

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

August 29, 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 August 2003

Taiwan Semiconductor Manufacturing Company Ltd.  
(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,  
Science-Based Industrial Park,  
Hsin-Chu, Taiwan  
(Address of Principal Executive Offices)

(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    
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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    
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(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: August 28, 2003

By /s/ Harvey Chang

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Harvey Chang  
Senior Vice President & Chief Financial Office

Taiwan Semiconductor Manufacturing Company Ltd.

# Edgar Filing: TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD - Form 6-K

Financial Statements for the Six Months Ended  
June 30, 2003 and 2002

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

July 15, 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 June 30, 2003 and 2002, and the related statements of income, changes in shareholders' equity and cash flows for the periods 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 Statement 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 June 30, 2003 and 2002, and the results of its operations and its cash flows for the periods then ended in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China.

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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.

Deloitte & Touche  
(T N Soong & Co and Deloitte & Touche Taiwan  
Establish Deloitte & Touche Effective June 1, 2003)  
Taipei, Taiwan  
The Republic of China

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## 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 jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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### TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

#### BALANCE SHEETS

June 30, 2003 and 2002

(In Thousand New Taiwan Dollars, Except Par Value)

A S S E T S -----	2003	
	Amount	%
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Notes 2 and 4)	\$ 66,546,050	18
Short-term investments (Notes 2 and 5)	3,054,050	1
Receivables from related parties (Note 18)	15,186,990	4
Notes receivable	13,459	-
Accounts receivable	12,834,737	4
Allowance for doubtful receivables (Note 2)	(975,547)	-
Allowance for sales returns and others (Note 2)	(2,069,722)	(1)
Other financial assets	798,672	-
Inventories - net (Notes 2 and 6)	11,355,534	3
Deferred income taxes assets (Notes 2 and 13)	3,320,000	1
Prepaid expenses and other current assets (Notes 2 and 21)	955,192	-
	111,019,415	30
<b>FUNDS AND LONG-TERM INVESTMENTS (Notes 2, 3, 7 and 21)</b>		
Equity method	34,029,484	10
Cost method	849,666	-
Funds	242,837	-
	35,121,987	10
<b>PROPERTY, PLANT, AND EQUIPMENT (Notes 2 and 8)</b>		
Cost		
Buildings	70,341,223	19
Machinery and equipment	320,043,036	88
Office equipment	5,948,653	2
	396,332,912	109
Accumulated depreciation	(218,915,472)	(60)
Advance payments and construction in progress	18,376,849	5

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Net Property, Plant, and Equipment	195,794,289	54
GOODWILL (Note 2)	2,438,731	1
OTHER ASSETS		
Deferred income taxes assets (Notes 2 and 13)	9,177,560	3
Deferred charges - net (Notes 2 and 9)	8,731,444	2
Refundable deposits (Notes 18 and 20)	375,715	-
Idle assets (Note 2)	107,552	-
Assets leased to others (Note 2)	85,796	-
Miscellaneous	-	-
Total Other Assets	18,478,067	5
TOTAL ASSETS	\$ 362,852,489	100
	2003	
LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%
CURRENT LIABILITIES		
Payables to related parties (Note 18)	\$ 3,591,017	1
Accounts payable	5,154,006	1
Payables to contractors and equipment suppliers	6,559,597	2
Accrued expenses and other current liabilities (Notes 2, 7 and 21)	6,669,201	2
Current portion of long-term bonds payable (Note 10)	-	-
Total Current Liabilities	21,973,821	6
LONG-TERM LIABILITIES		
Bonds payable (Note 10)	35,000,000	10
Other long-term payable (Notes 11 and 20)	3,921,540	1
Total Long-term Liabilities	38,921,540	11
OTHER LIABILITIES		
Guarantee deposits (Note 20)	1,225,310	-
Accrued pension cost (Notes 2 and 12)	2,431,939	1
Deferred gain on sale and leaseback (Note 2)	38,309	-
Total Other Liabilities	3,695,558	1
Total Liabilities	64,590,919	18
SHAREHOLDERS' EQUITY (Note 15)		
Capital stock - \$10 par value		
Authorized: 24,600,000 thousand shares		
Issued: Preferred - 1,300,000 thousand shares	-	-
Common - 18,622,887 thousand shares	186,228,867	51
To be issued	16,437,322	5
Capital surplus:		

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Merger and others (Note 2)	56,797,280	16
Treasury stock (Note 3)	43,471	-
Retained earnings:		
Appropriated as legal reserve	20,802,137	6
Appropriated as special reserve	68,945	-
Unappropriated earnings (Note 2)	19,058,142	5
Other:		
Unrealized loss on long-term investments (Note 2)	(7,981)	-
Cumulative translation adjustments (Note 2)	755,436	-
Treasury stock (at cost) - 41,961 thousand shares in 2003 and 42,001 thousand shares in 2002 (Notes 2, 3 and 16)	(1,922,049)	(1)
Total Shareholders' Equity	298,261,570	82
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 362,852,489	100

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

(With Deloitte & Touche auditors' report dated July 15, 2003)

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME

For the Six Months Ended June 30, 2003 and 2002

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

	2003		2002
	Amount	%	Amount
GROSS SALES (Notes 2 and 18)	\$ 91,227,434		\$ 82,094,96
SALES RETURNS AND ALLOWANCES (Note 2)	1,979,969		2,122,79
NET SALES	89,247,465	100	79,972,16
COST OF SALES (Notes 14 and 18)	60,510,165	68	51,522,40
GROSS PROFIT	28,737,300	32	28,449,76
OPERATING EXPENSES (Notes 14 and 18)			
Research and development	5,589,164	6	5,237,09
General and administrative	2,958,075	3	2,459,71
Marketing	655,343	1	595,46
Total Operating Expenses	9,202,582	10	8,292,27

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INCOME FROM OPERATIONS	19,534,718	22	20,157,48
NON-OPERATING INCOME AND GAIN			
Interest (Note 2)	370,789	1	479,02
Gain on sales of property, plant and equipment (Note 2)	295,796	-	250,81
Technical service income (Notes 18 and 20)	76,527	-	84,43
Gain on sales of short-term investments (Note 2)	19,192	-	21,28
Premium income from option contracts - net (Note 2)	-	-	11,75
Other (Note 18)	125,878	-	174,42
Total Non-operating Income and Gain	888,182	1	1,021,73
NON-OPERATING EXPENSES AND LOSS			
Loss on property, plant, and equipment, and idle assets (Note 2)	1,401,585	2	
Interest (Notes 2, 8 and 21)	946,124	1	1,111,15
Investment loss recognized by equity method - net (Notes 2 and 7)	705,431	1	1,733,05
Loss on disposal of property, plant, and equipment (Note 2)	262,208	-	92,15
Foreign exchange loss - net (Notes 2 and 21)	246,919	-	60,43
Premium expense from option contracts - net (Notes 2 and 21)	96,648	-	-
(Forward)			

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English Translation of Financial Statements Originally Issued in Chinese

	2003		2002	
	Amount	%	Amount	%
Casualty loss - net (Note 2)	\$ -	-	\$ 117,470	-
Other	11,540	-	60,674	-
Total Non-operating Expenses and Loss	3,670,455	4	3,174,934	4
INCOME BEFORE INCOME TAX	16,752,445	19	18,004,284	23
INCOME TAX EXPENSE (Notes 2 and 13)	664,611	1	2,106,933	3
NET INCOME	\$ 16,087,834	18	\$ 15,897,351	20

2003

2002

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	Before Income Tax -----	After Income Tax -----	Before Income Tax -----	After Income Tax -----
EARNINGS PER SHARE (Note 17)				
Basic and diluted earnings per share	\$ 0.82	\$ 0.79	\$ 0.88	\$ 0.77
	=====	=====	=====	=====

The pro forma net income and earnings per share for the adoption of SFAS No. 30 "Accounting for Treasury Stock" is as follows (Notes 3 and 16):

	2003 -----		2002 -----	
	Before Income Tax -----	After Income Tax -----	Before Income Tax -----	After Income Tax -----
NET INCOME	\$ 17,007,461	\$ 16,342,850	\$ 18,047,320	\$ 15,942,850
	=====	=====	=====	=====
EARNINGS PER SHARE				
Basic and diluted earnings per share	\$ 0.83	\$ 0.80	\$ 0.88	\$ 0.77
	=====	=====	=====	=====

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

(With Deloitte & Touche auditors' report dated July 15, 2003)

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
For the Six Months Ended June 30, 2003 and 2002  
(In Thousand New Taiwan Dollars)

	CAPITAL STOCK -----			
	Preferred Stocks -----		Common Stocks -----	
	Shares (Thousand) -----	Amount -----	Shares (Thousand) -----	Amount -----
BALANCE, JANUARY 1, 2003	1,300,000	\$ 13,000,000	18,622,887	\$186,288,887
Appropriations of prior year's earnings				
Legal reserve	-	-	-	-
Special reserve	-	-	-	-
Bonus to employees - stock	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	-
Stock dividends - 8%	-	-	-	-

