TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form F-3/A
November 06, 2003
Table of Contents

As filed with the Securities and Exchange Commission on November 6, 2003

Registration No. 333-109851

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

To

FORM F-3

REGISTRATION STATEMENT

Under

The Securities Act of 1933

(Exact Name of Registrant as Specified in Its Charter)

Taiwan Semiconductor Manufacturing Company Limited

(Translation of Registrant s Name into English)

Republic of China	**3674**	**Not applicable**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(IRS Employer Identification Number)**

No. 8, Li-Hsin Road 6

Science-Based Industrial Park

Hsinchu, Taiwan

(886-3) 563-6688

(Address and Telephone Number of Registrant s Principal Executive Offices)

TSMC North America

2585 Junction Avenue

San Jose, CA 95134, USA

(408) 382-8000

(Name, Address, and Telephone Number of Agent for Service)

With copies to:

John D. Young, Jr., Esq.	**Sebastian R. Sperber, Esq.**
Sullivan & Cromwell LLP	**Cleary, Gottlieb, Steen & Hamilton**
Otemachi First Square, East Tower 16F	**39th Floor, Bank of China Tower**
5-1, Otemachi 1-chome	**One Garden Road, Central**
Chiyoda-ku, Tokyo 100 0004, Japan	**Hong Kong**
81-3-3213-6140	**852-2521-4122**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or Interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨__________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨__________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

This information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated November 6, 2003

Taiwan Semiconductor Manufacturing Company Limited

(Incorporated as a company limited by shares in the Republic of China)

100,000,000 American Depositary Shares

Representing

500,000,000 Common Shares

This is a global offering of 100,000,000 American depositary shares, or ADSs, representing common shares of Taiwan Semiconductor Manufacturing Company Limited, or Taiwan Semiconductor. Koninklijke Philips Electronics N.V., or Philips, our selling shareholder, is selling all of the ADSs being offered in this offering. We will not receive any proceeds from the sale of ADSs by the selling shareholder. The ADSs are not being offered in the Republic of China, or ROC. Each ADS represents five common shares, par value NT$10 per share, of Taiwan Semiconductor. The ADSs are evidenced by American depositary receipts, or ADRs.

Our ADSs are listed on The New York Stock Exchange under the symbol TSM . The last reported sale price of the ADSs on The New York Stock Exchange on November 5, 2003 was US$11.64 per ADS. Our outstanding common shares are listed on the Taiwan Stock Exchange under the symbol 2330 . The closing price of our common shares on the Taiwan Stock Exchange on November 5, 2003 was NT$69.50 per share, which is equivalent to approximately US$2.04, assuming an exchange rate of NT$34.06=US$1.00.

See Risk Factors beginning on page 12 to read about factors you should consider before buying the ADSs.

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial price to public	US$	US$
Underwriting discount	US$	US$
Proceeds, before expenses[(1)], to the selling shareholder	US$	US$

(1) The underwriters have agreed to pay certain expenses of Taiwan Semiconductor and the selling shareholder in connection with this offering. For more information, see Underwriting.

The underwriters expect to deliver the ADSs through the book-entry transfer facilities of The Depository Trust Company against payment in U.S. dollars in New York, New York on or about November , 2003.

Goldman, Sachs & Co. **Merrill Lynch & Co.**

Prospectus dated November , 2003

Table of Contents

THESE SECURITIES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN THE REPUBLIC OF CHINA, EXCEPT AS PERMITTED BY APPLICABLE LAW OF THE REPUBLIC OF CHINA.

This prospectus, including the information summarized below, contains translations of some NT dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of June 30, 2003, which was NT$34.61 to US$1.00. We make no representation that the NT dollar or US dollar amounts referred to herein could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate or at all. On November 5, 2003, the noon buying rate was NT$34.06 to US$1.00.

In connection with this offering, Goldman, Sachs & Co. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, or any person acting for them, may overallot or effect transactions with a view to supporting the market price of the ADSs and, subject to applicable ROC laws, the common shares at a level higher than that which might otherwise prevail for a limited period of time after the issue date. However, there may be no obligation on Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, or their agents, to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. See Underwriting .

All references in this prospectus to silicon wafer quantities are specified in eight-inch wafer equivalents, unless otherwise specified. When we refer to the capacity of wafer fabrication facilities, we are referring to the installed capacity based on specifications established with the manufacturer of the equipment used in those facilities. We can exceed 100% of these capacity levels through, for example, enhanced productivity beyond that assumed when these specifications were initially established.

Table of Contents

PROSPECTUS SUMMARY

Financial and other information about us is set forth in our annual report on Form 20-F and other documents incorporated herein by reference, copies of which may be obtained as indicated under Where You Can Find More Information .

Our Business

We were founded in 1987 as a joint venture among the ROC government, Koninklijke Philips Electronics N.V. and other private investors and were incorporated in the ROC on February 21, 1987. Our common shares have been listed on the Taiwan Stock Exchange since September 5, 1994 and our ADSs have been listed on The New York Stock Exchange since October 8, 1997.

We are the world s largest dedicated semiconductor foundry. As a foundry, we manufacture semiconductors using our advanced production processes for our customers based on their own or third parties proprietary integrated circuit designs. We offer a comprehensive range of leading edge wafer fabrication processes, including processes to manufacture CMOS logic, mixed-signal, radio frequency and embedded memory and BiCMOS mixed-signal and other semiconductors. We also offer design, mask making, probing, testing and assembly services.

We believe that we are the technology leader among the dedicated foundries in terms of net sales of advanced semiconductors with a resolution of 0.18 micron and below, and that we are among the technology leaders in the semiconductor industry generally. For example, we announced the semiconductor industry s first fully functional SRAM chip using 90-nanometer CMOS process technology in March 2002, one year ahead of the International Technology Roadmap for Semiconductors, or ITRS. In April 2002, we unveiled NEXSYS™, the foundry segment s next-generation technology for system-on-chip semiconductor design and manufacturing. In addition, we commenced significant commercial production using 0.13 micron process technology in 2002. We expect to commence commercial production using 90-nanometer process technology in 2004. We also believe that we are a leader in manufacturing process management capabilities among dedicated foundries. We believe our leading position in advanced technology and manufacturing process management capabilities has contributed to our increasing revenue market share among dedicated foundries.

We currently operate one six-inch, six eight-inch and one twelve-inch wafer fabrication plants, or fabs. We have also recently completed the exterior construction of another twelve-inch fab. Our year-end monthly capacity was 381,044 wafers in 2001 and 350,735 in 2002. The decrease in our capacity in 2002 was primarily due to the upgrading of a portion of our 0.35 micron and 0.25 micron capacity into 0.18 micron and 0.15 micron advanced technologies. We expect our monthly capacity to be approximately 353,000 at the end of 2003 and, based on our preliminary estimates, we expect our monthly capacity to be approximately 360,000 at the end of the first half of 2004.

We count among our customers many of the world s leading semiconductor companies, ranging from fabless integrated circuit design houses such as Altera Corporation, Broadcom Corporation, NVIDIA Corporation and VIA Technology, Inc., to integrated device manufacturing companies such as Analog Devices, Inc., Motorola Inc. and Philips, and systems companies. Fabless integrated circuit design houses and integrated device manufacturers accounted for approximately 66% and 33%, respectively, of our net sales in 2001, approximately 71% and 28%, respectively, of our net sales in 2002, and approximately 71% and 29%, respectively, of our net sales in the six months ended June 30, 2003.

1

Table of Contents

Our principal executive office is currently located at No. 8, Li-Hsin Road 6, Science-Based Industrial Park, Hsinchu, Taiwan, Republic of China. Our telephone number at that office is (886-3) 563-6688. Our web site is www.tsmc.com. Information contained on our web site does not constitute part of this prospectus.

Table of Contents

The Offering

See Selling Shareholder on page 36 for a description of Philips.

