As filed with the Securities and Exchange Commission on January 31, 2002

Registration No. 333-14218

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM F-3
REGISTRATION STATEMENT
Under
The Securities Act of 1933

台灣積體電路製造股份有限公司
(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. 121, Park Avenue III
Science-Based Industrial Park
Hsinchu, Taiwan
(886-3) 578-0221
(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	**Cleary, Gottlieb, Steen & Hamilton**
28th Floor	**39th Floor, Bank of China Tower**
Nine Queen's Road Central	**One Garden Road, Central**
Hong Kong	**Hong Kong**

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

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.

Subject to Completion. Dated January 31, 2002

The 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.

Taiwan Semiconductor Manufacturing Company Limited

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

51,000,000
American Depositary Shares
Representing
255,000,000 Common Shares

This is a global offering of 51,000,000 American depositary shares, or ADSs, of Taiwan Semiconductor Manufacturing Company Limited. The selling shareholders named on page 26 are selling all of the ADSs being offered in this offering. Taiwan Semiconductor will not receive any of the proceeds from this offering. The ADSs are not being offered in the Republic of China. 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 our ADSs on the New York Stock Exchange on January 22, 2002 was US$17.67 per ADS. Taiwan Semiconductor's outstanding common shares are listed on the Taiwan Stock Exchange under the symbol "2330". The closing price of the common shares on the Taiwan Stock Exchange on January 22, 2002 was NT$90.00 per share, which is equivalent to approximately US$2.61.

See "Risk Factors" beginning on page 10 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, to the selling shareholders	US$	US$

Some of the selling shareholders have granted the underwriters an option exercisable within 30 days from the date of this prospectus to purchase up to an aggregate of 7,650,000 additional ADSs from them to cover overallotments, if any.

The underwriters expect to deliver the ADRs evidencing the ADSs through The Depository Trust Company against payment in U.S. dollars in New York, New York on , 2002.

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

Banc of America Securities LLC

Credit Suisse First Boston

Deutsche Banc Alex. Brown

JPMorgan

Barits Securities Corporation is the ROC Financial Advisor to Taiwan Semiconductor

---

Prospectus dated , 2002.

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.

The ADSs may only be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this prospectus nor any other document in respect of this offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

In connection with this offering, Goldman Sachs International or any person acting for it 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 International or its agent 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. Unless otherwise specified, the information contained herein assumes that the underwriters' overallotment option has not been exercised.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere or incorporated by reference in this prospectus. Please see "Annex B—Glossary of Technical Terms" for a description of certain technical terms and definitions used in this prospectus.

Our Business

We are the world's largest dedicated semiconductor foundry. As a foundry, we manufacture semiconductors for our customers based on their own or third parties' proprietary integrated circuit designs using our advanced production processes. 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. IC Insights estimates that our revenue market share among foundries worldwide was approximately 50% in 2000 and 54% in the third quarter of 2001.

The foundry industry as a whole experienced rapid growth from our inception in 1987 through 2000. As the leader of the foundry industry, our net sales and net income increased during this period from NT$39,400 million and NT$19,436 million in 1996 to NT$166,198 million and NT$65,106 million in 2000, respectively. Starting in the first quarter of 2001, the semiconductor industry experienced a significant cyclical downturn due to a rapid slowdown in the global economy, overcapacity in the semiconductor industry and a worldwide semiconductor inventory adjustment. Our net income for the six months ended June 30, 2001 decreased 63.0%, from NT$23,576 million in the first half of 2000 to NT$8,733 million in the first half of 2001. Although it is too early to determine that our business has ceased declining, our sales overall and our sales from semiconductors with a resolution of 0.18 micron and below have each increased sequentially each month from June 2001 through December 2001.

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 commercial availability of 0.13 micron CMOS process technology in December 2000 and have developed with our customers more than 30 fully functional semiconductors utilizing this technology, some of which are currently in production. In addition, we are currently in the process of developing 0.10 micron technology and expect to commence risk production utilizing this technology by the end of 2002. 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 management process capabilities has contributed to our increasing revenue market share among dedicated foundries.

We currently operate one twelve-inch, seven eight-inch and two six-inch wafer fabrication plants, or fabs. Through our joint ventures, Systems on Silicon Manufacturing Company Pte. Ltd. and Vanguard International Semiconductor Corporation, we have an interest in an additional two fabs. Our monthly capacity at the end of 2000 was approximately 348,000 wafers, and we expect our monthly capacity to be approximately 381,000 wafers at the end of 2001 and, based upon current preliminary estimates, approximately 358,000 wafers at the end of 2002. The decrease in our capacity in 2002 is expected primarily from the decommissioning of Fab 1 and the reconfiguration of Fab 4 and Fab 7, which will decrease our aggregate capacity by approximately 46,000 wafers, partially offset by increases in capacity at other fabs.

Our superior foundry services have attracted a large and diverse group of customers. 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 manufacturers such as Analog Devices Inc., Motorola Inc. and Philips Electronics N.V., and systems companies such as Alcatel Microelectronics and Qualcomm Inc. Fabless integrated circuit design houses and integrated device manufacturers accounted for approximately 63% and 36%, respectively, of our net sales in the first half of 2001.

Our principal executive office is located at 121, Park Avenue III, Science-Based Industrial Park, Hsinchu 300, Taiwan, ROC, and our telephone number at the above address is (886-3) 578-0221.

Our Strategy

Our goal is to strengthen our position as the world's leading dedicated semiconductor foundry. The following are our key strategies for achieving this goal:

Enhance Our Process Technology. Our advanced process technology has enabled us to compete successfully for manufacturing orders from leading semiconductor companies requiring volume production foundry services that use advanced technology. As a result, we have been able to increase the sales volume of our higher priced and higher resolution wafers, which contributed significantly to our growth in net sales and profit margins prior to 2001. Although our net sales and profit margins have decreased as a result of industry conditions in 2001, wafers that utilize our advanced process technology continue to represent an increasing percentage of our net sales. Our strategy is to continually advance the technical capability of our manufacturing process in order to enhance our position as the leader in process technology among dedicated foundries and one of the leaders in process technology in the semiconductor industry generally. As an element of our strategy to focus on advancing our technical capabilities, we spent an aggregate of NT$7,203 million (US$209 million) and NT$4,984 million (US$145 million) on research and development in 2000 and in the six months ended June 30, 2001, respectively. We also believe that building our patent portfolio is an important element of our technology strategy. In 2000 we were issued 523 United States patents and in the first nine months of 2001 we were issued 511 United States patents, most of which are for process technology.

Maintain Leading Foundry Capacity. We intend to remain the largest independent foundry in the world. As the largest independent foundry, we are better able to realize economies of scale in our wafer production and negotiate lower prices for purchases of raw materials and equipment. Our large capacity and comprehensive range of process technologies also provides us with the capability to manufacture a broad range of semiconductors for our customers and, together with our advanced process technology, allows us to take on high volume projects that require manufacturing wafers with advanced semiconductors. To take advantage of the expected cost savings in producing semiconductors on twelve-inch wafers, we intend to selectively increase our foundry capacity by predominantly expanding our current and future twelve-inch fabs. We believe that the significant increased costs associated with building a twelve-inch wafer fab, which we estimate could be at least twice as expensive as a comparable eight-inch wafer fab, and the development or acquisition of associated process technology for the manufacture of advanced semiconductors are likely to result in the future in a higher proportion of advanced semiconductors being produced by dedicated foundry companies.

Focus on Customer Service. The goal of our "virtual fab" customer service program is to make all of our semiconductor manufacturing services as transparent and easy to deal with for our customers as an in-house fab, without the additional expense and demand on management resources. Furthering our "virtual fab" concept, we are planning on increasing our capacity to offer directly, or through closer arrangements with third parties, design services prior to semiconductor fabrication and assembly and testing services subsequent to semiconductor fabrication. By increasing our capacity to offer these services we intend to offer our customers a complete integrated service for the design, manufacturing, assembly and testing of semiconductors. We refer to the integration of these services as the "virtual re-integration" of foundry services.

Maintain Our Diversified Customer Base. We plan to maintain and add to our core customer base by identifying and attempting to attract potential customers that have advanced design capabilities and requirements for advanced technology foundry services. We also intend to maintain and add to our diversified customer mix in terms of geographic distribution, end markets and processes. We believe that our diversified customer base generally helps to mitigate the impact on us of cyclical downturns in the semiconductor industry.

Remain Dedicated to the Foundry Business. As a dedicated foundry that does not pose a competitive threat to our customers, we are able to develop technological and other links with customers that enhance design and manufacturing efficiencies and encourage customers to maintain long-term relationships with us. While remaining dedicated to our core foundry business, we also consider strategic investments and acquisitions. Our increased ownership of WaferTech L.L.C. to approximately 99% in 2000, our mergers with WorldWide Semiconductor Manufacturing Corp. and TSMC-Acer Semiconductor Manufacturing Corp. in 2000 and our joint ventures are examples of this strategy.

The Offering

The following information assumes that the underwriters do not exercise the overallotment option granted by some of the selling shareholders to purchase additional ADSs in this offering, unless otherwise indicated. See "Selling Shareholders" on page 25 for a list of the selling shareholders.

Offering price	US$ per ADS
ADSs offered by the selling shareholders	51,000,000 ADSs
ADSs outstanding after this offering	310,006,325 ADSs
Common shares outstanding after this offering	16,832,553,051 common shares
ADS:common share ratio	1:5
Overallotment option	Some of the selling shareholders have granted to the underwriters an option exercisable within 30 days from the date hereof to purchase up to an aggregate of 7,650,000 additional ADSs solely to cover overallotments, if any.
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 this offering.
Timing and Settlement for the ADSs	We expect that the public offering price of the ADSs will be determined on or about , 2002. The ADSs are expected to be delivered against payment on or about , 2002, the third business day following the date of determination of the offering price. 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.

Summary Consolidated Financial Information

	Year ended and as of December 31,						Six months ended and as of June 30,		
	1996	1997	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages, earnings per share and per ADS, and operating data)								
Income Statement Data:									
ROC GAAP									
Net sales	39,400	43,927	50,524	76,305	166,198	4,820	64,915	65,816	1,909
Cost of sales(1)	(17,421)	(23,801)	(33,009)	(45,212)	(87,610)	(2,541)	(36,447)	(48,441)	(1,405)
Gross profit(1)	21,979	20,126	17,515	31,093	78,588	2,279	28,468	17,375	504
Operating expenses	(3,789)	(5,504)	(5,210)	(8,823)	(17,293)	(501)	(6,871)	(9,210)	(267)
Income from operations	18,190	14,622	12,305	22,270	61,295	1,778	21,597	8,165	237
Non-operating income	1,194	1,554	1,977	1,682	6,228	180	3,981	1,893	55
Non-operating expenses	(287)	(831)	(3,227)	(3,324)	(3,621)	(105)	(2,088)	(3,574)	(104)
Income before income taxes	19,097	15,345	11,055	20,628	63,902	1,853	23,490	6,484	188
Income tax (expense) benefit	380	2,556	2,318	2,383	1,168	34	138	2,264	66
Net income before minority interest	19,477	17,901	13,373	23,011	65,070	1,887	23,628	8,748	254
Minority interest in loss (income) of subsidiary	(41)	73	1,016	516	37	1	(52)	(15)	(0.44)
Net income	19,436	17,974	14,389	23,527	65,106	1,888	23,576	8,733	254
Earnings per share(2)	1.36	1.25	0.98	1.57	3.97	0.12	1.47	0.51	0.01
Earnings per ADS equivalent	6.81	6.27	4.89	7.85	19.85	0.58	7.37	2.53	0.07
Average shares outstanding(2)	14,260	14,343	14,712	14,980	16,417	16,417	15,998	16,832	16,832
US GAAP									
Cost of sales	20,321	30,091	41,200	52,163	105,359	3,055	53,295	62,364	1,809
Operating expense	4,714	7,205	9,525	12,310	44,472	1,290	16,016	26,112	757
Income from operation	14,365	6,631	(201)	11,833	16,366	475	(4,396)	(22,660)	(657)
Income before income tax	15,278	7,408	(2,082)	10,986	20,537	596	5,024	(25,323)	(735)
Income tax (expense) benefit	379	2,557	2,316	2,383	1,166	34	136	2,266	66
Net income	15,617	10,039	1,249	13,884	21,740	630	5,108	(23,072)	(669)
Average shares outstanding(3)	12,725	13,070	13,741	14,249	15,859	15,859	15,353	16,365	16,365
Earnings per share(3)	1.23	0.77	0.09	0.97	1.37	0.04	0.33	(1.41)	(0.04)
Earnings per ADS equivalent	6.14	3.84	0.45	4.87	6.85	0.20	1.66	(7.05)	(0.20)
Balance Sheet Data:									
ROC GAAP									
Working capital	23,231	29,193	15,926	33,267	44,920	1,303	—	37,554	1,089
Long-term equity investments	6,545	7,162	6,659	16,165	10,664	309	—	12,387	359
Properties	43,590	80,864	118,353	150,060	244,748	7,098	—	254,710	7,387
Goodwill	—	—	—	—	11,531	334	—	11,946	346
Total assets	80,994	137,318	165,461	235,436	370,886	10,757	—	369,126	10,706
Long-term bank borrowing(4)	5,720	8,026	14,630	22,744	23,339	677	—	26,431	767
Long-term debt payable	0	11,983	22,632	20,000	29,000	841	—	29,000	841
Guaranty deposit-in and other liabilities	9,945	9,006	6,957	6,207	9,046	262	—	9,229	268
Minority interest equity	5,562	10,841	9,701	7,524	322	9	—	87	3
Total liabilities	21,232	44,693	59,474	75,341	108,811	3,156	—	98,054	2,844
Capital Stock	27,567	43,613	66,472	85,209	129,894	3,767	—	129,894	3,767
Cash Dividend	0	0	0	0	0	0	—	0	0
Shareholders' equity	54,199	81,784	96,285	152,571	261,754	7,591	—	270,985	7,859
US GAAP									
Goodwill	—	—	—	—	58,348	1,692	—	53,368	1,548
Total assets	81,595	138,309	164,784	236,859	407,830	11,828	—	402,018	11,659
Total liabilities	28,445	57,109	70,491	84,882	127,884	3,709	—	113,656	3,296
Shareholders' equity	53,150	81,200	94,293	151,977	279,946	8,119	—	288,362	8,363
Other Financial Data:									
ROC GAAP									
Gross margin(1)	56%	46%	35%	41%	47%	47%	44%	26%	26%
Operating margin	46%	33%	24%	29%	37%	37%	33%	12%	12%
Net margin	49%	41%	28%	31%	39%	39%	36%	13%	13%
Capital expenditures	22,804	40,289	55,781	51,459	103,762	3,009	42,854	38,787	1,125
Depreciation and amortization	6,550	9,785	15,522	25,198	41,446	1,202	17,283	26,506	769
Cash provided by operating activities	29,023	19,288	30,255	40,253	94,786	2,749	37,364	46,600	1,352
Cash used in investing activities	(24,314)	(42,182)	(57,436)	(60,952)	(120,949)	(3,508)	(41,103)	(43,501)	(1,262)
Cash provided by financing activities	7,095	23,635	16,855	39,518	35,366	1,026	24,756	(434)	(13)
Net cash flow	11,789	1,334	(10,984)	18,646	9,323	270	21,630	2,684	78
Operating Data:									
Wafers sold(5)	816	1,145	1,184	1,826	3,408	3,408	1,339	1,152	1,152
Average utilization rate	96%	102%	74%	100%	106%	106%	107%	57%	57%

(1) Amounts in 1999 and 2000 reflect the reclassification of NT$1,025 million in 1999, NT$2,072 million in 2000 and NT$619 million in the six months ended June 30, 2000 from cost of sales to research and development. Please see "Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profit".
(2) Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.
(3) Retroactively adjusted for all subsequent stock dividends.
(4) Excludes debt securities.
(5) In thousands.

Recent Developments

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. These unconsolidated financial statements must be prepared 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, also called US GAAP. For a discussion of the material differences between ROC GAAP and US GAAP, see note 24 to our consolidated 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 filed our unaudited unconsolidated financial statements for the nine months ended September 30, 2001 with the Taiwan Stock Exchange, 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, 2001 and 2000 and the summary balance sheet data as of September 30, 2001 and 2000 set forth below are derived from the unaudited unconsolidated financial statements included in this prospectus and should be read in conjunction with, and is qualified in its entirety by reference to, these unconsolidated financial statements, including the notes to these 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, our holding company 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 between Taiwan Semiconductor Manufacturing Company Limited 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 1 to the unaudited unconsolidated financial statements included in this prospectus. 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 ended December 31, 2001. In addition, unconsolidated results of operations for the nine months ended September 30, 2001 may not be indicative of our unconsolidated or consolidated results of operations for the full year ended December 31, 2001.

Summary Unaudited Unconsolidated Financial Information

	Nine months ended and as of September 30,	
	2000	2001
	(unaudited) NT$	(unaudited) NT$
	(in millions, except percentages, earnings per share and per ADS, and operating data)	
Income Statement Data:		
ROC GAAP		
Net sales	112,407	92,758
Cost of sales(1)	(61,984)	(67,466)
Gross profit(1)	50,423	25,292
Operating expenses(1)	(11,041)	(13,809)
Income from operations	39,382	11,483
Non-operating income	5,144	1,762
Non-operating expenses	(1,609)	(6,885)
Income before income taxes	42,917	6,360
Income tax (expense) benefit	716	3,609
Net income	43,633	9,969
Earnings per share	3.86	0.57
Earnings per ADS equivalent	19.3	2.96
Average shares outstanding	11,303	16,833
Balance Sheet Data:		
ROC GAAP		
Working capital	23,296	31,037
Long-term equity investments	22,184	33,950
Properties	186,950	219,578
Total assets	290,061	333,564
Long-term bank borrowing(2)	0	0
Long-term debt payable	20,000	29,000
Guaranty deposit-in and other liabilities	6,416	9,324
Total liabilities	63,534	61,397
Shareholders' equity	226,528	272,167
Other Financial Data:		
ROC GAAP		
Gross margin(1)	45%	27%
Operating margin	35%	12%
Net margin	39%	11%
Capital expenditures	51,623	57,955
Depreciation and amortization	22,090	35,899
Cash provided by operating activities	58,471	58,395
Cash used in investing activities	52,855	62,790
Cash used in financing activities	2,176	612
Net cash flow	3,440	(5,006)
Operating Data:		
Wafers sold(3)	2,407	1,600
Average utilization rate	107%	49%

(1) Amounts in 2000 reflect the reclassification of NT$1,254 million from cost of sales to research and development. Please see "Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profit".
(2) Excludes debt securities. We have borrowed all bank loans through our subsidiaries.
(3) In thousands.

Nine Months Ended September 30, 2001 (unaudited) Compared to Nine Months Ended September 30, 2000 (unaudited)

Net Sales. Our unconsolidated net sales decreased 17.5% from NT$112,407 million in the nine months ended September 30, 2000 to NT$92,758 million in the nine months ended September, 2001. This decrease was primarily due to a 33.5% decrease in unconsolidated wafer sales volume, from 2,407 thousand in the first nine months of 2000 to 1,600 thousand in the first nine months of 2001, partially offset by a 15% increase in the unconsolidated average selling price of our wafers. The decrease in unconsolidated wafer sales volume is due primarily to the significant downturn in the semiconductor industry. The increase in the unconsolidated average selling price of our wafers in the first nine months of 2001 was primarily the result of a significant increase in the percentage of our net sales comprised of relatively higher priced semiconductors with a resolution of 0.18 micron and below, partially offset by a decrease in the average selling prices for those semiconductors.

Commencing in 2002, our unconsolidated net sales will be slightly reduced because our sales to customers in the United States will be accounted for as an initial sale by Taiwan Semiconductor Manufacturing Company Limited to TSMC North America and then a sale by TSMC North America to the customers. The sale price used for the internal transfer between TSMC and TSMC North America will be determined according to a ratio test determined after consultation with the United States Internal Revenue Service. In all periods prior to December 31, 2001, sales to customers in the United States have been accounted for as direct sales by Taiwan Semiconductor Manufacturing Company Limited. The total amount of these sales is booked as our unconsolidated net sales and a commission equal to approximately 1% of the sales price is accounted for as a cost of sales in our unconsolidated accounts, while a corresponding amount is accounted for as revenue for the account of TSMC North America.

Cost of Sales and Gross Profit. Our unconsolidated cost of sales increased 8.8% from NT$61,984 million in the nine months ended September 30, 2000 to NT$67,466 million in the nine months ended September 30, 2001. This increase resulted primarily from a 62.5% increase in unconsolidated depreciation and amortization expenses from NT$22,090 million in the first nine months of 2000 to NT$35,899 million in the first nine months of 2001 and an increase in some material and labor costs required for the manufacture of advanced semiconductors, partially offset by a decrease in our unconsolidated overall requirements for materials, labor and other components as a result of our 33.5% decrease in unconsolidated wafers sold. Our unconsolidated depreciation and amortization expenses increased in the first nine months of 2001 primarily because of the increased depreciation associated with ramping up Fab 6, the capacity increase at Fab 8 and the additional capacity acquired in our merger with TSMC-Acer.

Our unconsolidated gross margin decreased from 45% in the first nine months of 2000 to 27% in the first nine months of 2001. The decrease in our unconsolidated gross margin was principally the result of the decreased sales volumes, as the unconsolidated average utilization rate of our fabs fell from 107% in the first nine months of 2000 to 49% in the first nine months of 2001. Our unconsolidated cost of sales will also be slightly reduced in all periods after December 31, 2001 due to the elimination of the approximately 1% commission previously payable to TSMC North America in connection with sales by us to customers in the United States as described above. Please see “Management’s Discussion and Analysis of Financial Condition and Consolidated Results of Operations—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profits” for a discussion of the reclassification of some amounts from cost of sales to research and development in our accounts for 1999 and 2000.

Operating Expenses. Our total unconsolidated operating expenses increased 25.1% from NT$11,041 million in the nine months ended September 30, 2000 to NT$13,809 million in the nine months ended September 30, 2001. Unconsolidated general and administrative expenses increased 11.8% from NT$3,879 million in the first nine months of 2000 to NT$4,339 million in the first nine months of 2001. This increase resulted primarily from preparations in connection with the expected production of twelve-inch wafers. Unconsolidated marketing expenses decreased 18.8% from NT$2,131 million in the first nine months of 2000 to NT$1,729 million in the first nine months of 2001. This decrease resulted primarily from reductions in bad debt expenses and DRAM selling commissions paid to Vanguard in the first nine months of 2001.

Unconsolidated research and development expenses increased 53.8% from NT$5,032 million in the first nine months of 2000 to NT$7,741 million in the first nine months of 2001. Unconsolidated research and development expenses increased significantly as a result of our increased expenditures related to the development of our 0.13 and 0.10 micron and twelve-inch wafer production technology, along with copper interconnect technology, as part of our increased focus on being a leader in developing advanced process technology. We anticipate that our annual research and development expenditures will remain at a similar absolute level in 2002 as in 2001. Please see "Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profit" for a discussion of the reclassification of some amounts from cost of sales to research and development in our accounts for 1999 and 2000.

Income from Operations. Unconsolidated income from operations decreased 70.8% from NT$39,382 million in the nine months ended September 30, 2000 to NT$11,483 million in the nine months ended September 30, 2001. This was due principally to the global decline in demand in the semiconductor industry. Our unconsolidated operating margin decreased from 35% in the first nine months of 2000 to 12% in the first nine months of 2001.

Non-Operating Income and Expenses. Unconsolidated non-operating income decreased 65.7% from NT$5,144 million in the nine months ended September 30, 2000 to NT$1,762 million in the nine months ended September 30, 2001. This decrease principally resulted from a NT$1,270 million decrease in receipts of insurance compensation and the elimination of a NT$787 million foreign exchange gain and a NT$914 million net equity in net income of investee companies recorded in the first nine months of 2000. Unconsolidated non-operating expenses increased 328% from NT$1,609 million in the first nine months of 2000 to NT$6,885 million in the first nine months of 2001. This increase principally resulted from a NT$4,682 million net equity in net loss of investee companies and a NT$447 million foreign exchange loss recorded in the first nine months of 2001.

Income Tax Expense (Benefit). Unconsolidated income tax benefit increased 404% from NT$716 million in the nine months ended September 30, 2000 to NT$3,609 million in the nine months ended September 30, 2001. This increase primarily resulted from a significant decrease in income tax payable at the statutory rate due to a reduction in income before income tax and a significant increase in available investment tax credits due to the substantial capital expenditures made between June 30, 2000 and June 30, 2001. We anticipate that our tax benefit will be substantially less in 2002 due to a significant reduction in capital expenditures subsequent to June 30, 2001 and the expiration of most applicable tax holidays for Fab 2, Fab 3 and Fab 4.

Net Income. Unconsolidated net income decreased 77.2% from NT$43,633 million in the nine months ended September 30, 2000 to NT$9,969 million in the nine months ended September 30, 2001.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. 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 industry, which has 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 industry. All of our customers operate in this industry. Variations in order levels from our customers result in volatility in our revenues and earnings. From time to time, the semiconductor industry has experienced significant, and sometimes prolonged, downturns. Because our business is, and will continue to be, dependent on the requirements of semiconductor companies for our services, downturns in the semiconductor industry 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 industry experienced a significant downturn due to a slowdown in the global economy, overcapacity in the semiconductor industry and a worldwide inventory adjustment. Due to the significant downturn 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 in order to increase the utilization rates at their own fabs. If we cannot reduce our costs to sufficiently offset declines in demand, our revenues and earnings will suffer during downturns. As a result of the downturn in the semiconductor industry, we anticipate that our net sales and net income for 2001 will be approximately 25% and 80%, respectively, less than the corresponding amounts in 2000.

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

The price that we can charge our customers for our services is directly related to the overall worldwide supply of integrated circuits and semiconductor products. The overall supply of semiconductor products is based on the expansion plans of other companies, which are 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 we may have to lower the price we charge our customers for our services or we may have to operate at significantly less than full capacity. This could reduce our margin and weaken our financial condition and results of operations. Due to the decreased demand for semiconductors in the first three quarters of 2001, our average capacity utilization rate decreased to 51% during those first three quarters of 2001 compared with 105% during the first three quarters of 2000.

Decreased 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 significant percentage 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. We have been experiencing such decreases recently as a result of the recent significant worldwide decline in demand for these end-use applications. In addition, the historical and continuing trend of declining average selling prices of end-use applications places significant 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 significant reduction of our revenue. A significant portion of our sales is attributable to the manufacture of semiconductors used in personal computer and communications devices. For the third quarter of 2001 we estimate that approximately 65% of our net sales was attributable to the manufacturing of semiconductors used in personal computer and communication devices and we estimate such percentage to be higher in the fourth quarter of 2001. Both industries are subject to intense competition and significant shifts in demand, which could put pricing pressure on our foundry services and have a material adverse effect on our revenues and earnings.

If we are unable to compete favorably in the highly competitive semiconductor foundry market, 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 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 over a longer period of time 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 significantly and we are facing increased competition from them. Significant increases in competition may erode our profit margin and weaken our earnings.

Most of our customers obtain foundry services from more than one source. In particular, we face increasing competition from other foundry companies in Asia. Many of our competitors have shown a willingness to quickly and sharply reduce prices, as they did in 1998 and 2001, in order to maintain capacity utilization in their facilities during periods of reduced demand. Significant erosion in the prices for our foundry services or under-utilization of our capacity could cause our profits to decrease and have a material adverse effect on our financial condition and results of operations.

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

The semiconductor industry is characterized by rapid increases in the diversity and complexity of semiconductor products. The semiconductor industry and the technology used are constantly changing. If we do not anticipate these changes in technology and rapidly develop new and innovative technologies, we may not be able to provide sufficiently advanced foundry services at competitive prices. If we are unable to maintain the ability to provide sufficiently advanced foundry services at competitive prices, 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 our customers. For example, if we are unable on a timely basis to ramp up commercial production of 0.13 micron semiconductors with all copper interconnects on twelve-inch wafers or to develop appropriate process technology to produce 0.10 micron semiconductors with all copper interconnects on a competitive basis, we may lose orders to our competitors. 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.

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 are currently ramping up Fab 6 in the Tainan Science-Based Industrial Park and our joint venture fab, Systems on Silicon in Singapore. In addition, we are in the process of ramping up our first twelve-inch wafer fab, Fab 12, in the Hsinchu Science-Based Industrial Park. We are also continuing construction of Fab 14, another twelve-inch fab, in the Tainan Science Park, although we currently do not have a definitive plan for the commencement of production in Fab 14 due to the current market downturn.

To successfully manage any increase in capacity in our fabs, either generally or with respect to any given process technology, we will need to purchase additional equipment, train personnel to operate the new equipment and hire additional personnel. In addition, the construction and operation of our new fabs in the Tainan Science Park has required the creation of a new administrative organization in Tainan because of the distance between Tainan and Hsinchu, the site of our other fabs in Taiwan.

Since few companies have commenced production operations in the Tainan Science Park, we are not certain whether the general infrastructure in the Tainan Science Park is sufficient or adequate. Any 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 fixed costs. We will need to maintain a high utilization rate in our fabs in order to offset these higher fixed 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 accurately forecast and 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 and become 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 any of these personnel and cannot adequately replace them. We will be required to increase substantially the number of these employees in connection with our expansion plans. 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 competition for personnel to increase significantly in the future as new semiconductor 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 foundry 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 six months or more. In those situations we may try to negotiate binding supply agreements with some of our suppliers, although we typically do not include in these agreements all of the equipment contemplated to be purchased to provide ourselves with flexibility to revise our expansion and modification plans in the future. 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 planned or announced 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, 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.

The loss of our right to use Philips intellectual property may require us to incur significant expenses to acquire alternate rights to necessary intellectual property.

We are the beneficiary of many patent cross-licensing arrangements between Koninklijke Philips Electronics N.V. and other semiconductor companies. We will continue to have rights to use the intellectual property governed by these licensing arrangements only if Philips, including its subsidiaries, maintains a minimum percentage ownership in us. This minimum percentage ownership varies from agreement to agreement and generally ranges from 12.5% to 25%. If we lose the right to use the intellectual property under these licensing arrangements, we may not be able to obtain similar licenses without significant expense. In November 2000, Philips purchased from us 1,299,925,653 Preferred A shares, par value NT$10 per share, to be redeemed at par value on May 28, 2003. As of December 31, 2001, Philips, together with its subsidiaries, owned 3,676,871,330 common shares and 1,299,925,653 Preferred A shares, representing in aggregate a 27.45% equity interest in us.

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

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

Our ability to compete successfully also depends on our ability to operate without infringing the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States until they are granted. Because of the complexity of the technology used and the multitude of patents, copyrights and other overlapping intellectual property rights, the semiconductor industry is characterized by frequent litigation regarding patent, trade secret and other intellectual property rights. It is common for patent owners to assert their patents against semiconductor manufacturers. 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 infringe upon patents or intellectual property rights of others, and we expect to continue to receive such communications in the future. In some instances, these disputes have resulted in litigation and settlement or damage payments by us. We do not believe that we are currently infringing any patent rights. In the event any third party were to make a valid claim against us or our customers, we could be required to:

- seek to acquire licenses to the infringed technology, which may not be available on commercially reasonable terms, if at all;
- discontinue using certain process technologies, which could cause us to stop manufacturing certain semiconductors;
- pay substantial monetary damages; or
- seek to develop non-infringing technologies, which may not be feasible.

Any one of these developments could place substantial financial and administrative burdens on us and hinder our business. Litigation, which could result in substantial costs to us and diversion of our resources, may also be necessary to enforce our patents or other intellectual property rights or to defend us or our customers against claimed infringement of the rights of others. If we fail to obtain necessary licenses or if litigation relating to 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.

If our major shareholders use the majority of our production capacity, we will not be able to service our other customers.

So long as Philips and its affiliates own at least 24.8% of our equity interest, Philips has an option to require us to sell to Philips 30% of our production capacity. 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, also has an option to purchase up to 35% of our capacity. If Philips or the Ministry of Economic Affairs, or the entity designated by the Ministry of Economic Affairs, exercises either of these options to any significant degree, we will not be able to provide services to all of our other customers. Although the Ministry of Economic Affairs has never exercised its option and Philips has generally placed orders with us without recourse to its capacity option, any significant exercise of these options could damage our relationship with our other customers and may encourage them to purchase more products from our competitors in the future.

Our major shareholders may take actions that are not in, or may conflict with, our public shareholders' best interest.

As of December 31, 2001, Philips and the ROC government, acting through the Development Fund of the Executive Yuan of the ROC, owned, respectively, approximately 27.45% and 10.58% (excluding 187,696,600 common shares held by the National Financial Stabilization Fund and any shares that may be held by other funds controlled by the ROC government) of our equity interests. Currently Philips has three representatives, and the Development Fund has one representative, on our board of directors. Accordingly, these shareholders will continue to have the ability to exercise significant influence over our business, including over matters relating to:

- our management and policies;
- the timing and distribution of dividends; and
- the election of our directors and supervisors.

These shareholders may take actions that are not in, or may conflict with, our or our public shareholders' best interest.

We are subject to the risk of loss due to 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 fires. The risk of fire associated with these materials cannot be completely eliminated. Many of the semiconductor companies have experienced extensive fire damage. Although we maintain comprehensive fire insurance, including insurance for loss of property and loss of profit resulting from business interruption, we cannot assure you that our insurance coverage is sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of a fire, it would reduce our manufacturing capacity and reduce our revenues and profits.

Any impairment charges required under US GAAP may have a material adverse effect on our net income for periods subsequent to June 30, 2001 on a US GAAP reconciled basis.

Under currently effective US GAAP, we are required to evaluate our equipment, goodwill 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. Although we believe that no impairment charges are required under US GAAP for any period prior to January 1, 2002, we can give no assurance that impairment charges will not be required in periods subsequent to June 30, 2001. Please see note 24.e. to our consolidated financial statements for a discussion of the criteria, which if met, may require impairment charges.

As a result of new standards under US GAAP that became effective on January 1, 2002, we are no longer permitted to amortize remaining goodwill. Goodwill amortization expenses amounted to NT$604 million under ROC GAAP and to an additional NT$5,396 million under US GAAP for the six months ended June 30, 2001. Starting from January 2002, all goodwill must be periodically tested for impairment. As of June 30, 2001, we had NT$53,368 million recorded as goodwill under US GAAP. 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 periods subsequent to December 31, 2001 on a US GAAP reconciled basis. Please see note 25.a. to our consolidated financial statements for a discussion of the new standards under US GAAP.

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

The degree to which our sales are concentrated among a limited number of customers varies over time, often increasing during industry downturns. In 2000, our five largest customers accounted for approximately 31% and our ten largest customers accounted for approximately 44% of our net sales. In the first half of 2001, our five largest customers accounted for approximately 29% and our ten largest customers accounted for approximately 46% of our net sales. In 2000, our two largest customers accounted for approximately 9% and 7% of our net sales, respectively, and in the first six months of 2001, our two largest customers accounted for approximately 10% and 5% of our net sales, respectively. Due to the increase in orders from a small number of our customers for advanced semiconductors in the second half of 2001, we believe that our five largest customers and our ten largest customers will account for over approximately 45% and 61%, respectively, of our net sales in the third quarter of 2001, and will represent an even larger portion of our net sales in the fourth quarter of 2001. Although we believe our customer base is strong and diversified, we expect that we will continue to be dependent upon a relatively limited number of customers for a significant portion of our revenue, especially during industry downturns such as the one we are experiencing this year. Loss or cancellation of business from our most significant customers therefore could significantly reduce our net sales and net income.

Risks Relating to the ROC

Strained relations between the Republic of China 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 Republic of China has a unique international political status. The People's Republic of China does not recognize the legitimacy of the Republic of China. Although significant economic and cultural relations have been established during recent years between the Republic of China and the People's Republic of China, relations have often been strained. The government of the People's Republic of China has indicated that it may use military force to gain control over Taiwan in some circumstances, such as a declaration of independence by Taiwan, the prolonged delay by the Republic of China to commence reunification negotiations, foreign power interference in Taiwanese affairs or the refusal by the Republic of China to accept the People's Republic of China's stated "one China" policy. In elections held on December 1, 2001, the Democratic Progressive Party became the political party controlling the largest number of seats in Taiwan's Legislature. It is unclear what effects the election results may have on relations with the People's Republic of China. Past developments in relations between the Republic of China and the People's Republic of China have on occasion depressed the market prices of the securities of Taiwanese companies, including our own. Relations between the Republic of China and the People's Republic of China and other factors affecting military, political or economic conditions in Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our ADSs and common shares.

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

Taiwan is susceptible to earthquakes. On September 21, October 22, and November 2, 1999, Taiwan experienced severe earthquakes that caused significant property damage and loss of life, particularly in the central part of Taiwan. These earthquakes 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 these earthquakes. There were also interruptions to our production schedule, primarily as a result of power outages caused by the earthquakes, and we were forced to scrap approximately 35,000 wafers. 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, 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. As a result, a major earthquake, natural disaster or other disruptive event 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. A substantial portion of our long-term borrowings are denominated in U.S. dollars. We are particularly affected by fluctuations in the exchange rate between the U.S. dollar and the NT dollar. Any significant fluctuation 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.

Risks Relating to ownership of ADSs

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

Holders of 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 (i) the notice of the meeting sent by us, (ii) voting instruction forms and (iii) 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. See "Description of American Depositary Receipts—Voting Rights" 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. 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, 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 "Annex A—Foreign Investment and Exchange Controls in the ROC". 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 by us or our shareholders.

Except for the sale of ADSs to the underwriters and certain other exceptions, the selling shareholders 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 the Development Fund and the Stabilization Fund, and 90 days after the date of this prospectus, with respect to the other selling shareholders, except with the prior written consent of the representative of the underwriters. In addition, Philips Electronics N.V. has executed a lock-up agreement, the effect of which is to similarly limit during the 90-day period indirect sales of interests in our company by itself or its affiliates, including Philips Electronics Industries (Taiwan) Ltd. We have also agreed, subject to certain exceptions, not to issue 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 representative of the underwriters. Although we have no current plans to make any such issuance during this 90-day period, we are not precluded from issuing any securities that are convertible into or exchangeable for, or that represent the right to receive, our common shares. The representative may, in its discretion, waive or terminate these restrictions. See "Common Shares Eligible for Future Sale" for a more detailed discussion of restrictions that may apply to future sales of our ADSs or common shares by us and our affiliates.

We cannot assure you that one or more existing shareholders will not dispose of significant numbers of common shares or ADSs. One of our two largest shareholders, the Development Fund, has sold significant amounts of shares and ADSs in the past including, 4,000,000 ADSs in April 2000, 8,680,400 ADSs in June 2000, 14,000,000 ADSs in June 2001 and 20,000,000 ADSs in November 2001. The Development Fund and the Stabilization Fund are selling 21,818,400 and 26,800,000 ADSs, respectively, in this offering.

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 once every three to six 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. We have advised the underwriters of our current intention not to facilitate any conversions or exchanges of common shares into ADSs during the 90-day period after the date of this prospectus. 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.

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

The ROC securities market is smaller and more volatile than the securities markets in the United States and in some European countries. 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. Over the past 12 years, the Taiwan Stock Exchange Index peaked at 12,495.3 in February 1990, and subsequently fell to a low of 2,550.5 in October 1990. 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 45.9%. On January 22, 2002, the Taiwan Stock Exchange Index closed at 5804.10. The Taiwan Stock Exchange has experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems may have a material adverse effect on the market price and liquidity of the securities of ROC companies, including our ADSs and common shares, in both the domestic and the international markets.

In response to recent declines and volatility in the securities markets in Taiwan, the government of the Republic of China formed the Stabilization Fund, which has purchased and may from time to time purchase shares of Taiwan companies to support these markets. The details of the transactions of the Stabilization Fund have not been made public. The Stabilization Fund is one of the selling shareholders in this offering. 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 sudden movements in the market prices of our ADSs and common shares.

In connection with the establishment of the Stabilization Fund, the Development Fund has pledged 1,075,200,000 of our common shares as security to support borrowings by the Stabilization Fund from a syndicate of commercial banks in Taiwan. Ownership of these common shares, which represent approximately 6.39% of our outstanding common shares, may be sold by court auction or a private sale on the Taiwan Stock Exchange if those secured loans are not repaid.

USE OF PROCEEDS

We will not receive any proceeds from the sale of ADSs by the selling shareholders.

MARKET PRICE INFORMATION FOR OUR ADSs AND COMMON SHARES

The principal trading market for our common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange under the symbol "2330" since September 5, 1994, and the ADSs have been listed on the New York Stock Exchange under the symbol "TSM" since October 8, 1997. The outstanding ADSs are identified by the CUSIP number 874039100. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Taiwan Stock Exchange for the common shares and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for the common shares represented by ADSs.

	Taiwan Stock Exchange			New York Stock Exchange[(1)]		
	Closing price per common share[(2)]		Average daily trading volume	Closing price per ADS[(2)]		Average daily trading volume
	High (NT$)	Low (NT$)	(in thousands of shares)	High (US$)	Low (US$)	(in thousands of ADSs)
1997	53.19	11.58	177,797	9.74	5.36	2,532
1998	52.88	26.09	86,283	9.31	4.54	1,184
1999	95.42	30.85	72,544	25.11	6.44	1,817
2000	122.21	53.57	43,506	38.29	11.88	2,502
First Quarter	122.21	96.54	54,254	38.29	25.67	2,197
Second Quarter	117.19	98.21	37,175	31.32	22.22	2,417
Third Quarter	106.43	71.43	31,347	27.68	15.80	2,335
Fourth Quarter	83.57	53.57	52,384	17.90	11.88	3,037
2001	89.00	44.10	42,040	19.08	8.85	4,250
First Quarter	75.36	57.50	46,294	18.04	12.32	2,528
Second Quarter	70.71	56.43	33,014	17.71	11.85	4,301
Third Quarter	70.50	46.50	33,947	17.05	8.88	5,113
Fourth Quarter	89.00	44.10	54,709	19.08	8.85	5,074
July	67.00	57.50	30,789	16.30	13.16	3,747
August	70.50	60.50	37,542	17.05	12.00	6,902
September	66.00	46.50	32,983	12.98	8.88	4,281
October	67.00	44.10	48,327	13.90	8.85	4,580
November	79.50	61.00	56,798	16.60	13.27	5,688
December	89.00	77.50	58,902	19.08	16.00	4,997

(1) Trading in ADSs commenced on October 8, 1997 on the New York Stock Exchange. Each ADS represents the right to receive five common shares.

(2) As adjusted for a 80% stock dividend in June 1996, a 50% stock dividend in June 1997, a 45% stock dividend in June 1998, a 23% stock dividend in June 1999, a 28% stock dividend in July 2000 and a 40% stock dividend in July 2001.

Purchase of shares of companies on the Taiwan Stock Exchange or other markets by the Stabilization Fund, the Labor Insurance Fund or other funds associated with the government of the Republic of China may have caused, and may in the future cause, the price of shares of companies listed on the Taiwan Stock Exchange, including our shares, to be higher than the prices that would otherwise prevail in the open market. See "Risk Factors—The market value of your investment may fluctuate due to the volatility of, and government intervention in, the ROC securities market".

The ADSs offered in this offering will be fully fungible with, will be identified by the same CUSIP number and will be eligible for trading under the same New York Stock Exchange trading symbol as, the existing ADSs.

DIVIDENDS AND DIVIDEND POLICY

The following table sets forth the stock dividends per share paid during each of the years indicated in respect of common shares outstanding on the record date applicable to the payment of those dividends. In recent years, we have not paid any cash dividends.

	Stock dividends per 100 shares	Total shares issued as stock dividends	Outstanding common shares at year end
1996	80.0	1,151,200,000	2,756,700,000
1997	50.0	1,327,100,000	4,361,300,000
1998	45.0	1,836,585,000	6,647,175,967
1999	23.0	1,390,850,473	8,520,881,717
2000	28.0	2,147,846,881	11,689,364,587
2001	40.0	4,675,745,835	16,832,553,051

In recent years, we have paid all of our dividends in the form of stock in order to reinvest our cash in operations, and we expect that we will continue in the future to pay a substantial portion of dividends in the form of stock. The form, frequency and amount of future dividends on the common shares will depend upon our earnings, cash flow, financial condition, reinvestment opportunities and other factors.

Holders of outstanding common shares on a dividend record date will be entitled to the full dividend declared without regard to any subsequent transfer of the common shares. Payment of dividends in respect of the prior year is made following approval by our shareholders at the annual general meeting of shareholders.

Except in limited circumstances, under the ROC Company Law, we are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which we did not record net income. The ROC Company Law also requires that 10% of annual net income (less prior years' losses and outstanding tax) be set aside as legal reserves until the accumulated legal reserves equal our paid-in capital. Our articles of incorporation require that at least one percent of annual net earnings (after deducting the legal reserve provision, outstanding taxes and providing for losses incurred in prior years) be distributed as a bonus to employees and that one percent of our annual net earnings (after deducting the legal reserve provision and outstanding taxes and providing for any losses incurred in prior years) be distributed as a bonus to directors and supervisors.

Holders of ADRs evidencing ADSs are entitled to receive dividends, subject to the terms of the deposit agreement, to the same extent as the holders of common shares. Cash dividends will be paid to the depositary in NT dollars and, after deduction of any applicable ROC taxes and except as otherwise provided in the deposit agreement, will be converted by the depositary into U.S. dollars and paid to holders. Stock dividends will be distributed to the depositary and, except as otherwise provided in the deposit agreement, will be distributed to holders by the depositary in the form of additional ADSs.

For information relating to ROC withholding taxes payable on dividends, see "Taxation—ROC Taxation—Dividends". For information relating to ROC foreign exchange approvals required for the conversion by the depositary of dividends on common shares from NT dollars into U.S. dollars for the payment of dividends on common shares to holders of ADSs, see "Annex A—Foreign Investment and Exchange Controls in the ROC—Depositary Receipts".

EXCHANGE RATES

Fluctuations in the exchange rate between NT dollars and U.S. dollars will affect the U.S. dollar equivalent of the NT dollar price of the common shares on the Taiwan Stock Exchange and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the U.S. dollar conversion by the depositary of cash dividends paid in NT dollars on, and the NT dollar proceeds received by the depositary from any sale of, common shares represented by ADSs, in each case according to the terms of the deposit agreement.

The following table sets forth, for the periods indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged based on the noon buying rate for cable transfers in NT dollars as certified for customs purposes by the Federal Reserve Bank of New York.

	NT dollars per U.S. dollar Noon buying rate			
	Average[(1)]	High	Low	Period-End
1997	NT$29.06	NT$33.25	NT$27.34	NT$32.80
1998	33.54	35.00	32.05	32.27
1999	32.28	33.40	31.39	31.39
2000	31.40	33.20	30.48	33.17
2001	33.82	35.13	32.23	35.00
Six Months Ended June 30, 2001	33.16	34.52	32.23	34.48
July 2001	34.82	35.05	34.45	34.48
August 2001	34.64	34.77	34.80	34.58
September 2001	34.58	34.70	34.45	34.56
October 2001	34.58	34.62	34.53	34.55
November 2001	34.50	34.55	34.44	34.47
December 2001	34.68	35.13	34.46	35.00

(1) Annual and six-month averages are calculated from month-end rates.

