

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

April 30, 2003

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of April 2003

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name into English)

No.121 Park Avenue III

Science-Based Industrial Park

Hsin-chu, Taiwan

(Address of Principal Executive Offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82:_____ .)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Taiwan Semiconductor Manufacturing Company Ltd.

Date: April 29, 2003

By

/S/ Harvey Chang

Harvey Chang

Senior Vice President & Chief Financial Officer

Taiwan Semiconductor Manufacturing Company Ltd.

Financial Statements as of December 31, 2002 and 2001

Together with Independent Auditors Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 16, 2003

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

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

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

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

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

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

T N Soong & Co

An Associate Member Firm of Deloitte Touche Tohmatsu

Effective April 22, 2002

(Formerly a Member Firm of Andersen Worldwide, SC)

Taipei, Taiwan

The Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

| ASSETS | 2002 | | 2001 | |
|--|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 61,656,795 | 16 | \$ 33,403,706 | 10 |
| Receivables from related parties (Note 16) | 10,183,488 | 3 | 523,861 | |
| Notes receivable | 60,240 | | 176,582 | |
| Accounts receivable | 9,495,447 | 3 | 19,957,636 | 6 |
| Allowance for doubtful receivables (Note 2) | (929,864) | | (1,100,492) | |
| Allowance for sales returns and others (Note 2) | (2,363,067) | (1) | (2,581,551) | (1) |
| 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 |
| Prepaid expenses and other current assets (Notes 2, 16 and 19) | 2,984,030 | 1 | 2,421,566 | 1 |
| Total Current Assets | 94,747,405 | 26 | 63,652,726 | 19 |
| LONG-TERM INVESTMENTS (Notes 2, 3, 6 and 18) | 34,978,495 | 9 | 32,869,391 | 10 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7 and 16) | | | | |
| Cost | | | | |
| Buildings | 68,488,180 | 18 | 52,527,184 | 16 |
| Machinery and equipment | 303,334,232 | 82 | 242,347,119 | 72 |
| Office equipment | 5,697,828 | 2 | 4,754,183 | 1 |
| | 377,520,240 | 102 | 299,628,486 | 89 |
| Accumulated depreciation | (188,447,604) | (51) | (140,224,640) | (42) |
| Advance payments and construction in progress | 28,119,627 | 8 | 56,095,396 | 17 |
| Net Property, Plant and Equipment | 217,192,263 | 59 | 215,499,242 | 64 |
| GOODWILL (Note 2) | 2,612,926 | 1 | 2,961,317 | 1 |
| OTHER ASSETS | | | | |
| Deferred charges net (Notes 2, 8 and 18) | 9,792,490 | 3 | 3,239,723 | 1 |
| Deferred income tax assets (Notes 2 and 12) | 9,712,567 | 2 | 16,175,070 | 5 |

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

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME

For the Years Ended December 31, 2002 and 2001

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

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

Amortization of premium expense from option contracts net (Notes 2 and 19)

419,513

(Forward)

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| | 2002 | | 2001 | |
|---|----------------------|-----------|----------------------|-----------|
| | Amount | % | Amount | % |
| Loss on sales of and provision for loss on property, plant and equipment (Note 2) | \$ 221,955 | | \$ 234,862 | |
| Foreign exchange loss net (Notes 2 and 19) | 120,568 | | 695,620 | |
| Casualty loss net (Note 2) | 119,485 | | | |
| Amortization of bond issuance cost (Note 2) | 18,523 | | 12,504 | |
| Loss on sales of long-term investments (Note 2) | 2,403 | | 102,978 | |
| Other | 87,852 | | 147,703 | |
| Total Non-operating Expenses | 8,826,744 | 5 | 9,575,128 | 7 |
| INCOME BEFORE INCOME TAX | 27,112,455 | 17 | 10,658,715 | 9 |
| INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 12) | (5,502,164) | (4) | 3,824,459 | 3 |
| NET INCOME | \$ 21,610,291 | 13 | \$ 14,483,174 | 12 |

| | Before | After | Before | After |
|-------------------------------------|------------|------------|------------|------------|
| | Income Tax | Income Tax | Income Tax | Income Tax |
| EARNINGS PER SHARE (Note 15) | | | | |
| Basic earnings per share | \$ 1.43 | \$ 1.14 | \$ 0.55 | \$ 0.75 |
| Diluted earnings per share | \$ 1.43 | \$ 1.14 | \$ 0.55 | \$ 0.75 |

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 | After |
|---------------------------|----------------------|----------------------|
| | Income Tax | 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) | | | | | | | |
|---|----------------------|---------------|--------------|----------------|----------------------------------|----------------------------------|----------------------------------|---|-----------------------------------|----------|-------------------|---------------|
| | 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 |
| | Shares | Amount | Shares | Amount | | | | | | | | |
| | (Thousand) | | (Thousand) | | | | | | | | | |
| 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 |
| Appropriations of prior year's earnings | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | |
| Bonus to employees' stock | | | 467,443 | 4,674,426 | | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | | |
| Stock dividends 40% | | | 4,675,746 | 46,757,459 | | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | | |
| Net income in 2001 | | | | | | | | | | | | |
| Reclassification of the accumulated deficits from the merged company | | | | | 1,803,168 | | | | | | | 1,803,168 |
| Gain on sales of property, plant and equipment | | | | | | | | | 39,282 | | | 39,282 |
| Gain on sales of property, plant and equipment from investees | | | | | | | 162 | | | | | 162 |
| Reversal of the unrealized loss on long-term investments | | | | | | | | | | | | |

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| Translation adjustments | | | | | | | | | | | |
|---|-----------|---------------|------------|----------------|---------------|---------------|------------|--------------|-----------|-----------|---------------|
| 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 |
| Appropriations of prior year s earnings | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | |
| Bonus to employees stock | | | 107,078 | 1,070,783 | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | |
| Stock dividends 10% | | | 1,683,255 | 16,832,553 | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | |
| Net income in 2002 | | | | | | | | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings | | | | | | | | | (166,518) | | (166,518) |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | | | | | (162) | | | | (162) |
| Unrealized loss on long-term investments from subsidiaries | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | |
| Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stock | | | | | | | | | | | |
| Capital surplus resulted from sales of treasury stock | | | | | | | | | | 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 |

RETAINED EARNINGS (Note 13)

UNREALIZED CUMULATIVE TREASURY LOSS ON

TOTAL

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| | Legal | Special | Unappropriated | Total | LONG-TERM TRANSLATION | | STOCK | SHAREHOLDERS |
|---|---------------|--------------|----------------|---------------|------------------------|--------------|-------------|----------------|
| | Reserve | Reserve | Earnings | | INVESTMENT ADJUSTMENTS | | (Notes 2, 3 | EQUITY |
| | | | | | (Note 2) | (Note 2) | and 14) | |
| BALANCE, JANUARY 1, 2001 | \$ 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 | | | (4,674,426) | (4,674,426) | | | | |
| Cash dividends paid for preferred stocks | | | (41,137) | (41,137) | | | | (41,137) |
| Stock dividends 40% | | | (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) | | | | |
| Gain on sales of property, plant and equipment | | | (39,282) | (39,282) | | | | |
| Gain on sales of property, plant and equipment from investees | | | (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 | 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 | | | (1,070,783) | (1,070,783) | | | | |
| Cash dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 10% | | | (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 | 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 | | | | |
| 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 |

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| | | | | | | | | |
|-------------------------------|---------------|----|---------------|---------------|--------------|------------|----------------|----------------|
| BALANCE, DECEMBER 31, 2002 | \$ 18,641,108 | \$ | \$ 22,151,089 | \$ 40,792,197 | (\$ 194,283) | \$ 945,129 | (\$ 1,923,492) | \$ 295,853,207 |
|-------------------------------|---------------|----|---------------|---------------|--------------|------------|----------------|----------------|

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

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

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

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| | | |
|---------------------------------------|--------------|--------------|
| Net Cash Used in Investing Activities | (69,630,258) | (73,376,195) |
|---------------------------------------|--------------|--------------|

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

| | <u>2002</u> | <u>2001</u> |
|--|----------------------|----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of bonds | \$ 10,000,000 | \$ |
| Payments on lease obligation | | (50,000) |
| Increase (decrease) in guarantee deposits | (5,815,906) | 124,593 |
| Remuneration paid to directors and supervisors | (133,848) | (584,303) |
| Cash dividends paid for preferred stocks | (455,000) | (41,137) |
| | <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 | 33,403,706 | 35,664,440 |
| | <u>33,403,706</u> | <u>35,664,440</u> |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | \$ 61,656,795 | \$ 33,403,706 |
| | <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) | \$ 1,771,682 | \$ 1,980,399 |
| | <u>1,771,682</u> | <u>1,980,399</u> |
| Income tax paid | \$ 12,661 | \$ 16,318 |
| | <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 | \$ 1,923,492 | \$ |
| | <u>1,923,492</u> | <u>\$</u> |
| Effect of exchange rate changes on cash and cash equivalents | (\$ 142,438) | \$ 1,258,395 |
| | <u>(\$ 142,438)</u> | <u>\$ 1,258,395</u> |
| Current portion of bonds | \$ 4,000,000 | \$ 5,000,000 |
| | <u>4,000,000</u> | <u>5,000,000</u> |
| Cash paid for acquisitions of property, plant and equipment: | | |
| Total acquisitions | \$ 56,080,659 | \$ 55,977,367 |
| Decrease (increase) in payables to contractors and equipment suppliers | (1,637,064) | 12,025,081 |
| | <u>54,443,595</u> | <u>68,002,448</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) | (4,676,593) | |
| | <u>5,724,583</u> | <u>1,465,703</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

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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 investee's 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.

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

Foreign-currency transactions

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. CASH AND CASH EQUIVALENTS

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

5. INVENTORIES NET

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

6. LONG-TERM INVESTMENTS

| | 2002 | | 2001 | |
|--|----------------------|----------------|----------------------|----------------|
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Shares of stock | | | | |
| 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> | | | |
| 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> | |
| Funds | | | | |
| Horizon Ventures | 195,452 | | 125,701 | |
| Crimson Asia Capital | 41,988 | | 27,091 | |
| | <u>237,440</u> | | <u>152,792</u> | |
| | <u>\$ 34,978,495</u> | | <u>\$ 32,869,391</u> | |



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

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

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

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

| | <u>2002</u> | <u>2001</u> |
|-------------------------------|-----------------------|-----------------------|
| TSMC International Investment | (\$ 4,714,203) | (\$ 4,855,844) |
| SSMC | (1,155,076) | (1,722,080) |
| VIS | (821,771) | (2,236,940) |
| TSMC Partners | 993,292 | 2,357,405 |
| Others | (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:

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

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

| | <u>2002</u> | <u>2001</u> |
|-------------------------|-----------------------|-----------------------|
| Buildings | \$ 22,289,909 | \$ 15,181,445 |
| Machinery and equipment | 163,208,908 | 122,659,129 |
| Office equipment | 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:

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

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

8. DEFERRED CHARGES NET

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

9. BONDS

| | <u>2002</u> | <u>2001</u> |
|---|--------------|--------------|
| Domestic unsecured bonds: | | |
| Issued on March 4, 1998 and payable on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually | \$ 4,000,000 | \$ 4,000,000 |
| Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% annual interest payable annually, respectively | 5,000,000 | 10,000,000 |

(Forward)

| | 2002 | 2001 |
|---|----------------------|----------------------|
| 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 | (1,157,299) |
| | <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 |
| Net pension cost | \$ 520,425 | \$ 478,219 |

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 | \$ 2,210,542 | \$ 1,854,853 |

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% |

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

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

b. Income tax benefit (expense) consists of:

| | <u>2002</u> | <u>2001</u> |
|--|-----------------------|---------------------|
| Current income tax expense before tax credits | (\$ 4,704,298) | (\$ 2,569,358) |
| Additional 10% on unappropriated earnings | (162,938) | (319,000) |
| Income tax credits | 4,867,236 | 2,888,358 |
| Other income tax | (12,661) | (16,318) |
| | <u>(12,661)</u> | <u>(16,318)</u> |
| 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 |
| | <u>(\$ 5,502,164)</u> | <u>\$ 3,824,459</u> |

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

| | <u>2002</u> | <u>2001</u> |
|------------------------|---------------------|----------------------|
| Current | | |
| Investment tax credits | \$ 3,320,000 | \$ 2,347,000 |
| 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 | Remaining Creditable | Expiry |
|----------------------------------|---|----------------------|----------------------|--------|
| | | Amounts | Amounts | 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 |

| | | |
|--|------------|------------|
| | \$ 350,481 | \$ 347,603 |
|--|------------|------------|

- 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):

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

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

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

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

| | 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 the Company's total outstanding common shares as of December 31, 2001.