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Remuneration to directors and supervisors	-	-	-	-
Net income for the six months ended June 30, 2003	-	-	-	-
Redemption and retirement of preferred stocks	(1,300,000)	(13,000,000)	-	-
Reversal of unrealized loss on long term investment of subsidiaries	-	-	-	-
Reversal of unrealized loss on long term investment of investees	-	-	-	-
Adjustment arising from changes in ownership percentage in investees	-	-	-	-
Translation adjustments	-	-	-	-
Capital surplus from gain on sale of treasury stock	-	-	-	-
BALANCE, JUNE 30, 2003	-	\$ -	18,622,887	\$186,2
BALANCE, JANUARY 1, 2002	1,300,000	\$ 13,000,000	16,832,554	\$168,3
Appropriations of prior year's earnings				
Legal reserve	-	-	-	-
Special reserve	-	-	-	-
Bonus to employees - stock	-	-	107,078	1,0
Cash dividends paid for preferred stocks	-	-	-	-
Stock dividends - 10%	-	-	1,683,255	16,8
Remuneration to directors and supervisors	-	-	-	-
Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings	-	-	-	-
Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings	-	-	-	-
Net income for the six months ended June 30, 2002	-	-	-	-
Translation adjustments	-	-	-	-
Reclassification of parent company stock held by subsidiaries from short/long-term investments to treasury stock	-	-	-	-
Capital surplus from gain on sale of treasury stock	-	-	-	-
BALANCE, JUNE 30, 2002	1,300,000	\$ 13,000,000	18,622,88	\$186,2

	From Merger	Additional Paid-in Capital	From Long-term Investments	Exc Fo Inve
CAPITA				



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BALANCE, JANUARY 1, 2003	\$24,132,297	\$ 23,172,550	\$ 246,219	\$ 9,
Appropriations of prior year's earnings				
Legal reserve	-	-	-	
Special reserve	-	-	-	
Bonus to employees - stock	-	-	-	
Cash dividends paid for preferred stocks	-	-	-	
Stock dividends - 8%	-	-	-	
Remuneration to directors and supervisors	-	-	-	
Net income for the six months ended June 30, 2003	-	-	-	
Redemption and retirement of preferred stocks	-	-	-	
Reversal of unrealized loss on long term investment of subsidiaries	-	-	-	
Reversal of unrealized loss on long term investment of investees	-	-	-	
Adjustment arising from changes in ownership percentage in investees	-	-	(164,473)	
Translation adjustments	-	-	-	
Capital surplus from gain on sale of treasury stock	-	-	-	
BALANCE, JUNE 30, 2003	\$24,132,297	\$ 23,172,550	\$ 81,746	\$ 9,
BALANCE, JANUARY 1, 2002	\$24,132,297	\$ 23,172,550	\$ 246,381	\$ 9,
Appropriations of prior year's earnings				
Legal reserve	-	-	-	
Special reserve	-	-	-	
Bonus to employees - stock	-	-	-	
Cash dividends paid for preferred stocks	-	-	-	
Stock dividends - 10%	-	-	-	
Remuneration to directors and supervisors	-	-	-	
Transfer of the capital surplus from gain on sales of property, plant 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)	
Net income for the six months ended June 30, 2002	-	-	-	
Translation adjustments	-	-	-	
Reclassification of parent company stock held by subsidiaries from short/long-term investments to treasury stock	-	-	-	
Capital surplus from gain on sale of treasury stock	-	-	-	

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	\$24,132,297 =====	\$ 23,172,550 =====	\$ 246,219 =====	\$ 9, =====
-----				
	Treasury Stock -----	Total -----	Legal Reserve -----	Spe Res -----
BALANCE, JUNE 30, 2002				
-----				
BALANCE, JANUARY 1, 2003	\$ 43,036	\$ 57,004,789	\$18,641,108	\$
Appropriations of prior year's earnings				
Legal reserve	-	-	2,161,029	
Special reserve	-	-	-	6
Bonus to employees - stock	-	-	-	
Cash dividends paid for preferred stocks	-	-	-	
Stock dividends - 8%	-	-	-	
Remuneration to directors and supervisors	-	-	-	
Net income for the six months ended June 30, 2003	-	-	-	
Redemption and retirement of preferred stocks	-	-	-	
Reversal of unrealized loss on long term investment of subsidiaries	-	-	-	
Reversal of unrealized loss on long term investment of investees	-	-	-	
Adjustment arising from changes in ownership percentage in investees	-	(164,473)	-	
Translation adjustments	-	-	-	
Capital surplus from gain on sale of treasury stock	435	435	-	
BALANCE, JUNE 30, 2003	\$ 43,471 =====	\$ 56,840,751 =====	\$20,802,137 =====	\$ 6 =====
-----				
BALANCE, JANUARY 1, 2002	\$ -	\$ 57,128,433	\$17,180,067	\$ 34
Appropriations of prior year's earnings				
Legal reserve	-	-	1,488,317	
Special reserve	-	-	-	(34
Bonus to employees - stock	-	-	-	
Cash dividends paid for preferred stocks	-	-	-	
Stock dividends - 10%	-	-	-	
Remuneration to directors and supervisors	-	-	-	
Transfer of the capital surplus from gain on sales of property, plant and equipment to retained earnings	-	(166,518)	12,724	
Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings	-	(162)	-	
Net income for the six months ended June 30, 2002	-	-	-	

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Translation adjustments	-	-	-	-
Reclassification of parent company stock held by subsidiaries from short/long-term investments to treasury stock	-	-	-	-
Capital surplus from gain on sale of treasury stock	43,036	43,036	-	-
BALANCE, JUNE 30, 2002	\$ 43,036	\$ 57,004,789	\$18,641,108	\$
	=====	=====	=====	=====
	UNREALIZED LOSS ON LONG-TERM INVESTMENTS	CUMULATIVE TRANSLATIONS ADJUSTMENTS	TREASURY STOCK	TO SHARE EQU
	-----	-----	-----	-----
BALANCE, JANUARY 1, 2003	(\$194,283)	\$ 945,129	(\$1,923,492)	\$295,
Appropriations of prior year's earnings				
Legal reserve	-	-	-	-
Special reserve	-	-	-	-
Bonus to employees - stock	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	(
Stock dividends - 8%	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-
Net income for the six months ended June 30, 2003	-	-	-	16,
Redemption and retirement of preferred stocks	-	-	-	(13,
Reversal of unrealized loss on long term investment of subsidiaries	20,647	-	-	-
Reversal of unrealized loss on long term investment of investees	165,655	-	-	-
Adjustment arising from changes in ownership percentage in investees	-	-	-	(
Translation adjustments	-	(189,693)	-	(
Capital surplus from gain on sale of treasury stock	-	-	1,443	-
BALANCE, JUNE 30, 2003	(\$7,981)	\$ 755,436	(\$1,922,049)	\$298,
	=====	=====	=====	=====
BALANCE, JANUARY 1, 2002	\$ -	\$ 1,228,701	\$ -	\$277,
Appropriations of prior year's earnings				
Legal reserve	-	-	-	-
Special reserve	-	-	-	-
Bonus to employees - stock	-	-	-	-
Cash dividends paid for preferred stocks	-	-	-	(
Stock dividends - 10%	-	-	-	-
Remuneration to directors and supervisors	-	-	-	(
Transfer of the capital surplus from gain on sales of property, plant and equipment to				

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retained earnings	-	-	-	-
Transfer of the capital surplus from gain on sales of property, plant and equipment of investees to retained earnings	-	-	-	-
Net income for the six months ended June 30, 2002	-	-	-	15,
Translation adjustments	-	(1,462,500)	-	(1,
Reclassification of parent company stock held by subsidiaries from short/long-term investments to treasury stock	-	-	(1,914,700)	(1,
Capital surplus from gain on sale of treasury stock	-	-	-	-
BALANCE, JUNE 30, 2002	\$ -	(\$233,799)	(\$1,914,700)	\$289,

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

(With Deloitte & Touche auditors' report dated July 15, 2003)

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2003 and 2002  
(In Thousand New Taiwan Dollars)

	2003
	-----
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 16,087,834
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	30,840,186
Deferred income taxes	535,007
Investment loss recognized by equity method - net	705,431
Loss on property, plant, and equipment, and idle assets	1,401,585
Loss (gain) on sales of long-term investments - net	(200)
Gain on disposal of property, plant and equipment - net	(33,588)
Pension cost accrued	221,397
Allowance for doubtful receivables	45,683
Allowance for sales returns and others	(293,345)
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables from related parties	(5,003,502)
Notes receivable	46,781
Accounts receivable	(3,339,290)
Inventories - net	(1,015,198)
Other financial assets	(12,064)

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Forward exchange contract receivable	183,061
Prepaid expenses and other current assets	1,059,169
Increase (decrease) in:	
Payables to related parties	1,124,019
Accounts payable	304,772
Forward exchange contract payable	142,985
Accrued expenses and other current liabilities	249,984
	-----
Net Cash Provided by Operating Activities	43,250,707
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in short-term investments - net	(3,054,050)
Acquisitions of:	
Long-term investments	(1,015,301)
Property, plant and equipment	(16,207,787)
Proceeds from disposal of:	
Property, plant and equipment	132,387
Long-term investments	592
Increase in deferred charges	(711,056)
Decrease in refundable deposits	167,754
Decrease in other assets - miscellaneous	9,250
	-----
Net Cash Used in Investing Activities	(20,678,211)
	-----