Source: Federal Reserve Statistical Release H.10(512), 1996-2001, Board of Governors of the Federal Reserve System.

On January 22, 2002, the noon buying rate was NT$35.08 to US$1.00.

For information relating to ROC foreign exchange approvals required for the conversion by the depositary of dividends on common shares or proceeds from the sale of common shares from NT dollars into U.S. dollars and the payment to holders of ADSs, see "Annex A—Foreign Investment and Exchange Controls in the ROC—Depositary Receipts".

We publish our financial statements in New Taiwan dollars, the lawful currency of the Republic of China, or ROC. In this prospectus, references to "US$" and "U.S. dollars" are to United States dollars and references to "NT$" and "NT dollars" are to New Taiwan dollars. This prospectus 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 as of June 29, 2001, which was NT$34.48 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 January 22, 2002, the noon buying rate was NT$35.08 to US$1.00.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of November 30, 2001. You should read this table together with our consolidated financial statements. In January 2002, we issued an aggregate of NT$15,000 million in five, seven and ten year unsecured debt securities in Taiwan, which is not included in the table below. We do not have any unguaranteed and secured debt.

	As of November 30, 2001
	Actual
	NT$ (in millions)
Long-term debt (excluding current portion of long-term debt)	
Unguaranteed and unsecured long-term debt	24,000
Guaranteed and secured long-term debt	14,137
Guaranteed and unsecured long-term debt	6,896
Total long-term debt	45,033
Shareholder's equity	
Preferred shares, NT$10 par value	13,000
Common shares, NT$10 par value	168,326
Capital surplus	57,089
Retained earnings	35,741
Unrealized loss on long-term investment	(168)
Cumulative translation adjustments	887
Total shareholders' equity	274,875
Total capitalization	319,908

SELLING SHAREHOLDERS

All of the ADSs being offered in this offering are being offered by the Development Fund, the Stabilization Fund and certain of our directors and officers listed below. As of December 31, 2001, the selling shareholders held an aggregate of 2,124,763,011 of our common shares, representing 12.62% of the total common shares outstanding. Following this offering, the selling shareholders will own an aggregate of 1,869,763,011 of our common shares, representing 11.11% of the total common shares outstanding. In addition, some of the selling shareholders have granted to the underwriters an option for 30 days to purchase up to an aggregate of 7,650,000 additional ADSs at the initial price to public per ADS less the underwriting discount solely to cover overallotments, if any. The table below sets forth the beneficial ownership of our common shares by each of the selling shareholders prior to this offering and after giving effect to the sale of all of the ADSs offered in this offering.

		Before this offering (as of December 31, 2001)		After this offering (assuming the underwriters do not exercise their option to purchase additional ADSs)		After this offering (assuming the underwriters fully exercise their option to purchase additional ADSs)	
Name	Status/Position	Number of common shares	Percentage of total outstanding common shares	Number of common shares	Percentage of total outstanding common shares	Number of common shares	Percentage of total outstanding common shares
Development Fund	Founding Shareholder	1,781,510,915	10.58%	1,672,418,915	9.94%	1,635,954,915	9.72%
Stabilization Fund	Shareholder	187,696,600	1.12%	53,696,600	0.32%	53,696,600	0.32%
Mr. Morris Chang	Chairman & CEO	89,712,464	0.53%	82,420,464	0.49%	81,326,464	0.48%
Mr. F.C. Tseng	Director & Deputy CEO	27,812,877	0.17%	26,937,877	0.16%	26,806,877	0.16%
Mr. Rick Tsai	President & COO	18,681,467	0.11%	17,587,467	0.10%	17,423,467	0.10%
Mr. Harvey H.W. Chang	Senior Vice President & CFO	6,226,622	0.04%	5,351,622	0.03%	5,220,622	0.03%
Mr. J.B. Chen	Vice President	5,516,849	0.03%	4,787,849	0.03%	4,678,849	0.03%
Mr. S.H. Lee	Vice President	4,188,946	0.02%	3,583,946	0.02%	3,492,946	0.02%
Mr. M.C. Tzeng	Vice President	3,416,271	0.02%	2,978,271	0.02%	2,912,271	0.02%
Total		2,124,763,011	12.62%	1,869,763,011	11.11%	1,831,513,011	10.88%

The offices of the Development Fund and the Stabilization Fund are located at 3rd Floor, Finance Building, 2, Ai-Kuo W. Rd., Taipei, Taiwan, ROC. The offices of Mr. Morris Chang, Mr. F.C. Tseng, Mr. Rick Tsai, Mr. Harvey H.W. Chang, Mr. S.H. Lee and Mr. M.C. Tzeng are located at 121, Park Avenue III, Science-Based Industrial Park, Hsinchu 300, Taiwan, ROC. Mr. J. B. Chen's office is located at 6, Creation Road II, Science-Based Industrial Park, Hsinchu 300, Taiwan, ROC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected financial information below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements, notes to the consolidated financial statements and other financial information included elsewhere in this prospectus and the documents incorporated by reference in this prospectus. The selected income statement data and cash flow data for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001, and the selected balance sheet data as of December 31, 1999 and 2000 and June 30, 2001, set forth below are derived from our audited consolidated financial statements included 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 T N Soong & Co., a member firm of Andersen Worldwide, SC, independent public accountants. The selected income statement data and cash flow data for the years ended December 31, 1996 and 1997 and the selected balance sheet data as of December 31, 1996, 1997 and 1998 set forth below are derived from our audited consolidated financial statements not included in this prospectus. The results for the six-month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year. The consolidated financial statements have been prepared and presented in accordance with ROC GAAP, which differ in some material respects from US GAAP. Please see note 24 to our consolidated financial statements for a description of the principal differences between ROC GAAP and US GAAP for the periods covered by these financial statements.

	Year ended and as of December 31,						Six months ended and as of June 30,		
	1996	1997	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages, earnings per share and per ADS, and operating data)								
Income Statement Data:									
ROC GAAP									
Net sales	39,400	43,927	50,524	76,305	166,198	4,820	64,915	65,816	1,909
Cost of sales(1)	(17,421)	(23,801)	(33,009)	(45,212)	(87,610)	(2,541)	(36,447)	(48,441)	(1,405)
Gross profit(1)	21,979	20,126	17,515	31,093	78,588	2,279	28,468	17,275	504
Operating expenses(1)	(3,789)	(5,504)	(5,210)	(8,823)	(17,293)	(501)	(6,871)	(9,210)	(267)
Income from operations	18,190	14,622	12,305	22,270	61,295	1,778	21,597	8,165	237
Non-operating income	1,194	1,554	1,977	1,682	6,228	180	3,981	1,893	55
Non-operating expenses	(287)	(831)	(3,227)	(3,324)	(3,621)	(105)	(2,088)	(3,574)	(104)
Income before income taxes	19,097	15,345	11,055	20,628	63,902	1,853	23,490	6,484	188
Income tax (expense) benefit	380	2,556	2,318	2,383	1,168	34	138	2,264	66
Net income before minority interest	19,477	17,901	13,373	23,011	65,070	1,887	23,628	8,748	254
Minority interest in loss (income) of subsidiary	(41)	73	1,016	516	37	1	(52)	(15)	(0.44)
Net income	19,436	17,974	14,389	23,527	65,106	1,888	23,576	8,733	254
Earnings per share(2)	1.36	1.25	0.98	1.57	3.97	0.12	1.47	0.51	0.01
Earnings per ADS equivalent	6.81	6.27	4.89	7.85	19.85	0.58	7.37	2.53	0.07
Average shares outstanding(2)	14,260	14,343	14,712	14,980	16,417	16,417	15,998	16,832	16,832
US GAAP									
Cost of sales	20,321	30,091	41,200	52,163	105,359	3,055	53,295	62,364	1,809
Operating expense	4,714	7,205	9,525	12,310	44,472	1,290	16,016	26,112	757
Income from operation	14,365	6,631	(201)	11,833	16,366	475	(4,396)	(22,660)	(657)
Income before income tax	15,278	7,408	(2,082)	10,986	20,537	596	5,024	(25,323)	(735)
Income tax (expense) benefit	379	2,557	2,316	2,383	1,166	34	136	2,266	66
Net income	15,617	10,039	1,249	13,884	21,740	630	5,108	(23,072)	(669)
Average shares outstanding(3)	12,725	13,070	13,741	14,249	15,859	15,859	15,353	16,365	16,365
Earnings per share(3)	1.23	0.77	0.09	0.97	1.37	0.04	0.33	(1.41)	(0.04)
Earnings per ADS equivalent	6.14	3.84	0.45	4.87	6.85	0.20	1.66	(7.05)	(0.20)

	Year ended and as of December 31,						Six months ended and as of June 30,		
	1996	1997	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages, earnings per share and per ADS, and operating data)								
Balance Sheet Data:									
ROC GAAP									
Working capital	23,231	29,193	15,926	33,267	44,920	1,303	—	37,554	1,089
Long-term equity investments	6,545	7,162	6,659	16,165	10,664	309	—	12,387	359
Properties	43,590	80,864	118,353	150,060	244,748	7,098	—	254,710	7,387
Goodwill	—	—	—	—	11,531	334	—	11,946	346
Total assets	80,994	137,318	165,461	235,436	370,886	10,757	—	369,126	10,706
Long-term bank borrowing[4]	5,720	8,026	14,630	22,744	23,339	677	—	26,431	767
Long-term debt payable	0	11,983	22,632	20,000	29,000	841	—	29,000	841
Guaranty deposit-in and other liabilities	9,945	9,006	6,957	6,207	9,046	262	—	9,229	268
Minority interest equity	5,562	10,841	9,701	7,524	322	9	—	87	3
Total liabilities	21,232	44,693	59,474	75,341	108,811	3,156	—	98,054	2,844
Capital Stock	27,567	43,613	66,472	85,209	129,894	3,767	—	129,894	3,767
Cash Dividend	0	0	0	0	0	0	—	0	0
Shareholders' equity	54,199	81,784	96,285	152,571	261,754	7,591	—	270,985	7,859
US GAAP									
Goodwill	—	—	—	—	58,348	1,692	—	53,368	1,548
Total assets	81,595	138,309	164,784	236,859	407,830	11,828	—	402,018	11,659
Total liabilities	28,445	57,109	70,491	84,882	127,884	3,709	—	113,656	3,296
Shareholders' equity	53,150	81,200	94,293	151,977	279,946	8,119	—	288,362	8,363
Other Financial Data:									
ROC GAAP									
Gross margin	56%	46%	35%	41%	47%	47%	44%	26%	26%
Operating margin	46%	33%	24%	29%	37%	37%	33%	12%	12%
Net margin	49%	41%	28%	31%	39%	39%	36%	13%	13%
Capital expenditures	22,804	40,289	55,781	51,459	103,762	3,009	42,854	38,787	1,125
Depreciation and amortization	6,550	9,785	15,522	25,198	41,446	1,202	17,283	26,506	769
Cash provided by operating activities	29,023	19,288	30,255	40,253	94,786	2,749	37,364	46,600	1,352
Cash used in investing activities	(24,314)	(42,182)	(57,436)	(60,952)	(120,949)	(3,508)	(41,103)	(43,501)	(1,262)
Cash provided by financing activities	7,095	23,635	16,855	39,518	35,366	1,026	24,756	(434)	(13)
Net cash flow	11,789	1,334	(10,984)	18,646	9,323	270	21,630	2,684	78
Operating Data:									
Wafers sold[5]	816	1,145	1,184	1,826	3,408	3,408	1,339	1,152	1,152
Average utilization rate	96%	102%	74%	100%	106%	106%	107%	57%	57%

(1) Amounts in 1999 and 2000 reflect the reclassification of NT$1,025 million in 1999, NT$2,072 million in 2000 and NT$619 million in the six months ended June 30, 2000 from cost of sales to research and development. Please see "Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profits".

(2) Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.

(3) Retroactively adjusted for all subsequent stock dividends.

(4) Excludes debt securities.

(5) In thousands.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus contain forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our expected development of more advanced process technologies;
- our business strategy;
- our expected production capacity;
- our expansion plans, including proposed capital investments under these plans;
- future developments in the semiconductor industry, including projections by IC Insights related to the foundry market; and
- our future business development and economic performance.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. We do not intend to update these forward-looking statements.

The forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in this prospectus.

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

The following discussion of our business, financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes to our 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 from US GAAP. Please see notes 24 and 25 to our consolidated financial statements for a discussion of the principal 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.

Overview

We manufacture a variety of semiconductors based on designs provided by our customers. We also provide various design services. Our business model is now commonly called a "dedicated semiconductor foundry". The foundry industry as a whole experienced rapid growth over the last 13 years since our inception. As the leader of the foundry industry, we also have seen our net sales and net income increase from NT$39,400 million and NT$19,436 million in 1996 to NT$166,198 million and NT$65,106 million in 2000, respectively, despite two major industry downturns over that same period. From the middle of 1996 until the middle of 1998, the growth rate of worldwide demand for semiconductor products decreased as the growth rate of worldwide semiconductor production capacity increased. As a result of the increasing disparity between the growth rate of demand and the growth rate of supply, margins were squeezed and our net income declined from NT$19,436 million in 1996 to NT$17,974 million in 1997 and to NT$14,389 million in 1998. This occurred despite increases in our net sales from NT$39,400 million in 1996 to NT$43,927 million in 1997 and to NT$50,524 million in 1998. Starting in late 1998, there was an increase in demand that led to increases in both our net sales and net income for 1999 and 2000. In 2001, the semiconductor industry experienced a significant downturn due to a slowdown in the global economy, overcapacity in the semiconductor industry and a worldwide semiconductor inventory adjustment that led to decreases in both our net sales and net income in 2001 from 2000. As a result of the significant downturn, our net income decreased from NT$23,576 million in the six months ended June 30, 2000 to NT$8,733 million in the six months ended June 30, 2001.

The principal source of our sales revenue is wafer fabrication, which accounted for approximately 93.5% of our net sales in 2000 and 87.3% of our net sales in the six months ended June 30, 2001. The rest of our net sales is derived from design, mask making, probing, testing and assembly services.

Demand for Semiconductors. Global semiconductor demand grew at an accelerated pace during the period from 1992 through 1995, as a result of the growth in the electronics industry, the increase in semiconductor applications and greater demand for semiconductors that offer higher performance, speed and reliability. In the second half of 1996 and 1997, however, a number of sectors of the semiconductor industry were in a state of overcapacity, with sharp declines in the average selling prices of memory chips and declines in prices of other semiconductor products evident during the period. In 1998, as a result of both the slowdown in many Asian economies and the expansion of memory semiconductor capacity, the total value of semiconductor products sold decreased and many semiconductor companies posted losses as a result. We were affected by the macro business environment and experienced a decline in sales and net income over the second half of 1998. The foundry industry, however, did not suffer as much as the semiconductor industry as a whole due to its diversified business nature. Demand for our foundry services improved significantly in 1999. Moreover, an increasing number of integrated device manufacturers were beginning to outsource manufacturing jobs to foundry service providers such as us. As a result of a slowdown in the global economy, overcapacity in the semiconductor industry and a worldwide semiconductor inventory adjustment in 2001, worldwide sales of semiconductors decreased significantly in 2001 as compared to 2000. The decreased worldwide semiconductor sales has caused most, if not all, integrated device manufacturers that had previously begun purchasing wafer fabrication services from foundry companies to reduce purchases from foundry companies in order to increase their own utilization rates.

Capacity and Production. We have expanded our aggregate capacity from approximately 83,000 wafers per month as of year-end 1996 to approximately 381,000 wafers per month as of year-end 2001. Over the same period, our annual sales volume grew from 816,000 wafers to approximately 2,074,000 wafers. The annual sales volume in 2000 takes into account the wafers sold by Worldwide Semiconductor in 2000 and the wafers sold by TSMC-Acer after our merger with TSMC-Acer on June 30, 2000. We currently expect our annual sales volume to be approximately 40% less in 2001 than in 2000.

Technology Migration. Since our establishment, we have regularly developed and made available to our customers manufacturing capabilities for wafers with increasingly higher circuit resolutions. Wafers designed with higher circuit resolutions yield a greater number of dies per wafer and these dies are able to integrate more functionality and run faster in application. As a consequence, higher circuit resolution wafers generally sell for a higher price than those with lower resolutions. In addition, we began in November 2001 offering our customers production of twelve-inch wafers which can produce a greater number of dies per area than eight-inch wafers. Advanced technology wafers have accounted for an increasingly larger portion of our sales since their introduction as the demand for advanced technology wafers has increased. Because of their higher selling price, advanced technology wafers account for a larger pro rata portion of our sales revenue as compared to their pro rata share of unit sales volume. The higher selling prices of semiconductors with higher circuit resolutions usually offset the higher production costs associated with these semiconductors once an appropriate economy of scale is reached. Although mainly dictated by supply and demand, prices for wafers of a given level of technology typically decline over the technology's life cycle. Therefore, we must continue to offer additional services and to develop and successfully implement increasingly sophisticated technological capabilities to maintain our average sales prices and margins.

The table below presents a percentage breakdown of wafers sold by us by circuit resolution during the last three years and during the six months ended June 30, 2001:

	Year ended December 31,						Six months ended June 30, 2001	
	1998		1999		2000			
Resolution	Quantity (in thousands)	Percentage	Quantity (in thousands)	Percentage	Quantity (in thousands)	Percentage	Quantity (in thousands)	Percentage
0.15 micron	0.0	0.0%	0.0	0.0%	0.0	0.0%	18.3	1.6%
0.18 micron	0.0	0.0	18.0	1.0	153.0	4.5	130.1	11.3
0.25 micron	11.0	0.9	385.6	21.1	950.9	27.9	397.0	34.5
0.35 micron	408.7	34.5	625.1	34.2	1,313.9	38.6	337.0	29.2
0.5 micron	319.5	27.0	374.2	20.5	484.6	14.2	165.5	14.4
0.6 micron	189.6	16.0	213.4	11.7	239.1	7.0	40.8	3.5
0.8 micron	66.7	5.7	45.7	2.5	67.7	2.0	15.2	1.3
1.0 micron	49.5	4.2	45.5	2.5	88.9	2.6	24.4	2.1
>1.0 micron	138.8	11.7	118.1	6.5	110.0	3.2	23.9	2.1
Total	1,183.8	100.0%	1,825.6	100.0%	3,408.1	100.0%	1,152.2	100.0%

The proportion of our sales attributable to wafers with resolution of 0.18 microns and below has increased each month on a sequential basis from February 2001 through December 2001.

Pricing. We usually establish pricing levels quarterly with our customers, subject to adjustment during the course of the year to take into account market developments and other factors. We believe that our large capacity, flexible manufacturing capabilities, focus on customer service and ability to deliver high yields in a predictable and timely manner have contributed to our ability to obtain premium pricing for our wafer production in recent years. Because of our favorable yield, we believe that our pricing is competitive with other semiconductor manufacturers. Our historical pricing policy is to pass through a portion of cost savings realized as our production processes migrate to more advanced technologies and our manufacturing operations achieve higher yields and greater economies of scale.

Results of Operations

The following table sets forth, for the periods indicated, some financial data from our consolidated statements of income, expressed in each case as a percentage of net sales:

	Year ended December 31,			Six months ended June 30, 2001	
	1998	1999	2000	2000	2001
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales(1)	(65.3)	(59.3)	(52.7)	(56.1)	(73.6)
Gross profit(1)	34.7	40.7	47.3	43.9	26.4
Operating expenses					
General and administrative	(4.2)	(3.7)	(4.5)	(4.5)	(4.8)
Marketing	(1.5)	(2.4)	(1.6)	(1.7)	(1.6)
Research and development(1)	(4.6)	(5.4)	(4.3)	(4.4)	(7.6)
Total operating expenses(1)	(10.3)	(11.5)	(10.4)	(10.6)	(14.0)
Income from operations	24.4	29.2	36.9	33.3	12.4
Non-operating income	3.9	2.2	3.8	6.1	2.9
Non-operating expenses	(6.4)	(4.4)	(2.2)	(3.2)	(5.4)
Income before income tax	21.9	27.0	38.5	36.2	9.9
Income tax (expense) benefit	4.6	3.1	0.7	0.2	3.4
Net income before minority interest income	26.5	30.1	39.2	36.4	13.3
Minority interest income	2.0	0.7	0.0	(0.1)	0.0
Net income	28.5%	30.8%	39.2%	36.3%	13.3%

(1) Amounts in 1999 and 2000 reflect the reclassification of NT$1,025 million in 1999, NT$2,072 million in 2000 and NT$619 million in the six months ended June 30, 2000 from cost of sales to research and development. Please see "Management's Discussion and Analysis of Financial Condition and Consolidated Results of Operations — Year Ended December 31, 2000 Compared to Year Ended December 31, 1999 — Cost of Sales and Gross Profit".

We completed mergers with Worldwide Semiconductor and TSMC-Acer on June 30, 2000. The merger with Worldwide Semiconductor was accounted for as a pooling-of-interests transaction and thus the historical financial statements of Worldwide Semiconductor have been combined with our historical financial statements, and are restated, for all relevant periods. The merger with TSMC-Acer was accounted for as a purchase transaction and thus we recorded on our books an amount of goodwill that is equal to the excess of the value of our purchase price for TSMC-Acer over the net book value of TSMC-Acer. Under regulations of the ROC Ministry of Economic Affairs, we are required to eliminate the goodwill amount and reduce our capital surplus by a corresponding amount. Previously under US GAAP, however, this goodwill was required to be amortized on a straight-line basis over five years. As of January 1, 2002, we are no longer permitted to amortize the goodwill under US GAAP, but rather we must continue carrying the goodwill on our books subject to reduction based upon an impairment determined in the future. For a further description of this change in accounting policies, please see "—Recent Accounting Pronouncements".

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Net Sales. Our net sales increased 1.4% from NT$64,915 million in the first half of 2000 to NT$65,816 million (US$1,909 million) in the first half of 2001. This increase was primarily due to a 22.5% increase in the average selling price of our wafers during the first half of 2001, partially offset by a 21.4% drop in wafer sales volume from 1,465 thousand wafers sold in the first half of 2000 to 1,152 thousand wafers sold in the first half of 2001. The increase in the average selling price of our wafers in the first half of 2001 was primarily the result of a significant increase in the percentage of our net sales comprised of relatively higher priced semiconductors with a resolution of 0.18 micron and below, partially offset by a decrease in the average selling prices for those semiconductors.

The following table sets forth the actual and pro forma net sales for the six months ended June 30, 2000 and 2001, assuming the merger with TSMC-Acer was effected as of January 1, 2000. Since our actual net sales for the six months ended June 30, 2000 do not reflect any operations for TSMC-Acer, which was acquired on June 30, 2000, a comparison of our pro forma net sales reveals more clearly the relative levels of net sales of wafers produced at all of our current fabs.

	Six months ended June 30, 2000	Six months ended June 30, 2001	Percent Change
	(in millions, except percentage)		
Actual net sales	NT$64,915	NT$65,816	1.4 %
Pro forma net sales	NT$68,869	NT$65,816	(4.4)%

Cost of Sales and Gross Profits. Our cost of sales increased 32.9% from NT$36,447 million in the first half of 2000 to NT$48,441 million (US$1,405 million) in the first half of 2001. This increase resulted primarily from a 53.4% increase in depreciation and amortization expenses, from NT$17,283 million in the first half of 2000 to NT$26,506 million (US$769 million) in the first half of 2001, partially offset by a decrease in our requirements for materials, labor and other components as a result of the 14% decrease in wafers sold. Our depreciation and amortization increased primarily because of the increased depreciation associated with the additional capacity acquired in the merger with TSMC-Acer, the ramping up of Fab 6 and the capacity increase at Fab 8.

Our gross margin decreased to 26.4% in the six months ended June 30, 2001, from 43.9% in the six months ended June 30, 2000. The decrease was principally due to the high portion of our costs represented by depreciation and amortization expenses and a substantial decrease in average utilization rate. Our average utilization rate fell from 107% in the six months ended June 30, 2000 to 57% in the six months ended June 30, 2001, which was attributable to our expanded capacity after the merger with TSMC-Acer on June 30, 2000 and the significant decline in global demand for semiconductors commencing in the first quarter of 2001.

Operating Expenses. Our total operating expenses increased 34.0% from NT$6,871 million in the first half of 2000 to NT$9,210 million (US$267 million) in the first half of 2001. General and administrative expenses increased 6.5% from NT$2,936 million in the six months ended June 30, 2000 to NT$3,128 million (US$91 million) in the six months ended June 30, 2001, primarily as a result of preparations in connection with the expected production of twelve-inch wafers. Marketing expenses increased 2.1% from NT$1,076 million in the first half of 2000 to NT$1,099 million in the first half of 2001.

Research and development expenses increased 74.3% from NT$2,859 million in the first half of 2000 to NT$4,984 million (US$145 million) in the first half of 2001, representing 7.6% of the total net sales in the first half of 2001. The principal reason for this increase was our increased expenditures related to development of our 0.13 and 0.10 micron and twelve-inch wafer production technology, along with copper interconnect technology, as part of our increased focus on being a leader in developing advanced process technology. We anticipate that our annual research and development expenditures will remain at a similar absolute level in 2002.

Income from Operations. Income from operations decreased 62.2% from NT$21,597 million in the first half of 2000 to NT$8,165 million (US$237 million) in the first half of 2001. This decrease was primarily due to a 21.4% decrease in wafer sales caused by a significant decline in global demand for semiconductors. Our operating margin decreased from 32.9% in the first half of 2000 to 12.4% in the first half of 2001.

Non-operating Income and Expenses. Non-operating income decreased 52.4% from NT$3,981 million in the first half of 2000 to NT$1,893 million (US$55 million) in the first half of 2001. This decrease principally resulted from a NT$1,498 million (US$43 million) decrease in insurance compensation receipts and the elimination of a NT$732 million (US$21 million) foreign exchange gain recorded in the first six months of 2000. Non-operating expenses increased 71.2% from NT$2,088 million in the first six months of 2000 to NT$3,574 million (US$104 million) in the first six months of 2001. This increase principally resulted from a NT$1,544 million net investment loss and a NT$333 million foreign exchange loss recorded in the first six months of 2001.

Income Tax Expense (Benefit). Our income tax benefit increased 1,541% from NT$138 million in the first six months of 2000 to NT$2,264 million (US$66 million) in the first six months of 2001. This increase primarily resulted from a significant decrease in income tax payable at the statutory rate as well as a significant increase in available investment tax credits due to the substantial capital expenditures made in 2000. We anticipate that our tax benefit will be substantially less in 2002 due to significant reduction in capital expenditures subsequent to June 30, 2001 and the expiration of most applicable tax holidays for Fabs 2, 3 and 4.

Net Income. Net income decreased 63% from NT$23,576 million in the first six months of 2000 to NT$8,733 million (US$253 million) in the first six months of 2001. Our net margin decreased from 36.3% in the first half of 2000 to 13.3% in the first half of 2001. Pro forma net income for the first six months of 2000 reflecting the inclusion of TSMC-Acer as of January 1, 2000 does not differ significantly from our actual net income.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net Sales. Our net sales increased 117.8% from NT$76,305 million in 1999 to NT$166,198 million (US$4,820 million) in 2000. This increase primarily resulted from an 86.6% increase in wafer sales volume, from 1,826 thousand in 1999 to 3,408 thousand in 2000, and a 19.1% increase in average selling price of wafers. This increase in wafer sales volume is attributable to an increase in wafers produced at our fabrication plants as well as to the merger with TSMC-Acer. In addition, the increase in the average selling price of our wafers was the result of an increase in the proportion of wafers with higher resolution sold in 2000, partially offset by the negative impact of appreciation of the NT dollar against the US dollar and Japanese yen. Prior year results have been restated to reflect the merger with Worldwide Semiconductor, which was accounted for as a pooling-of-interests.

The following table sets forth the actual and pro forma net sales for the years ended December 31, 1999 and 2000, assuming the merger with TSMC-Acer was effected as of January 1, 1999. Since our actual net sales for the year ended December 31, 2000 reflects only six months of operations for TSMC-Acer, a comparison of our pro forma net sales reveals more clearly the extent of the growth in net sales of wafers produced at all of our current fabs.

	1999	2000	Percent Change
	(in millions, except percentage)		
Actual net sales	NT$76,305	NT$166,198	117.8%
Pro forma net sales	NT$86,130	NT$170,132	97.5%

Cost of Sales and Gross Profit. Our cost of sales increased 93.8% from NT$45,212 million in 1999 to NT$87,610 million (US$2,541 million) in 2000. This increase resulted primarily from a 64.5% increase in depreciation and amortization expenses, from NT$25,198 million in 1999 to NT$41,446 million (US$1,202 million) in 2000, and an increase in our requirements for materials, labor and other components as a result of our 86.6% increase in wafers sold. Our depreciation and amortization increased primarily because of the increased depreciation in the second half of 2000 associated with the additional capacity acquired in the merger with TSMC-Acer as of June 30, 2000 and the increased depreciation associated with ramping up our Fab 6 and the capacity increase in Fab 5 and Fab 8. Our gross margin increased from 40.7% in 1999 to 47.3% in 2000. The increase in our gross margin was principally the result of the increased average selling price of wafers sold and an increased utilization rate of our fabs from approximately 100% in 1999 to approximately 106% in 2000.

The cost of sales and research and development amounts for 1999 and 2000, which we previously released, have been restated in this prospectus to reflect the reclassification of certain expenses related to wafers produced for engineering at our existing fabs. We believe that it is more appropriate to classify these engineering wafer production costs to research and development instead of cost of sales. This classification is consistent with our practice in all other periods. As a result of this reclassification, gross profit increased 3.4% in 1999 and 2.7% in 2000, and operating expenses increased 13.1% in 1999 and 13.6% in 2000. There was no effect on our operating income or our net income. The amount reclassified in our 1999 accounts was NT$1,025 million, the amount reclassified in our 2000 accounts was NT$2,072 million and the amount reclassified in our accounts for the first half of 2000 was NT$619 million.

Operating Expenses. Our total operating expenses increased 96.0% from NT$8,823 million in 1999 to NT$17,293 million (US$501 million) in 2000.This increase was below the increase in our net sales due to efficiencies related to higher production and operation at a 106% utilization rate. As a percentage of total net sales, our operating expenses decreased from 11.5% in 1999 to 10.4% in 2000. General and administrative expenses increased 160.4% from NT$2,845 million in 1999 to NT$7,408 million (US$215 million) in 2000. This increase resulted primarily from expenses associated with increased capacity and production, in particular, in Fab 8, the start-up of our twelve-inch pilot line in Fab 12, the purchase of stock options from some WaferTech employees and the expenses related to the TSMC-Acer operations acquired on June 30, 2000. Marketing expenses increased 44.0% from NT$1,862 million in 1999 to NT$2,682 million (US$78 million) in 2000. This increase resulted primarily from the increase in our marketing operations and number of personnel in North America, partially offset by our policy in limiting the hiring of sales personnel. Research and development expenses increased 75.0% from NT$4,116 million in 1999 to NT$7,204 million (US$209 million) in 2000, representing 4.3% of the total net sales in 2000. This increase was principally due to our development of more advanced technology. Please see "—Cost of Sales and Gross Profit" for a discussion of the reclassification of certain amounts from cost of sales to research and development in our accounts for 1999 and 2000.

Income from Operations. Income from operations increased 175.2% from NT$22,270 million in 1999 to NT$61,295 million (US$1,778 million) in 2000. This was due principally to the 86.6% increase in production of wafers and the higher average utilization rate resulting from a significant improvement in the demand for our foundry services. Our operating margin also increased from 29.2% in 1999 to 36.9% in 2000.

Non-Operating Income and Expenses. Non-operating income increased 270.3% from NT$1,682 million in 1999 to NT$6,228 million (US$180 million) in 2000. This increase principally resulted from the receipt of NT$1,624 million (US$47 million) in insurance compensation related to the earthquake that occured on September 21, 1999 and a power failure in 2000. Non-operating income also increased due to a gain of NT$1,061 million (US$31 million) on the sale of short-term investments primarily distributed by InveStar Semiconductor Development Fund, Inc., a venture capital fund in which we have invested approximately US$46 million. Non-operating expenses increased 8.9% from NT$3,324 million in 1999 to NT$3,621 million (US$105 million) in 2000. This increase principally resulted from an increase of 17.4% in our aggregate amount of outstanding bank loans, notes and bonds payable from NT$47,865 million as of December 31, 1999 to NT$56,173 million (US$1,629 million) as of December 31, 2000, which caused an increase of 12.4% in interest expense from NT$2,417 million in 1999 to NT$2,717 (US$79 million) in 2000. Our interest expense did not increase as rapidly as our increase in bank loans, notes and bonds as a result of the refinancing of our bank loans with lower interest rates in connection with our mergers with Worldwide Semiconductor and TSMC-Acer.

Income Tax Expense (Benefit). Income tax benefit decreased 51.0% from NT$2,383 million in 1999 to NT$1,168 million (US$34 million) in 2000. This decrease resulted from increased tax expenses as a result of our increased profit.

Net Income. Net income increased 176.7% from NT$23,527 million in 1999 to NT$65,106 million (US$1,888 million) in 2000. The increase in net income was attributable primarily to the increase in net sales associated with our fabs owned, our merger with TSMC-Acer on June 30, 2000 and the higher average utilization rate. Prior year results have been restated to reflect the merger with Worldwide Semiconductor, which was accounted for as a pooling-of-interests. Our net margin increased from 30.8% in 1999 to 39.2% in 2000.

The following table sets forth the actual and pro forma net income for the year ended December 31, 1999 and 2000. Because our actual net income for the year ended December 31, 2000 reflects only six months of operations for TSMC-Acer, a comparison of our pro forma net income reveals more clearly the extent of the growth in net income.

	1999	2000	Percent Change
	(in millions, except percentage)		
Actual net income	NT$23,527	NT$65,106	176.7%
Pro forma net income	NT$20,888	NT$66,340	217.6%

Pro forma net income increased 217.6% from NT$20,888 million in 1999 to NT$66,340 million (US$1,924 million) in 2000. Our pro forma earnings per share was NT$3.97 for the year ended December 31, 2000 compared with NT$1.31 for the year ended December 31, 1999. On a pro forma basis, our net margin increased to 39.0% for the year ended December 31, 2000 from 24.3% for the year ended December 31, 1999.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net Sales. Our net sales increased 51.0% from NT$50,524 million in 1998 to NT$76,305 million in 1999. This increase resulted from a 54.2% increase in wafer sales volume, from 1,184 thousand in 1998 to 1,826 thousand in 1999, partially offset by a 4.8% decrease in the average selling price of wafers. The decrease in the average selling price was the result of an average pure price erosion and the negative impact of the appreciation of the NT dollar, partially offset by an increase in the proportion of wafers with higher resolution sold in 1999.

Cost of Sales and Gross Profit. Our cost of sales increased 37.0% from NT$33,009 million in 1998 to NT$45,212 million in 1999. This increase resulted primarily from a 62.3% increase in depreciation and amortization expenses from NT$15,522 million in 1998 to NT$25,198 million in 1999. This increase resulted from the inclusion in 1999 of a full year of depreciation and amortization expenses for WaferTech and the increased depreciation and amortization expenses as a result of the ramping up of Fab 5 and Fab 8. Materials, labor and other components of cost of sales also increased as a result of our 51.0% increase in net sales, but these increases were moderated by the efficiencies of production at a 100% average utilization rate in 1999 compared with a 74% average utilization rate in 1998. Our gross margin increased to 40.7% in 1999, up from 34.7% in 1998, principally as a result of the increase in average utilization rate from 74% in 1998 to 100% in 1999, partially offset by a decrease in average selling price of our products and an increase of 62.3% in overall depreciation and amortization expenses as compared to 1998. Please see "—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profit" for a discussion of the reclassification of some amounts from costs of sales to research and development in our accounts for 1999 and 2000.

Operating Expenses. General and administrative expenses increased 33.7% from NT$2,128 million in 1998 to NT$2,845 million in 1999. This increase resulted primarily from the additional support functions necessary in connection with our 36.8% increase in capacity, our 54.2% increase in wafer sales volume and increased expenses due to start-up costs at our Fab 6 in 1999. Research and development expenses increased approximately 77.9% in 1999, from NT$2,314 million in 1998 to NT$4,116 million in 1999. This increase resulted from unusually low research and development expenses undertaken in 1998 during the semiconductor market slowdown combined with accelerated research and development expenditures in 1999 for 0.18 micron technology. Research and development expenses as a percentage of our net sales decreased from 4.6% in 1998 to 5.4% in 1999. Sales and marketing expenses increased approximately 142.4% in 1999, from NT$768 million in 1998 to NT$1,862 million in 1999. This increase resulted primarily from a significant increase in the number of marketing personnel, primarily at our sales offices in the United States, and higher bad debt levels in conjunction with higher accounts receivable. As a result, our operating expenses increased 69.3% in 1999, from NT$5,210 million in 1998 to NT$8,823 million in 1999. As a percentage of our net sales, operating expenses increased from 10.3% in 1998 to 11.5% in 1999. Please see "—Year Ended December 31, 2000 Compared to Year Ended December 31, 1999—Cost of Sales and Gross Profit" for a discussion of the reclassification of some amounts from cost of sales to research and development in our accounts for 1999 and 2000.

Income from Operations. Income from operations increased 81.0% from NT$12,305 million in 1998 to NT$22,270 million in 1999. This was due primarily to the 54.2% increase in production of wafers and the higher average utilization rate resulting from a significant rebound in the worldwide demand for semiconductor products. Operating margin also increased from 24.4% in 1998 to 29.2% in 1999.

Non-Operating Income and Expenses. Non-operating income decreased 14.9% from NT$1,977 million in 1998 to NT$1,682 million in 1999, primarily as a result of a 91.3% decrease in gain on sales of long-term investments and the occurrence of a net foreign exchange loss of NT$119 million in 1999 as compared to a loss of NT$260 million in 1998. The 91.3% decrease in gain on sales of long-term investments resulted primarily because of the NT$782 million gain on the sale of securities in 1998. Non-operating expenses increased 3.0% in 1999, from NT$3,227 million in 1998 to NT$3,324 million in 1999. The increase in non-operating expenses was primarily due to a 102.8% increase in interest expense from NT$1,192 million in 1998 to NT$2,417 million in 1999, partially offset by a 79.4% decrease in the net investment loss recognized by the equity method from NT$1,400 million in 1998 to NT$289 million in 1999.

Income Tax Expense (Benefit). Net income tax benefit increased 2.8% from NT$2,318 million in 1998 to NT$2,383 million in 1999. This increase was mainly due to higher capital expenditures in 1999.

Net Income. Net income increased 63.5% from NT$14,389 million in 1998 to NT$23,527 million in 1999. The earnings per share were NT$1.57 for 1999 compared with NT$0.98 for 1998. Our net margin increased to 30.8% in 1999 from 28.5% in 1998.

Liquidity and Capital Resources

We had cash, cash equivalents and short-term investments of NT$41,525 million (US$1,204 million) as of June 30, 2001 and NT$38,840 million (US$1,126 million) as of December 31, 2000. Net cash inflow in the six months ended June 30, 2001 was NT$2,684 million (US$78 million) as compared to net cash inflow of NT$21,630 million (US$627 million) in the six months ended June 30, 2000. The NT$18,946 million (US$549 million) decrease in net cash inflow in the first half of 2001 as compared with the first half of 2000 resulted primarily from a NT$25,190 million (US$731 million) decrease in cash provided by financing activities and a NT$2,398 million (US$70 million) increase in cash used in investing activities, partially offset by a NT$9,236 million (US$268 million) increase in cash provided by operating activities. Net cash inflow in 2000 was NT$9,323 million (US$270 million) as compared to net cash inflow of NT$18,646 million in 1999. The NT$9,323 million (US$270 million) decrease in net cash inflow in 2000 as compared with 1999 resulted primarily from a NT$59,997 million (US$1,740 million) increase in cash used in investing activities and a NT$4,152 million (US$120 million) decrease in cash provided by financing activities, partially offset by a NT$54,533 million (US$1,582 million) increase in cash provided by operating activities.

In the six months ended June 30, 2001, our net cash provided by operating activities amounted to NT$46,660 million (US$1,352 million), which included non-cash depreciation and amortization expenses of NT$26,506 million (US$769 million). In the six months ended June 30, 2000, our net cash provided by operating activities amounted to NT$37,364, which included non-cash depreciation and amortization expenses of NT$17,283. Depreciation and amortization expenses were significantly higher in the first half of 2001 than in the first half of 2000 primarily due to increased depreciation and amortization at Fab 6 and Fab 8, as a result of capacity increases, and at Fab 7 after we acquired it in our merger with TSMC-Acer. In 2000, our net cash provided by operating activities amounted to NT$94,786 million (US$2,749 million), which included non-cash depreciation and amortization expenses of NT$41,446 million (US$1,202 million). In 1999, our net cash provided by operating activities amounted to NT$40,253 million, which included non-cash depreciation and amortization expenses of NT$25,198 million. Depreciation and amortization expenses were significantly higher in 2000 than in 1999 primarily due to depreciation and amortization expenses at Fab 5, Fab 6 and Fab 8 and WaferTech. Depreciation and amortization expenses will continue to increase in 2002 due to the increased depreciation and amortization at Fab 6 and Fab 8 as a result of capacity increases, the commencement of depreciation and amortization expenses at Fab 12 and depreciation and amortization of additional research and development equipment. We build to order and do not maintain a significant amount of inventory of finished goods.

Net cash used in investing activities in the six months ended June 30, 2001 amounted to NT$43,501 million (US$1,262 million). The most significant component of this was the acquisition of equipment amounting to NT$38,787 million (US$1,125 million) primarily in connection with Fab 6, Fab 8 and Fab 12. Net cash used in investment activities in the six months ended June 30, 2000 amounted to NT$41,103 million. The most significant component of this was the acquisition of equipment primarily in connection with Fab 5 and Fab 6. Net cash used in investing activities in 2000 amounted to NT$120,949 million (US$3,508 million), as compared with NT$60,952 million in 1999. The most significant component of this was the acquisition of equipment amounting to NT$103,762 million (US$3,009 million), primarily in connection with Fabs 5, 6 and 8, and WaferTech.

Net cash used in financing activities in the six months ended June 30, 2001 amounted to NT$434 million (US$13 million). This amount primarily reflects payments made on short-term and long-term bank borrowings of NT$2,937 million (US$85 million) and NT$625 million (US$18 million) for bonuses to directors and supervisors, partially offset by NT$3,099 million (US$90 million) in additional long-term bank borrowings. Net cash provided by financing activities in the six months ended June 30, 2000 amounted to NT$24,756 million (US$718 million). This amount primarily reflects proceeds of NT$26,205 million from the sale of 23,000,000 ADSs by us in June 2000, partially offset by payments of NT$4,131 million made on long-term borrowings. Net cash provided by financing activities in 2000 was NT$35,366 million (US$1,026 million), as compared with NT$39,518 million in 1999. This amount primarily reflects proceeds NT$26,205 million from the sale of 23,000,000 ADSs by us in June 2000, partially offset by payments made on our short-term and long-term bank borrowings and commercial paper of NT$15,483 million (US$449 million).

As of June 30, 2001, we had aggregate short-term debt of NT$1,912 million (US$56 million) and aggregate long-term debt of NT$55,431 million (US$1,608 million). NT$1,687 million (US$49 million) of the short-term debt and NT$26,431 million (US$767 million) of the long-term debt were denominated in U.S. dollars. US$49 million of the short-term debt and US$767 million of the long-term debt had floating interest rates based on the London interbank offer rate, or LIBOR, or Singapore interbank offer rate, or SIBOR. NT$29,000 million of the long-term debt had fixed interest rates ranging from 5.25% to 7.71% (See notes 11, 12, 13 and 14 to our consolidated financial statements). As of June 30, 2001, we had an aggregate of NT$18,969 million (US$550 million) in unused short-term credit lines and NT$8,099 million (US$235 million) in unused long-term credit lines. As of June 30, 2001, our customers had on deposit an aggregate of approximately US$56.5 million to reserve future capacity, which was reserved for capacity during the years 2001 through 2003. Subsequent to June 30, 2001, the aggregate outstanding principal balance of long-term bank loans (excluding current balances) made to WaferTech decreased from US$500 million to US$440 million.

The following table sets forth the maturity of our long-term bank loans and short-term bank loans outstanding as of June 30, 2001:

	Long-term loans	Short-term loans
	(in millions)	
During 2001	NT$55,431	NT$1,911
During 2002	42,808	—
During 2003	26,625	—
During 2004	16,329	—
During 2005 and thereafter	4,500	—

We require significant amounts of capital to build, expand, upgrade and maintain our production facilities and equipment. We made capital expenditures of NT$55,781 million, NT$51,459 million, NT$103,762 million and NT$38,787 million in 1998, 1999, 2000 and the first half of 2001, respectively. We currently expect that our plans for ramping up production at Fab 6 and Fab 12 and upgrading some of our equipment in our existing fabs will require capital expenditures of approximately NT$75,000 million (US$2,175 million) for 2001, of which NT$38,787 million (US$1,125 million) was spent during the first six months of 2001, and between approximately NT$45,000 million (US$1,305 million) and approximately NT$53,000 million (US$1,537 million) for 2002.

We anticipate that Systems on Silicon will require approximately NT$4,138 million (US$120 million) in additional capital from its shareholders in 2002, of which our proportionate share would be approximately NT$1,324 million (US$38 million). We also anticipate that Vanguard will require between approximately NT$3,500 million (US$102 million) and approximately NT$5,000 million (US$145 million) in additional capital from its shareholders in 2002, of which our proportionate share would be between approximately NT$885 million (US$26 million) and NT$1,264 million (US$37 million). These expansion and capital expenditure plans are still preliminary and are subject to change based upon market conditions. We expect to fund our expansion projects primarily with internally generated funds and additional external financings, including our completed offering in January 2002 of an aggregate of NT$15,000 million in five, seven and ten year unsecured debt securities in Taiwan. In the future, we may consider additional debt and equity financing, depending on market conditions, our financial performance and other relevant factors. In particular, an extended industry downturn could adversely affect our profitability and internal generation of cash, and thereby increase our reliance on external sources of funds. We believe that we will have sufficient resources available to meet our planned capital requirements.

Inflation

Our principal export market is the United States and we do not believe that inflation in the ROC or the United States has had a material impact on our results of operations. Inflation in the ROC was approximately 1.7%, 0.2%, 1.3% and 0.12% in 1998, 1999, 2000 and the nine months ended September 30, 2001, respectively.

