$640	
	Procoat Technology	-	Long-term investment	3,500	US\$1,942	4	US\$1,942	
	Richtek Technology Corporation	-	Long-term investment	845	US\$1,006	2	US\$1,006	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	487	US\$140	-	US\$140	
	Auden Technology MFG. Co., Ltd.	-	Long-term investment	953	US\$1,117	2	US\$1,117	
	Geo Vision, Inc.	-	Long-term investment	180	US\$129	-	US\$129	
	EoNex Technologies, Inc.	-	Long-term investment	40	US\$2,024	-	US\$2,024	
	Conwise Technology Co., Ltd.	-	Long-term investment	2,800	US\$1,930	-	US\$1,930	
	Yi Yang Technology	-	Long-term investment	2,800	US\$967	-	US\$967	
	Goyatek Technology Inc.	-	Long-term investment	1,740	US\$1,787	-	US\$1,787	
	Trendchip Technologies Corp.	-	Long-term investment	2,000	US\$864	-	US\$864	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	<u>Preferred stock</u>							
	Memsic, Inc.	-	Long-term investment	2,289	US\$1,560	-	US\$1,560	
	Oepic, Inc.	-	Long-term investment	2,696	US\$1,240	-	US\$1,240	
	Equator Technologies, Inc.	-	Long-term investment	770	US\$452	-	US\$452	
	NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$1,000	-	US\$1,000	
	Signia Technologies, Inc.	-	Long-term investment	1,500	US\$150	-	US\$150	
	Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$1,261	-	US\$1,261	
	Monolithic Power Systems, Inc.	-	Long-term investment	804	US\$1,946	-	US\$1,946	
	Ralink Technology, Inc.	-	Long-term investment	1,833	US\$1,500	-	US\$1,500	
	Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	-	US\$3,082	
	Newport Opticom, Inc.	-	Long-term investment	1,157	US\$810	-	US\$810	
	Silicon Data, Inc.	-	Long-term investment	2,000	US\$1,000	-	US\$1,000	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$1,500	-	US\$1,500	
	Capella Microsystems, Inc.	-	Long-term investment	800	US\$200	-	US\$200	
	Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$750	-	US\$750	
	Tropian, Inc.	-	Long-term investment	1,464	US\$2,000	-	US\$2,000	
	SIRF Technology, Inc.	-	Long-term investment	20	US\$131	-	US\$131	
	LeadTONE, Inc.	-	Long-term investment	680	US\$238	-	US\$238	
	Match Lab, Inc.	-	Long-term investment	313	US\$250	-	US\$250	
	eBest!, Inc.	-	Long-term investment	185	US\$97	-	US\$97	
	Kilopass Technology, Inc.	-	Long-term investment	3,887	US\$2,000	-	US\$2,000	
	<u>Bond</u>							
	eBest!, Inc.	-	Long-term investment	-	US\$24	-	US\$24	
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\$2,932	
	Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$1,500	2	US\$1,500	
	Quicksilver Technology, Inc.	-	Long-term investment	1,475	US\$2,338	4	US\$2,338	
	Litchfield Communications	-	Long-term investment	3,799	US\$1,000	6	US\$1,000	
	Mosaic Systems	-	Long-term investment	2,481	US\$500	6	US\$500	
	Accelerant Networks	-	Long-term investment	441	US\$1,000	1	US\$1,000	
	Zenesis Technologies	-	Long-term investment	861	US\$500	4	US\$500	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$1,500	5	US\$1,500	
	Iridigm Display	-	Long-term investment	305	US\$502	2	US\$502	
	Spreadtrum	-	Long-term investment	-	US\$1,000	-	US\$1,000	Prepayment for subscribed stock
	XHP Microsystem	-	Long-term investment	2,279	US\$750	6	US\$750	

TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

For the Year Ended December 31, 2002

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

Acquiring on Selling Company Name	Type and Name of Marketable Security	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand)	Carrying Value(US\$ in Thousand)	Gain (Loss) on Disposal(US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)	
TSMC	<u>Stock</u>														
	SSMC	Long-term investment	SSMC	Investee	301	\$2,907,967	81	\$1,421,846	-	\$-	\$-	\$-	382	\$3,136,115	
	TSMC-BVI	Long-term investment	TSMC-BVI	Subsidiary	779,968	19,987,814	208,000	7,280,000	-	-	-	-	987,968	22,265,157	
	Monolithic System Tech.	Long-term investment	Monolithic System Tech.	Investee	-	-	470	104,289	-	-	-	-	470	104,289	
	Emerging Alliance Fund	Long-term investment	Emerging Alliance Fund	Subsidiary	-	741,617	-	168,615	-	-	-	-	-	767,239	
	VIS	Long-term investment	VIS	Investee	556,133	3,377,526	121,338(Note 2)	849,360(Note 2)	-	-	-	-	677,471	3,264,657	
	Ya-Shin Technology	Long-term investment	Ya-Shin Technology	Subsidiary	-	-	34,125	341,250	-	-	-	-	34,125	341,250	
TSMC - BVI	<u>Stock</u>														
	TSMC Development Inc.	Long-term investment	TSMC Development Inc.	Subsidiary	1	US\$201,231	-	US\$208,000	-	-	-	-	1	US\$307,094	
	InveStar Semiconductor Development Fund (II) Inc.	Long-term investment	InveStar Semiconductor Development Fund (II) Inc.	Subsidiary	45,000	US\$45,766	6,300	US\$6,300	-	-	-	-	51,300	US\$43,179	
TSMC Development Inc.	WaferTech, LLC	Long-term investment	WaferTech, LLC	Subsidiary	-	US\$226,541	-	US\$120,000	-	-	-	-	-	US\$326,609	
VIS	<u>Bond fund</u>														
	Yuan Da Duo Li #2	Short-term investment	-	-	26,278	350,000	33,108	450,000	59,386	807,970	800,000	7,970	-	-	
	Da-Hua	Short-term investment	-	-	-	-	70,860	850,000	70,860	853,974	850,000	3,974	-	-	
	THE TP ROC	Short-term investment	-	-	25,923	350,000	-	-	25,923	356,458	350,000	6,458	-	-	
	NITC	Short-term investment	-	-	-	-	3,814	580,000	3,814	582,977	580,000	2,977	-	-	
	JHSUN	Short-term investment	-	-	-	-	43,630	550,000	43,630	554,407	550,000	4,407	-	-	
	Tung Yi Chian Pang	Short-term investment	-	-	28,409	400,000	-	-	28,409	402,869	400,000	2,869	-	-	
VIS Associates Inc.	<u>Equity certificate</u>														
	ABN AMRO Bank	Long-term investment(Note 3)	-	-	23,168	US\$10,047	1,194	US\$536	20,714	US\$14,806	US\$9,766(Note4)	US\$5,706	3,648	US\$817	

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

Note 2: Prepayment for the subscribe stock

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

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

TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

For the Year Ended December 31, 2002

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

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

TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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, 2002

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

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

TABLE 7

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

December 31, 2002

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

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

TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

December 31, 2002

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

Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2002			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)	Note
			Dec. 31, 2002	Dec. 31, 2001	Shares (Thousand)	Percentage of Ownership	Carrying Value (Note1)			
Investor Company: TSMC										
TSMC - North America	San Jose, California, U.S.A.	Marketing and engineering support	\$333,178	\$333,178	11,000	100	\$173,601	\$140,654	\$139,021	Subsidiary
TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	13,670	(1,615)	1,615	Subsidiary
TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760	6	100	94,258	3,145	6,045	Subsidiary
VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640 (Note3)	6,503,640	556,133	25	2,415,297 (Note 3)	(3,250,831)	(821,771)	Investee
TSMC - BVI	Tortola, British Virgin Islands	Investment	31,445,780	24,165,780	987,968	100	22,265,157	(4,714,203)	(4,714,203)	Subsidiary
Chi Cherng Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	41,894	13,821	13,122	Investee
Hsin Ruey Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	39,815	12,533	6,632	Investee
TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,753,733	924,362	993,292	Subsidiary
SSMC	Singapore	Manufacturing wafers	6,408,190	4,986,344	382	32	3,136,115	(3,609,569)	(1,155,076)	Investee
Emerging Alliance Fund	Cayman Islands	Investment	1,005,660	837,045	-	99	767,239	(142,865)	(142,151)	Subsidiary
Ya-Shin Technology	Taipei, Taiwan	Electronic manufacturing	341,250	-	34,125	100	341,250	-	-	Subsidiary

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

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

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

10. Consolidated Financial Statements & Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 16, 2003

The Board of Directors and the Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

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

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

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

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



T N Soong & Co

An Associate Member Firm of Deloitte Touche Tohmatsu

Effective April 22, 2002

(Formerly a Member Firm of Andersen Worldwide, SC)

Taipei, Taiwan

The Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2002		2001	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	\$67,790,204	17	\$37,556,295	10
Short-term investments (Notes 2 and 6)	170,012	-	1,398,071	-
Receivable from related parties (Note 20)	439,659	-	494,732	-
Notes receivable	60,240	-	176,582	-
Accounts receivable (Note 23)	19,530,702	5	19,957,636	5
Allowance for doubtful receivables (Note 2)	(932,993)	-	(1,100,492)	-
Allowance for sales returns and others (Note 2)	(2,372,515)	(1)	(2,581,551)	(1)
Inventories - net (Notes 2 and 7)	11,201,446	3	9,828,328	3
Deferred income tax assets (Notes 2 and 16)	3,401,729	1	2,350,147	1
Prepaid expenses and other current assets (Notes 2, 20 and 23)	3,248,674	1	2,721,421	1
Total Current Assets	102,537,158	26	70,801,169	19
LONG-TERM INVESTMENTS (Notes 2, 3, 8 and 18)	10,635,496	3	11,599,150	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9, 12 and 20)				
Cost				
Land and land improvements	874,907	-	877,371	-
Buildings	76,428,851	20	60,523,505	17
Machinery and equipment	343,951,592	88	280,023,690	76
Office equipment	6,996,027	2	6,062,496	2
Total cost	428,251,377	110	347,487,062	95
Accumulated depreciation	(210,101,159)	(54)	(155,948,960)	(42)
Advance payments and construction in progress	28,348,093	7	59,749,530	16
Net Property, Plant and Equipment	246,498,311	63	251,287,632	69
GOODWILL (Note 2)	10,158,845	3	11,437,572	3
OTHER ASSETS				
Deferred charges - net (Notes 2 and 10)	9,873,825	3	3,769,750	1
Deferred income tax assets (Notes 2 and 16)	9,773,226	2	16,245,828	5
Refundable deposits (Notes 20 and 22)	557,266	-	784,089	-
Idle assets (Note 2)	386,317	-	-	-
Assets leased to others (Note 2)	87,246	-	555,053	-
Miscellaneous	34,709	-	37,452	-
Total Other Assets	20,712,589	5	21,392,172	6
TOTAL ASSETS	\$390,542,399	100	\$366,517,695	100

LIABILITIES AND SHAREHOLDERS' EQUITY	2002		2001	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Note 11)	\$729,813	-	\$6,269,181	2
Payable to related parties (Note 20)	1,776,149	-	1,048,273	-
Accounts payable (Note 23)	5,138,592	1	1,397,879	-
Payable to contractors and equipment suppliers	14,132,100	4	12,867,236	4
Accrued expenses and other current liabilities (Note 23)	6,477,212	2	6,746,483	2
Current portion of long-term liabilities (Notes 12, 13 and 14)	12,107,899	3	5,000,000	1
Total Current Liabilities	40,361,765	10	33,329,052	9
LONG-TERM LIABILITIES				
Long-term bank loans (Note 12)	11,051,454	3	22,399,360	6
Long-term bonds payables (Note 13)	35,000,000	9	24,000,000	7
Other long-term payables (Note 14)	4,281,665	1	-	-
Total Long-term Liabilities	50,333,119	13	46,399,360	13
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 15)	2,211,560	1	1,856,617	-
Guarantee deposits (Note 22)	1,395,066	-	7,212,688	2
Deferred gain on sales and leaseback (Note 2)	114,928	-	268,165	-
Others	177,256	-	141,498	-
Total Other Liabilities	3,898,810	1	9,478,968	2
MINORITY INTEREST IN SUBSIDIARIES (Note 2)	95,498	-	120,240	-
Total Liabilities	94,689,192	24	89,327,620	24
SHAREHOLDERS' EQUITY (Notes 2 and 17)				
Capital stock - \$10 par value				
Authorized: 24,600,000 thousand shares				
Issued: Preferred - 1,300,000 thousand shares	13,000,000	3	13,000,000	3
Common - 18,622,887 thousand shares in 2002 and 16,832,554 thousand shares in 2001	186,228,867	48	168,325,531	46
Capital surplus:				
Merger and others (Note 2)	56,961,753	15	57,128,433	16
Treasury stock (Notes 3 and 18)	43,036	-	-	-
Retained earnings:				
Appropriated as legal reserve	18,641,108	5	17,180,067	5
Appropriated as special reserve	-	-	349,941	-
Unappropriated earnings	22,151,089	5	19,977,402	6
Unrealized loss on long-term investments (Note 2)	(194,283)	-	-	-
Cumulative translation adjustments (Note 2)	945,129	-	1,228,701	-
Treasury stock (at cost) - 42,001 thousand shares (Notes 2, 3 and 18)	(1,923,492)	-	-	-
Total Shareholders' Equity	295,853,207	76	277,190,075	76
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$390,542,399	100	\$366,517,695	100

The accompanying notes are an integral part of the consolidated financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

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

The accompanying notes are an integral part of the consolidated financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

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

	2002	2001
Increase in deferred charges	(\$5,724,583)	(\$1,805,250)
Decrease in refundable deposits	226,823	194,978
Decrease (increase) in other assets	2,711	(9,162)
Increase (decrease) in minority interest in subsidiaries	49	(249,166)
Increase in goodwill	-	(1,019,227)
Net Cash Used in Investing Activities	<u>(62,189,540)</u>	<u>(77,231,886)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of:		
Short-term bank loans	-	2,435,340
Long-term bonds	10,000,000	-
Payments on:		
Short-term bank loans	(5,539,368)	-
Long-term bank loans	(4,397,306)	(940,007)
Increase (decrease) in guarantee deposits	(5,817,622)	126,309
Decrease in lease obligation	-	(51,286)
Cash dividends paid for preferred stocks	(455,000)	(455,000)
Remuneration paid to directors and supervisors	(133,848)	(170,440)
Increase in issuance costs of financing	(3,002)	(47,689)
Net Cash (Used in) Provided by Financing Activities	<u>6,346,146</u>	<u>897,227</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,971,539	(516,947)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	262,370	(766,975)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>37,556,295</u>	<u>38,840,217</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$67,790,204</u>	<u>\$37,556,295</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding the amounts capitalized of NT\$213,686 thousand and NT\$507,094 thousand in 2002 and 2001, respectively)	<u>\$2,301,765</u>	<u>\$3,468,112</u>
Income tax paid	<u>\$165,121</u>	<u>\$20,767</u>
Noncash investing and financing activities:		
Reclassification of a parent company stock held by subsidiaries from long-term investments to treasury stock	<u>\$1,923,492</u>	<u>\$-</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(\$142,438)</u>	<u>\$1,258,395</u>
Current portion of long-term liabilities	<u>\$12,107,899</u>	<u>\$5,001,116</u>
(Forward)		

	2002	2001
Cash paid for acquisition of property, plant and equipment:		
Total acquisition	\$56,500,322	\$57,518,168
Decrease (increase) in payables to contractors and equipment suppliers	(1,264,864)	12,683,037
	<u>\$55,235,458</u>	<u>\$70,201,205</u>
Cash paid for acquisition of deferred charges:		
Total acquisition	\$10,401,176	\$1,805,250
Increase in other long-term payable (including current portion)	(4,676,593)	-
	<u>\$5,724,583</u>	<u>\$1,805,250</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With T N Soong & Co. report dated January 16, 2003)

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL

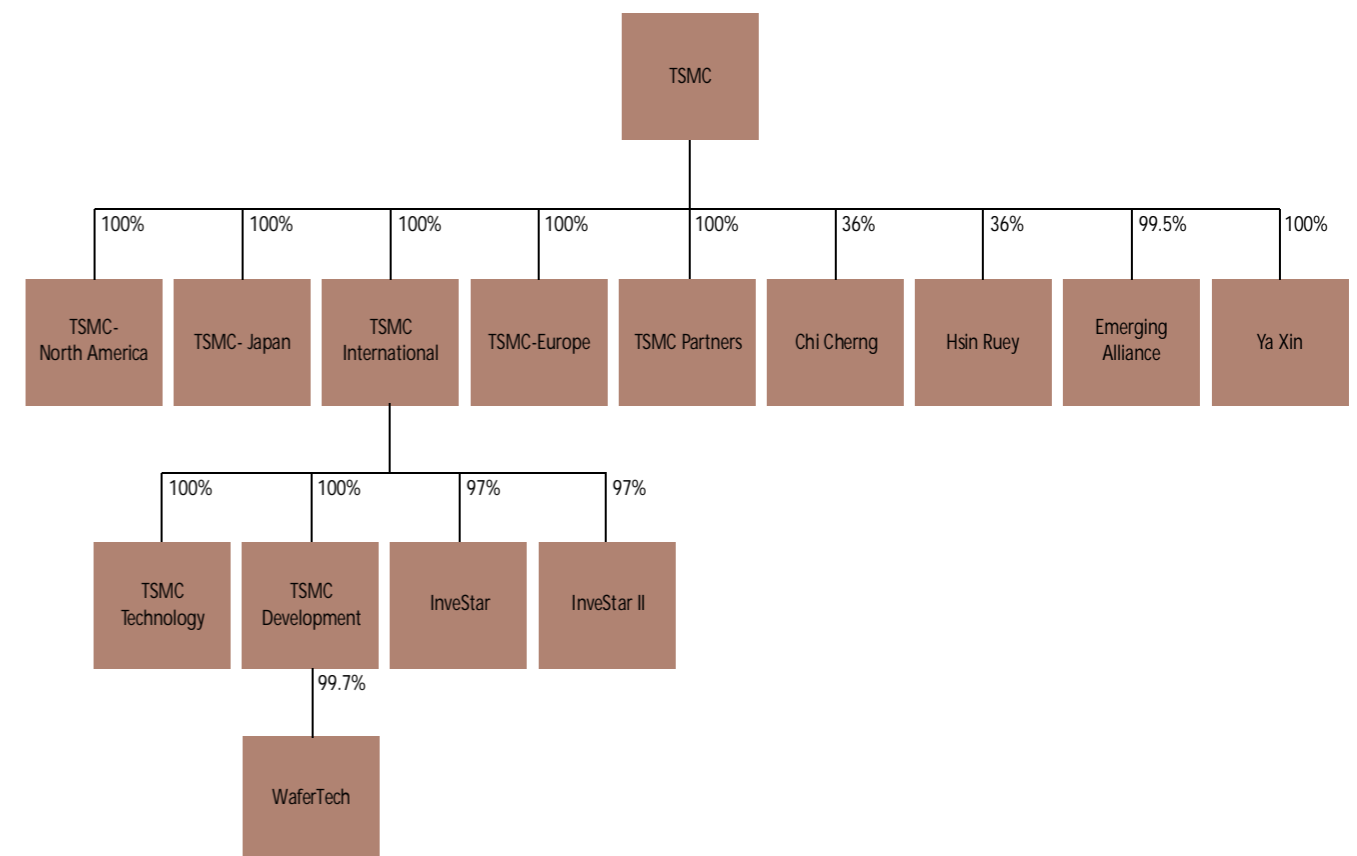
Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), a Republic of China corporation, was incorporated as a venture among the government of the ROC, acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private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

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

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

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

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



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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

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

Cash and cash equivalents

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

Short-term investments

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

Allowance for doubtful receivables

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

Sales and sales returns and allowances

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

Inventories

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

Long-term investments

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill

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

Deferred charges

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

Pension costs

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

Deferred gain on sales and leaseback

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

Casualty loss

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

Income tax

The Company uses an inter-period tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits, and operating loss carry forwards. Valuation allowances are provided to the

extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is, according to the classification of its related asset or liability, classified as current or non-current. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as current or non-current based on the expected length of time before it is realized.