(Forward)

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English Translation of Financial Statements Originally Issued in Chinese

	2003
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of (repayment on) long-term bonds	(\$ 4,000,000)
Redemption of preferred stock	(13,000,000)
Decrease in guarantee deposits	(169,756)
Remuneration to directors and supervisors	(58,485)
Cash dividend paid for preferred stocks	(455,000)
	-----
Net Cash Provided by (Used in) Financing Activities	(17,683,241)
	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,889,255
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	61,656,795
	-----
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	\$ 66,546,050
	=====
SUPPLEMENTAL INFORMATION	
Interest paid (excluding the amounts capitalized of NT\$2,932 thousand and NT\$48,636 thousand in 2003 and 2002, respectively) (Note 8)	\$ 688,371
	=====

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Income tax paid	\$ 2,500 =====
Non-cash investing and financing activities:	
Reclassification of parent company stock held by subsidiaries from short/long-term investments to treasury stock	\$ 1,443 =====
Credit balances of long-term investments reclassified as part of other current liabilities	\$ - =====
Current portion of bonds	\$ - =====
Partial cash investing and financing activities:	
Total acquisitions of property, plant and equipment	\$ 8,763,001
Payables to contractors and equipment suppliers	7,444,786 -----
	\$ 16,207,787 =====

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

(With Deloitte & Touche auditors' report dated July 15, 2003)

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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. On October 8, 1997, TSMC listed its shares of stock on the New York Stock Exchange in the form of American Depositary Shares (ADSs).

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

#### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as follows:

##### Classification of current and non-current assets and liabilities

Current assets are those expected to be converted to cash, sold or consumed within one year. Current liabilities are obligations due on demand within one year from the balance sheet date. Assets and liabilities that are not

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classified as current are non-current assets and liabilities, respectively.

### Cash equivalents

Government bonds acquired with maturities less than three months from the 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

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

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### Revenue recognition and allowance for sales returns and others

The four criteria that we use to recognize revenue are the existence of evidence of a contractual arrangement, delivery or performance has occurred, the selling price is fixed or determinable and collectibility is reasonably assured. Allowance for sales returns and others is estimated based on historical experience and any known factors that would affect the allowance. Such provisions are deducted from sales in the year the products are sold and the estimated related costs are deducted from cost of sales.

Sales are determined using the fair value taking into account related sales discounts agreed to by the Company and customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

### 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. When acquiring shares of stock, the difference between the cost of investment and investee's net book value is amortized using straight-line method over five years, and also recorded as components of investment income/loss recognized by equity method - net. 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 reclassify its capital stock held by its subsidiaries from short/long-term investments to treasury stock.

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

Other stock investments are accounted for using the cost method. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying values of the long-term investments if the dividends are received in the same year that the related investments are acquired. Stock dividends are recognized neither as investment income nor increase of long-term investments but recorded only as an increase in the number of shares held.

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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 aggregate cost or net asset value (NAV). An allowance is recognized when the cost of the funds is 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.

Gains or losses on transactions with investee companies wherein the Company owns at least 20% of the outstanding common stock but less than a controlling interest are deferred in proportion to the Company's 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. When significant loss occurs, the related assets are stated at the lower of fair value or the book value. Idle assets are stated at the lower of book value or net realizable 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 dates of the leases. The effective interest method is used to allocate each lease payment between principal and interest expense.

Depreciation is computed using the straight-line method over the following 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 with any gains or losses 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.

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#### 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 sale 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 or term of the leases; whichever is shorter.

#### Casualty loss

Casualty loss mainly caused from the March 31, 2002 earthquake are recorded

when incurred and any insurance recoveries are recorded when probable up to the amount of the loss. Recoveries in excess of the amount of the loss are recorded when realized.

#### 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 net operating loss carryforwards. 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 asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either 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 the year subsequent to the year incurred.

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#### 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 on the contract date 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 and the resulting differences are 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 liability. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

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 and charged to income on a straight-line basis over the term of the related contract. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

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## 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 the end of each period, foreign-currency assets and liabilities are revalued at the prevailing exchange rate with the resulting gains or losses recognized in current operations.

## Reclassification

Certain accounts in the financial statements as of and for the six months ended June 30, 2002 have been reclassified to conform to the financial statements as of and for the six months ended June 30, 2003.

### 3. NEW ACCOUNTING PRONOUNCEMENTS

In accordance with the Statement of Financial Accounting Standards ("SFAS") 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 its subsidiaries from short/long-term investments to treasury stock. The reclassification is based on the carrying value recorded by the Company's 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\$1,922,049 thousand as of June 30, 2003, and the decrease in net income for the six months ended June 30, 2003 by NT\$255,016 thousand.

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### 4. CASH AND CASH EQUIVALENTS

	June 30	
	2003	2002
Cash and bank deposits	\$ 63,513,247	\$ 65,087,779
Government bonds acquired under repurchase agreements	3,032,803	1,297,801
	-----	-----
	\$ 66,546,050	\$ 66,385,580
	=====	=====

### 5. SHORT-TERM INVESTMENTS

	June 30	
	2003	2002
Government bonds	\$ 3,054,050	\$ -
	=====	=====
Market value	\$ 3,057,705	\$ -
	=====	=====

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6. INVENTORIES - NET

	June 30	
	2003	2002
Finished goods	\$ 1,872,790	\$ 1,651,255
Work in process	10,522,974	10,099,627
Raw materials	374,667	387,233
Supplies and spare parts	677,276	743,002
	13,447,707	12,881,117
Less - inventory reserve	(2,092,173)	(1,180,069)
	\$ 11,355,534	\$ 11,701,048

7. LONG-TERM INVESTMENTS

	June 30			
	2003		2002	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Shares of stock				
Equity method:				
TSMC International Investment Ltd. (TSMC International)	\$21,954,303	100	\$24,381,606	100
TSMC Partners Ltd. (TSMC Partners)	3,931,378	100	3,627,725	100
Vanguard International Semiconductor Corporation (VIS)	3,848,018	28	3,102,902	25
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	2,609,934	32	3,449,332	32
Emerging Alliance Fund LLP (Emerging Alliance)	879,128	99	708,245	99
Global UniChip Corp. (GUC)	387,376	47	-	-

(Forward)

	June 30	
	2003	
	Carrying Value	% of Ownership

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TSMC North America (TSMC - North America)	\$	240,294	100	\$
TSMC Japan K. K. (TSMC - Japan)		91,333	100	
Chi Cherng Investment Ltd. (Chi Cherng)		38,514	36	
Hsin Ruey Investment Ltd. (Hsin Ruey)		38,216	36	
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC - Europe)		10,990	100	
Chi Hsin Investment Ltd. (Chi Hsin)		-	-	
		-----		-----
		34,029,484		35
		-----		-----
Cost method:				
Publicly traded stock				
Amkor Technology		280,748	-	
Monolithic System Tech.		104,289	2	
Taiwan Mask Corp.		32,129	2	
Non-publicly traded stock				
United Technology		193,584	11	
Shin-Etsu Handotai Taiwan Company Ltd.		105,000	7	
Hon Tung Venture Capital		83,916	10	
W.K. Technology Fund IV		50,000	2	
		-----		-----
		849,666		
		-----		-----
Funds				
-----				
Horizon Ventures		195,452	-	
Crimson Asia Capital		47,385	-	
		-----		-----
		242,837		
		-----		-----
		\$ 35,121,987		\$ 36
		=====		=====
Credit balances of long-term investments				
-----				
Presented as part of other current liabilities:				
Kung Cherng Investment Ltd. (Kung Cherng)	\$	-	-	\$
Cherng Huei Investment Ltd. (Cherng Huei)		-	-	
Po Cherng Investment Ltd. (Po Cherng)		-	-	
		-----		-----
	\$	-		\$
		=====		=====

On January 8, 2003, the Company's investee company, VIS, issued 600,000 thousand shares of common stock at a price of NT\$7 per share. In this round of equity offering, the Company purchased a total of 230,882 thousand shares of VIS. As a result, its ownership in VIS increased from 25% to 28%.

The Company's investees, Hsin Ruey, Chi Hsin and Kung Cherng were merged on October 30, 2002, with Hsin Ruey as the surviving company. In addition, The Company's investees, Chi Cherng, Cherng Huei and Po Cherng were merged on October 30, 2002 with Chi Cherng as the surviving company. The mergers were accounted for as a pooling of interest. The Company's ownership is approximately 36% in Hsin Ruey and approximately 36% in Chi Cherng

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subsequent to the merger.

The Company established Ya Xin Technology ("Ya Xin") in November 2002 and subsequently signed a merger agreement with GUC in December 2002. The merger was effective on January 4, 2003 and GUC is the surviving company.