Taxation

We enjoy preferential tax treatment in certain respects under the Hsinchu and Tainan Science Park regulations. We are entitled to a four-year tax holiday for income generated from construction and capacity expansions of production facilities. The exemption period may begin at any time within four years following the completion of the construction or expansion. The aggregate tax benefits of such exemption in 1998, 1999, 2000 and the first half of 2001 were NT$2,318 million, NT$2,383 million, NT$1,168 million (US$34 million) and NT$2,264 million (US$66 million), respectively. We commenced the exemption period for Fab 6 in 2001 and expect to commence the exemption period for Fab 12 in 2003. See note 18 to our consolidated financial statements.

Pursuant to the Statute for Upgrading Industries, we are entitled to credit 5% to 20% of investments, depending on the type and origin of the assets, in most of our production and production-related equipment against tax payable in any year within five years of the acquisition date of the assets. The Statute for Upgrading Industries also grants us the right to credit up to 20% of our investments in emerging, important and strategic industries (as defined in that statute) against tax payable within five years after the expiration of the first three years of investment, during which period we are required to hold such investments.

According to the tax credit rules promulgated under the Statute for Upgrading Industries, we currently enjoy a tax credit of 20% for the purchase of equipment manufactured in Taiwan and 10% for the purchase of equipment manufactured outside of Taiwan. Because the ROC became a member of the World Trade Organization on January 1, 2002, the Ministry of Economic Affairs has proposed to amend the tax credit rules in January 2002 to adopt a 15% rate of tax credit to be applied to the purchase of equipment regardless of where it was manufactured.

US GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with ROC GAAP, which differs in certain material respects from US GAAP. The following table sets forth a comparison of our net income and shareholders' equity in accordance with ROC GAAP and US GAAP for the periods indicated:

	Year ended and as of December 31,			Six months ended June 30,		
	1998	1999	2000	2000	2001	
	NT$	NT$ (in millions)	NT$	NT$	NT$ (in millions)	US$
Net income in accordance with:						
ROC GAAP	14,389	23,527	65,106	23,576	8,733	254
US GAAP	1,249	13,884	21,740	5,108	(23,072)	(669)
Shareholders' equity in accordance with:						
ROC GAAP	96,285	152,571	261,754	206,225	270,985	7,859
US GAAP	94,293	151,977	279,946	264,826	288,362	8,363

Notes 24 and 25 to the consolidated financial statements provide a description of the principal differences between ROC GAAP and US GAAP as they relate to us, and a reconciliation to US GAAP of certain items, including net income and shareholders' equity. Differences between ROC GAAP and US GAAP that have a material effect on our net income as reported under ROC GAAP include compensation expense pertaining to stock bonuses to employees, directors and supervisors, impairment charges for long-lived assets, amortization of goodwill acquired in our merger with TSMC-Acer and the effect of the use of the liability method to account for income taxes.

We paid employee bonuses in respect of 1998, 1999 and 2000 in the form of common shares and expect to pay all or a portion of employee bonuses in future periods in the form of common shares. The number of common shares distributed as part of employee bonuses is obtained by dividing the total nominal NT dollar amount of the bonus to be paid in the form of common shares by the par value of the common shares, or NT$10 per share, rather than their market value, which has generally been substantially higher than par value. Under ROC GAAP, the distribution of employee bonus shares is treated as an allocation from retained earnings, and we are not required to, and do not, charge the value of the employee bonus shares against income. Under US GAAP, however, we are required to charge the market value of the employee bonus shares to employee compensation expense in the period to which they relate, correspondingly reducing our net income and income per share calculated in accordance with US GAAP. However, since the amount and the form of the payment of the compensation is subject to shareholder approval and only determinable at the annual shareholders' meeting, which is generally held after the issuance of our financial statements, under US GAAP the compensation expense is initially accrued at the nominal NT dollar amount of the aggregate bonus in the period to which it relates as if it were to be paid entirely in cash. For US GAAP purposes, the difference between the amount initially accrued and the market value of the common shares and cash issued as payment of all or any part of the bonus is recorded as employee compensation expense in the period in which shareholder approval is obtained, which normally occurs during the second fiscal quarter of each subsequent year. See note 24 to the consolidated financial statements. Net income and income per share amounts calculated in accordance with ROC GAAP and US GAAP differ accordingly. In addition, because the adjustment for market price for the purpose of US GAAP reconciliation is made in the second quarter of each fiscal year and the entire amount of the adjustment is charged to the results for such quarter, the adjustment has a disproportionate impact on the results for the second quarter under US GAAP.

For purposes of US GAAP, we are required to periodically evaluate the recoverability of the carrying amount of our long-lived assets in accordance with Statement of Financial Accounting Standard No. 121 "Accounting for the impairment of long-lived assets and for the long-lived assets to be disposed of" (to be superseded by SFAS 144). Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable over the remaining amortization period, we are required to compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. To the extent that cash flows are less than the carrying amounts of the assets, we are required to record impairment losses to write the assets down to fair value generally based on discounted cash flows. During the year ended December 31, 2000, we recognized a NT$10,916 million impairment loss on our investment in WaferTech under US GAAP. Under ROC GAAP, we are not required to record impairment losses of assets.

Under ROC GAAP, goodwill is amortized over ten years but under US GAAP goodwill is amortized over five or ten years. The goodwill from our acquisition in 2000 of a 68% interest in TSMC-Acer was netted against capital surplus under ROC GAAP because the goodwill was from an acquisition paid for with shares. The goodwill from the prior acquisition of the 32% interest in TSMC-Acer in 1999 was not netted against capital surplus but rather was deferred and amortized because the goodwill was from an acquisition paid for with cash. Under US GAAP, all goodwill from TSMC-Acer acquisitions is recognized and amortized over five years.

Recent Accounting Pronouncements

In July 2001, the U.S. Financial Accounting Standards Board issued SFAS No. 141, "Accounting for business combinations", and SFAS No. 142, "Goodwill and other intangible assets". We were required to adopt these standards on January 1, 2002, which will affect accounting for business combinations consummated after June 30, 2001 and may affect for existing goodwill and our other intangible assets upon adoption. The standards require, among other things, companies to review for possible impairment of goodwill existing at the date of adoption and perform subsequent impairment tests on an annual basis. Additionally, existing goodwill and intangible assets must be reassessed and classified consistently in accordance with the criteria. Under the new standards for US GAAP, we will no longer amortize goodwill, but intangible assets will continue to be amortized over their estimated useful lives, which, if supportable, may be a period that exceeds the current maximum period of 40 years. Intangible assets with indeterminable useful lives will not be amortized but will be assessed for impairment in accordance with SFAS No. 121.

As a result of this change in US GAAP, we will no longer incur goodwill amortization expenses, which amounted to NT$604 million under ROC GAAP and NT$5,396 million of additional goodwill amortization under US GAAP for the six months ended June 30, 2001. As of June 30, 2001, TSMC had a total amount of NT$53,368 million recorded as goodwill under US GAAP. We currently are not able to estimate the extent and timing of any goodwill impairment charge for future years. Any goodwill impairment charge under US GAAP may have a material adverse effect on our net income for periods subsequent to December 31, 2001 on a US GAAP reconciled basis.

Please see note 25 to the consolidated financial statements for a discussion of other announced changes in US GAAP that we do not expect to have a material effect on our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

Our exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates. To mitigate these risks, we utilize derivative financial instruments, the application of which, pursuant to our internal guidelines, is primarily for hedging purposes and not for speculative purposes.

Interest Rate Risks: Our exposure to interest rate risks relates primarily to our long-term debts, which are normally assumed to finance our capital expenditures.

The table below presents annual principal amounts due and related weighted average implied forward interest rates by year of maturity for our debt obligations outstanding as of June 30, 2001.

	2001	2002	2003	2004	2005
		(in millions, except percentages)			
Long-term debt					
US$-denominated debt					
Variable rate	US$767	US$546	US$192	US$39	—
Average interest rate	2.87%	3.31%	4.60%	5.33%	— %
NT$-denominated debt					
Fixed rate	NT$29,000	NT$24,000	NT$20,000	NT$15,000	NT$4,500
Average interest rate	5.80%	5.83%	5.45%	5.28%	5.36%
Interest rate swaps					
Fixed rate	NT$5,000	NT$5,000	—	—	—
Average interest rate	7.23%	7.23%	— %	— %	— %

Foreign Currency Risk: Substantial portions of our revenues and expenses are denominated in currencies other than the NT dollar. As of June 30, 2001, approximately 75% of our accounts payable and payables for purchases of capital goods were denominated in currencies other than the NT dollar, primarily in U.S. dollars, Japanese yen and Euros. More than 82% of our accounts receivable and receivables from related parties were denominated in non-NT dollars, mainly in U.S. dollars. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, we utilize derivative financial instruments, mainly currency forward contracts, to hedge our currency exposure. These hedging transactions help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements. Our policy is to account for these contracts on a mark-to-market rate basis and the premiums or discounts are amortized on a straight-line basis over the life of the contract. Please see note 22 of our consolidated financial statements for information on the net assets, liabilities and purchase commitments that have been hedged by these derivative transactions.

The table below presents our outstanding financial derivative transactions as of June 30, 2001. These contracts all have a maturity date of not more than 12 months.

Foreign Currency Forward Exchange Contracts

Hedging assets/liabilities	
(Sell US$/buy NT$)	(in thousands)
Contract amount	US$555,000
Average contractual exchange rate (against NT dollars)	33.31
(Sell US$/buy Euro)	
Contract amount	US$28,990
Average contractual exchange rate (against Euro)	0.8527
(Sell US$/buy Japanese yen)	
Contract amount	US$65,000
Average contractual exchange rate	121.11
(Buy US$/sell Euro)	
Contract amount	US$17,044
Average contractual exchange rate	0.8522
(Sell Euro/buy US$)	
Contract amount	US$6,635
Average contractual exchange rate	0.93
(Sell US$/buy Euro)	
Contract amount	US$6,072
Average contractual exchange rate	0.85

Currency Options

Type	Option	Contract Amount	Range of Exchange Rate	Fair Value	Maturity
		(in thousands)		(in thousands)	
Sell	Euro Put	EUR 360,000	0.88-0.97	NT$877,162	July-Nov 2001
Sell	Yen Put	US$130,000	125	NT$47,613	Aug-Sep 2001

Other Market Risk. In addition to our interests in our joint ventures, we have made investments in debt and equity securities issued by a significant number of private companies related to semiconductor and other technology industries. As of June 30, 2001, the aggregate carrying value of these investments on our balance sheet was NT$4,037 million (US$117 million). As of June 30, 2001, we also owned shares of three venture capital funds with an aggregate carrying value of NT$997 million (US$29 million). As of June 30, 2001, we also have invested approximately NT$3,034 million (US$88 million) in venture capital investments, typically in private companies, through InveStar Semiconductor Development Fund, Inc. and InveStar Semiconductor Development Fund (II), Inc., our two 97% owned subsidiaries and Emerging Alliance Fund L.L.P., our 99.5% owned subsidiary. The carrying value of these investments in private companies and in the venture capital funds are subject to fluctuation based on many factors such as prevailing market conditions. Moreover, because these are investments in unlisted securities, the fair market value may be significantly different from our carrying value. Upon any subsequent sale of our investments, we may not be able to realize our carrying value as of June 30, 2001 or any subsequent date. As of June 30, 2001, we also had NT$1,474 million (US$43 million) in short-term investments in listed stocks.

OUR BUSINESS

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. IC Insights estimates that our revenue market share among foundries worldwide was 50% in 2000 and 54% in the third quarter of 2001. 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 commercial availability of 0.13 micron CMOS process technology in December 2000 and have developed with our customers more than 30 fully functional semiconductors utilizing this technology, some of which are currently in production. In addition, we are currently in the process of developing 0.10 micron technology and expect to commence risk production utilizing this technology by the end of 2002. 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 operate one twelve-inch fab, seven eight-inch wafer fabs and two six-inch wafer fabs. Eight of our fabs are located in Hsinchu, one is in Tainan Science Park and one is in the United States. We also commenced construction of another new twelve-inch wafer fab, Fab 14, in 2000 in the Tainan Science Park. In 1998, we entered into a joint venture called Systems on Silicon with Philips and EDB Investment Pte. Ltd. to build a fab in Singapore, which commenced production in September 2000. We also hold a 25.28% interest in Vanguard, which operates one fab in Hsinchu. We plan to decommission Fab 1, which is a six-inch wafer fab, on March 31, 2002 due to the decision by ITRI not to renew our land lease agreement with ITRI.

We believe that our large capacity is a major competitive advantage. Our monthly capacity at the end of 2000 was approximately 348,000 wafers, and we expect our monthly capacity to be approximately 381,000 wafers by the end of 2001 and, based upon preliminary estimates, approximately 358,000 wafers at the end of 2002. The decrease in our expected capacity in 2002 is primarily from the decommissioning of Fab 1 and the reconfiguration of Fab 4 and Fab 7, which will decrease our aggregate capacity by approximately 46,000 wafers, partially offset by increases in capacity at our other fabs. Our expected capacity as of year-end 2002 includes a monthly capacity of approximately 29,200 wafers at the fabs of our joint ventures Systems on Silicon and Vanguard.

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 such as Alcatel Microelectronics and Qualcomm Inc. Fabless integrated circuit design houses and integrated device manufacturers accounted for approximately 63% and 36%, respectively, of our net sales in 2000 and in the six months ended June 30, 2001.

Industry Background

The Semiconductor Industry. Since the invention of the transistor in 1948, continuous improvements in semiconductor processes and design technologies have led to smaller, more complex and more reliable devices at a lower cost per function. As performance has increased and size and cost have decreased, semiconductors, and particularly integrated circuits, have expanded beyond their original primary applications such as mainframe computer systems to applications such as personal computers, telecommunications systems, consumer electronics, office equipment, automotive products and industrial automation and control systems. Today, semiconductors have become pervasive in everyday life. In addition, system users and designers have demanded semiconductors with more functionality, higher levels of performance, greater reliability and shorter design cycle times, all in smaller packages at lower costs. These demands have resulted in increased semiconductor content as a percentage of system cost.

The semiconductor industry's growth has generally been driven by its ability to create advanced and innovative technology that can be used in many areas of the world economy. The most significant technology trends today in the semiconductor industry are the development of 300-mm, or twelve-inch, wafer technology, the development of more advanced process technology for 0.13 and 0.10 micron semiconductors, the creation of new design analysis tools and the growth of fiber-optic systems and optical interconnect technologies. The advancement of twelve-inch technology is expected to provide significant economies of scale as each twelve-inch wafer produces more die per wafer. The introduction of more advanced circuit technology is creating greater technological barriers as the resolution increases. Important research areas include copper dual-damascene-interconnect technology, low-k intermetal dielectric implementation and silicon and silicon alternative process technologies, such as silicon germanium. We and other leading semiconductor companies have already announced twelve-inch, 0.13 micron production capabilities with 0.10 micron semiconductors process technology in research and development. Significant commercial production using 0.13 micron process technology is expected in 2002. New design tools and circuit interconnect technologies will need to be developed to support the development of more advanced semiconductors at a resolution of 0.13 micron and below. For example, more sophisticated analytical instruments are required to debug new advanced semiconductor designs. Advanced semiconductors provide opportunities for semiconductor companies as the advanced semiconductors generally provide more application possibilities and are expected to command higher prices than less-advanced technologies at any given time. However, the new technologies entail significant costs to develop and produce. It is expected that integrated device manufacturers and foundries that develop the leading-edge technology early on will have a competitive edge. The high costs associated with the development of new technology are likely to result in the future in a higher proportion of advanced semiconductors being produced by dedicated foundries.

Semiconductor sales have increased significantly over the long term but have experienced significant cyclical variations in growth rates. It is estimated that worldwide sales of all integrated circuits increased from approximately US$43 billion in 1990 to approximately US$204 billion in 2000, with almost all of the growth occurring during the years between 1992 and 1995 and between 1998 and 2000. During 1996 and the first half of 1997, the worldwide per bit price in the memory market declined sharply, and prices of certain other semiconductor products also declined, as increases in supply outstripped demand as a result of technology advancements and excess inventories accumulated in 1995. In 1998, worldwide sales of semiconductors declined by approximately 8% from 1997. Demand for semiconductors improved significantly in 1999 due to the continued recovery of the worldwide semiconductor industry and worldwide sales of semiconductors increased by approximately 19% from 1998. Starting in the first quarter of 2001, the semiconductor industry experienced a significant downturn due to a slowdown in the global economy, overcapacity in the semiconductor industry and a worldwide semiconductor inventory adjustment. Historically, cyclical changes in production capacity and demand in the semiconductor industry have resulted in pronounced cyclical changes in the level of semiconductor sales and fluctuations in prices and margins for semiconductor products from time to time.

The Emergence of the Fabless Design Houses and Dedicated Foundries. The manufacture of semiconductors is an extremely complex process that requires increasingly sophisticated engineering and manufacturing expertise. Advances in manufacturing process technology enable the design of higher performance semiconductors and the miniaturization of electronic circuitry. As the process of manufacturing semiconductors has become more complex, the capital required for the construction and maintenance of an advanced semiconductor fabrication facility has increased significantly. This has contributed to an important change in the semiconductor industry. Companies that design and develop proprietary semiconductor products but do not maintain any internal manufacturing capacity, called "fabless" companies, have emerged in significant numbers in recent years. Fabless design houses have typically been started by engineers from leading semiconductor companies who wish to test out their innovations and ideas in the market place. These companies are completely dependent on foundry services to manufacture their products. Based upon publicly available information, fabless design houses represent a majority of net sales for dedicated foundry companies.

In addition, many large semiconductor companies and end-product manufacturers that maintain internal manufacturing capacities are increasingly using foundry services for a portion of their manufacturing requirements. Utilizing foundry services allows these companies to reduce manufacturing costs, efficiently allocate capital, research and development and management resources and gain ready access to manufacturing process technology they do not possess.

These changes, as well as the rapid growth of the semiconductor industry, have led to the increasing utilization of foundries. Foundry manufacturing services were traditionally provided by vertically integrated semiconductor companies with excess capacity. After our establishment, other semiconductor manufacturers have also focused on foundry services. These specialized foundries have derived significant manufacturing advantages due to their greater operational focus, economies of scale in production and capital equipment purchases, and broad access to various process technologies they have developed with their customers. Due to these advantages, dedicated foundries have experienced rapid growth and have made substantial investments in advanced facilities and process technologies. IC Insights estimates that the revenues earned by dedicated foundries will increase from approximately US$6.0 billion in 1999 to US$23.0 billion in 2005, representing a compound annual growth rate of 25.1%. IC Insights estimates that the merchant foundry market (including dedicated and integrated foundries) will more than triple to US$27.8 billion by 2005 from US$8.2 billion in 1999, representing a compound annual growth rate of 22.6%. The projections by IC Insights are forward-looking statements published by IC Insights independently from us. We were not involved in the preparation of these projections and take no responsibility for their accuracy.

The Semiconductor Industry in Taiwan. The semiconductor industry in Taiwan, benefitting from a number of factors, experienced rapid growth through the first half of 1996, with demand for semiconductors generated from downstream manufacturers far exceeding supply during that period. It has been estimated that the market for semiconductors in Taiwan has been growing at a faster rate than that of the world market in recent years, from US$2.4 billion in 1990 to US$16.1 billion in 2000. The semiconductor industry in Taiwan experienced a downturn in 1998 due to an over-supply of manufacturing capacity in both the dynamic random access memory (DRAM) and foundry markets. The semiconductor industry in Taiwan rebounded in 1999 in the wake of expanding Asian economies and increased technology spending among US companies and consumers. The semiconductor industry in Taiwan experienced another downturn starting in the first quarter of 2001 due to the worldwide downturn in the semiconductor industry. Domestic production of semiconductors in Taiwan satisfied approximately 30% of the total domestic demand in 2000.

Taiwan possesses a well-educated and capable labor pool, in particular, a large engineering work force well-suited for sophisticated manufacturing industries. The ROC government has also provided tax incentives, long-term loans at favorable interest rates and research and development support, both directly and indirectly through leading research institutes and universities. As part of such efforts, the ROC government established the Hsinchu Science Park, where we and a number of our customers and competitors are located. Companies located in the Hsinchu Science Park enjoy preferential treatments, including tax holidays, start-up financing and research grants, a streamlined approval process for facility construction and expansion, and dedicated warehousing and shipping facilities. Due to the success of the Hsinchu Science Park, the ROC government has created the Tainan Science Park, a similar park in the southern part of Taiwan, to provide additional beneficial locations for semiconductor companies and further stimulate the semiconductor industry in Taiwan.

The simultaneous growth of Taiwan's indigenous electronics industry, particularly in the personal computer markets, has created a sizable local semiconductor market and a substantial infrastructure of technology companies, particularly in the semiconductor industry, with companies that specialize in one or more of the five segments of semiconductor manufacturing: design, photomask manufacturing, wafer fabrication, assembly and testing. This full spectrum of semiconductor manufacturing services makes Taiwan companies attractive to semiconductor or systems companies from around the world pursuing an outsourcing strategy for all or a portion of their semiconductor production needs.

Strategy

Our goal is to establish ourselves as one of the world's leading semiconductor companies by building upon the strengths that have made us the leading dedicated semiconductor foundry in the world. The following are the key strategies for achieving this goal:

Enhance Our Process Technology. We believe that our focus on improving process technology and investment in advanced technology and equipment have made us a leader in semiconductor process technology. 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. We began offering 0.25 micron CMOS logic process in the second quarter of 1998, 0.18 micron CMOS logic process in the second quarter of 1999, 0.15 micron CMOS logic process in March 2000 and 0.13 micron CMOS logic process in March 2001. Our current leading process technologies enable us to offer to our customers 0.13 micron eight-layer metal, CMOS logic with copper interconnects, 0.13 micron embedded one transitor (1T) RAM and 0.18 micron embedded flash memory. We intend to maintain leading process technologies across a broad spectrum of semiconductors so as to offer services for all of our customers' requirements. Our technology leadership has enabled us to compete successfully for manufacturing orders of leading semiconductor companies requiring volume production foundry services that use advanced technology and to increase the sales volume of our higher priced and higher resolution wafers, which contributed significantly to our revenue growth and profit margins prior to 2001. Although our net sales and profit margins decreased in 2001 as a result of industry conditions, wafers that utilize our advanced process technology continue to represent an increasing percentage of our net sales. Our strategy is to continually advance the technical capability of our manufacturing process in order to enhance our position as the leader in process technology among dedicated foundries and as one of the leaders in process technology in the semiconductor industry generally. We intend to accomplish this through close working relationships with our customers and equipment suppliers, and through increased focus on research and development. Targeted areas of research and development efforts in the next few years include the development of 0.10 micron process technology for use with twelve-inch wafers, including the development of super low relative conductivity (RC) delay interconnects for use on 0.10 micron semiconductors and process technology for embedded memory and other functions for semiconductors that combine various logic, input/output and embedded memory functions on a single 0.10 micron semiconductor, embedded DRAM and embedded flash memory chips and SRAM. This combination of multiple applications on a single semiconductor is referred to as a "system-on-a-chip".

Maintain Leading Foundry Capacity. We currently operate ten fabs and two joint venture fabs with an aggregate monthly capacity to produce approximately 367,500 wafers as of September 30, 2001, including 27,200 wafers at our joint ventures of Systems on Silicon and Vanguard. We entered into the Systems on Silicon joint venture in 1998 to operate a foundry in Singapore, which commenced production in the fourth quarter of 2000 and is expected to reach its full capacity of 30,000 wafers in 2003. Our large capacity has allowed us to take on high volume projects that require quick turnaround and to realize economies of scale. To continue to enjoy these advantages, we aim to remain the largest independent foundry in the world. We are in the process of ramping up production at Fab 12, our first twelve-inch fab which is expected to reach a monthly capacity of approximately 23,000 wafers by the end of 2002. We are also constructing Fab 14, our second twelve-inch fab. We believe that the significant increased costs associated with building a twelve-inch wafer fab, which we estimate could be at least twice as expensive as a comparable eight-inch wafer fab, and the development or acquisition of associated process technology for the manufacture of advanced semiconductors, are likely to result in the future in a higher proportion of advanced semiconductors being produced by dedicated foundry companies.

Focus on Customer Service. We believe that our focus on customer service has been an important factor in attracting leading semiconductor companies as customers. The key element of our customer service is our "virtual fab", which is intended to integrate and formalize the customer service approach that we have pursued since our inception. The goal of the "virtual fab" program is to make all of our semiconductor manufacturing services as transparent and easy to deal with for our customers as their own in-house fabs, without the additional expense and demand on management resources. Furthering our "virtual fab" concept, we are planning on increasing our capacity to offer directly, or through closer arrangements with third parties, design services prior to semiconductor or fabrication and assembly and testing services subsequent to semiconductor fabrication for advanced semiconductors. By increasing our capacity to offer these services we intend to offer our customers a complete integrated service for the design, manufacturing, assembly and testing of semiconductors. We refer to this integration of the capacity to offer all of these services as "virtual re-integration" of foundry services.

The "virtual fab" also provides our customers with the benefits of an in-house fab, including:

- confidentiality of proprietary customer information and data;
- quality of service and products;
- assurance of on-time delivery of product;
- flexibility in scheduling and in capacity;
- cost effectiveness;
- real-time online information exchange with the customer during manufacturing so that the entire process is transparent to the customer; and
- assembly and testing, most of which are currently subcontracted out to third parties.

Other elements of our customer service include:

- our firmly established customer-oriented culture, which emphasizes close interaction with our customers on many levels, from senior management, marketing staff and customer engineers in the marketing and customer service offices to product and line engineers in the fabs and the research and development staff. Some of this interaction is achieved through direct data links to customers to enhance communication and facilitate real time engineering data and order information flow;

- responsiveness to customer's requirements in terms of lead time and product cycle;
- flexibility in technical capability, order size requirements and design changes;
- delivery accuracy in terms of time and quantity; and
- tight design rules that promote the design of more compact, faster dies.

In a move to further enhance our "virtual fab" program, on July 20, 1999 we launched TSMC On-Line, our on-line ordering and information delivery system. In addition to work in progress and shipping reports, TSMC On-Line provides a 24 hours a day, seven days a week, one-stop shop for our customers who wish to place orders, review technical documentation, brochures or manuals or place general queries. As of September 30, 2001, approximately 35% of our orders were processed electronically.

Maintain Our Diversified Customer Base. We have been able to assemble a strong customer base by concentrating on companies that we believe have a high growth potential and sound management and require the latest volume production technology available. For the year ended December 31, 2000, we estimate that 35% of our net sales was for computer applications, 35% was for communication applications, 15% was for other consumer applications, 12% was for memory and 3% was for other uses. For the nine months ended September 30, 2001, we estimate that 39% of our net sales was for computer applications, 25% was for communication applications, 19% was for other consumer applications, 13% was for memory and 4% was for other uses. For the third quarter of 2001, we estimate that 49% of our net sales was for computer applications, 16% was for communication applications, 25% was for other consumer applications, 6% was for memory and 4% was for other uses. We plan to maintain and add to our core customer base by identifying and attempting to attract potential customers with advanced design capabilities and requirements for advanced technology foundry services. We also intend to maintain and add to our diversified customer mix in terms of geographic distribution, end markets and processes. In the future, we plan to focus on attracting an increasing number of integrated semiconductor companies to use our foundry services. We believe that our diversified customer base generally helps to mitigate the impact on us of cyclical downturns in the semiconductor industry. We believe that the substantial costs associated with the construction of a twelve-inch wafer fab and the development or acquisition of related process technologies, combined with the production flexibility and cost advantages offered by the specialized capabilities of dedicated foundries, will lead integrated semiconductor companies to increasingly utilize foundry services offered by dedicated foundries like ours.

Remain Dedicated to the Foundry Business. Our exclusive dedication to the foundry business enables us to focus on developing our advanced manufacturing processes and order management capabilities without having to allocate resources to, or bear the risks associated with, designing, marketing and maintaining an inventory of our own end products. Instead, we provide services to a large number of customers in all major sectors of the semiconductor and electronics industry and generally manufacture products that are in demand at a given time. As a dedicated foundry that does not pose a competitive threat to our customers, we are able to develop technological and other links with customers that enhance design and manufacturing efficiencies and encourage customers to maintain long-term relationships with us. We believe that our focus on the foundry business and the resulting development of compatible process technologies for a wide range of semiconductors will allow us to compete more effectively in the provision of services for producing semiconductors that combine on a single chip various logic, input/output and embedded memory functions.

We believe that our continued dedication to the pure foundry business will remain a key element in our future development. Reflecting this strategy, our charter limits us to the manufacture of integrated circuits designed by our customers. While remaining dedicated to our core foundry business, we will also consider strategic investments and acquisitions. Our increased ownership of WaferTech to approximately 99% by the end of the first quarter of 2001, our June 30, 2000 mergers with Worldwide Semiconductor and TSMC-Acer, and our existing joint ventures, are examples of these activities. From time to time we have had preliminary discussions regarding other potential investments and acquisitions, but we do not currently have any agreements or understandings to make any strategic investment or acquisition.

Our History and Structure

We were founded in 1987 as a joint venture among the ROC government, Philips 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.

WaferTech in the United States. In 1996, we entered into a joint venture called WaferTech with US-based Altera Corporation, Analog Devices Inc. and Integrated Silicon Solution, Inc. to construct and operate a US$1.2 billion foundry in the United States. Initial trial production at WaferTech commenced in July 1998 and commercial production commenced in October 1998. As of December 31, 2001, the monthly capacity at WaferTech was 28,000 wafers. In December 1998, we increased our percentage ownership of WaferTech from 57% to 68% by purchasing part of the interest of Analog Devices Inc. and Integrated Silicon Solution, Inc. As of April 30, 2000, our percentage interest had decreased to approximately 67% as a result of the exercise of options by certain employees of WaferTech to purchase interests in WaferTech. By the end of the first quarter of 2001, we had increased our percentage ownership of WafterTech from 67% to approximately 99% by purchasing all of the remaining interest of Altera Corporation, Analog Devices Inc. and Integrated Silicon Solutions, Inc.

Systems on Silicon in Singapore. In March 1999, we entered into an agreement with Philips and EDB Investment Pte. Ltd. to found a joint venture, Systems on Silicon, to build a fab in Singapore. As of December 31, 2001, we owned 32% of Systems on Silicon, Philips owned 48% and EDB Investment Pte. Ltd. owned 20%. The fab commenced production in December 2000. After the ramping up of the production capability at Systems on Silicon to its full capacity, we, together with Philips, have the right to purchase up to 100% of its annual capacity. We and Philips jointly are required to purchase up to 70% of the Systems on Silicon's full capacity and we will be required to purchase no more than 28% of the annual installed capacity. Please see "Transactions With Related Parties—Systems on Silicon Manufacturing Company Pte. Ltd." for a detailed discussion about the contract terms we entered into with Systems on Silicon.

TSMC-Acer. In July 1999, we acquired 32% of the outstanding equity securities of Acer Semiconductor Manufacturing Inc., a specialized DRAM manufacturer in Taiwan. Upon our acquisition of this 32% interest, the name of this company was changed to TSMC-Acer Semiconductor Manufacturing Corporation. The other principal shareholders of TSMC-Acer as of December 31, 1999 were Acer Inc. and certain of its affiliates, which held an aggregate equity interest of approximately 30%, and China Development Industrial Bank, which held 8%. TSMC-Acer is located in the Hsinchu Science Park, has one eight-inch fab with a monthly production capacity of 44,000 wafers as of year-end 2000 and an estimated monthly production capacity of 46,500 wafers as of year-end 2001. On June 30, 2000, we acquired by merger the remainder of TSMC-Acer that we did not already own. As a result of the merger with TSMC-Acer, each holder of TSMC-Acer shares was issued one of our common shares for every 3.90625 TSMC-Acer shares held. We issued

433,515,164 common shares upon the completion of the merger with TSMC-Acer. The merger was accounted for as a purchase. Accordingly, the results of operations for TSMC-Acer have been included in our consolidated financial statements from the date of merger.

Worldwide Semiconductor. To rapidly increase our capacity in response to strong demand for our services, in June 2000, we acquired Worldwide Semiconductor, the third-largest dedicated foundry in Taiwan established in May 1996. As result of the merger with Worldwide Semiconductor, each holder of Worldwide Semiconductor shares was issued one of our common shares for every two Worldwide Semiconductor shares held. We issued an aggregate of 1,150,000,000 common shares to Worldwide Semiconductor shareholders upon the completion of the merger on June 30, 2000. The aggregate 1,583,515,164 common shares issued to the shareholders of TSMC-Acer and Worldwide Semiconductor represented more than 10% of our then outstanding common shares. The merger was accounted for as a pooling-of-interest. Accordingly, our consolidated financial statements have been restated to include the results of operation of Worldwide Semiconductor for all periods presented.

We have successfully integrated the operations of TSMC-Acer and Worldwide Semiconductor into our corporate operations. The TSMC-Acer fab is now referred to as our Fab 7 and the Worldwide Semiconductor fab is now referred to as Fab 8. As part of integrating Fab 7, we have reconfigured Fab 7 from exclusively DRAM production to foundry production for DRAM, logic and other semiconductors. We have also conformed all management and logistical processes and appropriate technology to those of our other fabs. We now believe that these fabs function at performance levels, in terms of yield and cycle time, comparable to those of our other fabs that use similar process technologies. As part of the integration process, personnel from the acquired entities have generally been assigned to positions throughout our organization.

The following table sets forth, as of December 31, 2001, our ownership interest in, and country of incorporation of, each of our significant subsidiaries in which we own more than 10% of its equity interest.

Name of the Subsidiary	State or Jurisdiction of Incorporation	Our Ownership Interest
TSMC North America	California, USA	100%
TSMC Europe B.V.	The Netherlands	100%
TSMC Japan K.K.	Japan	100%
TSMC International Investment Ltd.	British Virgin Islands	100%
TSMC Partners, Ltd.	British Virgin Islands	100%
Po Cherng Investment Co., Ltd.	Taiwan, ROC	25%
Chi Hsin Investment Co., Ltd.	Taiwan, ROC	25%
Cherng Huei Investment Co., Ltd.	Taiwan, ROC	25%
Hsin Ruey Investment Co., Ltd.	Taiwan, ROC	25%
Kung Cherng Investment Co., Ltd.	Taiwan, ROC	25%
Chi Cherng Investment Co., Ltd.	Taiwan, ROC	25%
TSMC Development, Inc.	Delaware, USA	100%
Vanguard International Semiconductor Corporation	Taiwan, ROC	25%
TSMC Technology, Inc.	Delaware, USA	100%
InveStar Semiconductor Development Fund, Inc.	Cayman Islands	97%
WaferTech, L.L.C.	Delaware, USA	99%
Investar Semiconductor Development Fund, Inc. (II)	Cayman Islands	97%
Systems on Silicon Manufacturing Company Pte. Ltd.	Singapore	32%
Emerging Alliance Fund LLP	Cayman Islands	99%

Our principal executive office is located at No. 121, Park Avenue III, Science-Based Industrial Park, Hsinchu, Taiwan, Republic of China, and our telephone number at that office is (886-3) 578-0221. Our web site is www.tsmc.com.tw. Information contained on our web site does not constitute part of this prospectus.

Our Facilities

Our corporate headquarters and seven of our fabs are located in the Hsinchu Science Park. Another one of our fabs is located in Hsinchu at ITRI. Our corporate headquarters and our seven fabs in Hsinchu occupy approximately 275,078 square meters of land. We lease all of this land from the Science-Based Industrial Park Administration in Hsinchu under agreements that will expire on various dates between March 2008 and April 2019. Other than the buildings and a portion of the equipment for Fab 1, which we lease from the ITRI for a term that will expire without renewal on March 31, 2002, and certain equipment under leases at Fab 7, we own all of the buildings and equipment for our fabs. We plan to decommission Fab 1 on March 31, 2002. We also have one fab located in Tainan Science Park and are currently constructing a twelve-inch fab in Tainan Science Park. We have arrangements to lease from the Tainan Science-Based Industrial Park Development Office 395,000 square meters of land for our fabs in the Tainan Science Park. WaferTech owns 1,052,181 square meters of land in the State of Washington in the United States, where the WaferTech fab and related offices are located. Systems on Silicon owns 78,000 square meters of land in Singapore, where the Systems on Silicon fab and related offices are located.

Manufacturing Capacity and Technology

We manufacture semiconductors on silicon wafers based on proprietary designs provided by our customers or third party designers. Two key factors that characterize a foundry's manufacturing capabilities are output capacity and fabrication process technology. Since our establishment, we have possessed the largest capacity among the world's dedicated foundries. We also believe that we are the technology leader among the dedicated foundries in terms of our net sales of advanced semiconductors with a resolution of 0.18 micron and below and are one of the leaders in the semiconductor industry. For example, we announced the commercial production availability of 0.13 micron CMOS process technology in December 2000 and developed with our customers more that 30 fully functional semiconductors utilizing their technology, some of which are currently in production. This technology was the industry's first commercially available 0.13 micron process. We are also the sole foundry member of International SEMATECH, a consortium of 13 of the world's leading semiconductor companies that is dedicated to the research and development of advanced semiconductor manufacturing technologies. In addition, we believe that we are a leader in manufacturing process management capabilities among dedicated foundries, which contributes to our yield and our ability at times to produce at utilization rates in excess of 100%.

The following table lists our fabs, together with the year of commencement of commercial production, technology and capacity during the last five years:

Fab(1)	Year of commencement	Initial technology(2)	Current technology range(2)	Monthly capacity(3)				
				1996	1997	1998	1999	2000
1(4)	1987	1.5	1.5/1.0/0.8	11,236	12,022	11,910	11,011	9,607
2A	1990	0.8	1.0/0.8/0.6	21,348	22,753	21,348	22,472	21,348
2B	1992	0.6	0.6/0.5/0.45	21,348	23,034	23,034	21,910	22,191
2C(5)	1994	0.8	0.8	3,933	—	—	—	—
3	1995	0.5	0.35/0.25/0.15	25,506	39,000	41,000	39,000	45,000
4	1996	0.5	0.35/0.25/0.18	—	23,000	31,000	31,000	36,000
5	1997	0.5	0.35/0.25/0.18	—	3,000	13,000	28,000	39,500
6	2000	0.25	0.25/0.18	—	—	—	—	32,000
7(6)	1995	0.45	0.35/0.25/0.20	—	—	—	10,000	44,000
8(7)	1998	0.35	0.35 0.25/0.18	—	—	4,000	17,000	48,000
12	2001	0.15	0.15/0.13	—	—	—	—	—
WaferTech	1998	0.35	0.35/0.25	—	—	8,000	20,300	28,000
Vanguard(8)	1994	0.5/0.35	0.5/0.35	—	—	—	9,000	22,000
Systems on Silicon(9)	2000	0.25/0.18	0.25	—	—	—	—	400
Total				83,371	122,809	153,292	209,693	348,046

(1) Fabs 1 and 2 produce six-inch wafers. Fabs 3, 4, 5, 6, 7, 8, WaferTech, Vanguard and Systems on Silicon produce eight-inch wafers. Fab 12 produces twelve-inch wafers. Fab 1 is located in Hsinchu at ITRI Fabs 2A, 2B, 2C, 3, 4, 5, 7, 8, 12 and Vanguard are located in Hsinchu Science Park. Fab 6 is located in the Tainan Science Park. WaferTech is located in the United States and Systems on Silicon is located in Singapore.

(2) In microns, as of year-end.

(3) Estimated capacity in wafers as of year-end. Actual capacity during each year will be lower as new production capacity is phased in during the course of the year.

(4) We plan to decommission Fab 1 on March 31, 2002 due to the expiration without renewal of our land lease agreement with ITRI.

(5) Located at Macronix International Co., Ltd., or Macronix. Pursuant to an agreement with Macronix entered into in October 1993, we supplied Macronix with certain new machinery and equipment, to be used by Macronix in its wafer fab, in exchange for Macronix's commitment to supply us at a rate of 7,000 wafers per month. This arrangement concluded in October 1997.

(6) Represents that portion of the total capacity from TSMC-Acer that we utilized for foundry production prior to the completion of our merger with TSMC-Acer on June 30, 2000 and the total capacity from TSMC-Acer subsequent to the completion of the merger.

(7) Represents the total capacity from Worldwide Semiconductor since 1998, reflecting the restated operating data as a result of pooling-of-interest accounting for the merger with Worldwide Semiconductor on June 30, 2000.

(8) Represents that portion of the total capacity from Vanguard that we had the option to utilize as of December 31, 2000.

(9) Represents that portion of the total capacity that we had the option to utilize as of December 31, 2000. This fab commenced production in September 2000.

As of September 30, 2001, our monthly capacity was 367,500 wafers.

Capacity Utilization Rates. A key factor influencing our profit margins is our capacity utilization. Because a high percentage of our cost of sales is of a fixed nature, operations at or near capacity have a significant positive effect on output and profitability. Our fabs in the years 1994 and 1995 operated at above 100% average utilization rates. During the first half of 1996, our fabs operated at an average utilization rate in excess of 100%, but due to adverse market conditions in the global semiconductor market in the latter half of 1996 and the first half of 1997, our fabs operated at average utilization rates of 87% and 98% respectively. In the second half of 1997 and the first half of 1998, the average utilization rate was 106% and 88%, respectively. In the second half of 1998, the average capacity utilization rate was 63%. The average utilization rate for the first half of 1999 and the second half of 1999 was 98% and 102%, respectively. The average utilization rate for each quarter of 2000 was 108%, 101%, 107% and 105%, respectively. The utilization rates for 2000 do not take into account the utilization rates for TSMC-Acer prior to the completion of our merger with

TSMC-Acer on June 30, 2000, and the utilization rates prior to 2000 do not take into account the utilization rate for Worldwide Semiconductor and TSMC-Acer. The average utilization rate for each of the first, second and third quarters of 2001 was 70%, 44% and 41%, respectively. Operation at utilization rates exceeding 100% has been possible in the past due to, among other factors, our ability to manage the production facilities and product flows efficiently. Other factors affecting utilization rates are the percentage yield of commercially useful wafers during the fabrication process, the complexity of the wafer produced and the actual product mix.

We determine the capacity of a fab based on the capacity ratings given by manufacturers of the equipment used in the fab, adjusted for, among other factors, actual output during uninterrupted trial runs, expected down time due to setup for production runs and maintenance, and expected product mix. All of our fabs currently operate 24 hours per day, seven days per week. Employees work shifts of 12 hours each day on a two days on, two days off basis, except during periods of annual maintenance.

Mini-Environments. Our fabs are organized into bays grouped by function. The general production environment consists of class 1000 or class 100 "clean rooms". A class 100 clean room means a room containing less than 100 particles of contaminants per cubic foot. Within the clean rooms, we use the "mini-environment" approach pioneered by us in which the manufacturing steps are performed in a class 1 (in the case of Fab 3, class 0.1) clean mini-environment. We believe that the mini-environment approach has several advantages. The use of mini-environment results in reductions of building structure costs, mechanical and electrical system requirements and operating costs, allows flexibility in equipment layout and set-up and reconfiguration and facilitates the ramping-up process during capacity expansion.

Capacity Expansion and Technology Upgrade Plans

We intend to maintain our strategy of expanding manufacturing capacity and improving manufacturing process technology to meet both the fabrication and the technological needs of our customers.

The following table sets forth the range of our circuitry resolution capability and manufacturing capacity, broken down by fabs, as of year-end 2000 and planned resolution capability and capacity during the following two years:

	Year ended December 31,					
	2000		2001(E)		2002(E)	
Fab(1)	Technology range(2)	Monthly capacity(3)	Technology range(2)	Monthly capacity(3)	Technology range(2)	Monthly capacity range(3)
1(4)	1.5/1.0/0.8	9,607	1.5/1.0/0.8	11,404	—	—
2A	1.0/0.8/0.6	21,348	1.0/0.8/0.6	21,910	1.0/0.8/0.6	21,910
2B	0.6/0.5/0.45	22,191	0.6/0.5/0.45	23,315	0.6/0.5	23,258
3	0.35/0.25/0.15	45,000	0.35/0.25/0.15	46,500	0.35/0.25/0.18/0.15	48,000
4	0.35/0.25/0.18	36,000	0.35/0.25/0.18/0.13	36,200	0.35/0.25/0.18/0.13	25,800
5	0.35/0.25/0.18	39,500	0.35/0.25/0.18/0.15	40,000	0.35/0.25/0.18/0.15	34,920
6	0.25/0.18	32,000	0.25/0.18/0.15/0.13	41,000	0.25/0.18/0.15/0.13	49,500
7(5)	0.35/0.25/0.20	44,000	0.35/0.25/0.20	46,500	0.5/0.35/0.25	22,500
8(6)	0.35/0.25/0.18	48,000	0.35/0.25/0.18/0.15	54,700	0.35/0.25/0.18/0.15	52,200
12	—	—	0.15	3,375	0.18/0.15/0.13	23,175
WaferTech	0.35/0.25/0.18	28,000	0.35/0.25/0.18	28,000	0.35/0.25/0.18/0.15	28,000
Vanguard(7)	0.5/0.35	22,000	0.5/0.35/0.25	23,000	1.0/0.5/0.35	23,000
Systems on Silicon(7)	0.25	400	0.25/0.18	5,200	0.25/0.18	6,200
Total		348,046		381,104		358,464

(1) Fabs 1, 2A and 2B produce six-inch wafers. Fabs 3, 4, 5, 6, 7, 8, WaferTech, Vanguard and Systems on Silicon produce eight-inch wafers. Fabs 12 and 14 will produce twelve-inch wafers.
(2) In microns, as of year-end.
(3) Estimated capacity range in wafers as of year-end. Actual capacity during each year will be lower as new production capacity is phased in during the course of the year.
(4) We plan to decommission Fab 1 on March 31, 2002 due to the expiration without renewal of our land lease agreement with ITRI.
(5) Monthly capacity as of year-end 2000 represents that portion of the total capacity from TSMC-Acer that we utilized for foundry production prior to the completion of our merger with TSMC-Acer on June 30, 2000 and the total capacity from TSMC-Acer subsequent to the completion of the merger. Estimated monthly capacity for year-end 2001 represents all of TSMC-Acer expected capacity for this period.
(6) Represents the total capacity from Worldwide Semiconductor.
(7) Represents the portion of the total expected capacity that we have the option to utilize from these fabs.

We believe that in 2001, our aggregate capacity represented approximately 5.5% of the worldwide capacity for the production of semiconductors.

Our capital expenditures in 2001 are expected to be approximately NT$75,684 million (US$2,195 million), of which NT$38,787 million (US$1,125 million) was spent during the first six months of 2001. We currently expect our capital expenditures to be significantly less in 2002 than 2001. During 2002 we anticipate capital expenditures will focus primarily on the following:

- constructing Fab 14;
- ramping up Fab 6 and Fab 12; and
- upgrading the technology at Fabs 3, 4, 5, 6, 7 and 8.

Our unconsolidated, affiliated companies are expected to spend approximately NT$10,115 million (US$293 million) for capital expenditures in 2001, of which NT$7,570 million (US$220 million) was spent during the first six months of 2001, and additional amounts yet to be determined for capital expenditures during 2002 primarily on the following:

- increasing the capacity at Systems on Silicon; and
- upgrading the technology at Vanguard.

These investment plans are still preliminary and are subject to change based upon market conditions.