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

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

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

Derivative financial instruments

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

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

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

Foreign-currency transactions

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

Translation of foreign-currency financial statements

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. SIGNIFICANT ELIMINATION ENTRIES

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

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

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

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

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

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

8. LONG-TERM INVESTMENTS	2002		2001	
	Carrying Value	% of Owner Ship	Carrying Value	% of Owner Ship
<u>Shares of stock</u>				
Equity method				
Publicly traded				
Vanguard International Semiconductor (VIS)	\$2,415,297	25	\$3,377,526	25
Non-publicly traded				
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	3,136,115	32	2,907,967	32
	<u>5,551,412</u>		<u>6,285,493</u>	
Prepayment for subscribed stocks				
VIS	849,360	-	-	-
	<u>849,360</u>		<u>-</u>	
Cost method				
Common stock				
Publicly traded stock				
Amkor Technology	280,748	-	280,748	-
Monolithic System Tech.	104,289	2	-	2
Taiwan Mask	32,129	2	32,129	
Non-publicly traded stock				
United Technology	193,584	11	193,584	11
Global Testing Corp. (GTC)	179,882	10	179,951	10
Shin-Etsu Handotai Taiwan Co., Ltd.	105,000	7	105,000	7
Global Investment Holding	100,000	6	107,270	6
Hong Tung Venture Capital	83,916	10	150,000	10
EoNEX Technologies, Inc.	70,305	6	-	-
Procoat Technology, Inc.	67,490	12	-	-
Conwise Technology Corp. Ltd.	67,039	14	-	-
Goyatek Technology, Inc.	62,104	8	-	-
Programmable Microelectronics (Taiwan) Corp.	59,358	4	59,296	4
W.K. Technology, Fund IV	50,000	2	50,000	2
RichTek Technology Corp.	46,986	9	45,015	10

(Forward)

	2002		2001	
	Carrying Value	% of Owner Ship	Carrying Value	% of Owner Ship
APE	\$46,743	6	\$46,748	6
Auden Technology MFG. Co., Ltd.	38,819	4	-	-
Yi Yang Technology	33,606	9	-	-
TrendChip Technologies Corp.	29,992	5	-	-
ChipStrate Technology, Inc.	10,426	9	69,658	9
GeoVision, Inc.	4,518	2	-	-
Divio, Inc.	104	-	105	-
EmpowerTel Networks, Inc.	-	-	12,031	1
3DFX Interactive	-	-	10,396	-
Ubicom, Inc.	-	-	6,028	2
Capella Microsystems	-	-	4,740	2
Equator Technologies, Inc.	-	-	3,151	-
	<u>1,667,038</u>		<u>1,355,850</u>	

Preferred stock

Non-publicly traded stock

Sonics, Inc.	229,787	10	231,397	7
Tropian, Inc.	150,620	5	151,688	5
Reflectivity, Inc.	146,262	15	69,998	6
Monolithic Power Systems, Inc.	137,135	16	123,037	18
Atheros Communications, Inc.	124,868	3	125,754	2
Memsic, Inc.	106,344	23	107,088	20
Pixim, Inc.	87,845	3	87,498	3
Quicksilver Technology	82,153	4	122,497	29
FormFactor, Inc.	69,506	1	69,998	1
Kilopass Technologies, Inc.	69,506	18	-	-
NetLogic Microsystems	65,005	1	64,748	1
NanoAmp Solutions, Inc.	64,397	4	64,838	3
Newport Opticom, Inc.	63,288	15	77,124	15
Integrated Memory Logic, Inc.	62,868	12	63,318	10
Match Lab, Inc.	60,818	11	61,249	10
IP Unity	56,856	2	-	-
Ikanos Communication	52,707	2	52,498	3
Ralink Technologies, Inc.	52,130	6	52,498	7
SiRF Technology Holdings, Inc.	50,878	1	51,248	1
LightSpeed Semiconductor Corp.	46,534	3	107,251	1
Advanced Analogic Technology, Inc.	43,824	2	44,131	2
OEpic, Inc.	43,094	7	87,497	6
Accelerant Networks	35,138	1	-	-
Litchfield Communications	35,138	6	34,999	6
Quake Technologies, Inc.	35,138	1	34,999	1
Spreadtrum	35,138	-	-	-
HiNT Corp.	34,753	5	34,999	5
Silicon Data, Inc.	34,753	7	8,750	2
XHP Microsystem	26,353	6	-	-

(Forward)

	2002		2001	
	Carrying Value	% of Owner Ship	Carrying Value	% of Owner Ship
Angstrom Systems, Inc.	\$26,065	7	\$26,249	7
Equator Technologies, Inc.	24,675	2	99,358	2
Capella Microsystems, Inc.	23,667	12	80,441	8
Sensory, Inc.	21,720	5	43,749	4
Iridigm Display	17,639	2	-	-
Mosaic Systems	17,569	6	-	-
Zenesis Technologies	17,569	4	-	-
Divio, Inc.	17,377	4	17,500	4
Incentia Design Systems, Inc.	17,377	2	17,499	2
Oridus, Inc. (CreOsys, Inc.)	15,639	8	52,498	8
Signia Technologies, Inc.	15,639	12	78,748	20
LeadTONE Wireless, Inc.	8,270	6	-	-
eBest!, Inc.	3,370	1	-	-
EmpowerTel Networks, Inc.	-	-	179,480	7
RapidStream, Inc.	-	-	73,754	6
Y-Media Corp.	-	-	52,499	2
Rise Technology Company	-	-	52,498	2
Ubicom, Inc.	-	-	47,636	2
OmegaBand, Inc. (Seagull Semiconductor, Inc.)	-	-	43,749	6
PicoTurbo, Inc.	-	-	43,749	7
Procoat Technology, Inc.	-	-	30,000	10
	<u>2,329,412</u>		<u>2,868,509</u>	
Convertible notes				
eBest!, Inc.	834	-	-	-
PicoTurbo, Inc.	-	-	10,323	-
Rise Technology Company	-	-	10,500	-
OmegaBand, Inc. (Seagull Semiconductor, Inc.)	-	-	6,730	-
	<u>834</u>		<u>27,553</u>	
Funds				
Horizon Ventures	195,452	-	125,701	-
Crimson Asia Capital	41,988	-	27,091	-
BIAM Global Opportunity Fund	-	-	908,944	-
	<u>237,440</u>		<u>1,061,736</u>	
Warrant				
OEpic, Inc.	-	-	9	-
	<u>\$10,635,496</u>		<u>\$11,599,150</u>	

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

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

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

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

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

9. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

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

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

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

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

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

11. SHORT-TERM BANK LOANS	2002	2001
Unsecured loan in US dollars:		
US\$21,000 thousand, refinanced in May 2002, repayable by May 2003, annual interest at 1.82% and 2.33% in 2002 and 2001, respectively	\$729,813	\$734,979
US\$82,000 thousand, repayable by March 2002, annual interest at 2.679%	-	2,869,918
US\$5,500 thousand, repayable by June 2002, annual interest at 3.188%	-	192,495
US\$21,565 thousand, repayable by October 2002, annual interest at 2.590%	-	754,735
US\$46,000 thousand, repayable by October 2002, annual interest at 2.548%	-	1,609,954
Secured loan in NT dollars:		
NT\$107,100 thousand, repayable by October 2002, annual interest at 3.2% to 3.8%	-	107,100
	<u>\$729,813</u>	<u>\$6,269,181</u>

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

Unused credit lines as of December 31, 2002 aggregated approximately NT\$7,930,00 thousand and US\$366,500 thousand.

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

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

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

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

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

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

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

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

14. OTHER LONG-TERM PAYABLES

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

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

15. PENSION PLAN

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

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

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

a. Components of pension cost

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

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

	2002	2001
Benefit obligation		
Vested benefit obligation	\$21,294	\$739
Nonvested benefit obligation	1,607,272	1,026,289
Accumulated benefit obligation	1,628,566	1,027,028
Additional benefits based on future salaries	1,300,712	1,407,014
Projected benefit obligation	2,929,278	2,434,042
Fair value of plan assets	(1,014,086)	(835,583)
Funded status	1,915,192	1,598,459
Unrecognized net transitional obligation	(149,391)	(157,691)
Unrecognized net gain	445,759	415,849
Accrued pension cost	<u>\$2,211,560</u>	<u>\$1,856,617</u>

c. Actuarial assumptions

Discount rate used in determining present values	3.75%	5.0%
Future salary increase rate	3.00%	5.0%
Expected rate of return on plan assets	3.75%	5.0%

d. Contributions to pension fund

	<u>\$164,720</u>	<u>\$131,894</u>
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e. Payments from pension fund

	<u>\$5,360</u>	<u>\$-</u>
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16. INCOME TAX BENEFIT (EXPENSE)

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

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

b. Income tax benefit (expense) consists of:

	2002	2001
Current income tax expense before income tax credits	(\$4,874,342)	(\$2,597,224)
Additional 10% tax on the unappropriated earnings	(179,362)	(322,292)
Income tax credits	4,867,236	2,888,358
Other income tax	(29,160)	(16,318)
Income tax expense	<u>(215,628)</u>	<u>(47,476)</u>
Net change in deferred income tax assets (liabilities)		
Net operating loss	1,733,990	3,751,051
Investment tax credits	2,510,192	3,044,170
Temporary differences	(5,910,152)	(1,918,009)
Valuation allowance	<u>(3,755,050)</u>	<u>(1,089,058)</u>
Income tax benefit (expense)	<u>(\$5,636,648)</u>	<u>\$3,740,678</u>

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

	2002	2001
Current		
Investment tax credits	\$3,320,000	\$2,347,000
Temporary differences	81,729	3,147
	<u>\$3,401,729</u>	<u>\$2,350,147</u>
Noncurrent		
Net operating loss	\$7,852,338	\$6,118,348
Investment tax credits	23,247,653	21,710,461
Temporary differences	(8,352,647)	(2,363,913)
Valuation allowance	<u>(12,974,118)</u>	<u>(9,219,068)</u>
	<u>\$9,773,226</u>	<u>\$16,245,828</u>

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

d. Integrated income tax information:

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

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

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

e. As of December 31, 2002 and 2001, the unappropriated retained earnings generated up to December 31, 1997, was NT\$0 and NT\$4,827 thousand.

f. As of December 31, 2002, TSMC's investment tax credits consisted of the following:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expire Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$4,237,050	\$-	2002
		4,767,347	4,767,347	2003
		8,180,857	8,180,857	2004
		3,110,906	3,110,906	2005
		5,335,558	2,775,029	2006
		<u>\$25,631,718</u>	<u>\$18,834,139</u>	
Statute for Upgrading Industries	Research and development expenditures	\$562,158	\$-	2002
		671,546	671,546	2003
		1,974,320	1,974,320	2004
		3,111,472	3,111,472	2005
		1,540,000	1,540,000	2006
		<u>\$7,859,496</u>	<u>\$7,297,338</u>	
Statute for Upgrading Industries	Personnel training	\$8,822	\$-	2002
		16,104	16,104	2003
		43,264	43,264	2004
		28,886	28,886	2005
		<u>\$97,076</u>	<u>\$88,254</u>	
Statute for Upgrading Industries	Reputation setting	\$10,133	\$-	2002
		319	319	2003
		<u>\$10,452</u>	<u>\$319</u>	
Statute for Upgrading Industries	Investments in important technology based enterprises	\$2,878	\$-	2002
		5,420	5,420	2003
		201,372	201,372	2004
		138,864	138,864	2005
		1,947	1,947	2006
		<u>\$350,481</u>	<u>\$347,603</u>	

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

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

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

17. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

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

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

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

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

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

A special reserve equivalent to the debit balance of any account shown in the shareholder's equity section of the balance sheets (except for the recorded costs of treasury stocks held by subsidiaries), other than the deficit, shall be made from unappropriated

retained earnings pursuant to existing regulations promulgated by the Securities and Futures Commission. The special reserve is allowed to be appropriated when the debit balance of such accounts are reversed.

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

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

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

Preferred shareholders

- are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- are not entitled to receive any common stock dividends (whether declared out of unappropriated earnings or capital surplus).
- have priority over the holders of common shares to the assets of the Company available for distribution to shareholders upon liquidation or dissolution, however, the preemptive rights to the assets shall not exceed the issue value of the shares.
- have voting rights similar to that of the holders of common shares.
- have no right to convert their shares into common shares. The preferred shares are to be redeemed within thirty months from their issuance. The preferred shareholders have the aforementioned rights and the Company's related obligations remain the same until the preferred shares are redeemed by the Company.

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

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

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

In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan (the "Plan II") under which officers, key employees and non-employee directors may be granted option rights. Plan II provides 15,150 thousand option rights. While WaferTech may grant employees option rights that are exercisable at different times or within different periods, it has generally granted option rights which are exercisable on a cumulative basis in annual installments of 25% each on the first, second, third, and fourth anniversaries of the date of grant.

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

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

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

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

18. TREASURY STOCK (COMMON STOCK)

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

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

19. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

	Amounts (Numerator)		Share (Denominator) (Thousand)	EPS (Dollars)	
	Income Before Income Tax	Consolidated Net Income		Income Before Income Tax	Consolidated Net Income
<u>Year ended December 31, 2002</u>					
Income	\$27,222,148	\$21,610,291			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$26,767,148</u>	<u>\$21,155,291</u>	<u>18,580,700</u>	<u>\$1.44</u>	<u>\$1.14</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$26,767,148</u>	<u>\$21,155,291</u>	<u>18,580,700</u>	<u>\$1.44</u>	<u>\$1.14</u>
<u>Year ended December 31, 2001</u>					
Income	\$10,786,505	\$14,483,174			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share					
Income available to common shareholders	<u>\$10,331,505</u>	<u>\$14,028,174</u>	<u>18,622,887</u>	<u>\$0.55</u>	<u>\$0.75</u>
Diluted earnings per share					
Income available to common shareholders	<u>\$10,331,505</u>	<u>\$14,028,174</u>	<u>18,622,887</u>	<u>\$0.55</u>	<u>\$0.75</u>

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

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

20. RELATED PARTY TRANSACTIONS

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

- Industrial Technology Research Institute (ITRI), the Chairman of TSMC is one of its directors.
- Philips Electronics N.V., (Philips), a major shareholder of TSMC.
- Investees of TSMC
 - VIS
 - SSMC

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

	2002		2001	
	Amount	%	Amount	%
<u>For the year ended</u>				
Sales				
Philips and its affiliates	\$2,909,008	2	\$2,389,257	2
ITRI	94,409	-	114,546	-
VIS	92,119	-	1,177,094	1
SSMC	7,018	-	48,972	-
	<u>\$3,102,554</u>	<u>2</u>	<u>\$3,729,869</u>	<u>3</u>
Purchase				
VIS	\$3,469,198	14	\$3,801,975	22
SSMC	2,751,297	11	42,984	-
	<u>\$6,220,495</u>	<u>25</u>	<u>\$3,844,959</u>	<u>22</u>
Operating expense -Rental				
ITRI	\$40,401	-	\$161,604	-
Manufacturing expenses -Technical service fee				
Philips	\$2,849,517	100	\$2,418,276	100
Sales of property, plant and equipment				
VIS	\$-	-	\$268,871	85
Non-operating income				
SSMC (technical service income mainly)	\$126,061	6	\$95,284	1
VIS	-	-	467	-
	<u>\$126,061</u>	<u>6</u>	<u>\$95,751</u>	<u>1</u>
<u>At December 31</u>				
Receivables				
Philips and its affiliates	\$352,706	80	\$116,499	24
VIS	58,301	13	320,179	65
ITRI	22,974	5	37,383	7
SSMC	5,678	2	20,671	4
	<u>\$439,659</u>	<u>100</u>	<u>\$494,732</u>	<u>100</u>
Prepaid expense and other current asset - Rent				
ITRI	\$-	-	\$42,664	2
Payables				
Philips and its affiliates	\$730,847	41	\$499,331	48
VIS	653,876	37	548,472	52
SSMC	391,426	22	470	-
	<u>\$1,776,149</u>	<u>100</u>	<u>\$1,048,273</u>	<u>100</u>
Refundable deposits				
VIS	\$514,846	92	\$750,788	96

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

21. SIGNIFICANT LONG-TERM OPERATING LEASES

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

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

Future remaining lease payments are as follows:

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

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

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

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

23. ADDITIONAL DISCLOSURES

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

- Financing provided: Please see Table 1 attached;
- Endorsement/guarantee provided: Please see Table 2 attached;
- Marketable securities held: Please see Table 3 attached;
- Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of paid-in capital: Please see Table 4 attached;
- Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of paid-in capital: Please see Table 5 attached;
- Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of paid-in capital: None;
- Total purchases from or sales to related parties of at least NT\$100 million or 20% of paid-in capital: Please see Table 6 attached;
- Receivable from related parties amounting to at least NT\$100 million or 20% of paid-in capital: Please see Table 7 attached;
- Names, locations, and related information of investee on which the Company exercises significant influences: Please see Table 8 attached.
- Financial instrument transactions:
 - Derivative financial instruments

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

- Forward exchange contracts as of December 31, 2002

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

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

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

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

b) Interest rate swaps

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

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

c) Option contracts

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

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

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

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

d) Transaction risk

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

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

iii) Liquidity and cash flow requirements. The cash flow requirements on forward contracts are limited to the net differences between the current exchange rates and the contracted forward rates at the date of settlement. The cash flow requirements for interest

rate swap contracts is limited to the amounts payable arising from the differences in the rates. In addition, options may not be exercised in the event the strike price is higher than the related market price at the exercise date. Management believes that the foregoing cash flow requirements are not material.