The carrying value of 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 periods. The investment gains or (losses) of investee companies consisted of the following:

	Six Months Ended June 30	
	2003	2002
SSMC	\$ (515,188)	\$ (683,005)
TSMC International	(204,832)	(1,835,187)
VIS	(172,437)	(274,625)
TSMC Partners	194,465	996,711
Others	(7,439)	63,054
	\$ (705,431)	\$ (1,733,052)
	=====	=====

The market values of publicly traded stocks accounted for the cost method were \$5,449,083 thousand and \$11,370,141 thousand as of June 30, 2003 and 2002, respectively.

## 8. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	June 30	
	2003	2002
Buildings	\$ 26,377,185	\$ 19,241,074
Machinery and equipment	189,172,205	142,577,849
Office equipment	3,366,082	2,720,627
	\$ 218,915,472	\$ 164,539,550
	=====	=====

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Information on the status of the expansion or construction plans of the Company's manufacturing facilities as of June 30, 2003 is as follows:

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Construction/Expansion Plan -----	Estimated Complete Cost -----	Accumulated Expenditures -----	Actual Date of Starting Operations -----
Fab 6	\$ 93,932,000	\$ 87,699,400	March 2000
Fab 12 - Phase 1	80,318,400	61,581,700	March 2002
Fab 14 - Phase 1	30,411,000	13,690,400	-

Interest expense (before deducting capitalized amounts of NT\$2,932 thousand in 2003 and NT\$48,636 thousand in 2002) for the six months ended June 30, 2003 and 2002 was NT\$949,056 thousand and NT\$1,159,786 thousand, respectively. The interest rate used for purposes of calculating the capitalized amount was 5.283% for the six months ended June 30, 2003 and 2002.

9. DEFERRED CHARGES - NET

	-----
	20
	-----
Technology license fee	\$ 5,7
Software and system design costs	2,9
Bond issuance costs	
Technology know-how	
Others	
	-----
	\$ 8,7
	=====

10. BONDS

	-----
	20
	-----
Domestic unsecured bonds:	
Issued on March 4, 1998 and paid on March 4, 2003 in one lump sum payment, 7.71% annual interest payable semi-annually	\$
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	5,0
Issued on 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	15,0
Issued on 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	15,0
	-----
	\$ 35,0
	=====

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As of June 30, 2003, future principal payments for the Company's bonds arrangements are as follows:

Year of Repayment -----	Amount -----
2004	\$ 5,000,000
2005	10,500,000
2006	-
2007	7,000,000
2008 and thereafter	12,500,000
	-----
	\$ 35,000,000
	=====

#### 11. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor patents. Future payments under the agreements as of June 30, 2003 are as follows:

Year -----	Amount -----
July to December, 2003	\$ 809,921
2004	1,221,804
2005	982,981
2006	467,262
2007	484,568
2008 and thereafter	1,107,584
	-----
	\$ 5,074,120
	=====

#### 12. PENSION PLAN

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

The Company contributes at 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 deposited in the Committee's name in the Central Trust of China.

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



	Six Months Ended June 30	
	2003	2002
Pension fund		
Balance, beginning of the period	\$ 993,404	\$ 804,000
Contribution	91,010	87,000
Interest	20,682	29,000
Payment	(3,473)	(5,000)
Balance, end of the period	\$ 1,101,623	\$ 916,000
Accrued pension cost		
Balance, beginning of the period	\$ 2,210,542	\$ 1,854,000
Accruals	221,397	194,000
Balance, end of the period	\$ 2,431,939	\$ 2,048,000

13. INCOME TAX

- 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:

	Six Months Ended June 30	
	2003	2002
Income tax expense based on "income before income tax" at statutory rate (25%)	\$ 4,188,111	\$ 4,188,111
Tax-exempt income	(2,027,750)	(2,027,750)
Temporary and permanent differences	(162,898)	(162,898)
Current income tax expense before tax credits	\$ 1,997,463	\$ 2,048,000

- b. Income tax expense consists of the following:

Current income tax expense before tax credits	\$ 1,997,463	\$ 2,048,000
Additional 10% tax on the unappropriated earnings	1,271,759	1,271,759
Income tax credits	(3,269,222)	(3,269,222)
Other income tax	2,500	2,500
Income tax paid in current period	2,500	2,500
Net change in deferred income tax liabilities (assets)		
Investment tax credits	(2,573,210)	(2,573,210)
Temporary differences	476,739	476,739
Valuation allowances	2,758,582	2,758,582

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Income tax expense \$ 664,611 \$ 2  
===== =====

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

	June 30	
	2003	2002
	-----	-----
Current:		
Investment tax credits	\$ 3,320,000	\$ 4,547,082
	=====	=====
Noncurrent:		
Investment tax credits	\$ 25,820,863	\$ 21,778,871
Temporary differences	(4,042,580)	(1,997,543)
Valuation allowances	(12,600,723)	(7,907,244)
	-----	-----
	\$ 9,177,560	\$ 11,874,084
	=====	=====

d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of June 30, 2003 and 2002 were NT\$14,748 thousand and NT\$2,543 thousand, respectively.

The actual creditable ratio for 2002 and 2001 were 0.08% and 0.04%, respectively.

e. As of June 30, 2003 and 2002, there was no unappropriated retained earnings generated before December 31, 1997.

f. As of June 30, 2003, investment tax credits consist of the following:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts
-----	-----	-----	-----
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 4,767,347 8,210,558 3,814,363 4,905,920 332,338	\$ 1,798,490 8,210,558 3,814,363 4,905,920 332,338
		-----	-----
		\$ 22,030,526	\$ 19,061,669
		=====	=====
Statute for Upgrading	Research and development	\$ 671,545	\$ 376,600

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Industries	expenditures	1,974,321	1,974,321
		3,111,472	3,111,472
		3,322,453	3,322,453
		836,277	836,277
		-----	-----
		\$ 9,916,068	\$ 9,621,123
		=====	=====
Statute for Upgrading Industries	Personnel training	\$ 16,108	\$ 16,108
		43,265	43,265
		28,886	28,886
		27,311	27,311
		-----	-----
		\$ 115,570	\$ 115,570
		=====	=====

(Forward)

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Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts
-----	-----	-----	-----
Statute for Upgrading Industries	Reputation setting	\$ 318	\$ 318
		=====	=====
Statute for Upgrading Industries	Investments in important technology based enterprise	\$ 5,420	\$ -
		203,319	203,319
		138,864	138,864
		-----	-----
		\$ 347,603	\$ 342,183
		=====	=====

- g. The sales generated from the following expansion and construction of the Company's manufacturing plants are exempt from income tax during the period specified:

	Tax-Exemption P
	-----
Construction of Fab 6	2001 to 200
Construction of Fab 8 - module B	2002 to 200
Expansion of Fab 2 - modules A and B, Fab 3, Fab 4, Fab 5 and Fab 6	2003 to 200

- 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, 1997 and 1998.

14. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE	Six Months Ended June 30,	
	Classified as Cost of Sales	Classified as Operating Expense
Labor cost		
Salary	\$ 3,421,909	\$ 1,469,436
Labor and health insurance	223,533	112,100
Pension	207,039	103,983
Other	88,871	47,921
Depreciation	27,768,264	1,152,407
Amortization	755,793	1,190,504
	-----	-----
	\$ 32,465,409	\$ 4,076,351
	=====	=====

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	Six Months Ended June 30,	
	Classified as Cost of Sales	Classified as Operating Expense
Labor cost		
Salary	\$ 3,259,941	\$ 1,541,307
Labor and health insurance	191,383	95,774
Pension	190,790	95,503
Other	84,610	65,535
Depreciation	24,413,797	1,301,769
Amortization	312,449	938,054
	-----	-----
	\$ 28,452,970	\$ 4,037,942
	=====	=====

15. SHAREHOLDERS' EQUITY

The Company has 369,019 thousand ADSs issued on the New York Stock Exchange as of June 30, 2003. The number of common shares represented by the ADSs is 1,845,097 thousand shares (one ADS represents five common shares).

On June 3, 2003, the Board of Director approved the Company's sponsorship of the offer by certain existing shareholders of up to 450,000 thousand common shares in the form of ADSs. The resolution to sponsor the offering of common shares in the form of ADSs has been approved by the SFC on June 30, 2003. The offering is still in process as of July 15, 2003.

Capital surplus can only be used to offset a deficit under the ROC Company

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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 if in excess of any cumulative 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 equals to 0.3% and at least 1% of the remainder, respectively. Individuals eligible for the employee bonus may include employees of affiliated companies as approved by the board of directors or a representative of the board of directors; and
- d. The appropriation of any remaining balance shall be approved by the shareholders.

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

Any appropriations of net income shall be approved at the shareholders' meeting in the following year and are recorded in the financial statement in the year of shareholder approval.