Offering price	US$ per ADS
ADSs offered by the selling shareholder	100,000,000 ADSs
ADSs outstanding after this offering	585,898,166 ADSs
Common shares outstanding after this offering	20,266,618,984 common shares
ADS:common share ratio	1:5
Trading market for the common shares	The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since 1994 under the symbol 2330 .
New York Stock Exchange symbol for ADSs	TSM
ADS Depositary	Citibank, N.A.
Use of proceeds	We will not receive any proceeds from the sale of ADSs by the selling shareholder.
Timing and settlement for the ADSs	The ADSs are expected to be delivered against payment on or about November , 2003.
	The ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by The Depository Trust Company and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, société anonyme.

Table of Contents

Summary Consolidated Financial Information and Operating Data

The summary financial information below should be read in conjunction with

(1) Item 5. Operating and Financial Reviews and Prospects and the consolidated financial statements, notes to the consolidated financial statements and other financial information included in our Form 20-F for the year ended December 31, 2002, incorporated by reference in this prospectus; and

(2) Recent Developments , the unaudited consolidated financial statements, the notes to the unaudited consolidated financial statements and other financial information included elsewhere in this prospectus for the six months ended June 30, 2002 and 2003.

The summary income statement data and cash flow data for the years ended December 31, 2000, 2001 and 2002 and the summary balance sheet data as of December 31, 2001 and 2002 set forth below are derived from our audited consolidated financial statements included in our Form 20-F for the year ended December 31, 2002, incorporated by reference in this prospectus, and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes to these consolidated financial statements. These financial statements have been audited by TN Soong & Co., an associate member firm of Deloitte Touche Tohmatsu as of April 22, 2002. TN Soong & Co. and Deloitte & Touche (Taiwan) combined to establish Deloitte & Touche effective June 1, 2003. The summary income statement data and cash flow data for the years ended December 31, 1998 and 1999 and the summary balance sheet data as of December 31, 1998, 1999 and 2000 set forth below are derived from our audited consolidated financial statements not included in our Form 20-F for the year ended December 31, 2002. The summary income statement data and cash flow data for the six months ended June 30, 2002 and 2003 and the summary balance sheet data as of June 30, 2002 and 2003 set forth below are derived from our unaudited consolidated financial statements included in this prospectus and should be read in conjunction with, and are qualified in their entirety by reference to, these unaudited consolidated financial statements and the related notes. The results for the six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003. The consolidated financial statements set forth below have been prepared and presented in accordance with generally accepted accounting principles in the Republic of China, also called ROC GAAP, which differ in some material respects from generally accepted accounting principles in the United States of America, also called US GAAP. Please see (1) note 27 to our audited consolidated financial statements, included in our Form 20-F for the year ended December 31, 2002, incorporated by reference in this prospectus, and (2) note 27 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2002 and 2003, included in this prospectus, for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these financial statements.

Table of Contents

	Year ended and as of December 31,						Six months ended and as of June 30,		
	1998	1999	2000	2001	2002	2002(1)	2002	2003	2003(1)
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$ (unaudited)	US$
	(in millions, except percentages, earnings per share and per ADS, and operating data)								
Income Statement Data:									
ROC GAAP									
Net sales	50,524	76,305	166,198	125,885	162,301	4,689	80,267	89,695	2,592
Cost of sales(2)	(33,009)	(45,212)	(87,610)	(92,228)	(109,988)	(3,178)	(50,823)	(60,734)	(1,755)
Gross profit(2)	17,515	31,093	78,588	33,657	52,313	1,511	29,444	28,961	837
Operating expenses(2)	(5,210)	(8,823)	(17,293)	(20,879)	(20,724)	(598)	(9,771)	(10,854)	(314)
Income from operations	12,305	22,270	61,295	12,778	31,589	913	19,673	18,107	523
Non-operating income	1,977	1,619	6,120	6,476	2,419	70	1,462	2,884	83
Non-operating expenses	(3,227)	(3,261)	(3,513)	(8,467)	(6,786)	(196)	(3,098)	(4,192)	(121)
Income before income taxes	11,055	20,628	63,902	10,787	27,222	787	18,037	16,799	485
Income tax (expense) benefit	2,318	2,383	1,167	3,740	(5,637)	(163)	(2,151)	(712)	(20)
Net income before minority interest	13,373	23,011	65,069	14,527	21,585	624	15,886	16,087	465
Minority interest in loss (income) of subsidiary	1,016	516	37	(44)	25	1	11	1	0
Net income	14,389	23,527	65,106	14,483	21,610	624	15,897	16,088	465
Basic and diluted earnings per share(3)	0.84	1.38	3.29	0.69	1.05	0.03	0.77	0.79	0.02
Basic and diluted earnings per ADS equivalent	4.22	6.88	16.46	3.46	5.23	0.15	3.87	3.93	0.11
Average shares outstanding(3)	17,045	17,100	19,767	20,267	20,221	20,221	20,221	20,221	20,221
US GAAP									
Net sales	50,524	76,305	166,860	127,242	162,990	4,709	80,674	89,890	2,597
Cost of sales	(41,200)	(52,163)	(105,359)	(107,194)	(115,374)	(3,334)	(56,293)	(66,087)	(1,909)
Operating expenses	(9,525)	(12,310)	(44,472)	(41,712)	(20,764)	(600)	(10,751)	(11,622)	(336)
Income (loss) from operations	(201)	11,833	17,029	(21,664)	26,852	776	13,630	12,181	352
Income (loss) before income taxes	(2,082)	10,986	20,537	(25,672)	20,210	584	10,728	10,194	295
Income tax (expense) benefit	2,316	2,383	1,166	3,741	(5,638)	(163)	2,152	717	21
Net income (loss)	1,249	13,884	21,740	(21,975)	14,534	420	8,524	9,559	276
Cumulative preferred dividends				(455)	(455)	(13)	(228)	(185)	(5)
Income (loss) attributable to common shareholders	1,249	13,884	21,740	(22,430)	14,079	407	8,296	9,374	271
Average shares outstanding(4)	16,847	16,928	18,841	19,743	20,030	20,030	19,969	20,091	20,091
Basic and diluted earnings per share(4)	0.07	0.82	1.15	(1.14)	0.70	0.02	0.42	0.47	0.01
Basic and diluted earnings per ADS equivalent	0.37	4.10	5.77	(5.68)	3.51	0.10	2.08	2.33	0.07

Table of Contents

	Year ended and as of December 31,						Six months ended and as of June 30,		
	1998	1999	2000	2001	2002	2002(1)	2002	2003	2003(1)
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$ (unaudited)	US$
	(in millions, except percentages, earnings per share and per ADS, and operating data)								
Balance Sheet Data:									
ROC GAAP									
Working capital	15,926	33,267	44,920	37,472	62,175	1,796	72,143	89,375	2,582
Long-term equity investments	6,659	16,165	10,664	11,599	10,635	307	10,728	11,091	321
Properties	118,353	150,060	244,748	251,288	246,498	7,122	242,617	221,692	6,405
Goodwill			11,531	11,438	10,159	294	10,532	9,485	274
Total assets	165,461	235,436	370,886	366,518	390,542	11,284	396,162	381,267	11,016
Long-term bank borrowing(5)	14,630	22,744	23,339	22,399	11,051	319	19,464	9,276	268
Long-term bonds payable	22,632	20,000	29,000	24,000	35,000	1,011	35,000	35,000	1,011
Guaranty deposit-in and other long-term liabilities(6)	6,957	6,207	9,046	9,479	8,181	236	10,491	7,678	222
Minority interest equity	9,701	7,524	322	120	95	3	105	92	3
Total liabilities	59,474	75,341	108,811	89,207	94,594	2,733	106,893	82,913	2,395
Capital stock	66,472	85,209	129,894	181,326	199,229	5,756	199,229	186,229	5,381
Cash Dividend on common shares	0	0	0	0	0	0	0	0	0
Shareholders equity	96,285	152,571	261,754	277,190	295,853	8,548	289,164	298,262	8,618
US GAAP									
Goodwill			58,348	47,464	47,476	1,372	47,198	47,447	1,371
Total assets	164,784	236,859	407,830	393,990	420,528	12,150	425,081	412,793	11,927
Total liabilities	70,491	84,882	114,884	91,419	96,747	2,795	108,046	84,409	2,439
Mandatory redeemable preferred stock			13,000	13,000	13,000	376	13,000		
Shareholders equity	94,293	151,977	279,946	289,450	310,623	8,975	303,867	327,813	9,472
Other Financial Data:									
ROC GAAP									
Gross margin	35%	41%	47%	27%	32%	32%	37%	32%	32%
Operating margin	24%	29%	37%	10%	19%	19%	25%	20%	20%
Net margin	28%	31%	39%	12%	13%	13%	20%	18%	18%
Capital expenditures	55,781	51,459	103,762	70,201	55,236	1,596	17,248	16,262	470
Depreciation and amortization	15,522	25,198	41,446	55,323	65,001	1,878	30,451	34,586	999
Cash provided by operating activities	30,255	40,253	94,786	75,818	98,507	2,846	48,384	46,037	1,330
Cash used in investing activities	(57,436)	(60,952)	(120,949)	(77,232)	(62,190)	(1,797)	(20,881)	(21,740)	(628)
Cash provided by (used in) financing activities	16,855	39,518	35,366	897	(6,346)	(183)	6,265	(19,592)	(566)
Net cash flow	(10,984)	18,646	9,323	(1,284)	30,234	873	34,839	4,295	124
Operating Data:									
Wafers sold(7)	1,184	1,826	3,408	2,159	2,675	2,675	1,317	1,581	1,581
Average utilization rate	74%	97%	106%	51%	73%	73%	76%	79%	79%

