

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

April 30, 2003

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE
COMMISSION
Washington, DC 20549

FORM 6-K

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

For the month of April 2003

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

No.121 Park Avenue III
Science-Based Industrial Park
Hsin-chu, Taiwan
(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

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

Taiwan Semiconductor
Company Ltd.

Date: April 30, 2003

By _____ /s/ Harve

Harve
Senior Vice Pr
Financia

Taiwan Semiconductor Manufacturing Company Ltd.

Financial Statements for the Three Months Ended
March 31, 2003 and 2002

Together with Independent Accountants' Report

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

English Translation of a Report Originally Issued in Chinese

Independent Accountants' Report

April 17, 2003

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

We have reviewed the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Ltd. as of March 31, 2003 and 2002, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be 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.

T N Soong & Co

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

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other 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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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

BALANCE SHEETS

(Unaudited)

March 31, 2003 and 2002

(In Thousand New Taiwan Dollars, Except Par Value)

| A S S E T S | 2003 | | 2002 | |
|--|--------------------|-----------|-------------------|-----------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 67,449,389 | 18 | \$ 58,349,042 | 16 |
| Short-term investments (Note 2) | - | - | 2,449,999 | 1 |
| Receivables from related parties (Notes 6 and 17) | 11,056,070 | 3 | 10,957,806 | 3 |
| Notes receivable | 4,120 | - | 137,039 | - |
| Accounts receivable | 9,358,733 | 3 | 9,880,577 | 3 |
| Allowance for doubtful receivables (Note 2) | (976,864) | - | (950,194) | - |
| Allowance for sales returns and others (Note 2) | (1,834,097) | (1) | (3,600,882) | (1) |
| Other financial assets (Note 20) | 749,584 | - | 894,030 | - |
| Inventories - net (Notes 2 and 5) | 10,178,043 | 3 | 9,718,279 | 3 |
| Deferred income taxes assets (Notes 2 and 12) | 5,371,000 | 2 | 2,785,951 | 1 |
| Prepaid expenses and other current assets (Notes 2 and 17) | 1,629,391 | - | 1,812,293 | - |
| Total Current Assets | 102,985,369 | 28 | 92,433,940 | 26 |
| FUNDS AND LONG-TERM INVESTMENTS (Notes 2, 6, 15 and 19) | | | | |
| Equity method | 33,119,011 | 9 | 30,456,698 | 9 |
| Other | 1,027,607 | - | 962,618 | - |
| Total Funds and Long-term Investments | 34,146,618 | 9 | 31,419,316 | 9 |
| PROPERTY, PLANT, AND EQUIPMENT (Notes 2 and 7) | | | | |
| Cost | | | | |

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| | | | | |
|---|----------------|------|----------------|------|
| Buildings..... | 69,976,415 | 19 | 63,650,731 | 18 |
| Machinery and equipment..... | 314,492,740 | 87 | 261,659,631 | 73 |
| Office equipment..... | 5,812,295 | 2 | 5,163,351 | 1 |
| | ----- | --- | ----- | --- |
| | 390,281,450 | 108 | 330,473,713 | 92 |
| Accumulated depreciation | (202,845,400) | (56) | (151,352,016) | (42) |
| Advance payments and construction in progress | 18,157,888 | 5 | 29,904,214 | 8 |
| | ----- | --- | ----- | --- |
| Net Property, Plant, and Equipment | 205,593,938 | 57 | 209,025,911 | 58 |
| | ----- | --- | ----- | --- |
| GOODWILL (Note 2) | 2,525,829 | 1 | 2,874,219 | 1 |
| | ----- | --- | ----- | --- |
| OTHER ASSETS | | | | |
| Deferred charges--net (Notes 2, 8 and 19) | 9,198,057 | 3 | 5,289,354 | 2 |
| Deferred income taxes assets (Notes 2 and 12) | 7,968,768 | 2 | 15,309,154 | 4 |
| Refundable deposits (Notes 17 and 19) | 478,385 | - | 735,820 | - |
| Idle assets (Note 2) | 270,152 | - | - | - |
| Assets leased to others (Note 2) | 86,526 | - | 89,406 | - |
| Miscellaneous | 9,250 | - | 9,250 | - |
| | ----- | --- | ----- | --- |
| Total Other Assets | 18,011,138 | 5 | 21,432,984 | 6 |
| | ----- | --- | ----- | --- |
| TOTAL ASSETS | \$ 363,262,892 | 100 | \$ 357,186,370 | 100 |
| | ===== | === | ===== | === |

| | 2003 | | 2002 | |
|--|--------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| ----- | ----- | --- | ----- | --- |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| ----- | | | | |
| CURRENT LIABILITIES | | | | |
| Payables to related parties (Note 17) | \$ 2,632,038 | 1 | \$ 2,676,481 | |
| Accounts payable | 4,497,685 | 1 | 1,755,303 | |
| Payables to contractors and equipment suppliers | 7,738,073 | 2 | 11,392,482 | |
| Accrued expenses and other current liabilities (Notes 2, 6, 10 and 20) | 5,479,353 | 1 | 5,044,385 | |
| Current portion of long-term bonds payable (Note 9) | - | - | 9,000,000 | |
| | ----- | --- | ----- | --- |
| Total Current Liabilities | 20,347,149 | 5 | 29,868,651 | |
| | ----- | --- | ----- | --- |
| LONG-TERM LIABILITIES | | | | |
| Bonds payable (Note 9) | 35,000,000 | 10 | 35,000,000 | |
| Other long-term payable (Notes 10 and 19) | 4,281,200 | 1 | 1,470,000 | |
| | ----- | --- | ----- | --- |
| Total Long-term Liabilities | 39,281,200 | 11 | 36,470,000 | |
| | ----- | --- | ----- | --- |
| OTHER LIABILITIES | | | | |
| Guarantee deposits (Note 19) | 1,375,672 | - | 6,969,569 | |
| Accrued pension cost (Notes 2 and 11) | 2,297,786 | 1 | 1,939,619 | |
| Deferred gain on sale and leaseback (Note 2) | 76,619 | - | 229,856 | |
| | ----- | --- | ----- | --- |
| Total Other Liabilities | 3,750,077 | 1 | 9,139,044 | |
| | ----- | --- | ----- | --- |
| Total Liabilities | 63,378,426 | 17 | 75,477,695 | |
| | ----- | --- | ----- | --- |

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SHAREHOLDERS' EQUITY (Notes 2 and 14)

| | | | | |
|---|---------------|-----|---------------|-----|
| Capital stock - \$10 par value | | | | |
| Authorized: 24,600,000 thousand shares | 13,000,000 | 4 | 13,000,000 | |
| | | | | |
| Issued: Preferred - 1,300,000 thousand shares; Common - 18,622,887 thousand shares in 2003 and 16,832,554 thousand shares in 2002 | 186,228,867 | 51 | 168,325,531 | 4 |
| | | | | |
| Capital surplus: | | | | |
| Merger and others | 56,796,854 | 16 | 57,128,433 | 1 |
| Treasury stock (Note 3) | 43,036 | - | 30,539 | |
| | | | | |
| Retained earnings: | | | | |
| Appropriated as legal reserve | 18,641,108 | 5 | 17,180,067 | |
| Appropriated as special reserve | - | - | 349,941 | |
| Unappropriated earnings | 26,508,956 | 7 | 26,565,234 | |
| Other: | | | | |
| Unrealized loss on long-term investments (Note 2) | (293,612) | - | - | |
| Cumulative translation adjustments (Note 2) | 882,749 | - | 1,232,851 | |
| Treasury stock (at cost) - 42,001 thousand shares in 2003 and 38,497 shares in 2002 (Notes 3 and 15) | (1,923,492) | - | (2,103,921) | |
| | | | | |
| Total Shareholders' Equity | 299,884,466 | 83 | 281,708,675 | 7 |
| | | | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$363,262,892 | 100 | \$357,186,370 | 100 |
| | | | | |

The accompanying notes are an integral part of the financial statements
(With T N Soong & Co. report dated April 17, 2003)

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF INCOME

(Unaudited)

For the Three Months Ended March 31, 2003 and 2002

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

| | 2003 | | 2002 | |
|---------------------------------------|--------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| GROSS SALES (Notes 2 and 17) | \$39,633,381 | | \$37,324,313 | |
| SALES RETURNS AND ALLOWANCES (Note 2) | (308,068) | | (1,534,598) | |
| NET SALES | 39,325,313 | 100 | 35,789,715 | 100 |
| COST OF SALES (Notes 13 and 17) | 28,939,421 | 73 | 23,763,009 | 66 |
| | | | | |

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| | | | | |
|--|------------|----|------------|----|
| GROSS PROFIT | 10,385,892 | 27 | 12,026,706 | 34 |
| ----- | | | | |
| OPERATING EXPENSES (Notes 13 and 17) | | | | |
| Research and development | 2,511,843 | 6 | 2,539,567 | 7 |
| General and administrative | 1,395,451 | 4 | 1,007,328 | 3 |
| Marketing | 283,933 | 1 | 297,807 | 1 |
| ----- | | | | |
| Total Operating Expenses | 4,191,227 | 11 | 3,844,702 | 11 |
| ----- | | | | |
| INCOME FROM OPERATIONS | 6,194,665 | 16 | 8,182,004 | 23 |
| ----- | | | | |
| NON-OPERATING INCOME AND GAIN | | | | |
| Interest (Note 2) | 188,929 | 1 | 214,746 | - |
| Insurance compensation - net | 52,562 | - | - | - |
| Technical service income (Notes 17 and 19) | 21,153 | - | 13,806 | - |
| Gain on sales of short-term investments (Note 2) | 7,894 | - | 7,103 | - |
| Gain on sales of property, plant, and equipment (Note 2) | 5,876 | - | 254,581 | 1 |
| Premium income from option contracts - net (Notes 2 and 20) | - | - | 60,591 | - |
| Other (Note 17) | 17,393 | - | 81,203 | - |
| ----- | | | | |
| Total Non-operating Income and Gain | 293,807 | 1 | 632,030 | 1 |
| ----- | | | | |
| NON-OPERATING EXPENSE AND LOSS | | | | |
| Investment loss recognized by equity method - net (Notes 2 and 6) | 1,515,850 | 4 | 946,289 | 3 |
| Interest (Notes 7 and 20) | 500,301 | 1 | 541,343 | 2 |
| Foreign exchange loss - net (Notes 2 and 20) | 159,298 | 1 | 60,847 | - |
| Loss on idle assets (Note 2) | 63,111 | - | - | - |