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

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

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

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

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

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

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

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

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

Preferred shareholders

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

14. TREASURY STOCK (COMMON STOCK)

| Purpose of Purchase | (Shares in Thousand) | | | |
|--|----------------------|----------|----------|--------|
| | Beginning | | | Ending |
| | Shares | Increase | Decrease | Shares |
| Year ended December 31, 2002 | | | | |
| 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 | After | | Before | After |
| | Income Tax | Income Tax | | Income Tax | Income Tax |
| December 31, 2002 | | | | | |
| Income | \$ 27,112,455 | \$ 21,610,291 | | | |
| Less preferred stock dividends | (455,000) | (455,000) | | | |
| Basic earnings per share | | | | | |
| Income available to common shareholders | \$ 26,657,455 | \$ 21,155,291 | 18,580,700 | \$ 1.43 | \$ 1.14 |
| Diluted earnings per share | | | | | |
| Income available to common shareholders | \$ 26,657,455 | \$ 21,155,291 | 18,580,700 | \$ 1.43 | \$ 1.14 |
| December 31, 2001 | | | | | |
| Income | \$ 10,658,715 | \$ 14,483,174 | | | |
| Less preferred stock dividends | (455,000) | (455,000) | | | |
| Basic earnings per share | | | | | |
| Income available to common shareholders | \$ 10,203,715 | \$ 14,028,174 | 18,622,887 | \$ 0.55 | \$ 0.75 |
| Diluted earnings per share | | | | | |
| Income available to common shareholders | \$ 10,203,715 | \$ 14,028,174 | 18,622,887 | \$ 0.55 | \$ 0.75 |

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

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

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

c. Subsidiaries

TSMC North America

TSMC Europe

TSMC Japan

d. Investees

VIS

SSMC

e. Indirect subsidiaries

TSMC Technology

WAFERTECH, LLC.

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

| | 2002 | | 2001 | |
|----------------------------|----------------------|-----------|----------------------|-----------|
| | Amount | % | Amount | % |
| For the years | | | | |
| 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> |

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| | | | | |
|----------------------------------|--------------|-----|--------------|-----|
| Rental expense ITRI | \$ 40,401 | 3 | \$ 161,604 | 11 |
| Manufacturing expenses | | | | |
| Technical assistance fee Philips | \$ 2,849,517 | 100 | \$ 2,418,276 | 100 |

(Forward)

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

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| | | | | | | | |
|---------------------|-----|----|-----------------------------|-------------------|----|-----------------------------|-------------------|
| Refundable deposits | VIS | \$ | 514,846 | 95 | \$ | 750,788 | 97 |
| | | | <u> </u> | <u> </u> | | <u> </u> | <u> </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:

| <u>Year</u> | <u>Amount</u> |
|---------------------|---------------------|
| 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:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 8, 2007 and thereafter be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts the Company pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of the Company's production capacity.

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

- d. Under several foundry agreements, the Company shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$39,810 thousand had been received as of December 31, 2002.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company to be named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, and allow the Company to invest in 32% of SSMC's capital. The Company and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.
- f. The Company provides of technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. The Company provided guarantee on loans amounting to US\$200,000 thousand, US\$40,000 thousand and US\$440,000 thousand for TSMC Development, Inc., TSMC- North America and WAFERTECH, LLC, respectively.
- h. Under a Technology Transfer Agreement with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for license of certain technology to National. The agreement will remain in force for ten years. After the initial expiration date, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions. In January 2003, the agreement was amended such that National will discontinue making payments under the original terms and the Company will discontinue transferring any additional technology. The Company granted National the option to request additional technology transfers under the same terms and conditions of the original agreement through January 2008.
- i. The Company entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. (VIS). VIS agrees to reserve certain production capacity for the Company to manufacture certain logic devices or other technologies required by the Company's customers at selling prices as agreed by the parties. The Company paid NT\$1,200,000 thousand to VIS as security bond. VIS shall return portions of the bond without any interest to the Company upon the purchase of wafers by the Company. The contract will remain in force for five years.
- j. Starting from 2001, the Company entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. The Company has recorded the related amounts as a liability and a deferred charge to be amortized to cost of sales on a straight-line basis over the shorter of the estimated life of the technology or the term of the contract.
- k. Unused letter of credits as of December 31, 2002 were NT\$6,480 thousand, ¥51,000 thousand, Euro 520 thousand and SG\$85 thousand.

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

19. ADDITIONAL DISCLOSURES

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

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

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

- a) Forward exchange contracts as of December 31, 2002

| <u>Currency</u> | Contract | Fair Value | <u>Settlement Date</u> | Maturity |
|-----------------|----------|------------|------------------------|----------|
|-----------------|----------|------------|------------------------|----------|

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| | | Amount | (Thousand) | | | (Thousand) |
|------|-----|-------------|-----------------|---------------|---------------|-----------------|
| | | (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 | | | Strike Price | Maturity |
|----------|---------------------|-----------------|-------------------|-----------------|-------------------|------------------------|---------------------|-----------------|
| | | | | Amount | Carrying | Fair Value | | |
| | | | (Thousand) | Value | (Thousand) | | | |
| 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 | |

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| | | | | | | |
|----------|--------------------|-----|--------|------------|-----------------|---------------|
| European | Put option written | EUR | 10,000 | (\$ 1,596) | 1.017(US\$/EUR) | Feb. 27, 2003 |
| | | | | | | 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 | | Carrying | |
| | Amount | Fair Value | Amount | Fair Value |
| Non-derivative financial instruments | | | | |
| 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 |
| Payables to contractors and equipment suppliers | 14,004,383 | 14,004,383 | 12,367,319 | 12,367,319 |
| Bonds (includes current portion) | 39,000,000 | 39,762,245 | 29,000,000 | 29,703,063 |
| Other long-term payables | 4,281,665 | 4,281,665 | | |
| Guarantee deposits | 1,395,066 | 1,395,066 | 7,210,972 | 7,210,972 |
| Derivative financial instruments | | | | |
| Forward exchange contracts (buy) | 38,369 | 26,089 | | |
| Forward exchange contracts (sell) | 143,702 | 139,913 | (397,117) | (427,225) |
| Interest rate swaps | (23,994) | (164,342) | 26,969 | (343,088) |
| Option | (50,273) | (410,132) | (39,500) | (252,833) |

Fair values of financial instruments were determined as follows:

- a) Short-term financial instruments carrying values.
- b) Long-term investments market value for traded companies and net equity value for non-trade companies.

- c) Refundable deposits and guarantee deposits carrying values.
- d) Long-term liabilities based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable is discounted to present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rate.
- e) Derivative financial instruments based on quotations from banks.

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

3) Investment in Mainland China:

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

20. SEGMENT FINANCIAL INFORMATION

a. Gross export sales

| 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 |
| | \$ 145,178,838 | \$ 95,294,980 |

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 | % |

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| | | | | |
|------------|---------------|----|---------------|----|
| A Customer | \$ 32,769,054 | 20 | \$ 21,789,769 | 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 | Ending | Interest Rate | Financing Reasons | Reasons for short-term financing | Collateral | | Financing Limit for Each Borrowing Company | Financing | |
|-----|----------------|----------------------|-----------------------------|-----------------------------|---------------------------------|---------------|-------------------|----------------------------------|-------------------|-------|--|--------------------|---|
| | | | | Balance for the Period | Balance | | | | Item | Value | | Amount Limits | |
| | | | | (US\$ in Thousand) | (US\$ in Thousand) | | (Note 1) | Amount | Bad Debt | | | (US\$ in Thousand) | |
| 1 | TSMC-BVI | TSMC Technology Inc. | Other receivables | \$ 536,372 (US\$ 15,434) | \$ 536,372 (15,434) US\$ | 4.25% | 2 | \$ | Operating capital | \$ | \$ | N/A | \$ 34,334,852 (987,968) US\$ (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)

| Endorsement/ Guarantee 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 | \$ 6,950,600 | \$ 2.37% | \$ 59,768,660 | |
| | | | | | (US\$ 268,000) | (US\$ 200,000) | | | |
| | | TSMC North America | 2 | | 1,390,120 | 1,390,120 | 0.47% | | |
| | | | | | (US\$ 40,000) | (US\$ 40,000) | | | |
| | | WAFERTECH, LLC | 3 | | 15,291,320 | 15,291,320 | 5.21% | | |
| | | | | | (US\$ 440,000) | (US\$ 440,000) | | | |

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 | |

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| | | | | | | |
|-------------------------------------|------------|----------------------|--------|---------|-----|---------|
| Emerging Alliance Fund | Subsidiary | Long-term investment | | 767,239 | 99 | 767,239 |
| Taiwan Mask Corp. | | Long-term investment | 8,794 | 32,129 | 2 | 160,574 |
| United Technology Co., Ltd. | | Long-term investment | 16,783 | 193,584 | 11 | 280,931 |
| Shin-Etsu Handotai Taiwan Co., Ltd. | | Long-term investment | 10,500 | 105,000 | 7 | 137,355 |
| W.K. Technology Fund IV | | Long-term investment | 5,000 | 50,000 | 2 | 59,866 |
| Ya Shin Technology | Subsidiary | Long-term investment | 34,125 | 341,250 | 100 | 341,250 |
| Hon Tung Ventures Capital | | Long-term investment | 8,392 | 83,916 | 10 | 71,216 |
| Amkor Technology | | Long-term investment | 505 | 280,748 | | 89,866 |
| Monolithic System Tech. | | Long-term investment | 470 | 104,289 | 2 | 214,949 |

(Forward)

| | | | | | | | | December 31, 2002 | |
|--------------------------------------|---|-------------------|-------------------------------|-----------------------------|---------------------------------|--------------------|-------------------------|--------------------|---------------------|
| | | | Carrying Value | | Market Value or Net Asset Value | | | | |
| Type and Name of Marketable Security | | | Relationship with the Company | Financial Statement Account | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | Note |
| | 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 | |
| North | <u>Stock</u> | | | | | | | | |
| | TSMC | Parent company | | Long-term investment | 12,692 | 748,282 | | 610,434 | |
| rng | <u>Stock</u> | | | | | | | | |
| ent | 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 | |
| ey | <u>Stock</u> | | | | | | | | |
| ent | 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 | |
| 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 | | | | |
| | <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 |
| | | | | | | | | | carrying value. |
| | United Technology Co., Ltd. | Investee | | Long-term investment | 3,357 | 38,716 | 2 | 56,206 | |
| | <u>Stock</u> | | | | | | | | |
| tes | VIS Investment Holding, Inc. | Subsidiary | | Long-term investment | 63 | US\$ 397 | 100 | US\$ 397 | |
| | <u>Equity</u> | | | | | | | | |
| | Silicon Valley Equity Fund | | | Long-term investment | | US\$ 7,317 | 34 | US\$ 7,386 | |
| | Silicon Valley Equity Fund II | | | Long-term investment | | US\$ 5,355 | 14 | US\$ 5,355 | |

(Forward)