(1) Translations from NT dollars to U.S. dollars were made at the noon buying rate as of June 30, 2003, which was NT$34.61 to US$1.00 on that date, and are presented for your convenience only.

(2) Amounts in 1999 and 2000 reflect the reclassification of NT$1,025 million in 1999 and NT$2,072 million in 2000 from cost of sales to research and development.

(3) Retroactively adjusted for all subsequent stock dividends and employee stock bonuses, which have been paid prior to the date hereof, including a stock dividend of eight common shares per 100 common shares in July 2003 in respect of earnings in the year ended December 31, 2002.

(4) Retroactively adjusted for all subsequent stock dividends, which have been paid prior to the date hereof, including a stock dividend of eight common shares per 100 common shares in July 2003 in respect of earnings in the year ended December 31, 2002.

(5) Excludes bonds payable.

(6) Consists of other long-term payables and total other liabilities.
(7) In thousands.

Table of Contents

RECENT DEVELOPMENTS

Stock Dividend. On July 31, 2003, we distributed a stock dividend of eight shares per 100 common shares in respect of our earnings in the year ended December 31, 2002 to holders of common shares. As of September 30, 2003, a total of 20,266,618,984 of common shares were outstanding, 2,429,490,830 of which were represented by ADSs.

Capital Expenditures. Our capital expenditures in the six months ended June 30, 2003 were NT$16,262 million (US$470 million). We currently expect our capital expenditures to be approximately NT$25,270 million (US$730 million) in the second half of 2003. We currently expect our capital expenditures in 2004 to be significantly higher than our capital expenditures in 2003. During 2004, we anticipate focusing our capital expenditures primarily on the following:

- ramping up Fab 12 (Phase I);
- ramping up Fab 14 (Phase I);
- upgrading the technology at Fab 5 and Fab 8; and
- research and development projects.

Fab 12 and Fab 14. Subject to prevailing market conditions, we currently do not plan to commence production at Fab 14 (Phase I) until the second half of 2004 at the earliest. The current plan for Fab 12 has two phases, comprising Phase I and Phase II. We also do not anticipate to complete construction of Fab 12 (Phase II) until after the commencement of production at Fab 14 (Phase I). We will continue to evaluate our plans in this regard on an ongoing basis in light of prevailing market conditions.

2003 Employee Stock Options Plan. On September 2, 2003, we adopted the 2003 Employee Stock Options Plan, which authorizes the grant of options exercisable for up to 120 million common shares (approximately 0.6% of total outstanding common shares). These options will vest between two and four years after the date of grant, with 50% of the options granted being exercisable two years after the grant, 75% exercisable three years after the grant and 100% exercisable four years after the grant. Any options granted will expire ten years after the date of grant. Under the 2003 Employee Stock Options Plan we may grant options in one or more tranches within one year from the date of receipt of notice from the relevant authority indicating that the filing of the 2003 Employee Stock Options Plan has become effective.

Change of Chief Financial Officer. Effective September 8, 2003, Ms. Lora Ho became our Vice President and Chief Financial Officer. As of September 30, 2003, Ms. Ho owned 1,817,830, or 0.01%, of our common shares. For further information on the change of management, see our reports on Form 6-K, dated July 30, 2003 and September 3, 2003, which are incorporated by reference in this prospectus.

Unaudited Unconsolidated Financial Information as of and for the Nine Months Ended September 30, 2002 and 2003.

As a result of our common shares being listed on the Taiwan Stock Exchange, we are required on an on-going basis to file with the Taiwan Stock Exchange unaudited unconsolidated financial statements as of and for the year-to-date period ending on each of March 31 and September 30. We also regularly release unconsolidated financial statements as of and for the six months ended June 30 and as of and for the year ended December 31, audited in accordance with generally accepted auditing standards in

Table of Contents

the ROC. These unconsolidated financial statements are prepared in accordance with ROC GAAP, which differ in some material respects from US GAAP. Please see (1) note 27 to our audited consolidated financial statements included in our Form 20-F for the year ended December 31, 2002, which is incorporated by reference in this prospectus, and (2) note 27 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2002 and 2003, included in this prospectus, for a discussion of the material differences between ROC GAAP and US GAAP for the periods covered by these financial statements. In addition, by their nature, unconsolidated financial statements are not comparable in material respects with consolidated financial statements, and should not be compared to the consolidated financial statements for prior periods. Because we have released certain unaudited unconsolidated financial statements for 2003, we are required under applicable rules of the United States Securities and Exchange Commission to include those unaudited unconsolidated financial statements in this prospectus.

The summary income statement data and cash flow data for the nine months ended September 30, 2002 and 2003 and the summary balance sheet data as of September 30, 2002 and 2003 set forth below are derived from the unaudited unconsolidated financial statements included in our report on Form 6-K, dated October 30, 2003, which is incorporated herein by reference, and should be read in conjunction with, and is qualified in its entirety by reference to, those unconsolidated financial statements, including the notes to those financial statements.

The unaudited unconsolidated financial statements, including the information summarized below, do not consolidate the financial position and operations of any of our subsidiaries. Instead, the unconsolidated financial statements account for our investments in our subsidiaries, including TSMC International Investment Ltd. and TSMC Development, Inc., our holding companies for WaferTech, by using equity method accounting, which differs materially from consolidation. Other differences resulting from nonconsolidation include:

- the level of our bank debt, which is zero on an unconsolidated level because all of our bank debt is borrowed by one or more of our subsidiaries;
- intercompany sales and expenses between Taiwan Semiconductor and its subsidiaries are not eliminated; and
- individual assets, liabilities, revenue and expenses of unconsolidated subsidiaries are not included in the unconsolidated financial statements.

For a discussion of the accounting policies used in the unaudited unconsolidated financial statements, see note 2 to the unaudited unconsolidated financial statements included in our report on Form 6-K, dated October 30, 2003, which is incorporated herein by reference. Because we account for subsidiaries in our unconsolidated accounts based on the equity method, our unaudited unconsolidated net assets and net income would generally be the same as in our consolidated accounts. Other amounts in other line items may be materially different in our unconsolidated financial statements from our consolidated financial statements. We can give no assurance as to what the relative level of unconsolidated and consolidated assets, net sales, net income or any other financial statement line item will be for the year ending December 31, 2003. In addition, unconsolidated results of operations for the nine months ended September 30, 2003 may not be indicative of our unconsolidated or consolidated results of operations for the full year ending December 31, 2003.