(Forward)

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English Translation of Financial Statements Originally Issued in Chinese

| | 2003 | | 2002 | |
|---|-----------|----|-----------|----|
| | Amount | % | Amount | % |
| ----- | | | | |
| Loss on disposal of property, plant, and equipment (Note 2) | \$ 37,083 | - | \$ 91,224 | - |
| Premium expense from option contracts - net (Notes 2 and 20) | 26,556 | - | - | - |
| Amortization of bond issuance costs (Note 2) | 3,580 | - | 5,548 | - |
| Casualty loss - net (Note 2) | - | - | 104,828 | - |
| Loss on sales of long-term investments - net (Note 2) | - | - | 1,766 | - |
| Other | 2,423 | - | 44,342 | - |
| ----- | | | | |
| Total Non-operating Expense and Loss | 2,308,202 | 6 | 1,796,187 | 5 |
| ----- | | | | |
| INCOME BEFORE INCOME TAX | 4,180,270 | 11 | 7,017,847 | 19 |
| INCOME TAX BENEFIT (EXPENSE) (Notes 2) | | | | |

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| | | | | |
|------------|-------------|----|-------------|-----|
| and 12) | 177,597 | - | (430,015) | (1) |
| | ----- | -- | ----- | -- |
| NET INCOME | \$4,357,867 | 11 | \$6,587,832 | 18 |
| | ===== | == | ===== | == |

| | 2003 | | 2002 | |
|--------------------------------------|--------|--------|--------|--------|
| | Before | After | Before | After |
| | Income | Income | Income | Income |
| | Tax | Tax | Tax | Tax |
| | ----- | ----- | ----- | ----- |
| EARNINGS PER SHARE (Note 16) | | | | |
| Basic and diluted earnings per share | \$0.22 | \$0.23 | \$0.37 | \$0.35 |
| | ===== | ===== | ===== | ===== |

The pro forma net income and earnings per share on the assumption that the stock of parent company held by its subsidiary is treated as an investment instead of the treasury stock, are shown as follows (Notes 3 and 15):

| | 2003 | | 2002 | |
|--------------------------------------|-------------|-------------|-------------|-------------|
| | Before | After | Before | After |
| | Income | Income | Income | Income |
| | Tax | Tax | Tax | Tax |
| | ----- | ----- | ----- | ----- |
| NET INCOME | \$4,185,773 | \$4,363,370 | \$7,048,386 | \$6,618,371 |
| | ===== | ===== | ===== | ===== |
| EARNINGS PER SHARE | | | | |
| Basic and diluted earnings per share | \$ 0.22 | \$ 0.23 | \$ 0.37 | \$ 0.35 |
| | ===== | ===== | ===== | ===== |

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

(With T N Soong & Co. report dated April 17, 2003)

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English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

STATEMENTS OF CASH FLOWS
(Unaudited)

For the Three Months Ended March 31, 2003 and 2002
(In Thousand New Taiwan Dollars)

2003

2002

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| | ----- | ----- |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 4,357,867 | \$ 6,587,832 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,360,867 | 12,842,345 |
| Deferred income taxes | (307,201) | 426,965 |
| Investment loss recognized by equity method - net | 1,515,850 | 946,289 |
| Loss on idle assets | 63,111 | - |
| Loss (gain) on sales of property, plant and equipment - net | 31,207 | (163,357) |
| Loss on sales of long-term investments - net | - | 1,766 |
| Pension cost accrued | 87,244 | 84,766 |
| Allowance for doubtful receivables | 47,000 | (150,298) |
| Allowance for sales returns and others | (528,970) | 1,019,331 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Receivables from related parties | (872,582) | (10,517,670) |
| Notes receivable | 56,120 | 39,543 |
| Accounts receivable | 136,714 | 10,077,059 |
| Inventories - net | 162,293 | (1,213,861) |
| Other financial assets | 25,759 | (40,424) |
| Prepaid expenses and other current assets | 384,970 | (99,605) |
| Forward exchange contract receivable | 194,326 | (144,728) |
| Increase (decrease) in: | | |
| Payables to related parties | 165,040 | 593,875 |
| Accounts payable | (351,549) | 631,409 |
| Forward exchange contract payable | 62,093 | (367,166) |
| Accrued expenses and other current liabilities | (461,226) | 432,961 |
| Net Cash Provided by Operating Activities..... | 20,128,933 | 20,987,032 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Increase in short-term investments | - | (2,449,999) |
| Acquisitions of: | | |
| Long-term investments | (1,010,581) | (1,422,609) |
| Property, plant, and equipment | (9,052,961) | (6,599,047) |
| Proceeds from sales of: | | |
| Long-term investments | - | 632 |
| Property, plant, and equipment | 41,841 | 438,829 |

(Forward)

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English Translation of Financial Statements Originally Issued in Chinese

| | 2003 | 2002 |
|--|--------------|--------------|
| | ----- | ----- |
| Increase in deferred charges | (\$ 360,328) | (\$ 805,191) |
| Decrease in refundable deposits | 65,084 | 37,092 |
| Net Cash Used in Investing Activities | (10,316,945) | (10,800,293) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of (repayment on) long-term bonds | (4,000,000) | 15,000,000 |

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| | | |
|--|---------------|---------------|
| Decrease in guarantee deposits | (19,394) | (241,403) |
| | ----- | ----- |
| Net Cash Provided by (Used in) Financing Activities | (4,019,394) | 14,758,597 |
| | ----- | ----- |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,792,594 | 24,945,336 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF | | |
| THE PERIOD | 61,656,795 | 33,403,706 |
| | ----- | ----- |
| CASH AND CASH EQUIVALENTS, END OF THE | | |
| PERIOD | \$ 67,449,389 | \$ 58,349,042 |
| | ===== | ===== |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid (excluding the amounts capitalized of | | |
| NT\$2,315 thousand and NT\$24,068 thousand in 2003 and | | |
| 2002, respectively) | \$ 608,040 | \$ 161,784 |
| | ===== | ===== |
| Income tax paid | \$ 2,500 | \$ 3,050 |
| | ===== | ===== |
| Non-cash investing and financing activities: | | |
| Reclassification of a parent company stock held by | | |
| subsidiaries from long-term investments to treasury | | |
| stock | \$ 1,923,492 | \$ 2,103,291 |
| | ===== | ===== |
| Effect of exchange rate changes on cash and cash | | |
| equivalents | \$ 36,697 | \$ 232 |
| | ===== | ===== |
| Credit balances of long-term investments reclassified | | |
| as part of receivables from related parties | \$ - | \$ 83,725 |
| | ===== | ===== |
| Credit balances of long-term investments reclassified | | |
| as part of other current liabilities | \$ - | \$ 61,510 |
| | ===== | ===== |
| Partial cash investing and financing activities: | | |
| Total acquisition of property, plant and equipment | \$ 2,786,651 | \$ 5,624,210 |
| Payables to contractors and equipment suppliers | 6,266,310 | 974,837 |
| | ----- | ----- |
| | \$ 9,052,961 | \$ 6,599,047 |
| | ===== | ===== |

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

(With T N Soong & Co. report dated April 17, 2003)

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TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(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

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

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

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 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 are 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. 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 customer. 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

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at the end of each period. Market value represents net realizable value for finished goods and work in process, and replacement value for raw materials, supplies and spare parts.

Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method. The Company's proportionate share in the net income or net loss of investee companies are recognized as components of the "Investment income/loss recognized by equity method - net" account. The Company adopted Statements of Financial Accounting Standards ("SFAS") No. 30, "Accounting for Treasury Stock" on January 1, 2002. SFAS No. 30 requires a parent company to record stock held by its subsidiary as treasury stock. When acquiring shares of stock, the difference between cost of investment and its book value is amortized using straight-line method over five years.

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.

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Other stock investments are accounted for using the cost method. Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying values of the long-term investments if the dividends are received in the same year that the related investments are acquired. Stock dividends are recognized neither as investment income nor increase of long-term investment but recorded only as an increase in the number of shares held. An allowance is recognized for any decline in the market value of investments using quoted market prices with the corresponding amount charged 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 are lower than their net asset values, with the corresponding amount charged 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

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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 such gains or losses are realized through a transaction with a third party. The entire amount of gains or losses on sales to majority-owned subsidiaries are deferred until such gains or losses are realized through a subsequent transaction with a third party. Gains or losses from sales by investee companies to the Company are deferred in proportion to the ownership percentage until realized through transactions with third parties.

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

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Idle assets are stated at the lower of book value or net 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 date of the lease. The lessee's periodic rent payment includes the purchase price of the leased property and the interest expense.

Depreciation is computed using the straight-line method over 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.

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Goodwill

Goodwill represents the excess of the consideration paid for acquisition over the fair market value of net identifiable assets acquired. Goodwill is amortized using the straight-line method over the estimated life of 10 years.