2) Fair value of financial instruments

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

Fair values of financial instruments were determined as follows:

- Short-term financial instruments - carrying values.
- Short-term investments - market values.
- Long-term investments - market value for traded companies and net equity value for non-traded companies.
- Refundable deposits, guarantee deposits and other long-term liabilities - carrying values.
- Long-term bank loan - fair values of long-term bank loans are their carrying values as they use floating interest rate.
- Long-term liabilities - based on forecasted cash flows discounted at interest rates. Bonds payable is discounted to present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rate.
- Derivative financial instruments - based on bank quotations.

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

3) Investment in Mainland China

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

24. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	Overseas	Taiwan	Adjustments and Elimination	Consolidated
2002				
Sales to unaffiliated customers	\$95,774,432	\$66,526,776	\$-	\$162,301,208
Transfers between geographic areas	9,537,846	94,434,553	(103,972,399)	-
Total sales	<u>\$105,312,278</u>	<u>\$160,961,329</u>	<u>(\$103,972,399)</u>	<u>\$162,301,208</u>
Gross profit	<u>(\$19,865)</u>	<u>\$51,967,145</u>	<u>(\$365,870)</u>	\$52,313,150
Operating expenses				(20,724,111)
Non-operating income				2,419,467
Non-operating expenses				(6,786,358)
Income before income tax				<u>\$27,222,148</u>
Minority interest loss				<u>\$24,791</u>
Identifiable assets	<u>\$75,840,416</u>	<u>\$336,405,063</u>	<u>(\$32,338,576)</u>	\$379,906,903
Long-term investments				10,635,496
Total assets				<u>\$390,542,399</u>
2001				
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>	\$33,656,794
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 income				<u>(\$44,009)</u>
Identifiable assets	<u>\$73,433,656</u>	<u>\$303,954,097</u>	<u>(\$22,469,208)</u>	\$354,918,545
Long-term investments				11,599,150
Total assets				<u>\$366,517,695</u>

b. Gross export sales

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

The export sales information is presented by billed regions.

c. Major customer

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

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

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

FINANCING PROVIDED

For the Year Ended December 31, 2002

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

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons (Note1)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Amount Limits (US\$ in Thousand)
											Item	Value		
1	TSMC International	TSMC Technology, Inc.	Other receivables	\$536,372 (US\$15,434)	\$536,372 (US\$15,434)	4.25%	2	\$-	Operating capital	\$-	-	\$-	N/A	\$ 34,334,852 (US\$987,968)(Note 2)

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

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

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED

For the Year Ended December 31, 2002

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

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

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

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

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

Note 3: Promissory notes for collateral.

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

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

December 31, 2002

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

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
TSMC	<u>Stock</u>							
	TSMC - North America	Subsidiary	Long-term investment	11,000	\$173,601	100	\$921,883	The treasury stocks in amounts of NT\$748,282 thousand are deducted from the carrying value.
	TSMC - Europe	Subsidiary	Long-term investment	-	13,670	100	13,670	
	TSMC - Japan	Subsidiary	Long-term investment	6	94,258	100	94,258	
	VIS	Investee	Long-term investment	556,133	2,415,297	25	4,326,719	The carrying value does not include prepayment for subscribed stock of NT\$849,360 thousand.
	TSMC International	Subsidiary	Long-term investment	987,968	22,265,157	100	22,265,157	
	Chi Cherng Investment	Investee	Long-term investment	-	41,894	36	501,179	The treasury stocks in amounts of NT\$459,285 thousand are deducted from the carrying value.
	Hsin Ruey Investment	Investee	Long-term investment	-	39,815	36	500,048	The treasury stocks in amounts of NT\$460,233 thousand are deducted from the carrying value.
	TSMC Partners	Subsidiary	Long-term investment	300	3,753,733	100	3,940,495	The treasury stocks in amounts of NT\$255,692 thousand are deducted from the carrying value.
	SSMC	Investee	Long-term investment	382	3,136,115	32	3,136,115	
	Emerging Alliance	Subsidiary	Long-term investment	-	767,239	99	767,239	
	Taiwan Mask Corp.	-	Long-term investment	8,794	32,129	2	160,574	
	United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	280,931	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	137,355	
	W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	59,866	
	Ya Xin Technology	Subsidiary	Long-term investment	34,125	341,250	100	341,250	
	Hon Tung Ventures Capital	-	Long-term investment	8,392	83,916	10	71,216	
	Amkor Technology	-	Long-term investment	505	280,748	-	89,866	
	Monolithic System Tech.	-	Long-term investment	470	104,289	2	214,949	
	Crimson Asia Capital	-	Long-term investment	N/A	41,988	N/A	41,988	
	Horizon Ventures	-	Long-term investment	N/A	195,452	N/A	195,452	
TSMC - North America	<u>Stock</u>							
	TSMC	Parent company	Long-term investment	12,692	748,282	-	610,434	
Chi Cherng Investment	<u>Stock</u>							
	TSMC	Parent company	Short-term investment	12,738	459,285	-	612,636	
	<u>Certificate</u>							
	Hsin Ruey Investment	Major shareholder	Long-term investment	-	900,109	64	900,109	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Hsin Ruey Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	12,762	\$460,233	-	\$613,782	
	<u>Certificate</u> Chi Cherng Investment	Major shareholder	Long-term investment	-	902,137	64	902,137	
TSMC International	<u>Stock</u> InveStar Semiconductor Development Fund, Inc.	Subsidiary	Long-term investment	45,000	US\$44,634	97	US\$44,634	
	InveStar Semiconductor Development Fund (II), Inc.	Subsidiary	Long-term investment	51,300	US\$43,179	97	US\$43,179	
	TSMC Development, Inc.	Subsidiary	Long-term investment	1	US\$307,094	100	US\$307,094	
	TSMC Technology, Inc.	Subsidiary	Long-term investment	1	US\$2,321	100	US\$2,321	
	3DFX Interactive, Inc.	-	Long-term investment	68	-	-	-	
VIS	<u>Stock</u> VIS Associates, Inc.	Subsidiary	Long-term investment	41,070	1,193,891	100	1,193,891	
	PowerChip Semiconductor, Inc.	Investee	Long-term investment	191,671	2,100,716	7	2,100,716	
	Etron Technology, Inc.	Investee	Long-term investment	4,859	101,839	2	101,839	
	Walsin Technology, Inc.	Investee	Long-term investment	34,551	302,559	8	302,559	
	MEGIC Corporation	Investee	Long-term investment	16,500	177,000	9	156,819	
	Form Factor, Inc.	Investee	Long-term investment	267	64,360	1	64,360	The amount is shown in the carrying value.
VIS Associates Inc.	United Technology Co., Ltd. <u>Stock</u>	Investee	Long-term investment	3,357	38,716	2	56,206	
	VIS Investment Holding, Inc. <u>Equity</u>	Subsidiary	Long-term investment	63	US\$397	100	US\$397	
	Silicon Valley Equity Fund	-	Long-term investment	-	US\$7,317	34	US\$7,386	
	Silicon Valley Equity Fund II <u>Equity certificate</u>	-	Long-term investment	-	US\$5,355	14	US\$5,355	
	ABN AMRO Bank <u>Fund</u>	-	Long-term investment	3,648	US\$817	-	US\$817	
VIS Investment Holding, Inc.	Grand Palace Trust <u>Stock</u>	-	Long-term investment	-	US\$2,719	100	US\$2,719	
	VIS Micro, Inc.	Subsidiary	Long-term investment	200	US\$279	100	US\$279	
TSMC Development, Inc.	<u>Stock</u> WaferTech	Subsidiary	Long-term investment	-	US\$326,609	99	US\$326,609	
TSMC Partners	<u>ADR</u> TSMC	Parent company	Short-term investment	762	US\$7,357	-	US\$6,080	
InveStar Semiconductor Development Fund Inc.	<u>Stock</u> Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$3,350	-	US\$69,181	
	Silicon Laboratories	-	Short-term investment	9	US\$287	-	US\$202	
	WGRD	-	Short-term investment	104	US\$625	-	US\$635	
	Programmable Microelectronics, (Taiwan) Inc.	-	Long-term investment	1,580	US\$1,566	3	US\$1,566	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Divio, Inc.	-	Long-term investment	30	US\$3	-	US\$3	
	Global Test Corp.	-	Long-term investment	13,268	US\$5,176	10	US\$5,176	
	Chipstrate Technologies, Inc.	-	Long-term investment	6,660	US\$300	9	US\$300	
	Richtek Technology Holding Corp.	-	Long-term investment	1,023	US\$346	6	US\$346	
	Advanced Power Electronics, Corp.	-	Long-term investment	2,750	US\$1,345	6	US\$1,345	
	<u>Preferred stock</u>							
	Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$1,809	12	US\$1,809	
	Divio, Inc.	-	Long-term investment	667	US\$500	4	US\$500	
	SIRF Technology Holdings, Inc.	-	Long-term investment	306	US\$1,333	1	US\$1,333	
	Capella Microsystems, Inc.	-	Long-term investment	300	US\$481	8	US\$481	
	Sensory, Inc.	-	Long-term investment	1,404	US\$625	5	US\$625	
	Equator Technologies, Inc.	-	Long-term investment	300	US\$258	1	US\$258	
	LightSpeed Semiconductor Corporation	-	Long-term investment	2,252	US\$1,339	3	US\$1,339	
	Tropian, Inc.	-	Long-term investment	1,758	US\$2,334	3	US\$2,334	
	Sonics, Inc.	-	Long-term investment	2,686	US\$3,530	5	US\$3,530	
	Atheros Communications, Inc.	-	Long-term investment	1,607	US\$3,593	3	US\$3,593	
	NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$853	3	US\$853	
	Formfactor, Inc.	-	Long-term investment	267	US\$2,000	1	US\$2,000	
	Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$2,000	12	US\$2,000	
	Memsic, Inc.	-	Long-term investment	2,727	US\$1,500	12	US\$1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$1,192	4	US\$1,192	
	Signia Technologies, Inc.	-	Long-term investment	3,000	US\$300	8	US\$300	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$1,500	9	US\$1,500	
	HINT Corporation	-	Long-term investment	1,000	US\$1,000	6	US\$1,000	
	Ordius, Inc. (Creosys, Inc.)	-	Long-term investment	1,500	US\$450	8	US\$450	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$500	2	US\$500	
	IP Unity	-	Long-term investment	1,008	US\$1,636	2	US\$1,636	
InveStar Semiconductor Development Fund (II) Inc.	<u>Stock</u>							
	WGRD	-	Short-term investment	105	US\$630	-	US\$640	
	Procoat Technology	-	Long-term investment	3,500	US\$1,942	12	US\$1,942	
	Richtek Technology Corporation	-	Long-term investment	845	US\$1,006	3	US\$1,006	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	487	US\$140	1	US\$140	
	Auden Technology MFG. Co., Ltd.	-	Long-term investment	953	US\$1,117	4	US\$1,117	
	Geo Vision, Inc.	-	Long-term investment	180	US\$129	2	US\$129	
	EoNEX Technologies, Inc.	-	Long-term investment	40	US\$2,024	6	US\$2,024	
	Conwise Technology Co., Ltd.	-	Long-term investment	2,800	US\$1,930	14	US\$1,930	
	Yi Yang Technology	-	Long-term investment	2,800	US\$967	9	US\$967	
	Goyatek Technology Inc.	-	Long-term investment	1,740	US\$1,787	8	US\$1,787	
	Trendchip Technologies Corp.	-	Long-term investment	2,000	US\$864	5	US\$864	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	<u>Preferred stock</u>							
	Memic, Inc.	-	Long-term investment	2,289	US\$1,560	11	US\$1,560	
	OEpic, Inc.	-	Long-term investment	2,696	US\$1,240	7	US\$1,240	
	Equator Technologies, Inc.	-	Long-term investment	770	US\$452	1	US\$452	
	NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$1,000	1	US\$1,000	
	Signia Technologies, Inc.	-	Long-term investment	1,500	US\$150	4	US\$150	
	Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$1,261	2	US\$1,261	
	Monolithic Power Systems, Inc.	-	Long-term investment	804	US\$1,946	4	US\$1,946	
	Ralink Technology, Inc.	-	Long-term investment	1,833	US\$1,500	6	US\$1,500	
	Sonics, Inc.	-	Long-term investment	3,082	US\$3,082	5	US\$3,082	
	Newport Opticom, Inc.	-	Long-term investment	1,157	US\$810	9	US\$810	
	Silicon Data, Inc.	-	Long-term investment	2,000	US\$1,000	7	US\$1,000	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$1,500	6	US\$1,500	
	Capella Microsystems, Inc.	-	Long-term investment	800	US\$200	4	US\$200	
	Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$750	7	US\$750	
	Tropian, Inc.	-	Long-term investment	1,464	US\$2,000	2	US\$2,000	
	SiRF Technology Holdings, Inc.	-	Long-term investment	20	US\$131	-	US\$131	
	LeadTONE Wireless, Inc.	-	Long-term investment	680	US\$238	6	US\$238	
	Match Lab, Inc.	-	Long-term investment	313	US\$250	2	US\$250	
	eBest!, Inc.	-	Long-term investment	185	US\$97	1	US\$97	
	Kilopass Technology, Inc.	-	Long-term investment	3,887	US\$2,000	18	US\$2,000	
	<u>Bond</u>							
	eBest!, Inc.	-	Long-term investment	-	US\$24	-	US\$24	
Emerging Alliance	<u>Stock</u>							
	Global Investment Holding, Inc.	Investee	Long-term investment	10,000	\$100,000	6	\$100,000	
	<u>Preferred stock</u>							
	Quake Technologies, Inc.	-	Long-term investment	467	US\$1,000	1	US\$1,000	
	Pixim, Inc.	-	Long-term investment	833	US\$2,500	3	US\$2,500	
	Newport Opticom, Inc.	-	Long-term investment	962	US\$1,000	6	US\$1,000	
	NetLogic Microsystems, Inc.	-	Long-term investment	602	US\$1,850	1	US\$2,932	
	Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$1,500	2	US\$1,500	
	Quicksilver Technology, Inc.	-	Long-term investment	1,475	US\$2,338	4	US\$2,338	
	Litchfield Communications	-	Long-term investment	3,799	US\$1,000	6	US\$1,000	
	Mosaic Systems	-	Long-term investment	2,481	US\$500	6	US\$500	
	Accelerant Networks	-	Long-term investment	441	US\$1,000	1	US\$1,000	
	Zenesis Technologies	-	Long-term investment	861	US\$500	4	US\$500	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$1,500	5	US\$1,500	
	Iridigm Display	-	Long-term investment	305	US\$502	2	US\$502	
	Spreadtrum	-	Long-term investment	-	US\$1,000	-	US\$1,000	Prepayment for subscribed stock
	XHP Microsystem	-	Long-term investment	2,279	US\$750	6	US\$750	

(Forward)

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, 2002

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

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

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

Note 2: Prepayment for the subscribe stock.

