

**Taiwan Semiconductor Manufacturing Company Ltd.
and Subsidiaries**

Consolidated Financial Statements as of December 31, 2001 and 2000

Together with Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

January 18, 2002

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Ltd. and subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines for Securities Issuers' Financial Reporting and accounting principles generally accepted in the Republic of China.

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2001 and 2000

(In Thousand New Taiwan Dollars, Except Par Value)

ASSETS	2001		2000		LIABILITIES AND SHAREHOLDERS' EQUITY	2001		2000	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 37,556,295	10	\$ 38,840,217	11	Short-term bank loans (Note 10)	\$ 6,269,181	2	\$ 3,833,841	1
Short-term investments (Notes 2, 5 and 10)	1,398,071	-	1,502,098	1	Payable to related parties (Note 16)	1,048,273	-	2,606,339	1
Receivable from related parties (Note 16)	494,732	-	948,726	-	Accounts payable	1,397,879	-	8,507,827	2
Notes receivable	176,582	-	125,175	-	Payable to contractors and equipment suppliers	12,867,236	4	25,550,273	7
Accounts receivable	19,957,636	5	30,335,314	8	Income tax payable (Notes 2 and 15)	81,483	-	3,298	-
Allowance for doubtful receivables (Note 2)	(1,100,492)	-	(946,734)	-	Current portion of bonds (Note 12)	5,000,000	1	-	-
Allowance for sales returns and others (Note 2)	(2,581,551)	(1)	(2,458,323)	(1)	Accrued expenses and other current liabilities (Note 19)	6,665,000	2	6,923,414	2
Inventories - net (Notes 2 and 6)	9,828,328	3	12,785,723	3	Total Current Liabilities	33,329,052	9	47,424,992	13
Deferred income tax assets (Notes 2 and 15)	2,350,147	1	8,178,016	2					
Prepaid expenses and other current assets (Notes 16, 17 and 19)	2,721,421	1	3,034,624	1	LONG-TERM LIABILITIES				
Total Current Assets	70,801,169	19	92,344,836	25	Long-term bank loans (Note 11)	22,399,360	6	23,339,367	6
					Bonds - net of current portion (Note 12)	24,000,000	7	29,000,000	8
LONG-TERM INVESTMENTS (Notes 2, 7 and 20)	11,599,150	3	10,663,804	3	Total Long-term Liabilities	46,399,360	13	52,339,367	14
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 8, 16 and 11)					OTHER LIABILITIES				
Cost					Guarantee deposits (Note 18)	7,212,688	2	7,086,379	2
Land and land improvements	877,371	-	829,239	-	Accrued pension cost (Notes 2 and 14)	1,856,617	-	1,511,277	-
Buildings	60,523,505	17	53,874,708	15	Deferred gain on sale-leaseback (Note 2)	268,165	-	434,183	-
Machinery and equipment	280,023,690	76	241,995,862	65	Miscellaneous	141,498	-	14,356	-
Office equipment	6,062,496	2	4,865,610	1	Total Other Liabilities	9,478,968	2	9,046,195	2
Total cost	347,487,062	95	301,565,419	81					
Accumulated depreciation	(155,948,960)	(42)	(103,884,879)	(28)	MINORITY INTEREST IN SUBSIDIARIES (Note 2)	120,240	-	321,726	-
Advance payments and construction in progress	59,749,530	16	47,067,352	13					
Net Property, Plant and Equipment	251,287,632	69	244,747,892	66	Total Liabilities	89,327,620	24	109,132,280	29
CONSOLIDATED DEBITS (Note 2)	11,437,572	3	11,530,973	3	SHAREHOLDERS' EQUITY (Notes 2 and 13)				
					Capital stock - \$10 par value				
OTHER ASSETS					Authorized: 24,600,000 thousand shares in 2001 and 17,800,000 and 17,800,000 thousand shares in 2000				
Deferred income tax assets (Notes 2 and 15)	16,245,828	5	6,629,805	2	Issued: Preferred - 1,300,000 thousand shares	13,000,000	3	13,000,000	3
Deferred charges - net (Notes 2 and 9)	3,769,750	1	3,335,665	1	Common - 16,832,554 thousand shares in 2001 and 11,689,365 thousand shares in 2000	168,325,531	46	116,893,646	32
Refundable deposits (Note 18)	784,089	-	979,067	-	Capital surplus	57,128,433	16	55,285,821	15
Assets leased to others (Note 2)	555,053	-	625,647	-	Retained earnings:				
Miscellaneous	37,452	-	28,290	-	Appropriated as legal reserve	17,180,067	5	10,689,323	3
Total Other Assets	21,392,172	6	11,598,474	3	Appropriated as special reserve	349,941	-	1,091,003	-
					Unappropriated earnings	19,977,402	6	65,143,847	18
					Cumulative translation adjustments	1,228,701	-	(278,377)	-
					Unrealized loss on long-term investments	-	-	(71,564)	-
					Total Shareholders' Equity	277,190,075	76	261,753,699	71
TOTAL ASSETS	\$ 366,517,695	100	\$ 370,885,979	100	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 366,517,695	100	\$ 370,885,979	100

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2001 and 2000
(In Thousand New Taiwan Dollars, Except Consolidated Earnings Per Share)

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

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

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

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

English Translation of Financial Statements Originally Issued in Chinese
TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2001 and 2000
(In Thousand New Taiwan Dollars)