Deferred charges

Deferred charges consist of software and system design costs, technology know-how, bond issuance 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

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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 lease; whichever is shorter.

Casualty loss

Casualty losses 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 operating loss carryforwards. Valuation allowances are provided to the extent, if any, that it is more likely than not that the deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or non-current according to the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as 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.

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

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

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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.

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 operation.

Reclassification

Certain accounts in the financial statement as of and for the three months ended March 31, 2002 have been reclassified to conform to the financial statements as of and for the three months ended March 31, 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 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\$2,103,921 thousand as of March 31, 2002, and a decrease in net income for the three months ended March 31, 2002 by and NT\$30,539 thousand.

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4. CASH AND CASH EQUIVALENTS

| | March 31 | |
|---|--------------|--------------|
| | 2003 | 2002 |
| Cash and bank deposits | \$63,593,271 | \$57,828,814 |
| Government bonds acquired under repurchase agreements | 3,856,118 | 520,228 |
| | \$67,449,389 | \$58,349,042 |
| | ===== | ===== |

5. INVENTORIES - NET

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| | March 31 | |
|--------------------------|--------------|--------------|
| | 2003 | 2002 |
| Finished goods | \$ 1,748,237 | \$ 1,357,142 |
| Work in process | 8,636,827 | 7,977,385 |
| Raw materials | 384,315 | 514,115 |
| Supplies and spare parts | 656,082 | 796,806 |
| | ----- | ----- |
| | 11,425,461 | 10,645,448 |
| Less - inventory reserve | (1,247,418) | (927,169) |
| | ----- | ----- |
| | \$10,178,043 | \$ 9,718,279 |
| | ===== | ===== |

6. LONG-TERM INVESTMENTS

| | March 31 | | | |
|--|----------------|----------------|----------------|----------------|
| | 2003 | | 2002 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Shares of stock | | | | |
| ----- | | | | |
| Equity method: | | | | |
| TSMC International Investment Ltd. (TSMC International) | \$21,019,823 | 100 | \$18,966,458 | 100 |
| TSMC Partners Ltd. | 3,938,938 | 100 | 3,279,489 | 100 |
| Vanguard International Semiconductor Corporation (VIS) | 3,588,892 | 28 | 3,267,236 | 25 |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 2,859,712 | 32 | 3,963,031 | 32 |
| Emerging Alliance Fund LLP (Emerging Alliance) | 933,010 | 99 | 741,617 | 99 |
| Global UniChip Corp. (GUC) | 388,177 | 47 | - | - |
| TSMC North America (TSMC - North America) | 201,573 | 100 | - | - |
| TSMC Japan K. K. (TSMC - Japan) | 94,062 | 100 | 81,394 | 100 |
| Chi Cherng Investment Ltd. (Chi Cherng) | 42,636 | 36 | 62,148 | 25 |
| Hsin Ruey Investment Ltd. (Hsin Ruey) | 41,666 | 36 | 62,092 | 25 |
| Taiwan Semiconductor Manufacturing Company Europe B. V (TSMC - Europe) | 10,522 | 100 | 10,038 | 100 |
| Chi Hsin Investment Ltd. (Chi Hsin) | - | - | 23,195 | 25 |
| | ----- | | ----- | |
| | 33,119,011 | | 30,456,698 | |
| | ----- | | ----- | |

(Forward)

| | March 31 | | | |
|---|----------------|----------------|----------------|----------------|
| | 2003 | | 2002 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Cost method - common stock: | | | | |
| Publicly traded stock | | | | |
| Amkor Technology | \$ 280,748 | - | \$ 280,748 | - |
| Monolithic System Tech. | 104,289 | 2 | - | - |
| Taiwan Mask Corp. | 32,129 | 2 | 32,129 | 2 |
| Non-publicly traded stock | | | | |
| United Technology | 193,584 | 11 | 193,584 | 11 |
| Shin-Etsu Handotai Taiwan Company Ltd. | 105,000 | 7 | 105,000 | 7 |
| Hon Tung Venture Capital | 83,916 | 10 | 150,000 | 10 |
| W.K. Technology Fund IV | 50,000 | 2 | 50,000 | 2 |
| | 849,666 | | 811,461 | |
| Funds | | | | |
| Horizon Ventures | 195,452 | - | 125,701 | - |
| Crimson Asia Capital | 43,055 | - | 25,456 | - |
| | 238,507 | | 151,157 | |
| Unrealized loss on long-term investments | (60,566) | | - | |
| | \$34,146,618 | | \$31,419,316 | |
| Credit balances of long-term investments | | | | |
| Presented as part of receivables offset against from related parties: | | | | |
| TSMC - North America | \$ - | - | \$ 83,725 | 100 |
| Presented as part of other current liabilities: | | | | |
| Kung Cherng Investment Ltd. (Kung Cherng) | \$ - | - | \$ 45,316 | 25 |
| Cherng Huei Investment Ltd. (Cherng Huei) | - | - | 13,278 | 25 |
| Po Cherng Investment Ltd. (Po Cherng) | - | - | 2,916 | 25 |
| | \$ - | | \$ 61,510 | |

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 subsequent to the merger.

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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 the investments accounted for using the equity method and the related investment gains or losses were determined based on the reviewed financial statements of the investees in the same periods. The investment gains or losses of the investee companies consisted of the following:

| | Three Months Ended March 31 | |
|--------------------|--------------------------------|---------------|
| | 2003 | 2002 |
| TSMC International | (\$1,229,388) | (\$1,026,669) |
| SSMC | (275,997) | (366,782) |
| VIS | (207,875) | (110,290) |
| TSMC Partners | 185,361 | 504,982 |
| Others | 12,049 | 52,470 |
| | ----- | ----- |
| | (\$1,515,850) | (\$ 946,289) |
| | ===== | ===== |

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

| | March 31 | |
|--|--------------|--------------|
| | 2003 | 2002 |
| Market value of publicly traded stocks | \$ 6,204,124 | \$10,919,296 |
| Equity in the net assets of non-publicly traded stocks | 31,980,354 | 29,666,876 |
| Net asset value of funds | 238,507 | 151,157 |

7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

| | March 31 | |
|-------------------------|---------------|---------------|
| | 2003 | 2002 |
| Buildings | \$ 23,790,274 | \$ 17,824,053 |
| Machinery and equipment | 175,906,546 | 130,976,282 |
| Office equipment | 3,148,580 | 2,551,681 |
| | ----- | ----- |
| | \$202,845,400 | \$151,352,016 |
| | ===== | ===== |

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Information on the status of the expansion or construction plans of the Company's manufacturing facilities as of March 31, 2003, is as follows:

| Construction/Expansion Plan | Estimated Complete Cost | Accumulated Expenditures | Actual Date of Starting Operations |
|-----------------------------|-------------------------|--------------------------|------------------------------------|
| Fab 6 | \$93,932,000 | \$87,340,200 | March 2000 |
| Fab 12 - Phase 1 | 80,318,400 | 57,147,300 | March 2002 |
| Fab 14 - Phase 1 | 30,411,000 | 13,323,400 | - |

Interest expenses (before deducting capitalized amounts of NT\$2,315 thousand in 2003 and NT\$24,068 thousand in 2002) for the three months ended March 31, 2003 and 2002 were NT\$502,616 thousand and NT\$565,411 thousand, respectively. The interest rate used for purposes of calculating the capitalized amount was 5.283% for the three months ended March 31, 2003 and 2002.

8. DEFERRED CHARGES - NET

| | March 31 | |
|----------------------------------|-------------|-------------|
| | 2003 | 2002 |
| Technology license fee | \$6,037,579 | \$2,525,775 |
| Software and system design costs | 3,076,319 | 2,587,869 |
| Bond issuance costs | 42,328 | 58,884 |
| Technology know-how | 36,000 | 90,000 |
| Others | 5,831 | 26,826 |
| | \$9,198,057 | \$5,289,354 |

9. BONDS

| | March 31 | |
|---|------------|----------------|
| | 2003 | 2002 |
| Domestic unsecured bonds: | | |
| Issued on March 4, 1998 and paid in March 4, 2003 in one lump sum payment. 7.71% annual interest was payable semi-annually | \$ | - \$ 4,000,000 |
| Issued on October 21, 1999 and payable on October 21, 2002 and 2004 in two equal payments, 5.67% and 5.95% interest payable annually, respectively | 5,000,000 | 10,000,000 |
| Issued on December 4 to 15, 2000 and payable in December 2005 and 2007 in two equal payments. 5.25% and 5.36% interest payable annually, respectively | 15,000,000 | 15,000,000 |
| Issued on January 10 to 24, 2002 and payable in January 2007, | | |

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2009 and 2012 in three equal payments, 2.6%, 2.75% and 3% interest payable annually, respectively

| | |
|--------------|--------------|
| 15,000,000 | 15,000,000 |
| ----- | ----- |
| \$35,000,000 | \$44,000,000 |
| ===== | ===== |

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As of March 31, 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 |
| | ===== |

10. OTHER LONG-TERM PAYABLES

The Company entered into several license arrangements for certain semiconductor patents. Future payments under the agreements as of March 31, 2003 are as follows:

| Year | Amount |
|---------------------|-------------|
| ---- | ----- |
| 2003 | \$1,157,175 |
| 2004 | 1,226,675 |
| 2005 | 986,900 |
| 2006 | 469,125 |
| 2007 | 486,500 |
| 2008 and thereafter | 1,112,000 |
| | ----- |
| | \$5,438,375 |
| | ===== |