Commitments by Customers. A number of our customers have entered into arrangements with us to ensure that they have access to specified capacity at our fabs. These arrangements are primarily in the form of a deposit agreement. In a deposit agreement, the customer makes in advance a cash deposit for an option on a specified capacity at our fabs. Option deposits are generally credited to wafer purchase prices as shipments are made. As of September 30, 2001, our customers had on deposit an aggregate of approximately US$56.5 million to reserve future capacity, over half of which was reserved for capacity during the years 2001 through 2003.

Markets and Customers

The primary customers of our foundry services are fabless design houses, integrated device manufacturers and systems companies. The following table presents the breakdown of net sales (including revenues associated with application-specific integrated circuits, ASIC, and mask making services) by types of customers during the last three years and the first six months of 2001:

	Year ended December 31,						Six months ended June 30, 2001	
	1998		1999		2000			
Customer Type	Net sales	Percentage	Net sales	Percentage	Net sales	Percentage	Net Sales	Percentage
	(in millions, except percentages)							
Fabless integrated circuit design houses	NT$38,339	75.9%	NT$52,671	69.0%	NT$105,202	63.3%	NT$41,596	63.2%
Integrated device manufacturers	11,682	23.1	21,442	28.1	60,259	36.3	23,957	36.4
Systems Companies	504	1.0	2,192	2.9	736	0.4	263	0.4
Total	NT$50,524	100.0%	NT$76,305	100.0%	NT$166,198	100.0%	NT$65,816	100.0%

We categorize our net sales based on the country in which the customer is headquartered. The following table presents a geographic breakdown of our net sales during the last three years and the first six months of 2001:

	Year ended December 31,						Six months ended June 30, 2001	
	1998		1999		2000			
Region	Net sales	Percentage	Net sales	Percentage	Net sales	Percentage	Net Sales	Percentage
	(in millions, except percentages)							
USA	NT$29,749	58.9%	NT$47,803	62.6%	NT$112,183	67.5%	NT$39,819	60.5%
Asia	13,716	27.1	21,926	28.7	41,716	25.1	20,271	30.8
Europe	7,059	14.0	6,576	8.5	12,299	7.4	5,726	8.7
Total	NT$50,524	100.0%	NT$76,305	100.0%	NT$166,198	100.0%	NT$65,816	100.0%

Although we are not dependent on any single customer, a significant portion of our net sales are attributable to a relatively small number of our customers. In 2000, our five largest customers accounted for approximately 31% of our net sales and our ten largest customers accounted for approximately 44% of our net sales. Some of our customers operate in cyclical businesses and order levels have varied in the past, and may vary in the future. Our two largest customers in 2000, Altera Corporation and Analog Devices Inc., accounted for approximately 9% and 7%, respectively, of our net sales (see note 23 to our consolidated financial statements). For the six months ended June 30, 2001, our five largest customers accounted for approximately 29% of our net sales and our ten largest customers accounted for approximately 46% of our net sales. Our two largest customers in the first half of 2001, NVIDIA Corporation and VIA Technology Inc., accounted for approximately 10% and 5%, respectively, of our net sales. Due to the increase in orders from a small number of our customers for advanced semiconductors in the second half of 2001, we believe that our five largest customers and ten largest customers may account for over approximately 45% and 61%, respectively, of our net sales in the third quarter of 2001, and will represent a larger portion of our net sales in the fourth quarter of 2001. See "Risk Factors—We depend on a small number of customers for a significant portion of our revenues".

Over the years, we have attempted to strategically manage our exposure to the memory semiconductor market by limiting the proportion of memory semiconductor manufacturing services to a designated percentage of total sales revenue. This policy has successfully shielded us from significant adverse effects resulting from the previous precipitous price drops in the memory semiconductor market.

We have four marketing and customer support offices. The office in Hsinchu serves Asian (excluding Japanese) customers. Wholly-owned subsidiaries in the United States, Japan and The Netherlands serve North American, Japanese and European customers, respectively. Foundry service sales are technologically intensive and involve frequent and intensive contacts with customers. We believe that the most effective means of marketing our foundry services is by developing direct relationships with our customers. We do not use agents or distributors. Our customer engineers work closely with the sales force by providing detailed technical advice and specifications to customers.

The Semiconductor Fabrication Process

The semiconductor fabrication process can be categorized into a series of general stages. The following are the main stages involved in semiconductor production:

Circuit Design: The layout of the circuit components and interconnections is generally produced at computer-aided design terminals. A complex circuit may be designed in as many as thirty layers of patterns or more.

Mask Making: Each layer of the pattern of the circuit is duplicated on a photographic negative, known as the mask, by an electron beam generator. A mask is also referred to as a reticle.

Wafer Fabrication: This is the process by which raw silicon wafers are modified to form junctions, transistors or interconnects. In this process, the raw wafers are oxidized to form silicon dioxide, which is used as an insulator between the conductors and as an insulating layer for a controlling gate. Through the introduction of various impurities, the characteristics of conduction in the silicon are eventually changed to form a junction or transistor. During the wafer fabrication process, conductor, semiconductor or resistor materials are applied to the wafer in multiple layers in different patterns specified in the masks.

Wafer Probing: After a visual inspection, individual semiconductors, called "dies", on a wafer are tested, or "probed", electrically. Dies that fail this test are marked to be discarded.

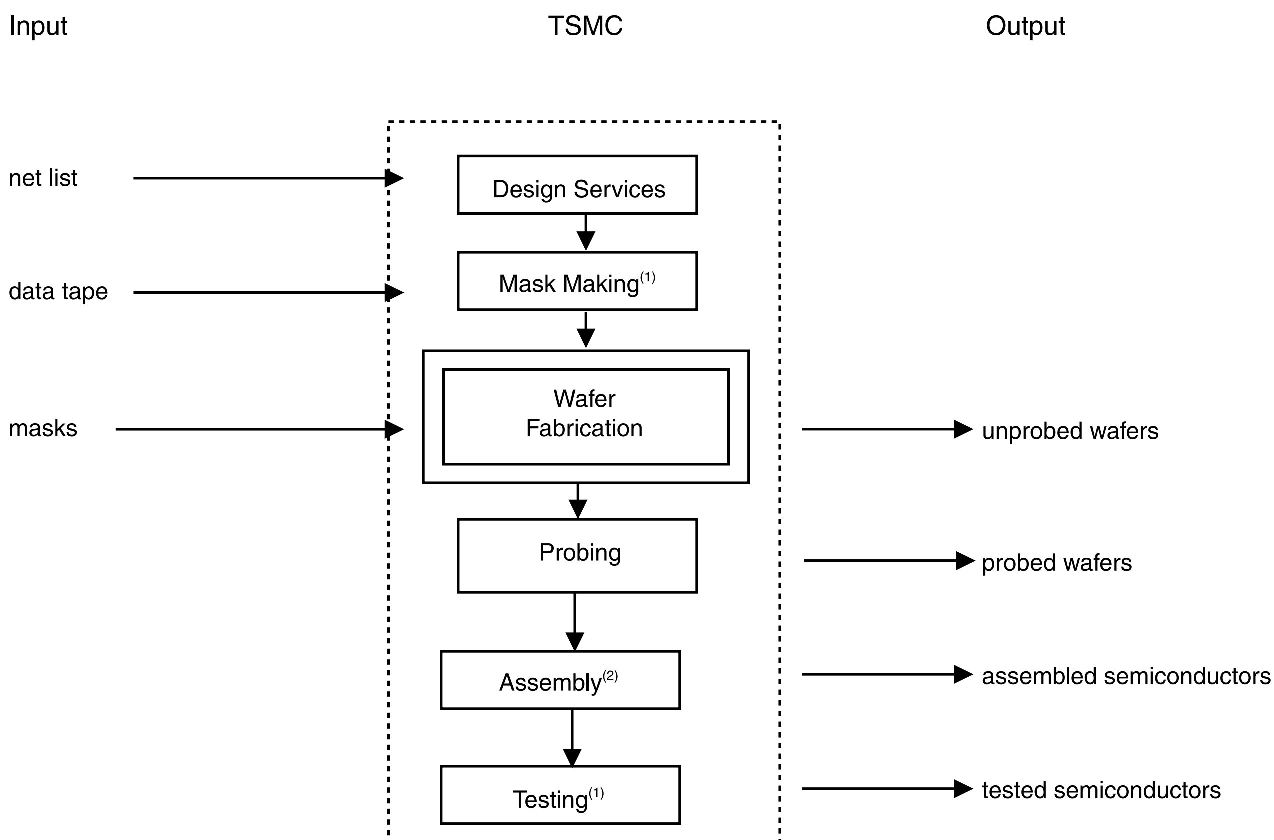
Assembly: Each wafer is cut into individual dies and marked semiconductors are discarded. Good dies are connected to a conductive lead frame or organic substrate-based package and the bonded semiconductors, if lead frame based, are then encapsulated using a plastic molding compound or a ceramic casing.

Testing: Packaged semiconductors are fully tested by the use of specialized testing equipment.

Our Foundry Services

Range of Services. We are primarily engaged in wafer fabrication for foundry customers. We also offer design, mask making, wafer probing and testing services and, on a subcontracted basis, assembly services. Because of our ability to provide a full array of services in addition to wafer fabrication, we are able to accommodate customers with a variety of input and output needs. Almost all of our customers choose to have us make the masks to be used during the fabrication process, as this decreases the risk of damage to the masks that can result from having to transport them. A growing number of customers in the recent years have also begun to use our design services. The flexibility in input stages allows us to cater to a variety of customers with different in-house capabilities and thus to service a wider class of customers as compared to a foundry that cannot offer design or mask making services. We are planning on increasing our capacity to offer directly, or through closer arrangements with third parties, design services and assembly and testing services. By increasing our capacity to offer these services, we intend to offer our customers a complete integrated service for the design, manufacturing, assembly and testing of semiconductors.

The following diagram illustrates the services we provide to our customers:



(1) Portions subcontracted out to third parties.
(2) Subcontracted out to third parties.

Fabrication Processes. We manufacture semiconductors using the complementary metal oxide silicon, CMOS and BiCMOS processes. The CMOS process is currently the dominant semiconductor manufacturing process. In the past, a competing manufacturing process called the "bipolar" process was also prevalent. Bipolar devices typically operate at higher speeds than CMOS devices, but CMOS devices consume less power and permit higher density circuit design. While the bipolar process was once widely used, it is now used primarily for high speed semiconductors and analog semiconductors. The BiCMOS process combines the high speed of the bipolar circuitry and the low power consumption and high density of the CMOS circuitry. We use the CMOS process to manufacture logic semiconductors, memory semiconductors including static random access memory, or SRAM, DRAM, flash memory, mixed-signal semiconductors, which combine analog and digital circuitry in a single semiconductor, and embedded memory semiconductors, which combine logic and memory in a single semiconductor. The BiCMOS process is used to make high-end mixed-signal and other types of semiconductors.

Types of Semiconductors Manufactured by Us. Different types of semiconductors with different specific functions are manufactured using the CMOS and BiCMOS processes by changing the number of and the combinations of conducting, insulating and semiconducting layers and by defining different patterns in which such layers are applied on the wafer. At any given point in time, there are over a hundred different products in various stages of fabrication at a full service foundry like ours. We believe that the keys to maintaining high production quality and utilization rates are our effective management and control of the manufacturing process technology that come from our extensive experience as the longest existing dedicated foundry and our dedication to quality control and process improvements.

The following is a general description of the types of semiconductors that we manufacture:

Logic Semiconductors: Logic semiconductors process digital data to control the operation of electronic systems. The largest segment of the logic market, standard logic devices, includes microprocessors, microcontrollers, DSPs, graphic chips and chip sets.

Memory Semiconductors: Memory semiconductors, which are used in electronic systems to store data and program instructions, are generally classified as either volatile memory (which lose their data content when power supplies are switched off) or nonvolatile memory (which retain their data content without the need for a constant power supply). Examples of volatile memory include SRAM and DRAM and examples of nonvolatile memory include electrically erasable programmable read-only memory, or EPROM, and flash memory. We currently offer CMOS process for the manufacture of SRAM and embedded 1T RAM in resolutions down to 0.13 micron in both high speed and low power designs, and for the manufacture of flash memory and embedded flash in resolutions down to 0.18 micron.

Mixed-Signal Semiconductors: Analog/digital semiconductors combine analog and digital devices on a single semiconductor to process both analog signals and digital data. We make mixed-signal semiconductors using both the CMOS and BiCMOS processes. We offer 0.35 micron CMOS process and 0.8 micron BiCMOS and silicon germanium process for manufacturing mixed-signal semiconductors. The primary uses of mixed-signal semiconductors are in hard disk drives, wireless communications equipment and network communications equipment, with those made with the BiCMOS process occupying the higher end of the mixed-signal market.

The table below presents a breakdown of our net sales during the last three years and first six months of 2001 by each semiconductor type:

Semiconductor Type	Year ended December 31, 1998 Net sales	1998 Percentage	1999 Net sales	1999 Percentage	2000 Net sales	2000 Percentage	Six months ended June 30, 2001 Net sales	Six months ended June 30, 2001 Percentage
	(in millions, except percentage)							
CMOS								
Logic	NT$33,962	67.2%	NT$53,242	69.8%	NT$111,871	67.3%	NT$42,254	64.2%
Memory	8,277	16.4	13,033	17.1	32,692	19.7	15,006	22.8
Mixed-signal(1)	4,154	8.2	6,854	9.0	17,567	10.6	7,567	11.5
BiCMOS(2)	319	0.6	200	0.3	395	0.2	197	0.3
Others	3,814	7.5	2,977	3.9	3,671	2.2	790	1.2
Total	NT$50,524	100.0%	NT$76,305	100.0%	NT$166,198	100.0%	NT$65,816	100.0%

(1) Mixed-signal semiconductors made with the CMOS process.
(2) Mixed-signal and other semiconductors made with the BiCMOS process.

Design Services. We offer design services that range from providing our customers with access to the fundamental technology files that facilitate a customer's own design to direct design services in which we design a semiconductor based on a customer's requirements. Technology files are necessary for checking the customer's semiconductor design against the design rules to be used to manufacture a semiconductor using a given process technology.

As part of the necessary building blocks for our customers' semiconductor designs, we offer libraries of compatible designs for portions of semiconductors, such as standard cells, inputs/outputs and selected memory blocks, in addition to technology files. We have a dedicated team of engineers who work with our research and development department to develop, or acquire from third parties, selected key libraries early on in the development of new process technologies so that our customers can quickly design sophisticated semiconductors that utilize the new process technologies. We also have entered into, and will continue to enter into, arrangements with other providers of libraries so as to allow our customers access to a broad library portfolio for their designs.

Certain design services that we offer are also more important for semiconductors of a resolution of 0.13 micron or below because at these resolutions the interconnects significantly impact a semiconductor's performance. We are also able to provide reference design flows generated from our research and development for use in our customers' semiconductor designs. For these design services we frequently work together with the major vendors of electronic design automation software products.

We also provide direct design services, or chip implementation services, to our customers. Since our launch of design services in April 1991, we have successfully completed more than 1,200 netlist sign-off, or design service projects, in various market applications. Our direct design services focus on more advanced semiconductors, such as those with a resolution of 0.18 micron and below.

Our chip implementation services can combine placement and routing services, library and intellectual property merge services, physical verification and porting services in order to specifically address any customer's need. We believe that our strengths in chip implementation services allow our customers to use our resources to quickly finish a design. In addition, we have been collaborating with industry leaders in electronic design automation, library and intellectual property services to create a worldwide network of expertise, resources and services that are available to implement and produce a customer's innovative designs.

Multiproject Wafers Program. To help our customers reduce costs, we offer a dedicated multiproject wafer processing service that allows us to provide multiple customers with wafers produced with the same mask. This program eliminates costly and time-consuming repetitive mask and wafer runs, resulting in accelerated time-to-market for our customers. In the fourth quarter of 2000, we extended this program to all customers and library and intellectual property partners using our 0.13 micron process technology. This extension offers a routinely scheduled multiproject wafer run to customers on a shared-cost basis for prototyping and verification. Multiproject wafers accelerate time-to-market for device designers and library and intellectual property developers by reducing mask development and wafer cutting costs by up to a factor of ten.

We developed our multiproject wafer program in response to the current system-on-chip development methodologies, which often require the independent development, prototyping and validation of several cores before they can be integrated onto a single device. A complex system-on-chip may require RISC, DSP, Ethernet and physical interface cores, each of which has to be verified individually before integration. By sharing resources with our customers, the system-on-chip supplier can enjoy reduced prototyping costs and greater confidence that the design will be successful.

Customer Service

We believe that our focus on customer service has been an important factor in attracting leading semiconductor companies as customers. The key elements of our customer service are our customer-oriented culture, responsiveness, flexibility, delivery accuracy and tight design rules. Please see "—Strategy—Focus on Customer Service" for a more detailed discussion of our customer services.

We believe that, owing to our extensive experience in planning and managing foundry production runs, we offer the advantage of a short lead time and product cycle to customers who need finished products within a short time frame.

We offer to our customers manufacturing processes for a wide array of semiconductors, including CMOS logic, mixed-signal, radio frequency, embedded memory and BiCMOS mixed-signal and other semiconductors. This has allowed us to pursue business from a wide range of customers, both in terms of manufacturing needs and end use. We also handle small orders as well as large ones and can accommodate design changes late into the pre-production stage. Such flexibility is possible because of our technical capability and dedication to customer service as well as our ability to plan and manage effectively many production runs.

We also provide our customers with the ability to share the ever increasing silicon verification costs through our multi-project wafer processing service. This service allows customers to share costs by combining multiple designs on a single mask set.

We believe that our customers also value our ability to deliver ordered wafers on time in consistent quality and in the desired quantities. We have received various awards and testimonials from our customers attesting to the quality of our customer service and the important role we play in the businesses of our customers.

Manufacturing Quality and Reliability

We believe that our management experience, capabilities and high-quality manufacturing processes have allowed us to maintain a high standard of manufacturing quality and reliability. We believe that wafers manufactured by us provide consistent, high die yield (or electric yield), which allows our customers to determine with greater certainty the appropriate number of wafers to order and allows us to charge a higher price on a per wafer basis while keeping the cost to customers on a per die basis competitive. We have been informed by many of our customers that our semiconductors consistently meet or exceed their quality reliability specifications.

Our policy is to implement quality assurance measures during all stages in manufacturing, including the research and development process. Quality is maintained through in-line testing and inspection of processed materials at various production stages in the manufacturing process. Final visual and mechanical inspection is performed before shipment to ensure quality and prevent maverick lots. Quality assurance measures also include on-going process and product reliability monitors, failure tracking for early identification of production problems and continuous customer services. Certain testing is subcontracted to semiconductor testing service providers in Taiwan for their more cost-effective services.

All our fabs, other than Fab 12, were certified as meeting the ISO-9001, QS-9000 and ISO-14000 quality standards. The ISO-9001 quality standards were provided by the International Standards Organization in 1993. The International Standards Organization is an organization formed by delegates from member countries to establish international quality assurance standards for products and manufacturing processes. International Standards Organization certification is required in connection with sales of industrial products in certain European countries. The QS-9000 quality standard is a more stringent standard provided by the Auto Industry Action Group since 1998. The QS-9000 standard consolidated the ISO-9000 standards with the quality systems of Ford, Chrysler and General Motors. The ISO-14000 quality standard is part of a comprehensive series of quality standards for environmental management published by the International Standards Organization after the success of the ISO-9000 series of quality standards. The ISO-14000 quality standards cover environmental management principles, systems and supporting techniques.

Backlog

Because of the fast-changing technology and functionality in semiconductor design, foundry customers generally do not place purchase orders far in advance to manufacture a particular type of product. However, we engage in discussions with customers commencing in advance of the placement of purchase orders regarding customers' expected manufacturing requirements. Certain of our customers have options on capacity at our fabs for the next few years. See "—Capacity Expansion and Technology Upgrade Plans—Commitments by Customers" for a discussion of the options on capacity held by some of our customers.

Research and Development

The semiconductor industry is characterized by rapid changes in technology, frequently resulting in the obsolescence of recently introduced products. We believe that, in order to stay technologically ahead of our foundry competitors and maintain our market position in the foundry industry, we need to maintain our position as a technology leader not only in the foundry sector but in the semiconductor industry in general. We spent NT$2,314 million, NT$4,116 million and NT$7,204 million (US$209 million) in 1998, 1999 and 2000, respectively, on research and development, which represented 4.6%, 5.4% and 4.3%, respectively, of our net sales for these periods. In the six months ended June 30, 2001, we spent NT$4,984.2 million on research and development, which represented 7.6% of our net sales for this period. We plan to continue to invest significant amounts on research and development in 2002 with the goal of maintaining a leading position in the development of advanced process technologies. Our research and development efforts have recently allowed us to provide our customers access to certain advanced process technology, such as 0.13 micron process technology, prior to the implementation of those advanced process technologies by most integrated device manufacturers and our competitors.

Our research and development are divided into centralized research and development activities and research and development activities undertaken by each of our fabs. Our centralized research and development activities are principally directed toward developing most advanced and new generation manufacturing technologies. The research and development activities undertaken in each fab focus on upgrading the manufacturing process technology. The research and development team also seeks to develop versatile process technology that can be applied to the manufacture of different types of products. The primary target of our research and development efforts in the next few years is expected to be the development of 0.10 micron process technology for use with twelve-inch wafers, including the development of super low conducting interconnects for use on 0.10 micron semiconductors and process technology for embedded memory and other functions for semiconductors that combine various logic, input/output and embedded memory functions on a single 0.10 micron semiconductor.

Intellectual Property

We use internally developed process technologies and process technologies licensed from our customers and third parties. In continuing to advance our process technologies, we intend to rely primarily on our internal engineering capability and know-how and our research and development efforts, including collaboration with our customers and equipment vendors.

In order to minimize risks to us from any intellectual property infringement claims, we have implemented a screening procedure whereby customers are evaluated for infringement risk based on size, reputation and product specification, and those that are identified as high risk are examined closely for potential infringement. Furthermore, our equipment vendors generally indemnify us from any losses resulting from any suit or proceedings brought against us involving allegation of infringement of intellectual property rights on account of our use of the equipment supplied by them. We also obtain indemnification rights from our customers with respect to any losses to us arising out of any infringement of intellectual property rights on account of design of integrated circuits.

We entered into a technology cooperation agreement with Philips on December 31, 1986, pursuant to which Philips provides us with process and technical information for the production of unencapsulated MOS integrated circuits in wafer form. Please see "Transactions With Related Parties—Koninklijke Philips Electronics N.V. and its Affiliates" for a detailed discussion about those agreements entered into with Philips. Under a separate agreement, Philips has an option on up to 30% of our capacity, on most favored terms and conditions for similar orders, as long as Philips' shareholding in us remains at 24.8% or higher.

We are a beneficiary of Philips' patent cross-licensing arrangements with a number of companies. All of these licenses are royalty-free. Most of these licenses are granted subject to a requirement that Philips' equity ownership in us remain at not less than a certain level (generally in the range of 12.5% to 25%). As of December 31, 2001, Philips had, including 1,299,925,653 Preferred A shares purchased from us in November 2000, an equity ownership in us of approximately 27.45%. We may lose the benefit of some of Philips' cross-licensing arrangements if it does not maintain its minimum equity ownership level and thus may be required to expend additional funds to obtain or develop alternative intellectual property. We also have significant in-house technology and know-how and already have and use significant intellectual property rights other than those made available to us under these Philips cross-licensing arrangements. We were issued 220, 293 and 523 United States patents in 1998, 1999 and 2000, respectively, and among these patents, 153, 210 and 400 are semiconductor-related patents issued in 1998, 1999, and 2000, respectively. For the nine months ended September 30, 2001, we were issued 511 United States patents, 476 of which are semiconductor-related patents.

We also entered into a technical cooperation agreement with the ITRI. According to this agreement, the ITRI granted to us the license to use its technology with respect to the manufacture of silicon MOS wafers and agreed to provide certain associated assets and relevant technical assistance and information to us, in exchange for a license from us for improvements and refinements thereof. Please see "Transactions With Related Parties—Industrial Technology Research Institute" for a detailed discussion about this technical cooperation agreement.

Equipment

The quality and technology of the equipment used in the semiconductor manufacturing process are important in that they effectively define the limits of our process technology. Advances in process technology cannot be brought about without commensurate advances in equipment technology. The principal pieces of equipment used by us to manufacture semiconductors are steppers, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputterers, CVD equipment, testers and probers. Other than a portion of the equipment used in Fab 1 and Fab 7, which is leased, we own all of the equipment used at our fabs.

In implementing our capacity expansion and technology advancement plans, we expect to make significant purchases of equipment required for semiconductor manufacturing. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and certain equipment has only recently been developed. We believe that our relationships with our equipment suppliers are good and that we have enjoyed the advantages of being a major purchaser of semiconductor fabrication equipment. We work closely with manufacturers to provide equipment customized to our needs for certain advanced technologies. We have entered into supply agreements with equipment manufacturers covering some of our required equipment.

Raw Materials

Our manufacturing processes use many raw materials, primarily silicon wafers, chemicals, gases and various types of precious and other metals. Raw materials costs constituted 13.5% of our net sales in 2000 and 10.2% of our net sales of the six months end June 30, 2001. The three largest components of raw material costs—wafers, gas and chemicals—accounted for 41.4%, 18.8% and 16.2%, respectively, of our raw material costs in 2000 and 42.4%, 14.6% and 14.5%, respectively, of our raw material costs in the six months ended June 30, 2001. Most of our raw materials generally are available from several suppliers. Our raw material procurement policy is to select only those vendors who have demonstrated quality control and reliability on delivery time and to maintain multiple sources for each raw material so that a quality or delivery problem with any one vendor will not adversely affect our operations. The quality and delivery performance of each vendor is evaluated monthly or quarterly and quantity allocations are adjusted for subsequent periods based on the evaluation. Although we believe that supplies of raw materials used by us currently are adequate, shortages could occur in various critical materials due to interruption of supply or increased industry demand.

The most important raw material used in our production is silicon wafers, which is the basic raw material from which integrated circuits are made. The principal suppliers for our wafers are Shin-Etsu Handotai and Sumitomo Sitix of Japan, Wacker Siltronic of Germany, Taisil Electronic Material of Taiwan and MEMC Electronic Materials of the United States. Together they supplied approximately 85% of our total wafer needs in 2000 and in the six months ended June 30, 2001. We have in the past obtained, and believe we will continue to be able to obtain, a sufficient supply of six-inch, eight-inch and twelve-inch wafers. The price of wafers decreased slightly during 1997 and 1998, but a moderate increase in price occurred during the second half of 1999 and 2000. In the first half of 2001, the price of wafers decreased.

In order to secure a reliable and flexible supply of high quality wafers, we entered into long-term master agreements with our wafer suppliers to acquire wafers on a purchase order basis in June 2000.

For a discussion of our fabrication plants, see "—Manufacturing Capacity and Technology".

Competition

We compete internationally and domestically with dedicated foundry service providers, as well as with integrated semiconductor companies that allocate a portion of their manufacturing capacity to foundry operations. We seek to compete primarily on the basis of process technology, quality and service, rather than price. The level of competition differs according to the process technology involved. In more mature technologies, the competition tends to be more severe. Some companies compete with us in limited geographic regions or application end-markets. In recent years, substantial investments have been made to establish new dedicated foundry companies in China and elsewhere. We do not anticipate significant competition from these new foundries in the next few years.

Our competitors and potential competitors include companies that have substantially greater financial and other resources than us. However, we believe that we currently enjoy competitive advantages in such areas as technology, manufacturing quality, customer service and capacity. We aim to maintain or enhance these competitive advantages in order to stay ahead of the competition. However, we cannot assure you that we will be able to maintain or enhance these competitive advantages in the future.

Employees

The following table sets out, as of the dates indicated, the number of our full-time employees serving in the capacities indicated.

Function	As of December 31, 1998	1999	2000	As of June 30, 2001
Managers	602	704	1,024	1,093
Engineers	2,296	2,765	5,739	5,673
Technicians	2,711	3,675	7,370	7,187
Clerical staff	299	316	503	488
Total	5,908	7,460	14,636	14,441

The following table sets out, as of the dates indicated, a breakdown of the number of our full-time employees by geographic location:

Location of Facility	As of December 31, 1998	1999	2000	As of June 30, 2001
Hsinchu Science Park, Taiwan	5,603	6,743	12,390	12,170
Tainan Science Park, Taiwan	179	559	2,045	2,073
United States	104	127	156	154
Europe	13	14	20	20
Japan	9	17	25	24
Total	5,908	7,460	14,636	14,441

The numbers of employees listed in the two tables above do not take into account the 972 and 1,727 employees of Worldwide Semiconductor in 1998 and 1999, respectively.

As of June 30, 2001, approximately 15.2% of our workforce possessed a university degree, with an additional 25.8% holding a junior college degree. Approximately 26.4% of the workforce held a master's or doctorate degree. We believe that, in order to maintain and improve quality control, efficiency in the manufacturing process and workplace safety, it is important that our technical workers receive continuing training in these areas. Our technical workers received an average of 26 hours of continuing training per person in 2000.

Our success depends to a significant extent upon, among other factors, our ability to attract, retain and motivate qualified personnel. Taiwan is currently experiencing a labor shortage for technical personnel and, as a result, we may face extensive competition in recruiting and retaining such personnel.

We currently do not establish any share option schemes for our employees. Instead, our employees participate in our profits by way of a bonus pursuant to our articles of incorporation. Employees are entitled to not less than 1% of our net income after the payment of taxes, deduction for prior years' losses and contributions to legal reserves. Our practice in the past has been to determine the amount of the bonus based on our operating results and industry practice in the ROC. In July 2001 we distributed an aggregate bonus to the employees of NT$4,674,426,290 with respect to 2000, in the form of common shares. The number of common shares issued as profit sharing is calculated by valuing the common shares at their par value, or NT$10, rather than their market value. Profit-related pay is awarded according to the performance of departments and individual performance within departments.

Our employees are not covered by any collective bargaining agreements. We consider our relationship with our employees to be good.

Environmental Regulation

The semiconductor production process generates gaseous chemical wastes, liquid waste, waste water and other industrial wastes in various stages of the manufacturing process. We have installed various types of pollution control equipment for the treatment of gaseous chemical waste and liquid waste and equipment for the recycling of treated water in our fabs. Our operations at our fabs are subject to regulation and periodic monitoring by the ROC Environmental Protection Administration, or EPA, and local environmental protection authorities, including the Science-Based Industrial Park Administration.

We believe that we have adopted pollution control measures for the effective maintenance of environmental protection standards consistent with the practice of the semiconductor industry in Taiwan, and that we are in compliance in all material respects with applicable environmental laws and regulations. Furthermore, we, in many cases, have implemented waste reduction steps ahead of regulatory requirements. In the past two years, we received the "Energy Conservation Award" and "Pollution Control Equipment Maintenance Outstanding Performance Plant" award from the Ministry of Economic Affairs. We also received the "Industrial Excellance Award" from the Ministry of Economic Affairs in 2000. We received ISO 14001 certification in August 1996 and continue to implement improvement programs in connection with this certification. In January 2000, we received OHSAS 18001 certification for our occupational health safety management system.

Electricity and Water

We use substantial amounts of electricity supplied by Taiwan Power Company in our manufacturing process. Businesses in the Hsinchu Science Park and Tainan Science Park, such as us, enjoy preferential electricity supply.

The semiconductor manufacturing process uses extensive amounts of fresh water. Due to the growth of the semiconductor manufacturers in the Hsinchu Science Park, there has been concern as to the future availability of sufficient fresh water. In 1997, the ROC government finished construction of a pipeline to provide the Hsinchu Science Park with an additional source of fresh water, which is currently sufficient for our fabs in the Hsinchu Science Park. The ROC government has announced a plan to build a fresh water reservoir near the Hsinchu Science Park that is expected to satisfy the Hsinchu Science Park's long-term water requirements. The reservoir is expected to be completed in 2005. We have also taken steps to reduce fresh water consumption for our fabs in Hsinchu and Tainan. This primarily involves the installation of water recycling systems at our fabs, which allow us to recycle between 45% to 85% of the water used during the fabrication process, depending on the fabs.

Risk Management

We have a separate risk management department that develops comprehensively plans for the prevention of, and the response to, emergencies and disasters. The focuses of the department are loss prevention, emergency response, crisis management and business recovery. Our risk management department played an important role in minimizing the effect of the 1999 earthquakes on our business. We maintain insurance with respect to our facilities, equipment and inventories. The insurance for the fabs and their equipment covers, subject to some limitations, various risks including fire, typhoon, earthquake and some other risks generally up to their respective replacement values and lost profits due to business interruption. As of October 2, 2001, we have received a total of approximately NT$3,711 million (US$108 million) in insurance compensation in respect of the earthquake that occurred on September 21, 1999. We have an insurance policy covering losses in respect of the construction of Fab 14. Equipment and inventories in transit are also insured. We believe that our overall insurance coverage is adequate.

Legal Proceedings

As is the case with many companies in the semiconductor industry, 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 infringe upon patents or intellectual property rights of others. In some instances, these disputes have resulted in litigation and settlement or damage payments by us. Because we neither design the integrated circuits nor control the end use thereof, we believe that we should not be ultimately liable to third parties for monetary damages, in most cases, on claims based on infringement of designs of integrated circuits or end-use products. Irrespective of the validity of these claims, we could incur significant costs in the defense thereof or could suffer adverse effects on our operations. We are not currently involved in any material litigation.

On February 25, 1997, Micron Technology Inc. filed a petition for an antidumping investigation against makers of SRAMs from Korea and Taiwan. Following the International Trade Commission's determination in April 1998 that the U.S. SRAM industry was materially injured by imports from Taiwan, the U.S. Department of Commerce announced an antidumping duty order on April 16, 1998. The Taiwan semiconductor industry appealed the determination by the International Trade Commission to the Court of International Trade. In August 1999, the International Trade Commission confirmed its determination after a remand from the Court of International Trade and this decision was further reviewed by the Court of International Trade. In April 2000, the Court of International

Trade remanded the case to the International Trade Commission again. On June 12, 2000, the International Trade Commission determined that SRAM imports from Taiwan did not cause, or threaten to cause, injury to the U.S. SRAM industry. The Court of International Trade affirmed such determination by the International Trade Commission, and Micron Technology Inc. appealed the decision to the U.S. Court of Appeals for the Federal Circuit. SRAMs accounted for only 0.4% of our total direct sales to the United States in 2000. In September 2001 the U.S. Court of Appeals for the Federal Circuit affirmed the Court of International Trade's decision affirming the International Trade Commission's determination. In November 2001, the International Trade Commission requested a rehearing by the U.S. Court of Appeals to clarify certain procedural issues. On December 4, 2001, the U.S. Court of Appeals denied the request for a rehearing.

MANAGEMENT

Members of our board of directors are elected by our shareholders. Our board of directors is composed of seven directors. The chairman of the board of directors is elected by the directors. The chairman of the board of directors presides at all meetings of the board of directors, and also has the authority to act as our representative. The term of office for directors is three years.

We also have three supervisors. In accordance with the ROC Company Law, supervisors are elected by our shareholders and cannot concurrently serve as our directors, executive officers or other staff members. The term of office for supervisors is three years. The supervisors' duties and powers include, but are not limited to, investigation of our financial condition, inspection of corporate records, verification of statements by the board of directors, calling of and giving reports at shareholders' meetings, representation of us in negotiations with our directors and giving notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations or in contravention of our articles of incorporation or beyond our scope of business.

Pursuant to the ROC Company Law, a person may serve as our director or supervisor in his personal capacity or as the representative of another legal entity. A director or supervisor who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement director or supervisor may serve the remainder of the term of office of the replaced director or supervisor. Of our seven directors three are representatives of Philips and one is a representative of the Development Fund. Of our three supervisors, one is a representative of Philips and one is a representative of the Development Fund.

The following table sets forth the name of each director, supervisor and executive officer, their positions, the year in which their term expires and the number of years they have been with us as of September 30, 2001. The business address for each of our directors, supervisors and executive officers is No. 121, Park Avenue III, Science-Based Industrial Park, Hsinchu, Taiwan, Republic of China.

Name	Position with our company	Term Expires	Years with our company
Morris Chang	Chairman and Chief Executive Officer	2003	15
A.P.M. van der Poel	Director (Representative of Philips)	2003	5
J.C. Lobbezoo	Director (Representative of Philips)	2003	8
P.J. Zeven	Director (Representative of Philips)	2003	1
F.C. Tseng	Director and Deputy Chief Executive Officer	2003	15
Stan Shih	Director (Representative of Chi Cherng Investment Co. Ltd.)	2003	2
Chintay Shih	Director (Representative of the Development Fund)	2003	5
Robbert Brakel	Supervisor (Representative of Philips)	2003	2
George C. Shiu	Supervisor (Representative of the Development Fund)	2003	2
Paul Chien	Supervisor (Representative of Hsin Ruey Investment)	2003	2
Rick Tsai	President and Chief Operating Officer	—	12
Harvey H.W. Chang	Senior Vice President and Chief Financial Officer	—	4
Quincy Lin	Senior Vice President of Corporate Development	—	12
K.C. Chen(1)	Senior Vice President, General Counsel and Spokesperson	—	4
Shang-Yi Chiang	Senior Vice President of Research and Development	—	4
Kenneth L. Kin	Senior Vice President of Worldwide Marketing and Sales	—	1
Yen Chun Huang	Vice President and Assistant to Chairman	—	15
C.C. Wei	Vice President of Operations I	—	4
Mark Liu	Vice President of Operations II	—	8
J.B. Chen	Vice President of Material Management and Risk Management	—	15

(1) As of January 1, 2002, K.C. Chen was succeeded by Richard L. Thurston as General Counsel and Harvey H.W. Chang as Spokesperson.

Name	Position with our company	Term Expires	Years with our company
M.C. Tzeng	Vice President of Operations, Deputy of Operations I	—	15
Genda Hu	Vice President of Corporate Marketing	—	2
Chung-Shih Hsu	Vice President of Business Operations	—	1
S.H. Lee	Vice President of Corporate Human Resources	—	3
John Yue	Vice President of Quality and Reliability	—	2
Chenming Hu	Chief Technology Officer	—	1
Ping Yang	Vice President of Design Services	—	4

Morris Chang has been the chairman of our board of directors since our establishment. He has been chief executive officer since March 1998. He is also chairman of the board of directors of Vanguard and a member of the board of directors of The Goldman Sachs Group, Inc. From 1985 to 1994, he was president and then chairman of the board of directors of ITRI. Prior to that, Mr. Chang was president and chief operating officer of General Instrument Corporation and Corporate Group and vice-president for Texas Instruments. He holds a bachelor's degree and a master's degree in mechanical engineering from the Massachusetts Institute of Technology and a Ph.D. in electrical engineering from Stanford University and has been involved in the semiconductor industry for over 46 years.

A. P. M. van der Poel is a director. He is also chairman and chief executive officer of Philips and a member of the Group Management Committee of Philips. Mr. van der Poel holds a degree in electrical engineering from Eindhoven Technical University.

J.C. Lobbezoo is a director. He has also been the chief financial officer of Philips since 1994. Mr. Lobbezoo majored in business economics at Erasmus University.

P.J. Zeven is a director. He is also the chairman of Assemble on Taiwan and president and chief executive officer of Philips Taiwan since 1999. Prior to that, he was the regional director and general manager of Philips Asia Pacific region since 1997. Mr. Zeven holds a master's degree from Nijerode School of Business.

F.C. Tseng is a director. He has been deputy chief executive officer since August 2001. He formerly served as the president of Vanguard from 1996 to 1998 and our president from May 1998 to August 2001. Prior to his presidency at Vanguard, Mr. Tseng served as our senior vice president of operations. Mr. Tseng holds a Ph.D. in electrical engineering from National Cheng-Kung University and has been involved in the semiconductor industry for over 31 years.

Stan Shih is a director. He also has served as the chairman and chief executive officer of the Acer Group since 1976. Mr. Shih holds a bachelor's degree, a master's degree and a Honorary EE Ph.D degree in electrical engineering from National Chiao Tung University.

Chintay Shih is a director. He is also the president of ITRI and a director of each of Vanguard and the Industrial Technology Investment Corporation. Mr. Shih holds a Ph.D. in electrical engineering from Princeton University.

Robbert Brakel is a supervisor. He has also been the financial controller of the Mainstream TV business at Philips Consumer Electronics, Singapore, since 1997. Prior to that Mr. Brakel served as the financial controller of the Domestic Appliance business at Philips Domestic Appliances & Personal Care from 1994 to 1997. Mr. Brakel holds a Ph.D. in business economics from the Free University of Amsterdam.

George C. Shiu is a supervisor. He is also the director of the Planning and Development Fund since 1999. Prior to that, he was the vice president of Overseas Chinese Commercial Bank. Mr. Shiu holds a master's degree from Johns Hopkins University.

Paul Chien is a supervisor. He also became the president of Vanguard in March 2000. Prior to that, he was the vice president of sales and marketing of Vanguard. Mr. Chien holds a master's degree in chemical engineering from Massachusetts Institute of Technology.

Rick Tsai has been president and chief operating officer since August 2001. He was executive vice president of worldwide marketing and sales from September 2000 to August 2001. Prior to that, he served as our executive vice president of operations. He joined us in 1989 as deputy director of our Fab 2 operations. He holds a Ph.D. in material science from Cornell University and has been involved in the semiconductor industry for over 20 years.

Harvey H.W. Chang has been senior vice president and chief financial officer since January 1998 and spokesperson since January 2002. Prior to that he was chairman of China Securities Investment Trust Corporation and president of China Development Corp. He holds a master's degree in business administration from the Wharton School, University of Pennsylvania and has been involved in the finance and semiconductor industry for over 23 years.

Quincy Lin has been senior vice president of corporate development since May 1997. He joined us in 1989 as director of strategic planning and development after having worked for Bell Laboratories of AT&T. He was senior director of corporate services at our company from 1992 to 1994 and vice president of corporate marketing and sales from 1994 to 1997. He holds a Ph.D. in business administration from the University of Kentucky and has been involved in the semiconductor industry for over 20 years.

K.C. Chen was senior vice president and general counsel from November 1997 to December 2001 and company spokesperson from May 2000 to December 2001. Prior to that she was the president of the National Culture and Arts Foundation in Taiwan starting in 1995. She was also the founding partner of Ding & Ding Law Office in Taipei, Ding, Ding & Chan in San Francisco and Chen & Associates in Taipei. Ms. Chen holds a law degree from the Inns of Court School of Law in the United Kingdom. Ms. Chen resigned from all positions with us at the end of 2001.

Richard L. Thurston became vice president and general counsel in January 2002. Prior to that he was a partner with Kelt Capital Partners, LP, in Addison, Texas. Mr. Thurston also was the Asia Pacific regional counsel for Texas Instruments for 12 years. Mr. Thurston holds a Ph.D. in East Asian Studies from the University of Virginia and a J.D. from Rutgers School of Law.

Shang-Yi Chiang has been senior vice president of research and development since May 2001. He joined us as vice president of research and development in July, 1997. Prior to that he worked at Hewlett Packard. Dr. Chiang holds a Ph.D. in electrical engineering from Stanford University and has been involved in the semiconductor industry for over 25 years.

Kenneth L. Kin joined us as senior vice president of worldwide marketing and Sales in August 2001. Prior to that he was the vice president of IBM Corporation since 1996. He holds a Ph.D. in nuclear engineering and applied physics from Columbia University.

Yen Chun Huang has been vice president and assistant to the chairman since May 1997. Prior to that he served as vice president of corporate services starting in August 1995. He joined us in 1987 and has held the positions of manager of the facility department and the manufacturing department, Fab 1 director, member of the Fab 3 Project Team, and senior director of corporate services. He holds a master's degree in business administration from Saginaw Valley State University.

C.C. Wei has been a vice president for operations I since January 1, 2002. Prior to that he was vice president of south sites operation from April 2000 and vice president of north sites operations from February 1998 to April 2000. Prior to that he was senior vice president at Chartered Semiconductor Manufacturing Ltd. in Singapore starting in 1993. He holds a Ph.D. in electrical engineering from Yale University.

Mark Liu has been vice president of operations II since January 1, 2002. Prior to that, he was the vice president of our Fab 8 and Fab 12 sites from July 2000 and vice president of south sites operations from 1999 to July 2000. He formerly served as president of Worldwide Semiconductor from February to June 2000. He joined us in 1993 and has held the positions as manager director of our Fab 3 operation and senior director of north sites operations. He holds a Ph.D. in electrical engineering and computer science from the University of California, Berkeley, and has been involved in the semiconductor industry for over 15 years.

J.B. Chen has been vice president of material management and risk management since August 2001. Prior to that, he was vice president of Tainan sites operations since April 2001. Prior to that, he was vice president of Fab 7 sites operations since July 2000. He also served as president of TSMC-Acer from 1999 to 2000. He joined us in 1987 and has held the positions of manager of engineering department, director of Fab 2B and Fab 4, and senior director of north sites operations. He holds a master's degree in physics from National Tsing Hua University and has been involved in the semiconductor industry for over 20 years.

M.C. Tzeng has been vice president of north sites operations since August 2001. Prior to that, he was the senior director of our Fab 2 operations since 1997. He joined us in 1987 and has held various positions in manufacturing functions. He holds a master degree in applied chemistry from Chung Yaun University.

Genda Hu has been vice president of corporate marketing since May 2001. Mr. Hu joined us as vice president of research and development in May 2000. Prior to that, he was chief of the Electronic Research and Service Organization for ITRI since July 1996. He holds a Ph.D. in electrical engineering from Princeton University and has been involved in the semiconductor industry for over 15 years.

Chung Shih Hsu has been vice president of business operation since November 2000. Prior to that he served as vice president for Vanguard Semiconductor since 1997. He holds a Ph.D. in physics from Columbia University and has been involved in the semiconductor industry for over 20 years.

S.H. Lee has been vice president of corporate human resources since August 1998. Prior to that he was regional vice president of network systems of Lucent Technologies, Asia Pacific. Mr. Lee holds a master's degree in management from Stanford University.

John Yue has been vice president of quality and reliability since October 1999. Prior to that he worked for Advanced Micro Devices Inc. for 12 years. He holds a Ph.D. in physics from Stanford University.

Chenming Hu joined us as chief technology officer since August 2001. Prior to that he was the founder and chairman of Board of Celestry Design Technologies, Inc. since 1995. He holds a Ph.D. in electrical engineering and computer science from University of California, Berkeley.

Ping Yang has been vice president of design services since August 2001. Prior to that, Dr. Yang was assigned to our U.S. subsidiary, TSMC North America, in 2000. He joined us in 1997 as vice president and has been through various functions of corporate marketing and design services. He holds a Ph.D. in electrical engineering from University of Illinois, Champaign-Urbana.

There is no family relationship between any of our directors, supervisors or executive officers and any other director, supervisor or executive officer.