	CAPITAL STOCK ISSUED			CAPITAL SURPLUS							RETAINED EARNINGS (Note 13)				UNREALIZED LOSS ON LONG-TERM INVESTMENT (Note 2)	CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)	TOTAL SHAREHOLDERS' EQUITY		
	Preferred Stock		Common Stock		Subscribed Capital	From Consolidation	Additional Paid-in Capital	From Long-term Investment	Excess on Foreign Bond Investment	Gain on Disposal of Properties	Donation	Total	Legal Reserve	Special Reserve				Unappropriated Earnings	Total
	Shares (Thousand)	Amount	Shares (Thousand)	Amount															
BALANCE, JANUARY 1, 2000	-	\$ -	8,520,882	\$ 85,208,817	\$ 13,118,025	\$ 12,120,000	\$ -	\$ 472,300	\$ 11,289,998	\$ 69,058	\$ 55	\$ 23,951,411	\$ 8,258,359	\$ -	\$ 23,124,011	\$ 31,382,370	\$ -	(\$ 1,090,106)	\$ 152,570,517
Appropriations of prior year's earnings																			
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	2,430,964	-	(2,430,964)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	1,091,003	(1,091,003)	-	-	-	-
Bonus to employees – stock	-	-	172,121	1,721,208	-	-	-	-	-	-	-	-	-	-	(1,721,208)	(1,721,208)	-	-	-
Stock dividends – 25.55%	-	-	1,959,910	19,599,103	-	-	-	-	-	-	-	-	-	-	(19,599,103)	(19,599,103)	-	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(215,151)	(215,151)	-	-	(215,151)
Capital Transferred from capital surplus – 2.45%	-	-	187,937	1,879,366	-	-	-	(1,879,366)	-	-	-	(1,879,366)	-	-	-	-	-	-	-
Issuance of shares on January 28, 2000	-	-	300,000	3,000,000	(13,118,025)	12,000,000	-	-	-	-	-	12,000,000	-	-	-	-	-	-	1,881,975
Issuance of shares on June 8, 2000	-	-	115,000	1,150,000	-	-	23,172,550	-	-	-	-	23,172,550	-	-	-	-	-	-	24,322,550
Issuance of shares for the merge on June 30, 2000	-	-	433,515	4,335,152	-	(1,790,871)	-	-	-	-	-	(1,790,871)	-	-	1,803,168	1,803,168	-	(897)	4,346,552
Issuance of preferred stocks on November 29, 2000	1,300,000	13,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,000,000
Net income in 2000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,106,194	65,106,194	-	-	65,106,194
Gain on sales of property, plant and equipment	-	-	-	-	-	-	-	-	-	58,178	-	58,178	-	-	(58,178)	(58,178)	-	-	-
Gain on sales of property, plant and equipment from Investees	-	-	-	-	-	-	5,502	-	-	-	-	5,502	-	-	(5,502)	(5,502)	-	-	-
Adjustment arising from changes in shareholders' equity of investees	-	-	-	-	-	-	(231,583)	-	-	-	(231,583)	-	-	-	231,583	231,583	-	-	-
Unrealized loss on long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(71,564)	-	(71,564)
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	812,626	812,626
BALANCE, DECEMBER 31, 2000	1,300,000	13,000,000	11,689,365	116,893,646	-	22,329,129	23,172,550	246,219	9,410,632	127,236	55	55,285,821	10,689,323	1,091,003	65,143,847	76,924,173	(71,564)	(278,377)	261,753,699
Appropriations of prior year's earnings																			
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	6,490,744	-	(6,490,744)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	(741,062)	741,062	-	-	-	-
Bonus to employees – stock	-	-	467,443	4,674,426	-	-	-	-	-	-	-	-	-	-	(4,674,426)	(4,674,426)	-	-	-
Cash dividends paid for preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(41,137)	(41,137)	-	-	(41,137)
Stock dividends – 40%	-	-	4,675,746	46,757,459	-	-	-	-	-	-	-	-	-	-	(46,757,459)	(46,757,459)	-	-	-
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(584,303)	(584,303)	-	-	(584,303)
Net income in 2001	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,483,174	14,483,174	-	-	14,483,174
Reclassification of the accumulated deficits from the merged company	-	-	-	-	-	1,803,168	-	-	-	-	-	1,803,168	-	-	(1,803,168)	(1,803,168)	-	-	-
Gain on sales of property, plant and equipment	-	-	-	-	-	-	-	-	-	39,282	-	39,282	-	-	(39,282)	(39,282)	-	-	-
Gain on sales of property, plant and equipment from investees	-	-	-	-	-	-	162	-	-	-	-	162	-	-	(162)	(162)	-	-	-
Reversal of the unrealized loss on long-term investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71,564	-	71,564
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,507,078	1,507,078
BALANCE, DECEMBER 31, 2001	1,300,000	\$ 13,000,000	16,832,554	\$ 168,325,531	\$ -	\$ 24,132,297	\$ 23,172,550	\$ 246,381	\$ 9,410,632	\$ 166,518	\$ 55	\$ 57,128,433	\$ 17,180,067	\$ 349,941	\$ 19,977,402	\$ 37,507,410	\$ -	\$ 1,228,701	\$ 277,190,075

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

English Translation of Financial Statements Originally Issued in Chinese

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2001 and 2000
(In Thousand New Taiwan Dollars)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 14,483,174	\$ 65,106,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,323,040	41,446,137
Deferred income taxes	(3,788,154)	(956,118)
Equity in net losses of investee companies – net	3,959,020	187,179
Gain on sales of long-term investments – net	(105,439)	(15,144)
Loss on sales of and provision for loss on property, plant and equipment – net	183,253	51,847
Reversal of provision for losses on short-term investments	(13,146)	-
Accrued pension cost	345,340	370,276
Allowance for doubtful receivables	153,758	524,532
Allowance for sales returns and others	123,228	1,679,309
Minority interest in income (loss) of subsidiaries	44,009	(36,786)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivable from related parties	453,994	(737,105)
Notes receivable	(51,407)	38,959
Accounts receivable	10,377,678	(15,467,155)
Inventories – net	2,957,395	(4,033,836)
Prepaid expenses and other current assets	202,303	351,988
Forward exchange contract receivable	49,480	(113,730)
Increase (decrease) in:		
Payable to related parties	(1,558,066)	2,334,247
Notes payable	-	(4,303)
Accounts payable	(7,109,948)	3,174,958
Income tax payable	78,185	(151,828)
Forward exchange contract payable	218,165	(987,604)
Accrued expenses and other current liabilities	(508,150)	2,024,180
Net Cash Provided by Operating Activities	75,817,712	94,786,197
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	117,173	(524,154)
Decrease in pledged time deposits	-	3,161,693
Acquisitions of:		
Property, plant and equipment	(70,201,205)	(103,761,905)
Long-term investments	(5,120,580)	(2,956,758)