11. 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 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:

| | Three Months Ended March 31 | |
|------------------------------|--------------------------------|-------------|
| | 2003 | 2002 |
| Pension fund | | |
| Balance, beginning of period | \$ 993,404 | \$ 804,437 |
| Contribution | 55,376 | 50,121 |
| Interest | 20,682 | 29,606 |
| Balance, end of period | \$1,069,462 | \$ 884,164 |
| Accrued pension cost | | |
| Balance, beginning of period | \$2,210,542 | \$1,854,853 |
| Accruals | 87,244 | 84,766 |
| Balance, end of period | \$2,297,786 | \$1,939,619 |

12. 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:

| | Three Months Ended March 31 | |
|---|--------------------------------|---------------|
| | 2003 | 2002 |
| Income tax expense based on "income before income tax" at statutory rate (25%) | (\$1,045,068) | (\$1,754,462) |
| Tax-exempt income | 648,750 | 793,750 |
| Temporary and permanent differences | (298,137) | 166,763 |
| Current income tax expense before tax credits | (\$ 694,455) | (\$ 793,949) |

- b. Income tax benefit (expense) consist of the following:

| | Three Months Ended March 31 | |
|---|--------------------------------|--------------|
| | 2003 | 2002 |
| Current income tax expense before tax credits | (\$ 694,455) | (\$ 793,949) |
| Income tax credits | 694,455 | 793,949 |
| Other income tax | (2,500) | (3,050) |

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| | | |
|--|------------|--------------|
| Income tax paid in current period | (2,500) | (3,050) |
| Net change in deferred income tax assets (liabilities) | | |
| Investment tax credits | 1,192,419 | 200,409 |
| Temporary differences | (457,260) | 624,101 |
| Valuation allowance | (555,062) | (1,251,475) |
| | ----- | ----- |
| Income tax benefit (expense) | \$ 177,597 | (\$ 430,015) |
| | ===== | ===== |

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

| | March 31 | |
|------------------------|---------------|--------------|
| | 2003 | 2002 |
| | ----- | ----- |
| Current | | |
| Investment tax credits | \$ 5,371,000 | \$ 2,785,951 |
| | ===== | ===== |
| Noncurrent: | | |
| Investment tax credits | \$ 22,389,072 | \$21,471,919 |
| Temporary differences | (4,023,101) | (1,869,654) |
| Valuation allowance | (10,397,203) | (4,293,111) |
| | ----- | ----- |
| | \$ 7,968,768 | \$15,309,154 |
| | ===== | ===== |

d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of March 31, 2003 and 2002 were NT\$98,238 thousand and NT\$9,365 thousand, respectively.

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

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

e. As of March 31, 2003 and 2002, the unappropriated retained earnings generated before December 31, 1997, were NT\$0 and NT\$4,827 thousand, respectively.

f. As of March 31, 2003, investment tax credits consisted of the following:

| Regulation | Items | Total Creditable Amounts | Remaining Creditable Amounts | Expiry Year |
|------------|-------|--------------------------|------------------------------|-------------|
| ----- | ----- | ----- | ----- | ----- |

Statute for Upgrading Purchase of machinery and \$ 4,767,347 \$ 4,072,892 2003

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| | | | | |
|----------------------------------|---------------------------------------|--------------|--------------|------|
| Industries | and equipment | 8,210,558 | 8,210,558 | 2004 |
| | | 3,814,363 | 3,814,363 | 2005 |
| | | 3,485,265 | 3,485,265 | 2006 |
| | | 25,204 | 25,204 | 2007 |
| | | ----- | ----- | |
| | | \$20,302,737 | \$19,608,282 | |
| | | ===== | ===== | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 671,545 | \$ 671,545 | 2003 |
| | | 1,974,321 | 1,974,321 | 2004 |
| | | 3,111,472 | 3,111,472 | 2005 |
| | | 1,540,000 | 1,540,000 | 2006 |
| | | 418,277 | 418,277 | 2007 |
| | | ----- | ----- | |
| | | \$ 7,715,615 | \$ 7,715,615 | |
| | | ===== | ===== | |

(Forward)

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| Regulation | Items | Total Creditable Amounts | Remaining Creditable Amounts | Expiry Year |
|----------------------------------|--|--------------------------|------------------------------|-------------|
| ----- | ----- | ----- | ----- | ----- |
| Statute for Upgrading Industries | Personnel training | \$ 16,104 | \$ 16,104 | 2003 |
| | | 43,264 | 43,264 | 2004 |
| | | 28,886 | 28,886 | 2005 |
| | | ----- | ----- | |
| | | \$ 88,254 | \$ 88,254 | |
| | | ===== | ===== | |
| Statute for Upgrading Industries | Reputation setting | \$ 318 | \$ 318 | 2003 |
| | | ----- | ----- | |
| Statute for Upgrading Industries | Investments in important technology based enterprise | \$ 5,420 | \$ 5,420 | 2003 |
| | | 201,372 | 201,372 | 2004 |
| | | 138,864 | 138,864 | 2005 |
| | | 1,947 | 1,947 | 2006 |
| | | ----- | ----- | |
| | | \$347,603 | \$347,603 | |
| | | ===== | ===== | |

- 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 Period |
|--|----------------------|
| | ----- |
| Expansion of Fab 2 - modules A and B, Fab 3 and Fab 4, and construction of Fab 5 and Fab 6 | 2003 to 2006 |
| Construction of Fab 8 - module B | 2002 to 2005 |

- h. The tax authorities have examined income tax returns of the Company through 1999. The Company is contesting the assessment by the tax authority for

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1992, 1993, 1996, 1997 and 1998.

13. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

| Three Months Ended March 31, 2003 | | | |
|-----------------------------------|---------------|----------------------|--------------|
| | Classified as | Classified as | |
| | Cost of Sales | Operating Expense | Total |
| | | | |
| Labor cost | | | |
| Salary | \$ 1,573,461 | \$ 674,624 | \$ 2,248,085 |
| Health insurance | 113,659 | 56,704 | 170,363 |
| Pension | 94,370 | 47,156 | 141,526 |
| Other | 34,413 | 19,524 | 53,937 |
| Depreciation | 13,744,774 | 573,515 | 14,318,289 |
| Amortization | 451,184 | 590,674 | 1,041,858 |
| | \$16,011,861 | \$1,962,197 | \$17,974,058 |

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| Three Months Ended March 31, 2002 | | | |
|-----------------------------------|---------------|----------------------|--------------|
| | Classified as | Classified as | |
| | Cost of Sales | Operating Expense | Total |
| | | | |
| Labor cost | | | |
| Salary | \$ 1,549,587 | \$ 728,445 | \$ 2,278,042 |
| Health insurance | 88,713 | 44,062 | 132,775 |
| Pension | 90,245 | 44,862 | 135,107 |
| Other | 35,190 | 27,515 | 62,705 |
| Depreciation | 11,515,138 | 772,138 | 12,287,276 |
| Amortization | 104,940 | 449,409 | 554,349 |
| | \$13,383,813 | \$2,066,441 | \$15,450,254 |

14. SHAREHOLDERS' EQUITY

The Company has 369,019 thousand American Depositary Shares (ADS) issued on the New York Stock Exchange as of March 31, 2003. The number of common shares represented by the ADSs is 1,845,097 thousand shares (one ADS represents five common shares).

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

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The Company's Articles of Incorporation provide that the following shall be appropriated from annual net income (less 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 equal 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;
- d. Dividends to holders of preferred shares equal to a 3.5% annual rate, based on the period during which the preferred shares have been outstanding;
- e. The appropriation of the remaining balance after the above shall be decided at the shareholder's meeting.

Dividends are distributed in cash, shares of common stock or a combination of cash and common stock. Distribution of profits are preferably made in the form of stock dividend. The total of cash dividends paid in any given year 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 aforementioned 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. When the reserve balance has reached 50% of the aggregate par value of the outstanding capital stock of the Company, the reserve can also be distributed as stock dividend up to half of the reserve balance.

The appropriations from the earnings of 2002 and 2001 were approved in the board of directors and shareholders' meeting on March 4, 2003 and May 7, 2002, respectively. The appropriations and dividend per share are as follows:

| | Appropriation of Earnings | | Dividend Per Share (NT\$) | |
|------------------------------------|---------------------------|-------------------------|-------------------------------|-------------------------------|
| | For Fiscal Year 2002 | For Fiscal Year 2001 | 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 | 0.35 | 0.35 |
| Common stock dividend - in stock | 14,898,309 | 16,832,553 | 0.80 | 1.00 |

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| | | | | |
|---|--------------|--------------|---|---|
| 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 2001 is consistent with the resolution of the meeting of board of directors on March 26, 2002. If the above employee bonus and remuneration to directors and supervisors were paid in cash and charged against the income of 2002 and 2001, the basic EPS 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 with respect to stock option rights activities under the Plan is as follows:

| | Option Rights | Outstanding Option Rights | |
|--------------------------|------------------|---------------------------------|----------|
| | Available | ----- | |
| | for | Number | |
| | Grant | of Option | Exercise |
| | (In | Rights (In | Price |
| | Thousand) | Thousand) | (NT\$) |
| | ----- | ----- | |
| Balance, January 1, 2003 | 80,631 | 19,369 | 51~53 |
| Options granted | (318) | 318 | 41.6 |
| Options cancelled | 471 | (471) | 51~53 |
| | ----- | ----- | |
| Balance, March 31, 2003 | 80,784 | 19,216 | |

=====

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.