Compensation of Directors, Supervisors and Executive Officers

The aggregate compensation paid and benefits in kind granted to our directors, supervisors and executive officers in 2000, which included a bonus to the executive officers of common shares, was NT$584 million. The number of common shares distributed as stock bonus was calculated by dividing the total nominal amount of the bonus by the par value of the common shares, i.e., NT$10 per share, rather than their market value, which has generally been substantially higher than par value. See note 24 to our consolidated financial statements.

The following table sets forth remuneration paid to our individual directors and supervisors in 2000.

Name	Position with our company in 2000	Total Compensation(1)
Mr. Morris Chang	Director and Chairman	NT$69,834,000
Mr. F.C. Tseng	Director and President	54,187,000
Mr. A.P.M. van der Poel	Director (Representative of Philips)	(2)
Mr. J.C. Lobbezoo	Director (Representative of Philips)	(2)
Mr. L.P. Hsu	Director (Representative of Philips)	(2)
Mr. Chintay Shih	Director (Representative of the Development Fund)	111,600(3)
Mr. Chun Chen	Director (Representative of the Development Fund)	32,240(3)(4)
Mr. Stan Shih	Director (Representative of Chi Cherng Investment Co. Ltd.)	85,333(5)
Mr. Jerome S.N. Hu	Supervisor	21,550,000(6)
Mr. Jan Kees van Vliet	Supervisor (Representative of Philips)	(2)
Mr. George C. Shiu	Supervisor (Representative of the Development Fund)	111,600(3)
Mr. Paul Chien	Supervisor (Representative of Hsin Ruey Investment Co. Ltd.)	85,333(7)

(1) Including share bonuses paid to executive officers, calculated at their par value of NT$10 per share.
(2) Philips was paid NT$86,492,412 in the aggregate for the services of its representative directors and supervisor.
(3) The Development Fund was paid approximately NT$64,820,440 in the aggregate for the services of its representative directors and supervisor.
(4) Mr. Chun Chen was appointed by the Development Fund to replace Mr. Ching-Chang Yen in January 2000. Mr. Chen resigned in April 2000.
(5) Mr. Stan Shih was appointed by the Chi Cherng Investment Co. Ltd. in April 2000.
(6) Mr. Jerome S.N. Hu resigned in April 2000.
(7) Mr. Paul Chien was appointed by the Hsin Ruey Investment Co. Ltd. in April 2000.

MAJOR SHAREHOLDERS

As of December 31, 2001, Philips owned 21.84% of our outstanding common shares and 99.99% of our redeemable preferred shares and appointed three of our seven directors. The Development Fund, a governmental organization of the ROC, owned 10.58% of our outstanding common shares and appointed one of our seven directors. As a result, Philips and the Development Fund could each be deemed under the U.S. securities laws to be a controlling shareholder of us.

The following table sets forth certain information as of December 31, 2001 with respect to our common shares owned by (1) each person who, according to our records, beneficially owned five percent or more of our common shares and by (2) all directors, supervisors and executive officers as a group.

Name of Shareholders	Number of Common Shares Owned	Percentage of Total Outstanding Common Shares
Philips[1]	3,676,871,330	21.84%
Development Fund[2]	1,781,510,915	10.58%
Directors, supervisors and executive officers as a group[3][4]	223,710,606	1.33%

(1) Includes 2,322,227,527 common shares held by Philips and 1,354,643,803 common shares held by Philips Electronics Industries (Taiwan) Ltd.
(2) Excludes 187,696,600 common shares held by the Stabilization Fund and any common shares that may be owned by other funds controlled by the ROC government.
(3) Each of the directors, supervisors or executive officers owns less than 1% of the outstanding common shares.
(4) Excludes any common shares that may be owned by entities that nominate any directors.

In November 2001, the Development Fund sold 20,000,000 ADSs, representing 100,000,000 common shares. As a result, the Development Fund's ownership in us decreased from 11.18% to 10.58%. In November 2000, Philips purchased from us 1,299,925,653 Preferred A shares, par value NT$10 per share, which pay a cumulative annual cash dividend at the rate of 3.5% per annum. As a result, Philips' ownership percentage of our outstanding equity securities, including the Preferred A shares, increased from 21.84% to 27.45%.

As of December 31, 2001, a total of 16,832,553,051 common shares were outstanding. With certain limited exceptions, holders of common shares that are not ROC persons are required to hold their common shares through a brokerage account in the ROC. As of December 31, 2001, 1,295,031,625 common shares were registered in the name of a nominee of Citibank, N.A., the depositary under our ADS deposit agreement. Citibank, N.A., has advised us that, as of December 31, 2001, 259,006,325 ADSs, representing 1,295,031,625 common shares, were held of record by Cede & Co. and 187 other U.S. persons. We have no further information as to common shares held, or beneficially owned, by U.S. persons.

We are not aware of any arrangement that may at a subsequent date result in a change of control of us.

TSMC Partners, Ltd., our indirect wholly-owned subsidiary, owned 692,601 ADSs as of December 31, 2001, representing 0.02% of our outstanding common shares.

TRANSACTIONS WITH RELATED PARTIES

Industrial Technology Research Institute

ITRI is a government-sponsored organization in the ROC engaging in applied research to accelerate industrial technology development and promote industrial growth. ITRI has, and will continue to have, contractual relationships with us. Our relationships include the following:

- We entered into a technical cooperation agreement with ITRI pursuant to which ITRI granted us the license to use its technology to manufacture silicon MOS wafers and agreed to provide certain associated assets and relevant technical assistance and information to us, in exchange for a license from us for improvements and refinements thereof. The agreement provides that the ROC Ministry of Economic Affairs, or the entity designated by the ROC Ministry of Economic Affairs, has an option to purchase up to 35% of our capacity as agreed in the agreement on favorable terms and conditions. The term of this agreement is for five years beginning January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by the parties. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- We entered into a lease agreement with ITRI in which we leased from ITRI the land of our Fab 1 in Hsinchu. The term of the agreement is for five years beginning April 1, 1997, renewable for successive periods of five years upon notice and agreement between both parties. The agreement can also be terminated upon two-year notice prior to the date of termination. We plan to decommission our Fab 1 on March 31, 2002 due to the expiration of the lease agreement with ITRI. Our total rental expenses paid to ITRI for the years 1999 and 2000 are NT$162 million and NT$162 million (US$5 million), respectively.
- From time to time, we provide foundry services to ITRI. In 1999 and 2000, we had total sales to ITRI of NT$133 million and NT$198 million (US$6 million), respectively, representing less than 1% of our net sales in each year.

Koninklijke Phillips Electronics N.V. and its Affiliates

Philips owns 27.45% of our outstanding equity securities, including the Preferred A Shares. Three of our seven directors are representatives of Philips. Philips is engaged in the business of world-wide manufacturing and processing of integrated circuits and other semiconductor devices. Philips and its affiliates currently have, and will continue to have in the future, contractual and other business relationships with us. Our relationships include the following:

- On December 31, 1986, we entered into a technology cooperation agreement with Philips pursuant to which Philips provides us with process and technical information for the production of unencapsulated MOS integrated circuits in wafer form. Under this technology cooperation agreement, we are obligated to pay to Philips a royalty equal to a fixed percentage of the net sales of the products covered by the agreement during the term of the agreement and for three years thereafter. On May 12, 1997, we and Philips agreed to extend and modify the technology cooperation agreement for ten years from July 9, 1997. Beginning on July 9, 1997, the royalty that we are obligated to pay Philips was reduced and, starting from July 9, 2002, we may deduct from such royalty payment any license fees and defense costs that we have paid to any third parties, provided that the royalty payment to Philips in any year is no less than certain percentage of net sales covered by the agreement.
- On October 28, 1992, we entered into a letter agreement with Philips under which Philips has an option on up to 30% of the capacity as agreed in the agreement on most favored terms and conditions for similar orders, as long as Philips' and its affiliates' shareholding in us remains at 24.8% or higher. From time to time, we provide foundry services to Philips and its

affiliates. In 1999 and 2000, we had total sales to Philips and its affiliates of NT$2,864 million and NT$5,290 million (US$153 million), representing 4% and 3%, respectively, of our total net sales. In the six months ended June 30, 2001, we had total sales to Philips and its affiliates of NT$1,755 million (US$51 million), representing 2.7% of our total net sales.

- In March 1999, we entered into an agreement with Philips, and EDB Investment Pte. Ltd. to found a joint venture to build the Systems on Silicon fab in Singapore. We own 32% of the joint venture, Philips owns 48% and the EDB Investment owns 20%. After the ramping up of the production capability at Systems on Silicon, we, together with Philips, have the right to purchase up to 100% of its annual capacity. We and Philips jointly are required to purchase up to 70% of the Systems on Silicon's full capacity and we will be required to purchase no more than 28% of the annual installed capacity. See "Our Business—Our History and Structure—Systems on Silicon in Singapore" for a discussion of our agreement with Philips and EDB Investment to build our Systems on Silicon fab and "—Systems on Silicon Manufacturing Company Pte. Ltd." for a detailed discussion of the contract terms we entered into with Systems on Silicon.

Vanguard International Semiconductor Corporation

In 1994, we and other investors entered into a joint venture agreement with the ROC Ministry of Economic Affairs to establish Vanguard, an integrated DRAM manufacturer. Vanguard commenced volume commercial production in 1995 and listed its shares on the ROC Over-the-Counter Securities Exchange in March 1999. As of December 31, 2001, we owned 25.28% of Vanguard.

On February 14, 2000, we entered into a five-year manufacturing agreement with Vanguard in which Vanguard has agreed to manufacture integrated circuit devices and wafers required by our customers. During the term of this agreement, Vanguard is obligated to manufacture wafers for us at a fixed amount of reserved capacity. In consideration of the reserved capacity, we paid Vanguard certain amounts in security bonds which Vanguard is obligated to return to us based on the amounts of wafers we order. We pay Vanguard at a discount of the actual selling price. We also agreed to grant Vanguard a royalty-free, non-exclusive and non-transferable right to use any of our logic process technologies necessary for the sole purpose of manufacturing the wafers we order, and transfer technical know-how and information in connection with the manufacturing process. In 2000, we had total purchases of NT$6,572 million (US$191 million) from Vanguard, representing 8% of our total cost of sales.

Systems on Silicon Manufacturing Company Pte. Ltd.

Systems on Silicon is a joint venture in Singapore that we established with Phillips and EDB Investment Pte. Ltd. for the purpose of producing integrated circuits by means of advanced submicron manufacturing processes pursuant to the product design specifications provided primarily by us and by Phillips and its affiliates. Systems on Silicon's business is limited to manufacturing wafers for us, our subsidiaries, Philips and Philips' subsidiaries. We currently own 32% of Systems on Silicon.

We entered into a technology cooperation agreement with Systems on Silicon on May 12, 1999 in which Systems on Silicon agreed to base a major part of its production activities on processes compatible to those in use in our MOS integrated circuits wafer volume production fabs, for the purpose of maximizing efficiency and cost savings in its foundry services to us. In return, we have agreed to provide Systems on Silicon with access to and benefit of the technical knowledge and experience relating to the processes in use in our MOS integrated circuits wafer volume production fabs and to assist Systems on Silicon by rendering technical services in connection with its production activities. In addition, we have agreed to grant licenses of any pertinent intellectual property rights owned or controlled by us to Systems on Silicon for the purpose of MOS integrated circuit production. Systems on Silicon pays to us during, and up to three years after, the term of this agreement a remuneration of a fixed percentage of the net selling price of all products manufactured by Systems on Silicon. In 2000 and the first half of 2001, we did not make any purchases from Systems on Silicon.

DESCRIPTION OF COMMON SHARES

Set forth below is a description of our common shares, including summaries of the material provisions of our articles of incorporation, the ROC Company Law, the ROC Securities and Exchange Law and the regulations promulgated thereunder.

General

Our authorized share capital is NT$246,000,000,000, divided into 24,600,000,000 common shares among which 16,832,553,051 common shares and 1,300,000,000 Preferred A shares were issued and outstanding and in registered form as of December 31, 2001.

The ROC Company Law, the ROC Statute for Establishment and Administration of Science-Based Industrial Parks and the ROC Securities and Exchange Law provide that any change in the issued share capital of a public company, such as us, requires the approval of its board of directors, an amendment to its articles of incorporation (which requires shareholder approval if such change also involves a change in the authorized share capital) and the approval of, or the registration with, the ROC Securities and Futures Commission and the Ministry of Economic Affairs or the Science-Based Industrial Park Administration (as applicable).

There are no provisions under either ROC law or the deposit agreement under which holders of ADSs would be required to forfeit the common shares represented by ADSs.

We are organized under the laws of the ROC. Our principal executive offices are located at No. 121, Park Avenue III, Science-Based Industrial Park, Hsinchu, Taiwan, ROC, and our telephone number at that address is (886-3) 578-0221.

Dividends and Distributions

An ROC company is generally not permitted to distribute dividends or to make any other distributions to shareholders in respect of any year for which it did not have accumulated earnings. In addition, before distributing a dividend to shareholders following the end of a fiscal year, the company must recover any past losses, pay all outstanding taxes and set aside in a legal reserve 10% of its net income for that fiscal year (less prior year's losses) until such time as its legal reserve equals its paid-in capital. Our articles of incorporation require that at least one percent of the net income for that fiscal year be distributed as a bonus to employees and that one percent of the net income for that fiscal year be distributed as a bonus to directors and supervisors. It has been our practice in each of the last three years to pay a portion of employee bonuses in the form of stock dividends. The amount of common shares issued as a bonus is obtained by dividing the cash value of the bonus by the par value of the common shares, *i.e.*, NT$10 per share. Because the market value of our common shares has generally been well in excess of par value, the actual cash value of a stock bonus has also been in excess of the amount the employee would have received if the bonus had been paid exclusively in cash. Subject to compliance with these requirements, a company may pay dividends or make other distributions from its accumulated earnings or reserves as permitted by the ROC Company Law as set forth below.

At the annual general meeting of our shareholders, the board of directors submits to the shareholders for their approval of our financial statements for the preceding fiscal year and any proposal for the distribution of a dividend or the making of any other distribution to shareholders from our accumulated earnings (subject to compliance with the requirements described above) at the end of the preceding fiscal year. All common shares outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution so approved. Dividends may be distributed in cash, in the form of common shares or a combination thereof, as determined by the shareholders at the meeting.

In addition to permitting dividends to be paid out of accumulated earnings, the ROC Company Law permits us to make distributions to our shareholders of additional common shares by capitalizing reserves (including the legal reserve and some other reserves). However, the capitalized portion payable out of our legal reserve is limited to 50% of the total accumulated legal reserve and this capitalization can only be effected when the accumulated legal reserve exceeds 50% of our paid-in capital.

For information as to ROC taxes on dividends and distributions, see "Taxation—ROC Taxation".

Preemptive Rights and Issues of Additional Common Shares

Under the ROC Company Law, when a public company such as us issues new shares of common stock for cash, 10% to 15% of the issue must be offered to its employees. The remaining new shares must be offered to existing shareholders in a preemptive rights offering, subject to a requirement under the ROC Securities and Exchange Law that at least 10% of these issuances must be offered to the public. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby limiting or waiving the preemptive rights of existing shareholders. The preemptive rights provisions do not apply to offerings by shareholders of outstanding shares, such as the common shares represented by the ADSs offered by the selling shareholders in this offering. According to the amended Securities and Exchange Law which was passed by the Legislative Yuan on January 15, 2002 and is expected to become effective upon the signing of the President of the ROC, the preemptive rights provisions will not apply to offerings of new shares through a private placement approved at a shareholders' meeting.

Authorized but unissued shares of any class may be issued at such times and, subject to the above-mentioned provisions of the ROC Company Law and the ROC Securities and Exchange Law, upon such terms as the board of directors may determine. The shares with respect to which preemptive rights have been waived may be freely offered, subject to compliance with applicable ROC law.

Meetings of Shareholders

General meetings of our shareholders may be ordinary or extraordinary. Ordinary meetings of shareholders are generally held in Hsinchu, Taiwan, within six months after the end of each fiscal year. Extraordinary meetings of shareholders may be convened by resolution of the board of directors whenever it deems necessary, or under certain circumstances, by shareholders or the supervisors. For a publicly held company such as us, notice in writing of general meetings, stating the place, time and purpose thereof, must be sent to each shareholder at least thirty days (in the case of ordinary meetings) and fifteen days (in the case of extraordinary meetings) prior to the date set for each meeting.

Voting Rights

A holder of common shares has one vote for each common share. Except as otherwise provided by law, a resolution may be adopted by the holders of a simple majority of the total issued and outstanding common shares represented at a shareholders' meeting at which a majority of the holders of the total issued and outstanding common shares are present. The election of directors and supervisors at a shareholders' meeting is by cumulative voting. Ballots for the election of directors are cast separately from those for the election of supervisors. Both are nominated by our shareholders at the shareholders' meeting at which ballots for these elections are cast.

The ROC Company Law also provides that in order to approve certain major corporate actions, including any amendment to the articles of incorporation (which is required for, among other actions, any increase in authorized share capital), the dissolution or amalgamation of a company or the transfer of the whole or an important part of its business or its properties or the taking over of the whole of the business or properties of any other company which would have a significant impact on the acquiring company's operations, and the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding shares of common stock at which the holders of at least a majority of the common stock represented at the meeting vote in favor thereof. However, in the case of a publicly held company such as us, such a resolution may be adopted by the holders of at least two-thirds of the shares of common stock represented at a meeting of shareholders at which holders of at least a majority of the issued and outstanding shares of common stock are present.

A shareholder may be represented at a general meeting by proxy. A valid proxy must be delivered to us at least five days prior to the commencement of the general meeting.

Holders of ADSs will not have the right to exercise voting rights with respect to the common shares represented thereby, except as described in "Description of American Depositary Receipts—Voting Rights".

Other Rights of Shareholders

Under the ROC Company Law, dissenting shareholders are entitled to appraisal rights in the event of amalgamation, spin-off or certain other major corporate actions. A dissenting shareholder may request us to redeem all of the shares owned by that shareholder at a fair price to be determined by mutual agreement or a court order if agreement cannot be reached. A shareholder may exercise these appraisal rights by serving written notice on us prior to the related shareholders' meeting and/or by raising an objection at the shareholders' meeting. In addition to appraisal rights, any shareholder has the right to sue for the annulment of any resolution adopted at a shareholders' meeting where the procedures were legally defective within thirty days after the date of such shareholders' meeting. One or more shareholders who have held more than three percent of the issued and outstanding shares for over a year may require a supervisor to bring a derivative action against a director for that director's liability to us as a result of that director's unlawful actions or failure to act. In addition, one or more shareholders who have held more than three percent of our issued and outstanding shares for over a year may require the board of directors to convene an extraordinary shareholders' meeting by sending a written request to the board of directors.

Register of Shareholders and Record Dates

Our share registrar, Chinatrust Commercial Bank, maintains the register of our shareholders at its office in Taipei, Taiwan, and enters transfers of the common shares in the register upon presentation of, among other documents, the certificates in respect of the common shares transferred. Under the ROC Company Law, the transfer of common shares in registered form is effected by endorsement and delivery of the related share certificates. In order to assert shareholders' rights against us, however, the transferee must have his name and address registered on the register of shareholders. Shareholders are required to file their respective specimen signatures or seals with us. The settlement of trading in the common shares is normally carried out on the book-entry system maintained by the Taiwan Securities Central Depository Co., Ltd.

The ROC Company Law permits us to set a record date and close the register of shareholders for a specified period in order for us to determine the shareholders or pledgees that are entitled to certain rights pertaining to common shares by giving advance public notice. Under the ROC Company Law, our register of shareholders should be closed for a period of sixty days, thirty days and five days immediately before each ordinary meeting of shareholders, extraordinary meeting of shareholders and record date, respectively.

Annual Financial Statements

Under the ROC Company Law, ten days before the ordinary meeting of shareholders, our annual financial statements must be available at our principal office in Hsinchu for inspection by the shareholders.

Acquisition of Common Shares by Us

With minor exceptions, we may not acquire our common shares under the ROC Company Law. However, under the Securities and Exchange Law, we may, by a board resolution adopted by majority consent at a meeting with two-thirds of our directors present, purchase our common shares on the Taiwan Stock Exchange or by a tender offer, in accordance with the procedures prescribed by the ROC SFC, for the following purposes: (i) to transfer shares to our employees; (ii) to satisfy our obligations to provide our common shares upon exercise or conversion of any warrants, convertible bonds or convertible preferred shares; and (iii) if necessary, to maintain our credit and our shareholders' equity (such as for the purpose of supporting the trading price of our common shares during market dislocations), provided that the common shares so purchased shall be cancelled thereafter.

We are not allowed to purchase more than ten percent of our total issued and outstanding common shares. In addition, we may not spend more than the aggregate amount of our retained earnings, premium from issuing stock and the realized portion of the capital reserve to purchase our common shares.

We may not pledge or hypothecate any purchased common shares. In addition, we may not exercise any shareholders' rights attached to such common shares. In the event that we purchase our common shares on the Taiwan Stock Exchange, our affiliates, directors, supervisors, managers and their respective spouses, minor children and nominees are prohibited from selling any of our common shares during the period in which we purchase our common shares.

In addition, effective from November 2001 under the revised ROC Company Law, our subsidiaries may not acquire our shares. This restriction does not, however, affect any of our shares acquired by our subsidiaries prior to November 14, 2001.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preferred shares, if any, will be distributed pro rata to our shareholders in accordance with the ROC Company Law.

Transaction Restrictions

The ROC Securities and Exchange Law (i) requires each director, supervisor, manager or shareholder holding more than ten percent of the shares of a public company to report the amount of that person's shareholding to that company and (ii) limits the number of shares that can be sold or transferred on the Taiwan Stock Exchange or on the ROC Over-the-Counter Securities Exchange by that person per day.

DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS

Citibank, N.A. is the depositary bank for the ADSs. Citibank's depositary offices are located at 111 Wall Street, New York, New York 10043. ADSs represent ownership interests in securities that are on deposit with the depositary bank. ADSs are normally represented by certificates that are commonly known as ADRs. The depositary bank typically appoints a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank, N.A. Taipei Branch, located at Citicorp Center, 52 Min Sheng East Road, Section 4, Taipei, Taiwan, ROC.

We have appointed Citibank as depositary bank pursuant to a deposit agreement. A copy of the deposit agreement is on file with the SEC under cover of a registration statement on Form F-6. You may obtain a copy of the registration statement that includes a copy of the deposit agreement from the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549.

We are providing you with a summary description of the ADSs and your rights as an owner of ADSs. Please remember that summaries by their nature lack the precision of the information summarized and that a holder's rights and obligations as an owner of ADSs will be determined by the deposit agreement and not by this summary. We urge you to review the deposit agreement in its entirety as well as the form of ADR attached to the deposit agreement.

Each ADS represents five common shares on deposit with the custodian. An ADS will also represent any other property received by the depositary bank or the custodian on behalf of the owner of the ADSs but that has not been distributed to the owners of ADSs because of legal restrictions or practical considerations.

If you become an owner of ADSs, you will become a party to the deposit agreement and therefore will be bound to its terms and to the terms of the ADR that represents your ADSs. The deposit agreement and the ADR specify our rights and obligations as well as your rights and obligations as owner of ADSs and those of the depositary bank. As holder of ADSs, you appoint the depositary bank to act on your behalf in certain circumstances. The deposit agreement is governed by New York law. However, our obligations to the holders of common shares will continue to be governed by the laws of the Republic of China, which may be different from the laws in the United States.

As an owner of ADSs, you may hold your ADSs either by means of an ADR registered in your name or through a brokerage or safekeeping account. If you decide to hold your ADSs through your brokerage or safekeeping account, you must rely on the procedures of your broker or bank to assert your rights as ADS owner. Please consult with your broker or bank to determine what those procedures are. This summary description assumes you have opted to own the ADSs directly by means of an ADR registered in your name and, as such, we will refer to you as the "holder", when we refer to "you", we assume the reader owns ADSs or will own ADSs at the relevant time.

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian. Your receipt of these distributions may be limited, however, by practical considerations, legal limitations and the terms of the deposit agreement. Holders will receive such distributions under the terms of the deposit agreement in proportion to the number of ADSs held as of a specified record date.

Distributions of Cash. Whenever we make a cash distribution for the securities on deposit with the custodian, the depositary bank will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders subject to any restrictions imposed by ROC laws and regulations.

The conversion into U.S. dollars will take place only if practicable and only if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement.

Distributions of Shares. Whenever we make a free distribution of common shares for the securities on deposit with the custodian, the depositary bank may, and will upon our request, distribute to holders new ADSs representing the common shares deposited. Only whole new ADSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution. If additional ADSs are not distributed, the ADS-to-common share ratio will be modified subject to applicable ROC law, in which case each ADS you hold will represent rights and interests in the additional common shares so deposited.

The distribution of new ADSs or the modification of the ADS-to-common share ratio upon a distribution of common shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes or governmental charges, the depositary bank may sell all or a portion of the new common shares so distributed.

No such distribution of new ADSs will be made if it would violate a law (*i.e.*, the U.S. securities laws) or if it is not operationally practicable. If the depositary bank does not distribute new ADSs as described above, it will use its best efforts to sell the common shares received and will distribute the proceeds of the sales as cash.

Distributions of Rights. Whenever we distribute rights to purchase additional common shares, we will assist the depositary bank in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional ADSs to holders.

The depositary bank will establish procedures to distribute rights to purchase additional ADSs to holders if it is lawful and reasonably practicable to make the rights available to holders of ADSs, and if we provide all of the documentation contemplated in the deposit agreement (including opinions to address the legality of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new ADSs upon the exercise of your rights.

In circumstances in which rights would not otherwise be distributed, if you request the distribution of warrants or other instruments in order to exercise the rights allocable to your ADSs, the depositary bank will make such rights available to you as allowed by applicable law upon written notice from us. Our notice to the depositary bank must indicate that:

- we have elected in our sole discretion to permit the rights to be exercised; and
- you have executed such documents as we have determined in our sole discretion are reasonably required under applicable law.

The depositary bank may sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be allocated to the account of the holders otherwise entitled to the rights. If the depositary bank is unable to sell the rights, it will allow the rights to lapse.

Other Distributions. Whenever we distribute property other than cash, common shares or rights in respect of the deposited securities, the depositary bank will determine whether such distribution to holders is feasible. If it is feasible to distribute such property to you, the depositary bank will distribute the property to the holders in a manner it deems practicable. If the depositary bank considers such distribution not to be feasible, it may sell all or a portion of the property received. The proceeds of such a sale will be distributed to holders as in the case of a distribution in cash.

Any distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement.

Changes Affecting Common Shares

The common shares held on deposit for your ADSs may change from time to time. For example, there may be a change in nominal or par value, a split-up, consolidation or reclassification of such common shares, or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your ADSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the common shares held on deposit. The depositary bank may in such circumstances deliver new ADSs to you or call for the exchange of your existing ADSs for new ADSs. If the depositary bank may not lawfully distribute such property to you, the depositary bank may sell such property and distribute the net proceeds to you in cash.

Issuance of ADSs upon Deposit of Common Shares

No deposit of common shares may be made into the depositary facility, and no ADSs may be issued against such deposits, without specific ROC regulatory approval, except in connection with (i) dividends on or free distributions of common shares, (ii) the exercise by holders of existing ADSs of their pre-emptive rights in connection with rights offerings or (iii) if permitted under the deposit agreement and the custodian agreement, the purchase directly by any person or through the depositary bank of common shares on the Taiwan Stock Exchange for deposit in the depositary facility; *provided* that the total number of ADSs outstanding after an issuance described in clause (iii) above does not exceed the number of issued ADSs previously approved by the ROC Securities and Futures Commission (plus any ADSs created pursuant to clauses (i) and (ii) above) and subject to any adjustment in the number of common shares represented by each ADS. Under current ROC law, issuances under clause (iii) above will be permitted only to the extent that previously issued ADSs have been cancelled and, for so long as may be required by applicable law, the common shares withdrawn from the depositary facility upon cancellation of such ADSs have been sold. The depositary bank will refuse to accept common shares for deposit pursuant to clause (iii) unless it receives satisfactory legal opinions as described in the deposit agreement. In addition, the depositary bank may, or if so directed by us, will, refuse to accept common shares for deposit whenever we have notified the depositary bank that (i) there are outstanding common shares with rights, including rights to dividends, that are different from the common shares held by the depositary bank, (ii) we have restricted the transfer of these common shares to comply with delivery, transfer or ownership restrictions referred to in the deposit agreement or under applicable law or otherwise or (iii) we have otherwise restricted the deposit of common shares pursuant to the deposit agreement.

The depositary bank may create ADSs on your behalf if you or your broker deposits common shares with the custodian. The depositary bank will deliver these ADSs to the person you indicate only after you pay any applicable fees, charges and taxes payable for the transfer of the common shares to the depositary bank or custodian.

The issuance of ADSs may be delayed until the depositary bank or the custodian receives confirmation that all required approvals have been given and that the common shares have been duly transferred to the custodian. The depositary bank will only issue ADSs in whole numbers.

When you make a deposit of common shares, you will be responsible for transferring good and valid title to the depositary bank. As such, you will be deemed to represent and warrant that:

- the common shares are duly and validly authorized, issued and outstanding, fully paid and non-assessable and free of any preemptive rights; and
- you are duly authorized to deposit the common shares.

If any of the representations or warranties are incorrect in any way, we and the depositary bank may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

Certificate of Payment ADSs

In connection with any new issue of common shares by us which will be sold in ADS form, under the terms of the deposit agreement, the depositary bank may issue ADSs representing the certificate of payment that represent the right to receive our newly issued common shares, also called certificate of payment ADSs, rather than ADSs representing our common shares. Certificate of payment ADSs will be treated as ADSs issued under the terms of the deposit agreement except that:

- certificate of payment ADSs will not be fungible with ADSs and will be separately identified until exchanged for ADSs by the depositary bank upon receipt from us of the corresponding number of newly issued common shares;
- holders of certificate of payment ADSs may not withdraw their corresponding interests in the deposited certificate of payment from the ADR facility;
- certificate of payment ADSs will not be exchanged for common shares;
- certificate of payment ADSs will trade on the New York Stock Exchange under the temporary trading symbol to be announced at that time;
- certificate of payment ADSs will only be issued in book-entry form through The Depository Trust Company;
- neither certificate of payment ADSs nor interests in the certificate of payment are eligible for pre-release transactions; and
- distributions made on certificate of payment ADSs shall be made only on the basis of distributions received in respect of the certificate of payment held by the depositary.

Certificate of payment ADSs will be exchanged automatically for ADSs representing common shares upon receipt by the depositary of share certificates in exchange for certificates of payment.

Withdrawal of Common Shares Upon Cancellation of ADSs

You may withdraw and hold the common shares represented by your ADSs unless you are a citizen of the People's Republic of China, or the PRC, or an entity organized under the laws of the PRC, or request the depositary bank to sell the common shares represented by your ADSs; *provided* that settlement for trading of common shares represented by the ADSs through the book-entry system maintained by the Taiwan Securities Central Depositary Co. Ltd. is permitted. If you are a non-ROC person and elect to withdraw common shares and register as our shareholder, you will be required to appoint a tax guarantor as well as an agent and a custodian in the ROC.

If you or someone on your behalf plans to withdraw common shares from the depositary facility, you would be the recipient of such common shares and (i) you are a related party to us (as defined in the ROC Statements of Financial Accounting Standards No. 6) or (ii) you would be the beneficial owner of more than 10% of the common shares previously in the depositary facility, your withdrawal will be subject to ROC governmental disclosure and reporting requirements.

In order to withdraw the common shares represented by your ADSs, you will be required to pay to the depositary the fees for cancellation of ADSs and any charges and taxes payable upon the transfer of the common shares being withdrawn. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the ADSs will not have any rights under the deposit agreement.

If you hold any ADSs registered in your name, the depositary bank may ask you to provide proof of citizenship, residence, tax payer status, exchange control approval, payment of taxes and other governmental charges, compliance with applicable laws and regulations and certain other documents as the depositary bank may deem appropriate before it will effect any withdrawal of the common shares represented by such ADS. The withdrawal of the common shares represented by your ADSs may be delayed until the depositary bank receives satisfactory evidence of compliance with all applicable laws and regulations. If the common shares are withdrawn to or for the account of any person as opposed to the person receiving the proceeds from the sale of ADSs, such evidence may include the disclosure of:

- your name;
- the name and nationality (and the identity number, if such person is a ROC citizen) of any person in whose name the common shares you are withdrawing will be registered;
- the number of common shares such person will receive upon such withdrawal;
- the aggregate number of common shares such person has received upon all withdrawals since the establishment of the depositary facility; and
- any other information that we or the depositary bank may deem necessary or desirable to comply with any ROC disclosure or reporting requirements.

The depositary bank will only accept ADSs for cancellation that represent a whole number of common shares on deposit. If you surrender a number of ADSs for withdrawal representing other than a whole number of common shares the depositary bank will either return the number of ADSs representing any remaining fractional common shares or sell the common shares represented by the ADSs you surrendered and remit the net proceeds of that sale to you as in the case of a distribution in cash. Common shares sold in lots other than integral multiples of 1,000 may realize a lower price on the Taiwan Stock Exchange.

You will have the right to withdraw the securities represented by your ADSs at any time subject to the requirements listed above and:

- temporary delays that may arise because (i) the transfer books for the shares or ADSs are closed, or (ii) common shares are immobilized on account of a shareholders' meeting or a payment of dividends;
- obligations to pay fees, taxes and similar charges; and
- restrictions imposed because of laws or regulations applicable to ADSs or the withdrawal of securities on deposit, including ROC regulations and restrictions which prohibit newly issued shares of ROC companies initially offered in ADS form to be withdrawn from the ADS facility until three months after the initial delivery of the ADSs or during any period in which the custodian holds a certificate of payment in respect of your ADSs.

The deposit agreement may not be modified to impair your right to withdraw the securities represented by your ADSs except to comply with mandatory provisions of law.

Voting Rights

You may direct the exercise of voting rights with respect to the common shares represented by the ADSs only in accordance with the provisions of the deposit agreement as described below and applicable ROC law. See "Risk Factors—Risks Relating to Ownership of ADSs—Your voting rights as a holder of ADSs will be limited".

Except as described below, you will not be able to exercise the voting rights attaching to the common shares represented by your ADSs on an individual basis. According to the ROC Company Law, a shareholder's voting rights attached to shareholdings in an ROC company must, as to all matters subject to a vote of shareholders (other than the election of directors and supervisors), be exercised as to all shares held by such shareholder in the same manner. Accordingly, the voting rights attaching to the common shares represented by ADSs must be exercised as to all matters subject to a vote of shareholders by the depositary bank or its nominee, who represents all holders of ADSs, collectively in the same manner, except in the case of an election of directors and supervisors. Directors and supervisors are elected by cumulative voting.

In the deposit agreement, you will appoint the depositary bank as your representative to exercise the voting rights with respect to the common shares represented by your ADSs.

We will provide the depositary bank with copies (including English translations) of notices of meetings of our shareholders and the agenda of these meetings, including an indication of the number of directors or supervisors to be elected if an election of directors or supervisors is to be held at the meeting. The depositary bank has agreed to request and we will, therefore, also provide a list of the candidates who have expressed their intention to run for an election of directors or supervisors. The depositary bank will mail these materials, together with a voting instruction form to holders as soon as practicable after the depositary bank receives the materials from us. In order to validly exercise its voting rights, the holder of ADSs must complete, sign and return to the depositary bank the voting instruction form by a date specified by the depositary bank. Additional or different candidates may be nominated at the meeting of the shareholders than those proposed in the list provided by us and after the depositary bank has mailed the voting instruction form to you. If such change were to occur, the depositary bank may calculate your votes according to procedures not inconsistent with the provisions of the Deposit Agreement, but shall not exercise any discretion regarding your voting rights.

Subject to the provisions described in the second succeeding paragraph, which will apply to the election of directors and supervisors, if persons together holding at least 51% of the ADSs outstanding at the relevant record date instruct the depositary bank to vote in the same manner in respect of one or more resolutions to be proposed at the meeting (other than the election of directors or supervisors), the depositary bank will notify the instructions to the chairman of our board of directors or a person he may designate. The depositary bank will appoint the chairman or his designated person to serve as the voting representative of the depositary bank or its nominee and the holders. The voting representative will attend such meeting and vote all the common shares represented by ADSs to be voted in the manner so instructed by such holders in relation to such resolution or resolutions.

If, for any reason, the depositary bank has not by the date specified by it received instructions from persons together holding at least 51% of all the ADSs outstanding at the relevant record date to vote in the same manner in respect of any resolution specified in the agenda for the meeting (other than the election of directors or supervisors), then the holders will be deemed to have instructed the depositary bank or its nominee to authorize and appoint the voting representative as the representative of the depositary bank and the holders to attend such meeting and vote all the common shares represented by all ADSs as the voting representative deems appropriate with respect to such resolution or resolutions, which may not be in your interests; *provided, however,* that the depositary bank or its nominee will not give any such authorization and appointment unless it has received an opinion of ROC counsel addressed to the depositary bank and in form and substance satisfactory to the depositary bank, at its sole expense, to the effect that, under ROC law (i) the deposit agreement is valid, binding and enforceable against us and the holders and (ii) the depositary bank will not be deemed to be authorized to exercise any discretion when voting in accordance with the deposit agreement and will not be subject to any potential liability for losses arising from such voting. We and the depositary bank will take such actions, including amendment of the provisions of the deposit agreement relating to voting of common shares, as we deem appropriate to endeavor to provide for the exercise of voting rights attached to the common shares at shareholders' meetings in a manner consistent with applicable ROC law.

The depositary bank will notify the voting representative of the instructions for the election of directors and supervisors received from holders and appoint the voting representative as the representative of the depositary bank and the owners to attend such meeting and vote the common shares represented by ADSs as to which the depositary bank has received instructions from holders for the election of directors and supervisors, subject to any restrictions imposed by ROC law and our articles of incorporation. Holders who by the date specified by the depositary bank have not delivered instructions to the depositary bank will be deemed to have instructed the depositary bank to authorize and appoint the voting representative as the representative of the depositary bank or its nominee and the holders to attend such meeting and vote all the common shares represented by ADSs as to which the depositary bank has not received instructions from the holders for the election of directors and supervisors as the voting representative deems appropriate, which may not be in your best interests. Candidates standing for election as representatives of a shareholder may be replaced by such shareholder prior to the meeting of the shareholders, and the votes cast by the holders for such candidates shall be counted as votes for their replacements.

By accepting and continuing to hold ADSs or any interest therein, you will be deemed to have agreed to the voting provisions set forth in the deposit agreement, as such provisions may be amended from time to time to comply with applicable ROC law.

There can be no assurance that you will receive notice of shareholders' meetings sufficiently prior to the date established by the depositary bank for receipt of instructions to enable you to give voting instructions before the cutoff date.

Fees and Charges

As an ADS holder, you will be required to pay the following service fees to the depositary bank:

Service	Fees
Issuance of ADSs	Up to 5¢ per ADS issued
Delivery of deposited securities upon surrender of ADSs	Up to 5¢ per ADS surrendered
Distribution of ADSs pursuant to exercise of rights	Up to 5¢ per ADS issued
Distribution of cash upon sale of rights and other entitlements	Up to 2¢ per ADS held

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges, such as:

- Fees for the transfer, custody and registration of common shares (*i.e.*, upon deposit, transfer and withdrawal of common shares);

- Expenses incurred for converting foreign currency into U.S. dollars and in compliance with exchange control regulations;
- Expenses for cable, telex and fax transmissions and for delivery of securities; and
- Taxes and duties upon the transfer of securities (*i.e.*, when common shares are deposited or withdrawn from deposit).

We have agreed to pay certain other charges and expenses of the depositary bank. Note that the fees and charges you may be required to pay may vary over time and may be changed by agreement between us and the depositary bank. Any change will apply to you 30 days after the depositary bank provides notice of such changes.

Amendments and Termination

We may agree with the depositary bank to modify the deposit agreement at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would prejudice any of their substantial rights under the deposit agreement (except in very limited circumstances enumerated in the deposit agreement).

You will be bound by the modifications to the deposit agreement if you continue to hold your ADSs after the modifications to the deposit agreement become effective. The deposit agreement cannot be amended to prevent you from withdrawing the common shares represented by your ADSs (except to comply with applicable law).

We have the right to direct the depositary bank to terminate the deposit agreement. Similarly, the depositary bank may in certain circumstances on its own initiative terminate the deposit agreement. In either case, the depositary bank must give notice to the holders at least 60 days before termination.

Upon termination, the following will occur under the deposit agreement:

- for a period of six months after termination, you will be able to request the cancellation of your ADSs and the withdrawal of the common shares represented by your ADSs and the delivery of all other property held by the depositary bank in respect of those common shares on the same terms as prior to the termination. During this six-month period, the depositary bank will continue to collect all distributions received on the common shares on deposit (i.e., dividends) but will not distribute any property to you until you request the cancellation of your ADSs; and
- after the expiration of the six-month period, the depositary bank may sell the securities held on deposit. The depositary bank will hold the proceeds from such sale and any other funds then held for the holders of ADSs in a non-interest bearing account. At that point, the depositary bank will have no further obligations to holders other than to account for the funds then held for the holders of ADSs still outstanding.

Books of the Depositary Bank

The depositary bank will maintain ADS holder records at its depositary office. You may inspect such records at that office during regular business hours, but solely for the purpose of communicating with other holders in the interest of our business or matters relating to the ADSs and the deposit agreement.

The depositary bank will maintain in The City of New York facilities to record and process the execution and delivery, registration, registration of transfers and surrender of ADRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreement limits our obligations and the depositary bank's obligations to you. Please note the following:

- We and the depositary bank are obligated only to take the actions specifically stated in the depositary agreement without negligence and in good faith.
- The depositary bank disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreement.
- The depositary bank disclaims any liability to monitor or enforce our obligations under the deposit agreement, including our obligation to convert the certificate of payment into common shares upon issuance of new common shares.
- We and the depositary bank will not be obligated to perform any act that is not set forth in the deposit agreement.
- We and the depositary bank disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our articles of incorporation, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.
- We and the depositary bank disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement.
- We and the depositary bank further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting common shares for deposit, any holder of ADSs or authorized representative thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the depositary bank also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of common shares but is not, under the terms of the deposit agreement, made available to that holder.
- We and the depositary bank may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

Pre-Release Transactions

The depositary bank may, to the extent permitted by applicable laws and regulations, issue ADSs before receiving a deposit of common shares. These transactions are commonly referred to as "pre-release transactions". The deposit agreement limits the aggregate size of pre-release transactions and imposes a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depositary bank may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on your ADSs and the securities represented by your ADSs. We, the depositary bank and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due on your ADSs and the securities represented by your ADSs.

The depositary bank may refuse to transfer ADRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. You may be required to provide to the depositary bank and to the custodian proof of taxpayer status and residence and such other information as the depositary bank and the custodian may require to fulfill legal obligations.

Although in certain circumstances ROC income tax imposed on certain stock dividends distributed by us may be deferred until the sale or other disposition of such stock dividends, the depositary bank will elect to waive the deferral of income tax on such stock dividends.

Foreign Currency Conversion

The depositary bank may arrange for the conversion of all foreign currency received into U.S. dollars only if such conversion is reasonably practicable, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreement. You may be required to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not reasonably practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary bank may take the following actions in its discretion:

- convert the foreign currency and distribute the U.S. dollars to the holders for whom the conversion and distribution is permissible;
- distribute the foreign currency to holders entitled to the distribution; or
- hold the foreign currency (without liability for interest) for the applicable holders.

The Custodian

The depositary bank has agreed with the custodian that the custodian will receive and hold the deposited securities for the account of the depositary bank in accordance with the deposit agreement. If the custodian resigns or is discharged from its duties under the deposit agreement, the depositary bank will promptly appoint a successor custodian that is organized under the laws of the ROC. The resigning or discharged custodian will deliver the deposited securities and related records to the custodian designated by the depositary bank. The depositary bank may also appoint an additional custodian for any deposited securities. The depositary bank will give you written notice of any such changes. If the depositary bank resigns or is discharged from its duties under the deposit agreement, the custodian will, unless otherwise instructed by the depositary bank, continue to act as custodian and will be subject to the direction of the successor depositary bank.

Governing Law

The deposit agreement is governed by the laws of the State of New York. We and the depositary bank have agreed that the federal or state courts in the City of New York shall have jurisdiction to hear and determine any suit, action or proceeding and to settle any dispute between us that may arise out of or in connection with the deposit agreement. We have also submitted to the jurisdiction of such courts and have appointed an agent for service of process in the City of New York.

COMMON SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the 51,000,000 ADSs sold in this offering will be freely tradeable within the United States without restriction or further registration under the Securities Act by persons other than us or our "affiliates," as such term is defined in Rule 144 under the Securities Act.

The selling shareholders have agreed, during the period beginning from the date of this prospectus to and including the date 180 days after the date of this prospectus, with respect to the Development Fund and the Stabilization Fund, and 90 days after the date of this prospectus, with respect to the other selling shareholders, not to, and not to announce an intention to, offer, sell, contract to sell or otherwise dispose of, or file a registration statement or similar document relating to, ADSs or common shares or any security convertible into or exchangeable for common shares or ADSs or other instruments representing interests in or the right to receive ADSs or common shares or any securities substantially similar thereto, without the prior written consent of Goldman Sachs International. These restrictions do not apply to:

- the 51,000,000 ADSs and the common shares represented thereby being offered in connection with this offering; and
- up to 7,650,000 ADSs and the common shares represented thereby that may be purchased by the underwriters pursuant to their overallotment option.

In addition, Philips Electronics N.V. has executed a lock-up agreement, the effect of which is similarly to limit during the 90-day period indirect sales of interests in our company by itself or its affiliates, including Philips Electronics Industries (Taiwan) Ltd.

We have also agreed, during the period beginning from the date of this prospectus to and including the date 90 days after the date of this prospectus, not to, and not to announce an intention to, issue any common shares, including common shares represented by ADSs (other than pursuant to employee stock option plans that we may adopt or any common shares to be issued as an annual dividend or annual bonus to directors, supervisors and employees which is approved by our shareholders), without the prior written consent of Goldman Sachs International. Although we have no current plans to make any such issuance during this 90-day period, we are not precluded from issuing any securities that are convertible into or exchangeable for, or that represent the right to receive, our common shares.

Additional common shares may be sold in ADS form as part of our conversion sale program, which was adopted in May 1999. The purpose of this program is to enable sales of common shares in ADS form by certain of our long-term common shareholders in a gradual and coordinated fashion. Any of our shareholders, excluding our affiliates, who are holding at least 0.02% of our outstanding common shares as of the relevant announcement date and have held such shares for at least one year as of that date are eligible to file an application to sell shares under this program. Based on the 16,832,553,051 common shares currently outstanding, 0.02% represents 3,366,511 common shares. The maximum amount that will be approved for participation in the program during any three-month period will be 0.5% of our outstanding shares which, based on the 16,832,553,051 common shares currently outstanding, is 84,162,765 shares. We do not recommend or promote the sale of our shares by our shareholders. Each transaction under the conversion sale program is subject to the approval by our board of directors, the approvals by certain ROC and US regulatory authorities and stock exchanges and market conditions. Eligible selling shareholders who have submitted a written application to participate in the program, whether or not required regulatory approvals are granted or whether or not any sales are made, must pay, on a pro rata basis, all fees and expenses incurred by us, the administrative agent, advisors and trade facilitator in connection with the program. We have advised the underwriters of our intention not to facilitate any conversions or exchanges of common shares into ADSs for 90 days after the date of this prospectus.