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

Proceeds from sales of:		
Property, plant, and equipment	\$ 301,416	\$ 364,875
Long-term investments	559,137	49,376
Increase in deferred charges	(1,805,250)	(1,793,209)
Decrease (increase) in refundable deposits	194,978	(915,559)
Decrease (increase) in other assets	(9,162)	77,451
Decrease in minority interest in subsidiaries	(249,166)	(7,165,656)
Increase in consolidated debit	(1,019,227)	(8,221,266)
Cash inflow from the merged companies	-	736,594
Net Cash Used in Investing Activities	<u>(77,231,886)</u>	<u>(120,948,518)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of:		
Short-term bank loans	2,435,340	-
Long-term bonds	-	9,000,000
Capital stock	-	39,204,525
Payments on:		
Short-term bank loans	-	(8,592,790)
Commercial paper	-	(4,241,048)
Long-term bank loans	(940,007)	(2,648,853)
Increase in guarantee deposits	126,309	2,978,984
Decrease in lease obligation	(51,286)	(1,052)
Bonus paid to directors and supervisors and cash dividends paid on preferred stocks	(625,440)	(215,151)
Increase in issuance cost of financing	(47,689)	(118,335)
Net Cash Provided by Financing Activities	<u>897,227</u>	<u>35,366,280</u>

NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	(516,947)	9,203,959
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EFFECT OF EXCHANGES IN FOREIGN EXCHANGE RATE	<u>(766,975)</u>	<u>118,576</u>
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CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>38,840,217</u>	<u>29,517,682</u>
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CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 37,556,295</u>	<u>\$ 38,840,217</u>
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SUPPLEMENTAL INFORMATION

Interest paid (excluding the amounts capitalized of NTS507,094 thousand and NTS541,078 thousand in 2001 and 2000, respectively)	<u>\$ 3,468,112</u>	<u>\$ 4,036,210</u>
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Income tax paid	<u>\$ 20,767</u>	<u>\$ 96,523</u>
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Noncash investing and financing activities:

Effect of exchanges in foreign exchange rate on cash and cash equivalents	<u>\$ 1,258,395</u>	<u>\$ 1,009,264</u>
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Current portion of long-term liabilities	<u>\$ 5,001,116</u>	<u>\$ 51,055</u>
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Cash paid for acquisition of property, plant and equipment:		
Total acquisitions	\$ 57,518,168	\$ 113,996,068

Decrease (increase) in payables to contractors and equipment suppliers	<u>12,683,037</u>	<u>(10,234,163)</u>
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	<u>\$ 70,201,205</u>	<u>\$ 103,761,905</u>
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English Translation of Financial Statements Originally Issued in Chinese

SUPPLEMENTAL INFORMATION OF THE MERGERS:

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

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD.
AND SUBSIDIARIES

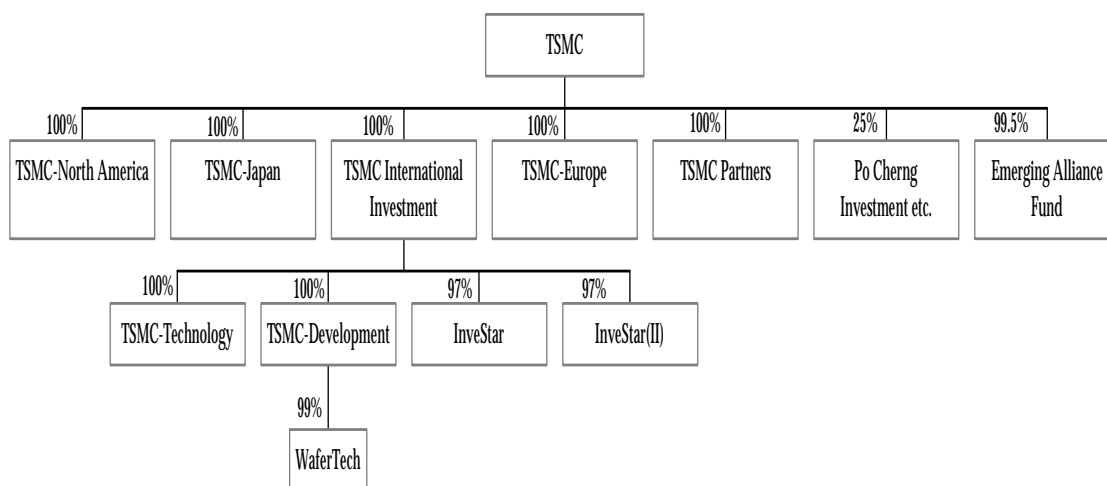
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousand New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

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

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

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



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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

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

Cash and cash equivalents

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

Short-term investments

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

Allowance for doubtful receivable

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

Sales and Allowance for sales returns and others

Sales are recognized when titles of products and risks of ownerships are transferred to customers, primarily upon shipment. Allowance and related provisions for sales returns and others are provided based on experience; such provisions are deducted from sales and related costs are deducted from cost of sales.

Inventories

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

Long-term investments

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

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

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

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

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

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

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

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

Property, plant and equipment and assets leased to others

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

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

Upon sale or disposal of an item of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income. Any such gain, less applicable income tax, is reclassified to capital surplus at the end of the year (before the relevant regulation was amended).