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15. TREASURY STOCK (COMMON STOCK)

(Shares in Thousand)

| Purpose of Purchase ----- | Beginning Shares ----- | Increase ----- | Decrease ----- | Ending Shares ----- |
|---|------------------------------|-------------------|-------------------|---------------------------|
| Three months ended March 31, 2003 | | | | |
| Reclassification of parent company stock held by subsidiaries from short/long-term investment | 42,001 | - | - | 42,001 |
| | ===== | ===== | ===== | ===== |
| Three months ended March 31, 2002 | | | | |
| Reclassification of parent company stock held by subsidiaries from short/long-term investment | 39,270 | - | 773 | 38,497 |
| | ===== | ===== | ===== | ===== |

Proceeds from the sale of treasury stock for the three months ended March 31, 2003 and 2002 were NT\$0 and NT\$41,139 thousand. As of March 31, 2003 and 2002, the book value of the treasury stock was NT\$1,923,492 thousand and NT\$2,103,921 thousand; the market value was NT\$1,796,615 thousand and NT\$3,727,125 thousand, respectively. Capital stock held by a subsidiary as an investment is recorded as treasury stock with the holder having the same right as other common shareholders.

16. EARNINGS PER SHARE (EPS)

Earnings per share (EPS) is computed as follows:

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| | Amounts (Numerator) | | Share (Denominator) (Thousand) | EPS (NT\$) | |
|---|----------------------|---------------------|--------------------------------------|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |
| Three months ended March 31, 2003 | | | | | |
| Net income | \$4,180,270 | \$4,357,867 | | | |
| Less - preferred stock dividends | (113,750) | (113,750) | | | |
| Basic and diluted earnings per share | | | | | |
| Income available to common shareholders | \$4,066,520 | \$4,244,117 | 18,580,886 | \$0.22 | \$0.23 |
| Three months ended March 31, 2002 | | | | | |
| Net income | \$7,017,847 | \$6,587,832 | | | |
| Less - preferred stock dividends | (113,750) | (113,750) | | | |
| Basic and diluted earnings per share | | | | | |
| Income available to common shareholders | \$6,904,097 | \$6,474,082 | 18,580,336 | \$0.37 | \$0.35 |

The potential common shares from the employee stock option plan (see Note 14) are not included in the denominator of the diluted earning-per-share computation because such shares result in a non-dilutive per share amount by using the treasury stock method under the Statement of Financial Accounting Standards No. 24, "Earning Per Share". The average number of shares outstanding for EPS calculation has been adjusted retroactively for issuance of stock dividends

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and stock bonuses. The retroactive adjustment caused the basic EPS before income tax and after income tax for the three months ended March 31, 2002 to decrease from NT\$0.41 to NT\$0.37 and NT\$0.39 to NT\$0.35, respectively.

17. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI), the Chairman of the Company is one of its directors
- b. Philips Electronics N.V. (Philips), a major shareholder of the Company
- c. Subsidiaries
 - TSMC - North America
 - TSMC - Europe
 - TSMC - Japan

d. Investees

VIS

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SSMC
GUC

e. Indirect subsidiaries

WaferTech, LLC
TSMC Technology

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

| | Three Months Ended March 31 | | | |
|----------------------------|-----------------------------|-----|--------------|-----|
| | 2003 | | 2002 | |
| | Amount | % | Amount | % |
| For the period | | | | |
| Sales | | | | |
| TSMC - North America | \$22,632,645 | 57 | \$22,416,684 | 60 |
| Philips and its affiliates | 690,945 | 2 | 484,098 | 1 |
| GUC | 137,430 | - | - | - |
| ITRI | 11,130 | - | 17,456 | - |
| SSMC | 873 | - | 10,108 | - |
| VIS | - | - | 85,422 | - |
| | ----- | --- | ----- | --- |
| | \$23,473,023 | 59 | \$23,013,768 | 61 |
| | ===== | == | ===== | == |

(Forward)

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| | Three Months Ended March 31 | | | |
|------------------------------------|-----------------------------|-----|--------------|-----|
| | 2003 | | 2002 | |
| | Amount | % | Amount | % |
| Purchases | | | | |
| WaferTech, LLC | \$ 1,685,740 | 7 | \$ 2,772,633 | 12 |
| SSMC | 1,335,511 | 6 | 236,421 | 1 |
| VIS | 919,470 | 4 | 513,406 | 2 |
| | ----- | --- | ----- | --- |
| | \$ 3,940,721 | 17 | \$ 3,522,460 | 15 |
| | ===== | == | ===== | == |
| Rental expense - ITRI | \$ - | - | \$ 40,401 | 11 |
| | ===== | == | ===== | == |
| Manufacturing expenses | | | | |
| Technical assistance fee - Philips | \$ 758,824 | 100 | \$ 681,267 | 100 |
| | ===== | == | ===== | == |
| Marketing expenses - commission | | | | |
| TSMC - Japan | \$ 46,385 | 16 | \$ 46,164 | 29 |

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| | | | | |
|--|--------------|-----|--------------|-----|
| TSMC - Europe | 36,450 | 13 | 39,067 | 25 |
| | ----- | --- | ----- | --- |
| | \$ 82,835 | 29 | \$ 85,231 | 54 |
| | ===== | === | ===== | === |
| Non-operating income and gain | | | | |
| SSMC (mainly technical service income) | \$ 26,569 | 9 | \$ 9,056 | 2 |
| WaferTech, LLC | 409 | - | 522 | - |
| | ----- | --- | ----- | --- |
| | \$ 26,978 | 9 | \$ 9,578 | 2 |
| | ===== | === | ===== | === |
| At end of the period | | | | |
| Receivables | | | | |
| TSMC - North America | \$10,492,134 | 95 | \$10,712,510 | 98 |
| Credit balances of long-term investments (Note 6) | - | - | (83,725) | (1) |
| | ----- | --- | ----- | --- |
| | 10,492,134 | 95 | 10,628,785 | 97 |
| Philips and its affiliates | 435,739 | 4 | 209,148 | 2 |
| GUC | 55,669 | 1 | - | - |
| VIS | 47,489 | - | 48,274 | 1 |
| SSMC | 12,814 | - | 16,392 | - |
| TSMC Technology | 8,036 | - | 12,258 | - |
| ITRI | 4,189 | - | 17,401 | - |
| WaferTech, LLC | - | - | 25,548 | - |
| | ----- | --- | ----- | --- |
| | \$11,056,070 | 100 | \$10,957,806 | 100 |
| | ===== | === | ===== | === |
| Guarantee deposits - VIS | \$ 450,666 | - | \$ 713,396 | 97 |
| | ===== | === | ===== | === |

(Forward)

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| | Three Months Ended March 31 | | | |
|----------------------------|-----------------------------|-----|-------------|-----|
| | 2003 | | 2002 | |
| | Amount | % | Amount | % |
| Payables | | | | |
| Philips and its affiliates | \$1,137,937 | 43 | \$ 750,811 | 28 |
| VIS | 642,212 | 25 | 790,753 | 30 |
| WaferTech, LLC | 443,209 | 17 | 960,361 | 36 |
| SSMC | 345,825 | 13 | 73,458 | 3 |
| TSMC - Europe | 29,785 | 1 | 57,131 | 2 |
| TSMC - Japan | 17,103 | 1 | 15,698 | - |
| TSMC Technology | 9,647 | - | 12,345 | - |
| TSMC - North America | 6,320 | - | 15,924 | 1 |
| | ----- | --- | ----- | --- |
| | \$2,632,038 | 100 | \$2,676,481 | 100 |
| | ===== | === | ===== | === |
| Receipts in advance - VIS | \$ - | - | \$ 47,795 | 100 |
| | ===== | === | ===== | === |

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Except for TSMC - North America and WaferTech LLC, sales to related parties are based on normal selling prices and collection terms. The payables to Wafertech, LLC 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.

18. 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 |
|------------------------|-------------|
| ---- | ----- |
| April to December 2003 | \$ 169,181 |
| 2004 | 225,576 |
| 2005 | 225,576 |
| 2006 | 225,576 |
| 2007 | 225,576 |
| 2008 | 201,533 |
| 2009 and thereafter | 1,540,880 |
| | ----- |
| | \$2,813,898 |
| | ===== |

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19. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of March 31, 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 reduced fee 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

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- use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- 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 March, 31, 2003, the Company received a total of US\$39,667 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 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, LLC, respectively.
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- h. Under a Technology Transfer Agreement ("TTA") with National Semiconductor Corporation ("National") entered into on June 27, 2000, TSMC shall receive payments for license of certain technology to National. The agreement will remain in force for ten years 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.
- 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 March 31, 2003, the refundable deposit was NT\$450,666 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

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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.

- k. Unused letter of credits as of March 31, 2003 were NT\$6,480 thousand, JP (Yen) 5,100 thousand, Euro (Euro) 52 thousand and S\$85 thousand.
- l. As of March 31, 2003, unused credit lines for short-term loans were NT\$7,930,000 thousand and US\$327,000 thousand.

20. ADDITIONAL DISCLOSURES

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

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estates at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- f. Disposal of individual real estates at prices of at least NT\$100 million or 20% of the paid-in capital: None;

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- 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;
- j. Financial instrument transactions:

1) Derivative financial instruments

The Company entered into derivative financial instrument transactions in the first quarter of 2003 and 2002 to manage exposures related to foreign-currency denominated receivables or payables, and interest rate fluctuations. The strategy is to manage its market price risks. Certain information on these contracts as of March 31, 2003 is as follows:

- a) Forward exchange contracts

Contract

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| Financial Instruments | Period | Amount (Nominal Amount) (In Thousand) | Credit Risk |
|-----------------------|--------------------------------|--|-------------|
| Sell | April 3, 2003 to May 30, 2003 | US\$1,000,000 (US\$/NT\$) | - |
| Buy | April 11, 2003 to May 12, 2003 | EUR24,000 (EUR/US\$) | - |
| | April 11, 2003 to May 23, 2003 | JPY6,823,385 (JPY/US\$) | - |

As of March 31, 2003, receivables from forward exchange contracts (included in the "other financial assets" account) aggregate to NT\$5,283 thousand, and payables from forward exchange contracts (included in the "other current liabilities" account) aggregate to NT\$79,631 thousand. Net exchange loss for the three months ended March 31, 2003 was NT\$122,925 thousand.