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

(Forward)

| | | | | | | | | December 31, 2002 |
|----------------------------|--------------------------------------|-------------------------------|-----------------------------|-------------------|--------------------|-------------------------|---------------------------------|-------------------|
| Held Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | Percentage of Ownership | Market Value or Net Asset Value | |
| | | | | Shares (Thousand) | (US\$ in Thousand) | | (US\$ in Thousand) | |
| | 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 | |
| reStar Semiconductor | <u>Stock</u> | | | | | | | |
| Development Fund (II) Inc. | 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 | | Long-term investment | 487 | US\$ 140 | | US\$ 140 | |
| | (Taiwan), Inc. | | | | | | | |
| | Auden Technology MFG. Co., Ltd. | | Long-term investment | 953 | US\$ 1,117 | 2 | US\$ 1,117 | |
| | Geo Vision, Inc. | | Long-term investment | 180 | US\$ 129 | | US\$ 129 | |
| | EoNex Technologies, Inc. | | Long-term investment | 40 | US\$ 2,024 | | US\$ 2,024 | |
| | Conwise Technology Co., Ltd. | | Long-term investment | 2,800 | US\$ 1,930 | | US\$ 1,930 | |
| | Yi Yang Technology | | Long-term investment | 2,800 | US\$ 967 | | US\$ 967 | |
| | Goyatek Technology Inc. | | Long-term investment | 1,740 | US\$ 1,787 | | US\$ 1,787 | |
| | Trendchip Technologies Corp. | | Long-term investment | 2,000 | US\$ 864 | | US\$ 864 | |
| | <u>Preferred stock</u> | | | | | | | |
| | Memsic, Inc. | | Long-term investment | 2,289 | US\$ 1,560 | | US\$ 1,560 | |
| | Oepic, Inc. | | Long-term investment | 2,696 | US\$ 1,240 | | US\$ 1,240 | |
| | Equator Technologies, Inc. | | Long-term investment | 770 | US\$ 452 | | US\$ 452 | |
| | NanoAmp Solutions, Inc. | | Long-term investment | 250 | US\$ 1,000 | | US\$ 1,000 | |
| | Signia Technologies, Inc. | | Long-term investment | 1,500 | US\$ 150 | | US\$ 150 | |
| | Advanced Analogic Technology, Inc. | | Long-term investment | 948 | US\$ 1,261 | | US\$ 1,261 | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 804 | US\$ 1,946 | | US\$ 1,946 | |
| | Ralink Technology, Inc. | | Long-term investment | 1,833 | US\$ 1,500 | | US\$ 1,500 | |
| | Sonics, Inc. | | Long-term investment | 3,082 | US\$ 3,082 | | US\$ 3,082 | |
| | Newport Opticom, Inc. | | Long-term investment | 1,157 | US\$ 810 | | US\$ 810 | |
| | Silicon Data, Inc. | | Long-term investment | 2,000 | US\$ 1,000 | | US\$ 1,000 | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | | US\$ 1,500 | |
| | Capella Microsystems, Inc. | | Long-term investment | 800 | US\$ 200 | | US\$ 200 | |
| | Angstrom Systems, Inc. | | Long-term investment | 1,567 | US\$ 750 | | US\$ 750 | |
| | Tropian, Inc. | | Long-term investment | 1,464 | US\$ 2,000 | | US\$ 2,000 | |
| | SiRF Technology, Inc. | | Long-term investment | 20 | US\$ 131 | | US\$ 131 | |
| | LeadTONE, Inc. | | Long-term investment | 680 | US\$ 238 | | US\$ 238 | |
| | Match Lab, Inc. | | Long-term investment | 313 | US\$ 250 | | US\$ 250 | |
| | eBest, Inc. | | Long-term investment | 185 | US\$ 97 | | US\$ 97 | |
| | Kilopass Technology, Inc. | | Long-term investment | 3,887 | US\$ 2,000 | | US\$ 2,000 | |

(Forward)

| | | | | | | | | December 31, 2002 | |
|---------------|--------------------------------------|-------------------------------|-----------------------------|-------------------|--------------------|-------------------------|---------------------------------|-------------------|--|
| Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | | Market Value or Net Asset Value | | |
| | | | | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | | |
| | <u>Bond</u> | | | | | | | | |
| | eBest, Inc. | | Long-term investment | | US\$ 24 | | US\$ 24 | | |
| 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 | Prepay | |
| | XHP Microsystem | | Long-term investment | 2,279 | US\$ 750 | 6 | US\$ 750 | subscri | |

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)

| Name of Marketable Security | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Gain (Loss) on Disposal |
|--------------------------------------|-----------------------------------|--|---------------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|--|-------------------------------|
| | | | | Shares (Thousand) | Amount (US\$ in Thousand) | Shares (Thousand) | Amount (US\$ in Thousand) | Shares (Thousand) | Amount (US\$ in Thousand) | Carrying Value (US\$ in Thousand) | |
| | Long-term investment | SSMC | Investee | 301 | \$ 2,907,967 | 81 | \$ 1,421,846 | \$ | \$ | \$ | |
| VI | Long-term investment | TSMC-BVI | Subsidiary | 779,968 | 19,987,814 | 208,000 | 7,280,000 | | | | |
| c | Long-term investment | Monolithic System Tech. | Investee | | | 470 | 104,289 | | | | |
| ech. | Long-term investment | Emerging Alliance Fund | Subsidiary | | 741,617 | | 168,615 | | | | |
| Fund | Long-term investment | VIS | Investee | 556,133 | 3,377,526 | 121,338 | 849,360 | | | | |
| | Long-term investment | Ya-Shin Technology | Subsidiary | | | (Note 2) 34,125 | (Note 2) 341,250 | | | | |
| ent | Long-term investment | TSMC Development Inc. | Subsidiary | 1 | US\$ 201,231 | | US\$ 208,000 | | | | |
| uctor | Long-term investment | InveStar Semiconductor | Subsidiary | 45,000 | US\$ 45,766 | 6,300 | US\$ 6,300 | | | | |
| ent Inc. h, LLC | Long-term investment | Development Fund (II) Inc. WaferTech, LLC | Subsidiary | | US\$ 226,541 | | US\$ 120,000 | | | | |
| Duo Li | Short-term investment | | | 26,278 | 350,000 | 33,108 | 450,000 | 59,386 | 807,970 | 800,000 | 7,970 |
| | Short-term investment | | | | | 70,860 | 850,000 | 70,860 | 853,974 | 850,000 | 3,974 |
| OC | Short-term investment | | | 25,923 | 350,000 | | | 25,923 | 356,458 | 350,000 | 6,458 |

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| | | | | | | | | | | | | | | |
|---------------------------|-------------------------------|--------|------|---------|--|---------|------|--------|--|---------|------|---------|------|---------------------------|
| | Short-term investment | | | 3,814 | | 580,000 | | 3,814 | | 582,977 | | 580,000 | | 2,977 |
| | Short-term investment | | | 43,630 | | 550,000 | | 43,630 | | 554,407 | | 550,000 | | 4,407 |
| Chian | Short-term investment | 28,409 | | 400,000 | | | | 28,409 | | 402,869 | | 400,000 | | 2,869 |
| <u>Equity certificate</u> | | | | | | | | | | | | | | |
| RO | Long-term investment (Note 3) | 23,168 | US\$ | 10,047 | | 1,194 | US\$ | 536 | | 20,714 | US\$ | 14,806 | US\$ | 9,766 US\$ 5,706 (Note 4) |

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)

| Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationship | Prior Transaction of Related Counter-party | | Transfer Date | Transfer Amount | Price Reference | I |
|-------------------|--------------------|------------------------------|---------------------------------|------------------------|--|--------------|---------------|-----------------|-----------------|----------|
| | | | | | Owner | Relationship | | | | |
| June 19, 2002 | \$ 263,000 | By the construction progress | Mandartech Interiors, Inc. | | N/A | N/A | N/A | N/A | Public bidding | Ma |
| July 11, 2002 | 137,402 | By the construction progress | UISC | | N/A | N/A | N/A | N/A | Public bidding | pu Ma |
| August 6, 2002 | 124,775 | By the construction progress | Meissner & Wurst | | N/A | N/A | N/A | N/A | Public bidding | pu Ma |
| November 15, 2002 | 244,654 | By the construction progress | Fu Tsu Construction Co, Ltd. | | N/A | N/A | N/A | N/A | Public bidding | pu Ma |
| April 9, 2002 | 135,000 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public bidding | pu Ma |
| April 12, 2002 | 109,880 | By the construction progress | Great Construction System, Inc. | | N/A | N/A | N/A | N/A | Public bidding | pu Ma |
| June 24, 2002 | 984,995 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public bidding | pu Ma |

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 | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | |
|--------------|----------------------------|------------------------|---------------------|----------------|------------|-----------------------------------|----------------------|---------------|--------------------------------------|------------|------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total | Note |
| 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 | Amount | Action Taken | Overdue | Amounts Received | Allowance in for Subsequent Bad Debts |
|--------------|----------------------------|------------------------|----------------|---------------|-------------|--|---------|------------------|---------------------------------------|
| | | | | | | | Period | | |
| 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)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2002 | | | Carrying Value (Note 1) | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note 2) | Note |
|------------------|------------------------|---------------------------------|-----------------------------------|----------------------------|---------------|---------------------------------|-------------------------|------------|-------------------------|-----------------------------------|---------------------------------|------|
| | | | | December 31, 2002 | Dec. 31, 2001 | Shares (Thousand) | Percentage of Ownership | | | | | |
| TSMC | TSMC North America | San Jose, California, U.S.A. | Marketing and engineering support | \$ 333,178 | \$ 333,178 | 11,000 | 100 | \$ 173,601 | \$ 140,654 | \$ 139,021 | Subsidiary | |
| | TSMC Europe | Amsterdam, The Netherlands | Marketing and engineering support | 2,960 | 2,960 | | 100 | 13,670 | (1,615) | 1,615 | Subsidiary | |
| | TSMC Japan | Yokohama, Japan | Marketing and engineering support | 83,760 | 83,760 | 6 | 100 | 94,258 | 3,145 | 6,045 | Subsidiary | |
| | VIS | Hsin-Chu, Taiwan | IC Design and manufacturing | 6,503,640 | 6,503,640 | 556,133 | 25 | 2,415,297 | (3,250,831) | (821,771) | Investee | |
| | | | | (Note 3) | | | | (Note 3) | | | | |
| | 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.

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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.

Taiwan Semiconductor Manufacturing Company Ltd., and

Vanguard International Semiconductor Corporation

Combined Financial Statements as of December 31, 2002

Together with Independent Accountants Report

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

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 |

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| 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 | |
| | <hr/> | <hr/> |
| Total Other Assets | 23,628,294 | 6 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | \$ 412,468,300 | 100 |
| | <hr/> | <hr/> |

| 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 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 46,508,983 | 11 |
| | <hr/> | <hr/> |
| 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 | |
| | <hr/> | <hr/> |
| Total Long-term Liabilities | 57,056,494 | 14 |
| | <hr/> | <hr/> |
| 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 | |
| | <hr/> | <hr/> |
| Total Other Liabilities | 4,242,948 | 1 |
| | <hr/> | <hr/> |
| MINORITY INTEREST IN AFFILIATES (Note 2) | 8,806,668 | 2 |
| | <hr/> | <hr/> |
| Total Liabilities | 116,615,093 | 28 |
| | <hr/> | <hr/> |
| 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 | | |

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| | | |
|---|----------------|-------|
| 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) | |
| | <hr/> | <hr/> |
| Total Shareholders Equity | 295,853,207 | 72 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 412,468,300 | 100 |
| | <hr/> | <hr/> |

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)

| | <u>Amount</u> | <u>%</u> |
|---|----------------|----------|
| GROSS SALES (Notes 2, 21 and 25) | \$ 171,038,907 | |
| SALES RETURNS AND ALLOWANCES (Note 2) | (4,236,258) | |
| NET SALES | 166,802,649 | 100 |
| COST OF SALES (Note 21) | 118,054,595 | 71 |
| GROSS PROFIT | 48,748,054 | 29 |
| OPERATING EXPENSES (Notes 21 and 25) | | |
| Research and development | 11,890,880 | 7 |
| General and administrative | 7,237,899 | 5 |
| Marketing | 2,225,936 | 1 |
| Total Operating Expenses | 21,354,715 | 13 |
| INCOME FROM OPERATIONS | 27,393,339 | 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 | 295,835 | |

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| | | |
|---|-----------|---|
| Total Non-Operating Income | 3,303,020 | 2 |
| <hr/> | | |
| 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)

English Translation of Financial Statements Originally Issued in Chinese

| | <u>Amount</u> | <u>%</u> |
|---|-------------------------------------|------------------------------------|
| 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 | 81,792 | |
| | <u>6,197,047</u> | <u>4</u> |
| Total Non-Operating Expenses | | |
| | <u>6,197,047</u> | <u>4</u> |
| INCOME BEFORE INCOME TAX (Note 25) | 24,499,312 | 14 |
| INCOME TAX EXPENSE (Notes 2 and 17) | (5,342,872) | (3) |
| | <u>19,156,440</u> | <u>11</u> |
| INCOME BEFORE MINORITY INTEREST | 19,156,440 | 11 |
| MINORITY INTEREST IN LOSS OF AFFILIATES (Notes 2 and 25) | 2,453,851 | 2 |
| | <u>\$ 21,610,291</u> | <u>13</u> |
| COMBINED NET INCOME | \$ 21,610,291 | 13 |
| | <u>\$ 21,610,291</u> | <u>13</u> |
| | Income Before Income Tax | Combined Net Income |
| EARNINGS PER SHARE (Note 20) | | |
| Basic earnings per share | \$ 1.29 | \$ 1.14 |
| | <u>\$ 1.29</u> | <u>\$ 1.14</u> |
| Diluted earnings per share | \$ 1.29 | \$ 1.14 |
| | <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 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 affiliates that have been eliminated upon combination are as follows:

| 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 | |
| | | Receivable from related parties | 9,739,236 | TSMC-North America |
| | | | 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 | | |
| | 1,635 | WaferTech | | |
| TSMC International | Notes receivable | 347,530 | TSMC Technology | |
| | 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 | |
| TSMC Technology | Interest income | 345,620 | TSMC International | |
| | Accounts receivable | 4,986 | WaferTech | |
| | Deferred revenue | 13,356 | TSMC Development | |
| | Management service income | 27,331 | WaferTech | |
| WaferTech | Technical service income | 14,758 | TSMC Development | |
| | 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

| | <u>2002</u> |
|---------------|---------------------|
| Listed stocks | \$ 170,012 |
| 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

| | <u>2002</u> |
|---------------------------|----------------------|
| 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 | (3,877,750) |
| | <u>\$ 12,970,416</u> |