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

The appropriations of the earnings of 2002 and 2001 were approved in the shareholders' meeting on June 3, 2003 and May 7, 2002, respectively. The appropriations and dividend per share are as follows:

	Appropriation of Earnings	
	For Fiscal Year 2002	For Fiscal Year 2001
Legal reserve	\$ 2,161,029	\$ 1,448,317
Special reserve	68,945	(349,941)
Bonus paid to employees - in stock	1,539,013	1,070,783
Preferred stock dividend - in cash	455,000	455,000
Common stock dividend - in stock	14,898,309	16,832,553
Remuneration to directors and supervisors - in cash	58,485	133,848

\$ 19,180,781	\$ 19,590,560
=====	=====

The above appropriation of the earnings in fiscal year 2002 and 2001 is consistent with the resolution of the meetings of board of directors on March 4, 2003 and March 26, 2002, respectively. If the above employee bonus and remuneration to directors and supervisors were paid in cash and charged against income for 2002 and 2001, the basic earnings per share for the years ended December 31, 2002 and 2001 would decrease from NT\$1.14 to NT\$1.05 and NT\$0.83 to NT\$0.76, respectively. The shares distributed as a bonus to employees represented 0.83% and 0.64% of the Company's total outstanding common shares as of December 31, 2002 and 2001, respectively.

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

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), 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 to the extent that the debit balance of such accounts is reversed.

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 on or after 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.

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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 one common share of stock. The option rights are valid for 10 years and are exercisable at certain percentages subsequent to the second anniversary of issuance. Under the terms of the Plan, the option rights are granted at an exercise price equal to the closing price of the Company's common shares listed on Taiwan Stock Exchange at the date of grant. Information as of June 30, 2003 with respect to stock option rights activities under the Plan is as follows:

	Option Rights	Outstanding Option Rights	
	Available for Grant (In Thousand)	Number of Option Rights (In Thousand)	Exercise Pri (NT\$)
	-----	-----	-----
Balance, January 1, 2003	80,631	19,369	51.0-53.0
Options granted	(21,792)	21,792	41.6-58.5
Options cancelled	600	(600)	41.6-58.5
	-----	-----	
Balance, June 30, 2003	59,439	40,561	

=====

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 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 pre-emptive 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 the date of 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.

All the preferred stocks were redeemed at par value and retired on May 29, 2003.

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## 16. TREASURY STOCK (COMMON STOCK)

Purpose of Purchase	Beginning Shares	Increase	(Shares in Thousand)	
			Decrease	Ending Shares
-----				
Six months ended June 30, 2003				
-----				
Reclassification of parent company stock held by subsidiaries from short/long-term investment	42,001	-	40	41,961
	=====	=====	=====	=====
Six months ended June 30, 2002				
-----				
Reclassification of parent company stock held by subsidiaries from short/long-term investment	39,270	3,818	1,087	42,001
	=====	=====	=====	=====

Proceeds from the sale of treasury stock for the six months ended June 30, 2003 and 2002 were NT\$1,876 thousand and NT\$96,501 thousand, respectively.

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As of June 30, 2003 and 2002, the book value of the treasury stock was NT\$1,922,049 thousand and NT\$1,914,700 thousand; the market value was NT\$2,463,723 thousand and NT\$3,120,392 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.

### 17. EARNINGS PER SHARE (EPS)

Earnings per share (EPS) is computed as follows:

	Amounts (Numerator)		Shares (Denominator) (Thousands)
	Before Income Tax	After Income Tax	
Six months ended June 30, 2003 -----			
Net income	\$16,752,445	\$16,087,834	
Less - preferred stock dividends	(184,493)	(184,493)	
	-----	-----	
Basic and diluted earnings per share			
Income available to common shareholders	\$16,567,952	\$15,903,341	20,221,
	=====	=====	=====
Six months ended June 30, 2002 -----			
Net income	\$18,004,284	\$15,897,351	
Less - preferred stock dividends	(227,500)	(227,500)	
	-----	-----	
Basic and diluted earnings per share			
Income available to common shareholders	\$17,776,784	\$15,669,851	20,220,
	=====	=====	=====

The potential common shares from the employee stock option plan (see Note 15) are included in the denominator of the diluted earning-per-share computation but 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, "Earnings 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 six months ended June 30, 2002 to decrease from NT\$0.96 to NT\$0.84 and NT\$0.88 to NT\$0.77, respectively.

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### 18. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related



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parties:

- a. Industrial Technology Research Institute (ITRI); the Chairman of the Company is one of its directors
- b. Philips Electronics N.V. (Philips); a major shareholder of the Company
- c. Subsidiaries
  - TSMC - North America
  - TSMC - Europe
  - TSMC - Japan
  - TSMC International
- d. Investees
  - VIS
  - SSMC
  - GUC
- e. Indirect subsidiaries
  - WaferTech, LLC (WaferTech)
  - TSMC Technology

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

	Six Months Ended June 30		
	2003		2002
	Amount	%	Amount
For the period			
-----			
Sales			
TSMC - North America	\$ 52,570,870	58	\$ 47,926,681
Philips and its affiliates	1,396,502	2	1,293,472
GUC	343,507	-	-
ITRI	24,634	-	31,227
SSMC	874	-	6,374
VIS	-	-	91,810
WaferTech	-	-	964
	-----	----	-----
	\$ 54,336,387	60	\$ 49,350,528
	=====	====	=====
Purchases			
WaferTech	\$ 4,669,299	32	\$ 5,973,798
SSMC	2,676,309	19	988,288
VIS	2,286,535	16	1,663,520
	-----	----	-----
	\$ 9,632,143	67	\$ 8,625,606
	=====	====	=====

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(Forward)

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	Six Months Ended June 30		
	2003		2002
	Amount	%	Amount
Rental expense - ITRI	\$ -	-	\$ 40,401
Manufacturing expenses			
Philips - technical assistance fee	\$ 1,493,877	3	\$ 1,455,853
Marketing expenses			
TSMC - Japan (commission)	\$ 63,642	10	\$ 105,856
TSMC - Europe (commission)	47,577	7	79,445
	\$ 111,219	17	\$ 185,301
Sale of property, plant, and equipment - VIS	\$ 8,098	1	\$ -
Non-operating income and gain			
SSMC (mainly technical service income)	\$ 54,811	6	\$ 46,804
VIS	271	-	-
WaferTech	81	-	1,001
	\$ 55,163	6	\$ 47,805
At end of the period			
Receivables			
TSMC - North America	\$ 14,490,662	96	\$ 12,716,601
Philips and its affiliates	508,535	3	253,311
GUC	149,441	1	-
SSMC	12,998	-	42,623
ITRI	11,480	-	9,135
TSMC Technology	5,842	-	7,310
VIS	5,467	-	42,695
WaferTech	2,565	-	953
	\$ 15,186,990	100	\$ 13,072,628
Payables			
Philips and its affiliates	\$ 1,160,377	32	\$ 651,425
VIS	996,832	28	1,165,292

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WaferTech	930,867	26	1,083,633
SSMC	395,253	11	11,146
TSMC - Europe	35,695	1	49,694
TSMC - Japan	35,242	1	30,897
TSMC - North America	29,140	1	12,286
TSMC Technology	7,611	-	10,062
	-----	----	-----
	\$ 3,591,017	100	\$ 3,014,435
	=====	=====	=====
Refundable deposits - VIS	\$ 349,204	93	\$ 550,660
	=====	=====	=====

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Except for TSMC - North America and WaferTech, 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 determined in accordance with the related contractual agreements. The selling prices to TSMC - North America are approximately 99% of the comparable selling prices to third parties and the payment terms are thirty days from the date of invoice, which is not significantly different from payment terms with third parties.

19. SIGNIFICANT LONG-TERM OPERATING LEASES

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

Future remaining lease payments are as follows:

Year	Amount
-----	-----
July to December, 2003	\$ 112,788
2004	225,576
2005	225,576
2006	225,576
2007	225,576
2008	201,533
2009 and thereafter	1,540,880
	-----
	\$ 2,757,505
	=====

20. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies as of June 30, 2003 are as follows:

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fees at a percentage of net sales (as defined in the agreement) of certain products. The agreement shall remain in force through July 8, 2007 and

may be automatically renewed for successive periods of three years thereafter. Under the amended agreement, starting from the fifth anniversary date of the amended agreement, the fees are subject to reduction by the amounts the Company pays to any third party for settling any licensing/infringement disputes, provided that the fees to be paid after reduction will not be below a certain percentage of the net sales.

- 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.

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- d. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers who have made guarantee deposits to the Company. As of June 30, 2003, the Company received a total of US\$34,293 thousand of guarantee deposits.
- 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 "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 commitment 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. The Company provides 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 certain 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 guarantees 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, respectively.
- h. Under a Technology Transfer Agreement ("TTA") 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 and will be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated for convenience. Under the termination agreement, the Company will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request additional technology transfers under the same terms and conditions as the terminated TTA through January 2008.

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- i. The Company entered into a Manufacturing Agreement with 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 agreed upon by the parties. The Company paid NT\$1,200,000 thousand to VIS as a guarantee deposit. VIS shall return portions of the guarantee deposit without any interest to the Company upon reaching certain levels of purchase commitment by the Company. The contract will remain in force for five years. As of June 30, 2003, the refundable deposit was NT\$349,204 thousand.
- 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 estimated life of the technology or the term of the contract, whichever is shorter.