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

| Net Assets | As of March 31, 2003 |
|---------------------|-------------------------|
| Accounts receivable | US\$520,275 |
| Accounts payable | JPY8,525,939 |
| Accounts payable | EUR36,383 |

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b) Interest rate swaps

The Company entered into interest rate swap contracts to hedge exposure from rising interest rates on its floating rate long-term loans. Interest expense on these transactions for the three months ended March 31, 2003 was NT\$71,158 thousand. Outstanding contracts as of March 31, 2003 were as follows:

| Contract Date | Period | Amount (In Thousand) | Credit Risk |
|----------------|--------------------------------|-------------------------|-------------|
| April 28, 1998 | May 21, 1998 to May 21, 2003 | NT\$2,000,000 | - |
| April 29, 1998 | May 21, 1998 to May 21, 2003 | NT\$1,000,000 | - |
| June 26, 1998 | June 26, 1998 to June 26, 2003 | NT\$1,000,000 | - |
| June 26, 1998 | July 6, 1998 to July 6, 2003 | NT\$1,000,000 | - |
| July 1, 1999 | July 1, 1999 to June 28, 2004 | US\$ 8,571 | - |

c) Option contracts

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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 European currency obligations for purchases of machinery and equipment.

Outstanding option contracts as of March 31, 2003 were as follows:

| Type | Contract | Contract Amount (In Thousand) | Credit Risk | Strike Price | Maturity |
|------------------------------|----------|----------------------------------|-------------|---------------|--|
| European Call option written | | US\$170,000 | \$- | 32.677-33.145 | April 3, 2003 - June 25, 2003 (US\$/NT\$) |

For the three months ended March 31, 2003, the Company recognized premium income of NT\$50,273 thousand and premium expense of NT\$76,829 thousand.

d) Transaction risk

i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair value on 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.

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iii) Liquidity and cash flow risk and uncertainty of amount and term of future cash demand

As of March 31, 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 |
| ---- | ----- | ----- |

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Within one year NT\$34,684,658 US\$1,084,200
 EUR 24,000
 JPY 6,823,385

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 rate of forward foreign exchange contracts and option contracts have been fixed. Therefore, there is no material fund raising risk and cash flow risk.

2) Fair value of financial instruments:

| | March 31, 2003 | | March 31, 2002 | |
|--|-----------------|--------------|-----------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Non-derivative financial instruments | | | | |
| ----- | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$67,449,389 | \$67,449,389 | \$58,349,042 | \$58,349,042 |
| Short-term investments | - | - | 2,449,999 | 2,449,999 |
| Receivables from related parties (excluding credit balance of long-term investments) | 11,056,070 | 11,056,070 | 11,041,531 | 11,041,531 |
| Notes and accounts receivable | 9,362,853 | 9,362,853 | 10,017,616 | 10,017,616 |
| Other financial assets | 749,584 | 749,584 | 894,030 | 894,030 |
| Long-term investments (including credit balance of long-term investments) | 34,146,618 | 38,497,568 | 31,274,081 | 40,737,320 |
| Refundable deposits | 478,385 | 478,385 | 735,820 | 735,820 |
| Liabilities | | | | |
| Payable to related parties | 2,632,038 | 2,632,038 | 2,676,481 | 2,676,481 |
| Accounts payable | 4,497,685 | 4,497,685 | 1,755,303 | 1,755,303 |
| Payables to contractors and equipment suppliers | 7,738,073 | 7,738,073 | 11,392,482 | 11,392,482 |
| Bonds payable (including current portion) | 35,000,000 | 35,568,192 | 44,000,000 | 44,904,840 |
| Other long-term payable (including current portion) | 5,438,375 | 5,438,375 | 1,470,000 | 1,470,000 |
| Guarantee deposits | 1,375,672 | 1,375,672 | 6,969,569 | 6,969,569 |
| Derivative financial instruments | | | | |
| ----- | | | | |
| Forward exchange contracts (sell) | (65,342) | (52,840) | 114,777 | 91,670 |
| Forward exchange contracts (buy) | (9,006) | (26,791) | -- | -- |
| Interest rate swaps | (11,009) | (101,640) | (255) | 304,620 |
| Option | -- | (298,144) | 3,489 | 142,000 |

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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.

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- 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 worth or book value.
- c) Fair value of refundable deposits and guarantee deposits is based on carrying values.
- d) Bonds payable is discounted to present 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 (positive) or payable (negative) if those contracts are terminated on the relevant balance sheet date.

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. TSMC - Shanghai has not come into existence as of April 17, 2003.

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TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

FINANCING PROVIDED

For the Three Months Ended March 31, 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 | Finan Reas (Note) |
|-----|--------------------|------------------------|-----------------------------|---|---|---------------|--------------------|
| 1. | TSMC International | TSMC Technology | Other receivables | \$529,430 (US\$ 15,235) | \$529,430 (US\$ 15,235) | 4.25% | 2 |
| No. | Debt | Allowance for Bad Debt | Collateral Item Value | Financing Limit for Each Company | Financing Company's Financing Amount Limits | | |
| | | | | | | | (US\$ in Thousand) |

0.46%

5.10%

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

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.

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TABLE 3

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

MARKETABLE SECURITIES HELD

March 31, 2003

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

| | | | | | | | March 31, 2003 | |
|----------------------|--------------------------------------|------|-------------------------------------|-----------------------------------|----------------------|--|----------------------------|-------------|
| Held Company Name | Marketable Securities and Name | Type | Relationship with the Company | Financial Statement Account | Shares (Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | V N T |
| TSMC | Stock | | | | | | | |
| | TSMC - North America | | Subsidiary | Long-term investment | 11,000 | \$ 201,573 | 100 | \$ |
| | TSMC - Europe | | Subsidiary | Long-term investment | - | 10,522 | 100 | |
| | TSMC - Japan | | Subsidiary | Long-term investment | 6 | 94,062 | 100 | |

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| | | | | | |
|-------------------------------------|------------|----------------------|---------|------------|-----|
| VIS | Investee | Long-term investment | 787,016 | 3,588,892 | 28 |
| TSMC International | Subsidiary | Long-term investment | 987,968 | 21,019,823 | 100 |
| TSMC Partners | Subsidiary | Long-term investment | 300 | 3,938,938 | 100 |
| SSMC | Investee | Long-term investment | 382 | 2,859,712 | 32 |
| Emerging Alliance | Subsidiary | Long-term investment | - | 933,010 | 99 |
| GUC | Investee | Long-term investment | 39,040 | 388,177 | 47 |
| Taiwan Mask Corp. | - | Long-term investment | 8,794 | 32,129 | 2 |
| United Gas Co., Ltd. | - | Long-term investment | 16,783 | 193,584 | 11 |
| Shin-Etsu Handotai Taiwan Co., Ltd. | - | Long-term investment | 10,500 | 105,000 | 7 |
| W.K. Technology Fund IV | - | Long-term investment | 5,000 | 50,000 | 2 |
| Hon Tung Ventures Capital | - | Long-term investment | 8,392 | 83,916 | 10 |
| Amkor Technology | - | Long-term investment | 505 | 280,748 | - |
| Monolithic System Tech. | - | Long-term investment | 470 | 104,289 | 2 |
| Certificate ----- | | | | | |
| Chi Cherng Investment | Investee | Long-term investment | - | 42,636 | 36 |
| Hsin Ruey Investment | Investee | Long-term investment | - | 41,666 | 36 |

(Forward)

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March 31, 2003

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousand) | Carrying Value (US\$ in Thousand) | Percent of Ownersh |
|-------------------|-------------------------------------|-------------------------------|-----------------------------|-------------------|-----------------------------------|--------------------|
| | Equity | | | | | |
| | Crimson Asia Capital | - | Long-term investment | N/A | \$ 43,055 | N/A |
| | Horizon Ventures | - | Long-term investment | N/A | 195,452 | N/A |

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| | | | | | | | |
|-----------------------|---|----------------------|--------------------------|---------|--------|-----------|-----|
| TSMC--North America | Stock TSMC | Parent company | Long-term investment | 12,692 | | 748,282 | - |
| Chi Cherng Investment | Stock TSMC | Parent company | Short-term investment | 12,738 | | 459,285 | 36 |
| | Certificate Hsin Ruey Investment | Major shareholder | Long-term investment | - | | 903,419 | 64 |
| Hsin Ruey Investment | Stock TSMC | Parent company | Short-term investment | 12,762 | | 460,233 | 36 |
| | Certificate Chi Cherng Investment | Major shareholder | Long-term investment | - | | 903,459 | 64 |
| TSMC International | Stock InveStar | Subsidiary | Long-term investment | 45,000 | US\$ | 45,618 | 97 |
| | InveStar II | Subsidiary | Long-term investment | 51,300 | US\$ | 41,236 | 97 |
| | TSMC Development. | Subsidiary | Long-term investment | 1 | US\$ | 560,676 | 100 |
| | TSMC Technology | Subsidiary | Long-term investment | 1 | (US\$ | 7,629) | 100 |
| | 3DFX | - | Long-term investment | 68 | | - | - |
| | Interactive Inc. Marvell | - | Short-term investment | 2,555 | US\$ | 2,508 | 2 |
| VIS | Stock VIS Associates, Inc. | Subsidiary | Long-term investment | 41,070 | | 1,205,673 | 100 |
| | PowerChip Semiconductor, Inc. | Investee | Long-term investment | 191,671 | | 1,845,793 | 7 |
| | Etron Technology, Inc. | Investee | Long-term investment | 4,859 | | 79,732 | 2 |
| | Walsin Technology, Inc. | Investee | Long-term investment | 34,551 | | 302,559 | 8 |
| | MEGIC Corporation | Investee | Long-term investment | 16,500 | | 177,000 | 9 |
| | FormFactor, Inc. | Investee | Long-term investment | 267 | | 64,360 | 1 |
| | United Technology Co., Ltd. | Investee | Long-term investment | 3,357 | | 38,716 | 2 |
| | Bond fund Yuan Da Duo Li #2 | - | Short-term investment | 65,271 | | 900,000 | - |
| | Jihsun | - | Short-term investment | 46,730 | | 600,000 | - |
| | Fu Hua | | Short-term investment | 4,015 | | 50,000 | - |