8. LONG-TERM INVESTMENTS

| | <u>2002</u> | |
|--|-----------------|---------------|
| | <u>Carrying</u> | <u>% of</u> |
| | <u>Value</u> | <u>Owner-</u> |
| | | <u>Ship</u> |
| <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 |

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4,353,180

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 |
|------------------------------------|---------|---|

(Forward)

| | 2002 | |
|--|-------------------|----------------|
| | % of | |
| | Carrying Value | Owner- Ship |
| 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 |
| 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 |

(Forward)

| | 2002 | |
|-------------------------------|----------------------|----------------|
| | Carrying | % of |
| | Value | Owner- Ship |
| 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> | |
| <u>Convertible note</u> | | |
| eBest!, Inc. | 834 | |
| <u>Funds</u> | | |
| 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. | 318,855 |

(\$ 836,221)

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

| | <u>2002</u> |
|--|--------------|
| 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 | 237,440 |

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:

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

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

10. DEFERRED CHARGES-NET

| | <u>2002</u> |
|---|---------------------|
| 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 | 10,430 |
| | <u>\$ 9,921,646</u> |

11. SHORT-TERM BANK LOANS

| | <u>2002</u> |
|--|---------------------|
| 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% | 300,000 |
| | <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 |
| | \$ 25,893,919 |

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 long-term bank loan arrangements are as follows:

| <u>Year</u> | <u>Amount</u> |
|---------------------|----------------------|
| 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

| | <u>2002</u> |
|--|----------------------|
| Domestic unsecured bonds | |
| Issued on March 4, 1998 and payable on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually | \$ 4,000,000 |
| 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:

| <u>Year of Repayment</u> | <u>Amount</u> |
|--------------------------|----------------------|
| 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:

| <u>Year</u> | <u>Amount</u> |
|---------------------|---------------------|
| 2003 | \$ 1,157,299 |
| 2004 | 1,226,805 |
| 2005 | 987,009 |
| 2006 | 469,189 |
| 2007 | 486,566 |
| 2008 and thereafter | 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:

| | <u>2002</u> |
|--|------------------|
| a. Components of pension cost | |
| Service cost | \$ 498,112 |
| Interest cost | 134,535 |
| Projected return on plan assets | (51,596) |
| Amortization | (3,758) |
| | <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 |
| | <u>1,789,826</u> |
| Accumulated benefit obligation | 1,789,826 |
| Additional benefits based on future salaries | 1,433,022 |
| | <u>3,222,848</u> |
| Projected benefit obligation | 3,222,848 |
| Fair value of plan assets | (1,154,754) |
| | <u>2,068,094</u> |
| Funded status | 2,068,094 |
| Unrecognized net transitional obligation | (142,562) |
| Unrecognized net gain | 625,386 |
| | <u>2,550,918</u> |
| Accrued pension cost | \$ 2,550,918 |
| 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 | \$ 181,980 |
| | <u>5,360</u> |
| e. Payments from pension fund | \$ 5,360 |

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

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| | |
|--|----------------|
| 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 | (519,490) |
| | <hr/> |
| Current income tax expense before income tax credits | (\$ 4,874,342) |
| | <hr/> |

| | <u>2002</u> |
|---|----------------|
| b. Income tax expense consists of: | |
| 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 | (29,160) |
| | <hr/> |
| 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 | (3,721,918) |
| | <hr/> |
| Income tax expense | (\$ 5,342,872) |
| | <hr/> |
| c. Deferred income tax assets (liabilities) consist of the following: | |
| Current | |
| Investment tax credits | \$ 3,807,330 |
| Loss carryforward | 1,423,729 |
| Temporary differences | 655,371 |
| Valuation allowance | (2,473,490) |
| | <hr/> |
| | \$ 3,412,940 |
| | <hr/> |
| Noncurrent | |
| Investment tax credits | \$ 23,916,915 |
| Loss carryforward | 10,667,199 |
| Temporary differences | (7,871,504) |
| Valuation allowance | (13,559,479) |
| | <hr/> |
| | \$ 13,153,131 |
| | <hr/> |

The effective tax rates 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:

| | <u>2002</u> |
|---|-------------|
| Balance of the imputation credit accounts | |
| TSMC | \$ 6,650 |
| | <hr/> |
| VIS | \$ 7,396 |
| | <hr/> |

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 | Remaining | Expire |
|----------------------------------|---------------------------------------|----------------------|----------------------|--------|
| | | Creditable | Creditable | |
| | | Amounts | Amounts | 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 |
| | | <u>\$ 4,496,181</u> | <u>\$ 4,238,590</u> | |
| 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 |
| | | <u>\$ 26,862,581</u> | <u>\$ 19,610,467</u> | |
| 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 |
| | | <u>\$ 8,339,196</u> | <u>\$ 7,601,205</u> | |
| Statute for Upgrading Industries | Personnel training | \$ 10,161 | \$ | 2002 |
| | | 18,033 | 18,033 | 2003 |
| | | 45,552 | 45,552 | 2004 |
| | | 30,880 | 30,880 | 2005 |
| | | <u>\$ 104,626</u> | <u>\$ 94,465</u> | |
| Statute for Upgrading Industries | Reputation setting | \$ 10,457 | \$ | 2002 |
| | | 803 | 803 | 2003 |
| | | <u>\$ 11,260</u> | <u>\$ 803</u> | |

(Forward)

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

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 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 |
| VIS: | |
| 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):

- a. 10% legal reserve;
- b. Special reserve in accordance with relevant laws or regulations;

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

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

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

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

| | 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 decrease from NT\$0.83 to NT\$0.76.

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

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

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

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

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

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

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

Preferred shareholders

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

On June 25, 2002, the SFC approved TSMC's Employee Stock Option Plan (the Plan I). Plan I provides qualified employees and non-employees with 100,000 thousand units of option rights with each unit representing one common share of stock. The option rights are valid for 10 years and exercisable at certain percentages subsequent to the second anniversary of issuance. Under the terms of the plan, stock options are granted at an 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:

| | Outstanding | | |
|-----------------------------------|----------------------|-----------------|-----------------|
| | Option Rights | | |
| Option | | | Weighted |
| Rights | Number | | |
| Available | of | | |
| For | Option | | |
| Grant | Rights | 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:

| | Outstanding | | |
|---------------|----------------------|--|-----------------|
| | Option Rights | | |
| Option | | | Exercise |
| | Number | | |
| | of | | |

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| | Rights | Option | Price |
|----------------------------|-------------------|-------------------|-------------------|
| | Available | Rights | (US\$) |
| | For Grant | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Balance, January 1, 2002 | | | |
| Options granted | 4,608 | 3,062 | 1.43 |
| Options exercised | | (1,260) | 1.22 |
| Options cancelled | 216 | (216) | 1.93 |
| | <u> </u> | <u> </u> | |
| Balance, December 31, 2002 | 4,824 | 1,586 | |
| | <u> </u> | <u> </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)

(Shares in Thousand)

| Purpose of Purchase | Beginning | | | Ending |
|--|-----------|----------|----------|--------|
| | Shares | Increase | Decrease | 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 |
| December 31, 2002 | | | | | |
| Income | \$ 24,499,313 | \$ 21,610,291 | | | |
| Less preferred stock dividends | (455,000) | (455,000) | | | |
| Basic earnings per share Income available to common shareholders | \$ 24,044,313 | \$ 21,155,291 | 18,580,700 | \$ 1.29 | \$ 1.14 |
| Diluted earnings per share Income available to common shareholders | \$ 24,044,313 | \$ 21,155,291 | 18,580,700 | \$ 1.29 | \$ 1.14 |

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:

- a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC and VIS is one of its directors
- b. Philips Electronics N.V., (Philips), a major shareholder of TSMC
- c. SSMC, an investee of TSMC
- d. VIS Micro, an investee of VIS's subsidiary (VIS Associates Inc.)
- e. Powerchip Semiconductor Corporation (PSC), VIS is one of its directors

- f. Walsin Advanced Electronics (WAE), VIS is one of its directors

- g. 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 | \$ 2,751,297 | 2 |
| Operating expense rental | | |
| ITRI | \$ 40,535 | |
| 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 | |
| PSC | 15 | |
| | <u>\$ 381,812</u> | <u>100</u> |



(Forward)

| | 2002 | |
|----------------------------|---------------------|------------|
| | Amount | % |
| Payables | | |
| Philips and its affiliates | \$ 730,847 | 63 |
| SSMC | 391,426 | 33 |
| WAE | 43,111 | 4 |
| VIS Micro | 1,242 | |
| ITRI | 711 | |
| PSC | 100 | |
| | <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:

| <u>Year</u> | <u>Amount</u> |
|---------------------|---------------------|
| 2003 | 377,379 |
| 2004 | 367,698 |
| 2005 | 363,633 |
| 2006 | 363,591 |
| 2007 | 360,669 |
| 2008 and thereafter | 2,197,341 |
| | <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:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 8, 2007 and thereafter be automatically renewed for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts TSMC pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year of up to 30% of TSMC's production capacity.
- c. Under a technical cooperation agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- d. Under several foundry agreements, TSMC shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$39,810 thousand had been received as of December 31, 2002.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, and allow TSMC to invest in 32% of SSMC's capital. TSMC and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.

- f. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. TSMC receives compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. Beginning in 2001, TSMC entered into several license arrangements for certain semiconductor patents. The terms of the contracts range from five to ten years with payments to be paid in the form of royalties over the term of the related contracts. TSMC has recorded the related amounts as a liability and a deferred charge to be amortized to cost of sales on a straight-line basis over the shorter of the estimated useful life of the technology or the term of the contract.
- h. Under a Technology Transfer Agreement with National Semiconductor Corporation (National) entered into on June 27, 2000, TSMC shall receive payments for license of certain technology to National. The agreement will remain in force for ten years. After the initial expiration date, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions. In January 2003, the agreement was amended such that National will discontinue making payments under the original terms and TSMC will discontinue transferring any additional technology. TSMC granted National the option to request additional technology transfers under the same terms and conditions of the original agreement through January 2008.
- i. VIS shall pay royalties under various patent and license agreements as follows:
 - 1) ITRI at a specific percentage of sales of certain products for five years starting from the commercial sale of certain products.
 - 2) Texas Instruments Incorporated at a specific percentage of net sales of certain products for ten years from January 1997.
 - 3) NEC Corporation at a specific amount in six installments from February 1999 to 2003.
 - 4) MITSUBISHI Corporation at a specific amount plus a specific percentage of net sales of certain products within five years from August 1999.
- j. In December 2000, TSMC-North America and WaferTech initiated stock appreciation right programs whereby the employees receive cash bonuses based on the appreciation of the quoted market price of the shares of stock of TSMC. 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.

1. 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

| <u>Contract</u> | <u>Currency</u> | <u>Contract</u> | <u>Fair Value</u> | <u>Settlement Date</u> | <u>Maturity</u> |
|-----------------|-----------------|-----------------|-------------------|------------------------|-----------------|
|-----------------|-----------------|-----------------|-------------------|------------------------|-----------------|

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| | | Amount <u>(Thousand)</u> | <u>(Thousand)</u> | | | Amount <u>(Thousand)</u> |
|-------------|-----|-----------------------------|-------------------|---------------|---------------|-----------------------------|
| <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:

| | | Contract | | | | | | |
|-------------|-----------------|-----------------|----------------------------|--------------|-------------------|---------------------|-----------------|--|
| | | Amount | Carrying Fair Value | | | | | |
| Type | Contract | Currency | (Thousand) | Value | (Thousand) | Strike Price | Contract | |
| <hr/> | | | | | | | | |

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| | | | | | | | | |
|----------|---------------------|-----|------------|----|--------------|------------------|---------------|---------------|
| European | Call option written | USD | \$ 230,000 | \$ | (\$ 404,884) | 32.78-33.22 | Jan. 9, 2003 | Feb. 25, 2003 |
| | | | | | | (US\$/NT\$) | | |
| 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 | | Settlement Date |
|----------|----------------------|--------------------------|----------------------------|
| | Amount (Thousand) | Fair Value (Thousand) | |
| 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 |
| Receivables 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 |
| Payables to related parties | 1,167,437 | 1,167,437 |
| Notes and accounts payable | 5,786,264 | 5,786,264 |
| Payables 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:

- a) Short-term financial instruments carrying values.
- b) Short-term investments market values.
- c) Long-term investments market value for traded companies and net equity value for non-traded companies.
- d) Refundable deposits, guarantee deposits and other long-term liabilities carrying values.
- e) Long-term bank loan Fair values of long-term bank loans are their carrying values as they use floating interest rate.