The Development Fund has sold significant amounts of shares and ADSs in the past, including the sale of 4,000,000 ADSs in April 2000, 14,000,000 ADSs in June 2001 and 20,000,000 ADSs in November 2001. The Development Fund and the Stabilization Fund have advised us that they have no current intention to sell any of our common shares or ADSs during the period beginning from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except for ADSs and common shares represented thereby to be sold by it in this offering. We have no further information regarding the intentions of the Development Fund or the Stabilization Fund, but it is likely that the Development Fund and the Stabilization Fund will sell additional ADSs or common shares in the future.

Other than as discussed above, we are not aware of any plans by any major shareholders to dispose of significant numbers of common shares.

TAXATION

ROC Taxation

The following is a general summary of the principal ROC tax consequences of the ownership and disposition of ADSs representing common shares to a non-resident individual or entity. It applies to the holders only if the holders are:

- an individual who is not an ROC citizen, who owns ADSs and who is not physically present in the ROC for 183 days or more during any calendar year; or
- a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the ROC for profit-making purposes and has no fixed place of business or other permanent establishment in the ROC.

Prospective purchasers of ADSs are urged to consult their own tax advisors as to the particular ROC tax consequences of owning the ADSs which may affect them.

Dividends. Dividends declared by us out of our retained earnings and distributed to the holders are subject to ROC withholding tax, currently at the rate of 20%, on the amount of the distribution in the case of cash dividends or on the par value of the common shares in the case of stock dividends. However, a 10% ROC retained earnings tax paid by us on our undistributed after-tax earnings, if any, would provide a credit of up to 10% of the gross amount of any dividends declared out of those earnings that would reduce the 20% ROC tax imposed on those distributions.

Dividends paid by us out of our capital reserves are not subject to ROC withholding tax. However, due to the fact that a tax ruling confirming the foregoing was removed from the government tax publication, a question arises as to whether dividends paid out of capital reserve are free from ROC withholding tax. The ROC tax authority is currently studying the issue.

Capital Gains. Under ROC law, capital gains on transactions in the common shares, but not ADSs, are exempt from income tax.

Subscription Rights. Distributions of statutory subscription rights for common shares in compliance with ROC law are not subject to any ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are exempted from income tax but are subject to securities transaction tax at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights that are not evidenced by securities are subject to capital gains tax at the rate of:

- 35% of the gains realized if you are a natural person; or
- 25% of the gains realized if you are an entity that is not a natural person.

Subject to compliance with ROC law, we, at our sole discretion, can determine whether statutory subscription rights shall be evidenced by issuance of securities.

Securities Transaction Tax. A securities transaction tax, at the rate of 0.3% of the gross amount received, will be withheld upon a sale of common shares in the ROC. Transfers of ADSs are not subject to ROC securities transaction tax. Withdrawal of common shares from the deposit facility is not subject to ROC securities transaction tax.

Estate and Gift Tax. ROC estate tax is payable on any property within the ROC of a deceased who is an individual, and ROC gift tax is payable on any property within the ROC donated by any such person. Estate tax is currently payable at rates ranging from 2% of the first NT$600,000 to 50% of amounts over NT$100,000,000. Gift tax is payable at rates ranging from 4% of the first

NT$600,000 to 50% of amounts over NT$45,000,000. Under ROC estate and gift tax laws, common shares issued by ROC companies are deemed located in the ROC regardless of the location of the holder. It is unclear whether a holder of ADSs will be considered to hold common shares for this purpose.

Tax Treaty. The ROC does not have a double taxation treaty with the United States. On the other hand, the ROC has double taxation treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Macedonia, Swaziland, Gambia and The Netherlands, which may limit the rate of ROC withholding tax on dividends paid with respect to common shares in ROC companies. It is unclear whether the holders will be considered to hold common shares for the purposes of these treaties. Accordingly, if the holders may otherwise be entitled to the benefits of the relevant income tax treaty, the holders should consult their tax advisors concerning their eligibility for the benefits with respect to the ADSs.

United States Federal Income Taxation

This section constitutes the opinion of Sullivan & Cromwell, our U.S. counsel, regarding the material United States federal income tax consequences of owning our ADSs. It applies to you only if you acquire your ADSs in this offering and you hold your ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of our voting stock;
- a person that holds ADSs as part of a straddle or a hedging or conversion transaction; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of ADSs and you are:

- a citizen or resident of the United States;
- an entity organized under the laws of the United States, or any political subdivision thereof, which is taxable as a corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A “non-U.S. holder” is a beneficial owner of ADSs that is not a United States person for United States federal income tax purposes.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

U.S. Holders. Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, you must include in your gross income the gross amount of any dividend paid by us on your ADSs out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) including the amount of any ROC tax withheld reduced by any credit against such withholding tax on account of the 10% retained earnings tax imposed on us. The dividend will be ordinary income that you must include in income when the Depositary receives the dividend. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the NT Dollar payments made, determined at the spot NT/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the ADSs and thereafter as capital gain.

Subject to some generally applicable limitations and restrictions, the ROC taxes withheld from dividend distributions and paid over to the ROC (reduced by any credit against such withholding tax on account of the 10% retained earnings tax) will be eligible for credit against your U.S. federal income tax liabilities. Dividends paid will generally constitute “passive income” or, in the case of some U.S. financial services providers, “financial services income”, which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you.

Pro rata distributions of common shares by us to holders of ADSs will generally not be subject to U.S. federal income tax. Accordingly, such distributions will generally not give rise to U.S. federal income against which the ROC tax imposed on such distributions may be credited. Any such ROC tax will generally only be creditable against a U.S. holder’s U.S. federal income tax liability with respect to “general limitation income” and not “passive income” or “financial services income”, subject to generally applicable conditions and limitations.

In the event that the ex-dividend date on the New York Stock Exchange or other securities exchange or market for a dividend or distribution that gives rise to ROC withholding tax is after the record date for such dividend or distribution (during which period such ADSs may trade with “due bills”), a purchaser of ADSs during the period from the record date to the ex-dividend date likely would not be entitled to a foreign tax credit for ROC taxes paid in respect of such ADSs even if (i) the purchaser receives the equivalent of such dividend or distribution on the relevant distribution date, and (ii) an amount equivalent to the applicable ROC withholding tax is withheld therefrom or otherwise charged to the account of such purchaser.

Non-U.S. Holders. If you are a non-U.S. holder, dividends paid to you in respect of ADSs will not be subject to United States federal income tax unless the dividends are "effectively connected" with your conduct of a trade or business within the United States, and the dividends are attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty for which you are eligible as a condition for subjecting you to United States taxation on a net income basis. In such cases you will be taxed in the same manner as a U.S. holder. If you are a corporate non-U.S. holder, "effectively connected" dividends may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Taxation of Capital Gains

U.S. Holders. Subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your ADSs. Your tax basis in your ADSs will generally be the cost of the ADSs to you. Capital gain of a noncorporate U.S. holder is generally taxed a maximum rate of 20% where the property is held more than one year and 18% where the property is held more than five years. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Non-U.S. Holders. If you are a non-U.S. holder, you will not be subject to United States federal income tax on gain recognized on the sale or other disposition of your ADSs unless:

- the gain is "effectively connected" with your conduct of a trade or business in the United States and the gain is attributable to a permanent establishment that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis; or
- you are an individual and are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions exist.

If you are a corporate non-U.S. holder, "effectively connected" gains that you recognize may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

PFIC Rules. We believe that ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADSs:

- at least 75% of our gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns directly or indirectly at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a PFIC, and you are a U.S. holder that does not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your ADSs; and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the ADSs during the three preceding taxable years or, if shorter, your holding period for the ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the ADSs,
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income,
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your ADSs at the end of the taxable year over your adjusted basis in your ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the ADSs will be adjusted to reflect any such income or loss amounts. Your gain, if any, recognized upon the sale of your ADSs will be taxed as ordinary income.

If you own ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

Backup Withholding and Information Reporting

If you are a noncorporate U.S. holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- dividend payments or other taxable distributions made to you within the United States, and
- the payment of proceeds to you from the sale of ADSs effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you are a noncorporate U.S. holder that:

- fails to provide an accurate taxpayer identification number,

- is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns, or
- in certain circumstances, fails to comply with applicable certification requirements.

If you are a non-U.S. holder, you are generally exempt from backup withholding and information reporting requirements with respect to:

- dividend payments made to you outside the United States by us or another non-United States payor and
- other dividend payments and the payment of the proceeds from the sale of ADSs effected at a United States office of a broker, as long as the income associated with such payments is otherwise exempt from United States federal income tax, and:
  - the payor or broker does not have actual knowledge or reason to know that you are a United States person and you have furnished the payor or broker:
    - an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are a non-United States person, or
    - other documentation upon which it may rely to treat the payments as made to a non-United States person in accordance with U.S. Treasury regulations, or
  - you otherwise establish an exemption.

Payment of the proceeds from the sale of ADSs effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale of ADSs that is effected at a foreign office of a broker will be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States,
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or
- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, a sale of ADSs effected at a foreign office of a broker will be subject to information reporting if the broker is:

- a United States person,
- a controlled foreign corporation for United States tax purposes,
- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or
- a foreign partnership, if at any time during its tax year:
  - one or more of its partners are "U.S. persons", as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or

- such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a company limited by shares and incorporated under the ROC Company Law. Substantially all of our directors, executive officers and supervisors and some of the experts named in this prospectus are residents of the ROC and a substantial portion of our assets and the assets of our directors, supervisors and executive officers are located in the ROC. As a result, it may not be possible for investors to effect service of process upon us or our directors, supervisors or executive officers within the United States, or to enforce against any of them judgments obtained in the United States courts, including those predicated upon the civil liability provisions of the federal securities laws of the United States. We have been advised by our ROC counsel, Lee and Li, that in their opinion any final judgment obtained against us in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the ADSs will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that:

- the court rendering the judgment has jurisdiction over the subject matter according to the laws of the ROC;
- the judgment is not contrary to the public order or good morals of the ROC;
- if the judgment was rendered by default by the court rendering the judgment, we were served within the jurisdiction of that court or process was served on us with judicial assistance of the ROC; and
- judgments of the courts of the ROC are recognized and enforceable in the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would be required to obtain foreign exchange approval from the Central Bank of China for the remittance out of the ROC of any amounts recovered in respect of a judgment denominated in a currency other than NT dollars.

VALIDITY OF SECURITIES

The validity of the ADSs is being passed upon for the Development Fund and the Stabilization Fund by Davis Polk & Wardwell, for us by Sullivan & Cromwell, and for the underwriters by Cleary, Gottlieb, Steen & Hamilton. The validity of the common shares is being passed upon for us and the selling shareholders by Lee and Li, Taipei, Taiwan, ROC, and for the underwriters by Tsar & Tsai, Taipei, Taiwan, ROC.

EXPERTS

The following information has been included, or incorporated by reference, in this prospectus:

- Our audited consolidated balance sheets as of December 31, 1999 and 2000 and June 30, 2001 and related consolidated statements of income and cash flows, for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001, and shareholders' equity for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2001.
- TSMC-Acer's audited consolidated financial statements as of and for the year ended December 31, 1999.

These financial statements included or incorporated by reference in this prospectus and elsewhere in the registration statement have been audited by T N Soong & Co., independent public accountants and a member firm of Andersen Worldwide, SC, as indicated in their reports with respect thereto, and are included herein in reliance upon authority of T N Soong & Co. as experts in giving such reports.

The offices of T N Soong & Co. are located at 7th Floor, 11 Park Avenue 2nd Road, Science-Based Industrial Park, Hsinchu, ROC.

WHERE YOU CAN FIND MORE INFORMATION

As required by the Securities Act, we have filed a registration statement on Form F-3 relating to the securities offered by this prospectus with the SEC. This prospectus is a part of that registration statement, which includes additional information.

We file annual reports on Form 20-F and periodic reports on Form 6-K with the SEC. You may read and copy this information at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices in New York, New York and Chicago, Illinois. You can also request copies of the documents, upon payment of a duplicating fee, by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

The SEC allows us to "incorporate by reference" the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus. Any information that we file later with the SEC and that is deemed incorporated by reference will automatically update information in this prospectus. In all such cases, you should rely on the later information over different information included in this prospectus.

This prospectus will be deemed to incorporate by reference the following documents:

- the audited consolidated financial statements of TSMC-Acer and Subsidiaries as of and for the year ended December 31, 1999 and the unaudited consolidated financial statements as of and for the three months ended March 31, 2000, as included in our report on Form 6-K, dated December 17, 2001;
- our unaudited pro forma financial information related to the acquisition of TSMC-Acer as of and for the year ended December 31, 2000, as included in our report on Form 6-K, dated December 17, 2001;
- our annual report on Form 20-F, dated June 21, 2001, to the extent the information in that report has not been updated by this prospectus;
- any annual report on Form 20-F filed subsequent to the date hereof and prior to the termination of this offering; and
- any report on Form 6-K submitted by us to the SEC prior to the termination of this offering and identified by us as being incorporated by reference into this prospectus.

We also currently expect to release the unconsolidated financial statements of Taiwan Semiconductor Company Limited for the year ended December 31, 2001, prepared under ROC GAAP, and certain related analysis, on or about January 25, 2002. To the extent required, we will incorporate that information into this prospectus by submitting a report on Form 6-K containing such information.

We will furnish to each person, including any beneficial owner, to whom a prospectus for this offering is delivered, a copy of any or all of the information that has been incorporated by reference in this prospectus but not delivered with this prospectus. You may request this information, at no cost, by writing or telephoning us at No.121, Park Avenue III, Science-Based Industrial Park, Hsinchu, Taiwan, Attention: Wendell Huang or Alex Huang, telephone number: (886-3) 567-2292 or (886-3) 567-2926.

We will furnish to Citibank, N.A., as depositary of the ADSs, our annual reports. We will also furnish the depositary with quarterly reports required under ROC law. When the depositary receives these reports, it will upon our request promptly provide them to all holders of record of ADSs. We also will furnish the depositary with all notices of shareholders’ meetings and other reports and communications that we make available to our shareholders (or English language translations thereof, if necessary). The depositary will make these notices, reports and communications available to holders of ADSs and will upon our request mail to all holders of record of ADSs the information contained in any notice of a shareholders’ meeting it receives.

UNDERWRITING

We, the selling shareholders and the underwriters for this offering named below have entered into an underwriting agreement with respect to the ADSs being offered both within and outside the United States. Subject to certain conditions, each underwriter has severally agreed to purchase the number of ADSs indicated in the following table. Goldman Sachs International, the bookrunner for this offering, is the representative of the underwriters, and its address is Peterborough Court, 133 Fleet Street, London, EC4A 2BB, England.

Underwriters	Number of ADSs
Goldman Sachs International	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Banc of America Securities LLC	
Credit Suisse First Boston Corporation	
Deutsche Banc Alex. Brown Inc.	
J.P. Morgan Securities Ltd.	
Total	51,000,000

The underwriters are committed to take and pay for all of the ADSs being offered, if any are taken, other than the ADSs covered by the option described below unless and until this option is exercised.

If the underwriters sell more ADSs than the total number set forth in the table above, the underwriters have an option to buy up to an additional 7,650,000 ADSs from some of the selling shareholders to cover these sales. They may exercise that option within 30 days of the date of this prospectus. If any ADSs are purchased pursuant to this option, the underwriters will severally purchase ADSs in approximately the same proportion as set forth in the table above.

The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters by the selling shareholders. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to 7,650,000 additional ADSs.

	Paid by the selling shareholders (no exercise)	Paid by the selling shareholders (full exercise)
Per ADS	US$	US$
Total	US$	US$

Total expenses for this offering are estimated to be approximately US$4.3 million, including depositary bank fees and expenses of approximately US$2 million, registration fees of US$240,398 printing fees of approximately US$250,000, legal fees of approximately US$750,000 and accounting fees of approximately US$350,000. The underwriters have agreed to reimburse us for or pay on our behalf the fees and expenses we incur in connection with this offering, and will also bear their own and the selling shareholders' expenses in connection with this offering.

ADSs sold by the underwriters to the public will initially be offered at the initial price to public set forth on the cover of this prospectus. Any ADSs sold by the underwriters to securities dealers may be sold at a discount of up to US$ per ADS from the initial price to public. Any such securities dealers may resell any ADSs purchased from the underwriters to certain other brokers or dealers at a discount of up to US$ per ADS from the initial price to public. If all the ADSs are not sold at the initial price to public, the underwriters may change the offering price and the other selling terms.

We have been advised by the underwriters that some of the underwriters are expected to make offers and sales both inside and outside of the United States through their respective selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the Securities and Exchange Commission. Goldman Sachs International is expected to make offers and sales in the United States through its selling agent, Goldman, Sachs & Co.

The underwriters have entered into an agreement in which they agree to restrictions on where and to whom they and any dealer purchasing from them may offer shares or ADSs as a part of the distribution of the shares and ADSs. The underwriters also have agreed that they may sell shares and ADSs among themselves.

The selling shareholders have agreed, with certain exceptions, during the period beginning from the date of this prospectus to and including the date 180 days after the date of this prospectus, with respect to the Development Fund and the Stabilization Fund, and 90 days after the date of this prospectus, with respect to the other selling shareholders, not to, and not to announce an intention to, offer, sell, contract to sell or otherwise dispose of, or file a representation statement or similar document relating to, ADSs or common shares or any security convertible into or exchangeable for common shares or ADSs or other instruments representing interests in or the right to receive ADSs or common shares or any securities substantially similar thereto, without the prior written consent of Goldman Sachs International.

In addition, Philips Electronics N.V. has executed a lock-up agreement, the effect of which is similarly to limit during the 90-day period indirect sales of interests in our company by itself or its affiliates, including Philips Electronics Industries (Taiwan) Ltd.

We have also agreed, during the period beginning from the date of this prospectus to and including the date 90 days after the date of this prospectus, not to, and not to announce an intention to, issue any common shares, including common shares represented by ADSs (other than pursuant to employee stock option plans that we may adopt or any common shares to be issued as an annual dividend or annual bonus to directors, supervisors and employees which is approved by our shareholders), without the prior written consent of Goldman Sachs International. Although we have no current plans to make any such issuance during this 90-day period, we are not precluded from issuing any securities that are convertible into or exchangeable for, or that represent the right to receive, our common shares. See "Common Shares Eligible for Future Sale" for a discussion of material transfer restrictions.

Each underwriter has represented and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the closing date of the issue of the ADSs, will not offer or sell any ADSs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of any ADSs in circumstances in which section 21(1) of the FSMA does not apply to us; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the ADSs in, from or otherwise involving the United Kingdom.

The ADSs have not been and will not registered under the Securities and Exchange Law of Japan. Each underwriter has represented and agreed that it has not offered or sold, and it will not offer or sell, directly or indirectly, any ADSs in Japan or to, or for the account or benefit of, any resident of Japan or to, or for the account or benefit, of any resident for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan and (ii) in compliance with the other relevant laws and regulations of Japan.

Each underwriter has also represented and agreed that it has not offered or sold, and has agreed not to offer or sell any ADSs, directly or indirectly, in Canada in contravention of the securities laws of Canada or any province or territory thereof and has represented that any offer of ADSs in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer is made. Each underwriter has also represented and agreed that it will send to any dealer who purchases from it any ADSs a notice stating in substance that, by purchasing such ADSs, such dealer represents and agrees that it has not offered or sold, and will not offer or sell, directly or indirectly, any of such ADSs in Canada or any province or territory thereof and that any offer of ADSs in Canada or to, or for the benefit of, any resident of Canada in contravention of the securities laws of Canada or to any province or territory thereof and that any offer of ADSs in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province of Canada in which such offer is made, and that such dealer will deliver to any other dealer to whom it sells any such ADSs a notice to the foregoing effect.

No offer to sell the ADSs has been or will be made in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and unless permitted to do so under the securities laws of Hong Kong, no person has issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purpose of issue, any advertisement, document or invitation relating to the ADSs other than with respect to the ADSs intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or agent.

Each underwriter has represented and agreed that it has not, and will not, offer or sell any ADSs, nor will it circulate or distribute this prospectus or any other offering document or material relating to the ADSs, either directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50, of Singapore, or the Singapore Companies Act, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Singapore Companies Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Singapore Companies Act.

The ADSs may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this prospectus nor any other document in respect of the offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

No action has been or will be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither the prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each underwriter has also represented and agreed that it has not offered or sold, and has agreed not to offer or sell any ADSs, directly or indirectly, in the Republic of China.

In connection with this offering, the underwriters may, subject to applicable laws and regulations, purchase and sell the ADSs or shares in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares or ADSs than they are required to purchase in this offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the shares and ADSs while the offering is in progress.

The underwriters also may, subject to applicable laws and regulations, impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because a representative of the underwriters has repurchased shares or ADSs sold by or for the account of that underwriter in stabilizing or covering short transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the shares or ADSs. As a result, the price of the shares or ADSs may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

We and the selling shareholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Purchasers of the ADSs offered in this offering may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this prospectus.

This prospectus may be used by the underwriters and other dealers in connection with offers and sales of the ADSs, including sales of ADSs initially sold by the underwriters in this offering being made outside of the United States, to persons located in the United States.

The underwriters have engaged in, and may in the future engage in, investment banking activities and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

Mr. Morris Chang, the chairman of our board of directors, is a member of the board of directors of The Goldman Sachs Group, Inc. Goldman Sachs International and Goldman, Sachs & Co. are affiliates of The Goldman Sachs Group, Inc. Mr. Chang is also a selling shareholder in this offering.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited (a Republic of China corporation) and subsidiaries as of December 31, 1999, 2000 and June 30, 2001 and the related consolidated statements of income and cash flows for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001, and shareholders' equity for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2001, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and the United States of America. 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 financial position of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 1999 and 2000 and June 30, 2001, and the results of their operations and their cash flows for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001, in conformity with generally accepted accounting principles in the Republic of China.

Certain accounting practices of the Company used in preparing the accompanying consolidated financial statements conform with generally accepted accounting principles in the Republic of China, but do not conform with accounting principles generally accepted in the United States of America. A description of these differences and the adjustments required to reconcile net income and shareholders' equity to accounting principles generally accepted in the United States of America are set forth in Note 24.

/s/ T N Soong & Co
T N Soong & Co.
A Member Firm of Andersen Worldwide, SC
Taipei, Taiwan
The Republic of China

December 3, 2001

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Millions of New Taiwan and U.S. Dollars, Except Shares)

	Notes	December 31, 1999	December 31, 2000	June 30, 2001	June 30, 2001
		NT$	NT$	NT$	US$ (Note 3)
ASSETS					
Current Assets					
Cash and cash equivalents	2C,4	29,517.7	38,840.2	41,524.6	1,204.3
Pledged time deposits	20	3,161.0	—	—	—
Short-term investments	2D,5,20	965.4	1,502.1	1,461.7	42.4
Receivables—net	2E,2M,6	13,322.0	27,055.5	13,343.8	387.1
Receivable from related party	19	340.9	948.7	704.0	20.4
Inventories	2F,7	7,104.0	12,785.7	8,019.7	232.6
Deferred income tax assets—net	2N,18	2,616.6	8,178.0	3,165.3	91.8
Prepaid expenses and other current assets	2O,19,20,22	2,630.0	3,034.6	2,728.2	79.1
Total Current Assets		59,657.6	92,344.8	70,947.3	2,057.7
Long-term Investments	2G,8	16,164.7	10,663.8	12,386.7	359.2
Properties—Net	2H,9,19,20	150,059.9	244,747.9	254,709.9	7,387.2
Goodwill	2I	—	11,531.0	11,945.9	346.4
Other Assets					
Rental assets		—	625.6	590.4	17.1
Deferred income tax assets	2N,18	7,006.7	6,629.8	14,150.6	410.4
Deferred charges—net	2J,10	2,380.8	3,335.7	3,488.7	101.2
Refundable deposits		59.4	979.1	876.3	25.4
Miscellaneous		106.4	28.3	30.4	0.9
Total Other Assets		9,553.3	11,598.5	19,136.4	555.0
Total Assets		235,435.5	370,886.0	369,126.2	10,705.5
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current Liabilities					
Short-term bank borrowings	11,20	5,026.6	3,833.8	1,911.2	55.5
Commercial paper payable	12	94.8	—	—	—
Accounts payable		3,273.9	8,507.8	2,529.8	73.4
Payable to related parties	19	1,036.4	2,606.3	1,007.0	29.2
Payables to contractors and equipment suppliers		12,593.7	25,550.3	20,472.1	593.7
Current portion of long-term liabilities	16	1.0	51.1	1.1	—
Accrued expenses and other current liabilities	2O,18,22	4,364.0	6,875.7	7,472.6	216.7
Total Current Liabilities		26,390.4	47,425.0	33,393.8	968.5
Long-term Liabilities					
Long-term bank borrowings	13,20	22,743.5	23,339.4	26,431.1	766.6
Long-term bonds payable	14	20,000.0	29,000.0	29,000.0	841.1
Total Long-term Liabilities		42,743.5	52,339.4	55,431.1	1,607.7
Other Liabilities					
Accrued pension cost	2K,17	1,013.8	1,511.3	1,748.4	50.7
Deferred gain on sale—leaseback	2L	—	434.2	349.9	10.1
Lease obligation payable	16	4.4	3.3	2.9	0.1
Guarantee deposits		5,185.4	7,086.4	7,121.5	206.5
Others		3.3	11.0	6.5	0.2
Total Other Liabilities		6,206.9	9,046.2	9,229.2	267.6
Total Liabilities		75,340.8	108,810.6	98,054.1	2,843.8
Minority Interest in Subsidiaries	2A	7,524.2	321.7	87.3	2.5

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS—(Continued)
(In Millions of New Taiwan and U.S. Dollars, Except Shares)

	Notes	December 31, 1999	December 31, 2000	June 30, 2001	June 30, 2001
		NT$	NT$	NT$	US$ (Note 3)
Shareholders' Equity	2G,2H,2Q,15				
Capital stock—$10 par value					
Authorized: 9,100,000 thousand, 17,800,000 thousand and 24,600,000 thousand shares in 1999, 2000 and 2001, respectively					
Issued:					
Preferred stock—1,300,000 thousand shares in 2000 and 2001		—	13,000.0	13,000.0	377.0
Common stock—8,520,882 thousand, 11,689,365 thousand and 11,689,365 thousand shares in 1999, 2000 and 2001, respectively		85,208.8	116,893.7	116,893.7	3,390.2
Approval for subsequent issuance from retained earnings—5,143,188 thousand shares		—	—	51,431.9	1,491.6
Subscribed capital		13,118.0	—	—	—
Capital surplus		23,951.4	57,089.0	57,089.0	1,655.8
Retained earnings		31,382.4	75,121.0	31,796.5	922.1
Unrealized loss on long-term investment		—	(71.6)	(32.1)	(0.9)
Cumulative translation adjustment		(1,090.1)	(278.4)	805.8	23.4
Total Shareholders' Equity		152,570.5	261,753.7	270,984.8	7,859.2
Total Liabilities and Shareholders' Equity		235,435.5	370,886.0	369,126.2	10,705.5

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In Millions of New Taiwan and U.S. Dollars, Except Shares and Earnings Per Share)

	Notes	Year Ended December 31,				Six Months Ended June 30,		
		1998	1999	2000	2000	2000	2001	2001
		NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Net Sales	2M, 19	50,524.5	76,305.1	166,197.6	4,820.1	64,914.7	65,815.5	1,908.8
Cost of Sales	19	33,009.3	45,212.6	87,609.6	2,540.9	36,447.4	48,440.3	1,404.9
Gross Profit		17,515.2	31,092.5	78,588.0	2,279.2	28,467.3	17,375.2	503.9
Operating Expenses								
Marketing		767.5	1,861.6	2,681.6	77.8	1,076.1	1,098.9	31.9
Research and development	19	2,314.0	4,115.6	7,203.6	208.9	2,859.2	4,984.2	144.5
General and administrative	19	2,128.2	2,845.3	7,408.1	214.8	2,935.6	3,127.6	90.7
Total Operating Expenses		5,209.7	8,822.5	17,293.3	501.5	6,870.9	9,210.7	267.1
Income From Operations		12,305.5	22,270.0	61,294.7	1,777.7	21,596.4	8,164.5	236.8
Non-operating Income								
Interest		1,111.9	1,114.5	1,679.7	48.7	772.7	949.0	27.5
Insurance compensation		—	184.6	1,623.8	47.1	1,513.5	15.9	0.5
Gain on sale of short-term investments-net		11.9	48.6	1,060.9	30.8	694.2	616.7	17.9
Foreign exchange gain—net	2P, 22	—	—	828.0	24.0	732.2	—	—
Premium income	2O, 22	8.3	63.8	640.5	18.6	111.1	27.4	0.8
Technical service income	19	—	—	138.5	4.0	—	26.0	0.8
Gain on sale of properties	2H	3.3	4.0	62.9	1.8	—	15.0	0.4
Gain on sale of long-term Investments—net	2G	781.6	67.8	15.1	0.4	1.2	2.6	—
Reversal of provision for losses on short-term investment		—	140.1	0.7	0.0	—	—	—
Other	19	59.6	58.9	177.8	5.2	156.5	240.3	7.0
Total Non-Operating Income		1,976.6	1,682.3	6,227.9	180.6	3,981.4	1,892.9	54.9
Non-operating Expenses								
Interest	9, 22	1,191.7	2,417.0	2,717.0	78.8	1,375.1	1,577.1	45.7
Investment loss recognized by equity method—net	2G, 8	1,400.0	288.5	187.2	5.4	309.7	1,543.7	44.8
Loss on sale of properties	2H	4.4	164.4	114.7	3.3	61.2	20.8	0.6
Premium expenses	2O, 22	—	86.8	108.1	3.1	108.0	—	—
Issuance costs of bonds		143.7	114.8	32.7	1.0	9.7	6.2	0.2
Foreign exchange loss—net	2P, 22	259.5	119.1	—	—	—	332.8	9.7
Permanent losses on long-term investments	2G	5.8	31.6	—	—	—	—	—
Provision for loss on short-term investments		121.9	—	—	—	—	—	—
Other		99.9	101.8	461.4	13.4	224.0	93.1	2.7
Total Non-Operating Expenses		3,226.9	3,324.0	3,621.1	105.0	2,087.7	3,573.7	103.7

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME—(Continued)
(In Millions of New Taiwan and U.S. Dollars, Except Shares and Earnings Per Share)

	Notes	Year Ended December 31, 1998 NT$	1999 NT$	2000 NT$	2000 US$ (Note 3)	Six Months Ended June 30, 2000 NT$	2001 NT$	2001 US$ (Note 3)
Income Before Income Tax		11,055.2	20,628.3	63,901.5	1,853.3	23,490.1	6,483.7	188.0
Income Tax Benefit	2N, 18	2,318.4	2,382.8	1,167.9	33.9	137.6	2,263.8	65.7
Income Before Minority Interest		13,373.6	23,011.1	65,069.4	1,887.2	23,627.7	8,747.5	253.7
Minority Interest In Loss (income) of Subsidiaries	2A	1,015.6	515.9	36.8	1.0	(52.1)	(14.7)	(0.4)
Net Income		14,389.2	23,527.0	65,106.2	1,888.2	23,575.6	8,732.8	253.3
Earnings Per Share		0.98	1.57	3.97		1.47	0.51	
Earnings Per Equivalent ADS	2R	4.89	7.85	19.85		7.37	2.53	
Weighted Average Number of Shares Outstanding (retroactively adjusted for the subsequent stock dividends and employee stock bonuses distributed in July 2001)		14,712,153,000	14,980,398,000	16,417,270,000		15,998,298,000	16,832,554,000	

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Millions Except Shares and Par Value)

	Capital Stock (NT$10 Par Value)							
	Authorized Shares	Preferred Stock		Common Stock		Approval for subsequent issuance from retained earnings (Note 15)		Subscribed Capital
		Shares	Amount	Shares	Amount	Shares	Amount	
			NT$		NT$		NT$	NT$
BALANCE, JANUARY 1, 1998	8,500,000,000	—	—	4,361,300,000	43,613.0	—	—	3,360.0
Appropriations of prior year's earnings								
Stock dividends—45%	—	—	—	1,836,585,000	18,365.9	—	—	—
Bonus to employees—stock	—	—	—	129,290,967	1,292.9	—	—	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—
Issuance of shares	—	—	—	320,000,000	3,200.0	—	—	(3,360.0)
Net income in 1998	—	—	—	—	—	—	—	—
Gain on sale of properties	—	—	—	—	—	—	—	—
Adjustments arising from changes in ownership percentage in investees	—	—	—	—	—	—	—	—
Translation adjustment on subsidiaries	—	—	—	—	—	—	—	—
BALANCE, DECEMBER 31, 1998	8,500,000,000	—	—	6,647,175,967	66,471.8	—	—	—
Increase in authorized shares	600,000,000	—	—	—	—	—	—	—
Appropriations of prior year's earnings								
Stock dividends—23%	—	—	—	1,390,850,473	13,908.5	—	—	—
Bonus to employees—stock	—	—	—	110,456,595	1,104.6	—	—	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—
Issuance of shares on April 15, 1999	—	—	—	250,000,000	2,500.0	—	—	—
Subscribed capital	—	—	—	—	—	—	—	13,118.0
Net income in 1999	—	—	—	—	—	—	—	—
Conversion of foreign bonds	—	—	—	122,398,682	1,223.9	—	—	—
Gain on sale of properties	—	—	—	—	—	—	—	—
Gain on sale of properties from investees	—	—	—	—	—	—	—	—
Adjustments arising from changes in ownership percentage in investees	—	—	—	—	—	—	—	—
Translation adjustment on subsidiaries	—	—	—	—	—	—	—	—

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(In Millions Except Shares and Par Value)

	Capital Surplus	Retained Earnings	Unrealized Loss on Long-term Investment	Cumulative Translation Adjustments	Total Shareholders' Equity
	NT$	NT$	NT$	NT$	NT$
BALANCE, JANUARY 1, 1998	62.1	28,690.9	—	(102.0)	75,624.0
Appropriations of prior year's earnings					
Stock dividends—45%	—	(18,365.9)	—	—	—
Bonus to employees—stock	—	(1,292.9)	—	—	—
Bonus to directors and supervisors	—	(161.6)	—	—	(161.6)
Issuance of shares	7,120.0	—	—	—	6,960.0
Net income in 1998	—	14,389.2	—	—	14,389.2
Gain on sale of properties	3.0	(3.0)	—	—	—
Adjustments arising from changes in ownership percentage in investees	99.1	—	—	—	99.1
Translation adjustment on subsidiaries	—	—	—	(625.4)	(625.4)
BALANCE, DECEMBER 31, 1998	7,284.2	23,256.7	—	(727.4)	96,285.3
Increase in authorized shares	—	—	—	—	—
Appropriations of prior year's earnings					
Stock dividends—23%	—	(13,908.5)	—	—	—
Bonus to employees—stock	—	(1,104.6)	—	—	—
Bonus to directors and supervisors	—	(138.1)	—	—	(138.1)
Issuance of shares on April 15, 1999	5,000.0	—	—	—	7,500.0
Subscribed capital	—	—	—	—	13,118.0
Net income in 1999	—	23,527.1	—	—	23,527.1
Conversion of foreign bonds	11,290.0	—	—	—	12,513.9
Gain on sale of properties	4.0	(4.0)	—	—	—
Gain on sale of properties from investees	246.2	(246.2)	—	—	—
Adjustments arising from changes in ownership percentage in investees	127.0	—	—	—	127.0
Translation adjustment on subsidiaries	—	—	—	(362.7)	(362.7)

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(In Millions Except Shares and Par Value)

	Capital Stock (NT$10 Par Value)							
		Preferred Stock		Common Stock		Approval for subsequent issuance from retained earnings (Note 15)		
	Authorized Shares	Shares	Amount	Shares	Amount	Shares	Amount	Subscribed Capital
			NT$		NT$		NT$	NT$
BALANCE, DECEMBER 31, 1999	9,100,000,000	—	—	8,520,881,717	85,208.8	—	—	13,118.0
Increase in authorized shares	8,700,000,000	—	—	—	—	—	—	—
Appropriations of prior year's earnings								
Stock dividends—25.55%	—	—	—	1,959,910,279	19,599.1	—	—	—
Bonus to employees—stock	—	—	—	172,120,825	1,721.2	—	—	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—
Capital transferred from capital surplus—2.45%	—	—	—	187,936,602	1,879.4	—	—	—
Issuance of shares on January 28, 2000	—	—	—	300,000,000	3,000.0	—	—	(13,118.0)
Issuance of shares on June 8, 2000	—	—	—	115,000,000	1,150.0	—	—	—
Issuance of shares for the acquisition of TASMC on June 30, 2000	—	—	—	433,515,164	4,335.2	—	—	—
Elimination TASMC goodwill against capital surplus	—	—	—	—	—	—	—	—
Issuance of preferred stocks on November 29, 2000	—	1,300,000,000	13,000.0	—	—	—	—	—
Net income in 2000	—	—	—	—	—	—	—	—
Gain on sale of properties	—	—	—	—	—	—	—	—
Gain on sale of properties from investees	—	—	—	—	—	—	—	—
Adjustments arising from changes in ownership Percentage in investees	—	—	—	—	—	—	—	—
Unrealized loss on long-term investment	—	—	—	—	—	—	—	—
Translation adjustment on subsidiaries	—	—	—	—	—	—	—	—
BALANCE, DECEMBER 31, 2000	17,800,000,000	1,300,000,000	13,000.0	11,689,364,587	116,893.7	—	—	—
Increase in authorized shares	6,800,000,000	—	—	—	—	—	—	—
Appropriations of prior year's earnings								
Bonus to employees—stock	—	—	—	—	—	467,442,629	4,674.4	—
Cash dividends	—	—	—	—	—	—	—	—
Stock dividends—40%	—	—	—	—	—	4,675,745,835	46,757.5	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—
Net income for the six months ended June 30, 2001	—	—	—	—	—	—	—	—
Reversal of unrealized losses on long term investments	—	—	—	—	—	—	—	—
Translation adjustments	—	—	—	—	—	—	—	—
BALANCE, JUNE 30, 2001	24,600,000,000	1,300,000,000	13,000.0	11,689,364,587	116,893.7	5,143,188,464	51,431.9	—

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)
(In Millions Except Shares and Par Value)

	Capital Surplus	Retained Earnings	Unrealized Loss on Long-term Investment	Cumulative Translation Adjustments	Total Shareholders' Equity
	NT$	NT$	NT$	NT$	NT$
BALANCE, DECEMBER 31, 1999	23,951.4	31,382.4	—	(1,090.1)	152,570.5
Increase in authorized shares	—	—	—	—	—
Appropriations of prior year's earnings					
Stock dividends—25.55%	—	(19,599.1)	—	—	—
Bonus to employees—stock	—	(1,721.2)	—	—	—
Bonus to directors and supervisors	—	(215.2)	—	—	(215.2)
Capital transferred from capital surplus—2.45%	(1,879.4)	—	—	—	—
Issuance of shares on January 28, 2000	12,000.0	—	—	—	1,882.0
Issuance of shares on June 8, 2000	23,172.6	—	—	—	24,322.6
Issuance of shares for the acquisition of TASMC on June 30, 2000	52,225.0	—	—	—	56,560.2
Elimination TASMC goodwill against capital surplus	(52,212.7)	—	—	—	(52,212.7)
Issuance of preferred stocks on November 29, 2000	—	—	—	—	13,000.0
Net income in 2000	—	65,106.2	—	—	65,106.2
Gain on sale of properties	58.2	(58.2)	—	—	—
Gain on sale of properties from investees	5.5	(5.5)	—	—	—
Adjustments arising from changes in ownership Percentage in investees	(231.6)	231.6	—	—	—
Unrealized loss on long-term investment	—	—	(71.6)	—	(71.6)
Translation adjustment on subsidiaries	—	—	—	811.7	811.7
BALANCE, DECEMBER 31, 2000	57,089.0	75,121.0	(71.6)	(278.4)	261,753.7
Increase in authorized shares	—	—	—	—	—
Appropriations of prior year's earnings					
Bonus to employees—stock	—	(4,674.4)	—	—	—
Cash dividends	—	(41.1)	—	—	(41.1)
Stock dividends—40%	—	(46,757.5)	—	—	—
Bonus to directors and supervisors	—	(584.3)	—	—	(584.3)
Net income for the six months ended June 30, 2001	—	8,732.8	—	—	8,732.8
Reversal of unrealized losses on long term investments	—	—	39.5	—	39.5
Translation adjustments	—	—	—	1,084.2	1,084.2
BALANCE, JUNE 30, 2001	57,089.0	31,796.5	(32.1)	805.8	270,984.8

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	Year ended December 31,				Six Months Ended June 30,		
	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Cash flows from operating activities							
Net income	14,389.2	23,527.0	65,106.2	1,888.2	23,575.6	8,732.8	253.3
Adjustments to reconcile net income to net cash provided by operating activities:							
Depreciation and amortization	15,522.0	25,197.9	41,446.1	1,202.0	17,282.8	26,506.1	768.7
Deferred income tax	(3,007.9)	(2,481.8)	(956.1)	(27.7)	30.2	(2,508.1)	(72.7)
Investment loss recognized by equity method—net	1,400.0	288.5	187.2	5.4	309.7	1,543.7	44.8
Gain on sale of long-term investments	(781.6)	(67.8)	(15.1)	(0.4)	(1.2)	(2.6)	(0.1)
Loss on sale of properties—net	1.1	160.4	51.8	1.5	55.6	5.8	0.2
Permanent loss on long-term investment	5.8	31.6	—	—	—	—	—
Accretion in redemption value of bonds	875.8	585.6	—	—	—	—	—
Accrued pension cost	264.3	260.4	370.3	10.7	170.1	237.1	6.9
Allowance for doubtful receivable	(10.0)	148.6	524.5	15.2	197.7	66.0	1.9
Allowance for sales returns and others	(93.2)	402.1	1,679.3	48.7	1,407.5	(84.2)	(2.4)
Transfer property into expenses	—	39.1	—	—	—	—	—
Minority interest in (loss) income of subsidiaries	(1,015.6)	(515.9)	(36.8)	(1.1)	52.1	14.7	0.4
Changes in operating assets and liabilities							
Forward exchange contract receivable	—	—	(113.7)	(3.3)	(39.8)	35.5	1.0
Receivables	1,640.5	(6,391.8)	(15,428.2)	(447.4)	(5,594.0)	13,729.9	398.2
Receivable from related party	215.6	(273.2)	(737.1)	(21.4)	(232.0)	244.7	7.1
Inventories	537.5	(2,765.2)	(4,033.8)	(117.0)	(2,892.3)	4,766.0	138.2
Prepaid expenses and other current assets	221.8	(1,278.1)	352.0	10.2	1,028.4	297.3	8.7
Accounts payables	(929.0)	985.9	3,170.7	92.0	849.0	(5,978.0)	(173.4)
Payable to related parties	(46.8)	878.4	2,334.2	67.7	985.4	(1,599.3)	(46.4)
Forward exchange contract payable	—	6.1	(987.6)	(28.6)	(10.6)	514.7	14.9
Accrued expenses and other current liabilities	1,065.2	1,514.9	1,872.3	54.3	189.6	77.8	2.2
Net Cash Provided by Operating Activities	30,254.7	40,252.7	94,786.2	2,749.0	37,363.8	46,599.9	1,351.5
Cash flows from investing activities							
Decrease (Increase) in short-term investments	(124.8)	5,049.7	(524.1)	(15.2)	(102.5)	59.8	1.7
Acquisitions of:							
Long-term investments	(1,555.8)	(10,057.9)	(2,956.8)	(85.7)	(1,103.9)	(3,160.1)	(91.7)
Properties	(55,780.5)	(51,459.1)	(103,761.9)	(3,009.3)	(42,853.6)	(38,786.5)	(1,124.9)
Proceeds from sales of:							
Long-term investments	1,523.5	150.0	49.4	1.4	16.7	119.7	3.5
Properties	3.5	413.1	364.9	10.6	185.7	211.9	6.1
Decrease (increase) in restricted cash	(7.3)	7.2	—	—	—	—	—
Decrease (increase) in pledge time deposits	(209.6)	(2,290.0)	3,161.7	91.7	3,161.0	—	—
Increase in deferred charges	(1,187.5)	(1,179.3)	(1,793.2)	(52.0)	(950.3)	(778.1)	(22.6)
Decrease (increase) in refundable deposits	(9.7)	61.4	(915.6)	(26.6)	(161.7)	102.8	3.0
Decrease (increase) in other assets—miscellaneous	(0.8)	13.5	77.4	2.2	83.0	(2.1)	(0.1)
Decrease in minority interest in subsidiaries	(86.6)	(1,660.8)	(7,165.7)	(207.8)	(114.4)	(249.2)	(7.2)
Increase in goodwill	—	—	(8,221.2)	(238.4)	—	(1,019.2)	(29.5)
Cash of TASMC and WSMC as of July 1, 2000	—	—	736.6	21.4	736.6	—	—
Net Cash Used in Investing Activities	(57,435.6)	(60,952.2)	(120,948.5)	(3,507.7)	(41,103.4)	(43,501.0)	(1,261.7)

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(In Millions)

	Year ended December 31,				Six Months Ended June 30,		
	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	US$ (Note 3)	NT$	NT$	US$ (Note 3)
Cash flows from financing activities							
Proceeds from issuance of:							
Short-term bank borrowings	2,109.2	2,917.4	—	—	2,210.0	—	—
Commercial paper	98.2	—	—	—	1,238.2	—	—
Long-term bonds	9,772.5	9,450.6	9,000.0	261.0	—	—	—
Long-term bank borrowings	6,903.8	7,997.6	—	—	—	3,099.2	89.9
Capital stock	530.0	20,618.0	39,204.5	1,137.0	26,204.5	—	—
Payments on:							
Short-term bank borrowings	—	—	(8,592.8)	(249.2)	—	(1,922.6)	(55.8)
Commercial paper	—	(253.4)	(4,241.0)	(123.0)	—	—	—
Long-term bank borrowings	—	—	(2,648.9)	(76.8)	(4,131.0)	(1,014.2)	(29.4)
Increase (decrease) in guarantee deposits and other liabilities	(2,318.9)	(1,010.4)	2,977.9	86.3	(445.2)	34.7	1.0
Issuance costs of financing	(78.3)	(63.3)	(118.3)	(3.4)	(105.4)	(5.7)	(0.2)
Bonus to directors and supervisors	(161.6)	(138.1)	(215.1)	(6.2)	(215.2)	(625.4)	(18.1)
Net Cash Provided by (used in) Financing Activities	16,854.9	39,518.4	35,366.3	1,025.7	24,755.9	(434.0)	(12.6)
Effects of changes in foreign exchange rate	(657.6)	(173.1)	118.5	3.4	613.3	19.5	0.6
Net increase (decrease) in cash and cash equivalents	(10,983.6)	18,645.8	9,322.5	270.4	21,629.6	2,684.4	77.8
Cash and cash equivalents, beginning of year	21,855.5	10,871.9	29,517.7	856.1	29,517.7	38,840.2	1,126.5
Cash and cash equivalents, end of year	10,871.9	29,517.7	38,840.2	1,126.5	51,147.3	41,524.6	1,204.3
Supplemental information							
Interest paid (excluding amounts capitalized)	1,046.7	2,441.8	4,036.2	117.1	571.0	193.6	5.6
Income tax paid	77.0	594.1	96.5	2.8	0.1	—	—
Noncash investing and financing activities:							
Effect of exchange rate changes on cash	(150.5)	(66.4)	1,009.3	29.3	(35.5)	1,212.7	35.2
Current portion of long-term liabilities	299.5	1.0	51.1	1.5	650.0	1.1	—

SUPPLEMENTAL INFORMATION OF THE MERGERS:

Effective June 30, 2000, TSMC acquired the remaining 68% of TSMC-Acer Semiconductor Manufacturing Corporation (TASMC) by issuing new shares. The purchase price was allocated to TASMC's assets and liabilities as follows:

	NT$
Cash and cash equivalent	736.6
Inventories	1,647.8
Other current assets	2,308.4
Properties—net	19,846.7
Other assets	7,335.5
Current liabilities	(16,699.1)
Long-term liabilities	(2,000.0)
Other liabilities	(654.8)
Tangible net assets	12,521.1
Pre-write-off goodwill	52,212.7
	64,733.8
Purchase price	56,560.2
Carrying value of 32% investment (already owned)	3,318.9
Carrying value of preferred stock	4,854.7
	64,733.8

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General

Taiwan Semiconductor Manufacturing Company Limited (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 and design of 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 1997, TSMC listed the shares of stock on the New York Stock Exchange in the form of American Depositary Shares.