Table of Contents

Summary Unaudited Unconsolidated Financial Information

	Nine months ended and as of September 30,		
	2002	2003	2003(1)
	NT$	NT$ (unaudited) (in millions, except percentages, earnings per share and per ADS, and operating data)	US$
Income Statement Data:			
ROC GAAP			
Net sales	119,807	144,125	4,164
Cost of sales	(78,522)	(93,941)	(2,714)
Gross Profit	41,285	50,184	1,450
Operating expenses	(12,760)	(14,162)	(409)
Income from operations	28,525	36,022	1,041
Non-operating income	1,395	1,427	41
Non-operating expenses	(5,885)	(3,989)	(115)
Income before income taxes	24,035	33,460	967
Income tax (expense) benefit	(4,977)	(2,204)	(64)
Net income	19,058	31,256	903
Basic earnings per share	0.93	1.54	0.04
Diluted earnings per share	0.93	1.54	
Basic earnings per ADS equivalent	4.63	7.68	0.22
Diluted earnings per ADS equivalent	4.63	7.68	
Average shares outstanding			
Basic	20,221	20,223	20,223
Diluted	20,221	20,227	20,227
Balance Sheet Data:			
ROC GAAP			
Working capital	59,057	107,986	3,120
Long-term investments	36,349	34,669	1,002
Properties	217,505	192,294	5,556
Total assets	377,443	382,191	11,043
Long-term bank borrowing(2)			
Long-term bonds payable	35,000	35,000	1,011
Guaranty deposit-in and other long-term liabilities(3)	7,488	7,033	203
Total liabilities	83,835	69,220	2,000
Shareholders equity	293,607	312,971	9,043
Other Financial Data:			
ROC GAAP			
Gross margin	34.5%	34.8%	34.8%
Operating margin	23.8%	25.0%	25.0%
Net margin	15.9%	21.7%	21.7%
Capital expenditures	36,581	24,416	705
Depreciation and amortization	41,541	46,291	1,337
Cash provided by operating activities	70,368	77,185	2,230
Cash used in investing activities	(47,963)	(38,041)	(1,099)
Cash provided by (used in) financing activities	8,708	(18,070)	(522)
Net cash flow	31,113	21,074	609
Operating Data:			
Wafers sold(4)	1,994	2,573	2,573

Average utilization rate	80.7%	85.3%	85.3%

(1) Translations from NT dollars to U.S. dollars were made at the noon buying rate as of June 30, 2003, which was NT$34.61 to US$1.00 on that date, and are presented for your convenience only.
(2) Excludes bonds payable. On an unconsolidated basis, we do not have any bank loans.
(3) Consists of other long-term payables and total other liabilities.
(4) In thousands.

Table of Contents

Nine Months Ended September 30, 2003 (unaudited) Compared to Nine Months Ended September 30, 2002 (unaudited)

Net Sales. Our unconsolidated net sales increased 20.3% from NT$119,807 million in the first nine months of 2002 to NT$144,125 million (US$4,164.3 million) in the first nine months of 2003. This increase was primarily due to an increase in customer demand, which resulted in a 29.0% increase in wafer shipments, from 1,994 thousand wafers in the first nine months of 2002 to 2,573 thousand wafers in the first nine months of 2003, offset in part by a 6.8% decrease in the average selling price of our wafers in U.S. dollar terms. The decrease in the average selling price of our wafers in U.S. dollar terms in the first nine months of 2003 was primarily the result of a decline in pure pricing partially offset by a more favorable product mix. We currently expect our wafer shipments to increase by a mid to high single digit percentage point and the average selling price to decline slightly in the fourth quarter of 2003 compared with the third quarter of 2003.

Cost of Sales and Gross Margin. Our unconsolidated cost of sales increased 19.6% from NT$78,522 million in the first nine months of 2002 to NT$93,941 million (US$2,714.3 million) in the first nine months of 2003. The increase in unconsolidated cost of sales was primarily due to the increase in material and labor costs associated with higher sales as well as the increase in purchases from affiliates. In addition, depreciation and amortization expenses related to cost of sales also increased from NT$38,192 million in the first nine months of 2002 to NT$42,889 million (US$1,239.2 million) in the first nine months of 2003. Our depreciation expenses increased in the first nine months of 2003 primarily as a result of the increased depreciation associated with ramping up Fab 12 (Phase I) and the capacity increases at Fab 6 and Fab 8.

Our gross margin increased from 34.5% in the first nine months of 2002 to 34.8% in the first nine months of 2003. The increase in gross margin was largely due to a 29.0% increase in wafer shipments and a 4.6% increase in utilization rate, offset in part by a decrease in average selling price and an increase in costs associated with capacity ramp up at Fab 12 (Phase I) and the capacity increases at Fab 6 and Fab 8. We currently expect our overall utilization rate to be about 95% for the fourth quarter of 2003.

Operating Expenses. Our total unconsolidated operating expenses increased 11.0% from NT$12,760 million in the first nine months of 2002 to NT$14,162 million (US$409.2 million) in the first nine months of 2003. Research and development expenses increased 9.6% from NT$7,903 million in the first nine months of 2002 to NT$8,657 million (US$250.2 million) in the first nine months of 2003. The increase primarily reflects increased expenditures related to our continued development activities in 90-nanometer and 65-nanometer technologies and twelve-inch wafer manufacturing processes. We anticipate that our annual research and development expenditures will remain at a similar absolute level in 2003 as in 2002. General and administrative expenses increased 14.8% from NT$3,984 million in the first nine months of 2002 to NT$4,573 million (US$132.1 million) in the first nine months of 2003. This increase primarily resulted from an increase in expenses for information technology infrastructure in connection with the expansion of Fab 6 and Fab 12, an increase in expenses associated with patent applications, and an increase in bad debt expenses. Marketing expenses increased 6.8% from NT$873 million in the first nine months of 2002 to NT$932 million (US$26.9 million) in the first nine months of 2003. The increase was primarily due to increased business activities.

Income from Operations. Our unconsolidated income from operations increased 26.3% from NT$28,525 million in the first nine months of 2002 to NT$36,022 million (US$1,040.8 million) in the first nine months of 2003. This increase was primarily due to a 21.6% increase in gross profit in the first nine months of 2003 while our operating expenses increased by 11.0%. As a percentage of net sales,

Table of Contents

our operating expenses for the first nine months of 2003 represented 9.8% of our net sales, down from 10.7% for the same period a year ago. Our unconsolidated operating margin increased from 23.8% in the first nine months of 2002 to 25.0% in the first nine months of 2003.

Non-Operating Income and Expenses. Our unconsolidated non-operating income increased 2.3% from NT$1,395 million in the first nine months of 2002 to NT$1,427 million (US$41.2 million) in the first nine months of 2003. The increase primarily resulted from a NT$92 million increase in the gain realized on sales of fixed assets, a NT$66 million increase in gain on sales of certain equity investments and a NT$46 million increase in other gains, partially offset by a NT$189 million decrease in interest income as a result of interest rate reductions.

Our unconsolidated non-operating expenses decreased by 32.2% from NT$5,885 million in the first nine months of 2002 to NT$3,989 million (US$115.2 million) in the first nine months of 2003. This decrease principally resulted from a NT$3,210 million decrease in investment loss recognized by equity method, offset in part by an increase of NT$1,431 million in loss due to the write-off of certain idle fixed assets and related expenses. The decrease in investment loss was largely the result of the gains realized on the sale of 2.0 million shares of Marvell Technology Group, Ltd. (Nasdaq: MRVL) held by our subsidiary and improved operating results from our equity-method investees, including WaferTech, LLC, Vanguard International Semiconductor Corporation and Systems on Silicon Manufacturing Company Pte Ltd.

Income Tax Benefit (Expense). Our unconsolidated income tax expense decreased 55.7% from NT$4,977 million in the first nine months of 2002 to NT$2,204 million (US$63.7 million) in the first nine months of 2003. The decrease was primarily due to a decrease in valuation allowance against deferred tax assets. In February 2003, the ROC tax authority removed certain restrictions on utilizing tax credits, which resulted in a lower valuation allowance against deferred tax assets for 2003.

Net Income. Our unconsolidated net income increased 64.0% from NT$19,058 million in the first nine months of 2002 to NT$31,256 million (US$903.1 million) in the first nine months of 2003. The improvement in our net income for the first nine months of 2003 primarily reflects an increase in gross profit, a reduction in income tax expense, and a decrease in net non-operating losses, offset in part by an increase in operating expenses. Our unconsolidated net margin increased from 15.9% in the first nine months of 2002 to 21.7% in the first nine months of 2003.