- f) Long-term liabilities based on forecasted cash flows discounted at interest rates. Bonds payable is discounted to present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest 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 | \$ 105,312,278 | \$ 169,269,039 | (\$ 107,778,668) | \$ 166,802,649 |
| Gross profit | (\$ 19,865) | \$ 48,639,761 | \$ 128,158 | \$ 48,748,054 |
| Operating expenses | | | | (21,354,715) |
| Non-operating income | | | | 3,303,020 |
| Non-operating expenses | | | | (6,197,047) |
| Income before income tax | | | | \$ 24,499,312 |
| Minority interest income | | | | \$ 2,453,851 |
| Identifiable assets | \$ 75,840,416 | \$ 358,845,308 | (\$ 33,567,344) | \$ 401,118,380 |
| Long-term investments | | | | 11,349,920 |
| Total assets | | | | \$ 412,468,300 |

b. Gross export sales

| Area | |
|-----------------|----------------|
| North Americas | \$ 96,254,239 |
| Asia and others | 42,167,270 |
| Europe | 9,464,008 |
| | \$ 147,885,517 |

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:

| <u>Customers</u> | <u>2002</u> | |
|------------------|---------------|----------|
| | <u>Amount</u> | <u>%</u> |
| A Customer | \$ 32,769,054 | 20 |

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)

| Financing Name | Counter-party | Financial Statement Account | Maximum | Ending Balance | Interest Rate | Financing Reasons | Reasons for | Collateral | | Financing Limit for Each Borrowing Company | Financing Amount Limit (US\$ in Thousand) |
|--------------------|----------------------|-----------------------------|---|--------------------|---------------|-------------------|-------------------|-----------------------------------|----|--|---|
| | | | Balance for the Period (US\$ in Thousand) | (US\$ in Thousand) | | | | Allowance for Bad Debt Item Value | | | |
| TSMC International | TSMC Technology Inc. | Other receivables | \$ 536,372 | \$ 536,372 | 4.25% | 2 | Operating capital | \$ | \$ | N/A | \$ 34,334,85 |
| | | | (US\$ 15,434) | (15,434) US\$ | | | | | | | (US\$ 987,90 |

(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 SEMICODUCOTR CORPORATION

ENDORSEMENT/GUARANTEE PROVIDED

For the Year Ended December 31, 2002

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

| Endorsement/ Guarantee No. | Endorsement/ Guarantee Provider | Counter-party | | Limits on Each Counter-party 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 (268,000) US\$ | \$ 6,950,600 (200,000) US\$ | | 2.37% | \$ 59,768,660 |
| | | TSMC North America | 2 | | 1,390,120 (40,000) US\$ | 1,390,120 (40,000) US\$ | | 0.47% | |
| | | WaferTech | 3 | | 15,291,320 (440,000) US\$ | 15,291,320 (440,000) US\$ | | 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 | | Market Value or Net Asset Value (US\$ in Thousand) | |
| | | | | | (US\$ in Thousand) | Percentage of Ownership | | |
| MC | <u>Stock</u> | | | | | | | |
| | TSMC North America | Subsidiary | Long-term investment | 11,000 | \$ 173,601 | 100 | \$ 921,883 | The treasury stocks in amount 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\$849,300 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 amount 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 amount 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 amount NT\$255,692 thousand are deducted from the carrying value. |
| | SSMC | Investee | Long-term investment | 382 | 3,136,115 | 32 | 3,136,115 | |
| | Emerging Alliance | Subsidiary | Long-term investment | | 767,239 | 99 | 767,239 | |
| | Taiwan Mask Corp. | | Long-term investment | 8,794 | 32,129 | 2 | 160,574 | |
| | United Technology Co., Ltd. | | Long-term investment | 16,783 | 193,584 | 11 | 280,931 | |
| | Shin-Etsu Handotai Taiwan Co., Ltd. | | Long-term investment | 10,500 | 105,000 | 7 | 137,355 | |
| | W.K. Technology Fund IV | | Long-term investment | 5,000 | 50,000 | 2 | 59,866 | |
| | Ya Xin Technology | Subsidiary | Long-term investment | 34,125 | 341,250 | 100 | 341,250 | |
| | Hon Tung Ventures Capital | | Long-term investment | 8,392 | 83,916 | 10 | 71,216 | |
| | Amkor Technology | | Long-term investment | 505 | 280,748 | | 89,866 | |
| | Monolithic System Tech. | | Long-term investment | 470 | 104,289 | 2 | 214,949 | |

(Forward)

| | | December 31, 2002 | | | | | | |
|--------------------------|--|----------------------------------|--------------------------------|----------------------|-----------------------|---------------------------------------|-----------------------|------------------------|
| Field Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | Market Value or Net Asset Value | | Note |
| | | | | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | |
| | Crimson Asia Capital | | Long-term investment | N/A | \$ 41,988 | N/A | \$ 41,988 | |
| | Horizon Ventures | | Long-term investment | N/A | 195,452 | N/A | 195,452 | |
| C North America | <u>Stock</u> | | | | | | | |
| | TSMC | Parent company | Long-term investment | 12,692 | 748,282 | | 610,434 | |
| 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 | |
| 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 | |
| C 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 | | | | |
| | <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 |
| | | | | | | | | carrying value. |
| | United Technology Co., Ltd. | Investee | Long-term investment | 3,357 | 38,716 | 2 | 56,206 | |
| | <u>Stock</u> | | | | | | | |
| Associates | | | | | | | | |
| | VIS Investment Holding, Inc. | Subsidiary | Long-term investment | 63 | US\$ 397 | 100 | US\$ 397 | |
| | <u>Equity</u> | | | | | | | |
| | Silicon Valley Equity Fund | | Long-term investment | | US\$ 7,317 | 34 | US\$ 7,386 | |
| | Silicon Valley Equity Fund II | | Long-term investment | | US\$ 5,355 | 14 | US\$ 5,355 | |

(Forward)

| | | December 31, 2002 | | | | | | | |
|--|--|-------------------------------|-----------------------------|-------------------|--------------------|-------------------------|---------------------------------|--|------|
| Held Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | | Market Value or Net Asset Value | | Note |
| | | | | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | | |
| | <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 | | |
| | 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 | | |

(Forward)

December 31, 2002

| Held Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | Market Value or Net Asset Value | | Note |
|---|--|-------------------------------|-----------------------------|-------------------|--------------------|---------------------------------|--------------------|------|
| | | | | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | |
| | 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 | |
| | <u>Preferred stock</u> | | | | | | | |
| | Memsic, Inc. | | Long-term investment | 2,289 | US\$ 1,560 | 11 | US\$ 1,560 | |
| | OEpic, Inc. | | Long-term investment | 2,696 | US\$ 1,240 | 7 | US\$ 1,240 | |
| | Equator Technologies, Inc. | | Long-term investment | 770 | US\$ 452 | 1 | US\$ 452 | |
| | NanoAmp Solutions, Inc. | | Long-term investment | 250 | US\$ 1,000 | 1 | US\$ 1,000 | |
| | Signia Technologies, Inc. | | Long-term investment | 1,500 | US\$ 150 | 4 | US\$ 150 | |
| | Advanced Analogic Technology, Inc. | | Long-term investment | 948 | US\$ 1,261 | 2 | US\$ 1,261 | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 804 | US\$ 1,946 | 4 | US\$ 1,946 | |
| | Ralink Technologies, Inc. | | Long-term investment | 1,833 | US\$ 1,500 | 6 | US\$ 1,500 | |
| | Sonics, Inc. | | Long-term investment | 3,082 | US\$ 3,082 | 5 | US\$ 3,082 | |
| | Newport Opticom, Inc. | | Long-term investment | 1,157 | US\$ 810 | 9 | US\$ 810 | |
| | Silicon Data, Inc. | | Long-term investment | 2,000 | US\$ 1,000 | 7 | US\$ 1,000 | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 6 | US\$ 1,500 | |
| | Capella Microsystems, Inc. | | Long-term investment | 800 | US\$ 200 | 4 | US\$ 200 | |
| | Angstrom Systems, Inc. | | Long-term investment | 1,567 | US\$ 750 | 7 | US\$ 750 | |
| | Tropian, Inc. | | Long-term investment | 1,464 | US\$ 2,000 | 2 | US\$ 2,000 | |
| | SiRF Technology Holdings, Inc. | | Long-term investment | 20 | US\$ 131 | | US\$ 131 | |
| | LeadTONE Wireless, Inc. | | Long-term investment | 680 | US\$ 238 | 6 | US\$ 238 | |
| | Match Lab, Inc. | | Long-term investment | 313 | US\$ 250 | 2 | US\$ 250 | |
| | eBest!, Inc. | | Long-term investment | 185 | US\$ 97 | 1 | US\$ 97 | |
| | Kilopass Technologies, Inc. | | Long-term investment | 3,887 | US\$ 2,000 | 18 | US\$ 2,000 | |

(Forward)

| | | December 31, 2002 | | | | | | | |
|--------------|--------------------------------------|-------------------------------|-----------------------------|-------------------|--------------------|---------------------------------|--------------------|---------------------------|--|
| Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | Market Value or Net Asset Value | | Note | |
| | | | | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | | |
| | <u>Bond</u> | | | | | | | | |
| | eBest!, Inc. | | Long-term investment | | US\$ 24 | | US\$ 24 | | |
| | <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 | |
| | 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)

| and e of table rity | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Gain (Loss) on Disposal | Sh |
|------------------------------|-----------------------------------|--------------------------------------|---------------------------|----------------------|---------------------------------|----------------------|---------------------------------|----------------------|---------------------------------|--|-------------------------------|----|
| | | | | Shares (Thousand) | Amount (US\$ in Thousand) | Shares (Thousand) | Amount (US\$ in Thousand) | Shares (Thousand) | Amount (US\$ in Thousand) | Carrying Value (US\$ in Thousand) | | |
| | Long-term investment | SSMC | Investee | 301 | \$ 2,907,967 | 81 | \$ 1,421,846 | | \$ | | \$ | |
| onal | Long-term investment | TSMC-BVI | Subsidiary | 779,968 | 19,987,814 | 208,000 | 7,280,000 | | | | | |
| ic Tech. | Long-term investment | Monolithic System Tech. | Investee | | | 470 | 104,289 | | | | | |
| g | Long-term investment | Emerging Alliance Fund, LP | Subsidiary | | 741,617 | | 168,615 | | | | | |
| | Long-term investment | VIS | Investee | 556,133 | 3,377,526 | 121,338 | 849,360 | | | | | |
| gy | Long-term investment | Ya Xin Technology | Subsidiary | | | (Note 2) 34,125 | (Note 2) 341,250 | | | | | |
| ment, | Long-term investment | TSMC Development, Inc. | Subsidiary | 1 | US\$ 201,231 | | US\$ 208,000 | | | | | |
| ductor | Long-term investment | InveStar Semiconductor | Subsidiary | 45,000 | US\$ 45,766 | 6,300 | US\$ 6,300 | | | | | |
| ment Inc. ch | Long-term investment | Development Fund (II) Inc. WaferTech | Subsidiary | | US\$ 226,541 | | US\$ 120,000 | | | | | |
| d | Short-term investment | | | 26,278 | 350,000 | 33,108 | 450,000 | 59,386 | 807,970 | 800,000 | 7,970 | |
| Duo | | | | | | 70,860 | 850,000 | 70,860 | 853,974 | 850,000 | 3,974 | |

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| | | | | | | | | | | |
|-------|-----------------------|--------|-------------|--------|----------|--------|-------------|------------|------------|--|
| | Short-term investment | | | | | | | | | |
| ROC | Short-term investment | 25,923 | 350,000 | | | 25,923 | 356,458 | 350,000 | 6,458 | |
| | Short-term investment | | | 3,814 | 580,000 | 3,814 | 582,977 | 580,000 | 2,977 | |
| | Short-term investment | | | 43,630 | 550,000 | 43,630 | 554,407 | 550,000 | 4,407 | |
| Chian | Short-term investment | 28,409 | 400,000 | | | 28,409 | 402,869 | 400,000 | 2,869 | |
| | | | | | | | | | | |
| | | | | | | | | | | |
| URO | Long-term investment | 23,168 | US\$ 10,047 | 1,194 | US\$ 536 | 20,714 | US\$ 14,806 | US\$ 9,766 | US\$ 5,706 | |