Consolidated debits

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

Deferred charges

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

Pension costs

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

Deferred gain on sale – leaseback

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

Income tax

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

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

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

Derivative financial instruments

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

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

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

Other foreign-currency transactions

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

Translation of foreign-currency financial statements

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

Reclassifications

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

Mergers

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

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

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

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

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

3. SIGNIFICANT ELIMINATING ENTRIES

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

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

4. CASH AND CASH EQUIVALENTS

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

5. SHORT-TERM INVESTMENTS	<u>2001</u>	<u>2000</u>
Listed stocks	<u>\$ 1,398,071</u>	<u>\$ 1,502,098</u>
Market value	<u>\$ 6,917,133</u>	<u>\$ 6,117,525</u>

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

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

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

(Forward)

Programmable Microelectronics	\$	59,296	4	\$	49,619	4
APE		46,748	6		46,677	6
W.K. Technology Fund IV		50,000	2		50,000	4
Richtek Technology, Inc.		45,015	10		9,975	9
EmpowerTel Networks		12,031	1		-	-
3Dfx Interactive		10,396	-		9,826	-
Ubicom, Inc. (Scenix)		6,028	2		5,697	2
Capella Microsystems		4,740	2		345	-
Equator Technologies		3,151	-		2,978	-
Divio		105	-		-	-
Taiwan Semiconductor Technology		-	-		500,000	19
		<u>1,355,850</u>			<u>1,323,778</u>	
<u>Preferred stocks (all non-traded)</u>						
Sonics		231,397	7		116,752	7
EmpowerTel Networks		179,480	7		169,634	7
Tropian, Inc.		151,688	5		77,209	5
Atheros Communications		125,754	2		-	-
Menolithic Power System		123,037	18		66,158	17
Quickilver Technology		122,497	29		-	-
LightSpeed Semiconductor		107,251	1		101,368	6
Memsic		107,088	20		82,689	24
Equator Technologies		99,358	2		93,908	2
Pixim		87,498	3		-	-
OEpic		87,497	6		24,809	-
Capella Microsystems		80,441	8		42,949	8
Signia		78,748	20		49,619	22
Newport Opticom		77,124	15		-	-
RapidStream		73,754	6		69,708	6
Formfactor		69,998	1		66,158	1
Reflectivity		69,998	6		66,158	6
NanoAmp Solutions		64,838	3		61,281	3
NetLogic Microsystems		64,748	1		-	-
Integrated Memory Logic		63,318	10		59,845	10
Match Lab		61,249	10		49,619	11
Y-MEDIA		52,499	2		-	-
Rise Technology		52,498	2		49,619	2
Creosys		52,498	8		49,619	8
Ikanos Communication		52,498	3		-	-
Ralink Technology		52,498	7		-	-
SiRF Technology		51,248	1		44,105	1
Ubicom, Inc. (Scenix)		47,636	2		45,023	2
Advanced Angalogic Technology		44,131	2		-	-
OmegaBand (Seagull)		43,749	6		41,349	14
Pico Turbo		43,749	7		41,349	9
Sensory		43,749	4		41,349	6
HINT Corporation		34,999	5		33,079	5

(Forward)

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

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

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

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

Information on the long-term investments is as follows:

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

8. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

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

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

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

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

9. DEFERRED CHARGES – NET

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

10. SHORT-TERM BANK LOANS

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

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

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

11. LONG-TERM BANK LOANS

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

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

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

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

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

12. BONDS

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

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

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

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

13. SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

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

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

Under the Integrated Income Tax System that became effective on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by the Company on earnings generated starting January 1, 1998. An Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

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

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

14. PENSION PLAN

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

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

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

	<u>2001</u>	<u>2000</u>
a. Components of pension cost		
Service cost	\$ 417,967	\$ 376,689
Interest cost	95,920	91,234
Projected return on plan assets	(43,968)	(26,675)
Amortization	<u>8,300</u>	<u>8,300</u>
	<u>\$ 478,219</u>	<u>\$ 449,548</u>
b. The details of the benefit obligation and reconciliation of the fund status of the plan and accrued pension cost is as follows:		
Benefit obligation		
Vested benefit obligation	\$ 739	\$ -
Nonvested benefit obligation	<u>1,024,525</u>	<u>763,879</u>
Accumulated benefit obligation	1,025,264	763,879
Additional benefits based on future salaries	<u>1,407,014</u>	<u>1,550,009</u>
Projected benefit obligation	2,432,278	2,313,888
Fair value of plan assets	(<u>835,583</u>)	(<u>661,099</u>)
Funded status	1,596,695	1,652,789
Unrecognized net transitional obligation	(157,691)	(165,991)
Unrecognized net gain	<u>415,849</u>	<u>22,737</u>
Accrued pension cost	<u>\$ 1,854,853</u>	<u>\$ 1,509,535</u>
c. Actuarial assumptions		
Discount rated used in determining present values	5.0%	6.0%
Future salary increase rate	5.0%	6.0%
Expected rate of return plan on assets	5.0%	6.0%
d. Contributions to pension fund	<u>\$ 131,894</u>	<u>\$ 95,932</u>
e. Funds transferred from TASMIC and WSMC	<u>\$ -</u>	<u>\$ 173,339</u>
f. Payments from pension fund	<u>\$ -</u>	<u>\$ 1,458</u>

15. INCOME TAX

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

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

- b. Income tax benefits consist of:

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

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

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

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

d. Integrated income tax information:

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

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

The imputation credit allocated to each shareholder shall be based on the balance in the ICA on the date of distribution of dividends; thus the expected creditable ratio for 2001 may be adjusted according to the difference between the expected and actual imputation credit allowed under the regulation.

e. The unappropriated retained earnings as of December 31, 2001 and 2000 included the earnings generated up to December 31, 1997 of NT\$4,827 thousand.

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

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

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

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

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

16. RELATED PARTY TRANSACTIONS

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

a. Industrial Technology Research Institute (ITRI), the Chairman of TSMC is one of the directors of ITRI.

b. Philips Electronics N.V., (Philips), a major shareholder of TSMC.

c. Investees of TSMC

Vanguard International Semiconductor Corporation (VIS)
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)