Table of Contents

RISK FACTORS

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the Securities and Exchange Commission, among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. In particular, as we are a non-U.S. company, there are risks associated with investing in our ADSs that are not typical for investments in the shares of U.S. companies. Prior to making an investment decision, you should carefully consider all of the information contained in this prospectus, including the following risk factors.

Risks Relating to Our Business

Since we are dependent on the highly cyclical semiconductor and microelectronics industries, which have experienced significant and sometimes prolonged downturns, our revenues, earnings and margins may fluctuate significantly.

Our semiconductor foundry business is affected by market conditions in the highly cyclical semiconductor and microelectronics industries. Most of our customers operate in these industries. Variations in order levels from our customers result in volatility in our revenues and earnings. From time to time, the semiconductor and microelectronics industries have experienced significant, and sometimes prolonged, downturns. Because our business is, and will continue to be, dependent on the requirements of semiconductor and microelectronics companies for our services, downturns in the semiconductor and microelectronics industries lead to reduced demand for our services. For example, a worldwide slowdown in demand for semiconductor devices in 1998 led to surpluses in capacity and price declines which accelerated rapidly and negatively affected our operating results in 1998. Starting in the first quarter of 2001, the semiconductor and microelectronics industries experienced significant downturns due to a number of factors including a slowdown in the global economy, oversupply in the microelectronics industry, overcapacity in the semiconductor industry and a worldwide inventory adjustment. Due to the significant downturns in the two industries most, if not all, of the integrated device manufacturers that had previously begun purchasing wafer fabrication services from foundry companies reduced purchases from foundry companies. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand, our revenues and earnings will suffer during downturns. As a result of the 2001 downturn in the semiconductor and microelectronics industries, our net sales and net income for 2001 were 24.3% and 77.8%, respectively, less than the corresponding amounts in 2000. Although the semiconductor and microelectronics industries have recovered to some extent from the 2001 downturn and our net sales and net income for 2002 and for the six months ended June 30, 2003 increased from the corresponding amounts in the corresponding periods in 2001 and 2002, respectively, we cannot give any assurances that the recovery will continue and if so, for how long.

Overcapacity in the semiconductor industry may reduce our revenues, earnings and margins.

The prices that we can charge our customers for our services are significantly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based in part on the capacity of other companies, which is outside of our control. Historically, companies in the semiconductor industry have expanded aggressively during periods of increased demand such as was the case in 2000. As a result, periods of overcapacity in the semiconductor industry have frequently followed periods of increased demand. In a period of overcapacity, if we are unable to offset the adverse effects of overcapacity through, among other things, our technology and product mix, we may have to lower the prices we charge our customers for our services and/or we may have to operate at significantly less than full capacity. Such actions could reduce our margin and weaken our financial condition and results of operations. Due to the decreased

12

Table of Contents

annualized demand for semiconductors in 2001 and 2002, our average capacity utilization rate decreased to 51% during 2001 and 73% during 2002 as compared with 106% during 2000. Our average capacity utilization rate was 79% in the six months ended June 30, 2003.

Decreases in demand and average selling price for end-use applications of semiconductor products may adversely affect demand for our products and may result in a decrease in our revenues and earnings.

A vast majority of our sales revenue is derived from customers who use our products in personal computers, communications devices and consumer electronics. Any significant decrease in the demand for end-use applications of our products may decrease the demand for our products and may result in a decrease in our revenues and earnings. In addition, the historical and continuing trend of declining average selling prices of end-use applications places pressure on the prices of the components that go into these end-use applications. If the average selling prices of end-use applications continue to decrease, the pricing pressure on components produced by us may lead to a reduction of our revenue. If all these events occur at the same time, it could have an adverse effect on our revenues and earnings.

If we are unable to compete effectively in the highly competitive foundry segment of the semiconductor industry, we may lose customers and our profit margin and earnings may decrease.

The markets for our foundry services are highly competitive both in Taiwan and internationally. We compete with other dedicated foundry service providers, as well as integrated device manufacturers. Some of these companies may have access to more advanced technologies and greater financial and other resources than we do. As a result, these companies may be able to compete more aggressively than we could. Moreover, many integrated device manufacturers from time to time allocate a portion of their capacity to contract production of integrated circuits for others, which brings them in direct competition with us. In addition, a number of dedicated foundry service providers have been expanding and we are facing increased competition from them. Increases in competition may decrease our average selling prices, erode our profit margin and weaken our earnings.

If we are unable to remain a technological leader in the semiconductor industry, we may become less competitive and less profitable.

The semiconductor industry and the technologies used are constantly changing. If we do not anticipate these changes in technologies and rapidly develop new and innovative technologies, we may not be able to provide advanced foundry services on competitive terms. If we are unable to maintain the ability to provide advanced foundry services on competitive terms, some of our customers may buy products from our competitors instead of us. As a result, we expect that we will need to offer, on an ongoing basis, increasingly advanced and cost-effective foundry technologies and processes prior to these technologies and processes being offered by our competitors in order to continue to satisfy the increasing requirements of some of our customers. For example, if we are unable on a timely basis to begin offering on a competitive basis commercial production of 90-nanometer semiconductors with all copper interconnects, we may lose to competitors providing advanced technologies certain customers requiring such technologies. In addition, advances in technology typically lead to declining average selling prices for older technologies or processes. As a result, if we cannot reduce the costs associated with using older technologies, the profitability of a given product may decrease over time. If we fail to achieve advances in technology or processes or to obtain access to advanced technologies or processes developed by others, we may become less competitive and less profitable.

13

Table of Contents

If we are unable to manage our expansion and modification of our production facilities effectively, our growth prospects may be limited and our future profitability may be affected.

We have recently been ramping up production at our first twelve-inch wafer fab, Fab 12 (Phase I), in the Hsinchu Science-Based Industrial Park, or Hsinchu Science Park, and our joint venture fab, Systems on Silicon in Singapore. We have also recently completed the exterior construction of Fab 14 (Phase I), another twelve-inch fab, in the Tainan Science-Based Industrial Park, or Tainan Science Park. Subject to prevailing market conditions, we currently do not plan to commence production at Fab 14 (Phase I) until the second half of 2004 at the earliest.

Since few companies have commenced production operations in the Tainan Science Park, the adequacy of the general infrastructure in the Tainan Science Park, when it is fully occupied, is uncertain. The failure in the electrical or water systems in the park, for example, would severely hamper the operations of our new fab. Although we have studied the potential effects of vibration from the high speed railway currently planned to pass through the Tainan Science Park and believe that the vibrations will not affect our yield rate for production in the Tainan Science Park, we can give no assurances that our yield will not be negatively affected after the high-speed railway has commenced operation.

Expansion and modification of our production facilities will increase our costs. We will need to purchase additional equipment, train personnel to operate the new equipment or hire additional personnel. We will need to increase our net sales accordingly in order to offset these higher costs. If our customers do not correspondingly increase their purchase of our products and services, our financial performance will be adversely affected.

We may not be able to implement our planned growth or development if we are unable to sufficiently meet our future capital requirements.

Our capital requirements are difficult to plan in the highly cyclical and rapidly changing semiconductor industry. We will need capital to fund the expansion and modification of our facilities. Future acquisitions or mergers or other developments may also cause us to require additional funds. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by semiconductor companies; and
- economic, political and other conditions in Taiwan and elsewhere.

Therefore, sufficient external financing may not be available to us on a timely basis, on acceptable terms or at all. As a result, we may be forced to curtail our expansion and modification plans or delay the deployment of our services, thereby possibly becoming less competitive, which could result in a loss of customers and limit the growth of our business.

Our business could suffer if we are unable to retain and recruit qualified personnel.

We depend on the continued services of our executive officers and skilled technical and other personnel. Our business could suffer if we lose the services of some of these personnel and we cannot adequately replace them. We will be required to increase the number of employees due to our expansion. We seek to recruit highly qualified personnel and there is intense competition for the services of these personnel in the semiconductor industry. We may not be able to either retain our present personnel or attract additional qualified personnel as and when needed. We expect

Table of Contents

competition for personnel to increase significantly in the future as new fabless semiconductor companies as well as new semiconductor manufacturing facilities are established. We may need to increase employee compensation levels in order to retain our existing officers and employees and attract and retain the additional personnel that we expect to require.