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- k. In November 2002, the Company entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Motorola, Inc. and ST Microelectronic to jointly develop 90-nanometer to 65-nanometer advanced CMOS Logic and e-DRAM technologies. The Company also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. The Company will contribute process technologies and share a portion of the costs associated with this joint development project.
- l. The Company entered into investment related agreements with Shanghai Songjiang District People's Government on June 8, 2003. Subject to the ROC government's approval and market demands, the Company contemplates establishing semiconductor fabs in Shanghai Songjiang Science and Technology Park.
- m. Unused letter of credits as of June 30, 2003 were NT\$6,480 thousand, US\$94 thousand, EUR150 thousand and S\$85 thousand.
- n. As of June 30, 2003, unused credit lines for short-term loans were NT\$9,930,000 thousand and US\$327,000 thousand.

### 21. 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;

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- 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. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 8 attached;

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j. Financial instrument transactions:

1) Derivative financial instruments

The Company entered into derivative financial instrument transactions for the six months ended June 30, 2003 and 2002 to manage exposures related to exchange rate fluctuations on foreign-currency denominated receivables or payables, and interest rate fluctuations. The purpose is to manage market price risks. Certain information on these contracts as of June 30, 2003 is as follows:

a) Outstanding forward exchange contracts as of June 30, 2003 are as follows:

Financial Instruments	Period	Contract Amount (Nominal Amount) (in Thousand)	Credit Risk
Sell	July 2003 to December 2003	US\$1,290,000 (US\$/NT\$)	-
Buy	July 2003	EUR 14,000 (EUR/US\$)	-
	July 2003 to August 2003	JPY6,580,435 (JPY/US\$)	-

As of June 30, 2003, receivables from forward exchange contracts (included in the "other financial assets" account) aggregate approximately NT\$16,548 thousand, and payables from forward exchange contracts (included in the "other current liabilities" account) aggregate approximately NT\$160,523 thousand. Net exchange loss for the six months ended June 30, 2003 was NT\$144,011 thousand.

The above forward exchange contracts are entered into for the purpose of managing currency exposures in the following foreign currency-denominated net assets/liabilities:

Net Assets	As of June 30, 2003
Accounts receivable	US\$ 721,194
Accounts payable	JPY 8,040,071

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Accounts payable EUR 35,703

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 six months ended June 30, 2003 was NT\$114,111 thousand. Outstanding contracts as of June 30, 2003 were as follows:

Contract Date	Period	Contract Amount (In Thousand)	Credit Risk
June 26, 1998	July 6, 1998 to July 6, 2003	NT\$1,000,000	-
July 1, 1999	July 1, 1999 to June 28, 2004	US\$ 8,571	-

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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 from its export sales or its Japanese currency obligations for purchases of machinery and equipment.

Outstanding option contracts as of June 30, 2003 were as follows:

Type	Contract	Contract Amount (In Thousand)	Book Value	Credit Risk	Strike Price	Maturity
European	Put option bought	US\$45,000	NT\$ -	-	32.915-33.077 (US\$/NT\$)	2003
European	Put option bought	US\$19,000	NT\$ 772	-	117-119 (US\$/JPY)	2003

For the six months ended June 30, 2003, the Company recognized premium income of NT\$50,273 thousand and premium expense of NT\$146,921 thousand.

d) Transaction risk

i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss incurred by the Company if the counter-parties breached the contracts. 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 risk and uncertainty of amount and term of future cash demand.

As of June 30, 2003, the Company's future cash demand for outstanding forward exchange contracts, interest rate swaps and option contracts are as follows:

Term	Forward Exchange Contracts	
	Inflow	Outflow
	(In Thousand)	
Within one year	NT\$ 44,545,275	US\$ 1,362
	EUR 14,000	
	JPY 6,580,435	

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The Company has sufficient operating capital to meet the above cash demand. The interest rate of the interest rate swaps has taken the Company's cost of capital into account. In addition, the exchange rates of forward foreign exchange contracts and option contracts are fixed. Therefore, there is no material fund raising risk and cash flow risk.

2) Fair value of financial instruments:

	June 30, 2003		J Carrying Amount
	Carrying Amount	Fair Value	
Non-derivative financial instruments			
Assets			
Cash and cash equivalents	\$66,546,050	\$66,546,050	\$66,385,
Short-term investments	3,054,050	3,057,705	
Receivables from related parties (excluding credit balance of long-term investments)	15,186,990	15,186,990	13,072,
Notes and accounts receivable	12,848,196	12,848,196	12,150,



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Other financial assets	798,672	798,672	2,078,
Long-term investments (including credit balances of long-term investments)	35,121,987	38,358,044	36,655,
Refundable deposits	375,715	375,715	577,
Liabilities			
Payables to related parties	3,591,017	3,591,017	3,014,
Accounts payable	5,154,006	5,154,006	5,407,
Payables to contractors and equipment suppliers	6,559,597	6,559,597	16,881,
Bonds payable (includes current portion)	35,000,000	35,838,341	44,000,
Other long-term payable (including current portion)	5,074,120	5,074,120	1,470,
Guarantee deposits	1,225,310	1,225,310	6,620,
Derivative financial instruments			
-----			
Forward exchange contracts (buy)	(39,769)	(39,560)	(86,
Forward exchange contracts (sell)	(104,205)	(65,798)	842,
Interest rate swaps	986	(22,130)	23,
Option	772	(87,415)	17,

Fair values of financial instruments were determined as follows:

- a) The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, other financial assets, accounts payable, payables to contractors and equipment suppliers are approximate to their fair values.
- b) Fair value of short-term and long-term investments is based on quoted market prices. If quoted market prices are unavailable, fair value is based on net asset value or book value of investment.
- c) Fair value of refundable deposits and guarantee deposits is based on carrying values.
- d) The fair value of bonds payable is the quoted market value. Fair value of other long-term payable is equivalent to its carrying value.
- e) Fair value of derivative financial instruments is the estimated net receivable or (payable) if the contracts are terminated on the relevant balance sheet date.

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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. On February 27, 2003, the authority approved phase one of the foregoing project and permitted direct investment in establishing TSMC - Shanghai. The Company entered into an investment related

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agreement with Shanghai Songjiang District People's Government on June 8, 2003. (See Note 20 1.) As of July 15, 2003, TSMC-Shanghai has not been established.

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TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

FINANCING PROVIDED

For the Six Months Ended June 30, 2003

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

No.	Financing Name	Counter-Party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousand)	Ending Balance (US\$ in Thousand)	Interest Rate	Financing Reason (Note)
1	TSMC International	TSMC Technology	Other receivables	\$ 541,551 (US\$ 15,646)	\$ 541,551 (US\$ 15,646)	4.25%	2

No.	Allowance for Bad Debt	Collateral Item	Value	Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limits (US\$ in Thousand)
1	\$ -		\$ -	N/A	\$ 34,195,548 (US \$987,968) (Note 2)

Note 1: The No. 2 represents that the short-term financing is necessary for the business.

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

TABLE 2

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

ENDORSEMENT/GUARANTEE PROVIDED

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For the Six Months Ended June 30, 2003  
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

No.	Endorsement/Guarantee Provider	Counter-Party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Balance for t (US\$ in Th	Maxim
		Name	Nature of Relationship (Note 2)			
0	TSMC	TSMC Development	3	Not exceeding 10% of the net assets of TSMC, and also limiting to the issued capital of the transaction entity, unless otherwise approved by board of directors.	\$ 6,92 (US\$ 20	
		TSMC - North America	2		\$ 1,38 (US\$ 4	
		WaferTech	3		\$15,22 (US\$ 44	

No.	Value of Collateral Property, Plant and Equipment (Note 3)	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0	\$ -	2.32%	\$ 74,565,393
	-	0.46%	
	-	5.11%	

Note 1: 25% of the net assets as of June 30, 2003 of TSMC.

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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.

TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

MARKETABLE SECURITIES HELD

June 30, 2003

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account
TSMC	Stock		
	-----		
	TSMC - North America	Subsidiary	Long-term investment
	TSMC - Europe	Subsidiary	Long-term investment
	TSMC - Japan	Subsidiary	Long-term investment
	VIS	Investee	Long-term investment
	TSMC International	Subsidiary	Long-term investment
	TSMC Partners	Subsidiary	Long-term investment
	SSMC	Investee	Long-term investment
	Emerging Alliance	Subsidiary	Long-term investment
	GUC	Investee	Long-term investment
	Taiwan Mask Corp.	-	Long-term investment
	United Gas Co., Ltd.	-	Long-term investment
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	Long-term investment
	W.K. Technology Fund IV	-	Long-term investment
	Hon Tung Ventures Capital	-	Long-term investment
	Amkor Technology	-	Long-term investment
	Monolithic System Tech.	-	Long-term investment
	Certificate		
	-----		
	Chi Cherng Investment	Investee	Long-term investment
	Hsin Ruey Investment	Investee	Long-term investment

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Equity

-----

Crimson Asia Capital	-	Long-term investment
Horizon Ventures	-	Long-term investment