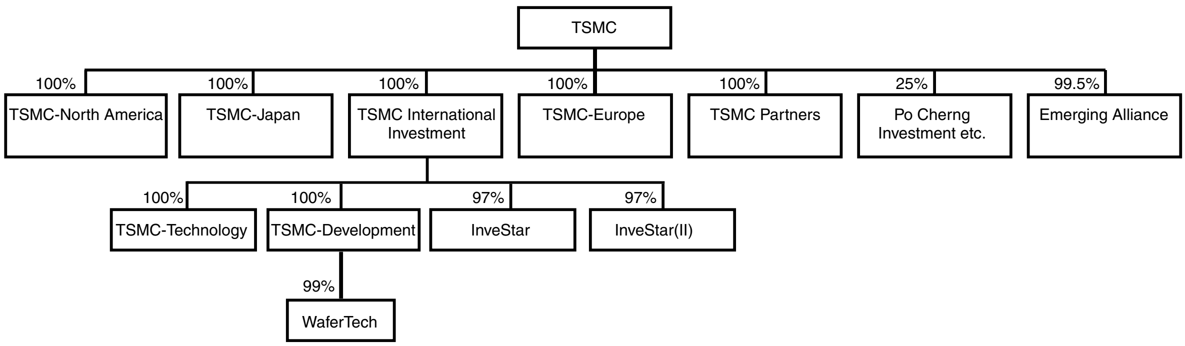
TSMC had acquired TSMC-Acer Semiconductor Manufacturing Corporation (TASMC). It also merged with Worldwide Semiconductor Manufacturing Corporation (WSMC) with TSMC as the surviving company. TASMC and WSMC were subsequently dissolved. The acquisition of the 68% of TASMC not previously owned and the merger with WSMC took effect on June 30, 2000, and, on that date, TSMC issued a total of 1,583,515 thousand common shares to the former shareholders of TASMC and WSMC. The additional shares issued were based on the agreed exchange ratio of three point nine TASMC shares and two WSMC shares for every share of TSMC. Also, the holders of the additional shares issued have the same rights and the obligation as the holders of the previously issued common stock of TSMC.

TASMC was incorporated on March 31, 1990, and commenced operations in January 1992. TASMC was engaged mainly in the research, development, design, manufacturing, packaging, testing and sale of dynamic random-access memory (DRAM) semiconductor devices, other memory integrated circuits and logic integrated circuits.

WSMC was incorporated on March 6, 1996 and commenced operations on December 1, 1998. WSMC was engaged mainly in the manufacturing of semiconductor products.

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, namely, 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., which was a new subsidiary in 2000. TSMC Development Inc. has a subsidiary, WaferTech, LLC, which has been 57% owned since its formation. This ownership interest increased to 68% in 1998. TSMC Development Inc. acquired an additional 29% and 2% at a purchase price of US$474.6 million (NT$14,809.7 million) and US$19.5 million (NT$649.8 million) in December 2000, and June 2001, respectively, thereby increasing its proportionate interest to 99% as of June 30, 2001.

The following diagram presents information regarding the relationship and ownership percentages among TSMC and its subsidiaries as of June 30, 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

A. Consolidation

The consolidated financial statements include the accounts of TSMC and the aforementioned subsidiaries (hereinafter, referred to individually or collectively as "Company"). All significant inter-company accounts and transactions have been eliminated.

The reporting entities for the consolidated financial statements as of and for the period ended June 30, 2001 included 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.

As stated in Note 1, TSMC merged with WSMC on June 30, 2000. In view of the changes in reporting entities, the consolidated financial statements for all periods presented have been restated to reflect as if the acquisition of WSMC took place at the inception date. The accompanying consolidated balance sheets, income statements, statements of changes in shareholders' equity and statements of cash flows were restated by including all assets and liabilities, and results of operations, of WSMC.

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

B. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the Republic of China requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Cash and cash equivalents

Government bonds acquired under repurchase agreements and commercial paper with original maturities of less than three months are classified as cash equivalents.

D. Short-term investments

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

E. Allowances for receivables

Allowances for doubtful receivables and sales returns and others are provided based on a review of the collectibility of individual receivables and experience on returns and allowances, respectively.

F. Inventories

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

G. Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on their operating and financial decisions are accounted for using the equity method. When the Company subscribes to additional investee shares at a percentage different from its existing equity interest, the resulted investment in equity investee differs from the Company's proportionate amount of its 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 by the investee as a debit to the "Capital surplus" account and a credit to the "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 by the cost method. These investments are stated at cost less decline in market value of listed stocks or decline 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 promissory notes are carried at cost.

The costs of investments sold are determined by 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 transferred into capital surplus from retained earnings. When the Company subsequently disposed such investment in shares of stock, such capital surplus shall be transferred back to 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 by the equity accounting method are eliminated in proportion to the Company's ownership percentage while those with majority-owned subsidiaries are eliminated entirely in consolidation.

H. Properties

Properties are stated at cost less accumulated depreciation. Major additions, renewals and betterments, and interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Depreciation is provided on the straight-line method over estimated service lives which range as follows: buildings—10 to 20 years, machinery and equipment—5 to 10 years, office equipment—3 to 7 years.

Upon sale or disposal of properties, 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 transferred to capital surplus at the end of the year.

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 leased property's market value at the inception date of the lease, whichever is lower.

I. Goodwill

Goodwill represents (i) the excess of purchase price over net equity value of assets of former equity basis investees which have subsequently became controlled consolidated subsidiaries (ii) the excess of goodwill recognized in the acquisition of a subsidiary for share (i.e., the excess of the value of the shares issued over the proportionate fair value of the net assets of the acquisition) over the capital surplus recognized (goodwill to the extent of capital surplus recorded is eliminated against such capital surplus) plus (iii) the excess of purchase price over the proportionate fair value of the assets of subsidiaries where shares were acquired for consideration other than shares. Goodwill is amortized over 10 years.

J. Deferred charges

Deferred charges consist of software and system design costs, technology know-how, bond issue costs and technology license fees. 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, and technology license fees—the term of the contract or economic useful lives of the related technology.

K. 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 15 to 25 years, respectively.

Monthly contributions to the pension fund and accrued unfunded pension costs, as actuarially calculated, are charged to expense. Pension benefits are paid from the fund, and any shortfall is charged to accrued pension cost.

L. 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 leasing period, and (b) capital lease—adjustment of depreciation over the estimate useful life or leasing period.

M. 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.

N. Income tax

The Company adopted inter-period tax allocation. 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 should, 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 length of time before it is recovered.

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

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

O. Derivative financial instruments

Foreign currency forward exchange contracts (forward contracts), entered into for purpose 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 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.

P. 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 period-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.

Q. Translation of foreign-currency financial statements

ROC Financial Accounting Standards (FAS) No. 14, ‘‘Accounting for Foreign-Currency Transactions,’’ applies to foreign operations, with the local currency of each foreign subsidiary as its functional currency. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: assets and liabilities—current rate; 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.

R. Earnings per share

Earnings per share is calculated by dividing net income by the average number of shares outstanding in each period, adjusted retroactively for stock dividends and stock bonuses issued subsequently. Earnings per equivalent American Depository Share (ADS) is calculated by multiplying earnings per share by five (one ADS represents five common shares).

S. Reclassifications

Certain accounts in 1998, 1999 and 2000 have been reclassified to conform to 2001 classifications.

T. Mergers and Acquisitions

The acquisition of 68% of TASMC on June 30, 2000 was accounted for as a purchase under the Statement of Financial Accounting Standards No. 25, “Business Combination — Purchase Method”. The merger with WSMC on June 30, 2000 was, however, accounted for as a pooling of interests with the results of operations of WSMC retroactively restated in the consolidated statements of income for all periods presented.

Unaudited pro forma net sales, net income and earnings per share of TSMC for 1999 and 2000, based on the assumption that the acquisition of TASMC was completed as of January 1, 1999 and January 1, 2000, respectively, are as follows:

	Year Ended December 31, 1999	Year Ended December 31, 2000
	NT$ (Unaudited) (in millions)	NT$ (Unaudited) (in millions)
Net sales	86,130.1	170,132.4
Net income	20,888.3	66,339.8
Earnings per share		
Based on weighted-average number of shares outstanding—15,604,655 thousand and 16,729,401 thousand shares in 1999 and 2000, respectively	1.34	3.97

3. U.S. Dollar Amounts

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars at the noon buying rate in The City of New York for cable transfers in New Taiwan dollars as certified for customs purposes by the Federal Reserve Bank of New York as of June 29, 2001, which was NT$34.48 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. Cash and Cash Equivalents

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Cash and bank deposits	29,442.7	38,229.5	40,909.7
Commercial papers	75.0	—	—
Government bonds acquired under repurchase agreements	—	610.7	614.9
	29,517.7	38,840.2	41,524.6

5. Short-Term Investments

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Listed stocks	927.9	1,502.1	1,474.1
Mutual funds	37.5	—	—
	965.4	1,502.1	1,474.1
Less—allowance for losses	—	—	(12.4)
	965.4	1,502.1	1,461.7

6. Receivables—Net

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Notes receivable	211.0	125.2	117.9
Accounts receivable	14,240.1	30,335.3	16,612.7
	14,451.1	30,460.5	16,730.6
Less—allowance for doubtful receivables	(422.2)	(946.7)	(1,012.7)
Less—allowance for sales returns and others	(706.9)	(2,458.3)	(2,374.1)
	(1,129.1)	(3,405.0)	(3,386.8)
	13,322.0	27,055.5	13,343.8

The changes in the allowances are summarized as follows:

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Allowance for doubtful receivables			
Balance, beginning of year	283.1	422.2	946.7
Additions—charged to marketing expense	406.8	532.6	66.0
Deductions	(267.7)	(8.1)	—
Balance, end of period	422.2	946.7	1,012.7
Allowance for sales returns and others			
Balance, beginning of year	442.0	706.9	2,458.3
Additions—charged to sales returns and others	905.7	3,418.5	1,555.1
Deductions	(640.8)	(1,667.1)	(1,639.3)
Balance, end of period	706.9	2,458.3	2,374.1

7. Inventories

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Finished goods	905.6	1,762.3	2,896.5
Work in process	5,924.6	9,455.5	5,226.2
Raw materials	632.7	770.9	1,160.2
Supplies and spare parts	969.8	1,364.6	1,026.6
	8,432.7	13,353.3	10,309.5
Less—allowance for losses	(1,328.7)	(567.6)	(2,289.8)
	7,104.0	12,785.7	8,019.7

The roll-forward of inventory reverse is as follows:

	Amount
	NT$ (in millions)
Balance January 1, 1998	568.5
Additional in 1999	1,332.7
Write-off in 1999	(572.5)
Balance as of December 31, 1999	1,328.7
Additional in 2000	1,321.7
Write-off in 2000	(2,082.7)
Balance as of December 31, 2000	567.7
Additional for the six months ended June 30, 2001	2,641.1
Write-off for the six months ended June 30, 2001	(919.0)
Balance as of June 30, 2001	2,289.8

8. Long-Term Investments

	December 31, 1999		December 31, 2000		June 30, 2001	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-Ship
	NT$ (in millions)		NT$ (in millions)		NT$ (in millions)	
Common stocks						
Accounted for by the equity method:						
Vanguard International Semiconductor (VIS) (publicly traded)	5,010.9	25	5,615.1	25	5,006.4	25
TASMC (non-traded)	3,630.2	32	—	—	—	—
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) (non-traded)	360.2	32	935.9	32	2,424.2	32
Accounted for by the cost method (all non-traded except Taiwan Mask):						
Taiwan Semiconductor Technology	500.0	19	500.0	19	500.0	19
Global Test	71.6	5	183.9	10	191.4	10
United Industrial Gases Co., Ltd.	146.3	11	146.3	10	193.6	11
Hong Tung Venture Capital	80.0	10	120.0	10	120.0	10
Shin-Etsu Handotai Taiwan	105.0	7	105.0	7	105.0	7
ChipStrate Technology	32.9	2	70.9	9	73.8	9
APE	—	—	50.2	6	52.2	6
W.K. Technology, Fund IV	50.0	4	50.0	4	50.0	2
Programmable Microelectronics	—	—	49.6	4	56.0	5
Taiwan Mask	32.1	2	32.1	2	32.1	2
Ritch Technology	7.4	1	10.3	9	10.8	9
3Dfx Interactive	—	—	9.8	—	10.2	—
Scenix Semiconductor	5.4	—	5.7	2	5.9	2
Equator Technologies	—	—	3.0	—	3.1	—
Capella Microsystems	—	—	0.3	—	0.4	—
Global Investment Holding	—	—	—	—	105.6	—
Preferred stocks (all non-traded)						
Empower Tel Networks	—	—	169.6	7	176.6	7
Sonics	31.4	2	116.8	7	121.5	7
LightSpeed Semiconductor	68.6	5	101.4	6	105.5	6
Equator Technologies	42.0	3	93.9	2	97.8	1
Memsic	47.1	3	82.7	24	95.7	21
Tropian, Inc. (Premier R. F.)	31.4	2	77.2	5	80.4	4
Lara Networks, Inc.	—	—	75.2	7	78.2	5
Rapidstream	33.0	2	69.7	6	72.6	7
Menolithic Power System	62.8	4	66.2	17	121.1	18
Formfactor	62.8	4	66.2	1	68.9	1
Reflectivity	62.8	4	66.2	6	68.9	6

	December 31,				June 30,	
	1999		2000		2001	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-Ship
	NT$ (in millions)		NT$ (in millions)		NT$ (in millions)	
NanoAmp Solutions	26.5	2	61.3	3	63.8	4
Integrated Memory Logic	23.6	2	59.8	10	62.3	10
Creosys	—	—	49.6	8	51.7	8
Match Lab	—	—	49.6	11	51.7	11
Rise Technology	47.1	3	49.6	2	51.7	2
Signia	47.1	3	49.6	22	77.5	26
T-Span System	15.7	1	45.8	3	—	—
Scenix Semiconductor	66.3	5	45.0	2	46.9	2
SiRF Technology	41.9	3	44.1	1	45.9	1
Capella Miscrosystems	12.0	1	42.9	8	44.7	4
Seagull Semiconductor	—	—	41.4	14	—	—
Sensory	39.2	3	41.4	6	43.0	6
Y-Media	—	—	—	—	51.7	2
Pico Turbo	39.2	3	41.4	9	43.0	8
HINT Corporation	—	—	33.1	5	34.4	5
Relink Technology	—	—	—	—	51.7	6
Oepic	—	—	24.8	—	86.1	12
Divio	15.7	1	16.5	4	17.2	3
Incentia Design Systems	—	—	16.5	2	17.2	2
Advance Anagogic Technology	—	—	—	—	43.4	2
FabCentric	—	—	8.3	—	17.2	9
TASMC	4,854.7	28	—	—	—	—
Marvell Technology	139.1	10	—	—	—	—
Lara Technology	83.2	6	—	—	—	—
Quake Technology	—	—	—	—	34.4	—
Programmable Microelectronics	47.1	3	—	—	—	—
Newport Opticom	—	—	—	—	41.4	9
Krypton Isolation	39.2	3	—	—	—	—
Centillium Technology	23.5	2	—	—	—	—
Flow Wise Networks	15.7	1	—	—	—	—
Pixim	—	—	—	—	86.1	—
3Dfx Interactive	9.3	—	—	—	—	—
Integrated Micromachines	4.7	—	—	—	—	—
Atheros Communications	—	—	—	—	123.7	2
Omegabond	—	—	—	—	43.0	4
Convertible notes (all non-traded)						
Advanced Analogic Technology	—	—	41.3	—	—	—
Signia Technologies	—	—	16.5	—	—	—
Rise	9.4	1	9.9	—	—	—
FabCentric	—	—	8.3	—	17.2	—
Integrated Memory Logic	31.4	2	—	—	10.1	—
Sonics	23.6	2	—	—	34.5	—
Dico Turbo						

	December 31,				June 30, 2001	
	1999		2000			
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-Ship
	NT$ (in millions)		NT$ (in millions)		NT$ (in millions)	
Promissory Notes (all non-traded)						
Rise Technology	—	—	—	—	10.3	—
VM Labs	—	—	—	—	137.7	—
Funds						
Crimson Asia Capital	34.5	—	64.5	—	44.7	—
Horizon Ventures	31.8	—	93.3	—	125.7	—
BIAM Global Opportunity Fund	—	—	959.6	—	826.7	—
Cumulative translation adjustment	—		(13.4)		(28.4)	
Less: allowance for loss	(30.7)		(110.1)		(49.4)	
	16,164.7		10,663.8		12,386.7	

The investment income and loss recognized by equity method from investee companies for the year ended December 31, 1998, 1999, 2000, and the six months ended June 30, 2000 and 2001, consisted of the followings:

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
VIS	(1,400.0)	(527.8)	597.8	98.2	(602.4)
SSMC	—	(76.0)	(473.7)	(96.6)	(941.3)
TASMC	—	315.3	(311.3)	(311.3)	—
	(1,400.0)	(288.5)	(187.2)	(309.7)	(1,543.7)

The carrying values of investments accounted for using the equity method and the related investment income and loss for the years ended December 31, 1999, 2000 and for the six months ended June 30, 2001 were based on audited financial statements of the investees in the same period.

Information on the long-term investments is as follows:

	December 31,		June 30, 2001
	1999	2000	
	NT$	NT$ (in millions)	NT$
Market value of traded stocks (VIS and Taiwan Mask)	19,763.0	8,729.6	8,210.7
Net asset value of funds	66.3	157.9	170.4

9. Properties—Net

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Cost			
Land and land improvements	783.8	829.2	863.2
Buildings	33,929.6	53,874.7	57,521.1
Machinery and equipment	148,580.1	241,995.9	263,717.3
Office equipment	3,637.1	4,865.6	5,614.9
	186,930.6	301,565.4	327,716.5
Advance payments	22,621.1	990.2	359.4
Construction in progress	5,917.9	46,077.2	55,789.6
	215,469.6	348,632.8	383,865.5
Accumulated depreciation			
Land and land improvements	33.7	64.0	81.5
Buildings	8,131.4	10,692.1	13,200.2
Machinery and equipment	55,576.5	90,956.2	113,138.8
Office equipment	1,668.1	2,172.6	2,735.1
	65,409.7	103,884.9	129,155.6
	150,059.9	244,747.9	254,709.9

Depreciation expense on property, plant and equipment was NT$15,195.7, NT$24,158.4 and NT$40,135.2 in the year ended December 31, 1998, 1999 and 2000, respectively, and NT$16,791.1 and NT$25,223.1 in the six months ended June 30, 2000 and 2001.

Interest expenses capitalized were NT$845.2 million and NT$541.1 million in the year ended December 31, 1999 and 2000, respectively, and NT$289.0 million in the six months ended June 30, 2001.

The status of the expansion plans as of June 30, 2001, is as follows:

Expansion Plan	Estimated Total Cost	Accumulated Expenditures	Expected or Actual Operations Start Date
	NT$	NT$ (in millions)	
TSMC's manufacturing plant—Fab 6	76,889.0	65,731.4	March 2000
TSMC's manufacturing plant—Fab 7	22,540.4	10,805.1	March 2001
TSMC's manufacturing plant—Fab 8	28,314.3	12,705.3	March 2001
TSMC's manufacturing plant—Fab 12—1st stage	38,280.8	27,912.1	April 2002
TSMC's manufacturing plant—Fab 14—1st stage	9,711.0	9,271.2	Not yet determined

10. Deferred Charge—Net

	December 31, 1999 NT$	December 31, 2000 NT$ (in millions)	June 30, 2001 NT$
Cost			
Technology	1,776.0	2,228.6	2,228.6
Software and system design costs	1,324.1	2,557.0	3,335.0
Technology know how	270.0	270.0	270.0
Bond issue and financing costs	44.2	429.2	446.2
Patent	40.1	—	—
Others	139.4	210.8	235.5
	3,593.8	5,695.6	6,515.3
Accumulated amortization			
Technology	(350.9)	(786.3)	(1,009.1)
Software and system design costs	(698.8)	(1,136.4)	(1,500.0)
Technology know how	(58.5)	(112.5)	(139.5)
Bond issue and financing costs	(7.0)	(286.3)	(313.2)
Patent	(22.0)	(—)	(—)
Others	(75.8)	(38.4)	(64.8)
	(1,213.0)	(2,359.9)	(3,026.6)
	2,380.8	3,335.7	3,488.7

Amortization expense on deferred charges was NT$326.3, NT$1,039.4 and NT$1,136.8 for the years ended December 31, 1998, 1999 and 2000, respectively; NT$440.9 and NT$664.9 in the six months ended June 30, 2000 and 2001, respectively.

11. Short-Term Bank Borrowings

	December 31, 1999 NT$	December 31, 2000 NT$ (in millions)	June 30, 2001 NT$
Secured loan:			
US$63.3 million, ¥9,832.3 million, DEM0.2 million and NT$12.0 million, repayable in June 2000, annual interest at 0.75%-7.39%	5,026.6	—	—
NT$329.4 million, repayable in October 2001, annual interest at 5.8%	—	329.4	—
NT$223.9 million, repayable in October 2001, annual interest at 4.50%	—	—	223.9
Unsecured and loan secured by mortgage, US$105.9 million and US$49.0 million, repayable by December 2001 and November 2001, annual interest of 7.53%-9.25% and 4.38%-7.32%, respectively	—	3,504.4	1,687.3
	5,026.6	3,833.8	1,911.2

Unused credit lines as of June 30, 2001 aggregated about NT$18,969.3 million.

12. Commercial Papers Payable

	December 31, 1999
	NT$ (in millions)
Repayable by March 2000, annual interest of 4.40%-5.51%	95.0
Less—unamortized discount	(0.2)
	94.8

13. Long-Term Bank Borrowings

	December 31,		June 30,
	1999	2000	2001
	NT$	NT$ (in millions)	NT$
US$345.0 million, paid in 2000, annual interest at 6.408%	10,831.3	—	—
US$67.6 million, paid in 2000, annual interest at 6.83%	2,121.2	—	—
US$200.0 million, paid in 2000, annual interest at 6.68%-7.21%	9,791.0	—	—
US$438.0 million, repayable by March 2005, annual interest at 7.663%	—	14,488.6	—
US$200.0 million, repayable by December 2003, annual interest at 6.91% and 4.41% in 2000 and 2001, respectively	—	6,615.8	6,887.0
US$46.0 million, repayable by October 2002, annual interest at 7.36% and 4.65% in 2000 and 2001, respectively	—	1,521.7	1,584.0
US$21.6 million, repayable by October 2002, annual interest at 7.41% and 4.64% in 2000 and 2001, respectively	—	713.3	742.6
US$500.0 million, repayable quarterly in 13 installments by March 31, 2005, annual interest at 4.7%	—	—	17,217.5
	22,743.5	23,339.4	26,431.1

The loan agreements require, among other things, the maintenance of specific financial ratios and consent by the banks on important transactions, such as merger, asset transfers and guarantees, and the appropriations of earnings under specific conditions.

Future minimum principal payments under the Company's borrowing arrangements as of June 30, 2001 are as follows:

Year	Amount NT$ (in millions)
2001	—
2002	7,622.7
2003	12,183.1
2004	5,296.1
2005	1,329.2
	26,431.1

Unused credit lines as of June 30, 2001 aggregate about NT$8,099.2 million.

14. Long-Term Bonds Payable

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$ (in millions)	NT$
Domestic unsecured bonds			
Repayable in March 2003, 7.71% annual interest payable semi-annually	4,000.0	4,000.0	4,000.0
Repayable by November 2003, 7.12% annual interest payable annually, redeemed in November 2000	6,000.0	—	—
Repayable in October 2002, 5.67% annual interest payable annually	5,000.0	5,000.0	5,000.0
Repayable in October 2004, 5.95% annual interest payable annually	5,000.0	5,000.0	5,000.0
Repayable in December 2005 and 2007, 5.25% and 5.36% annual interest payable annually	—	15,000.0	15,000.0
	20,000.0	29,000.0	29,000.0

Future minimum principal payments under the Company's bonds arrangements as of June 30, 2001 are as follows:

Year	Amount NT$ (in millions)
2001	—
2002	5,000.0
2003	4,000.0
2004	5,000.0
2005 and thereafter	15,000.0
	29,000.0

15. Shareholders' Equity

According to ROC Company Law, capital surplus can only be used to offset a deficit or transferred to capital.

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

a. 10% legal reserve;

b. Special reserve according to the relevant laws or the regulating authorities;

c. Bonuses to directors and supervisors and to employees equal to 1% and at least 1% of the remainder, respectively;

d. Dividends to shareholders of preferred stock equal to 3.5% annual rate, based on outstanding period; and

e. The appropriation of the remaining balance after the above shall be decided in shareholder's meeting.

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

The appropriation of TSMC's net income may be distributed by way of cash dividend and/or stock dividend. Since the Company is in a capital-intensive industry, distribution of profits shall be made preferably by way of stock dividend. Distribution of profits may also be made by way of cash dividend and the amount of that should not exceed 50% of total dividends.

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

The shareholders approved on May 15, 2001 the issuance of 5,143,189 thousand common shares with NT$10 par value from unappropriated earning, which included 4,675,746 thousand shares of stock dividends to shareholders and 467,443 thousand shares of stock bonuses to employees. The issuance of the common shares was approved by the Securities and Futures Commission of ROC. TSMC's has issued those common shares on July 2, 2001 thereby increasing the aggregate par value of issued capital stock to NT$168,325,531 representing 16,832,554 thousand common shares with $10 par value.

TSMC issued 1,300,000 thousand shares of preferred stock—Series A to certain private investors in November 2000. The following are the rights of the holders of the preferred shares and other terms and conditions.

a. Entitled to receive cumulative cash dividends at an annual rate of 3.5%, accrued for in the first half of 2001 as a charge to earnings per share.

b. Not entitled to participate in any additional shares of stock upon transfer of unappropriated earnings and capital surplus to capital stock.

c. Have priority over the holders of common shares to the assets of TSMC available for distribution to stockholders upon liquidation or dissolution of TSMC. 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 stock.

e. No right to convert their shares into common stock. The preferred shares will be redeemed after thirty months since its issuance at the price of NT$10 per share. The holders will have the foregoing rights and TSMC's related obligations would remain the same until the preferred shares are actually redeemed by TSMC.

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 the period-end.

The aforementioned legal reserve and special reserve are as follow.

	Legal reserve	Special reserve
	NT$	NT$
	(in millions)	
Balance January 1, 1998	4,928.5	—
Appropriations of prior year's earning	1,795.7	—
Balance December 31, 1998	6,724.2	—
Appropriations of prior year's earning	1,534.1	—
Balance December 31, 1999	8,258.3	—
Appropriations of prior year's earning	2,431.0	1,091.0
Balance December 31, 2000	10,689.3	1,091.0
Appropriations of prior year's earnings	6,490.7	—
Reversal of prior year's special reserve	—	(741.0)
Balance June 30, 2001	17,180.0	350.0

16. Long-Term Leases

TSMC leases land, building and certain machinery and equipment of its first manufacturing plant from Industrial Technology Research Institute under agreements which will expire in March 2002, at rentals and other charges aggregating NT$170.7 million per year.

TSMC leases the land sites of its 2nd through 14th manufacturing plants from the Science-Based Industrial Park Administration under agreements which will expire on various dates ranging from March 2008 to November 2020 with annual rentals aggregating NT$206.1 million per year. The agreements are also renewable upon 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 for its office premises which will expire in 2004. Annual rent currently is totaled to NT$75.7 million.

Future minimum rentals under these and other operating leases as of June 30, 2001 are as follows:

Year	Amount NT$ (in millions)
2002	348.7
2003	308.8
2004	311.7
2005	310.2
2006	313.3
2007-2020	2,175.5
	3,768.2

Rental expenses for the year ended December 31, 1998, 1999, 2000 and for the six months ended June 30, 2000 and 2001 were NT$258.8 million, NT$352.6 million, NT$1,112.4 million, NT$286.8 million and NT$825.3 million, respectively.

TSMC and WaferTech, a subsidiary, are parties to capital leases for certain machinery and equipment for a term of five years with annual rentals aggregating to NT$1.1 million per year.

Future minimum lease payments under capital leases as of June 30, 2001 are as follows:

Year	Amount NT$ (in millions)
Remainder of 2001	1.1
2002	2.0
2003	1.3
Total minimum lease payments	4.4
Less—amount representing interest	(0.4)
Present value of minimum lease payments	4.0
Less—current portion	(1.1)
	2.9

The gross amount of the machinery and equipment under capital lease was NT$7.4 million as of December 31, 1999 and 2000, and June 30, 2001.

17. Pension Plan

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

The Company makes monthly contributions, equal to 2% of salaries to a pension fund that 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:

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
Pension fund					
Balance, beginning of period	211.3	283.8	364.3	350.4	631.3
Contributions (including accruals)	56.0	65.8	278.7	37.9	67.0
Transferred from the merged companies	—	—	—	173.3	—
Interest income	16.5	18.2	41.2	—	41.2
Payment	—	(3.5)	(0.2)	(0.2)	—
Balance, end of period	283.8	364.3	684.0	561.4	739.5
Accrued pension cost					
Balance, beginning of period	487.7	753.4	1,013.8	999.9	1,511.2
Transferred from the merged companies	—	—	—	150.7	—
Accruals	265.7	260.4	497.5	160.5	237.2
Balance, end of period	753.4	1,013.8	1,511.3	1,311.1	1,748.4

Certain pension information required by ROC FAS 18 as of December 31, 1998, 1999 and 2000 were as follows:

	December 31,		
	1998	1999	2000
	NT$	NT$ (in millions)	NT$
Actuarial present value of benefit obligation			
Vested benefit obligation	0.6	—	—
Nonvested benefit obligation	310.4	428.3	763.9
Accumulated benefit obligation	311.0	428.3	763.9
Additional benefits based on future salaries	817.0	975.3	1,550.0
Projected benefit obligation	1,128.0	1,403.6	2,313.9
Plan assets at fair value	(287.5)	(365.0)	(661.1)
Projected benefit obligation in excess of plan assets	840.5	1,038.6	1,652.8
Unrecognized net transition obligation	(182.6)	(174.3)	(166.0)
Unrecognized net gain	91.1	135.5	22.7
Unfunded accrued pension cost	749.0	999.8	1,509.5
Actuarial assumptions:			
Discount rate	7.0%	6.5%	6.0%
Long-term salary increase rate	6.5%	6.0%	6.0%
Expected long-term rate of return on plan assets	7.0%	6.5%	6.0%

The components of the pension cost for the year ended December 31, 1998, 1999 and 2000 were as follows:

	Year Ended December 31,		
	1998	1999	2000
	NT$	NT$ (in millions)	NT$
Service cost	212.4	248.4	376.7
Interest cost	69.4	78.9	91.2
Projected return on plan assets	(17.0)	(22.3)	(26.7)
Amortization of prior period service cost	8.3	8.3	8.3
	273.1	313.3	449.5

18. Income Tax Benefit

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
Income tax current payable	(575.6)	(88.5)	(27.2)	—	(237.3)
Deferred income tax	3,124.0	2,383.7	1,005.4	(17.2)	2,508.1
Adjustment of prior year's income taxes	(230.0)	87.6	189.7	154.8	(7.0)
Income tax benefit	2,318.4	2,382.8	1,167.9	137.6	2,263.8

The Company and its subsidiaries file separate income tax returns. Reconciliation between the income tax calculated on pre-tax financial statement income based on the statutory tax rate and the income tax benefit is as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
Tax on pretax income at ROC statutory rate (25%)	(2,763.8)	(5,157.1)	(15,975.4)	(5,872.5)	(1,620.9)
SBIP tax exemption (5%)	552.8	1,031.4	3,195.1	1,174.5	—
Tax on pretax income at SBIP statutory rate	(2,211.0)	(4,125.7)	(12,780.3)	(4,698.0)	(1,620.9)
Other tax & assessed additional income tax	—	—	(88.0)	—	(668.4)
Tax paid by subsidiaries	(227.8)	(763.5)	(7.4)	(35.3)	(60.7)
Tax effects of:					
Tax-exempt income	1,413.4	3,434.8	7,770.0	3,373.8	695.6
Expiration of net operating loss	—	—	(981.1)	—	—
Permanent difference	(96.1)	219.5	(530.2)	(207.7)	(900.6)
Tax credits—utilized	751.5	1,587.0	5,128.0	1,335.6	1,250.0
—deferred	3,438.0	3,929.0	5,356.3	1,519.1	4,961.7
Valuation allowance	(519.6)	(l,985.9)	(2,889.1)	(1,304.7)	(1,538.2)
Adjustment of prior year's Income tax	(230.0)	87.6	189.7	154.8	145.3
Income tax benefit	2,318.4	2,382.8	1,167.9	137.6	2,263.8

Deferred income tax assets consist of the following:

	December 31,		June 30,
	1999	2000	2001
	NT$	NT$ (in millions)	NT$
Current			
Investment tax credit	2,329.0	8,422.0	3,130.2
Accrued liabilities and others	287.6	56.0	35.1
Valuation allowance	—	(300.0)	—
	2,616.6	8,178.0	3,165.3
Noncurrent			
Investment tax credit	8,769.6	12,591.3	22,844.8
Loss carried forward	981.1	—	—
Temporary difference	104.9	358.9	214.8
Valuation allowance	(2,543.6)	(5,462.7)	(7,300.9)
	7,312.0	7,487.5	15,758.7
Depreciation	(305.3)	(857.7)	(1,608.1)
	7,006.7	6,629.8	14,150.6

Unused investment tax credits arising from investments in machinery and equipment, and research and development expenditures as of June 30, 2001 will expire as follows:

Year in Expiry	Amount
	NT$ (in millions)
2001	$ 1,421.2
2002	4,714.1
2003	5,135.8
2004	7,364.0
2005	7,339.8
	$25,974.9

The income of TSMC attributable to the following projects and services is exempt from income tax:

	Tax-Exemption Period
Expansion of first manufacturing plant, second manufacturing plants-modules A and B, third manufacturing plant, fourth manufacturing plant and fifth manufacturing plant	1999 to 2002
Expansion of seventh manufacturing plant	1998 to 2001

Income tax returns of TSMC have been examined by the tax authorities through 1998. However, TSMC is contesting the assessment of the tax authority for 1992, 1993, 1996, 1997 and 1998.

19. Related Party Transactions

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

a. Industrial Technology Research Institute (ITRI), TSMC's chairman is one of its directors.

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

c. Vanguard International Semiconductor Corporation (VIS), a 25% owned equity basis investee of TSMC and has the same chairman as TSMC.

d. TSMC-ACER Semiconductor Manufacturing Corporation (TASMC), an investee of TSMC until June 30, 2000 (after which has become a wholly owned subsidiary).

e. Systems on Silicon Manufacturing Company Pte Ltd. (SSMC), an equity basis investee of TSMC.

f. Winbond Electronics Corporation (Winbond), a director of WSMC.

g. Taisil Electronic Materials Corporation (Taisil), a director of WSMC.

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

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
During the period					
Sales					
Philips	3,422.1	2,864.1	5,289.9	2,263.1	1,755.4
ITRI	173.4	132.5	198.2	102.0	52.6
VIS	65.3	48.5	17.0	6.0	908.8
Winbond	84.5	625.2	—	—	—
Taisil	17.4	58.9	—	—	—
TASMC	—	22.3	—	—	—
SSMC	—	—	—	—	26.6
	3,762.7	3,751.5	5,505.1	2,371.1	2,743.4
Purchase					
VIS	—	382.0	6,572.1	2,075.5	2,228.5
TASMC	—	808.9	—	—	—
Taisil	42.3	30.8	—	—	—
	42.3	1,221.7	6,572.1	2,075.5	2,228.5
Rental expense—ITRI	161.5	161.5	161.6	80.8	80.8
Manufacturing expenses—					
Technical service fee—Philips	637.1	862.4	2,137.2	786.1	1,262.2
Technology license fee—Winbond	300.0	300.0	—	—	—
	937.1	1,162.4	2,137.2	786.1	1,262.2
General and administrative expenses					
Consulting fee—VIS	—	20.4	—	—	—
Research and development expenses					
Testing expenses—Winbond	67.8	3.5	—	—	—
Disposal of properties—VIS	—	—	87.2	62.8	268.9
Non-operating income					
SSMC (mainly technical service income)	—	—	152.4	117.2	49.6
VIS	—	—	5.6	2.4	—
	—	—	158.0	119.6	49.6

	December 31, 1999	December 31, 2000	June 30, 2001
	NT$	NT$	NT$
At end of period			
Receivable			
Philips	133.2	643.6	188.4
VIS	25.7	159.9	487.6
SSMC	5.3	89.1	16.1
ITRI	18.5	56.1	11.9
Winbond	131.9	—	—
TASMC	23.1	—	—
Others	3.2	—	—
	340.9	948.7	704.0
Prepaid expenses			
Rental—ITRI	42.5	42.7	53.0
Payable			
VIS	184.7	1,808.9	603.3
Philips	305.8	797.4	403.7
TASMC	539.5	—	—
Taisil	6.4	—	—
ITRI	—	—	—
	1,036.4	2,606.3	1,007.0

Sales to related parties are based on normal selling prices and collection terms. Processing charges are based on normal rates and payment terms.

Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, TSMC shall pay technical assistance fee at 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 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.

Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year up to 30% of TSMC's production capacity.

In addition, under a technical cooperation agreement with ITRI, TSMC shall reserve and allocate up to 35% of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA.

Under a Technical Cooperation Agreement with SSMC entered into on May 12, 1999, SSMC shall compensate TSMC for technology service provided to SSMC. The compensation shall be a certain percentage of net selling prices of certain products sold by SSMC. The agreement will remain in force for ten years and be automatically renewed for successive periods of five years unless predetermined by either party under certain conditions.

TSMC entered into a Manufacturing Agreement with Vanguard International Semiconductor Corporation (VIS). VIS agreed to reserve certain capacity to manufacture for TSMC certain devices on logic or other technologies required by TSMC's customers, at discounted actual selling prices as agreed by the parties. TSMC paid NT$1,200.0 million to VIS as Security Bond (i.e. security deposit). Whenever the quantity of TSMC's order has reached to a certain level, VIS shall return certain amount of the Bond without any interest to TSMC. The contract will remain in force for five years.

20. Pledged or Mortgaged Assets

Certain assets had been pledged or mortgaged as collateral for short and long-term bank borrowings, derivative financial instruments, letter of credit, customs duties, and guarantee deposits for foreign workers are as follows:

	December 31,		June 30,
	1999	2000	2001
	NT$	NT$ (in millions)	NT$
Pledged time deposits—for revolving credit agreement	3,161.0	—	—
Short-term investments	—	937.4	6.4
Properties (net)—for long-term bank borrowings	75,033.0	44,555.0	32,570.4
Cash and cash equivalents	322.6	381.7	76.8
Restricted cash	1.7	0.7	15.1
Related party receivable	724.2	1,228.5	341.1
Inventories	1,349.9	1,817.8	1,336.0
Prepaid expenses and other current assets	19.8	26.7	258.3
Other asset	191.2	296.6	289.6
	80,803.4	49,244.4	34,893.7

21. Other Commitments and Contingencies as of June 30, 2001

a. 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$206.5 million (NT$7,110.8 million) had been received as of June 30, 2001.

b. 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 (approximately NT$22.9 million) and (c) allow TSMC to invest 32% of SSMC's capital. TSMC and Philips committed to buy a certain percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a certain percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.

c. 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.

d. Under a management agreement, InveStar Capital Inc. (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. Fees for 1999, 2000 and June 30, 2001 were NT$29.1 million, NT$40.2 million and NT$47.3 million, respectively.

e. WaferTech, a subsidiary, had recorded a reserve of US$16.0 million (NT$551.0 million) 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. On January 19, 2000, WaferTech entered into a settlement agreement with one of the construction contractors in the amount of US$10.8 million (NT$371.9 million). Payment of the settlement amount will be made in four installments throughout fiscal year 2000. The remaining accrued reserve of US$5.3 million (NT$182.8 million) is sufficient for payments to the other construction contractors.

f. WaferTech has received a tax assessment from State of Washington Department of Revenue assessing approximately US$8.8 million (NT$303.0 million) in additional taxes related to State's sales and use tax. The tax amount is due to a difference in interpretation of the current tax code and WaferTech intends to appeal the assessment. As of June 30, 2001, WaferTech has recorded a reserve that management believes is sufficient to address any exposure related to this tax assessment.

g. Unused letter of credit for TSMC as of June 30, 2001 is approximately NT$727.2 million and US$19.0 million.

22. Financial Instruments

The Company entered into derivative financial instrument transactions in 1999, 2000 and 2001 to hedge foreign-currency denominated receivables or payables, identifiable foreign currency purchase commitments, and interest rate fluctuations. The strategy is to hedge most of the market price risks. Certain information on these contracts is as follows:

a. Outstanding forward exchange contracts as of December 31, 1999, 2000 and June 30, 2001:

	Currency to Be Received	Amount (in millions)	Currency to Pay	Amount (in millions)	Maturity	Fair Value (in millions)
1999						
Buy	US$	US$ 25.0	JPY	JPY 2,856.3	Jul. 2000	NT$ 760.9
Buy	JPY	JPY 1,916.8	US$	US$ 19.0	Feb. to Aug. 2000	NT$ 598.1
Buy	NLG	NLG 65.1	US$	US$ 31.6	Mar. to Sep. 2000	NT$ 947.7
Sell	US$	US$ 81.4	JPY	JPY 8,331.0	Jan. to Jul. 2000	NT$ 2,555.8
Sell	US$	US$ 16.0	NLG	NLG 34.7	Jan. 2000	NT$ 500.5
Sell	US$	US$ 30.0	NT$	NT$ 947.9	Jan. 2000	NT$ 941.8
2000						
Buy	US$	US$ 60.0	NT$	NT$ 1,989.0	Jan. 2001	NT$ 1,979.0
Buy	EUR	EUR 29.0	US$	US$ 24.7	Jan. to Sep. 2001	NT$ 895.8
Buy	JPY	JPY 42.8	US$	US$ 0.4	Jan. 2001	NT$ 12.4
Sell	EUR	EUR 116.0	US$	US$ 107.0	Jan. to Feb. 2001	NT$ 3,583.0
Sell	JPY	JPY17,605.7	US$	US$ 156.9	Jan. 2001	NT$ 5,100.4
Sell	NT$	NT$12,032.5	US$	US$ 365.0	Jan. to Dec. 2001	NT$12,105.5
2001						
Sell	US$	US$ 29.0	EUR	EUR 34.0	Jul. 2001	NT$ 991.3
Sell	US$	US$ 65.0	JPY	JPY 7,872.3	Jul. 2001	NT$ 2,184.1
Sell	US$	US$ 555.0	NT$	NT$18,486.9	Jul. to Dec. 2001	NT$18,410.3
Sell	EUR	EUR 27.1	US$	US$ 23.7	Jul. to Sep. 2001	NT$ 813.9
Buy	US$	US$ 6.1	EUR	EUR 7.1	Jul. to Sep. 2001	NT$ 209.1

As of December 31, 1999, 2000 and June 30, 2001, receivables from forward exchange contracts (shown in the balance sheets as part of "Other current assets" account) aggregate about NT$22.1 million, NT$119.2 million and NT$33.3 million, respectively, and payables from forward exchange contracts (shown in the balance sheets as part of "Other current liabilities" account) aggregate about NT$147.3 million, NT$180.3 million and NT$693.6 million, respectively. Net exchange gains for the years ended December 31, 1999 and 2000 were NT$105.9 million and NT$266.4 million, respectively. Net exchange loss for year ended December 31, 1998 and the six months ended June 30, 2000 and 2001 were NT$206.3 million, NT$99.5 million and NT$1,280.2 million, respectively.