We may be unable to obtain in a timely manner and at a reasonable cost the equipment necessary for us to remain competitive and we may become less profitable.

The semiconductor manufacturing business is capital intensive and requires investment in expensive equipment manufactured by a limited number of suppliers. The market for equipment used in semiconductor foundries is characterized, from time to time, by intense demand, limited supply and long delivery cycles. Our operations and expansion plans depend on our ability to obtain a significant amount of equipment from a limited number of suppliers. During times of significant demand for this type of equipment, lead times for delivery can be as long as four to ten months or more. As a result, we may be exposed to risks relating to the shortage of required or desired equipment. Shortages of equipment could result in an increase in their prices and longer delivery times. In addition, the expansion and modification of fabs by us and other semiconductor companies may put additional pressure on the supply of equipment. If we are unable to obtain equipment in a timely manner and at a reasonable cost, we may be unable to fulfill our customers orders, which could negatively impact our financial condition and results of operations and cause our profit to decrease.

Our revenue and profitability may decline if we are unable to obtain adequate supplies of raw materials in a timely manner and at reasonable prices.

Our production operations require that we obtain adequate supplies of raw materials, such as silicon wafers, gases and chemicals, and photoresistors, on a timely basis. Shortages in the supply of some materials experienced by the semiconductor industry have in the past resulted in occasional price adjustments and delivery delays. We may not, at certain times, be able to obtain adequate supplies of raw materials in a timely manner and at reasonable prices. Our revenue and earnings could decline if we are unable to obtain adequate supplies of high quality raw materials in a timely manner or if there are significant increases in the costs of raw materials that we could not pass on to our customers.

Our production may be interrupted if we do not have access to sufficient amounts of fresh water.

The semiconductor manufacturing process uses extensive amounts of fresh water. Due to the growth in semiconductor manufacturing capacity in Hsinchu Science Park and Tainan Science Park, the requirements for fresh water in these industrial parks have grown substantially. In 1997, the ROC government constructed a new pipeline in the Hsinchu Science Park to provide companies located there with an additional source of fresh water. In 1997, the ROC government also commenced planning the construction of a fresh water reservoir near Hsinchu Science Park that is expected to satisfy the expected fresh water demands of the Hsinchu region and the Hsinchu Science Park through the year 2021. The construction of the reservoir is expected to be completed in June 2005. Taiwan experiences droughts from time to time. In 2002, Taiwan experienced the worst drought in decades. Although the situation has improved and we have not been adversely affected as a result of previous droughts, until additional water resources are made available on a committed basis, the Hsinchu Science Park may encounter insufficient water supplies. Previous droughts have not, however, impacted the water supplies to the Tainan Science Park. The construction of a new pipeline that will connect reservoirs in Tainan and Kaohsiung to provide additional water supplies to the Tainan Science Park is expected to be completed by the end of 2003. If there is insufficient water to satisfy our requirements, we may need to reduce our semiconductor production.

15

Table of Contents

The loss of our coverage under certain Philips cross-license arrangements may require us to incur additional expenses to acquire alternative intellectual property rights.

We are the beneficiary of patent cross-licensing arrangements between Koninklijke Philips Electronics N.V., or Philips, and other microelectronics companies. Under the TSMC-Philips Technology Cooperation Agreement, or TCA, Philips is required to maintain a specified minimum license coverage for our benefit. Several of these license agreements have expired or terminated, or will expire or terminate, and some of these agreements are being renegotiated by Philips presently. License rights under the remaining agreements will terminate in the event that Philips equity ownership in us falls below certain percentages, or otherwise. If Philips is not able to renew the licenses under these agreements, or if our remaining license rights are terminated as a result of the reduction of Philips equity ownership in us to below certain percentages or otherwise, we may not be able to obtain similar licenses without significant expenses. If we are unable to receive any necessary licenses we may need to consider other alternatives including the possible design around of certain of our processes.

Any inability to obtain, preserve and defend our intellectual property rights could harm our competitive position.

Our ability to compete successfully and to achieve future growth will depend, in part, on our ability to protect our proprietary technologies and to secure on commercially reasonable terms certain technologies that we do not own. We cannot ensure that we will be able to independently develop, or secure from any third party, all of the technologies required for upgrading our production capabilities. Our failure to successfully obtain such technologies may seriously harm our competitive position.

Our ability to compete successfully also depends on our ability to operate without infringing the intellectual property rights of others. We have no means of knowing what patent applications have been filed in the United States or other jurisdictions until they are published or granted. Because of the complexity of the technologies used and the multitude of patents, copyrights and other overlapping intellectual property rights, it is often difficult for semiconductor companies to determine infringement. Therefore, the semiconductor industry is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. We have received, from time-to-time, communications from third parties asserting that our technologies, manufacturing processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe their patents or other intellectual property rights. And, because of the nature of the industry, we may continue to receive such communications in the future. In some instances, these disputes have resulted in litigation. In the event any third party were to assert infringement claims against us or our customers, we may have to consider alternatives including, but not limited to:

- Negotiating cross-license agreements using the strength of our patent portfolio to offset any financial costs;
- seeking to acquire licenses to the allegedly infringed patents, which may not be available on commercially reasonable terms, if at all;
- discontinuing using certain process technologies, which could cause us to stop manufacturing certain semiconductors if we were unable to design around the allegedly infringed patents;
- fighting the matter in court and paying substantial monetary damages in the event we were to lose; or
- seeking to develop non-infringing technologies, which may not be feasible.

16

Table of Contents

Any one or several of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation may also be necessary to enforce our patents or other intellectual property rights. If we fail to obtain certain licenses and if litigation relating to alleged patent infringement or other intellectual property matters occurs, it could prevent us from manufacturing particular products or applying particular technologies, which could reduce our opportunities to generate revenues. See Item 8. Financial Information Legal Proceedings in our Form 20-F, which is incorporated by reference herein, for a further discussion.

If the Ministry of Economic Affairs uses a substantial portion of our production capacity, we will not be able to service our other customers.

According to our agreement with the Industrial Technology Research Institute of Taiwan, or ITRI, the Ministry of Economic Affairs of the ROC, or an entity designated by the Ministry of Economic Affairs, has an option to purchase up to 35% of our capacity. If the Ministry of Economic Affairs, or an entity designated by the Ministry of Economic Affairs, exercises its option to any significant degree, we may not be able to provide services to all of our other customers unless we are able to increase our capacity accordingly and in a timely manner. Although the Ministry of Economic Affairs has never exercised its option, any significant exercise of this option could damage our relationship with our other customers when demand for our services is strong and may encourage them to purchase more products from our competitors in the future.

We are subject to the risk of loss due to explosion and fire because the materials we use in our manufacturing processes are highly flammable.

We use highly flammable materials such as silane and hydrogen in our manufacturing processes and are therefore subject to the risk of loss arising from explosion and fire. The risk of explosion and fire associated with these materials cannot be completely eliminated. Semiconductor companies experience explosion and fire damage from time to time. Although we maintain comprehensive fire insurance up to policy limits, including insurance for loss of property and loss of profit resulting from business interruption, our insurance coverage may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of an explosion and fire, it would reduce our manufacturing capacity, reduce our revenues and profits and may cause us to lose important customers.

Any impairment charges required under US GAAP may have a material adverse effect on our net income on a US GAAP reconciled basis.

Under currently effective US GAAP, we are required to evaluate our equipment and other long-lived assets for impairment whenever there is an indication of impairment. If certain criteria are met, we are required to record an impairment charge. We can give no assurance that impairment charges will not be required in periods subsequent to December 31, 2002. Please see note 27 to our consolidated financial statements contained in our Form 20-F, which is incorporated by reference herein, and note 27 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2002 and 2003 included in this prospectus for a discussion of the criteria which, if met, may require impairment charges.