(Note 4)

(Note 3)

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 |
|--------------|-------------------|-------------------|--------------------|------------------------------|---------------------------------|------------------------|--|--------------|---------------|--------|-----------------|------------------------|-------|
| | | | | | | | Owner | Relationship | Transfer Date | Amount | | | |
| IC | 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 | N |
| | | July 11, 2002 | 137,402 | By the construction progress | UISC | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | N |
| | | August 6, 2002 | 124,775 | By the construction progress | Meissner & Wurst | | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | N |
| | | 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 | N |
| | 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 | N |
| | | 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 | N |
| | | 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 | N |

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 | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | Note |
|--------------|----------------------------|------------------------|---------------------|--------------|------------|-----------------------------------|----------------------|---------------|--------------------------------------|------------|------|
| | | | Purchase/Sales | 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 | None | None | \$ 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 | 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 | |
|--------------|----------------------------|------------------------|----------------|---------------|--------------|--|----------------------|-------------------------|
| | | | | | Amount | Action Taken | in Subsequent Period | Allowance for Bad Debts |
| 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)

| 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) |
|-----------------------|---------------------------------|-----------------------------------|----------------------------|---------------|---------------------------------|-------------------------|-------------------------|-----------------------------------|---------------------------------|
| | | | December 31, 2002 | Dec. 31, 2001 | Shares (Thousand) | Percentage of Ownership | Carrying Value (Note 1) | | |
| IC North America | San Jose, California, U.S.A. | Marketing and engineering support | \$ 333,178 | \$ 333,178 | 11,000 | 100 | \$ 173,601 | \$ 140,654 | \$ 139,654 |
| IC Europe | Amsterdam, The Netherlands | Marketing and engineering support | 2,960 | 2,960 | | 100 | 13,670 | (1,615) | 13,670 |
| IC Japan | Yokohama, Japan | Marketing and engineering support | 83,760 | 83,760 | 6 | 100 | 94,258 | 3,145 | 6,145 |
| | Hsin-Chu, Taiwan | IC Design and manufacturing | 6,503,640 | 6,503,640 | 556,133 | 25 | 2,415,297 | (3,250,831) | (82,831) |
| | | | (Note 3) | | | | (Note 3) | | |
| IC International | Tortola, British Virgin Islands | Investment | 31,445,780 | 24,165,780 | 987,968 | 100 | 22,265,157 | (4,714,203) | (4,714,203) |
| IC Chengde Investment | Taipei, Taiwan | Investment | 300,000 | 100,000 | | 36 | 41,894 | 13,821 | 13,821 |
| Ruey Investment | Taipei, Taiwan | Investment | 300,000 | 100,000 | | 36 | 39,815 | 12,533 | 6,533 |
| IC Partners | Tortola, British Virgin Islands | Investment | 10,350 | 10,350 | 300 | 100 | 3,753,733 | 924,362 | 993,362 |
| IC Singapore | Singapore | Manufacturing wafers | 6,408,190 | 4,986,344 | 382 | 32 | 3,136,115 | (3,609,569) | (1,153,454) |
| IC Singing Alliance | Cayman Islands | Investment | 1,005,660 | 837,045 | | 99 | 767,239 | (142,865) | (142,865) |
| IC n Technology | Taipei, Taiwan | Electronic manufacturing | 341,250 | | 34,125 | 100 | 341,250 | | |

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.

Taiwan Semiconductor Manufacturing Company Ltd.

and Subsidiaries

Consolidated Financial Statements as of December 31, 2002 and 2001

Together with Independent Auditors Report

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

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 16, 2003

The Board of Directors and the Shareholders

Taiwan Semiconductor Manufacturing Company Ltd.

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

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

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

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

T N Soong & Co

An Associate Member Firm of Deloitte Touche Tohmatsu

Effective April 22, 2002

(Formerly a Member Firm of Andersen Worldwide, SC)

Taipei, Taiwan

The Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2002 and 2001

(In Thousand New Taiwan Dollars, Except Par Value)

| | 2002 | | 2001 | |
|--|--------------------|------------|--------------------|-----------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| 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 |

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| 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 (Note 20 and 22) | 557,266 | | 784,089 | |
| Idle assets net (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 |

| | 2002 | | 2001 | |
|--|-------------------|-----------|-------------------|-----------|
| | Amount | % | Amount | % |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| 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 |

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| 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 INCOME

For the Years Ended December 31, 2002 and 2001

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

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

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

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

| | Income Before | Consolidated | Income Before | Consolidated |
|--|------------------|--------------|------------------|--------------|
| | Income Tax | Net Income | Income Tax | Net Income |
| CONSOLIDATED EARNINGS PER SHARE (Note 19) | | | | |
| Basic earnings per share | \$ 1.44 | \$ 1.14 | \$ 0.55 | \$ 0.75 |
| Diluted earnings per share | \$ 1.44 | \$ 1.14 | \$ 0.55 | \$ 0.75 |

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) | | | | | | Total | |
|---|----------------------|---------------|--------------|----------------|----------------------------------|----------------------------------|----------------------------------|--|-----------------------------------|-------------------|-------|---------------|
| | 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 Stock | | Treasury |
| | Shares | Amount | Shares | Amount | | | | | | | | |
| | (Thousand) | | (Thousand) | | | | | | | | | |
| 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 |
| Appropriations of prior year's earnings | | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | | |
| Bonus to employees' stock | | | 467,443 | 4,674,426 | | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | | |
| Stock dividends 40% | | | 4,675,746 | 46,757,459 | | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | | |
| Net income in 2001 | | | | | | | | | | | | |
| Reclassification of the accumulated deficits from the merged company | | | | | 1,803,168 | | | | | | | 1,803,168 |
| Gain on sales of property, plant and equipment | | | | | | | | | 39,282 | | | 39,282 |
| Gain on sales of property, plant and equipment from investees | | | | | | | 162 | | | | | 162 |

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| | | | | | | | | | | | |
|---|-----------|------------|------------|-------------|------------|------------|---------|-----------|---------|--------|------------|
| Reversal of the unrealized loss on long-term investments | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | |
| 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 |
| Appropriations of prior year's earnings | | | | | | | | | | | |
| Legal reserve | | | | | | | | | | | |
| Special reserve | | | | | | | | | | | |
| Bonus to employees' stock | | | 107,078 | 1,070,783 | | | | | | | |
| Cash dividends paid for preferred stocks | | | | | | | | | | | |
| Stock dividends 10% | | | 1,683,255 | 16,832,553 | | | | | | | |
| Remuneration to directors and supervisors | | | | | | | | | | | |
| Net income in 2002 | | | | | | | | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings | | | | | | | | (166,518) | | | (166,518) |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | | | | | (162) | | | | (162) |
| Unrealized loss on long-term investments | | | | | | | | | | | |
| Translation adjustments | | | | | | | | | | | |
| Reclassification of stocks of a parent company held by subsidiaries from long-term investments to treasury stock | | | | | | | | | | | |
| Capital surplus resulted from sales of treasury stock | | | | | | | | | | 43,036 | 43,036 |

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| | | | | | | | | | | | | |
|----------------------------------|-----------|---------------|------------|----------------|---------------|---------------|------------|--------------|----|-------|-----------|---------------|
| 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 |
|----------------------------------|-----------|---------------|------------|----------------|---------------|---------------|------------|--------------|----|-------|-----------|---------------|

| | RETAINED EARNINGS (Note 17) | | | | UNREALIZED | | TREASURY STOCK (Notes 2, 3 and 18) | TOTAL SHAREHOLDERS EQUITY |
|---|-----------------------------|--------------------|----------------------------|---------------|------------------------------|--------------|--|---------------------------------|
| | Legal Reserve | Special Reserve | Unappropriated Earnings | Total | GAIN (LOSS) ON CUMULATIVE | | | |
| | | | | | LONG-TERM TRANSLATION | | | |
| | | | | | INVESTMENTS | ADJUSTMENTS | | |
| | | | | (Note 2) | (Note 2) | | | |
| BALANCE, JANUARY 1, 2001 | \$ 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 | | | (4,674,426) | (4,674,426) | | | | |
| Cash dividends paid for preferred stocks | | | (41,137) | (41,137) | | | | (41,137) |
| Stock dividends 40% | | | (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) | | | | |
| Gain on sales of property, plant and equipment | | | (39,282) | (39,282) | | | | |
| Gain on sales of property, plant and equipment from investees | | | (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 | 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 | | | (1,070,783) | (1,070,783) | | | | |
| Cash dividends paid for preferred stocks | | | (455,000) | (455,000) | | | | (455,000) |
| Stock dividends 10% | | | (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 | 12,724 | | 153,794 | 166,518 | | | | |

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| | | | | | | | | |
|---|----------------------|-----------|----------------------|----------------------|---------------------|-------------------|-----------------------|-----------------------|
| and equipment to retained earnings | | | | | | | | |
| Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings | | | 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 |
| BALANCE, DECEMBER 31, 2002 | \$ 18,641,108 | \$ | \$ 22,151,089 | \$ 40,792,197 | \$ (194,283) | \$ 945,129 | \$ (1,923,492) | \$ 295,853,207 |

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

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

(In Thousand New Taiwan Dollars)

| | <u>2002</u> | <u>2001</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 21,610,291 | \$ 14,483,174 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 65,000,873 | 55,323,040 |
| Deferred income taxes | 5,421,020 | (3,788,154) |
| Investment loss recognized by equity method net | 1,976,847 | 3,959,020 |
| Permanent loss on long-term investments | 795,674 | |
| Loss (gain) on sales of long-term investments net | 170,831 | (105,439) |
| Loss on sales of and provision for loss on property, plant and equipment net | 192,387 | 183,253 |
| Reversal of provision for losses on short-term investments net | | (13,146) |
| Pension cost accrued | 355,705 | 345,340 |
| Allowance for doubtful receivables | (167,499) | 153,758 |
| Allowance for sales returns and others | (209,036) | 123,228 |
| Minority interest in income (loss) of subsidiaries | (24,791) | 44,009 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Receivable from related parties | 55,073 | 453,994 |
| Notes receivable | 116,342 | (51,407) |
| Accounts receivable | 426,934 | 10,377,678 |
| Inventories net | (1,373,118) | 2,957,395 |
| Forward exchange contract receivable | (199,609) | 49,480 |
| Prepaid expenses and other current assets | (330,819) | 202,303 |
| Increase (decrease) in: | | |
| Payable to related parties | 727,876 | (1,558,066) |
| Accounts payables | 3,740,713 | (7,109,948) |
| Forward exchange contract payables | (379,579) | 218,165 |
| Accrued expenses and other current liabilities | 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 |
| Increase in deferred charges | (5,724,583) | (1,805,250) |

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| | | |
|-------------------------------------|---------|---------|
| Decrease in refundable deposits | 226,823 | 194,978 |
| Decrease (increase) in other assets | 2,711 | (9,162) |

(Forward)

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| | 2002 | 2001 |
|---|----------------------|----------------------|
| Increase (decrease) in minority interest in subsidiaries | \$ 49 | (\$ 249,166) |
| Increase in goodwill | | (1,019,227) |
| Net Cash Used in Investing Activities | (62,189,540) | (77,231,886) |
| 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 | (6,346,146) | 897,227 |
| 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 | 37,556,295 | 38,840,217 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | \$ 67,790,204 | \$ 37,556,295 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid (excluding the amounts capitalized of NT\$213,686 thousand and NT\$507,094 thousand in 2002 and 2001, respectively) | \$ 2,301,765 | \$ 3,468,112 |
| Income tax paid | \$ 165,121 | \$ 20,767 |
| Noncash investing and financing activities: | | |
| Reclassification of a parent company stock held by subsidiaries from long-term investments to treasury stock | \$ 1,923,492 | \$ |
| Effect of exchange rate changes on cash and cash equivalents | (\$ 142,438) | \$ 1,258,395 |
| Current portion of long-term liabilities | \$ 12,107,899 | \$ 5,001,116 |
| 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 |

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| | | |
|---|-----------------------------|-----------------------------|
| | \$ 55,235,458 | \$ 70,201,205 |
| | <u> </u> | <u> </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> </u> | <u> </u> |
| | \$ 5,724,583 | \$ 1,805,250 |
| | <u> </u> | <u> </u> |