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

	<u>2001</u>		<u>2000</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year</u>				
Sales				
Philips and its affiliates	\$ 2,389,257	2	\$ 5,289,927	3
VIS	1,177,094	1	17,012	-
ITRI	114,546	-	198,146	-
SSMC	<u>48,972</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,729,869</u>	<u>3</u>	<u>\$ 5,505,085</u>	<u>3</u>
Purchase				
VIS	\$ 3,801,975	22	\$ 6,572,110	19
SSMC	<u>42,984</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,844,959</u>	<u>22</u>	<u>\$ 6,572,110</u>	<u>19</u>
Rental expense – ITRI	<u>\$ 161,604</u>	<u>11</u>	<u>\$ 161,575</u>	<u>14</u>
Manufacturing expenses				
Technical service fee – Philips	<u>\$ 2,418,276</u>	<u>100</u>	<u>\$ 2,137,175</u>	<u>86</u>
Sales of property, plant and equipment – VIS	<u>\$ 268,871</u>	<u>85</u>	<u>\$ 87,189</u>	<u>37</u>
Non-operating income				
SSMC	\$ 95,284	1	\$ 152,347	3
VIS	467	-	5,604	-
Others	<u>-</u>	<u>-</u>	<u>38</u>	<u>-</u>
	<u>\$ 95,751</u>	<u>3</u>	<u>\$ 157,989</u>	<u>3</u>
<u>At end of the year</u>				
Receivables				
VIS	\$ 320,179	65	\$ 159,890	17
Philips and its affiliates	116,499	24	643,604	68
ITRI	37,383	7	56,078	6
SSMC	<u>20,671</u>	<u>4</u>	<u>89,154</u>	<u>9</u>
	<u>\$ 494,732</u>	<u>100</u>	<u>\$ 948,726</u>	<u>100</u>
(Forward)				

Prepaid expense and other current asset				
Advance rent – ITRI	\$	<u>42,664</u>	<u>2</u>	\$ <u>42,664</u> <u>6</u>
Payables				
VIS	\$	548,472	52	\$ 1,808,964 69
Philips and its affiliates		499,331	48	797,375 31
SSMC		<u>470</u>	<u>-</u>	<u>-</u> <u>-</u>
	\$	<u>1,048,273</u>	<u>100</u>	\$ <u>2,606,339</u> <u>100</u>

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

17. SIGNIFICANT LONG-TERM OPERATING LEASES

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

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

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

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

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

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

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

- a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fees as a percentage of net sales, as defined in the agreement, of certain products. The agreement shall remain in force up to July 9, 2007 and thereafter be automatically renewed once for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts TSMC pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.
- b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year up of to 30% of TSMC production capacity.
- c. Under a Technical Cooperation Agreement with ITRI, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.
- d. Under several foundry agreements, TSMC shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US\$205,949 thousand had been received as of December 31, 2001.
- e. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. dated March 30, 1999, the parties agreed to: (a) form a joint venture company to be named Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) for the purpose of constructing an integrated circuit foundry in Singapore, (b) set SSMC's total authorized capital at about S\$1.2 billion, and, (c) allow TSMC to invest in 32% of SSMC's capital. As of December 31, 2001, the aggregate amount of investments from these parties has not reached S\$1.2 billion. TSMC and Philips committed to buy a specific percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.
- f. Provision of technical services to SSMC under a Technical Cooperation Agreement (the "Agreement") entered into on May 12, 1999. TSMC should receive compensation for such services computed at a specific percentage of net selling prices of specific products sold by SSMC. The Agreement remains in force for ten years and is automatically renewed once for successive periods of five years unless pre-terminated by either party under certain conditions.
- g. Under a Technical Transfer Agreement with National Semiconductor Corporation ("National") entered into on June 27, 2000, TSMC shall receive payments for the technology transferred to National. The agreement will remain in force for ten years. After expiration, this agreement will be automatically renewed for successive periods of two years unless pre-terminated by either party under certain conditions.

- h. TSMC entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. ("VIS"). VIS agrees to reserve specific capacity to manufacture for TSMC certain devices on logic or other technologies required by TSMC's customers, at a discount to the selling prices as agreed by the parties. TSMC paid NT\$1,200,000 thousand to VIS as Security Bond. VIS shall return portions of the Bond without any interest to TSMC upon the purchase of wafers by TSMC. The contract will remain in force for five years.
- i. Under a management agreement, InveStar Capital In. (ISC) of the Cayman Islands, provides investment and administrative services to TSMC. ISC should receive quarterly, starting from October 1, 1996, a management fee of 2% each year of total weighted average paid-in capital and capital surplus of TSMC, excluding retained earnings and losses.
- j. Under a patent license agreement, TSMC has entered into a cross license arrangement for certain semiconductor patents with a US-based company for a term starting from October 26, 2001 through December 31, 2006. TSMC shall pay royalty fees to the such company.
- k. WaferTech, subsidiary, had recorded a reserve of US\$ 16,000 thousand for a litigation arising from a charge by certain contractors that WaferTech caused the contractors to incur additional labor and material costs outside the contracts. The reserve is reflected in accrued construction and equipment payable with the offset to construction in progress. Payment of the settlement amount will be made in four installments throughout fiscal year 2000. The remaining accrued serve of US\$5,250 thousand is sufficient for payments to the other construction contractors, in the year of 2002.
- l. In 1996, WaferTech adopted an Executive Incentive Plan, which was amended in 1997. Under the 1997 amendment, the Board of Directors approved the Senior Executive Incentive Plan and the Employee Incentive Plan ("Plan") under which officers, key employees and nonemployee directors may be granted option rights. However, WaferTech is a limited liability company and does not have shares of stock. Thus, each option right granted under the Plan provides grantees rights to buy ownership interests in WaferTech. The Plans also provides for approximately 6% of the total ownership interests to be available for grant, represented by 15.15 million-option rights. For option rights granted to date, the option purchase price exceeded fair value as of the date of the grant. While WaferTech may grant employees option rights that are exercisable at different times or within different periods, it has generally granted option rights which are exercisable on a cumulative basis in annual instalments of 25% each on the first, second, third, and fourth anniversaries of the date of grant.