As a result of a new standard under US GAAP that became effective on January 1, 2002, we are no longer permitted to amortize the remaining goodwill. Goodwill amortization expenses amounted to NT$12,051 million under US GAAP for the year ended December 31, 2001. Starting from January

Table of Contents

2002, all goodwill must be periodically tested for impairment. As of December 31, 2002, we had NT$47,476 million recorded as goodwill under US GAAP and we found no impairment as of that date. As of June 30, 2003, we had NT$47,447 million recorded as goodwill under US GAAP and we found no impairment as of that date. We currently are not able to estimate the extent and timing of any goodwill impairment charge for future years. Any goodwill impairment charge required under US GAAP may have a material adverse effect on our net income for subsequent periods on a US GAAP reconciled basis. Please see note 27.i. and 28.a. to our consolidated financial statements contained in our Form 20-F, which is incorporated by reference herein, and note 27.e. to our unaudited consolidated financial statements as of and for the six months ended June 30, 2002 and 2003 included in this prospectus for a discussion of the new standard under US GAAP.

The determination of an impairment charge at any given time is based significantly on our expected results of operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when our operating results are otherwise already depressed.

Any significant decrease in sales to one or more of our major customers may decrease our net sales and net income.

The degree to which our sales are concentrated among a limited number of customers is a function of the foundry outsourcing activities of the respective customers in a given fiscal year. Certain of our customers deal with us on the basis as their sole foundry service provider. As we have over half of the market share of the dedicated foundry segment business, our sales concentration is often a reflection of the business activities of a cross section of the semiconductor industry that depends on foundry services for wafer outsourcing. Our top ten customers have changed from time to time. In 2001 and 2002, our ten largest customers accounted for approximately 49% and 57% of our net sales, respectively. The increased sales contribution by our top ten customers in 2002 reflected the fact that the selected few customers experienced higher foundry outsourcing business activities than the rest of the customers. Although our top ten customers still accounted for 56% of our net sales in the six months ended June 30, 2003, we believe that our customer base has become more diversified given the changing composition of the top ten customers and a relatively more balanced sales contribution by various customers. While we believe our customer base is strong and diversified, the fact that a relatively limited number of customers constitute a significant portion of our revenue may remain as a business characteristic inherent to our extensive presence in the dedicated foundry segment of the semiconductor market. Our largest customer in 2001, 2002 and the six months ended June 30, 2003, NVIDIA Corporation, accounted for approximately 17% of our net sales in 2001, 20% of our net sales in 2002 and approximately 16% of our net sales in the first half of 2003. In March 2003, NVIDIA announced that it has awarded a long-term contract relating to the production of its latest graphics chips to International Business Machines Corp. NVIDIA simultaneously stated that TSMC would remain its primary foundry partner. There is no assurance that there will not be any loss or cancellation of business from NVIDIA, or from any of our other major customers, in the future. Loss or cancellation of business from our most significant customers, should there be any, could significantly reduce our net sales and net income.

Risks Relating to the ROC

Relations between the ROC and the People s Republic of China could negatively affect our business and the market value of your investment.

Our principal executive offices and our principal production facilities are located in Taiwan and a substantial majority of our net revenues are derived from our operations in Taiwan. The ROC has a unique international political status. The People s Republic of China, or PRC, does not recognize the

Table of Contents

sovereignty of the ROC. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, relations have often been strained. The government of the PRC has indicated that it may use military force to gain control over Taiwan in some circumstances, such as a declaration of independence by Taiwan, or foreign power interference in Taiwanese affairs. Past developments in relations between the ROC and the PRC have on occasion depressed the market prices of the securities of Taiwanese companies, including our own. Relations between the ROC and the PRC and other factors affecting military, political or economic conditions in Taiwan could have a material adverse effect on our results of operations, as well as the market price and the liquidity of our ADSs and common shares. Further, the ROC government currently restricts certain types of investments by Taiwanese companies in the PRC. Although we have received Phase I approval to establish an 8-inch fabrication plant for producing 0.25 micron semiconductors, we have not applied for Phase II approval (involving the moving of manufacturing equipment from Taiwan to mainland China). Therefore, we cannot assure you that the ROC government will approve our Phase II application.

We are vulnerable to natural disasters which could severely disrupt the normal operation of our business and adversely affect our earnings.

Taiwan is susceptible to earthquakes. On September 21, 1999, Taiwan experienced a severe earthquake that caused significant property damage and loss of life, particularly in the central part of Taiwan. The earthquake in September 1999 caused damage to production facilities and adversely affected the operations of many companies in the semiconductor and other industries. We experienced damages to our machinery and equipment as a result of this severe earthquake. There were also interruptions to our production schedule, primarily as a result of power outages caused by the severe earthquake. Most of our production facilities, as well as many of our suppliers and customers and upstream providers of complementary semiconductor manufacturing services, are located in Taiwan. If our customers are affected by an earthquake or other natural disasters such as typhoons, it could result in a decline in the demand for our services. If our suppliers services are affected, our production schedule could be interrupted or delayed. Although we maintain comprehensive natural perils insurance up to policy limits, including insurance for loss of property and loss of profit resulting from business interruption, our insurance coverage may not be sufficient to cover all of our potential losses. As a result, a major earthquake or natural disaster in Taiwan could severely disrupt the normal operation of our business and have a material adverse effect on our financial condition and results of operations.

Fluctuations in exchange rates could result in foreign exchange losses.

Over half of our capital expenditures and manufacturing costs are denominated in currencies other than NT dollars, primarily U.S. dollars, Japanese yen and Euros. A larger portion of our sales are denominated in U.S. dollars and other currencies, than in NT dollars. Therefore, we are particularly affected by fluctuations in the exchange rate between the U.S. dollar and the NT dollar. Any significant fluctuation to our disadvantage in that exchange rate may have an adverse effect on our financial condition. In addition, fluctuations in the exchange rate between the U.S. dollar and the NT dollar will affect the U.S. dollar value of our common shares and the market price of the ADSs and of any cash dividends paid in NT dollars on our common shares represented by ADSs.

Any future outbreak of severe acute respiratory syndrome may materially and adversely affect our business and results of operations.

Taiwan, together with mainland China, Hong Kong, Singapore and certain other areas experienced in early 2003 an outbreak of severe acute respiratory syndrome, or SARS, a new and highly contagious form of atypical pneumonia. The outbreak of SARS commenced in early 2003 and

reached its peak in Taiwan in May 2003. According to the World Health Organization, over 8,400 cases of SARS and more than 900 deaths had been reported in over 30 countries as of August 7, 2003. The outbreak of SARS in Taiwan earlier this year was contained by the health authorities and did not significantly impact our operations. A SARS outbreak may potentially result in a quarantine of infected employees and related persons, which may affect our operations at one or more of our fabs. We cannot predict at this time the impact any future outbreak could have on our business and results of operations.

During the last SARS outbreak, we took various prevention measures and established contingency plans to ensure the safety of our employees and of our fabs, and to reduce the adverse impact, if any, in case any of our employees contracts SARS. While our prevention measures worked well during the last SARS outbreak and there has been no major impact on our results of operations as a result of SARS, we cannot assure you that a future outbreak of SARS would not have a material adverse effect on our results of operations.

Risks Relating to Ownership of ADSs

Your voting rights as a holder of ADSs will be limited.

Holders of American Depositary Receipts, or ADRs, evidencing ADSs may exercise voting rights with respect to the common shares represented by these ADSs only in accordance with the provisions of our ADS deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our common shares, the depositary bank will, as soon as practicable thereafter, mail to the holders (1) the notice of the meeting sent by us, (2) voting instruction forms and (3) a statement as to the manner in which instructions may be given by the holders.

ADS holders will not generally be able to exercise the voting rights attaching to the deposited securities on an individual basis. According to the ROC Company Law, the voting rights attaching to the deposited securities must be exercised as to all matters subject to a vote of shareholders collectively in the same manner, except in the case of an election of directors and supervisors. The election of directors and supervisors is by means of cumulative voting unless otherwise prescribed in our articles of incorporation. See Description of American Depositary Receipts Voting Rights in our Form 20-F, which is incorporated by reference herein, for a more detailed discussion of the manner in which a holder of ADSs can exercise its voting rights.