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Kai Chi Kai
Xuan

Short-term investment 64,113 650,000 -

(Forward)

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| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | March | | |
|------------------------------|--|-------------------------------------|-----------------------------------|----------------------|--|--------|
| | | | | Shares (Thousand) | Carrying Value (US\$ in Thousand) | |
| VIS Associates, Inc. | Stock ----- VIS Investment Holding, Inc. | Subsidiary | Long-term investment | 63 | US\$ | 40 |
| | Equity ----- Silicon Valley Equity Fund | - | Long-term investment | - | US\$ | 7,31 |
| | Silicon Valley Equity Fund II | - | Long-term investment | - | US\$ | 5,35 |
| | Equity certificate ----- ABN AMRO Bank | - | Long-term investment | 3,648 | US\$ | 78 |
| | Fund ----- Grand Palace Trust | - | Long-term investment | - | US\$ | 3,04 |
| VIS Investment Holding, Inc. | Stock ----- VIS Micro, Inc. | Subsidiary | Long-term investment | 200 | US\$ | 28 |
| TSMC Development | Stock ----- WaferTech, LLC | Subsidiary | Long-term investment | - | US\$ | 308,79 |
| TSMC Partners | ADR --- TSMC | Parent company | Short-term investment | 762 | US\$ | 5,21 |
| InveStar | Stock ----- WGRD | - | Short-term investment | 94 | US\$ | 53 |
| | Programmable Microelectronics, (Taiwan) Inc. | - | Long-term investment | 1,580 | US\$ | 49 |

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| | | | | | |
|--------------------------------------|---|----------------------|--------|------|------|
| Divio, Inc. | - | Long-term investment | 30 | US\$ | |
| Global Testing Corp. | - | Long-term investment | 13,268 | US\$ | 5,17 |
| Chipstrate Technologies, Inc. | - | Long-term investment | 6,660 | US\$ | 30 |
| Richtek Technology Holding Corp. | - | Long-term investment | 1,023 | US\$ | 34 |
| Advanced Power Electronics, Corp. | - | Long-term investment | 2,750 | US\$ | 1,34 |
| Capella Microsystems, Inc. | - | Long-term investment | 542 | US\$ | 8 |
| Preferred stock | | | | | |
| ----- | | | | | |
| Integrated Memory Logic, Inc. | - | Long-term investment | 1,831 | US\$ | 1,80 |
| Divio, Inc | - | Long-term investment | 667 | US\$ | 50 |
| SiRF Technology Inc. | - | Long-term investment | 306 | US\$ | 1,33 |
| Capella Microsystems, Inc. | - | Long-term investment | 1,383 | US\$ | 22 |
| Sensory, Inc. | - | Long-term investment | 1,404 | US\$ | 62 |
| LightSpeed Semiconductor Corporation | - | Long-term investment | 2,252 | US\$ | 1,33 |
| Tropian, Inc. | - | Long-term investment | 1,758 | US\$ | 2,33 |
| Sonics, Inc. | - | Long-term investment | 2,686 | US\$ | 3,53 |

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| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | March 31, 2003 | | | |
|--------------------------------|-------------------------------------|-------------------------------|-----------------------------|-------------------|-----------------------------------|-------------------------|--------------------|
| | | | | Shares (Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | Market Value (Net) |
| Atheros, Inc. | | - | Long-term investment | 1,607 | US\$ 3,593 | - | US\$ |
| NanoAmp Solutions, Inc. | | - | Long-term investment | 541 | US\$ 853 | - | US\$ |
| Formfactor, Inc. | | - | Long-term investment | 267 | US\$ 2,000 | - | US\$ |
| Monolithic Power Systems, Inc. | | - | Long-term investment | 2,521 | US\$ 2,000 | - | US\$ |
| Memsic, Inc. | | - | Long-term investment | 2,727 | US\$ 1,500 | - | US\$ |

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| | | | | | | | |
|-------------|--|---|------------------------------------|-------|------------|---|----|
| | Reflectivity, Inc. | - | investment Long-term investment | 1,064 | US\$ 1,192 | - | US |
| | Signia Technologies, Inc. | - | Long-term investment | 3,000 | US\$ 202 | - | US |
| | Match Lab, Inc. | - | Long-term investment | 1,875 | US\$ 1,125 | - | US |
| | HINT Corporation | - | Long-term investment | 1,000 | US\$ 1,000 | - | US |
| | Oridus, Inc. (Creosys, Inc.) | - | Long-term investment | 1,500 | US\$ 300 | - | US |
| | Incentia Design Systems, Inc. | - | Long-term investment | 286 | US\$ 343 | - | US |
| | IP Unity | - | Long-term investment | 1,008 | US\$ 1,636 | - | US |
| InveStar II | Stock ----- | | | | | | |
| | WGRD | - | Short-term investment | 95 | US\$ 543 | - | US |
| | eChannel Option Holding, Inc. | - | Long-term investment | 358 | US\$ 251 | - | US |
| | Elcos Microdisplay Technology, Ltd. | - | Long-term investment | 270 | US\$ 27 | - | US |
| | Signia Technologies, Inc. | - | Long-term investment | 351 | US\$ 101 | - | US |
| | Procoat Technology | - | Long-term investment | 3,500 | US\$ 1,942 | 4 | US |
| | Richtek Technology Corporation | - | Long-term investment | 845 | US\$ 1,006 | 2 | US |
| | Programmable Microelectronics (Taiwan), Inc. | - | Long-term investment | 487 | US\$ 102 | - | US |
| | Auden Technology MFG Co., Ltd. | - | Long-term investment | 953 | US\$ 1,117 | 2 | US |
| | GeoVision, Inc. | - | Long-term investment | 180 | US\$ 130 | - | US |
| | EoNex Technologies, Inc. | - | Long-term investment | 55 | US\$ 2,839 | - | US |
| | Conwise Technology Co., Ltd. | - | Long-term investment | 2,800 | US\$ 1,929 | - | US |
| | Yi Yang Technology | - | Long-term investment | 2,800 | US\$ 967 | - | US |
| | Goyatek Technology, Inc. | - | Long-term investment | 1,740 | US\$ 1,787 | - | US |
| | TrendChip Technologies Corp. | - | Long-term investment | 2,000 | US\$ 863 | - | US |
| | Preferred stock ----- | - | Long-term | 2,289 | US\$ 1,560 | - | US |

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| | | | | | | | |
|--------------------|---|------------|-------|------------|---|----|--|
| Memsic, Inc. | - | investment | | | | | |
| | | Long-term | 4,997 | US\$ 1,317 | - | US | |
| Oepic, Inc. | - | investment | | | | | |
| NanoAmp | - | Long-term | 250 | US\$ 1,000 | - | US | |
| Solutions, Inc. | - | investment | | | | | |
| Advanced | - | Long-term | 948 | US\$ 1,261 | - | US | |
| Analogic | | investment | | | | | |
| Technology, | | | | | | | |
| Inc. | | | | | | | |
| Monolithic | - | Long-term | 804 | US\$ 1,946 | - | US | |
| Power Systems, | | investment | | | | | |
| Inc. | | | | | | | |
| Ralink | - | Long-term | 1,833 | US\$ 1,500 | - | US | |
| Technology, | | investment | | | | | |
| Inc. | | | | | | | |
| | - | Long-term | 3,082 | US\$ 3,082 | - | US | |
| Sonics, Inc. | | investment | | | | | |
| Newport | - | Long-term | 1,157 | US\$ 602 | - | US | |
| Opticom, Inc. | - | investment | | | | | |
| Silicon Data, | - | Long-term | 2,000 | US\$ 750 | - | US | |
| Inc. | | investment | | | | | |
| | - | Long-term | 1,596 | US\$ 1,500 | - | US | |
| Reflectivity, Inc. | | investment | | | | | |
| Capella | - | Long-term | 800 | US\$ 128 | - | US | |
| Microsystems, | | investment | | | | | |
| Inc. | | | | | | | |