The following table summarizes information about the Plans:

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

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

- m. WaferTech has received a tax assessment from State of Washington Department of Revenue assessing approximately US\$6,900 thousand in additional taxes related to State's sales and use tax. The tax amount resulted from a difference in interpretation of the current tax code and WaferTech intends to appeal the assessment. As of December 31, 2001, WaferTech has recorded a reserve that management believes is sufficient to address any exposure from potential tax.
- n. TSMC-North America started a stock appreciation right program from December 1, 2000 whereby the employees received cash bonuses based on the appreciation of the quoted market price of the shares of stock of TSMC. Compensation expenses are recorded based on the difference between the grant price and market price at the end of each period. This expense is recognized ratably over the vesting period and adjusted based on period fluctuations in the stock. As of December 31, 2001, TSMC-North America has recorded compensation expense and related accrued liabilities of approximately US\$3,900 thousand.
- o. Unused letter of credits as of December 31, 2001 were NT\$1,200 thousand.

19. ADDITIONAL DISCLOSURES

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

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;

- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- f. Disposal of individual real estates at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Names, locations, and related information of investee on which the Company exercises significant influences: Please see table 8 attach.
- j. Financial instrument transactions:

1) Derivative financial instruments

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

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

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

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

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

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

b) Interest rate swaps

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

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

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

c) Option contracts

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

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

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

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

2) Transaction risk

- a) Credit risk: The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter parties are low.
- b) Market price risk: All derivative financial instruments are intended as hedges for fluctuations in currency exchange rates on the Company foreign currency denominated receivables or payables and interest rate fluctuations on its floating rate long-term loans. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from receivables and payables. Interest rate risks are also controlled as the expected cost of capital is fixed. Thus, market price risks from exchange rate and interest rate fluctuations are minimal.

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

3) Fair value of financial instruments

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

Fair values of financial instruments were determined as follows:

- a) Short-term financial instruments – carrying values.
- b) Short-term investments – market values.
- c) Long-term investments – market value for listed companies and net equity value for others.
- d) Refundable deposits and guarantees deposits – carrying values.

- e) Long-term liabilities – based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable are discounted at present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.
- f) Derivative financial instruments – based on outright forward rates and interest rate in each contract.

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

20. SEGMENT FINANCIAL INFORMATION

a. Geographic information:

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

b. Gross export sales

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

The export sales information is presented by billed regions.

c. Major customer

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

FINANCING PROVIDED
For the Year Ended December 31, 2001
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

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

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

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
For the Year Ended December 31, 2001
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

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

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

Note 2: The No. 2 represents a subsidiary in which TSMC holds directly over 50% of the equity interest.
The No. 3 represents an investee in which TSMC holds directly and indirectly over 50% of the equity interest.

Note 3: Promissory notes for collateral.

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

December 31, 2001

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

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

(Forward)

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

(Forward)

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

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
VIS	MEGIC Corporation	Investee	Long-term investment	16,500	\$ 177,000	9	\$ 188,581	
	Form Factor, Inc.	Investee	Long-term investment	267	64,360	1	64,360	
	United Technology Co., Ltd.	Investee	Long-term investment	3,357	38,716	2	54,872	
VIS Associates Inc.	<u>Stock</u> VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term investment	68	US\$ 891	100	US\$ 891	
	<u>Equity</u> Silicon Valley Equity Fund	-	Long-term investment	-	US\$ 7,894	35	US\$ 7,894	
	Silicon Valley Equity Fund II	-	Long-term investment	-	US\$ 5,705	14	US\$ 5,705	
	ABN AMRO Bank Equity Certificate	-	Short-term investment	23,168	US\$ 10,047	-	US\$ 11,339	
	<u>Fund</u> Grand Palace Trust	-	Long-term investment	-	US\$ 2,800	100	US\$ 2,800	
VIS Investment Holding, Inc.	<u>Stock</u> VIS Micro, Inc.	Investee	Long-term investment	200	US\$ 258	100	US\$ 258	
TSMC Development	<u>Stock</u> WaferTech, LLC	Investee of TSMC Development and its chairman is also chairman of TSMC	Long-term investment	-	US\$ 226,541	99	US\$ 226,541	
TSMC Partners	<u>ADR</u> TSMC	Parent Company	Short-term investment	495	US\$ 7,357	-	US\$ 8,726	
InveStar Semiconductor Development Fund Inc.	<u>Stock</u> Silicon Image, Inc.	-	Short-term investment	297	US\$ 520	-	US\$ 1,236	
	Marvell Technology Group Ltd.	-	Short-term investment	3,413	US\$ 3,350	-	US\$ 123,797	
	Silicon Labo Ratories	-	Short-term investment	15	US\$ 472	-	US\$ 519	
	Chang Yi Technology	-	Long-term investment	1,668	US\$ 1,643	-	US\$ 672	
	Divio	-	Long-term investment	30	US\$ 3	-	US\$ 3	
	Capella Microsystems, Inc.	-	Long-term investment	542	US\$ 135	-	US\$ 135	
	Equator Technologies, Inc.	-	Long-term investment	133	US\$ 90	-	US\$ 90	
	EmpowerTel Networks, Inc.	-	Long-term investment	317	US\$ 344	-	US\$ 344	
	Ubicom, Inc.	-	Long-term investment	861	US\$ 172	-	US\$ 172	
	Global Test Corp.	-	Long-term investment	13,268	US\$ 5,672	-	US\$ 10,126	
	Chip Strate	-	Long-term investment	6,660	US\$ 2,142	-	US\$ 2,073	
Ritch Tech	-	Long-term investment	1,023	US\$ 326	-	US\$ 1,743		
APE Fu Ding Technology	-	Long-term investment	2,750	US\$ 1,518	-	US\$ 1,336		