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

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

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

Cash and cash equivalents

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

Short-term investments

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

Allowance for doubtful receivables

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

Sales and sales returns and allowances

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

Inventories

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

Long-term investments

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill

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

Deferred charges

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

Pension costs

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

Deferred gain on sales and leaseback

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

Casualty loss

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

Income tax

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

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

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

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

Derivative financial instruments

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

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

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

Foreign-currency transactions

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

Translation of foreign-currency financial statements

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. SIGNIFICANT ELIMINATION ENTRIES

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

| 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 |
| | | 9,955,154 | WaferTech |
| | 208,226 | TSMC-Japan | |
| | 132,086 | TSMC-Europe | |
| | 1,635 | WaferTech | |
| TSMC | Notes receivable | 347,530 | TSMC Technology |
| International | Interest receivable | 188,842 | TSMC Technology |
| | Royalty income | 455,778 | TSMC Technology |
| | Interest revenue | 26,660 | TSMC Technology |
| TSMC Partners | Notes receivable | 10,666,619 | TSMC International |
| | Deferred revenue | 9,398,140 | TSMC International |
| | Royalty income | 607,669 | TSMC International |
| | Interest income | 345,620 | TSMC International |
| TSMC Technology | Accounts receivable | 4,986 | WaferTech |
| | Deferred revenue | 13,356 | TSMC Development |
| | Management service income | 27,331 | WaferTech |
| | Technical service income | 14,758 | TSMC Development |
| WaferTech | Deferred charges | 31,278 | TSMC Technology |
| | Administrative expense | 34,563 | TSMC Technology |

5. CASH AND CASH EQUIVALENTS

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

6. SHORT-TERM INVESTMENTS

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

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

7. INVENTORIES NET

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

8. LONG-TERM INVESTMENTS

| <u>2002</u> | | <u>2001</u> | |
|-------------|------|-------------|------|
| Carrying | % of | Carrying | % of |

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| | <u>Value</u> | <u>Owner- Ship</u> | <u>Value</u> | <u>Owner- Ship</u> |
|--|------------------|------------------------|------------------|------------------------|
| <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 | <u>849,360</u> | | | |
| | <u>849,360</u> | | | |

(Forward)

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

(Forward)

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

(Forward)

| | 2002 | | 2001 | |
|---|----------------------|-----------------|----------------------|-----------------|
| | Carrying Value | % of Owner-Ship | Carrying Value | % of Owner-Ship |
| 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 |
|--|------|------|
|--|------|------|

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| | | |
|--|--------------|--------------|
| 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 | Accumulated | Expected or Actual |
|---------------------|---------------|---------------|-----------------------------|
| | Cost | Expenditures | 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 fee | \$ 6,519,334 | \$ 996,578 |
| Software and system design costs | 3,167,366 | 2,073,802 |
| Bond issuance costs and financing costs | 127,195 | 150,142 |
| Technology know-how | 49,500 | 103,500 |
| Others | 10,430 | 445,728 |
| | <u>\$ 9,873,825</u> | <u>\$ 3,769,750</u> |

11. SHORT-TERM BANK LOANS

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

(Forward)

| | <u>2002</u> | <u>2001</u> |
|--|-------------------|---------------------|
| US\$5,500 thousand, repayable by June 2002, annual interest at 3.188% | \$ | \$ 192,495 |
| US\$21,565 thousand, repayable by October 2002, annual interest at 2.590% | | 754,735 |
| US\$46,000 thousand, repayable by October 2002, annual interest at 2.548% | | 1,609,954 |
| Secured loan in NT dollars: | | |
| NT\$107,100 thousand, repayable by October 2002, annual interest at 3.2% to 3.8% | | 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\$7,930,000 thousand and US\$366,500 thousand.

12. LONG-TERM BANK LOANS

| | <u>2002</u> | <u>2001</u> |
|---|----------------------|----------------------|
| Secured loan: | | |
| US\$440,000 thousand, repayable by February 2005, US\$122,000 thousand repaid in 2002, annual floating interest at 2.078% and 2.578% in 2002 and 2001, respectively | \$ 11,051,454 | \$ 15,399,560 |
| Unsecured loan: | | |
| US\$200,000 thousand, repayable by December 2003, annual interest at 2.0375% and 2.54% in 2002 and 2001, respectively | 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:

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

13. BONDS

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

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

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

(Forward)

| | <u>2002</u> | <u>2001</u> |
|--|---------------------|---------------------|
| 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> |
|--|-------------------|-------------------|

e. Payments from pension fund

| | | |
|--|-----------------|-----------|
| | <u>\$ 5,360</u> | <u>\$</u> |
|--|-----------------|-----------|

16. INCOME TAX BENEFIT (EXPENSE)

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

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

b. Income tax benefit (expense) consists of:

| | <u>2002</u> | <u>2001</u> |
|--|------------------|-----------------|
| Current income tax expense before income tax credits | (\$ 4,874,342) | (\$ 2,597,224) |
| Additional 10% tax on the unappropriated earnings | (179,362) | (322,292) |
| Income tax credits | 4,867,236 | 2,888,358 |
| Other income tax | (29,160) | (16,318) |
| Income tax expense | <u>(215,628)</u> | <u>(47,476)</u> |
| Net change in deferred income tax assets (liabilities) | | |

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| | | |
|------------------------------|-----------------------------|-----------------------------|
| Net operating loss | 4,074,264 | 4,304,821 |
| Investment tax credits | 2,510,192 | 3,044,170 |
| Temporary differences | (2,868,207) | (1,918,009) |
| Valuation allowance | (9,137,269) | (1,642,828) |
| | <u> </u> | <u> </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 | \$ 9,646,552 | \$ 6,125,369 |
| Investment tax credits | 23,247,653 | 21,710,461 |
| Temporary differences | (8,352,647) | (2,363,913) |
| Valuation allowance | (14,768,332) | (9,226,089) |
| | <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 | Remaining | Expire |
|------------|-------|------------|------------|--------|
| | | Creditable | Creditable | |
| | | Amounts | Amounts | Year |
| | | | | |

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| 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> | |

(Forward)

| Regulation | Items | Total | Remaining | Expire |
|----------------------------------|--|---------------------|---------------------|------------------|
| | | Creditable | Creditable | |
| | | Amounts | Amounts | Year |
| 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> |
| Statute for Upgrading Industries | Reputation setting | \$ 10,133 | \$ | 2002 |
| | | 319 | 319 | 2003 |
| | | | | <u>\$ 10,452</u> |
| Statute for Upgrading Industries | Investments in important technology based enterprise | \$ 2,878 | \$ | 2002 |
| | | 5,420 | 5,420 | 2003 |
| | | 201,372 | 201,372 | 2004 |
| | | 138,864 | 138,864 | 2005 |
| | | 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):

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

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

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

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

| | 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.

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

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

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

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

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

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

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

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

Preferred shareholders

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

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

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

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

| | 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 | Exercise |
| | | Option Rights | 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)

(Shares in Thousand)

| Purpose of Purchase | Beginning | Increase | Decrease | Ending |
|---|-----------|----------|----------|--------|
| | Shares | | | 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 |

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

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

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

20. RELATED PARTY TRANSACTIONS

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

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

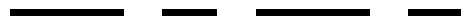
c. Investees of TSMC

VIS

SSMC

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

| | 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> |



(Forward)

| | 2002 | | 2001 | |
|--|--------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| 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 | |
| | \$ 1,776,149 | 100 | \$ 1,048,273 | 100 |
| 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-cancellable operating agreements, which will expire in 2020. TSMC-Europe and TSMC-Japan entered into lease agreements for their office premises, which will expire in 2004. Current annual rent payments aggregate to NT\$115,281 thousand.

Future remaining lease payments are as follows:

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

22. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

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

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

23. ADDITIONAL DISCLOSURES

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

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

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

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

- a) Forward exchange contracts as of December 31, 2002

| | Contract | Amount | | Fair Value | | Settlement Date | | Maturity | |
|------|----------|----------|------------|------------|------------|-----------------|---------------|------------|------------|
| | | Currency | (Thousand) | (Thousand) | (Thousand) | (Thousand) | (Thousand) | (Thousand) | (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 | | Strike Price | Maturity |
|----------|---------------------|----------|-------------------|----------------|----------------------------|---------------|
| | | | Amount (Thousand) | Carrying Value | | |
| European | Call option written | USD | \$ 230,000 | \$ | 32.78 33.22 (US\$/NT\$) | Jan. 9, 2003 |
| European | Call option written | USD | \$ 10,000 | | 119.2 (US\$/JPY) | Feb. 25, 2003 |
| European | Put option written | EUR | 10,000 | | 1.017 (US\$/EUR) | Feb. 30, 2003 |
| | | | | | | 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 | | Carrying | |
| | Amount | Fair Value | 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:

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

- e) Long-term bank loan fair values of long-term bank loans are their carrying

values as they use floating interest rate.

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

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

- 3) Investment in Mainland China

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

24. SEGMENT FINANCIAL INFORMATION

- a. Geographic information:

| | <u>Overseas</u> | <u>Taiwan</u> | <u>Adjustments and Elimination</u> | <u>Consolidated</u> |
|------------------------------------|-----------------------|-----------------------|--|-----------------------|
| <u>2002</u> | | | | |
| Sales to unaffiliated customers | \$ 95,774,432 | \$ 66,526,776 | \$ | \$ 162,301,208 |
| Transfers between geographic areas | 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> | <u>\$ 52,313,150</u> |
| 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> | <u>\$ 379,906,903</u> |
| Long-term investments | | | | <u>10,635,496</u> |

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| | | | | |
|--------------|--|--|--|----------------|
| Total assets | | | | \$ 390,542,399 |
|--------------|--|--|--|----------------|

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 | \$ | 8,152,070 | \$ 125,888,003 | (\$ 8,155,181) \$ 125,884,892 |

(Forward)

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

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 |
| | \$ 146,518,717 | \$ 95,291,869 |

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 | \$ 32,769,054 | 20 | \$ 21,789,769 | 17 |



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)

| Financing Name | Counter-party | Financial Statement Account | Maximum Balance for the | | Interest Rate | Financing Reason | Transaction | Reasons for | Collateral | | Financing Limit for Each Borrowing Company | Financing Amount Limited |
|--------------------|----------------------|-----------------------------|-------------------------|--------------------|---------------|------------------|-------------|----------------------|------------------------|------------|--|--------------------------|
| | | | Period | Ending Balance | | | | | Allowance for Bad Debt | Item Value | | |
| | | | (US\$ in Thousand) | (US\$ in Thousand) | | (Note 1) | Amount | Short-term Financing | | | | (US\$ in Thousand) |
| TSMC International | TSMC Technology Inc. | Other receivables | \$ 536,372 | \$ 536,372 | 4.25% | 2 | \$ | Operating capital | \$ | \$ | N/A | \$ 34,334 |
| | | | (US\$15,434) | (US\$ 15,434) | | | | | | | | (987 US\$) |

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) | Value of Collateral Property, Plant and Equipment Ending Balance (US\$ in Thousand) | Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (Note 3) | Maximum Collateral/Guarantee Amounts Allowable (Note 1) |
|-----|--------------------------------|-----------------------|---------------------------------|---|---|---|--|---|
| | | Name | Nature of Relationship (Note 2) | | | | | |
| 0 | TSMC | TSMC Development Inc. | 3 | (Note 4) | \$ 9,313,804 | \$ 6,950,600 | 2.37% | \$ 59,768,660 |
| | | | | | (268,000) US\$ | (200,000) US\$ | | |
| | | TSMC North America | 2 | | 1,390,120 | 1,390,120 | 0.47% | |
| | | | | | (40,000) US\$ | (40,000) US\$ | | |
| | | WaferTech | 3 | | 15,291,320 | 15,291,320 | 5.21% | |
| | | | | | (440,000) US\$ | (440,000) US\$ | | |

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 | | Percentage of Ownership | Market Value or Net Asset Value | | Note |
|-------------------------|---|----------------------------------|--------------------------------|----------------------|---|----------------------------|---------------------------------------|--|------|
| | | | | Shares (Thousand) | Carrying Value (US\$ in Thousand) | | (US\$ in Thousand) | (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 | |