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

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

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, 2002

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

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

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, 2002

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

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

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, 2002

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

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

TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

December 31, 2002

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2002			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)	Note
				Dec. 31, 2002	Dec. 31, 2001	Shares (Thousand)	Percentage of Ownership	Carrying Value (Note1)			
TSMC	TSMC - North America	San Jose, California, U.S.A.	Marketing and engineering support	\$333,178	\$333,178	11,000	100	\$173,601	\$140,654	\$139,021	Subsidiary
	TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	13,670	(1,615)	1,615	Subsidiary
	TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760	6	100	94,258	3,145	6,045	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640 (Note3)	6,503,640	556,133	25	2,415,297 (Note 3)	(3,250,831)	(821,771)	Investee
	TSMC International	Tortola, British Virgin Islands	Investment	31,445,780	24,165,780	987,968	100	22,265,157	(4,714,203)	(4,714,203)	Subsidiary
	Chi Cherng Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	41,894	13,821	13,122	Investee
	Hsin Ruey Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	39,815	12,533	6,632	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,753,733	924,362	993,292	Subsidiary
	SSMC	Singapore	Manufacturing wafers	6,408,190	4,986,344	382	32	3,136,115	(3,609,569)	(1,155,076)	Investee
	Emerging Alliance	Cayman Islands	Investment	1,005,660	837,045	-	99	767,239	(142,865)	(142,151)	Subsidiary
	Ya Xin Technology	Taipei, Taiwan	Electronic manufacturing	341,250	-	34,125	100	341,250	-	-	Subsidiary

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

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

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

11. US GAAP Financial Information

Please be advised that our 2002 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 2002 full annual report, can be found at the SEC and on TSMC's website no later than June 30, 2003.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	\$67,790,204	\$37,556,295
Short-term investments	170,012	1,398,071
Receivable from related parties	439,659	494,732
Notes receivable	60,240	176,582
Accounts receivable - net	16,225,194	16,275,593
Inventories - net	11,201,446	9,828,328
Deferred income tax assets	3,401,729	2,350,147
Prepaid expenses and other current assets	3,248,674	2,721,421
Total Current Assets	<u>102,537,158</u>	<u>70,801,169</u>
LONG-TERM INVESTMENTS	<u>10,635,496</u>	<u>11,599,150</u>
PROPERTY, PLANT AND EQUIPMENT - NET	<u>246,498,311</u>	<u>251,287,632</u>
GOODWILL	<u>10,158,845</u>	<u>11,437,572</u>
OTHER ASSETS		
Deferred charges - net	9,873,825	3,769,750
Deferred income tax assets	9,773,226	16,245,828
Refundable deposits	557,266	784,089
Idle assets - net	386,317	-
Assets leased to others	87,246	555,053
Miscellaneous	34,709	37,452
Total Other Assets	<u>20,712,589</u>	<u>21,392,172</u>
TOTAL ASSETS UNDER ROC GAAP	<u>\$390,542,399</u>	<u>\$366,517,695</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

RECONCILIATIONS OF TOTAL ASSETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

	2002	2001
TOTAL ASSETS UNDER ROC GAAP	\$390,542,399	\$366,517,695
US GAAP Adjustments :		
- Adjustment to market value - trading securities	2,116,432	3,936,191
- Adjustment of long-term investments		
- Equity investees		
- Effects of the US GAAP adjustments	(1,414,756)	(1,476,433)
- Adjustment to market value - available-for-sale securities		
- TSMC	18,611	168,926
- Equity investees	7,083	499,302
- Impairment loss	(10,916,070)	(10,916,070)
- Reversal of depreciation of assets impaired under US GAAP	2,910,952	1,455,476
- Goodwill		
- Carrying value difference for purchase of 68% TSMC	52,212,732	52,212,732
- Accumulated amortization	(14,895,672)	(16,186,405)
- Effect of US GAAP adjustments on deferred income tax	(4,061)	(2,639)
- Capital stock payment for technology transfer	(49,500)	(103,500)
- Treasury stock	-	(2,115,695)
	<u>29,985,751</u>	<u>27,471,885</u>
TOTAL ASSETS UNDER US GAAP	<u>\$420,528,150</u>	<u>\$393,989,580</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

LIABILITIES	2002	2001
CURRENT LIABILITIES		
Short-term bank loans	\$729,813	\$6,269,181
Payable to related parties	1,776,149	1,048,273
Accounts payable	5,138,592	1,397,879
Payables to contractors and equipment suppliers	14,132,100	12,867,236
Accrued expenses and other current liabilities	6,477,212	6,746,483
Current portion of long-term liabilities	12,107,899	5,000,000
Total Current Liabilities	<u>40,361,765</u>	<u>33,329,052</u>
LONG-TERM LIABILITIES		
Long-term bank loans	11,051,454	22,399,360
Long-term bonds payable	35,000,000	24,000,000
Other long-term payable	4,281,665	-
Total Long-term Liabilities	<u>50,333,119</u>	<u>46,399,360</u>
OTHER LIABILITIES		
Accrued pension cost	2,211,560	1,856,617
Guarantee deposits	1,395,066	7,212,688
Deferred gain on sales and leaseback	114,928	268,165
Others	177,256	141,498
Total Other Liabilities	<u>3,898,810</u>	<u>9,478,968</u>
TOTAL LIABILITIES UNDER ROC GAAP	<u>94,593,694</u>	<u>89,207,380</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

RECONCILIATIONS OF TOTAL LIABILITIES

As of and for the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

	2002	2001
TOTAL LIABILITIES UNDER ROC GAAP	\$94,593,694	\$89,207,380
US GAAP Adjustments:		
- Derivative financial investments	516,278	962,215
- Bonus to employees, directors and supervisors	1,597,497	1,201,437
- Pension expenses	39,772	48,360
	<u>2,153,547</u>	<u>2,212,012</u>
TOTAL LIABILITIES UNDER ROC GAAP	<u>\$96,747,241</u>	<u>\$91,419,392</u>
MINORITY INTEREST IN SUBSIDIARIES UNDER ROC GAAP	95,498	120,240
US GAAP Adjustment:		
- Shareholders' equity	62,689	-
MINORITY INTEREST IN SUBSIDIARIES UNDER US GAAP	<u>158,187</u>	<u>120,240</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

SHAREHOLDERS' EQUITY	2002	2001
Capital stock, \$10 par value		
Authorized - 24,600,000 thousand shares and		
Issued:		
Preferred stock - 1,300,000 thousand shares	\$13,000,000	\$13,000,000
Common stock - 18,622,887 thousand shares	186,228,867	168,325,531
Capital surplus	57,004,789	57,128,433
Retained earnings		
Appropriated as legal reserve	18,641,108	17,180,067
Appropriated as special reserve	-	349,941
Unappropriated earnings	22,151,089	19,977,402
Unrealized loss on long-term investments	(194,283)	-
Cumulative translation adjustments	945,129	1,228,701
Treasury stock	(1,923,492)	-
TOTAL SHAREHOLDERS' EQUITY UNDER ROC GAAP	<u>295,853,207</u>	<u>277,190,075</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY UNDER ROC GAAP	<u>\$390,542,399</u>	<u>\$366,517,695</u>

RECONCILIATIONS OF SHAREHOLDERS' EQUITY

As of and for the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

	2002	2001
TOTAL SHAREHOLDERS' EQUITY UNDER ROC GAAP	\$295,853,207	\$277,190,075
US GAAP Adjustments:		
- Adjustment to market value for trading securities	2,116,431	3,936,191
- US GAAP adjustments on equity-method investees	(1,414,756)	(1,476,433)
- Adjustment to market value - available-for-sale securities		
- TSMC	18,611	168,926
- Equity-method investees	7,083	499,302
- Loss on impairment of assets	(10,916,070)	(10,916,070)
- Reversal of depreciation on assets impaired under US GAAP	2,910,952	1,455,476
- Effect of US GAAP adjustments on deferred income tax	(4,061)	(2,639)
- Goodwill		
- Carrying value difference from 68% purchase of TSMC	52,212,732	52,212,732
- Accumulated amortization	(14,895,672)	(16,186,405)
- Capital stock payment for technology transfer	(49,500)	(103,500)
- Derivative financial instruments	(516,278)	(962,215)
- Bonus to employees, directors and supervisors	(1,597,497)	(1,201,437)
- Accrued pension expense	(39,772)	(48,360)
- Treasury stock	-	(2,115,695)
- Minority interest	(62,688)	-
- Mandatory redeemable preferred stock	(13,000,000)	(13,000,000)
	<u>14,769,515</u>	<u>12,259,873</u>
TOTAL SHAREHOLDERS' EQUITY UNDER US GAAP	<u>310,622,722</u>	<u>289,449,948</u>
MANDATORY REDEEMABLE PREFERRED STOCK	<u>13,000,000</u>	<u>13,000,000</u>
TOTAL LIABILITY AND SHAREHOLDERS' EQUITY UNDER US GAAP	<u>\$420,528,150</u>	<u>\$393,989,580</u>

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

	2002	2001
GROSS SALES	\$166,187,670	\$128,560,708
SALES RETURNS AND ALLOWANCES	(3,886,462)	(2,675,816)
NET SALES	162,301,208	125,884,892
COST OF SALES	(109,988,058)	(92,228,098)
GROSS PROFIT	52,313,150	33,656,794
OPERATING EXPENSES		
Research and development	11,725,035	10,649,019
General and administrative	7,007,283	7,939,839
Marketing	1,991,793	2,290,139
Total Operating Expenses	<u>20,724,111</u>	<u>20,878,997</u>
INCOME FROM OPERATIONS	<u>31,589,039</u>	<u>12,777,797</u>
NON-OPERATING INCOME		
Interest income	1,094,724	1,486,656
Royalty income	527,126	1,301,606
Gain on sales of property, plant and equipment	273,998	52,376
Technical service income	162,149	55,077
Gain on sale of short-term investment - net	69,610	1,619,062
Insurance compensation - net	-	860,835
Premium income from option contracts - net	-	234,732
Gain on sales of long-term investments - net	-	105,439
Other	291,860	759,793
Total Non-Operating Income	<u>2,419,467</u>	<u>6,475,576</u>
NON-OPERATING EXPENSES		
Interest expense	2,616,740	3,144,042
Investment loss recognized by equity method - net	1,976,847	3,959,020
Permanent loss on long-term investments	795,674	-
Loss on sales of and provision for loss on property, plant and equipment	466,385	235,629
Premium expenses from option contracts - net	419,513	-
Loss on sales of long-term investments - net	170,831	-
Foreign exchange loss - net	120,568	695,620
Casualty loss - net	119,485	-
Amortization of bond issuance costs	18,523	12,504
Other	81,792	420,053
Total Non-Operating Expenses	<u>6,786,358</u>	<u>8,466,868</u>
INCOME BEFORE INCOME TAX	27,222,148	10,786,505
INCOME TAX BENEFIT (EXPENSE)	(5,636,648)	3,740,678
INCOME BEFORE MINORITY INTEREST	21,585,500	14,527,183
MINORITY INTEREST IN LOSS (INCOME) OF SUBSIDIARIES	24,791	(44,009)
CONSOLIDATED NET INCOME	<u>\$21,610,291</u>	<u>\$14,483,174</u>

RECONCILIATIONS OF NET INCOME

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

	2002	2001
NET INCOME UNDER ROC GAAP	\$21,610,291	\$14,483,174
US GAAP Adjustments:		
- Adjustment to market value for trading securities	(1,819,760)	587,401
- US GAAP adjustments on equity-method investees	61,677	(633,955)
- Reversal of depreciation on assets impaired under US GAAP	1,455,476	1,455,476
- Income tax effect of US GAAP adjustments	(1,421)	(126)
- Amortization of goodwill	1,290,733	(10,790,937)
- Amortization of capital stock payment for technology transfer	54,000	54,000
- Adjustment to market value for derivative financial instruments	445,938	(518,377)
- Bonuses to employees, directors and supervisors		
- Current year accrual	(1,597,497)	(1,201,437)
- Fair market value adjustment of prior year accrual	(6,911,423)	(25,208,512)
- Pension expense	8,587	719
- Gain on sales of treasury stock	-	(95,031)
- Amortization of compensation expense	-	(107,500)
- Minority interest effect of US GAAP adjustments	(62,689)	-
	<u>(7,076,379)</u>	<u>(36,458,279)</u>
NET INCOME UNDER US GAAP	14,533,912	(21,975,105)
Cumulative preferred dividends	<u>(455,000)</u>	<u>(455,000)</u>
INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS UNDER US GAAP	<u>\$14,078,912</u>	<u>(\$22,430,105)</u>

12. Financial Forecast and Operation Results from 2001 to 2002 (Note)

Unit: NTSK

Item	Financial Forecast 2001 (Reviewed by CPA)			Financial Statement 2001 (Audited by CPA)		Reasons for Penalty or Charged by TSE, OTC and SFC
	Original	First Revised	Second Revised	Amount	Achievement %	
Net Sales	149,038,964	121,893,177	125,562,194	125,888,003	100.26%	
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%	None
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%	

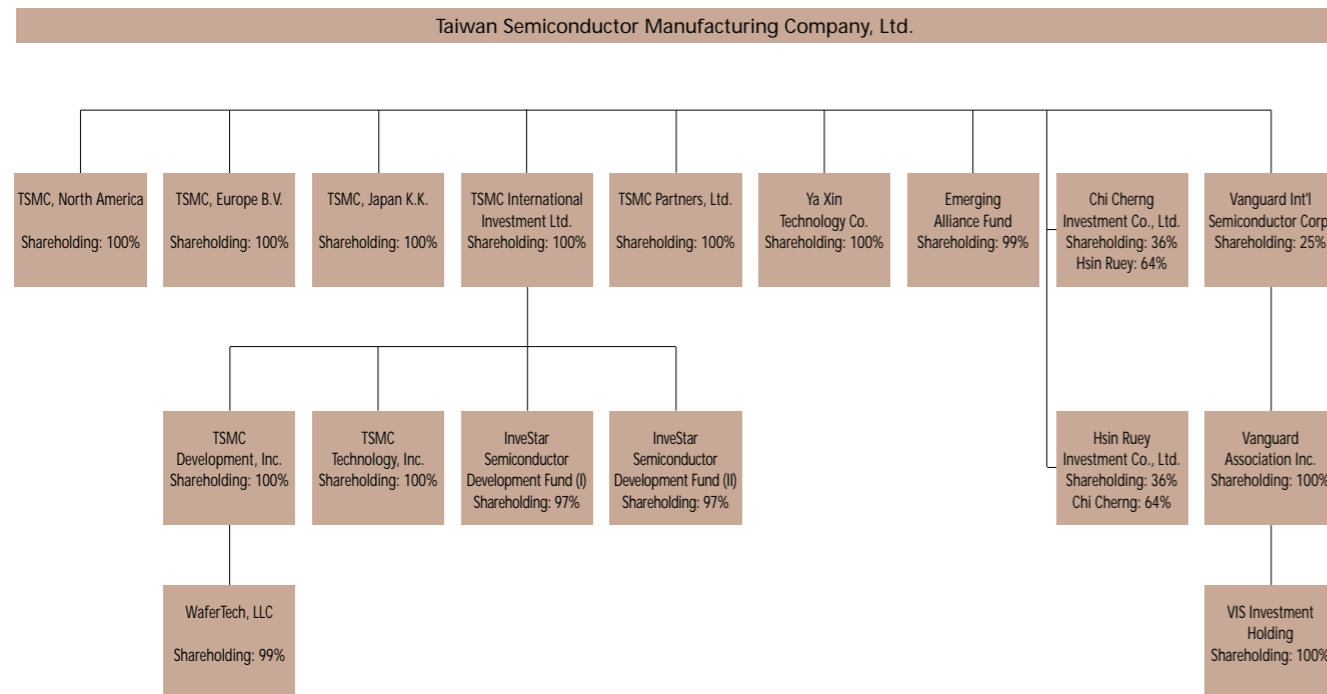
Note: 2002 financial forecast is not required according to regulations.