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
InveStar Semiconductor Development Fund Inc.	<u>Preferred stock</u>							
	Integrated Memory Logic, Inc.	-	Long-term investment	1,831	US\$ 1,809	-	US\$ 3,055	
	Divio (Next wave)	-	Long-term investment	667	US\$ 500	-	US\$ 2,233	
	SIRF Technology Inc.	-	Long-term investment	306	US\$ 1,333	-	US\$ 1,858	
	Rise	-	Long-term investment	600	US\$ 1,500	-	US\$ 1,500	
	Capella Microsystems, Inc.	-	Long-term investment	1,383	US\$ 1,298	-	US\$ 1,660	
	Sensory, Inc.	-	Long-term investment	1,404	US\$ 1,250	-	US\$ 857	
	Equator Technologies, Inc.	-	Long-term investment	443	US\$ 1,338	-	US\$ 864	
	Light Speed Semiconductor Corporation	-	Long-term investment	2,252	US\$ 3,064	-	US\$ 764	
	EmpowerTel Networks, Inc.	-	Long-term investment	3,840	US\$ 5,128	-	US\$ 14,296	
	Ubicom, Inc.	-	Long-term investment	1,056	US\$ 1,361	-	US\$ 2,433	
	RapidStream	-	Long-term investment	2,056	US\$ 1,050	-	US\$ 7,286	
	Tropian, Inc.	-	Long-term investment	1,758	US\$ 2,334	-	US\$ 2,388	
	Sonics, Inc.	-	Long-term investment	3,082	US\$ 3,082	-	US\$ 3,082	
	Pico Turbo, Inc.	-	Long-term investment	1,050	US\$ 1,250	-	US\$ 1,300	
	Atheros, Inc.	-	Long-term investment	1,607	US\$ 3,593	-	US\$ 9,025	
	NanoAmp Solutions, Inc.	-	Long-term investment	541	US\$ 853	-	US\$ 1,900	
	Formfactor, Inc.	-	Long-term investment	267	US\$ 2,000	-	US\$ 3,600	
	Monolithic Power Systems, Inc.	-	Long-term investment	2,521	US\$ 2,000	-	US\$ 4,938	
	Memsic, Inc.	-	Long-term investment	2,727	US\$ 1,500	-	US\$ 2,894	
	Reflectivity, Inc.	-	Long-term investment	1,064	US\$ 2,000	-	US\$ 2,000	
	Signia	-	Long-term investment	3,000	US\$ 1,500	-	US\$ 3,900	
	Match Lab, Inc.	-	Long-term investment	1,875	US\$ 1,500	-	US\$ 1,500	
	HINT Corporation	-	Long-term investment	1,000	US\$ 1,000	-	US\$ 1,000	
	Creosys, Inc.	-	Long-term investment	1,500	US\$ 1,500	-	US\$ 1,500	
	Incentia Design Systems, Inc.	-	Long-term investment	286	US\$ 500	-	US\$ 500	
	<u>Bond</u>							
	Rise	-	Long-term investment	-	US\$ 300	-	US\$ 300	
InveStar Semiconductor Development Fund (II) Inc.	<u>Stock</u>							
	HPL Aquisition Corporation	-	Short-term investment	187	US\$ 1,124	-	US\$ 2,669	
	Richtek Technology Corporation	-	Long-term investment	480	US\$ 1,001	-	US\$ 987	
	Chang Yi Technology	-	Long-term investment	487	US\$ 139	-	US\$ 139	
	<u>Preferred stock</u>							
	Procoat Technology	-	Long-term investment	2,500	US\$ 869	-	US\$ 857	
	Omega Band, Inc.	-	Long-term investment	1,389	US\$ 1,250	-	US\$ 1,250	
	Memsic, Inc.	-	Long-term investment	2,289	US\$ 1,560	-	US\$ 2,489	
	OEpic, Inc.	-	Long-term investment	2,696	US\$ 2,500	-	US\$ 3,023	
	Equator Technologies, Inc.	-	Long-term investment	770	US\$ 1,501	-	US\$ 1,501	
NanoAmp Solutions, Inc.	-	Long-term investment	250	US\$ 1,000	-	US\$ 1,000		
RapidStream, Inc.	-	Long-term investment	246	US\$ 1,057	-	US\$ 1,057		
Signia Technologies, Inc.	-	Long-term investment	500	US\$ 750	-	US\$ 750		

(Forward)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2001				Note
				Shares (Thousand)	Carrying Value (US\$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousand)	
InveStar Semiconductor Development Fund (II) Inc.	Advanced Analogic Technology, Inc.	-	Long-term investment	948	US\$ 1,261	-	US\$ 1,261	
	Y-MEDIA Corporation	-	Long-term investment	281	US\$ 1,500	-	US\$ 1,500	
	Monolithic Power Systems, Inc.	-	Long-term investment	674	US\$ 1,515	-	US\$ 1,515	
	Ralink Technology, Inc.	-	Long-term investment	1,833	US\$ 1,500	-	US\$ 1,767	
	Sonics, Inc.	-	Long-term investment	3,082	US\$ 3,082	-	US\$ 3,082	
	Newport Opticom, Inc.	-	Long-term investment	1,157	US\$ 1,204	-	US\$ 1,204	
	Silicon Data, Inc.	-	Long-term investment	500	US\$ 250	-	US\$ 250	
	Capella Microsystems, Inc.	-	Long-term investment	800	US\$ 1,000	-	US\$ 1,000	
	Angstrom Systems, Inc.	-	Long-term investment	1,567	US\$ 750	-	US\$ 750	
	Tropain, Inc.	-	Long-term investment	1,464	US\$ 2,000	-	US\$ 2,000	
	SIRF Technology, Inc.	-	Long-term investment	20	US\$ 131	-	US\$ 131	
	Match Lab, Inc.	-	Long-term investment	313	US\$ 250	-	US\$ 250	
	OEpic, Inc.	-	Long-term investment	-	US\$ -	-	US\$ -	
	<u>Bond</u>							
	Omega Band, Inc.	-	Long-term investment	N/A	US\$ 192	-	US\$ 192	
Pico Turbo, Inc.	-	Long-term investment	N/A	US\$ 295	-	US\$ 295		
Emerging Alliance Fund	<u>Stock</u>							
	Global Investment Holding Inc.	Investee	Long-term investment	10,000	\$ 100,000	6	\$ 100,000	
	<u>Preferred stock</u>							
	Quake Technologies, Inc.	-	Long-term investment	467	US\$ 1,000	1	US\$ 1,000	
	Pixim, Inc.	-	Long-term investment	833	US\$ 2,500	3	US\$ 2,500	
	Newport Opticom, Inc.	-	Long-term investment	962	US\$ 1,000	6	US\$ 1,000	
	NetLogic Microsystems, Inc.	-	Long-term investment	602	US\$ 1,850	1	US\$ 1,850	
	Quickilver Technology, Inc.	-	Long-term investment	3,320	US\$ 3,500	29	US\$ 3,500	
Ikanos Communication, Inc.	-	Long-term investment	1,741	US\$ 1,500	3	US\$ 1,500		
Litchfield Communications	-	Long-term investment	3,799	US\$ 1,000	6	US\$ 1,000		