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| | | | | | | | | March 31, 2003 |
|-------------------|---|-------------------------------------|-----------------------------------|----------------------|--|-------------------------------|----------------------|----------------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousand) | Carrying Value (US\$ in Thousand) | Percentage of Ownership | M Va Ne (Th | |
| Angstrom | | - | Long-term | 1,567 | US\$ 750 | - | US | |
| Systems, Inc. | | | investment | | | | | |
| Tropian, Inc. | | - | Long-term | 1,464 | US\$ 2,000 | - | US | |
| | | | investment | | | | | |
| SiRF | | - | Long-term | 20 | US\$ 131 | - | US | |
| Technology | | | investment | | | | | |
| Holdings, Inc. | | | | | | | | |
| LeadTONE | | - | Long-term | 680 | US\$ 238 | - | US | |
| Wireless, Inc. | | | investment | | | | | |
| Match Lab, Inc. | | - | Long-term | 313 | US\$ 188 | - | US | |
| | | | investment | | | | | |
| eBest!, Inc. | | - | Long-term | 185 | US\$ 97 | - | US | |
| | | | investment | | | | | |
| Kilopass | | - | Long-term | 3,887 | US\$ 2,000 | - | US | |
| Technologies, | | | investment | | | | | |
| Inc. | | | | | | | | |
| Elcos | | - | Long-term | 2,667 | US\$ 3,500 | - | US | |

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| | | | | | | | | | |
|-------------------|---------------------------------|----------|----------------------|--------|------|---------|---|--|----|
| | Microdisplay Technology, Ltd. | | investment | | | | | | |
| | Fang Tek, Inc. | | Long-term investment | 5,556 | US\$ | 2,000 | - | | US |
| | Bond | | | | | | | | |
| | ----- | | | | | | | | |
| | eBest!, Inc. | - | Long-term investment | - | US\$ | 24 | - | | US |
| Emerging Alliance | Stock | | | | | | | | |
| | ----- | | | | | | | | |
| | Global Investment Holding, Inc. | Investee | Long-term investment | 10,000 | | 100,000 | 6 | | |
| | Preferred stock | | | | | | | | |
| | ----- | | | | | | | | |
| | Quake Technologies, Inc. | - | Long-term investment | 467 | US\$ | 1,000 | 1 | | US |
| | Pixim, Inc. | - | Long-term investment | 833 | US\$ | 2,500 | 3 | | US |
| | Newport Opticom, Inc. | - | Long-term investment | 962 | US\$ | 1,000 | 6 | | US |
| | NetLogic Microsystems, Inc. | - | Long-term investment | 602 | US\$ | 1,850 | 1 | | US |
| | Ikanos Communication, Inc. | - | Long-term investment | 5,116 | US\$ | 2,572 | 3 | | US |
| | Quicksilver Technology, Inc. | - | Long-term investment | 902 | US\$ | 2,338 | 4 | | US |
| | Litchfield Communications | - | Long-term investment | 3,799 | US\$ | 1,000 | 6 | | US |
| | Mosaic Systems | - | Long-term investment | 2,481 | US\$ | 500 | 6 | | US |
| | Accelerant Networks | - | Long-term investment | 441 | US\$ | 1,000 | 1 | | US |
| | Zenesis Technologies | - | Long-term investment | 861 | US\$ | 500 | 4 | | US |
| | Reflectivity, Inc. | - | Long-term investment | 1,596 | US\$ | 1,500 | 5 | | US |
| | Iridigm Display | - | Long-term investment | 254 | US\$ | 502 | 2 | | US |
| | XHP Microsystem | - | Long-term investment | 2,280 | US\$ | 750 | 6 | | US |
| | Axiom Microdevices, Inc. | - | Long-term investment | 1,000 | US\$ | 1,000 | 5 | | US |

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TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST

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NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 For the Three Months Ended March 31, 2003
 (Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-Party | Nature of Relationship | Beginning Balance | | Acquisition |
|--------------|-------------------------------------|-----------------------------|-----------------------|------------------------|-------------------|------------|-------------------|
| | | | | | Shares (Thousand) | Amount | Shares (Thousand) |
| TSMC | Stock | | | | | | |
| | Emerging Alliance VIS | Long-term investment | Emerging Alliance VIS | Subsidiary | - | \$ 767,239 | - |
| | | Long-term investment | | Investee | 677,471 | 3,264,657 | 109,545 |
| VIS | Bond fund | | | | | | |
| | Kai Chi | Short-term investment | - | - | - | - | 64,113 |
| | Kai Xuan | Short-term investment | - | - | - | - | 3,225 |
| | NITC | Short-term investment | - | - | - | - | 40,946 |
| | Ta-Hua | Short-term investment | - | - | - | - | 46,730 |
| | Jihsun | Short-term investment | - | - | - | - | 65,271 |
| | Yuan Da Duo Li #2 | Short-term investment | - | - | - | - | |

| Company Name | Disposal | | Carrying Value | Gain (Loss) on Disposal | Ending Balance | |
|--------------|-------------------|---------|----------------|-------------------------|-------------------|-----------------|
| | Shares (Thousand) | Amount | | | Shares (Thousand) | Amount (Note 1) |
| TSMC | - | \$ - | - | \$ - | - | \$ 933,010 |
| | - | - | - | - | 787,016 | 3,588,892 |
| VIS | - | - | - | - | - | - |
| | 3,225 | 500,164 | 500,000 | 164 | - | - |
| | 40,946 | 500,586 | 500,000 | 586 | - | - |
| | - | - | - | - | 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.

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 Three Months Ended March 31, 2003
 (Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| Company Name | Types of Property | Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationship | Prior Transaction Owner | Prior Transaction Relationship |
|--------------|-------------------|------------------|--------------------|------------------------------|----------------------------|------------------------|-------------------------|--------------------------------|
| TSMC | Fab 14 | January 20, 2003 | \$180,665 | By the construction progress | United Integrated Services | - | N/A | N/A |

| Company Name | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|-----------------|------------------------|-------------|
| TSMC | Public bidding | Manufacturing purpose | None |

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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 Three Months Ended March 31, 2003
 (Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

| Company Name | Related Party | Nature of Relationship | Transaction Details | | | | Abnormal Transaction | |
|--------------|----------------------------|------------------------|---------------------|--------------|------------|-------------------------------|----------------------|--------------|
| | | | Purchase/Sale | Amount | % to Total | Payment Terms | Unit Price | Payment Term |
| TSMC | TSMC - North America | Subsidiary | Sales | \$22,632,645 | 57 | Net 30 days from invoice date | Note 1 | Note 1 |
| | Philips and its affiliates | Major shareholder | Sales | 690,945 | 2 | Net 30 days from invoice date | None | None |

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| | | | | | | | |
|----------------|------------|-----------|-----------|---|---------------------------------------|--------|------|
| GUC | Investee | Sales | 137,430 | - | Net 30 days from invoice date | None | None |
| WaferTech, LLC | Subsidiary | Purchases | 1,685,740 | 6 | Net 30 days from monthly closing date | Note 1 | Note |
| SSMC | Investee | Purchases | 1,335,511 | 5 | Net 30 days from invoice date | None | None |
| VIS | Investee | Purchases | 919,470 | 3 | Net 30 days from monthly closing date | None | None |

Company
Name Note

TSMC

Note 1: Please refer to footnote 17 in the financial statements.

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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
March 31, 2003

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

| Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue | | Amount Received |
|--------------|----------------------|------------------------|----------------|---------------|-------------|----------------------|-----------------|
| | | | | | Amount | Action Taken | |
| TSMC | TSMC - North America | Subsidiary | \$10,492,134 | 41 days | \$2,618,690 | Accelerate demand on | \$1,68 |

| | | | | | |
|----------------------------|-------------|---------|---------|---------|--|
| Philips and its affiliates | Major | 435,739 | 52 days | 113,368 | account receivables |
| | shareholder | | | | Accelerate demand on account receivables |

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TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.

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

March 31, 2003

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

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance a |
|------------------|-----------------------|---------------------------------|--|----------------------------|---------------------|-----------|
| | | | | March 31, 2003 | March 31, 2002 | |
| TSMC | TSMC-North America | San Jose, California, U.S.A. | Marketing and engineering support | \$ 333,178 | \$ 333,178 | 11,000 |
| | TSMC-Europe | Amsterdam, The Netherlands | Marketing and engineering support | 2,960 | 2,960 | - |
| | TSMC-Japan | Yokohama, Japan | Marketing and engineering support | 83,760 | 83,760 | 6 |
| | VIS | Hsin-Chu, Taiwan | IC design and manufacturing | 8,119,816 | 6,503,640 | 787,016 |
| | TSMC International | Tortola, British Virgin Islands | Investment | 31,445,780 | 31,445,780 | 987,968 |
| | Chi Cherng Investment | Taipei, Taiwan | Investment | 300,000 | 300,000 | - |
| | Hsin Ruey Investment | Taipei, Taiwan | Investment | 300,000 | 300,000 | - |
| | TSMC Partners | Tortola, British Virgin Islands | Investment | 10,350 | 10,350 | 300 |
| | SSMC | Singapore | Manufacturing wafer | 6,408,190 | 6,408,190 | 382 |
| | Emerging Alliance | Cayman Islands | Investment | 1,005,660 | 1,005,660 | - |
| | GUC | Hsin-Chu, Taiwan | IC research, development, manufacturing, testing and | 409,920 | 341,250 (Note 3) | 39,040 |

marketing

| Investor Company | Net Income (Loss) of the Investee | Investment Gain (Loss) (Note 2) | Note |
|------------------|---|---------------------------------------|------------|
| TSMC | \$ 27,956 | \$ 27,956 | Subsidiary |
| | 15 | 15 | Subsidiary |
| | 2,229 | 2,229 | Subsidiary |
| | (739,565) | (207,875) | Investee |
| | (1,229,388) | (1,229,388) | Subsidiary |
| | 290 | 742 | Investee |
| | 277 | 1,851 | Investee |
| | 179,804 | 185,361 | Subsidiary |
| | (862,491) | (275,997) | Investee |
| | (7,948) | (7,908) | Subsidiary |
| | (31,818) | (12,836) | Investee |

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

Note 2: The unrealized losses from 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.