SPECIAL NOTES

1. Affiliates Information

(1) TSMC Affiliated Companies Chart

Unit: Share, %



(2) TSMC Affiliated Companies

December 31, 2002

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

Company	Date of Incorporation	Place of Registration	Paid-in Capital	Business Activities
TSMC North America	Jan. 18, 1998	San Jose, California, USA	US\$ 11,000	Marketing & Engineering support
Taiwan Semiconductor Manufacturing Company Europe B.V.	Mar. 4, 1994	Amsterdam, The Netherlands	EUR 90.76	Marketing & Engineering support
TSMC Japan K.K.	Sep. 10, 1997	Yokohama, Japan	JPY 300,000	Marketing & Engineering support
TSMC International Investment Ltd.	Apr. 9, 1996	Tortola, British Virgin Islands	US\$ 987,968	Investment
TSMC Partners, Ltd.	Mar. 26, 1998	Tortola, British Virgin Islands	US\$ 300	Investment
TSMC Development, Inc.	Feb. 16, 1996	Delaware, USA	US\$ 942,583	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, Inc.(II) LDC.	Aug. 25, 2000	Cayman Islands	US\$ 52,839	Investment
Emerging Alliance Fund, L.P.	Jan. 10, 2001	Cayman Islands	US\$ 30,075	Investment
WaferTech, LLC	Jun. 3, 1996	Washington, USA	US\$ 889,927	Wafer Manufacturing
Hsin Ruey Investment Co., Ltd.	Jul. 13, 1998	Taipei, Taiwan	NT\$ 840,000	Investment
Chi Cherng Investment Co., Ltd.	Jul. 15, 1998	Taipei, Taiwan	NT\$ 840,000	Investment
Ya Xin Technology Co., Ltd.	Nov. 20, 2002	Taipei, Taiwan	NT\$ 341,250	Electronic Manufacturing
Vanguard International 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\$ 6,250	IC Related Investment

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

\$1 USD = \$34.753NT
 \$1 EU = \$36.34NT
 \$1 JPY = \$0.2925NT

(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, 2002

Unit: NT\$K, except Shareholding

Reasoning	Name (Note1)	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, 2002

Unit : NTS, 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	Kees den otter	-	-
	President	Kees den otter	-	-
			(TSMC holds 200 shares)	(100%)
TSMC Japan K.K.	Chairman	Sachiaki Nagae	-	-
	Director	Morris Chang	-	-
	Director	F.C. Tseng	-	-
	Director	Rick Tsai	-	-
	Director	Hisao Baba	-	-
	Supervisor	Harvey Chang	-	-
	President	Hisao Baba	-	-
			(TSMC holds 6,000 shares)	(100%)
TSMC International Investment Ltd.	Director	Morris Chang	-	-
	President	F.C. Tseng	-	-
			(TSMC holds 987,968,244 shares)	(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 942,583,200,000 shares)	(100%)
TSMC Technology, Inc.	Chairman	Morris Chang	-	-
	President	Morris Chang	-	-
			(TSMC International Investment Ltd. Holds 1,000 shares)	(100%)
InveStar Semiconductor Development Fund, Inc.	Director	Kenneth Tai	375,000 shares	(0.81%)
				(TSMC International Investment Ltd. holds 45,000,000 shares)
InveStar Semiconductor Development Fund, Inc. (II) LDC.	Director	Kenneth Tai	-	-
				(TSMC International Investment Ltd. holds 51,300,000 shares)
Emerging Alliance Fund, L.P.	NIL	NIL	(TSMC's investment US\$ 29,925,000)	(99.50%)
WaferTech, LLC	Director	Morris Chang	-	-
	Director	Rick Tsai	-	-
	Director	Steve Tso	-	-
	President	Steve Tso	-	-
				(TSMC Development, Inc. holds 293,639,833 Preferred Shares)
Hsin Ruey Investment Co., Ltd.	Director	Rick Tsai (Representative of Chi Cherng Huei Investment Co., Ltd.)	(Chi Cherng's investment NT\$ 540,000,080)	(64.29%)
			(TSMC's investment NT\$299,999,880)	(35.71%)
Chi Cherng Investment Co., Ltd.	Director	F.C. Tseng (Representative of Hsin Ruey Investment Co., Ltd.)	(Hsin Ruey's investment NT\$ 540,000,080)	(64.29%)
			(TSMC's investment NT\$299,999,880)	(35.71%)

(Forward)

Unit : NTS, except Shareholding

Company	Title	Name	Shareholding	
			Amount	%
Ya Xin Technology Co., Ltd.	Chairman	F.C. Tseng	-	-
	Director	Ping Yang	-	-
	Director	Jim Lai	-	-
	Supervisor	Lora Ho	-	-
			(TSMC's investment NT\$341,250,000)	(100%)
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 135,460,533 shares)	(6.16%)
	Director	Chiao, Yu-Heng (Representative of Walsin Lihwa Corp.)	(Walsin Lihwa Corp. holds 53,827,741 shares)	(2.45%)
Supervisor	Sheng-Chung Lin (Representative of The Development Fund, Executive Yuan, R.O.C.)	-	-	
Supervisor	Harvey Chang (Representative of TSMC)	-	-	
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 62,500 shares)	(100%)

(6) Operational Highlights for TSMC Affiliated Companies

December 31, 2002

Unit: NT\$K, except EPS(\$)

Company	Paid-in Capital	Assets	Liabilities	Net Worth	Net Sales	Income from Operation	Net Income (net of tax)	EPS (net of tax)	Note
TSMC North America	382,283	11,662,710	10,993,449	669,261	1,341,031	221,589	140,654	12.79	*
TSMC Europe B.V.	3,298	32,124	18,454	13,670	142,373	6,423	(1,615)	N.A.	
TSMC Japan K.K.	87,750	105,725	11,467	94,258	199,821	9,515	3,145	524.20	
TSMC International Investment Ltd.	34,334,860	33,777,434	11,512,277	22,265,157	(4,310,563)	(4,917,956)	(4,714,203)	(5.04)	
TSMC Partners, Ltd.	10,426	13,580,421	9,639,926	3,940,495	-	(79)	924,362	3,081.21	
TSMC Development, Inc.	32,757,594	12,208,328	6,965,411	5,242,917	-	(21,810)	(9,078,729)	N/A	*
TSMC Technology, Inc.	0.035	809,318	1,076,191	(266,872)	550,655	40,354	21,528	N/A	*
InveStar Semiconductor Development Fund, Inc.	1,610,802	1,601,596	762	1,600,835	109,535	(563,921)	(511,495)	(11.04)	
InveStar Semiconductor Development Fund, Inc. (II) LDC.	1,836,314	1,545,813	180	1,545,633	12,122	(311,070)	(315,153)	(5.96)	
Emerging Alliance Fund, LP	1,045,210	767,239	-	767,239	7,978	(27,197)	(142,865)	N/A	
WaferTech, LLC	30,927,641	22,812,680	11,899,859	10,912,822	9,807,065	(607,096)	(837,532)	N/A	*
Hsin Ruey Investment Co., Ltd.	840,000	1,407,320	7,151	1,400,169	9,832	9,520	12,533	0.26	
Chi Cherng Investment Co., Ltd.	840,000	1,416,358	13,034	1,403,324	8,102	7,789	13,821	0.29	
Ya Xin Technology Co., Ltd.	341,250	341,250	-	341,250	-	-	-	0.00	
Vanguard International Semiconductor Corp.	22,000,000	26,419,326	14,435,497	1,193,829	8,307,710	(4,214,677)	(3,250,831)	(1.48)	
VIS Associates, Inc.	1,427,306	1,196,359	2,468	1,193,891	21,279	(337)	318,605	7.76	
VIS Investment Holding, Inc.	217,206	16,272	2,468	13,804	21,279	313	227	3.63	*

* Based on US GAAP

2. Combined Financial Statements & Independent Accountants' Report

Representation Letter

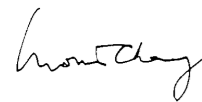
The combined balance sheet as of December 31, 2002 and the combined statement of income for the year ended December 31, 2002 of Taiwan Semiconductor Manufacturing Co., Ltd. and Vanguard International Semiconductor Corporation are in conformity with the requirements on public companies and their affiliates, 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 Semiconductor 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 Accountants' Report

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

We have reviewed the combined balance sheet as of December 31, 2002 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 (ROC), and the ROC regulation governing the preparation of financial statements of public company and the ROC generally accepted accounting principles.

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



T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
Effective April 22, 2002
(Formerly a Member Firm of Andersen Worldwide, SC)
Taipei, Taiwan
The Republic of China
January 16, 2003

Notice to Readers

The accompanying 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, 2002

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	Amount	%
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 and 5)	\$73,165,758	18
Short-term investments (Notes 2 and 6)	170,012	-
Receivables from related parties (Note 21)	381,812	-
Notes receivable	60,664	-
Accounts receivable (Note 24)	20,131,799	5
Allowance for doubtful receivables (Note 2)	(1,016,923)	-
Allowance for sales returns and others (Note 2)	(2,456,986)	(1)
Inventories - net (Notes 2 and 7)	12,970,416	3
Deferred income tax assets (Notes 2 and 17)	3,412,940	1
Prepaid expenses and other current assets (Notes 21 and 24)	3,470,885	1
Total Current Assets	110,290,377	27
LONG-TERM INVESTMENTS (Notes 2, 3, 8 and 19)	11,349,920	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 13)		
Cost		
Land and land improvements	874,907	-
Buildings	84,376,642	21
Machinery and equipment	377,256,106	91
Office and other equipment	7,744,848	2
Total cost	470,252,503	114
Accumulated depreciation	(242,369,570)	(59)
Advance payments and construction in progress	29,157,931	7
Net Property, Plant and Equipment	257,040,864	62
GOODWILL (Note 2)	10,158,845	2
OTHER ASSETS		
Deferred income taxes assets (Notes 2 and 17)	13,153,131	3
Deferred charges - net (Notes 2 and 10)	9,921,646	3
Refundable deposits	45,245	-
Idle assets - net (Note 2)	386,317	-
Assets leased to others (Note 2)	87,246	-
Miscellaneous	34,709	-
Total Other Assets	23,628,294	6
TOTAL ASSETS	\$412,468,300	100

LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%
CURRENT LIABILITIES		
Short-term bank loans (Note 11)	\$1,283,000	-
Commercial paper (Note 12)	1,080,000	-
Payable to related parties (Note 21)	1,167,437	-
Accounts payable (Note 24)	5,786,264	1
Payable to contractors and equipment suppliers	14,414,639	4
Accrued expenses and other current liabilities (Note 24)	7,205,454	2
Current portion of long-term debt (Notes 9, 13, 14 and 15)	15,572,189	4
Total Current Liabilities	46,508,983	11
LONG-TERM LIABILITIES		
Long-term bonds payables (Note 14)	36,100,000	9
Long-term bank loans (Note 13)	16,384,413	4
Other long-term payables (Note 15)	4,281,665	1
Obligation under capital lease (Notes 2 and 9)	290,416	-
Total Long-term Liabilities	57,056,494	14
OTHER LIABILITIES		
Accrued pension cost (Notes 2 and 16)	2,550,918	1
Guarantee deposits (Note 23)	1,399,846	-
Deferred gain on sale and leaseback (Note 2)	114,928	-
Other	177,256	-
Total Other Liabilities	4,242,948	1
MINORITY INTEREST IN AFFILIATES (Note 2)	8,806,668	2
Total Liabilities	116,615,093	28
SHAREHOLDERS' EQUITY (Notes 2 and 18)		
Capital stock - \$10 par value		
Authorized: 24,600,000 thousand shares		
Issued: Preferred - 1,300,000 thousand shares	13,000,000	3
Common - 18,622,887 thousand shares	186,228,867	45
Capital surplus		
Merger and others (Note 2)	56,961,753	14
Treasury stock (Notes 3 and 19)	43,036	-
Retained earnings:		
Appropriated as legal reserve	18,641,108	5
Unappropriated earnings	22,151,089	5
Unrealized loss on long-term investments (Note 2)	(194,283)	-
Cumulative translation adjustments (Note 2)	945,129	-
Treasury stock (at cost) - 42,001 thousand shares (Notes 2, 3 and 19)	(1,923,492)	-
Total Shareholders' Equity	295,853,207	72
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$412,468,300	100

The accompanying notes are an integral part of the combined financial statements.
(With T N Soong & Co. review report dated January 16, 2003)

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, 2002

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

	Amount	%
GROSS SALES (Notes 2, 21 and 25)	\$171,038,907	
SALES RETURNS AND ALLOWANCES (Note 2)	<u>(4,236,258)</u>	
NET SALES	166,802,649	100
COST OF SALES (Note 21)	<u>118,054,595</u>	71
GROSS PROFIT	<u>48,748,054</u>	29
OPERATING EXPENSES (Notes 21 and 25)		
Research and development	11,890,880	7
General and administrative	7,237,899	5
Marketing	<u>2,225,936</u>	1
Total Operating Expenses	<u>21,354,715</u>	13
INCOME FROM OPERATIONS	<u>27,393,339</u>	16
NON-OPERATING INCOME (Notes 21 and 25)		
Interest	1,146,375	1
Gain on reversal of inventory reserve (Note 2)	793,424	1
Royalty income (Note 23)	527,126	-
Gain on sales of property, plant and equipment (Note 2)	278,896	-
Technical service income (Notes 21 and 23)	162,149	-
Gain on sales of short-term investments - net (Note 2)	99,215	-
Other	<u>295,835</u>	-
Total Non-operating Income	<u>3,303,020</u>	2
NON-OPERATING EXPENSES (Note 25)		
Interest (Notes 2, 9 and 24)	3,095,841	2
Permanent loss on long-term investments (Note 2)	907,596	1
Investment loss recognized by equity method - net (Notes 2 and 8)	836,221	1
Loss on sales of and provision for loss on property, plant and equipment (Note 2)	531,626	-
Premium expense from option contracts - net (Notes 2 and 24)	419,513	-

(Forward)

	Amount	%
Casualty loss - net (Note 2)	\$119,485	-
Foreign exchange loss - net (Notes 2 and 24)	106,045	-
Loss on sales of long-term investments - net (Note 2)	80,405	-
Amortization of issuance costs of bonds (Note 2)	18,523	-
Other	<u>81,792</u>	-
Total Non-operating Expenses	<u>6,197,047</u>	4
INCOME BEFORE INCOME TAX (Note 25)	24,499,312	14
INCOME TAX EXPENSE (Notes 2 and 17)	<u>(5,342,872)</u>	(3)
INCOME BEFORE MINORITY INTEREST	19,156,440	11
MINORITY INTEREST IN LOSS OF AFFILIATES (Notes 2 and 25)	<u>2,453,851</u>	2
COMBINED NET INCOME	<u>\$21,610,291</u>	13
	Income Before Income Tax	Combined Net Income
EARNINGS PER SHARE (Note 20)		
Basic earnings per share	<u>\$1.29</u>	<u>\$1.14</u>
Diluted earnings per share	<u>\$1.29</u>	<u>\$1.14</u>

The accompanying notes are an integral part of the combined financial statements.
(With T N Soong & Co. review report dated January 16, 2003)

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 Republic of China corporation, was incorporated as a venture among the government of the Republic of China, acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. In September 1994, its shares were listed on the Taiwan Stock Exchange (TSE). In October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange in the form of American Depositary Shares. The shares of Vanguard International Semiconductor Corporation (VIS), TSMC's 25% owned affiliate, have been listed on the Republic of China (ROC) Over-the-Counter Securities Exchange since March 25, 1998.

TSMC is engaged mainly in the manufacturing, selling, packaging, testing and designing of integrated circuits and other semiconductor devices, and the manufacturing of masks. VIS is engaged mainly in the researching, designing, developing, manufacturing, packaging, testing and selling of memory integrated circuits, large scale integrated ICs, extra large scale integrated ICs and related parts.

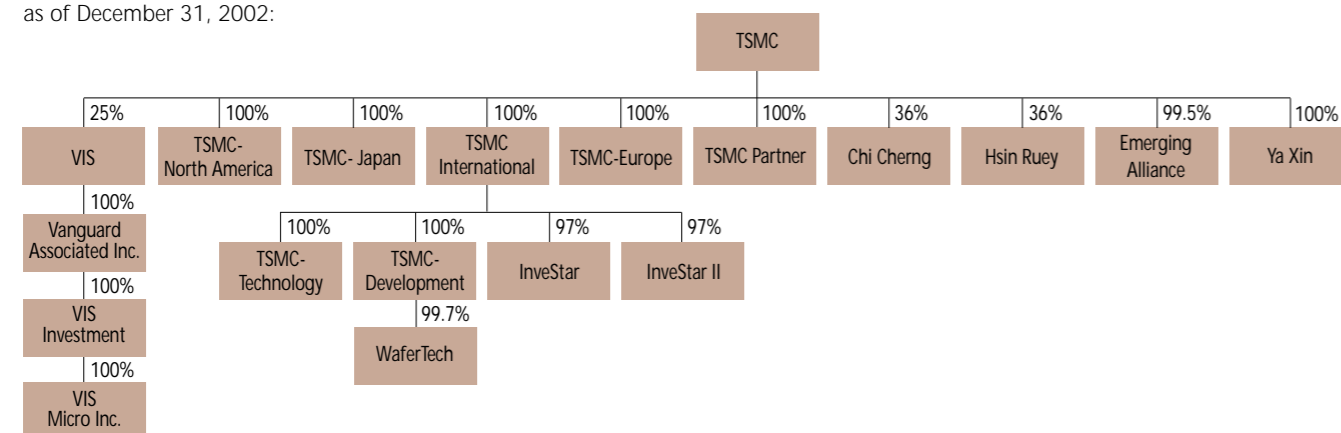
Notice to Readers

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

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

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

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



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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Combination

All significant intercompany balances and transactions have been eliminated in these combined financial statements. The combined financial statements include, as of and for the year ended December 31, 2002, the accounts of all majority (directly and indirectly) owned subsidiaries of TSMC and VIS (TSMC's 25% owned affiliate), whom TSMC exercises significant influence on. TSMC and the foregoing subsidiaries and affiliates are hereinafter referred to collectively as the "Company".

The respective total assets and revenues of VIS Associates, Inc. and its subsidiaries, which are subsidiaries of VIS, are less than 10% of those of VIS; therefore, the accounts of these entities are not included in VIS' combined financial statements.

Minority interests in the aforementioned affiliates are presented separately in the combined financial statements.

Cash and cash equivalents

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

Short-term investments

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

Allowance for doubtful receivables

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

Sales and sales returns and allowances

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

Inventories

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

Long-term investments

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

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

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

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

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

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

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

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

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

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

Depreciation is computed using the straight-line method over these estimated service lives, which range as follows: Land improvements - 20 years, buildings - 5 to 20 years; machinery and equipment - 5 years; and office and other equipment - 2 to 7 years.