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| | | | | | | | |
|-------------------------------------|------------|----------------------|--------|-----------|-----|-----------|---|
| TSMC Partners | Subsidiary | Long-term investment | 300 | 3,753,733 | 100 | 3,940,495 | deducted from the carrying value. The treasury stocks in amounts of NT\$255,692 thousand are deducted from the carrying value. |
| SSMC | Investee | Long-term investment | 382 | 3,136,115 | 32 | 3,136,115 | |
| Emerging Alliance | Subsidiary | Long-term investment | | 767,239 | 99 | 767,239 | |
| Taiwan Mask Corp. | | Long-term investment | 8,794 | 32,129 | 2 | 160,574 | |
| United Technology Co., Ltd. | | Long-term investment | 16,783 | 193,584 | 11 | 280,931 | |
| Shin-Etsu Handotai Taiwan Co., Ltd. | | Long-term investment | 10,500 | 105,000 | 7 | 137,355 | |
| W.K. Technology Fund IV | | Long-term investment | 5,000 | 50,000 | 2 | 59,866 | |
| Ya Xin Technology | Subsidiary | Long-term investment | 34,125 | 341,250 | 100 | 341,250 | |
| Hon Tung Ventures Capital | | Long-term investment | 8,392 | 83,916 | 10 | 71,216 | |
| Amkor Technology | | Long-term investment | 505 | 280,748 | | 89,866 | |
| Monolithic System Tech. | | Long-term investment | 470 | 104,289 | 2 | 214,949 | |

(Forward)

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

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| <u>Equity</u> | | | | | | | |
|-------------------------------|----------------------|------|-------|----|------|-------|--|
| Silicon Valley Equity Fund | Long-term investment | US\$ | 7,317 | 34 | US\$ | 7,386 | |
| Silicon Valley Equity Fund II | Long-term investment | US\$ | 5,355 | 14 | US\$ | 5,355 | |

(Forward)

| | | | | | | | | | December 31, 2002 | | |
|--|--|-------------------------------|-----------------------------|-------------------|--------------------|-------------------------|---------------------------------|--|-------------------|--|--|
| Held Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Shares (Thousand) | Carrying Value | | Market Value or Net Asset Value | | Note | | |
| | | | | | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | | | | |
| | <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 | | | | |
| | Divio, Inc. | | Long-term investment | 30 | US\$ 3 | | US\$ 3 | | | | |
| | Global Test Corp. | | Long-term investment | 13,268 | US\$ 5,176 | 10 | US\$ 5,176 | | | | |
| | Chipstrate Technologies, Inc. | | Long-term investment | 6,660 | US\$ 300 | 9 | US\$ 300 | | | | |
| | Richtek Technology Holding Corp. | | Long-term investment | 1,023 | US\$ 346 | 6 | US\$ 346 | | | | |
| | Advanced Power Electronics, Corp. | | Long-term investment | 2,750 | US\$ 1,345 | 6 | US\$ 1,345 | | | | |
| | <u>Preferred stock</u> | | | | | | | | | | |
| | Integrated Memory Logic, Inc. | | Long-term investment | 1,831 | US\$ 1,809 | 12 | US\$ 1,809 | | | | |
| | Divio, Inc. | | Long-term investment | 667 | US\$ 500 | 4 | US\$ 500 | | | | |
| | SiRF Technology Holdings, Inc. | | Long-term investment | 306 | US\$ 1,333 | 1 | US\$ 1,333 | | | | |
| | Capella Microsystems, Inc. | | Long-term investment | 300 | US\$ 481 | 8 | US\$ 481 | | | | |
| | Sensory, Inc. | | Long-term investment | 1,404 | US\$ 625 | 5 | US\$ 625 | | | | |
| | Equator Technologies, Inc. | | Long-term investment | 300 | US\$ 258 | 1 | US\$ 258 | | | | |
| | LightSpeed Semiconductor Corporation | | Long-term investment | 2,252 | US\$ 1,339 | 3 | US\$ 1,339 | | | | |
| | Tropian, Inc. | | Long-term investment | 1,758 | US\$ 2,334 | 3 | US\$ 2,334 | | | | |
| | Sonics, Inc. | | Long-term investment | 2,686 | US\$ 3,530 | 5 | US\$ 3,530 | | | | |
| | Atheros Communications, Inc. | | Long-term investment | 1,607 | US\$ 3,593 | 3 | US\$ 3,593 | | | | |
| | NanoAmp Solutions, Inc. | | Long-term investment | 541 | US\$ 853 | 3 | US\$ 853 | | | | |
| | FormFactor, Inc. | | Long-term investment | 267 | US\$ 2,000 | 1 | US\$ 2,000 | | | | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 2,521 | US\$ 2,000 | 12 | US\$ 2,000 | | | | |

(Forward)

| December 31, 2002 | | | | | | | | | |
|---|--|-------------------------------|-----------------------------|-------------------|--------------------|-------------------------|---------------------------------|--|------|
| Held Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Carrying Value | | | Market Value or Net Asset Value | | Note |
| | | | | Shares (Thousand) | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | | |
| | 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 | | |
| | <u>Preferred stock</u> | | | | | | | | |
| | Memsic, Inc. | | Long-term investment | 2,289 | US\$ 1,560 | 11 | US\$ 1,560 | | |
| | OEpic, Inc. | | Long-term investment | 2,696 | US\$ 1,240 | 7 | US\$ 1,240 | | |
| | Equator Technologies, Inc. | | Long-term investment | 770 | US\$ 452 | 1 | US\$ 452 | | |
| | NanoAmp Solutions, Inc. | | Long-term investment | 250 | US\$ 1,000 | 1 | US\$ 1,000 | | |
| | Signia Technologies, Inc. | | Long-term investment | 1,500 | US\$ 150 | 4 | US\$ 150 | | |
| | Advanced Analogic Technology, Inc. | | Long-term investment | 948 | US\$ 1,261 | 2 | US\$ 1,261 | | |
| | Monolithic Power Systems, Inc. | | Long-term investment | 804 | US\$ 1,946 | 4 | US\$ 1,946 | | |
| | Ralink Technologies, Inc. | | Long-term investment | 1,833 | US\$ 1,500 | 6 | US\$ 1,500 | | |
| | Sonics, Inc. | | Long-term investment | 3,082 | US\$ 3,082 | 5 | US\$ 3,082 | | |
| | Newport Opticom, Inc. | | Long-term investment | 1,157 | US\$ 810 | 9 | US\$ 810 | | |
| | Silicon Data, Inc. | | Long-term investment | 2,000 | US\$ 1,000 | 7 | US\$ 1,000 | | |
| | Reflectivity, Inc. | | Long-term investment | 1,596 | US\$ 1,500 | 6 | US\$ 1,500 | | |

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| | | | | | | | |
|-----------------------------------|----------------------|-------|------|-------|----|------|-------|
| Capella Microsystems, Inc. | Long-term investment | 800 | US\$ | 200 | 4 | US\$ | 200 |
| Angstrom Systems, Inc. | Long-term investment | 1,567 | US\$ | 750 | 7 | US\$ | 750 |
| Tropian, Inc. | Long-term investment | 1,464 | US\$ | 2,000 | 2 | US\$ | 2,000 |
| SiRF Technology Holdings, Inc. | Long-term investment | 20 | US\$ | 131 | | US\$ | 131 |
| LeadTONE Wireless, Inc. | Long-term investment | 680 | US\$ | 238 | 6 | US\$ | 238 |
| Match Lab, Inc. | Long-term investment | 313 | US\$ | 250 | 2 | US\$ | 250 |
| eBest!, Inc. | Long-term investment | 185 | US\$ | 97 | 1 | US\$ | 97 |
| Kilopass Technologies, Inc. | Long-term investment | 3,887 | US\$ | 2,000 | 18 | US\$ | 2,000 |

(Forward)

| | | | | | | | | | December 31, 2002 | | |
|-------------------------|---|----------------------------------|--------------------------------|----------------------|-----------------------|----------------------------|---------------------------------------|------|-------------------|---------------------------------------|--|
| Held Company Name | Type and Name of Marketable Security | Relationship with the Company | Financial Statement Account | Shares (Thousand) | Carrying Value | | Market Value or Net Asset Value | | Note | | |
| | | | | | (US\$ in Thousand) | Percentage of Ownership | (US\$ in Thousand) | | | | |
| <u>Bond</u> | | | | | | | | | | | |
| | eBest!, Inc. | | Long-term investment | | US\$ | 24 | | US\$ | 24 | | |
| <u>Stock</u> | | | | | | | | | | | |
| Emerging Alliance | 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 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)

| Type and Name of Marketable Security | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Gain (Loss) on Disposal (US\$ in Thousand) | Shares (Thousand) |
|--------------------------------------|-----------------------------|---------------------------------------|------------------------|-------------------|---------------------------|--------------------|---------------------------|-------------------|---------------------------|-----------------------------------|--|-------------------|
| | | | | Shares (Thousand) | Amount (US\$ in Thousand) | Shares (Thousand) | Amount (US\$ in Thousand) | Shares (Thousand) | Amount (US\$ in Thousand) | Carrying Value (US\$ in Thousand) | | |
| | Long-term investment | SSMC | Investee | 301 | \$ 2,907,967 | 81 | \$ 1,421,846 | \$ | \$ | \$ | | |
| Monolithic Tech. | Long-term investment | TSMC-BVI | Subsidiary | 779,968 | 19,987,814 | 208,000 | 7,280,000 | | | | | 98 |
| Long-term investment | Long-term investment | Monolithic System Tech. | Investee | | | 470 | 104,289 | | | | | |
| Long-term investment | Long-term investment | Emerging Alliance Fund, LP | Subsidiary | | 741,617 | | 168,615 | | | | | |
| Long-term investment | Long-term investment | VIS | Investee | 556,133 | 3,377,526 | 121,338 | 849,360 | | | | | 67 |
| Long-term investment | Long-term investment | Ya Xin Technology | Subsidiary | | | (Note 2) 34,125 | (Note 2) 341,250 | | | | | 3 |
| Long-term investment | Long-term investment | TSMC Development, Inc. | Subsidiary | 1 | US\$ 201,231 | | US\$ 208,000 | | | | | |
| Long-term investment | Long-term investment | InveStar Semiconductor | Subsidiary | 45,000 | US\$ 45,766 | 6,300 | US\$ 6,300 | | | | | 5 |
| Long-term investment | Long-term investment | Development Fund (II), Inc. WaferTech | Subsidiary | | US\$ 226,541 | | US\$ 120,000 | | | | | |
| Short-term investment | Short-term investment | | | 26,278 | 350,000 | 33,108 | 450,000 | 59,386 | 807,970 | 800,000 | 7,970 | |
| | | | | | | 70,860 | 850,000 | 70,860 | 853,974 | 850,000 | 3,974 | |

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| | | | | | | | | | | |
|--------------------|-----------------------|--------|-------------|--------|----------|--------|-------------|-----------|------------|--|
| | Short-term investment | | | | | | | | | |
| P ROC | Short-term investment | 25,923 | 350,000 | | | 25,923 | 356,458 | 350,000 | 6,458 | |
| | Short-term investment | | | 3,814 | 580,000 | 3,814 | 582,977 | 580,000 | 2,977 | |
| N | Short-term investment | | | 43,630 | 550,000 | 43,630 | 554,407 | 550,000 | 4,407 | |
| i Chian | Short-term investment | 28,409 | 400,000 | | | 28,409 | 402,869 | 400,000 | 2,869 | |
| <u>certificate</u> | | | | | | | | | | |
| MRO | Long-term investment | 23,168 | US\$ 10,047 | 1,194 | US\$ 536 | 20,714 | US\$ 14,806 | US\$9,766 | US\$ 5,706 | |

(Note 4)

(Note 3)

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)

| Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationship | Prior Transaction of Related Counter-party | | | Price Reference | |
|-------------------|--------------------|------------------------------|---------------------------------|------------------------|--|--------------|---------------|-----------------|----------------|
| | | | | | Owner | Relationship | Transfer Date | | |
| June 19, 2002 | \$263,000 | By the construction progress | Mandartech Interiors, Inc. | | N/A | N/A | N/A | N/A | Public bidding |
| July 11, 2002 | 137,402 | By the construction progress | UISC | | N/A | N/A | N/A | N/A | Public bidding |
| August 6, 2002 | 124,775 | By the construction progress | Meissner & Wurst | | N/A | N/A | N/A | N/A | Public bidding |
| November 15, 2002 | 244,654 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public bidding |
| April 9, 2002 | 135,000 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public bidding |
| April 12, 2002 | 109,880 | By the construction progress | Great Construction System, Inc. | | N/A | N/A | N/A | N/A | Public bidding |
| June 24, 2002 | 984,995 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public bidding |

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 | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | |
|----------------------------|-------------------|------------------------|---------------------|--------|-----------------------------------|---------------|----------------------|---------------|--------------------------------------|------------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % to Total |
| TSMC North America | Subsidiary | Sales | \$ 94,433,401 | 57 | 30 days from invoice date | None | None | \$ 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 | 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)

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

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.