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

For the Year Ended December 31, 2001

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares (Thousand)	Amount	Shares (Thousand)	Amount (US\$ in Thousand)	Shares (Thousand)	Amount (US\$ in Thousand)	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US\$ in Thousand) (Note 1)	
TSMC	<u>Stock</u> Emerging Alliance Fund	Long-term investment	Emerging Alliance Fund	Subsidiary	-	\$ -	-	\$ 837,045	-	\$ -	\$ -	\$ -	-	\$ 741,617	
	Systems on Silicon Manufacturing Company (SSMC)	Long-term investment	SSMC	Investee	90	935,870	211	3,553,862	-	-	-	-	301	2,907,967	
	Taiwan Semiconductor Technology	Long-term investment	Amkor Technology	-	50,000	500,000	-	-	50,000	395,748 (Note2)	500,000	(104,252)	-	-	
	Amkor Technology	Long-term investment	Amkor Technology	-	-	-	505	280,748	-	-	-	-	505	280,748	
Emerging Alliance Fund	<u>Stock</u> Global Investment Holding, Inc.	Long-term investment	Global Investment Holding, Inc.	Investee	-	-	10,000	100,000	-	-	-	-	10,000	100,000	
	<u>Convertible commercial paper</u> VM Labs, Inc.	Long-term investment	VM Labs, Inc.	-	-	-	US\$ 4,000	-	US\$ 1,000	US\$ 4,000	(US\$ 3,000)	-	-		
VIS	<u>Stock</u> VIS Associates Inc.	Long-term investment	-	Subsidiary	23,750	464,077	17,500	597,783	-	-	-	-	41,070	902,999	
	<u>Bond fund</u> Qiung Ban	Short-term investment	-	-	-	-	35,548	500,000	7,139	100,263	100,000	263	28,409	400,000	
	THE TP ROC	Short-term investment	-	-	-	-	40,874	550,000	14,951	201,482	200,000	1,482	25,923	350,000	
	Yuan Da Duo Li #2	Short-term investment	-	-	-	-	49,017	650,000	22,739	302,698	300,000	2,698	26,278	350,000	
	NITC	Short-term investment	-	-	-	-	2,048	300,000	2,048	302,386	300,000	2,386	-	-	
	FUBON JU-I	Short-term investment	-	-	-	-	31,397	450,000	31,397	452,789	450,000	2,789	-	-	
	Capital Save Income	Short-term investment	-	-	-	-	15,295	200,000	15,295	201,139	200,000	1,139	-	-	
	Home Run	Short-term investment	-	-	-	-	51,811	650,000	51,811	656,159	650,000	6,159	-	-	
	VIS Associates Inc.	ABN AMRO Bank Equity Certificates	Short-term investment	-	-	-	-	23,168	US\$ 10,047	-	-	-	-	23,168	US\$ 10,047
	InveStar Semiconductor Development Fund Inc.	<u>Stocks</u> Centillum Tec. Corp	Short-term investment	-	-	165	US\$ 660	-	-	165	US\$ 7,474	US\$ 660	US\$ 6,814	-	-
Marvell Technology Group Ltd.		Short-term investment	-	-	4,665	US\$ 4,579	-	-	1,252	US\$ 38,094	US\$ 1,229	US\$ 36,865	3,413	US\$ 3,350	
<u>Preferred stocks</u> Lara Networks, Inc.		Short-term investment	-	-	1,544	US\$ 772	-	-	1,544	US\$ 8,170	US\$ 772	US\$ 7,398	-	-	
InveStar Semiconductor Development Fund (II) Inc.	Sonic, Inc.	Long-term investment	-	-	-	-	3,082	US\$ 3,082	-	-	-	-	3,082	US\$ 3,082	

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

For the Year Ended December 31, 2001

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

Company Name	Property	Transaction Date	Transaction Amount	Payment Term	Counter-Party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
TSMC	Fab 12 and office	Jan. 10, 2001	\$ 345,000	Depend on the progress of the construction	China Construction Co, Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
		Jan. 29, 2001	476,200	Depend on the progress of the construction	Fu Tsu Construction Co, Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
For the Year Ended December 31, 2001
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
December 31, 2001

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

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

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

December 31, 2001

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2001			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value			
TSMC	TSMC - North America	San Jose, California, U.S.A.	Marketing and engineering support	\$ 333,718	\$ 333,718	11,000	100	\$ 786,062	\$ 4,560	\$ 4,560	Subsidiary
	TSMC - Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	-	100	10,147	420	420	Subsidiary
	TSMC - Japan	Yokohama, Japan	Marketing and engineering support	83,760	35,142	6	100	80,156	(183)	(183)	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640	6,503,640	556,133	25	3,377,526	(8,692,423)	(2,236,940)	Investee
	TSMC - BVI	Tortola, British Virgin Islands	Investment	24,165,780	24,159,958	779,968	100	19,987,814	(4,855,844)	(4,855,844)	Subsidiary
	Po Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	164,724	110,960	27,740	Investee
	Chi Hsin Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	158,252	77,008	19,252	Investee
	Kung Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	177,812	76,241	19,060	Investee
	Chi Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	156,694	103,603	25,901	Investee
	Hsin Ruey Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	157,352	117,006	29,251	Investee
	Cherng Huei Investment	Taipei, Taiwan	Investment	100,000	100,000	-	25	166,639	113,755	28,439	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	3,032,376	2,357,405	2,357,405	Subsidiary
	SSMC	Singapore	Manufacturing the wafer	4,986,344	1,432,482	301	32	2,907,967	(5,381,499)	(1,722,080)	Investee
	Emerging Alliance Fund	Cayman Islands	Investment	837,045	-	-	99	741,617	(127,249)	(126,612)	Subsidiary