You may not be able to participate in rights offerings and may experience dilution of your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under our ADS deposit agreement, the depository bank will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act of 1933 with respect to all holders of ADSs, or are registered under the provisions of the Securities Act of 1933. Although we may be eligible to take advantage of certain exemptions for rights offerings by certain foreign companies, we can give no assurances that we can establish an exemption from registration under the Securities Act of 1933, and we are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to have such a registration statement declared effective. In addition, if the depositary bank is unable to obtain the requisite approval from the Central Bank of China for the conversion of the subscription payments into NT dollars or if the depositary determines that it is unlikely to obtain this approval, we may decide with the depositary bank not to make the rights available to holders of ADSs. See Foreign Investment in the ROC and Item 10. Additional Information Exchange Controls in the ROC in our Form 20-F, which is incorporated by reference

20

Table of Contents

herein. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

If the depositary bank is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

The value of your investment may be reduced by possible future sales of common shares or ADSs by us or our shareholders.

Except for the sale of ADSs by Philips to the underwriters, Philips and the Development Fund have agreed with the underwriters not to dispose of any of our common shares or securities convertible into or exchangeable for common shares, including ADSs, during the period beginning from the date of this prospectus continuing through the date 180 days after the date of this prospectus, with respect to Philips, and 90 days after the date of this prospectus, with respect to the Development Fund, except with the prior written consent of the representatives of the underwriters. We have also agreed, subject to certain exceptions, not to dispose of any of our common shares, including common shares represented by ADSs, during the period beginning from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of the representatives of the underwriters. The representatives may, in their discretion, waive or terminate these restrictions. See further Common Shares Eligible for Future Sale in this prospectus for a more detailed discussion of restrictions that may apply to future sales of our ADSs or common shares by us and our affiliates.

One or more of our existing shareholders may dispose of significant numbers of common shares or ADSs. Philips sold an aggregate of 24,000,000 ADSs in October 1997 and is offering in this prospectus to sell an aggregate of 100,000,000 ADSs. In October 2003, Philips announced that it intends to gradually and orderly reduce its equity interest in us in the long term. Therefore, further sales, which may be sales similar to the present sale, by Philips of our common shares or ADSs may occur in the coming years. However, as of the date hereof, Philips has informed us that neither the method by which such reduction would take place nor the size and timing thereof are certain. The other largest shareholder, the Development Fund, has also sold significant amounts of common shares and ADSs in the past including 12,094,000 ADSs in November 1998, 12,094,000 ADSs in July 1999, 4,000,000 ADSs in April 2000, 8,680,400 ADSs in June 2000, 14,000,000 ADSs in June 2001, 20,000,000 ADSs in November 2001, 30,207,200 ADSs in February 2002 and 86,457,200 ADSs in July 2003. The Development Fund, which currently owns 7.42% of our outstanding common shares, announced in September 2003 that it intends to sell 600 million of our common shares in 2004. The Stabilization Fund also sold 26,800,000 ADSs in February 2002.

In addition, we have in place a conversion sale program that allows some of our shareholders to sell their common shares in ADS form to a specified financial intermediary during a 30-day period not more than once every three months. In the third quarter of 1999, our shareholders sold an aggregate of 5,486,000 ADSs in the program. In the first quarter of 2000, our shareholders sold an aggregate of 6,560,000 ADSs in the program. In the second quarter of 2001, our shareholders sold an aggregate of 11,682,000 ADSs in the program. In the fourth quarter of 2002, our shareholders sold an aggregate of 18,348,000 ADS in the program. We cannot predict the effect, if any, that future sales of ADSs or common shares, or the availability of ADSs or common shares for future sale, will have on the market price of ADSs or common shares prevailing from time to time. Sales of substantial amounts of ADSs or common shares in the public market, or the perception that such sales may occur, could depress the prevailing market price of our ADSs or common shares and could reduce the premium, if any, that the price per ADS on The New York Stock Exchange represents over the corresponding aggregate price of the underlying five common shares on the Taiwan Stock Exchange. See Common Shares Eligible for Future Sales for a more detailed description of our conversion sale program.

21

Table of Contents

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the ROC securities market.

The Taiwan Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. On March 13, 2000, the Taiwan Stock Exchange Index experienced a 617 point drop, which represented the single largest decrease in the history of the Taiwan Stock Exchange Index. From January 1, 2000 to December 31, 2000, the Taiwan Stock Exchange Index dropped from 8,448.8 to 4,739.0, or 43.9%. On November 5, 2003, the Taiwan Stock Exchange Index closed at 6,142.32.

In response to past declines and volatility in the securities markets in Taiwan, and in line with similar activities by other countries in Asia, the government of the ROC formed the Stabilization Fund, which has purchased and may from time to time purchase shares of Taiwan companies to support these markets. In addition, other funds associated with the ROC government have in the past purchased, and may from time to time purchase, shares of Taiwan companies on the Taiwan Stock Exchange or other markets. In the future, market activity by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause fluctuations in the market prices of our ADSs and common shares.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The selected income statement data and cash flow data for the six months ended June 30, 2002 and 2003 and the selected balance sheet data as of June 30, 2002 and 2003 set forth below are derived from the unaudited consolidated financial statements included in this prospectus, and should be read in conjunction with, and are qualified in their entirety by reference to, those unaudited consolidated financial statements, including the notes to those financial statements. Those unaudited consolidated financial statements are prepared in accordance with ROC GAAP, which differ in some material respects from US GAAP. For a discussion of the material differences between ROC GAAP and US GAAP, see (1) note 27 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2002, which is incorporated herein by reference, and (2) note 27 to our unaudited consolidated financial statements included in this prospectus. For a discussion of the accounting policies used in the unaudited consolidated financial statements, see note 2 to the unaudited consolidated financial statements included in this prospectus. The results for the six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003.

Table of Contents

The following discussion of our business, financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and the notes to our unaudited consolidated financial statements, which are included elsewhere in this prospectus. Unless stated otherwise, this discussion applies to our financial information as prepared according to ROC GAAP, which differs in some material respects from US GAAP. Please see note 27 to our unaudited consolidated financial statements as of and for the six months ended June 30, 2002 and 2003 for a discussion of the material differences. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth under Risk Factors and elsewhere in this prospectus.

Selected Unaudited Consolidated Financial Information

	Six months ended and as of June 30,		
	2002	**2003**	**2003[1]**
	NT$	**NT$ (unaudited)**	**US$**
	(in millions, except percentages, earnings per share and per ADS, and operating data)		
Income Statement Data:			
ROC GAAP			
Net sales	80,267	89,695	2,592
Cost of sales	(50,823)	(60,734)	(1,755)
Gross profit	29,444	28,961	837
Operating expenses	(9,771)	(10,854)	(314)
Income from operations	19,673	18,107	523
Non-operating income	1,462	2,884	83
Non-operating expenses	(3,098)	(4,192)	(121)
Income before income taxes	18,037	16,799	485
Income tax (expense) benefit	(2,151)	(712)	(20)
Net income before minority interest	15,886	16,087	465
Minority interest	11	1	0
Net income	15,897	16,088	465
Basic and diluted earnings per share	0.77	0.79	0.02
Basic and diluted earnings per ADS equivalent	3.87	3.93	0.11
Average shares outstanding[2]	20,221	20,221	20,221

24

Table of Contents

	Six months ended and as of June 30,		
	2002	2003	2003(1)
	NT$	NT$ (unaudited)	US$
	(in millions, except percentages, earnings per share and per ADS, and operating data)		
Balance Sheet Data:			
ROC GAAP			
Working capital	72,143	89,375	2,582
Long-term equity investments	10,728	11,091	321
Properties	242,617	221,692	6,405
Total assets	396,162	381,267	11,016
Long-term bank borrowing	19,464	9,276	268
Long-term bonds payable	35,000	35,000	1,011
Guaranty deposit-in and other long-term liabilities	10,491	7,678	222
Total liabilities	106,893	82,913	2,395
Shareholders equity	289,164	298,262	8,618
Other Financial Data:			
ROC GAAP			
Gross margin	37%	32%	32%
Operating margin	25%	20%	20%
Net margin	20%	18%	18%
Capital expenditures	17,248	16,262	470
Depreciation and amortization	30,451	34,586	999