-----  
June 30, 2003

Held Company Name	Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
TSMC					
	11,000	\$ 240,294	100	\$ 988,576	The treasury stock NT\$748,282 thousand from the carry
	-	10,990	100	10,990	
	6	91,333	100	91,334	
	787,016	3,848,018	28	4,942,459	
	987,968	21,954,303	100	21,954,303	
	300	3,931,378	100	4,187,070	The treasury stock NT\$255,692 thousand from the carry
	382	2,609,934	32	2,609,934	
	-	879,128	99	879,128	
	39,040	387,376	47	427,346	
	8,794	32,129	2	162,421	
	16,783	193,584	11	264,996	
	10,500	105,000	7	135,431	
	5,000	50,000	2	50,000	
	8,392	83,916	10	72,211	
	505	280,748	-	203,826	
	470	104,289	2	140,377	
	-	38,514	36	497,078	The treasury stock NT\$458,564 thousand from the carry
	-	38,216	36	497,727	The treasury stock NT\$459,511 thousand from the carry
	N/A	47,385	N/A	47,385	
	N/A	195,452	N/A	195,452	

(Forward)

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Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account
TSMC - North America	Stock ----- TSMC	Parent company	Long-term investment
Chi Cherng Investment	Stock ----- TSMC	Parent company	Short-term investment
	Certificate ----- Hsin Ruey Investment	Major shareholder	Long-term investment
Hsin Ruey Investment	Stock ----- TSMC VIS	Parent company -	Short-term investment Short-term investment
	Certificate ----- Chi Cherng Investment	Major shareholder	Long-term investment
TSMC International	Stock ----- InveStar InveStar II TSMC Development TSMC Technology 3DFX Interactive Inc. Marvell BOA Fund	Subsidiary Subsidiary Subsidiary Subsidiary - - -	Long-term investment Long-term investment Long-term investment Long-term investment Long-term investment Short-term investment Short-term investment
VIS	Stock ----- VIS Associates, Inc.  PowerChip Semiconductor, Inc. Etron Technology, Inc. Walsin Technology, Inc. MEGIC Corporation FormFactor, Inc. United Technology Co., Ltd.	Subsidiary  Investee Investee Investee Investee Investee	Long-term investment  Long-term investment Long-term investment Long-term investment Long-term investment Long-term investment
	Bond fund ----- Yuan Da Duo Li #2 Jihsun Fu Hua Well Pool Bond Fund	- - - -	Short-term investment Short-term investment Short-term investment Short-term investment

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Held Company Name	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	Note
TSMC - North America	-	\$ 729,804	
Chi Cherng Investment	36	731,287	
	64	896,275	
Hsin Ruey Investment	36	732,657	
	-	2,198	
	64	896,469	
TSMC International	97	US\$ 44,025	
	97	US\$ 40,081	
	100	US\$ 547,355	
	100	(US\$ 7,594)	
	-	-	
	1	US\$ 34,160	
	-	US\$ 24,500	
VIS	100	1,198,153	The book value is net of allo for valuation loss of long- Investments, \$28,397 thousa
	7	2,566,434	
	2	105,289	
	8	265,817	
	9	144,816	
	1	159,676	
	2	53,018	
	-	808,124	
	-	606,038	
	-	50,542	
	-	1,052,113	

(Forward)

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Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Accou
VIS Associates, Inc.	Stock -----		
	VIS Investment Holding, Inc.	Subsidiary	Long-term
	Equity -----		
	Silicon Valley Equity Fund	-	Long-term
	Silicon Valley Equity Fund II	-	Long-term
	Equity certificate -----		
VIS Associates, Inc.	ABN AMRO Bank	-	Long-term
	Fund -----		
	Grand Palace Trust	-	Long-term
VIS Investment Holding, Inc.	Stock -----		
	VIS Micro, Inc.	Subsidiary	Long-term
TSMC Development	Stock -----		
	WaferTech	Subsidiary	Long-term
TSMC Partners	ADR ---		
	TSMC	Parent company	Short-ter
InveStar	Stock -----		
	PLX Technology, Inc.	-	Short-ter
	Formfactor, Inc.	-	Short-ter
	WGRD	-	Short-ter
	Programmable Microelectronics, (Taiwan) Inc.	-	Long-term
	Divio, Inc.	-	Long-term
	Global Testing Corp.	-	Long-term
	Chipstrate Technologies, Inc.	-	Long-term
	Richtek Technology Holding Corp.	-	Long-term
	Advanced Power Electronics, Corp.	-	Long-term
Capella Microsystems, Inc.	-	Long-term	



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Preferred stock

Integrated Memory Logic, Inc.	-	Long-term
Divio, Inc	-	Long-term
SiRF Technology Inc.	-	Long-term
Capella Microsystems, Inc.	-	Long-term
Sensory, Inc.	-	Long-term
LightSpeed Semiconductor Corporation	-	Long-term
Tropian, Inc.	-	Long-term
Sonics, Inc.	-	Long-term

June 30, 2003

Held Company Name	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	No
VIS Associates, Inc.				
	US\$ 404	100	US\$ 404	
	US\$ 3,157	34	US\$ 3,157	
	US\$ 5,355	14	US\$ 5,362	
	US\$ 663	-	US\$ 663	
	US\$ 3,028	100	US\$ 3,028	
VIS Investment Holding, Inc.				
	US\$ 286	100	US\$ 286	
TSMC Development				
	US\$ 314,435	99	US\$ 314,435	
TSMC Partners				
	US\$ 7,357	-	US\$ 7,800	
InveStar				
	US\$ 693	-	US\$ 693	
	US\$ 2,000	-	US\$ 2,000	
	US\$ 514	-	US\$ 514	
	US\$ 498	4	(US\$ 498)	
	US\$ 3	-	US\$ 3	
	US\$ 5,198	12	US\$ 5,198	
	US\$ 302	1	US\$ 302	

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US\$	347	1	US\$	347
US\$	1,351	3	US\$	1,351
US\$	87	-	US\$	87

US\$	1,221	-	US\$	1,221
US\$	500	-	US\$	500
US\$	1,333	-	US\$	1,333
US\$	221	-	US\$	221
US\$	312	-	(US\$	312)
US\$	829	-	(US\$	829)
US\$	2,334	-	US\$	2,334
US\$	3,530	-	US\$	3,530

(Forward)

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Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account
	Atheros, Inc.	-	Long-term investment
	NanoAmp Solutions, Inc.	-	Long-term investment
	Monolithic Power Systems, Inc.	-	Long-term investment
	Memsic, Inc.	-	Long-term investment
	Reflectivity, Inc.	-	Long-term investment
	Signia Technologies, Inc.	-	Long-term investment
	Match Lab, Inc.	-	Long-term investment
	Oridus, Inc. (Creosys, Inc.)	-	Long-term investment
	Incentia Design Systems, Inc.	-	Long-term investment
	IP Unity	-	Long-term investment
InveStar II	Stock		
	-----		
	WGRD	-	Short-term investment
	eChannel Option Holding, Inc.	-	Long-term investment
	Elcos Microdisplay Technology, Ltd.	-	Long-term investment
	Signia Technologies, Inc.	-	Long-term investment
	Procoat Technology	-	Long-term investment
	Richtek Technology Corporation	-	Long-term investment
	Programmable Microelectronics (Taiwan), Inc.	-	Long-term investment
	Auden Technology MFG Co., Ltd.	-	Long-term investment
	GeoVision, Inc.	-	Long-term investment
	EoNex Technologies, Inc.	-	Long-term investment
	Conwise Technology Co., Ltd.	-	Long-term investment

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Yi Yang Technology	-	Long-term inve
Goyatek Technology, Inc.	-	Long-term inve
TrendChip Technologies Corp.	-	Long-term inve
Preferred stock		
-----		
Memsic, Inc.	-	Long-term inve
Oepic, Inc.	-	Long-term inve
NanoAmp Solutions, Inc.	-	Long-term inve
Advanced Analogic Technology, Inc.	-	Long-term inve
Monolithic Power Systems, Inc.	-	Long-term inve
Ralink Technology, Inc.	-	Long-term inve
Sonics, Inc.	-	Long-term inve
Newport Opticom, Inc.	-	Long-term inve
Silicon Data, Inc.	-	Long-term inve
Reflectivity, Inc.	-	Long-term inve
Capella Microsystems, Inc.	-	Long-term inve

(Forward)

June 30, 2003

Held Company Name	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	Note
	US\$ 3,593	-	US\$ 3,593	
	US\$ 853	-	US\$ 853	
	US\$ 2,000	-	US\$ 2,000	
	US\$ 1,500	-	US\$ 1,500	
	US\$ 856	-	US\$ 856	
	US\$ 203	-	US\$ 203	
	US\$ 750	-	US\$ 750	
	US\$ 300	-	US\$ 300	
	US\$ 343	-	US\$ 343	
	US\$ 982	-	US\$ 982	
InveStar II				
	US\$ 441	-	US\$ 441	
	US\$ 251	-	US\$ 251	
	US\$ 27	-	US\$ 27	
	US\$ 101	-	US\$ 101	
	US\$ 1,951	4	US\$ 1,951	
	US\$ 1,010	2	US\$ 1,010	
	US\$ 102	-	US\$ 102	
	US\$ 1,122	2	US\$ 1,122	
	US\$ 130	-	US\$ 130	
	US\$ 2,992	-	US\$ 2,992	
	US\$ 971	-	US\$ 971	
	US\$ 971	-	US\$ 971	
	US\$ 1,795	-	US\$ 1,795	