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

Goodwill

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

Deferred charges

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

Pension costs

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

Deferred gain on sales and leaseback

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

Casualty loss

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

Income tax

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

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

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

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

Derivative financial instruments

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

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

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

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

Foreign-currency transactions

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

Translation of foreign-currency financial statements

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

3. NEW ACCOUNTING PRONOUNCEMENTS

In accordance with the Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock" and other relevant regulations from Securities and Futures Commission (SFC), the Company is required to reclassify its common stock held by subsidiaries from short/long-term investments to treasury stock. The reclassification is based on the carrying value of NT\$2,115,695 thousand as

Company	Account	Amount	Transaction Entity
TSMC	Payable to related parties	\$653,876	VIS
		617,751	WaferTech
		29,520	TSMC-Europe
		19,643	TSMC-Japan
		14,511	TSMC-North America
		9,424	TSMC Technology
		9,739,236	TSMC-North America
	Receivable from related parties	58,301	VIS
		4,545	TSMC Technology
	Refundable deposits	514,846	VIS
	Sales	94,433,401	TSMC-North America
		92,119	VIS
	Purchases	1,152	WaferTech
		9,955,154	WaferTech
		3,469,198	VIS
	Marketing expenses - commissions	208,226	TSMC-Japan
		132,086	TSMC-Europe
Other revenue	1,635	WaferTech	
TSMC International	Notes receivable	347,530	TSMC Technology
	Interest receivable	188,842	TSMC Technology
	Royalty income	455,778	TSMC Technology
	(Forward) Interest revenue	26,660	TSMC Technology

Company	Account	Amount	Transaction Entity
TSMC Partners	Notes receivable	10,666,619	TSMC International
	Deferred revenue	9,398,140	TSMC International
	Royalty income	607,669	TSMC International
	Interest income	345,620	TSMC International
TSMC Technology	Accounts receivable	4,986	WaferTech
	Deferred revenue	13,356	TSMC Development
	Management service income	27,331	WaferTech
	Technical service income	14,758	TSMC Development
WaferTech	Deferred charges	31,278	TSMC Technology
	Administrative expense	34,563	TSMC Technology

5. CASH AND CASH EQUIVALENTS	2002
Cash and bank deposits	\$70,109,524
Government bonds acquired under repurchase agreements	3,056,234
	<u>\$73,165,758</u>

6. SHORT TERM INVESTMENTS	2002
Listed stocks	<u>\$170,012</u>
Market value	<u>\$2,455,582</u>

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

7. INVENTORIES-NET	2002
Finished goods	\$4,752,138
Work in process	10,299,342
Raw materials	557,279
Supplies and spare parts	1,239,407
	<u>16,848,166</u>
Less-allowance for losses	<u>(3,877,750)</u>
	<u>\$12,970,416</u>

8. LONG-TERM INVESTMENTS	2002	
	Carrying Value	% of Owner Ship
<u>Shares of stock</u>		
Equity method:		
Non-publicly traded stock		
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	\$3,136,115	32
VIS Associates Inc.	1,217,065	100
	<u>4,353,180</u>	
Cost method:		
Common stock		
Publicly traded stock		
Monolithic System Tech.	104,289	2
Amkor Technology	280,748	-
Taiwan Mask	32,129	2
PowerChip Semiconductor, Inc.	2,513,378	7
Etron Technology Inc.	216,852	2
Non-publicly traded stock		
Walsin Advanced Electronics	302,559	8
United Technology	232,300	13
Global Testing Corp. (GTC)	179,882	10
Megic	177,000	9
Shin-Etsu Handotai Taiwan Co. Ltd.	105,000	7
Global Investment Holding	100,000	6
Hong Tung Venture Capital	83,916	10
EoNEX Technologies, Inc.	70,305	6
Procoat Technology, Inc.	67,490	12
Conwise Technology Corp. Ltd.	67,039	14
FormFactor, Inc.	64,360	1
Goyatek Technology, Inc.	62,104	8
Programmable Microelectronics (Taiwan) Corp.	59,358	4
W.K. Technology, Fund IV	50,000	2
RichTek Technology Corp.	46,986	9
APE	46,743	6
Auden Technology MFG. Co., Ltd.	38,819	4
Yi Yang Technology	33,606	9
TrendChip Technologies Corp.	29,992	5
ChipStrate Technology, Inc.	10,426	9
GeoVision, Inc.	4,518	2
Divio, Inc.	104	-
	<u>4,979,903</u>	
Preferred stock		
Non-publicly traded stock		
Sonics, Inc.	229,787	10
Tropian, Inc.	150,620	5
Reflectivity, Inc.	146,262	15
Monolithic Power Systems, Inc.	137,135	16
Atheros Communications, Inc.	124,868	3

(Forward)

	2002	
	Carrying Value	% of Owner Ship
Memsic, Inc.	\$106,344	23
Pixim, Inc.	87,845	3
Quicksilver Technology	82,153	4
FormFactor, Inc.	69,506	1
Kilopass Technologies, Inc.	69,506	18
NetLogic Microsystems	65,005	1
NanoAmp Solutions, Inc.	64,397	4
Newport Opticom, Inc.	63,288	15
Integrated Memory Logic, Inc.	62,868	12
Match Lab, Inc.	60,818	11
IP Unity	56,856	2
Ikanos Communication	52,707	2
Ralink Technologies, Inc.	52,130	6
SiRF Technology Holdings, Inc.	50,878	1
LightSpeed Semiconductor Corp.	46,534	3
Advanced Analogic Technology, Inc.	43,824	2
OEpic, Inc.	43,094	7
Accelerant Networks	35,138	1
Litchfield Communications	35,138	6
Quake Technologies, Inc.	35,138	1
Spreadtrum	35,138	-
HiNT Corp.	34,753	5
Silicon Data, Inc.	34,753	7
XHP Microsystem	26,353	6
Angstrom Systems, Inc.	26,065	7
Equator Technologies, Inc.	24,675	2
Capella Microsystems, Inc.	23,667	12
Sensory, Inc.	21,720	5
Iridigm Display	17,639	2
Mosaic Systems	17,569	6
Zenesis Technologies	17,569	4
Divio, Inc.	17,377	4
Incentia Design Systems, Inc.	17,377	2
Oridus, Inc. (CreOsys, Inc.)	15,639	8
Signia Technologies, Inc.	15,639	12
LeadTONE Wireless, Inc.	8,270	6
eBest!, Inc.	3,370	1
	<u>2,329,412</u>	

Convertible note

eBest!, Inc.	834	-
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(Forward)

	2002	
	Carrying Value	% of Owner Ship
Funds		
Horizon Ventures	\$195,452	-
Crimson Asia Capital	41,988	-
	<u>237,440</u>	
Less - allowance for losses	(550,849)	
	<u>\$11,349,920</u>	

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

	2002
SSMC	(\$1,155,076)
VIS Associates Inc.	<u>318,855</u>
	<u>(\$836,221)</u>

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

	2002
Market value of publicly traded stocks	\$2,667,944
Equity in the net assets of non-publicly traded stocks	8,644,956
Net asset value of funds	<u>237,440</u>

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

9. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consists of the following:

	2002
Land improvements	\$127,341
Buildings	28,383,157
Machinery and equipment	209,774,513
Office and other equipment	<u>4,084,559</u>
	<u>\$242,369,570</u>

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

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

Interest expense (before deducting capitalized amount of NT\$ 3,332,138 thousand) for the year ended December 31, 2002 was NT\$ 236,297 thousand. The interest rates used for purposes of calculating the capitalized amount were 2.07% to 6.59%.

VIS has entered into agreements to lease certain equipment that qualify as capital leases and will expire in September 2005. Information on capital leases is summarized as follows:

	2002
Total amount of equipment under capital lease	<u>\$530,674</u>
Present value of obligation under capital lease	\$445,800
Current portion	<u>(155,384)</u>
Long-term portion	<u>\$290,416</u>

10. DEFERRED CHARGES - NET

	2002
Technology license fees	\$6,519,334
Software and system design costs	3,212,086
Bond issuance costs and financing costs	130,296
Technology know-how	49,500
Others	<u>10,430</u>
	<u>\$9,921,646</u>

11. SHORT-TERM BANK LOANS

	2002
Unsecured loan in US dollars:	
US\$21,000 thousand, refinanced in May 2002, annual interest at 1.82%, repayable by May 2003	\$729,813
Loans for importation of materials:	
US\$7,285 thousand, repayable by January 2003, annual interest 1.83% - 2.14%	253,187
Working capital loans:	
Repayable by April 2003, annual interest at 2.55% - 2.60%	<u>300,000</u>
	<u>\$1,283,000</u>

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

Unused credit lines as of December 31, 2002 aggregated approximately NT\$14,070,000 thousand and US\$366,500 thousand.

12. COMMERCIAL PAPER

The instruments, which bear annual interest rates ranging from 1.95% to 2.10%, are secured by bank guaranty and are repayable from January 2003 to May 2003.

13. LONG-TERM BANK LOANS 2002

Secured loan:	
US\$440,000 thousand, repayable by February 2005, US\$122,000 thousand repaid in 2002, annual floating interest at 2.078%	\$11,051,454
Unsecured loan:	
US\$200,000 thousand, repayable by December 2003, annual interest at 2.0375%	6,950,600
Loans for purchases of equipment and facility:	
Repayable in semi-annual installments from November 1999 to June 2004, annual floating interest at 3.00% to 4.00%	2,340,000
Repayable in semi-annual installments from October 2000 to October 2005, annual floating interest at 2.89% to 3.95%	2,200,000
Repayable in semi-annual installments from October 2004 to October 2007, annual interest at 4.03% to 4.25%	400,000
Repayable in quarterly installments from January 2003 to July 2007, annual interest at 5.07% to 6.48%	330,000
Repayable in semi-annual installments from February 2000 to February 2005, annual interest at 5.32% to 6.48%	184,000
Repayable in semi-annual installments from July 1999 to July 2004, annual interest at 5.32% to 6.35%	148,000
Repayable in semi-annual installments from December 2003 to December 2007, annual interest at 3.75%	111,000
Repayable in semi-annual installments from December 2003 to December 2007, annual interest at 2.02%	88,865
Repayable in semi-annual installments from February 1998 to February 2003, annual interest at 5.32% to 6.48%	40,000
Commercial paper guaranteed by financial institutions:	
Repayable from May 2002 to May 2005, annual interest at 2.22% to 2.57%	1,750,000
Repayable in May 2004, annual interest at 1.60% to 2.41%	300,000
	<u>\$25,893,919</u>

As of December 31, 2002, all of the US dollar loans above were guaranteed by TSMC. In addition, the property and equipment of WaferTech with carrying amount of approximately NT\$29,053,508 thousand (US\$836,000 thousand) is pledged for the secured loan. Under the unsecured loan, TSMC is required to maintain certain financial covenants which, if violated, could result in payment of this obligation becoming due prior to the originally scheduled maturity date. These financial covenants require TSMC to, among other things, maintain minimum levels of working capital, earnings before interest, taxes, depreciation and amortization, and net worth. TSMC was in compliance with these financial covenants as of December 31, 2002. Properties of VIS with carrying value of NT\$8,218,845 thousand have been pledged as collateral for the loans for purchases of equipment and facility and commercial paper.

The bonds (Note 14) and loan agreements of VIS require, among other things, the maintenance of certain financial ratios, including current ratio, debt ratio and net worth ratio. Among those specific ratios, VIS has failed to meet the net worth requirement as of December 31, 2002. The covenant violation can only be cured by raising additional capital or by approval by the banks. On January 8, 2003 VIS issued shares of capital stock for proceeds of NT\$4,200,000 thousand to cure the covenant violation (Note 18).

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

Year	Amount
2003	\$9,509,506
2004	1,156,000
2005	14,393,454
2006	-
2007 and thereafter	834,959
	<u>\$25,893,919</u>

Unused credit lines for long-term bank loans as of December 31, 2002 aggregated approximately NT\$200,135 thousand and US\$122,000 thousand.

14. BONDS 2002

Domestic unsecured bonds	
Issued on March 4, 1998 and payable on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually	\$4,000,000
Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively	5,000,000
Issued from December 4 to 15, 2000 and payable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% annual interest payable annually, respectively	15,000,000
Issued from January 10 to 24, 2002 and payable in January 2007, 2009 and 2012 in three equal payments, 2.6%, 2.75% and 3% annual interest payable annually, respectively	15,000,000
Domestic secured bonds	
Payable on November 15, 2005 and 2006 in two equal payments, 3.5% to 3.6% annual interest payable annually, guaranteed by financial institution	1,100,000
Payable from November 6, 2000 to 2003 in four equal payments, 6.59% annual interest payable annually, guaranteed by financial institution	750,000
	<u>\$40,850,000</u>

As of December 31, 2002, future principal payments under the above bond arrangements are as follows:

Year of Repayment	Amount
2003	\$4,750,000
2004	5,000,000
2005	11,050,000
2006	550,000
2007	7,000,000
2008 and thereafter	12,500,000
	<u>\$40,850,000</u>

15. OTHER LONG-TERM PAYABLES

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

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

16. PENSION PLAN

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

TSMC and VIS contribute an amount equal to 2% of salaries paid every month to Pension Funds (the "Funds"). The Funds are administered by pension fund monitoring committees (the "Committees") and are deposited in the Committees' names in the Central Trust of China. The pension cost of VIS is accrued at an amount equal to 6% of salaries.

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

	2002
a. Components of pension cost	
Service cost	\$498,112
Interest cost	134,535
Projected return on plan assets	(51,596)
Amortization	<u>(3,758)</u>
Net pension cost	<u>\$577,293</u>
b. Reconciliation of the fund status of the plan and accrued pension cost	
Benefit obligation	
Vested benefit obligation	\$21,294
Nonvested benefit obligation	1,768,532
Accumulated benefit obligation	1,789,826
Additional benefits based on future salaries	1,433,022
Projected benefit obligation	3,222,848
Fair value of plan assets	<u>(1,154,754)</u>
Funded status	2,068,094
Unrecognized net transitional obligation	(142,562)
Unrecognized net gain	<u>625,386</u>
Accrued pension cost	<u>\$2,550,918</u>
c. Actuarial assumptions	
Discount rate used in determining present values	3.75%
Future salary increase rate	3.00%
Expected rate of return on plan assets	3.75%
d. Contributions to pension fund	<u>\$181,980</u>
e. Payments from pension fund	<u>\$5,360</u>

17. INCOME TAX BENEFIT (EXPENSE)

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

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

b. Income tax expense consists of:

	2002
Current income tax expense before income tax credits	(\$4,874,342)
Additional 10% tax on the unappropriated earnings	(179,362)
Income tax credits	4,867,236
Other income tax	<u>(29,160)</u>
Income tax expense	(215,628)
Net change in deferred income tax assets	
Investment tax credits	2,041,014
Loss carryforward	2,588,736
Temporary differences	(6,035,076)
Valuation allowance	<u>(3,721,918)</u>
Income tax expense	<u>(\$5,342,872)</u>

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

	2002
Current	
Investment tax credits	\$3,807,330
Loss carryforward	1,423,729
Temporary differences	655,371
Valuation allowance	<u>(2,473,490)</u>
	<u>\$3,412,940</u>
Noncurrent	
Investment tax credits	\$23,916,915
Loss carryforward	10,667,199
Temporary differences	(7,871,504)
Valuation allowance	<u>(13,559,479)</u>
	<u>\$13,153,131</u>

The effective tax rate used in determining the deferred tax asset of TSMC and its affiliates as of December 31, 2002 were 25% to 41%.

d. Integrated income tax information:

	2002
Balance of the imputation credit accounts	
TSMC	\$6,650
VIS	\$7,396

TSMC's and VIS's expected and actual creditable ratios for 2002 were 0.03% and nil, respectively.

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

e. As of December 31, 2002, the unappropriated retained earnings generated up to December 31, 1997, was NT\$0.

f. As of December 31, 2002, TSMC's and VIS's investment tax credits consisted of the following:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expire Year
Statute for Upgrading Industries	Loss carryforward	\$257,591	\$-	2002
		1,423,729	1,423,729	2003
		595,086	595,086	2004
		1,142,696	1,142,696	2006
		1,077,079	1,077,079	2007
		\$4,496,181	\$4,238,590	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$4,691,585	\$-	2002
		5,017,733	5,017,733	2003
		8,532,858	8,532,858	2004
		3,210,161	3,210,161	2005
		5,410,244	2,849,715	2006
		\$26,862,581	\$19,610,467	
Statute for Upgrading Industries	Research and development expenditures	\$737,991	\$-	2002
		866,375	866,375	2003
		1,996,224	1,996,224	2004
		3,198,606	3,198,606	2005
		1,540,000	1,540,000	2006
		\$8,339,196	\$7,601,205	
Statute for Upgrading Industries	Personnel training	\$10,161	\$-	2002
		18,033	18,033	2003
		45,552	45,552	2004
		30,880	30,880	2005
		\$104,626	\$94,465	
Statute for Upgrading Industries	Reputation setting	\$10,457	\$-	2002
		803	803	2003
(Forward)		\$11,260	\$803	

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expire Year
Statute for Upgrading Industries	Investments in important technology based enterprise	\$42,580	\$-	2002
		45,122	45,122	2003
		201,372	201,372	2004
		168,864	168,864	2005
		1,947	1,947	2006
		\$459,885	\$417,305	

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

	Tax-Exemption Period
TSMC:	
Expansion of Fab1 and Fab2-modules A and B, Fab3 and Fab4, and construction of Fab5	
Construction of Fab 6	1999 to 2002
VIS:	2001 to 2004
First expansion of manufacturing plant	2000 to 2003

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

The tax authorities have examined income tax returns of VIS through 1999.

18. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Preferred shareholders

- Are entitled to receive cumulative cash dividends at an annual rate of 3.5%.
- Are not entitled to receive any common stock dividends (whether declared out of unappropriated earnings or capital surplus).
- Have priority over the holders of common shares to the assets of the Company available for distribution to shareholders upon liquidation or dissolution, however, the preemptive rights to the assets shall not exceed the issue value of the shares.
- Have voting rights similar to that of the holders of common shares.
- Have no right to convert their shares into common shares. The preferred shares are to be redeemed within thirty months from their issuance. The preferred shareholders have the aforementioned rights and the Company's related obligations remain the same until the preferred shares are redeemed by the Company.

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

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

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

In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan (the "Plan II") under which officers, key employees and non-employee directors may be granted option rights. Plan II provides 15,150 thousand option rights. While WaferTech may grant employees option rights that are exercisable at different times or within different periods, it has generally granted option rights which are exercisable on a cumulative basis in annual installments of 25% each on the first, second, third, and fourth anniversaries of the date of grant.