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US\$	867	-	US\$	867
		-		
		-		
US\$	1,560	-	US\$	1,560
US\$	1,317	-	US\$	1,317
US\$	1,000	-	US\$	1,000
US\$	1,261	-	US\$	1,261
US\$	1,946	-	US\$	1,946
US\$	1,506	-	US\$	1,506
US\$	3,082	-	US\$	3,082
US\$	602	-	US\$	602
US\$	750	-	US\$	750
US\$	1,077	-	US\$	1,077
US\$	128	-	US\$	128

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Acc
	Angstron Systems, Inc.	-	Long-ter
	Tropian, Inc.	-	Long-ter
	SiRF Technology Holdings, Inc.	-	Long-ter
	LeadTONE Wireless, Inc.	-	Long-ter
	Match Lab, Inc.	-	Long-ter
	eBest!, Inc.	-	Long-ter
	Kilopass Technologies, Inc.	-	Long-ter
	Elcos Microdisplay Technology, Ltd.	-	Long-ter
	Fang Tek, Inc.	-	Long-ter
	Alchip Technologies Ltd.	-	Long-ter
Emerging Alliance	Stock -----		
	Global Investment Holding, Inc.	Investee	Long-ter
	Preferred stock -----		
	Quake Technologies, Inc.	-	Long-ter
	Pixim, Inc.	-	Long-ter
	Newport Opticom, Inc.	-	Long-ter
	NetLogic Microsystems, Inc.	-	Long-ter
	Ikanos Communication, Inc.	-	Long-ter
	Quicksilver Technology, Inc.	-	Long-ter
	Litchfield Communications	-	Long-ter
	Mosaic Systems	-	Long-ter
	Accelerant Networks	-	Long-ter
	Zenesis Technologies	-	Long-ter

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Reflectivity, Inc.	-	Long-ter
Iridigm Display	-	Long-ter
XHP Microsystem	-	Long-ter
Axiom Microdevices, Inc.	-	Long-ter
Optichron	-	Long-ter

June 30, 2003

Held Company Name	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	Note
	US\$ 750	-	US\$ 750	
	US\$ 2,000	-	US\$ 2,000	
	US\$ 131	-	US\$ 131	
	US\$ 131	-	US\$ 131	
	US\$ 125	-	US\$ 125	
	US\$ 81	-	US\$ 81	
	US\$ 2,000	-	US\$ 2,000	
	US\$ 3,500	-	US\$ 3,500	
	US\$ 2,000	-	US\$ 2,000	
	US\$ 1,700	-	US\$ 1,700	
Emerging Alliance	100,000	6	100,000	
	US\$ 1,000	1	US\$ 809	
	US\$ 2,500	3	US\$ 2,382	
	US\$ 1,000	6	US\$ 500	
	US\$ 1,850	1	US\$ 1,850	
	US\$ 2,572	3	US\$ 2,572	
	US\$ 2,338	4	US\$ 2,338	
	US\$ 1,000	6	US\$ 57	
	US\$ 500	6	US\$ 12	
	US\$ 1,000	1	US\$ 820	
	US\$ 500	4	US\$ 500	
	US\$ 1,500	5	US\$ 1,500	
	US\$ 502	2	US\$ 502	
	US\$ 750	6	US\$ 750	
	US\$ 1,000	5	US\$ 1,000	
	US\$ 1,000	6	US\$ 1,000	

TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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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 Six Months Ended June 30, 2003

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party
TSMC	Stock ----- Emerging Alliance VIS	Long-term investment Long-term investment	Emerging Alliance VIS
VIS	Bond fund ----- Kai Chi Kai Xuan NITC Ta-Hua Jihsun Yuan Da Duo Li #2	Short-term investment Short-term investment Short-term investment Short-term investment Short-term investment	- - - - -

Company Name	Beginning Balance		Acquisition		Disposal	
	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousand)	Amount
TSMC	-	\$ 767,239	-	\$ 174,030	-	\$ -
	677,471	3,264,657	109,545	766,815	-	-
VIS	-	-	64,113	650,000	-	-
	-	-	3,225	500,000	3,225	500,164
	-	-	40,946	500,000	40,946	500,586
	-	-	46,730	600,000	-	-
	-	-	65,271	900,000	-	-

Company Name	Ending Balance	
	Shares (Thousand)	Amount (Note 1)

TSMC

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- \$ 879,128  
787,016 3,848,018

VIS

- -  
- -  
- -  
46,730 600,000  
65,271 900,000

-----  
Note 1: The ending balance included the recognition of the investment income (loss) by the equity method, the cumulative translation adjustments and unrealized loss on long-term investments recognized in proportion of ownership percentage in subsidiaries.

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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 Six Months Ended June 30, 2003  
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	
TSMC	Fab 14	January 20, 2003	\$ 180,665	By the construction progress	Unit
	Fab 12	May 6, 2003	119,000	By the construction progress	Unit
	Fab 12	June 17, 2003	134,500	By the construction progress	Unit
	Fab 12	June 18, 2003	110,055	By the construction progress	Liqu

Company Name	Nature of Relationship	Prior Transaction of Related Counter-party			
		Owner	Relationship	Transfer Date	Amount

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TSMC	-	N/A	N/A	N/A	N/A
	-	N/A	N/A	N/A	N/A
	-	N/A	N/A	N/A	N/A
	-	N/A	N/A	N/A	N/A

Company Name	Other Terms
TSMC	None
	None
	None
	None

TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

For the Six Months Ended June 30, 2003

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

Company Name	Related Party	Nature of Relationship	Transaction	
			Purchase/Sale	Amount
TSMC	TSMC - North America	Subsidiary	Sales	\$ 52,570,8
	Philips and its affiliates	Major shareholder	Sales	1,396,5
	GUC	Investee	Sales	343,5
	WaferTech	Subsidiary	Purchases	4,669,2



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SSMC	Investee	Purchases	2,676,3
VIS	Investee	Purchases	2,286,5

Company Name	Abnormal Transaction			Note/A
	Payment Terms	Unit Price	Payment Terms	Ending B
TSMC	Net 30 days from invoice date	Note 1	Note 1	\$14,490
	Net 30 days from invoice date	None	None	508
	Net 30 days from invoice date	None	None	149
	Net 30 days from monthly closing date	Note 1	Note 1	(930)
	Net 30 days from invoice date	None	None	(395)
	Net 45 days from monthly closing date	None	None	(996)

Note 1: Please refer to footnote 18 in the financial statements.

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  
June 30, 2003

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

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue	
					Amount	Action Taken
TSMC	TSMC - North America	Subsidiary	\$14,490,662	42 days	\$3,663,186	Accelerate d account rece
	Philips and its affiliates	Major shareholder	508,535	56 days	77,014	Accelerate d account rece
	GUC	Investee	149,441	51 days	-	-

## TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

June 30, 2003

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount	
				June 30, 2003	June 30, 2002
TSMC	TSMC - North America	San Jose, California, U.S.A. Amsterdam,	Marketing and engineering support	\$ 333,178	\$ 333,178
	TSMC - Europe	The Netherlands	Marketing and engineering support	2,960	2,960
	TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	83,760
	VIS TSMC	Hsin-Chu, Taiwan Tortola, British Virgin Islands	IC design and manufacturing Investment	8,119,816 31,445,780	6,503,640 31,445,780
	Chi Cherng Investment	Taipei, Taiwan	Investment	300,000	300,000
	Hsin Ruey Investment	Taipei, Taiwan Tortola,	Investment	300,000	300,000
	TSMC Partners	British Virgin Islands	Investment	10,350	10,350
	SSMC	Singapore	Manufacturing wafer	6,408,190	6,408,190
	Emerging Alliance	Cayman Islands	Investment	1,179,690	1,005,660
	GUC	Hsin-Chu, Taiwan	IC research, development, manufacturing, testing and marketing	409,920	341,250

(Note 3)

Investor Company	Investee Company	Location	Main Businesses and Products	Carrying Value (Note 1)	Net Income (Loss) of the Investee
	TSMC - Europe	The Netherlands	Marketing and engineering support	10,990	10
	TSMC - Japan	Yokohama, Japan	Marketing and engineering support	91,333	1,134
	VIS	Hsin-Chu, Taiwan	IC design and manufacturing	3,848,018	(613,487)

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TSMC International	Tortola, British Virgin Islands	Investment	21,954,303	(204,832)
Chi Cherng Investment	Taipei, Taiwan	Investment	38,514	(11,237)
Hsin Ruey Investment	Taipei, Taiwan	Investment	38,216	(11,903)
TSMC Partners	Tortola, British Virgin Islands	Investment	3,931,378	263,450
SSMC	Singapore	Manufacturing wafer	2,609,934	(1,609,976)
Emerging Alliance	Cayman Islands	Investment	879,128	(58,546)
GUC	Hsin-Chu, Taiwan	IC research, development, manufacturing, testing and marketing	387,376	(39,103)

---

Note 1: The treasury stock is deducted from the carrying value.

Note 2: The unrealized gain or loss and the gain or loss on disposal of the stocks held by subsidiaries are excluded.

Note 3: TSMC's investee, Ya Xin, merged with GUC in January 2002. GUC is the surviving company.