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

	Option Rights Available For Grant	Outstanding Option Rights	
		Number of Option Rights	Exercise Price(US\$)
Balance, January 1, 2002			
Options granted	4,608	3,062	1.43
Options exercised	-	(1,260)	1.22
Options cancelled	216	(216)	1.93
Balance, December 31, 2002	<u>4,284</u>	<u>1,586</u>	

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

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

On February 20, 2001 and June 21, 2002, the SFC approved VIS's Employee Stock Option Plan ("2001 Plan" and "2002 Plan"). The 2001 Plan and 2002 Plan provide qualified employees with 16,000 thousand and 70,000 thousand units of option rights; with each unit representing ten and one common shares of stock, respectively. The option rights are valid for 10 years and exercisable at certain percentages subsequent to the second anniversary of issuance. There were 78,239 thousand units of option rights granted as of December 31, 2002.

On January 8, 2003, VIS issued 600,000 thousand shares at a discounted price of NT\$7 per share. As a result of the new capital stock issuance, the aggregate outstanding capital stock increased to 28,000,000 thousand shares with par value of NT\$10 per share.

19. TREASURY STOCK (COMMON STOCK)

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

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

20. EARNINGS PER SHARE

Earnings per share (EPS) is computed as follows:

	Amounts (Numerator)		Share (Denominator) (Thousand)	EPS (Dollars)	
	Income Before Income Tax	Combined Net Income		Income Before Income Tax	Combined Net Income
<u>December 31, 2002</u>					
Income	\$24,499,313	\$21,610,291			
Less - preferred stock dividends	(455,000)	(455,000)			
Basic earnings per share Income available to common shareholders	<u>\$24,044,313</u>	<u>\$21,155,291</u>	<u>18,580,700</u>	<u>\$1.29</u>	<u>\$1.14</u>
Diluted earnings per share Income available to common shareholders	<u>\$24,044,313</u>	<u>\$21,155,291</u>	<u>18,580,700</u>	<u>\$1.29</u>	<u>\$1.14</u>

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

21. RELATED PARTY TRANSACTIONS

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

- Industrial Technology Research Institute (ITRI), the Chairman of TSMC and VIS is one of its directors
- Philips Electronics N.V., (Philips), a major shareholder of TSMC
- SSMC, an investee of TSMC
- VIS Micro, an investee of VIS's subsidiary (VIS Associates Inc.)
- Powerchip Semiconductor Corporation (PSC), VIS is one of its directors
- Walsin Advanced Electronics (WAE), VIS is one of its directors
- Megic Corporation (MC), an investee of VIS

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

	2002	
	Amount	%
<u>For the year ended</u>		
Sales		
Philips and its affiliates	\$2,909,008	2
ITRI	94,409	-
SSMC	7,018	-
	<u>\$3,010,435</u>	<u>2</u>
Purchase		
SSMC	<u>\$2,751,297</u>	<u>2</u>
Operating expense - rental		
ITRI	<u>\$40,535</u>	<u>-</u>
Manufacturing expenses		
Philips - technical service fee	\$2,849,517	3
WAE	181,258	-
ITRI	872	-
PSC	760	-
	<u>\$3,032,407</u>	<u>3</u>
Marketing expenses		
VIS Micro	\$21,010	1
ITRI	130	-
	<u>\$21,140</u>	<u>1</u>
Non-operating income		
SSMC (technical service income mainly)	\$126,061	4
PSC	3,682	-
WAE	340	-
MC	46	-
	<u>\$130,129</u>	<u>4</u>
<u>At December 31</u>		
Receivables		
Philips and its affiliates	\$352,706	93
ITRI	22,974	6
SSMC	5,678	1
MC	439	-

(Forward)

	2002	
	Amount	%
PSC	\$15	-
	<u>\$381,812</u>	<u>100</u>
Payables	\$730,847	63
Philips and its affiliates	391,426	33
SSMC	43,111	4
WAE	1,242	-
VIS Micro	711	-
ITRI	100	-
PSC	<u>\$1,167,437</u>	<u>100</u>

Transactions with related parties are based on normal selling prices, collection and payment terms except for sales of property, plant and equipment and the technical service fee, which are in accordance with related contracts. In addition, VIS Micro performs certain research and development and marketing activities for VIS and is reimbursed by VIS on the actual expenses incurred plus a 5% mark-up.

22. SIGNIFICANT LONG-TERM OPERATING LEASES

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

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

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

VIS also leases machinery and equipment from GE Capital Taiwan Ltd. under operating lease agreements which will expire in December 2003. Annual rent payments aggregate to NT\$12,710 thousand (US\$366 thousand).

Future remaining lease payments are as follows:

Year	Amount
2003	\$377,379
2004	367,698
2005	363,633
2006	363,591
2007	360,669
2008 and thereafter	<u>2,197,341</u>
	<u>\$4,030,311</u>

23. COMMITMENTS AND CONTINGENCIES

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

- Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 8, 2007 and thereafter be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts TSMC pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- 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.
- 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.
- Under several foundry agreements, TSMC shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$39,810 thousand had been received as of December 31, 2002.
- Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, and allow TSMC to invest in 32% of SSMC's capital. TSMC and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- Beginning in 2001, TSMC entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. TSMC has recorded the related amounts as a liability and a deferred charge to be amortized to cost of sales on a straight-line basis over the shorter of the estimated useful life of the technology or the term of the contract.
- Under a Technology Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, TSMC shall receive payments for license of certain technology to National. The agreement will remain in force for ten years. After the initial expiration date, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions. In January 2003, the agreement was amended such that National will discontinue making payments under the original terms and TSMC will discontinue transferring any additional technology. TSMC granted National the option to request additional technology transfers under the same terms and conditions of the original agreement through January 2008.
- VIS shall pay royalties under various patent and license agreements as follows:
 - ITRI - at a specific percentage of sales of certain products for five years starting from the commercial sale of certain products.
 - Texas Instruments Incorporated - at a specific percentage of net sales of certain products for ten years from January 1997.
 - NEC Corporation - at a specific amount in six installments from February 1999 to 2003.
 - MITSUBISHI Corporation - at a specific amount plus a specific percentage of net sales of certain products within five years from August 1999.
- In December 2000, TSMC-North America and WaferTech initiated stock appreciation right programs whereby the employees receive cash bonuses based on the appreciation of the quoted market price of the shares of stock of TSMC. This expense is recognized ratably over the vesting period and adjusted based on period fluctuations in the stock. At December 31, 2002, the exercise price of the stock appreciation right is higher than the market price of TSMC stock; therefore no compensation expense is recognized for the year ended December 31, 2002.

k. WaferTech caused some contractors to incur additional labor and material costs outside the contracts. WaferTech recorded a reserve of US\$3,000 thousand during 2002 for a litigation arising from a charge by certain contractors.

l. Unused letters of credit as of December 31, 2002 were NT\$6,480 thousand, US\$5,502 thousand, ¥51,000 thousand, Euro €520 thousand and S\$85 thousand.

24. 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 or disposed of at costs or prices of at least NT\$100 million or 20% of paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of paid-in capital: Please see Table 5 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of paid-in capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of paid-in capital: Please see Table 7 attached; and
- 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 derivative financial instruments entered into by TSMC and its affiliates are as follows:

a) Forward exchange contracts as of December 31, 2002

Contract	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date	Maturity Amount (Thousand)
<u>TSMC</u>					
Sell	USD	\$715,000	NT\$24,874,483	Jan. 2, 2003 - Feb. 24, 2003	NT\$24,886,765
Buy	EUR	€89,000	NT\$3,231,707	Jan.15, 2003 - Mar. 14, 2003	NT\$3,234,260
Buy	JPY	¥4,274,850	NT\$1,249,159	Jan.6, 2003 - Jan. 15, 2003	NT\$1,250,394
<u>VIS</u>					
Buy	USD	\$1,000	NT\$1,198	Dec. 9, 2002 - Jan. 14, 2003	JP¥122,760

As of December 31, 2002, receivables from forward exchange contracts (included in "other current assets" account) aggregate to NT\$200,786 thousand, and payables from forward exchange contracts (included in "other current liabilities" account) aggregate to NT\$17,538 thousand. The net exchange gain for the year ended December 31, 2002 was NT\$1,557,942 thousand.

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

	Amount (Thousand)	
Accounts receivable	US	\$487,905
Accounts payable	JP	¥4,466,733
Accounts payable	EUR	€49,026

b) Interest rate swaps

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

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

c) Option contracts

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

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

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

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

d) Cross currency swaps

The Company enters into currency swap contracts with banks to hedge exposure on foreign currency exchange rate fluctuations on various foreign currency transactions.

Outstanding currency swap contract as of December 31, 2002 is as follows:

Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Date
US\$	US\$1,000	NT\$206	Dec. 26 2002 - Jan. 16, 2003

As of December 31, 2002, the prepayments from currency swap (included in "other current liabilities" account) aggregate to NT\$97 thousand. The currency swap contract was used to hedge a US dollar accounts payable with a carrying value of NT\$2,004 thousand.

e) 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 exchanges rates on the

Company's foreign currency denominated receivables or payables, and interest rate fluctuations on its floating rate long-term loans. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from receivables and payables. Interest rate risks are also managed as the expected interest expense on long-term loans is fixed. Thus, market prices are believed to be minimal.

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

2) Fair value of financial instruments

	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>		
Assets		
Cash and cash equivalents	\$73,165,758	\$73,165,758
Short-term investments	170,012	2,455,582
Receivable from related parties	381,812	381,812
Accounts receivable	20,192,463	20,192,463
Long-term investments	11,349,920	11,550,340
Refundable deposits	45,245	45,245
Liabilities		
Short-term bank loans	1,283,000	1,283,000
Commercial paper	1,080,000	1,080,000
Payable to related parties	1,167,437	1,167,437
Notes and accounts payable	5,786,264	5,786,264
Payable to contractors and equipment suppliers	14,414,639	14,414,639
Bonds (includes current portion)	40,850,000	41,597,405
Long-term bank loans (includes current portion)	25,893,919	25,893,919
Other long-term payables (includes current portion)	5,438,964	5,438,964
Guarantee deposits	1,399,846	1,399,846
<u>Derivative financial instruments</u>		
Forward exchange contracts (sell)	143,702	139,913
Forward exchange contracts (buy)	38,369	26,089
Interest rate swaps	(23,994)	(164,342)
Currency swaps	97	206
Options	(50,273)	(410,132)

Fair Values of financial instruments were determined as follows:

- Short-term financial instruments - carrying values.
- Short-term investments - market values.
- Long-term investments - market value for traded companies and net equity value for non-traded companies.
- Refundable deposits, guarantee deposits and other long-term liabilities - carrying values.
- Long-term bank loan - Fair values of long-term bank loans are their carrying values as they use floating interest rate.
- Long-term liabilities - based on forecasted cash flows discounted at interest rates. Bonds payable is discounted to present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.

g) Derivative financial instruments - based on bank quotations.

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

3) Investment in Mainland China

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

25. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

	Overseas	Domestic	Adjustments and Elimination	Combined
Sales to unaffiliated customers	\$95,774,432	\$71,028,217	\$-	\$166,802,649
Transfers between geographic areas	9,537,846	98,240,822	(107,778,668)	-
Total sales	<u>\$105,312,278</u>	<u>\$169,269,039</u>	<u>(\$107,778,668)</u>	<u>\$166,802,649</u>
Gross profit	<u>(\$19,865)</u>	<u>\$48,639,761</u>	<u>\$128,158</u>	\$48,748,054
Operating expenses				(21,354,715)
Non-operating income				3,303,020
Non-operating expenses				(6,197,047)
Income before income tax				<u>\$24,499,312</u>
Minority interest income				<u>\$2,453,851</u>
Identifiable assets	<u>\$75,840,416</u>	<u>\$358,845,308</u>	<u>(\$33,567,344)</u>	\$401,118,380
Long-term investments				<u>11,349,920</u>
Total assets				<u>\$412,468,300</u>

b. Gross export sales

Area	
North Americas	\$96,254,239
Asia and others	42,167,270
Europe	9,464,008
	<u>\$147,885,517</u>

The export sales information is presented by billed regions.

c. Major customer

Customers with sales greater than 10% of the total sales are as follows:

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

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

FINANCING PROVIDED

For the Year Ended December 31, 2002

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

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reasons (Note1)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Bad Debt	Collateral		Financing Limit for Each Borrowing Company	Financing Amount Limits (US\$ in Thousand)
											Item	Value		
1	TSMC International	TSMC Technology Inc.	Other receivables	\$536,372 (US\$15,434)	\$536,372 (US\$15,434)	4.25%	2	\$-	Operating capital	\$-	-	\$-	N/A	\$ 34,334,852 (US\$987,968)(Note 2)

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

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

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

ENDORSEMENT/GUARANTEE PROVIDED

For the Year Ended December 31, 2002

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

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

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

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

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

Note 3: Promissory notes for collateral.

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

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES HELD

December 31, 2002

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

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
TSMC	<u>Stock</u> TSMC - North America	Subsidiary	Long-term investment	11,000	\$173,601	100	\$921,883	The treasury stocks in amounts of NT\$748,282 thousand are deducted from the carrying value.
	TSMC - Europe	Subsidiary	Long-term investment	-	13,670	100	13,670	
	TSMC - Japan	Subsidiary	Long-term investment	6	94,258	100	94,258	
	VIS	Investee	Long-term investment	556,133	2,415,297	25	4,326,719	The carrying value does not include prepayment for subscribed stock of NT\$849,360 thousand.
	TSMC International	Subsidiary	Long-term investment	987,968	22,265,157	100	22,265,157	
	Chi Cherng Investment	Investee	Long-term investment	-	41,894	36	501,179	The treasury stocks in amounts of NT\$459,285 thousand are deducted from the carrying value.
	Hsin Ruey Investment	Investee	Long-term investment	-	39,815	36	500,048	The treasury stocks in amounts of NT\$460,233 thousand are deducted from the carrying value.
	TSMC Partners	Subsidiary	Long-term investment	300	3,753,733	100	3,940,495	The treasury stocks in amounts of NT\$255,692 thousand are deducted from the carrying value.
	SSMC	Investee	Long-term investment	382	3,136,115	32	3,136,115	
	Emerging Alliance	Subsidiary	Long-term investment	-	767,239	99	767,239	
	Taiwan Mask Corp.	-	Long-term investment	8,794	32,129	2	160,574	
	United Technology Co., Ltd.	-	Long-term investment	16,783	193,584	11	280,931	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment	10,500	105,000	7	137,355	
	W.K. Technology Fund IV	-	Long-term investment	5,000	50,000	2	59,866	
	Ya Xin Technology	Subsidiary	Long-term investment	34,125	341,250	100	341,250	
	Hon Tung Ventures Capital	-	Long-term investment	8,392	83,916	10	71,216	
	Amkor Technology	-	Long-term investment	505	280,748	-	89,866	
	Monolithic System Tech.	-	Long-term investment	470	104,289	2	214,949	
	Crimson Asia Capital	-	Long-term investment	N/A	41,988	N/A	41,988	
	Horizon Ventures	-	Long-term investment	N/A	195,452	N/A	195,452	
TSMC - North America	<u>Stock</u> TSMC	Parent company	Long-term investment	12,692	748,282	-	610,434	
Chi Cherng Investmen	<u>Stock</u> TSMC	Parent company	Short-term investment	12,738	459,285	-	612,636	
	<u>Certificate</u> Hsin Ruey Investment	Major shareholder	Long-term investment	-	900,109	64	900,109	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
Hsin Ruey Investment	<u>Stock</u> TSMC	Parent company	Short-term investment	12,762	\$460,233	-	\$613,782	
	<u>Certificate</u> Chi Cherng Investment	Major shareholder	Long-term investment	-	902,137	64	902,137	
TSMC International	<u>Stock</u> InveStar Semiconductor Development Fund, Inc.	Subsidiary	Long-term investment	45,000	US\$44,634	97	US\$44,634	
	InveStar Semiconductor Development Fund (II), Inc.	Subsidiary	Long-term investment	51,300	US\$43,179	97	US\$43,179	
	TSMC Development, Inc.	Subsidiary	Long-term investment	1	US\$307,094	100	US\$307,094	
	TSMC Technology, Inc.	Subsidiary	Long-term investment	1	US\$2,321	100	US\$2,321	
	3DFX Interactive, Inc.	-	Long-term investment	68	-	-	-	
VIS	<u>Stock</u> VIS Associates, Inc.	Subsidiary	Long-term investment	41,070	1,193,891	100	1,193,891	
	PowerChip Semiconductor, Inc.	Investee	Long-term investment	191,671	2,100,716	7	2,100,716	
	Etron Technology, Inc.	Investee	Long-term investment	4,859	101,839	2	101,839	
	Walsin Technology, Inc.	Investee	Long-term investment	34,551	302,559	8	302,559	
	MEGIC Corporation	Investee	Long-term investment	16,500	177,000	9	156,819	
	Form Factor, Inc.	Investee	Long-term investment	267	64,360	1	64,360	The amount is shown in the carrying value.
	United Technology Co., Ltd.	Investee	Long-term investment	3,357	38,716	2	56,206	
VIS Associates Inc.	<u>Stock</u> VIS Investment Holding, Inc.	Subsidiary	Long-term investment	63	US\$397	100	US\$397	
	<u>Equity</u> Silicon Valley Equity Fund	-	Long-term investment	-	US\$7,317	34	US\$7,386	
	Silicon Valley Equity Fund II	-	Long-term investment	-	US\$5,355	14	US\$5,355	
	<u>Equity certificate</u> ABN AMRO Bank	-	Long-term investment	3,648	US\$817	-	US\$817	
	<u>Fund</u> Grand Palace Trust	-	Long-term investment	-	US\$2,719	100	US\$2,719	
VIS Investment Holding, Inc.	<u>Stock</u> VIS Micro, Inc.	Subsidiary	Long-term investment	200	US\$279	100	US\$279	
TSMC Development, Inc.	<u>Stock</u> WaferTech	Subsidiary	Long-term investment	-	US\$326,609	99	US\$326,609	
TSMC Partners	<u>ADR</u> TSMC	Parent company	Short-term investment	762	US\$7,357	-	US\$6,080	
InveStar Semiconductor Development Fund Inc.	<u>Stock</u> Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$3,350	-	US\$69,181	
	Silicon Laboratories	-	Short-term investment	9	US\$287	-	US\$202	
	WGRD	-	Short-term investment	104	US\$625	-	US\$635	
	Programmable Microelectronics, (Taiwan) Inc.	-	Long-term investment	1,580	US\$1,566	3	US\$1,566	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	Divio, Inc.	-	Long-term investment	30	US\$3	-	US\$3	
	Global Testing Corp.	-	Long-term investment	13,268	US\$5,176	10	US\$5,176	
	Chipstrate Technologies, Inc.	-	Long-term investment	6,660	US\$300	9	US\$300	
	Richtek Technology Holding Corp.	-	Long-term investment	1,023	US\$346	6	US\$346	
	Advanced Power Electronics, Corp.	-	Long-term investment	2,750	US\$1,345	6	US\$1,345	
	<u>Preferred stock</u>							
	Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$1,809	12	US\$1,809	
	Divio, Inc.	-	Long-term investment	667	US\$500	4	US\$500	
	SiRF Technology Holdings, Inc.	-	Long-term investment	306	US\$1,333	1	US\$1,333	
	Capella Microsystems, Inc.	-	Long-term investment	300	US\$481	8	US\$481	
	Sensory, Inc.	-	Long-term investment	1,404	US\$625	5	US\$625	
	Equator Technologies, Inc.	-	Long-term investment	300	US\$258	1	US\$258	
	LightSpeed Semiconductor Corporation	-	Long-term investment	2,252	US\$1,339	3	US\$1,339	
	Tropian, Inc.	-	Long-term investment	1,758	US\$2,334	3	US\$2,334	
	Sonics, Inc.	-	Long-term investment	2,686	US\$3,530	5	US\$3,530	
	Atheros Communications, Inc.	-	Long-term investment	1,607	US\$3,593	3	US\$3,593	
	NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$853	3	US\$853	
	Formfactor, Inc.	-	Long-term investment	267	US\$2,000	1	US\$2,000	
	Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$2,000	12	US\$2,000	
	Memsic, Inc.	-	Long-term investment	2,727	US\$1,500	12	US\$1,500	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$1,192	4	US\$1,192	
	Signia Technologies, Inc.	-	Long-term investment	3,000	US\$300	8	US\$300	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$1,500	9	US\$1,500	
	HiNT Corporation	-	Long-term investment	1,000	US\$1,000	6	US\$1,000	
	Ordius, Inc. (Creosys, Inc.)	-	Long-term investment	1,500	US\$450	8	US\$450	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$500	2	US\$500	
	IP Unity	-	Long-term investment	1,008	US\$1,636	2	US\$1,636	
InveStar Semiconductor Development Fund (II) Inc.	<u>Stock</u>							
	WGRD	-	Short-term investment	105	US\$630	-	US\$640	
	Procoat Technology	-	Long-term investment	3,500	US\$1,942	12	US\$1,942	
	Richtek Technology Corporation	-	Long-term investment	845	US\$1,006	3	US\$1,006	
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment	487	US\$140	1	US\$140	
	Auden Technology MFG. Co., Ltd.	-	Long-term investment	953	US\$1,117	4	US\$1,117	
	Geo Vision, Inc.	-	Long-term investment	180	US\$129	2	US\$129	
	EoNEX Technologies, Inc.	-	Long-term investment	40	US\$2,024	6	US\$2,024	
	Conwise Technology Co., Ltd.	-	Long-term investment	2,800	US\$1,930	14	US\$1,930	
	Yi Yang Technology	-	Long-term investment	2,800	US\$967	9	US\$967	
	Goyatek Technology Inc.	-	Long-term investment	1,740	US\$1,787	8	US\$1,787	
	Trendchip Technologies Corp.	-	Long-term investment	2,000	US\$864	5	US\$864	

(Forward)

Held Company Name	Type and Name of Marketable Security	Relationship with the Company	Financial Statement Account	December 31, 2002				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
	<u>Preferred stock</u>	-	Long-term investment	2,289	US\$1,560	11	US\$1,560	
	Memsic, Inc.	-	Long-term investment	2,696	US\$1,240	7	US\$1,240	
	OEpic, Inc.	-	Long-term investment	770	US\$452	1	US\$452	
	Equator Technologies, Inc.	-	Long-term investment	250	US\$1,000	1	US\$1,000	
	NanoAmp Solutions, Inc.	-	Long-term investment	1,500	US\$150	4	US\$150	
	Signia Technologies, Inc.	-	Long-term investment	948	US\$1,261	2	US\$1,261	
	Advanced Analogic Technology, Inc.	-	Long-term investment	804	US\$1,946	4	US\$1,946	
	Monolithic Power Systems, Inc.	-	Long-term investment	1,833	US\$1,500	6	US\$1,500	
	Ralink Technology, Inc.	-	Long-term investment	3,082	US\$3,082	5	US\$3,082	
	Sonics, Inc.	-	Long-term investment	1,157	US\$810	9	US\$810	
	Newport Opticom, Inc.	-	Long-term investment	2,000	US\$1,000	7	US\$1,000	
	Silicon Data, Inc.	-	Long-term investment	1,596	US\$1,500	6	US\$1,500	
	Reflectivity, Inc.	-	Long-term investment	800	US\$200	4	US\$200	
	Capella Microsystems, Inc.	-	Long-term investment	1,567	US\$750	7	US\$750	
	Angstrom Systems, Inc.	-	Long-term investment	1,464	US\$2,000	2	US\$2,000	
	Tropian, Inc.	-	Long-term investment	20	US\$131	-	US\$131	
	SIRF Technology, Holdings, Inc.	-	Long-term investment	680	US\$238	6	US\$238	
	LeadTONE Wireless, Inc.	-	Long-term investment	313	US\$250	2	US\$250	
	Match Lab, Inc.	-	Long-term investment	185	US\$97	1	US\$97	
	eBest!, Inc.	-	Long-term investment	3,887	US\$2,000	18	US\$2,000	
	Kilopass Technology, Inc.	-						
	<u>Bond</u>							
	eBest!, Inc.	-	Long-term investment	-	US\$24	-	US\$24	
Emerging Alliance	<u>Stock</u>							
	Global Investment Holding, Inc.	Investee	Long-term investment	10,000	\$100,000	6	\$100,000	
	<u>Preferred stock</u>							
	Quake Technologies, Inc.	-	Long-term investment	467	US\$1,000	1	US\$1,000	
	Pixim, Inc.	-	Long-term investment	833	US\$2,500	3	US\$2,500	
	Newport Opticom, Inc.	-	Long-term investment	962	US\$1,000	6	US\$1,000	
	NetLogic Microsystems, Inc.	-	Long-term investment	602	US\$1,850	1	US\$2,932	
	Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$1,500	2	US\$1,500	
	Quicksilver Technology, Inc.	-	Long-term investment	1,475	US\$2,338	4	US\$2,338	
	Litchfield Communications	-	Long-term investment	3,799	US\$1,000	6	US\$1,000	
	Mosaic Systems	-	Long-term investment	2,481	US\$500	6	US\$500	
	Accelerant Networks	-	Long-term investment	441	US\$1,000	1	US\$1,000	
	Zenesis Technologies	-	Long-term investment	861	US\$500	4	US\$500	
	Reflectivity, Inc.	-	Long-term investment	1,596	US\$1,500	5	US\$1,500	
	Iridigm Display	-	Long-term investment	305	US\$502	2	US\$502	
	Spreadtrum	-	Long-term investment	-	US\$1,000	-	US\$1,000	Prepayment for subscribed stock
	XHP Microsystem	-	Long-term investment	2,279	US\$750	6	US\$750	

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, 2002

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

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

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

Note 2: Prepayment for the subscribe stock.

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

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

TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

For the Year Ended December 31, 2002

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

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

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, 2002

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

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

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, 2002

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

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

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, 2002

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2002			Net Income (Loss) of the Investee	Investment Gain (Loss) (Note 2)	Note
				Dec. 31, 2002	Dec. 31, 2001	Shares (Thousand)	Percentage of Ownership	Carrying Value (Note1)			
TSMC	TSMC - North America	San Jose, California, U.S.A.	Marketing and engineering support	\$333,178	\$333,178	1,100	100	\$173,601	\$140,654	\$139,021	Subsidiary
	TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	13,670	(1,615)	1,615	Subsidiary
	TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760	6	100	94,258	3,145	6,045	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640 (Note3)	6,503,640	556,133	25	2,415,297 (Note 3)	(3,250,831)	(821,771)	Investee
	TSMC International	Tortola, British Virgin Islands	Investment	31,445,780	24,165,780	987,968	100	22,265,157	(4,714,203)	(4,714,203)	Subsidiary
	Chi Cherng Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	41,894	13,821	13,122	Investee
	Hsin Ruey Investment	Taipei, Taiwan	Investment	300,000	100,000	-	36	39,815	12,533	6,632	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,753,733	924,362	993,292	Subsidiary
	SSMC	Singapore	Manufacturing wafers	6,408,190	4,986,344	382	32	3,136,115	(3,609,569)	(1,155,076)	Investee
	Emerging Alliance Fund	Cayman Islands	Investment	1,005,660	837,045	-	99	767,239	(142,865)	(142,151)	Subsidiary
Ya-Xin Technology	Taipei, Taiwan	Electronic manufacturing	341,250	-	34,125	100	341,250	-	-	Subsidiary	

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

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

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

3. Internal Control System Execution Status

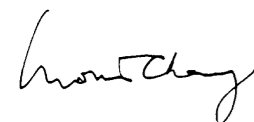
3.1 Statement of Internal Control System

Taiwan Semiconductor Manufacturing Company Limited Statement of Internal Control System (Translation)


TSMC has conducted a self-check of internal controls for the period of January 1, 2002 to December 31, 2002. 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. The said system has already been duly established at TSMC. The purpose of the Internal Control System is to provide a reasonable assurance of the Company's (1) efficient and effective operations (including profit, performance, and safeguard of assets, etc.), (2) reliability of financial reports, and (3) compliance with applicable laws and regulations.
2. TSMC also acknowledges that the Internal Control System possesses inherent constraints irrespective of the intended impeccability of the system design and therefore could only provide a reasonable assurance of the aforementioned goals. Due to the changes in environment and circumstances, the effectiveness of the internal control system may vary accordingly. Nevertheless, the Internal Control System is equipped with self-monitoring mechanisms. Should any flaws be recognized, the Company would enforce corrective measures immediately.
3. TSMC evaluates the effectiveness of its Internal Control System in accordance with the Guidelines for the Establishment of Internal Control System by Public Companies (the "Guidelines") set forth by the Securities and Futures Commission of the Ministry of Finance. The said Guidelines divide internal control into five components: (1) Control Environment, (2) Risk Assessments, (3) Control Operations, (4) Information and Communication, and (5) Monitoring. Each component comprises certain factors. More information regarding the said factors is available in the aforesaid Guidelines.
4. TSMC has assessed and evaluated the design and effectiveness in the design and performance of the aforementioned System.
5. On the basis of the check, TSMC is of the opinion that the aforementioned Internal Control System, including the efficiency and effectiveness of operations, reliability of financial reports, and compliance with applicable laws and regulations, is effective and provides a reasonable assurance of achieving the abovementioned goals during the period of January 1, 2002 to December 31, 2002.
6. The Statement of Internal Control System 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 Exchange Law shall apply.
7. This Statement of Internal Control System has been approved by TSMC's Board of Directors at the meeting of March 4, 2003 with nine directors present at the meeting and no director disagreeing with this Statement of Internal Control System.

Taiwan Semiconductor Manufacturing Company Limited



Morris Chang
Chairman of the Board of Directors



Rick Tsai
President

3.2 The Securities & Futures Commission may request companies to commission CPAs to audit the said internal control system. Disclosure of the audit report(s) is mandatory: Not Applicable

4. Major issues on 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 2002 or the period from January 1, 2003 to March 12, 2003: None

5. Private Placement Securities: Not Applicable

6. Balance of TSMC Common Shares/ADR Acquired, Disposed of and Held by Subsidiaries

Unit: NT\$K; Share: %

Name of Subsidiary (Note 1)	Paid-in Capital	Fund Source	Percentage of Ownership	Transaction Date	Acquisition		Disposal		Investment Income (Loss)	Balance as of 02/28/2003		Balance of Pledged Shares	Balance of Guarantee Provided by TSMC	Balance of Financing Provided by TSMC
					No. of Shares (Note 2)	Amount	No. of Shares	Amount		No. of Shares	Amount			
Chi Cherng Investment Co., Ltd.	840,000	Retained earnings	36%	Year 2002	9,714,701	-	-	-	-	12,738,029	459,285	-	-	-
				Year 2003	-	-	-	-	-	12,738,029	459,285	-	-	-
Hsin Ruey Investment Co., Ltd.	840,000	Retained earnings	36%	Year 2002	11,354,701	-	-	-	-	12,761,869	460,233	-	-	-
				Year 2003	-	-	-	-	-	12,761,869	460,233	-	-	-
TSMC Partners, Ltd. (Note 4)	US\$300K	Retained earnings	100%	Year 2002	69,260	-	-	-	-	761,861	US\$7,357K	-	-	-
				Year 2003	-	-	-	-	-	761,861	US\$7,357K	-	-	-
TSMC - North America	US\$11M	Retained earnings	100%	Year 2002	1,153,841	-	361,583	23,449	8,540	12,692,258	748,282	-	-	-
				Year 2003	-	-	-	-	-	12,692,258	748,282	-	-	-

Note 1: Chi Cherng Investment Co., Ltd. merged with Po Cherng Investment Co., Ltd. and Cherng Huei Investment Co., Ltd. on October 30, 2002.

Hsin Ruey Investment Co., Ltd. merged with Kung Cherng Investment Co., Ltd. and Chi Hsin Investment Co., Ltd. on October 30, 2002.

Note 2: Shares Acquisition Breakdown	From Merger (Note 3)	Stock Dividend
Chi Cherng Investment Co., Ltd.	9,412,369	302,332
Hsin Ruey Investment Co., Ltd.	11,213,985	140,716
Note 3: Stock Dividend for Merged Companies	Stock Dividend	Total Shares
Po Cherng Investment Co., Ltd.	394,000	4,334,004
Cherng Huei Investment Co., Ltd.	461,669	5,078,365
Kung Cherng Investment Co., Ltd.	665,826	7,324,095
Chi Hsin Investment Co., Ltd.	353,626	3,889,890

Note 4: TSMC Partners, Ltd. shares are in ADRs. Each ADR equals five TSMC common shares.

7. Major Decisions of Shareholder Meetings and Board Meetings

Review of Shareholder Meetings

TSMC's 2002 regular Shareholder Meeting was held at the Auditorium of the Activity Center of the Hsinchu Science-Based Industrial Park on May 7, 2002. At the meeting, shareholders present in person or by proxy passed following resolutions: (1) Acceptance of the 2001 business report and financial statements; (2) Distribution of 2001 profits; (3) Capitalization of 2001 profits; (4) Revision to TSMC's Articles of Incorporation; (5) Revision to TSMC's Rules and Procedures of Shareholder Meeting; and (6) Revision to TSMC's Rules for Election of Directors and Supervisors. In addition, Professor Lester Thurow and Sir Peter Bonfield were elected directors of TSMC.

Review of Board Meetings

During the 2002 calendar year, and the period from January 1, 2003 to March 12, 2003, the Board held five regular meetings and two special meetings. Major resolutions passed at these meetings are summarized below:

(1) The 2001 business report and financial statements; (2) Distribution of 2001 profits; (3) Convening the 2002 Annual Shareholder Meeting; (4) 2002 capital appropriation; (5) An increase of investment in TSMC subsidiaries; (6) The appointment of Dr. Richard L. Thurston as Vice President and General Counsel; (7) An increase of the number of TSMC's directors from seven to nine; (8) The investment in EUV LLC; (9) Establishment of TSMC's 2002 Employee Stock Options Plan; (10) The appointment of Ms. Chiam Wu as Vice President; (11) Approval of the semi-annual financial statement; (12) TSMC's sponsorship of the issuance of ADRs by certain shareholders; (13) The establishment of an Audit Committee; (14) The subscription of new shares to be issued by Vanguard International Semiconductor Corporation; (15) The investment in a SoC design service company; (16) The 2002 business report and financial statements; (17) Distribution of 2002 profits; (18) Convening the 2003 Annual Shareholder Meeting; and (19) 2003 R&D project and sustaining capital appropriation, etc.

Future Expected Outcomes of Board Meeting

According to relevant laws and regulations, routine matters that need to be resolved by the Board every year include the following: (1) Approval of the Company's annual financial statements and business report; (2) Approval of proposal profit distribution; (3) Approval of capital appropriation; (4) Convening the Annual Shareholder Meeting; (5) Approval of the statement of internal control; and (6) Approval of semi-annual financial statements. Ad hoc motions may be submitted to the Board when necessary.

8. Legal Penalties

Regulatory authorities' legal penalties to the Company, and the Company's resulting punishment of its employees: None.

9. Other Necessary Supplement

Any events in 2002 that had significant impacts on shareholders' right or security prices as stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.



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Taiwan Semiconductor Manufacturing Company, Ltd.



Morris Chang, Chairman