The net assets, liabilities and purchase commitments that have been hedged by the above forward exchange contracts are as follows:

	December 31, 1999	December 31, 2000	June 30, 2001
		(in millions)	
Accounts receivable	US$ 375.7	US$ 813.7	US$414.3
Payable to contractors and equipment supplier	US$ 151.4	US$ 571.3	—
	—	JPY21,237.7	—
	—	EUR 62.5	—
Guarantee deposits	US$ 764.8	—	—
Commitments for purchase of properties	JPY1,916.8	—	—
	NLG 65.1	—	—
Time deposit	—	—	US$899.9

b. *Interest rate swaps*

The Company has entered into interest rate swap transactions to hedge exposure to rising interest rates on its floating rate for long-term bank borrowings. These transactions as of December 31, 1999, 2000 and June 30, 2001 were summarized as follows:

Contract Date	Notional Amount	Contract Period	Interest Rate Received	Interest Rate Paid
	(in millions)			
1999				
April 28, 1998	NT$2,000.0	May 21, 1998 to May 21, 2003	One month LIBOR	7.25%
April 29, 1998	NT$1,000.0	May 21, 1998 to May 21, 2003	One month LIBOR	7.25%
June 26, 1998	NT$1,000.0	June 26, 1998 to June 26, 2003	One month LIBOR	7.20%
June 26, 1998	NT$1,000.0	July 6, 1998 to July 6, 2003	One month LIBOR	7.20%
2000				
April 28, 1998	NT$2,000.0	May 21, 1998 to May 21, 2003	One month LIBOR	7.25%
April 29, 1998	NT$1,000.0	May 21, 1998 to May 21, 2003	One month LIBOR	7.25%
June 26, 1998	NT$1,000.0	June 26, 1998 to June 26, 2003	One month LIBOR	7.20%
June 26, 1998	NT$1,000.0	July 6, 1998 to July 6, 2003	One month LIBOR	7.20%
June 30, 2001				
April 28, 1998	NT$2,000.0	May 21, 1998 to May 21, 2003	One month LIBOR	7.25%
April 29, 1998	NT$1,000.0	May 21, 1998 to May 21, 2003	One month LIBOR	7.25%
June 26, 1998	NT$1,000.0	June 26, 1998 to June 26, 2003	One month LIBOR	7.20%
June 26, 1998	NT$1,000.0	July 6, 1998 to July 6, 2003	One month LIBOR	7.20%
May 2, 2001	US$ 10.0	May 9, 2001 to Dec 28, 2001	One month JPY LIBOR	(One month USD LIBOR-0.2%)*2
May 7, 2001	US$ 4.0	May 9, 2001 to Dec 17, 2001	One month JPY LIBOR	(One month USD LIBOR-0.45%)*2

Interest expenses from those contracts for the year ended December 31, 1998, 1999 and 2000 and the six months ended June 30, 2000 and 2001 were NT$13.4 million, NT$112.2 million, NT$113.7 million, NT$51.6 million and NT$129.8 million, respectively.

c. *Options contracts*

The Company 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 materials and machinery and equipment.

Outstanding option contracts as of December 31, 1999 and 2000 and June 30, 2001 were as follows:

Contract	Currency	Contract Amount (in millions)	Fair Value (in millions)	Strike Price	Maturity
1999					
Call option written	US$	US$ 100.0	NT$ 3.9	0.9785-0.9940 (US$/EUR)	Jan. 2000
Call option written	US$	US$ 60.0	NT$ 3.0	106.6 (US$/JPY)	Jan. 2000
2000					
Put option written	EUR	EUR525.5	NT$(189.7)	0.8870-0.9680 (US$/EUR)	May 2001
Call option written	US$	US$ 203.5	NT$(264.9)	107.77-110.5 (US$/JPY)	Mar. 2001
Call option written	US$	US$ 20.0	NT$ (1.5)	32.42 (US$/NT$)	Jan. 2001
Put option bought	US$	US$ 15.0	0.0	110-110.5 (US$/JPY)	Feb. 2001
2001					
Put option bought	EUR	EUR360.0	NT$(877.2)	0.88-0.97 (EUR/US$)	Nov. 2001
Put option bought	US$	US$ 130.0	NT$ (47.6)	125 (US$/JPY)	Sep 2001

For the year ended December 31, 1998, 1999 and 2000, the Company realized premium income of NT$8.3 million, NT$63.8 million and NT$116.2 million on foreign currency options written and incurred premium expenses of NT$0 million, NT$86.7 million and NT$108.1 million, respectively, on foreign currency options bought.

For the six months ended June 30, 2000 and 2001, the Company realized premium income of NT$111.1 million and NT$27.4 million, respectively, on foreign currency options written and incurred premium expenses of NT$108.1 million and NT$31.2 million, respectively, on foreign currency options bought.

d. Transaction risk

1) *Credit risk:* the banks with which the Company has entered into the above contracts are reputable and, therefore, the Company is not expected to be exposed to significant credit risks.

2) *Market price risk:* All derivative financial instruments are for hedging receivables or payables denominated in foreign currencies, identifiable foreign currency purchase commitments and interest rate fluctuations. Gains or losses from forward exchange contracts are likely to be offset by gains or losses from receivables and payables. Deferred gains or losses from forward exchange contracts will be included in the measurement of the related transaction when the hedged transaction occurs. 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.

3) *Liquidity and cash flow:* The purpose of forward exchange contracts is to limit the Company's exposure to loss resulting from adverse fluctuations in assets and liabilities denominated in foreign currency. Interest rate swap transactions result in adjustments for interest only.

Although these derivative contracts on a standalone basis expose the Company to market price risks associated with foreign currency exchange rate fluctuations, it is the intention of the Company that these contracts reduce its overall exposure to such fluctuations.

The estimated fair values of the Company's financial instruments are as follows:

	December 31, 1999		December 31, 2000		June 30, 2001	
Non-derivative financial instruments	Carrying/ Notional Amount	Fair Value	Carrying/ Notional Amount	Fair Value	Carrying/ Notional Amount	Fair Value
	NT$	NT$	NT$	NT$	NT$	NT$
			(in millions)			
Assets						
Cash and cash equivalents	29,517.7	29,517.7	38,840.2	38,840.2	41,524.6	41,524.6
Pledged time deposits	3,161.0	3,161.0	—	—	—	—
Short-term investments	965.4	965.4	1,502.1	1,502.1	1,461.7	1,461.7
Receivables—net	13,322.0	13,322.0	27,055.5	27,055.5	13,343.8	13,343.8
Receivable from related party	340.9	340.9	948.7	948.7	704.0	704.0
Long-term investments	16,164.7	28,181.1	10,663.8	15,203.2	12,386.7	16,826.0
Refundable deposits	59.4	59.4	979.1	979.1	876.3	876.3
Liabilities						
Short-term bank borrowings	5,026.6	5,026.6	3,833.8	3,833.8	1,911.2	1,911.2
Commercial paper payable	94.8	94.8	—	—	—	—
Accounts payable	3,273.9	3,273.9	8,507.8	8,507.8	2,529.8	2,529.8
Payable to related parties	1,036.4	1,036.4	2,606.3	2,606.3	1,007.0	1,007.0
Payable to contractors and equipment supplier	12,593.7	12,593.7	25,550.3	25,550.3	20,472.1	20,472.1
Long-term bank borrowings (including current portion)	22,743.5	22,743.5	23,339.4	23,339.4	26,431.1	26,431.1
Long-term bonds payable	20,000.0	20,222.6	29,000.0	29,035.8	29,000.0	29,000.0
Guarantee deposits	5,185.4	5,185.4	7,086.4	7,086.4	7,121.5	7,121.5
Derivative financial instruments						
Foreign currency forward contracts						
Hedging assets/liabilities						
—Buy	2,372.2	2,306.6	2,820.2	2,887.1	—	—
—Sell	3,998.7	3,998.1	20,820.3	20,788.8	23,023.1	22,608.7
Option	6.9	6.9	—	(456.1)	—	(924.3)
Interest rate swaps	7.5	7.5	1.6	234.0	(10.5)	(626.9)

Fair values of financial instruments were determined as follows:

(1) Short-term financial instruments—carrying values.

(2) Short-term investments—market values.

(3) Long-term investments—market value for listed companies and net equity value for others.

(4) Refundable deposits and guarantees deposits—carrying values.

(5) Long-term liabilities—based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Long-term 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.

(6) Derivative financial instruments—based on outright forward rates and interest rates 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 do not equal to the fair value of the Company.

23. Segment Information

a. The Company engages mainly in one industry, namely, integrated circuits and other semiconductor devices.

b. Geographic information

	Overseas	Taiwan	Adjustments and Elimination	Consolidated
	NT$	NT$	NT$	NT$
1998				
Sale to unaffiliated customers	227.9	50,296.6	—	50,524.5
Transfers between geographic areas	640.6	38.5	(679.1)	—
Total sales	868.5	50,335.1	(679.1)	50,524.5
Income from operations	(2,393.1)	14,698.6		12,305.5
Non-operating income				1,976.6
Non-operating expenses				(3,226.9)
Income before income tax				11,055.2
Identifiable assets	26,958.8	131,842.6		158,801.4
Long-term investments	1,043.7	5,615.4		6,659.1
Total sales				165,460.5
1999				
Sale to unaffiliated customers	5,193.0	71,112.1	—	76,305.1
Transfers between geographic areas	975.4	4,696.2	(5,671.6)	—
Total sales	6,168.4	75,808.3	(5,671.6)	76,305.1
Income from operations	(1,086.6)	23,356.6		22,270.0
Non-operating income				1,682.3
Non-operating expenses				(3,324.0)
Income before income tax				20,628.3
Identifiable assets	34,807.9	185,054.1	(591.2)	219,270.8
Long-term investments	1,329.0	14,835.7		16,164.7
Total sales				235,435.5

	Overseas	Taiwan	Adjustments and Elimination	Consolidated
	NT$	NT$	NT$	NT$
2000				
Sale to unaffiliated customers	—	166,197.6	—	166,197.6
Transfers between geographic areas	14,451.2	30.8	(14,482.0)	—
Total sales	14,451.2	166,228.4	(14,482.0)	166,197.6
Income from operations	755.1	60,539.6		61,294.7
Non-operating income				6,227.9
Non-operating expenses				(3,621.1)
Income before income tax				63,901.5
Identifiable assets	64,659.7	320,273.3	(24,710.8)	360,222.2
Long-term investments	3,001.6	7,662.2		10,663.8
Total sales				370,886.0
For the six months ended June 30, 2000				
Sale to unaffiliated customers	5,468.3	59,446.4	—	64,914.7
Transfers between geographic areas	395.6	5,469.1	(5,864.7)	—
Total sales	5,863.9	64,915.5	(5,864.7)	64,914.7
Income from operations				21,596.4
Non-operating income				3,981.4
Non-operating expenses				(2,087.7)
Income before income tax				23,490.1
Identifiable assets	40,374.7	268,518.3	(2,996.7)	305,896.3
Long-term investments	1,647.9	6,921.2		8,569.1
Total sales				314,465.4
For the six months ended June 30, 2001				
Sale to unaffiliated customers	—	65,815.5	—	65,815.5
Transfers between geographic areas	4,943.6	3.0	(4,946.6)	—
Total sales	4,943.6	65,818.5	(4,946.6)	65,815.5
Income from operations	(1,375.9)	9,540.4		8,164.5
Non-operating income				2,223.0
Non-operating expenses				(3,751.5)
Income before income tax				6,636.0
Identifiable assets	68,767.5	304,464.6	(16,492.6)	356,739.5
Long-term investments	3,421.2	8,965.5		12,386.7
Total sales				369,126.2

c. Gross export sales

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$	NT$	NT$
Area					
U.S.A	26,666.7	38,418.4	81,656.0	35,823.2	32,240.2
Asia	9,667.5	16,744.9	42,907.0	12,536.0	18,190.5
Europe	3,595.8	4,778.6	11,360.5	4,286.0	4,867.4
	39,930.0	59,941.9	135,923.5	52,645.2	55,298.1

The export sales information is presented by billed regions.

d. Gross sales to major customers

	Year Ended December 31,						Six Months Ended June 30,			
	1998		1999		2000		2000		2001	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	NT$		NT$		NT$		NT$		NT$	
Customers										
NVIDIA	2,628.1	5.1	4,647.9	6.0	10,307.2	6.1	3,872.3	6.0	6,921.7	10.5
VIA	1,454.3	2.8	2,460.3	3.4	6,309.6	3.7	2,601.2	4.0	3,501.5	5.3
BROADCOM	794.8	1.5	1,790.3	2.5	6,988.9	4.2	2,058.9	3.1	3,083.4	4.7
Altera	2,719.5	5.3	4,744.4	6.1	15,675.9	9.3	5,651.1	8.7	2,973.3	4.5
Motorola	11.4	0.0	1,278.5	1.7	4,917.5	2.9	2,896.2	4.5	2,779.3	4.2
Silicon Storage Technology	576.2	1.1	965.6	1.3	2,964.9	1.8	965.2	1.4	2,697.7	4.1

24. Summary of Significant Differences Between Accounting Principles Followed by The Company and Generally Accepted Accounting Principles in The United States

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the Republic of China ("ROC GAAP"), which differ in the following respects from generally accepted accounting principles in the United States ("US GAAP"):

a. Pension benefits

U.S. Financial Accounting Standards (FAS) 87, "Accounting for Pensions", was effective no later than the beginning of the first period for which US GAAP reconciliation is required for foreign issuers. A portion of the unrecognized net transition obligation on the adoption date is to be allocated directly to equity. The Company adopted FAS 87 at the beginning of 1993. ROC SFAS 18, which is similar in many respects to FAS 87, was effective in 1996 for listed companies. However, the treatment of certain expenses that comply with ROC SFAS 18 is different from FAS 87.

b. Marketable securities

Under ROC GAAP, marketable equity securities are carried at the lower of aggregate cost or market, and debt securities are carried at cost, with only unrealized losses recognized. Under U.S. FAS 115, "Accounting for Certain Investments in Debt and Equity Securities", debt and equity securities that have readily determinable fair values are to be classified as either trading, available-for-sale or held-to maturity securities. Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost. Debt and equity securities that are bought and traded for short-term profit are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings. Debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity. The adjustment relates to the Company's securities that are classified as trading and available-for-sale securities.

c. Bonuses to employees, directors and supervisors

According to ROC regulations and the Company's Articles of Incorporation, a portion of the Company's distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or stock or both. All of these appropriations, including stock bonuses which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP after such appropriations are formally approved by the shareholders in the following year. Under US GAAP, such bonuses are charged against income currently in the year earned. Shares issued as part of these bonuses are recorded at fair market value. Since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to be paid based on the Company's Articles of Incorporation. Any difference between the initially accrued amount and the fair market value of the bonuses upon the issuance of shares is recognized in the year of approval by shareholders.

d. Technologies transferred in payment of capital stock

Certain employees had received common shares of WSMC prior to its merger with the Company. In exchange therefor, they contributed technologies related to the testing and packaging of integrated circuits at an agreed valuation of NT$270.0 million. Under ROC GAAP, such technology transfers in payment of capital stock are recorded as intangible asset, and amortized by systematic charges against income over the periods estimated to be benefited thereby. As permitted under ROC GAAP, the Company amortizes such intangible assets over a 5 year period. Under US GAAP, the technology contribution cannot be recognized due to the unavailability of a fair value for the technology. Therefore, the carrying value of the technology has been adjusted to zero under US GAAP, and the relevant shares issued to those employees were recorded as deferred compensation cost based on the fair value of the shares. The deferred compensation cost is amortized over 3 years, which is the period that employees are restricted from selling the stocks since the date they started working for the Company.

e. Impairment of long-lived assets

Under US GAAP, impairment losses are recorded in current period earnings and create a new cost basis for related assets going forward, and cannot be reversed subsequently. Under US GAAP, in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for the Long-Lived Assets to be Disposed of "(SFAS 121), long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed by comparing undiscounted net cash flows of the assets against the net book value of the assets. If the recoverability test indicates that an impairment has occurred, the impairment loss will be the amount of the asset's net book value in excess of the related fair value. Under ROC GAAP, there is no requirement to provide for impairment of fixed assets.

f. Derivative financial instruments

Under ROC GAAP, there are no specific rules related to accounting for derivative financial instruments, nor criteria for hedge accounting. Therefore, companies have the flexibility in choosing when to recognize derivative financial instruments and when to follow hedge accounting versus fair value accounting for such instruments. US GAAP has restrictive rules for hedge accounting under SFAS 133 and SFAS 138. SFAS 133 and SFAS 138 are effective for fiscal years beginning after June 15, 2000, and establish accounting and reporting standards for all derivative financial instruments. The Company adopted those statements on January 1, 2001. The adoption of SFAS 133 and SFAS 138 has had no material impact on the Company's financial statements for the periods presented. Under US GAAP, the Company did not apply hedge accounting, and derivatives have historically been, and continue to be, recorded on the balance sheets at fair value, with the changes in fair values recorded through current period earnings under US GAAP. In addition, the Company does not have any embedded derivatives. The reconciling adjustments for all periods presented reflect the differences between hedge accounting under ROC GAAP and non-hedge accounting under US GAAP.

g. Treasury stock

Under US GAAP, when a subsidiary holds stock of its parent as an investment, the stock is treated as treasury stock in the consolidated balance sheet, resulting in a reduction in shareholders' equity. Under ROC GAAP, such treatment is not required and treasury stock is treated as an asset.

h. Stock-based compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), which measures compensation expenses based on the difference, if any, between the fair value of the Company's common stock and the option's exercise price on the date of the grant, and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation".

i. Goodwill

Under ROC GAAP, all goodwill is amortized over 10 years; under US GAAP, goodwill is amortized over 5 or 10 years. In addition, the goodwill from the acquisition of the 68% interest in 2000 in TASMC was netted against capital surplus under ROC GAAP because the goodwill was from an acquisition paid for with shares. However, the goodwill from the prior acquisition of the 32% interest in TASMC in 1999 was not netted against capital surplus, but deferred and amortized under ROC GAAP because it was from an acquisition paid for with cash. Under US GAAP, all goodwill from the TASMC acquisitions is recognized and amortized over 5 years.

j. Mandatorily Redeemable Preferred Stock

Preferred stock subject to mandatory redemption is classified outside shareholders' equity under US GAAP, but included in shareholders' equity under ROC GAAP.

The following reconciles net income and shareholders' equity under ROC GAAP as reported in the consolidated financial statements, to the approximate net income and shareholders' equity amounts determined under US GAAP, giving effect to adjustments for the differences listed above.

	Year Ended December 31,				Six Months Ended June 30,		
	1998	1999	2000		2000	2001	
	NT$	NT$	NT$	US$	NT$	NT$	US$
			(in millions)				
Net income							
Net income based on ROC GAAP	14,389.2	23,527.0	65,106.2	1,888.2	23,575.6	8,732.8	253.3
Adjustments:							
Pension expenses	46.8	2.9	21.3	0.6	(28.0)	(14.6)	(0.4)
Marketable securities	(53.3)	1,209.3	2,092.6	60.7	7,617.5	247.5	7.2
Bonuses to employees:							
Accrual	(1,242.7)	(1,936.4)	(5,258.7)	(152.5)	(2,629.4)	(707.4)	(20.5)
Adjustment to fair market value	(11,279.5)	(8,414.5)	(23,290.1)	(675.5)	(23,290.1)	(25,208.5)	(731.1)
Derivative financial instruments	—	(9.7)	(434.1)	(12.6)	70.3	(1,298.6)	(37.7)
Income (loss) from equity investments	(577.1)	(405.0)	135.8	3.9	67.9	69.5	2.0
Amortization of goodwill	—	—	(5,395.5)	(156.5)	—	(5,395.5)	(156.5)
Technology transfer in payment of capital stocks	4.5	54.0	54.0	1.6	27.0	27.0	0.8
Amortization of compensation cost	(35.8)	(143.3)	(143.3)	(4.1)	(71.7)	(71.7)	(2.1)
Gain on sales of treasury stock	—	—	(230.0)	(6.7)	(229.7)	—	—
Impairment loss	—	—	(10,916.1)	(316.6)	—	—	—
Depreciation	—	—	—	—	—	545.8	15.8
Income tax	(2.8)	(0.2)	(1.7)	—	(1.6)	2.1	0.1
Net decrease in net income	(13,139.9)	(9,642.9)	(43,365.8)	(1,257.7)	(18,467.8)	(31,804.4)	(922.4)
Net income (loss) based on US GAAP	1,249.3	13,884.1	21,740.4	630.5	5,107.8	(23,071.6)	(669.1)
Earnings (loss) per common share	0.09	0.97	1.37	0.04	0.33	(1.41)	(0.04)
Number of weighted average shares outstanding under US GAAP (retroactively adjusted for the subsequent stock dividends distributed in July 2001)	13,741,454,000	14,249,102,000	15,859,173,000		15,353,235,000	16,365,111,000	
Earnings (loss) per ADS	0.45	4.87	6.85		1.66	(7.05)	

	December 31, 1999	December 31, 2000	June 30, 2001	June 30, 2001
	NT$	NT$	NT$	US$
	(in millions)			
Shareholders' equity				
Shareholders' equity based on ROC GAAP	152,570.5	261,753.7	270,984.8	7,859.2
Adjustments:				
Pension benefits	(70.4)	(49.1)	(63.7)	(1.9)
Restatement of marketable securities to market				
Trading	1,212.4	3,305.0	3,552.5	103.0
Available-for-sale	383.5	40.2	71.8	2.1
Unrealized gain on long-term investments from an investee	1,590.5	(14.0)	405.2	11.7
Bonuses to employees, directors and supervisors	(1,936.4)	(5,258.7)	(707.4)	(20.5)
Effects of the above adjustments on equity investments	(978.3)	(842.5)	(773.0)	(22.4)
Derivatives financial instrument	(9.7)	(443.8)	(1,742.4)	(50.5)
Reclassification to treasury stocks	(572.5)	(1,285.8)	(1,285.8)	(37.3)
Goodwill	—	46,817.2	41,421.7	1,201.3
Technology transfer in payment of capital stocks	(211.5)	(157.5)	(130.5)	(3.8)
Impairment loss	—	(10,916.1)	(10,916.1)	(316.6)
Depreciation	—	—	545.8	15.8
Effect of above US GAAP adjustments on income tax	(0.8)	(2.5)	(0.4)	(0.0)
Mandatorily redeemable preferred stock	—	(13,000.0)	(13,000.0)	(377.0)
Net decrease in shareholders' equity	(593.2)	18,192.4	17,377.7	503.9
Shareholders' equity based on US GAAP	151,977.3	279,946.1	288,362.5	8,363.1

	December 31, 1999	December 31, 2000	December 31, 2000	June 30, 2000	June 30, 2001	June 30, 2001
	NT$	NT$	US$	NT$	NT$	US$
	(in millions)					
Changes in shareholders' equity based on US GAAP						
Balance, beginning of year	94,293.2	151,977.3	4,407.7	151,977.3	279,946.1	8,119.1
Unrealized holding gain (loss) of marketable securities classified as available for sale						
TSMC	33.3	(71.6)	—	—	31.6	0.8
Investee	1,590.5	(14.0)	(0.4)	438.5	419.2	12.1
Reversal of unrealized gain on long-term investments	—	(1,933.8)	(56.1)	(146.4)	39.5	1.2
Net income (loss) for period	13,884.1	21,740.4	630.5	5,107.8	(23,071.6)	(669.1)
Adjustment for common shares issued as bonuses to employees, directors and supervisors	9,519.0	25,011.3	725.4	25,011.3	29,882.9	866.7
Translation adjustment for subsidiaries	(362.7)	811.7	21.5	(258.0)	1,084.2	31.4
Adjustment from changes in ownership percentage of investees	127.0	—	—	—	—	—
Purchases of treasury stocks	(382.4)	(975.4)	(28.3)	(632.4)	—	—
Amortization of deferred compensation cost	143.3	143.3	4.1	71.7	71.7	2.1
Proceeds from sales of treasury stock	—	492.1	14.3	491.5	—	—
Issuance of capital stock	20,618.0	26,204.6	760.0	26,204.6	—	—
Issuance of capital stock for the acquisition of TASMC	—	56,560.2	1,640.4	56,560.2	—	—
Conversion of foreign bonds	12,514.0	—	—	—	—	—
Cash dividends	—	—	—	—	(41.1)	(1.2)
Balance, end of year	151,977.3	279,946.1	8,119.1	264,826.1	288,362.5	8,363.1

A reconciliation of the significant balance sheet accounts to the approximate amounts determined under US GAAP is as follows:

	December 31,		June 30,	
	1999	2000	2001	2001
	NT$	NT$ (in millions)	NT$	US$
Short-term investments				
As reported	965.4	1,502.1	1,461.7	42.4
US GAAP adjustments				
Restatement of investments to fair value	1,212.4	3,305.0	3,552.5	103.0
Treasury stock	(572.5)	(1,285.8)	(1,285.8)	(37.3)
As adjusted	1,605.3	3,521.3	3,728.4	108.1
Long-term investments				
As reported	16,164.7	10,663.8	12,386.7	359.2
US GAAP adjustments				
Equity investments	(978.3)	(842.5)	(773.0)	(22.4)
Unrealized holding gain of marketable securities classified as available for sale				
- TSMC	383.5	40.2	71.8	2.1
- Investee	1,590.5	(14.0)	405.2	11.7
As adjusted	17,160.4	9,847.5	12,090.7	350.6
Properties-net				
As reported	150,059.9	244,747.9	254,709.9	7,387.2
US GAAP adjustments				
Impairment loss	—	(10,916.1)	(10,916.1)	(316.6)
Depreciation	—	—	545.8	15.8
As adjusted	150,059.9	233,831.8	244,339.6	7,086.4
Deferred income tax				
As reported	9,623.3	14,807.8	17,315.9	502.2
US GAAP adjustments				
Effect of US GAAP adjustments on deferred income tax	(0.8)	(2.5)	(0.4)	(0.0)
As adjusted	9,622.5	14,805.3	17,315.5	502.2
Deferred charge-net				
As reported	2,380.8	3,335.7	3,488.7	101.2
US GAAP adjustments				
Technology transfer in payment of capital stock	(211.5)	(157.5)	(130.5)	(3.8)
As adjusted	2,169.3	3,178.2	3,358.2	97.4
Goodwill				
As reported	—	11,531.0	11,945.9	346.4
US GAAP adjustments				
Goodwill	—	46,817.2	41,421.7	1,201.3
As adjusted	—	58,348.2	53,367.6	1,547.7
Current liabilities				
As reported	26,390.4	47,425.0	33,393.8	968.5
US GAAP adjustments				
Financial instruments	9.7	443.8	1,742.4	50.5
Bonuses to employees, directors and supervisors	1,936.4	5,258.7	707.4	20.5
As adjusted	28,336.5	53,127.5	35,843.6	1,039.5
Accrued pension cost				
As reported	1,013.8	1,511.3	1,748.4	50.7
US GAAP adjustment				
Pension expenses	70.4	49.1	63.7	1.9
As adjusted	1,084.2	1,560.4	1,812.1	52.6

As a result of the adjustments presented above, the approximate amounts of total assets based on US GAAP are NT$236,858.8 million, NT$407,830.0 million and NT$402,017.6 million as of December 31, 1999, 2000 and June 30, 2001, respectively.

The following US GAAP condensed statements of operation for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001 have been derived from the audited financial statements and reflect the adjustments presented above.

	Year Ended December 31,				Six Months Ended June 30,		
	1998	1999(a)	2000(a)		2000(a)	2001	
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions)						
Net sales	50,524.5	76,305.1	166,197.6	4,820.1	64,914.7	65,815.5	1,908.8
Cost of sales	41,200.2	52,162.8	105,358.7	3,055.6	53,294.6	62,364.3	1,808.6
Gross profit	9,324.3	24,142.3	60,838.9	1,764.5	11,620.1	3,451.2	100.2
Operating expenses	9,525.5	12,309.6	44,472.6	1,289.9	16,015.9	26,111.6	757.4
Income (loss) from operating	(201.2)	11,832.7	16,366.3	474.6	(4,395.8)	(22,660.4)	(657.2)
Non operating income (expenses)-net	(1,880.7)	(847.1)	4,171.1	120.9	9,690.2	(2,662.4)	(77.3)
Income (loss) before income tax	(2,081.9)	10,985.6	20,537.4	595.5	5,023.9	(25,322.8)	(734.5)
Net income (loss)	1,249.3	13,884.1	21,740.4	630.5	5,107.8	(23,071.6)	(669.1)

(a) Consistent with reclassifications made under ROC GAAP as described in Note 2(s), operating expenses above reflect the reclassification of NT$1,024.8 million, NT$2,072.1 million and NT$618.8 million from costs of sales to research and development expenses for the years ended December 31, 1999 and 2000 and the six months ended June 30, 2000, respectively.

25. Additional Disclosures Required by U.S. GAAP

a. Recent Accounting Pronouncements

The Company is required by SEC Staff Accounting Bulletin No. 74 to make certain disclosures about the impact that recently issued accounting standards will have on its financial statements in a future period.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Accounting for business combinations", and SFAS No. 142, "Goodwill and other intangible assets". The Company must adopt these standards on January 1, 2002, which may affect accounting for business combinations consummated after June 30, 2001 and that for existing goodwill and other intangible assets of the Company upon adoption. The standards require, among other provisions, companies to review for possible impairment of goodwill existing on the date of adoption and perform subsequent impairment tests on an annual basis. Unamortized goodwill amounted to NT$11,945.9 million under ROC GAAP and an additional unamortized goodwill of NT$41,421.7 million under US GAAP as of June 30, 2001. Additionally, existing goodwill and intangible assets must be reassessed and classified consistently in accordance with the Statements' criteria. Under the new standards, the Company will no longer incur goodwill amortization expense, which amounted to NT$604.2 million under ROC GAAP and NT$5,395.5 million additional goodwill amortization under US GAAP for the six month ended June 30, 2001. At the same time, intangible assets will continue to be amortized over their estimated useful lives, which, if supportable, may be for a period that exceeds the current maximum period of 40 years. Intangible assets with indeterminable useful lives and goodwill will not be amortized but will be assessed for impairment each year. The Company has not yet completed its assessment of the impact these new standards may have on the accompanying consolidated financial statements and cannot determine whether any impairment will be recognized.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The Statement requires, among other provisions, retirement obligations to be recognized when they are incurred and displayed as liabilities, with a corresponding amount capitalized as part of the related long-lived asset. The capitalized element is required to be expensed using a systematic and rational method over its useful life. SFAS No. 143 will be adopted by the Company on January 1, 2003 and is not expected to have a material impact on the accompanying financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which is required to be applied by the Company by January 1, 2002. The Statement supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events". For long-lived assets to be held and used, the Statement retains the requirement of SFAS No. 121 whereby an impairment loss is recognized if the carrying value of the asset is not recoverable from its undiscounted cash flows and an impairment loss is measured as the difference between fair values and carrying values of the asset. The new Statement requires long-lived assets to be disposed of other than by sale to be considered held and used until they are disposed. The Statement also broadens the scope of APB Opinion No. 30 for the presentation of discontinued operations separately from continuing operations to include a component of an entity that either has been disposed of or is classified as held for sale. In addition, discontinued operations are no longer measured on a net realizable value basis, and expected future operating losses must be reflected in the periods incurred, rather than at the measurement date as previously required under APB Opinion No. 30. The adoption of the Statement is not expected to have a material impact on the accompanying financial statements.

b. Marketable securities

On June 30, 2001, certain investments carried at cost under ROC GAAP were restated for purposes of U.S. GAAP presentation:

	(ROC GAAP) Carrying Value	(US GAAP) Fair Value
	NT$	NT$
	(in millions)	
Investment of trading securities	175.9	3,728.4
Long-term investments-available for sale (Note 8)	32.1	103.9

The Company uses the average cost method for trading securities and available-for-sale securities when determining cost basis. Proceeds from sales of investment securities available-for-sale during 1998, 1999 and 2000 and for the six months ended June 30, 2000 and 2001 are NT$1,523.5 million, NT$150.0 million, NT$49.4 million, NT$16.7 million and NT$12.8 million, respectively. Gross realized gains on these sales are NT$781.6 million, NT$67.8 million, NT$15.1 million, NT$1.2 million and NT$2.6 million, respectively.

The gross gains included in earnings from transfers of securities from the available-for-sale category into the trading category for the year ended December 31, 2000 was NT$17.5 million. There were no transfers of securities from the available-for-sale category into the trading category for the year ended December 31, 1998, 1999 and for the six months ended June 30, 2000 and 2001.

c. ***Pension***

	December 31,			June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
Actuarial present value of benefit obligations					
Vested benefit obligation	(0.6)	—	—	—	—
Accumulated benefit obligation	(311.0)	(428.3)	(763.9)	(662.2)	(1,087.5)
Projected benefit obligation	(1,128.0)	(1,403.6)	(2,313.9)	(2,080.2)	(2,637.5)
Plan assets at fair value	292.1	371.0	684.0	601.3	761.1
Projected benefit obligation in excess of plan assets	(835.9)	(1,032.6)	(1,629.9)	(1,478.9)	(1,876.4)
Unrecognized net transition obligation	87.0	81.5	76.1	75.9	70.7
Unrecognized net loss	(73.1)	(117.5)	(4.8)	(4.8)	(4.8)
Unfunded accrued pension cost	(822.0)	(1,068.6)	(1,558.6)	(1,407.8)	(1,810.5)
Accrued pension cost					
Balance, beginning of year	607.8	822.0	1,068.6	1,068.6	1,558.6
Net periodic pension cost					
Service cost	212.4	248.4	376.7	188.3	254.2
Interest cost	69.3	78.9	91.2	45.6	69.4
Expected return on assets	(18.9)	(18.5)	(32.6)	(16.3)	(21.9)
Amortization of unrecognized net transition obligation	7.4	1.6	11.4	5.7	2.7
Net periodic pension cost	270.2	310.4	446.7	223.3	304.4
Contributions and accruals	(317.0)	(313.3)	(468.1)	(195.3)	(289.8)
Pension cost difference	(46.8)	(2.9)	(21.4)	(28.0)	14.6
Accruals	261.0	249.5	511.4	311.2	237.3
Balance, end of year	822.0	1,068.6	1,558.6	1,407.8	1,810.5
Assumptions used in actuarial calculations:					
Discount rate	7.0%	6.5%	6.0%	6.0%	6.0%
Long-term salary increase	6.5%	6.0%	6.0%	6.0%	6.0%
Expected long-term rate of return on plan assets	7.0%	6.5%	6.0%	6.0%	6.0%

d. Income tax benefit

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$	NT$	NT$
Income tax current payable	(575.6)	(88.5)	(27.2)	—	(237.3)
Deferred income tax	3,121.2	2,383.5	1,003.7	(18.8)	2,510.2
Adjustment of prior years' income taxes	(230.0)	87.6	189.7	154.8	(7.0)
Income tax benefit	2,315.6	2,382.6	1,166.2	136.0	2,265.9

Reconciliation between income tax calculated on pretax financial statement income based on the statutory tax rate and income tax benefit which conforms to U.S. GAAP is as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
Tax on pretax income at ROC statutory rate (25%)	520.5	(2,746.4)	(5,134.4)	(1,256.0)	6,330.7
SBIP tax exemption (5%)	(104.1)	549.3	1,026.9	251.2	—
Tax on pretax income at SBIP statutory rate	416.4	(2,197.1)	(4,107.5)	(1,004.8)	6,330.7
Other tax & assessed additional income tax	—	—	(88.0)	—	(668.4)
Tax paid by subsidiaries	(227.8)	(763.5)	(7.4)	(35.3)	(60.7)
Tax effects of :					
Tax-exempt income	1,413.4	3,434.8	9,734.9	3,373.8	695.6
Expiration of net operating loss	—	—	(981.1)	—	—
Permanent difference					
— Bonus expense	(2,504.0)	(2,070.2)	(5,709.8)	(5,183.9)	(6,479.0)
— Amortization of goodwill	—	—	(1,079.1)	—	(1,348.9)
— Marketable securities	10.7	(241.9)	418.5	1,523.5	61.9
— Others	(233.0)	602.8	(651.1)	(411.7)	(1,084.1)
Tax credits—utilized	751.5	1,587.0	5,128.0	1,335.6	1,250.0
—deferred	3,438.0	3,929.0	5,356.3	833.8	4,961.7
Valuation allowance	(519.6)	(1,985.9)	(7,037.2)	(449.8)	(1,538.2)
Adjustment of prior year's income tax	(230.0)	87.6	189.7	154.8	145.3
Income tax benefit	2,315.6	2,382.6	1,166.2	136.0	2,265.9

The roll-forward of deferred income tax is as follows:

	Income tax Credit	Valuation Allowance	Net operating Loss	Temporary Difference	Total
	NT$	NT$	NT$ (in millions)	NT$	NT$
Balance as of January 1, 1999	7,169.6	(557.7)	170.1	359.6	7,141.6
Increased in 1999	5,516.0	(1,985.9)	811.0	(273.2)	4,067.9
Utilized in 1999	(1,587.0)	—	—	—	(1,587.0)
Balance as of December 31, 1999	11,098.6	(2,543.6)	981.1	86.4	9,622.5
Increased in 2000	10,484.3	(7,037.2)	—	3,616.4	7,063.5
Acquired from 68% of TASMC	4,558.4	(330.0)	—	—	4,228.4
Utilized in 2000	(5,128.0)	—	(981.1)	—	(6,109.1)
Balance as of December 31, 2000	21,013.3	(9,910.8)	—	3,702.8	14,805.3
Increased in the six months ended June 30, 2001	6,211.7	(1,538.2)	—	(750.4)	3,923.1
Utilized in the six months ended June 30, 2001	(1,250.0)	—	—	(162.9)	(1,412.9)
Balance as of June 30, 2001	25,975.0	(11,449.0)	—	2,789.5	17,315.5

e. Impairment loss

WaferTech, a subsidiary, has experienced continued losses and an extended ramp-up period for its facility. Additionally, economic events have caused WaferTech to substantially alter its forecasts for future years' production and operating results. As a result of these factors, WaferTech decided to perform a valuation and to measure the impairment, if any, of the long-lived assets of its facility in accordance with SFAS 121 as of December 31, 2000.

Based on WaferTech's study, which relied primarily on information and data supplied by management, it was concluded that the undiscounted value of the projected cash flows of the facility's long-lived assets as of December 31, 2000 was less than the net book value of such assets as of December 31, 2000.

As a result of this conclusion, WaferTech determined the need to record an impairment charge under U.S. GAAP related to its integrated circuit fabrication facility. To determine the fair value of the assets, WaferTech utilized a combination of valuation techniques, including a cost to capacity method and a discounted cash flow method. The total impairment charge was determined to be US$330.0 million (NT$10,916.1 million) and was reflected in the consolidated financial position, and included as an operating expense in the accompanying consolidated results of operations of the Company as of and for the year ended December 31, 2000.

f. Stock Based Compensation Plans

Stock option

In 1996, WaferTech, a subsidiary, 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 (hereafter referred to as the Plans) under which officers, key employees and nonemployee directors may be granted option rights, appreciation rights and/or performance units.

As WaferTech is a limited liability company and does not have shares of stock, each option right granted pursuant to the Plans provided grantees rights to purchase ownership interests in the Company. The Plans provided for approximately 6 percent 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 or was equal to the fair value at the date of grant. While the Company may grant option rights to employees which become exercisable at different times or within different periods, the Company has generally granted option rights to employees which are exercisable on a cumulative basis in annual installments of 25 percent each on the first, second, third and fourth anniversaries of the date of grant.

The following table summarizes information about the Company's Plans:

	Option Rights Available For Grant	Outstanding Option Rights	
		Number of Option Rights	Exercise Price
			US$
Balance at December 31, 1997	8,252,402	5,247,598	0.74
Options granted:			
Option price > fair market value	(2,056,600)	2,056,600	0.74
Option exercised	—	—	—
Option canceled	204,450	(204,450)	0.74
Balance at December 31, 1998	6,400,252	7,099,748	0.74
Options granted:			
Option price > fair market value	(3,084,305)	3,084,305	0.86
Option exercised	—	(1,119,323)	0.74
Option canceled	838,650	(838,650)	0.74
Balance at December 31, 1999	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
Option exercised	—	(3,411,867)	0.74
Option canceled	1,180,871	(1,180,871)	1.09
Balance at December 31, 2000	3,782,166	6,836,644	1.23
Options granted:			
Option price > fair market value	—	—	—
Option exercised	—	(2,410,725)	1.02
Option canceled	465,388	(465,388)	1.38
Balance at June 30, 2001	4,247,554	3,960,531	1.34

These options will expire if not exercised at specific dates ranging from May 2006 to June 2011. As of June 30, 2001, 500,406 option rights to purchase ownership interests were vested and exercisable at exercise prices of US$1.86 for 277,158 option rights and US$0.74 for 223,248 option rights. The weighted average remaining contractual life of these options is 8.26 years.

WaferTech has elected to follow APB Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for its option plan. Under APB No. 25, because the exercise price of WaferTech's option rights was equal to or exceeds the market value of the underlying ownership interests on the date of grant, no compensation expense was recognized in WaferTech's financial statements prior to the stock option buyback program discussed below. WaferTech has, under US GAAP, computed for pro forma disclosure purposes the fair value of each option grant, as defined by Statement of Financial Accounting Standards No. 123, "Stock-Based Compensation" (SFAS 123), using the Black-Scholes option pricing model. The Black-Scholes model was developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from WaferTech's stock option awards. The model also requires the input of highly subjective assumptions, and changes in those subjective input assumptions may greatly affect the fair value estimate. The value of WaferTech's stock-based awards to employees was estimated assuming no expected dividends and the following assumptions:

	1998	1999	2000
Risk free interest rate	6.00%	7.00%	7.00%
Expected dividend yield	0	0	0
Expected lives	5 Years	5 Years	4 Years
Fair Value			N/A

As WaferTech is not publicly traded, a volatility factor was not utilized in the pricing computation. No option rights were granted in 2001.

In December 2000, WaferTech executed the Stock Option Buyback Program (Buyback) with its employees. The Buyback program provides employees with the right to sell back all vested stock options and outstanding ownership interests granted under the Plans to WaferTech. The repurchase price for outstanding ownership interests is US$6(NT$206.9) per share. The repurchase price for vested stock options is US$6(NT$206.9) per share, less the exercise price of the option. Unvested option rights continue to vest in accordance with the vesting schedule prescribed under the Plans and can be sold back to WaferTech once vested. As of June 30, 2001, WaferTech has repurchased 2,141,474 outstanding ownership interests at a cost of US$12,849,251(NT$443.0 million), of which US$12,152,580(NT$419.0 million) has been recorded as treasury stock by WaferTech. The difference of US$696,671(NT$24.0 million) between the cost and the amount recorded as treasury stock represents the amount of outstanding ownership interests held less than six months at the date of repurchase. In accordance with US GAAP, this amount was included as a component of stock buyback expense in the financial statements for the year ended December 31, 2000. Outstanding ownership interests that had been held more than six months at the time of sale to WaferTech were recorded as treasury stock at the time of purchase by WaferTech.

Additionally, WaferTech has repurchased 4,338,096 vested stock option rights to purchase ownership interests at a cost of US$22,144,156(NT$763.5 million). In accordance with APB 25, WaferTech recognized compensation expense for the difference between the exercise price of options at the date of grant and the repurchase price at the date of the original offer to repurchase, which was December 2000. WaferTech recorded a charge to income and an accrued liability of US$44,240,566(NT$1,525.4 million), for which the expense was included as stock buyback expense in the financial statements for the year ended December 31, 2000. Of the accrued amount, US$18,758,885(NT$646.8 million) remains as accrued compensation and is included in accrued liabilities in the accompanying consolidated balance sheets. As of June 30, 2001, WaferTech had 3,960,531 option rights outstanding, of which 500,406 are vested and may be sold back to WaferTech.

For purposes of pro forma disclosure, the estimated fair values of the options are amortized over the option rights' vesting periods. Had TSMC recorded compensation costs based on the estimated fair value on the grant date, as defined by SFAS 123, TSMC's net income under US GAAP would have been reduced to the pro forma amounts below for the years ended December 31, 1998, 1999 and 2000 and for the six months ended June 30, 2000. The net income for the six months ended June 30, 2001 would not differ if the WaferTech accounted for its option rights under SFAS 123.

	Year Ended December 31,			Six Months Ended June 30,	
	1998	1999	2000	2000	2001
	NT$	NT$	NT$ (in millions)	NT$	NT$
U.S. GAAP					
Net income (loss) of TSMC as reported	1,249.3	13,884.1	21,740.4	5,107.8	(23,071.6)
Pro forma net income—TSMC	1,245.1	13,876.7	21,919.5	5,102.5	(23,071.6)
Pro forma income per share	0.09	1.34	1.92	0.33	(1.41)
Pro forma income per ADS	0.43	6.68	9.61	1.66	(7.05)

Stock Appreciation Rights

In conjunction with the Buyback program, WaferTech, a subsidiary, implemented the Employee Stock Appreciation Incentive Plan (Appreciation). The Appreciation plan is designed to provide WaferTech's employees with a long-term incentive plan that tracks the appreciation of TSMC common stock through Stock Appreciation Rights (SARs). SARs provide each participant the right to receive upon exercise an amount in cash from WaferTech that is the excess of the market price of TSMC common stock at the date of exercise over the exercise price at the date of grant. The exercise price is equivalent to the per share price of TSMC common stock at the date of grant as quoted on the Taiwan Stock Exchange. SARs granted prior to March 10, 2001 vest 25 percent per year beginning one year from the date of grant and expire five years from the date of grant. In May 2001, WaferTech's Board of Directors approved reducing the vesting period from four years to two years for SARs granted after March 10, 2001.

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 upon periodic fluctuations in the stock. As of June 30, 2001, WaferTech has granted 3,025,054 appreciation rights under the Appreciation plan at a weighted average exercise price of US$2.76(NT$95.2). As of June 30, 2001, there were no vested rights under the Appreciation plan.

TSMC-North America, a subsidiary, started a stock appreciation right program 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 upon periodic fluctuations in the stock. In view of depreciation of the stock from January to June 30, 2001, TSMC-North America did not have any compensation expense or liability related to this program.

g. Employee Benefit Plan

During 1997, WaferTech established a defined contribution plan. Employees who meet certain minimum eligibility criteria can contribute a percentage of their annual compensation subject to certain regulatory and Plan limitations. The Plan provides for matching contributions by the WaferTech on a discretionary basis. For the six months ended June 30, 2001 and 2000, WaferTech made discretionary matching contributions of US$806,029(NT$27.8 million) and US$307,940(NT$10.6 million), respectively.

h. Statements of cash flows

We apply ROC Statement of Financial Accounting Standard No. 17, "Statement of Cash Flows". Its objectives and principles are similar to those set out in the Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" (SFAS 95). The principle differences between the standards relate to classification. Cash flow from changes in restricted cash, pledge time deposits, refundable deposits, other assets-miscellaneous, guarantee deposits and other liabilities and bonus to directors and supervisors are included as operating activities under SFAS 95. Summarized cash flow data by operating, investing and financing activities in accordance with SFAS 95 are as follows:

	Year ended December 31,				Six Months Ended June 30,		
	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	US$ (in millions)	NT$	NT$	US$
Net cash inflow (outflow) from:							
Operating activities	27,554.1	36,889.1	99,872.5	2,899.9	39,785.4	46,109.8	1,337.3
Investing activities	(57,208.2)	(58,744.3)	(123,272.0)	(3,575.0)	(44,185.7)	(43,601.6)	(1,264.6)
Financing activities	19,328.1	40,674.1	32,603.5	942.1	25,416.6	156.7	4.5
Change in cash and cash equivalents	(10,326.0)	18,818.9	9,204.0	267.0	21,016.3	2,664.9	77.2
Cash and cash equivalents at the beginning of period	21,855.5	10,871.9	29,517.7	856.1	29,517.7	38,840.2	1,126.5
Effect of changes in foreign exchange rate	(657.6)	(173.1)	118.5	3.4	613.3	19.5	0.6
Cash and cash equivalents at the end of period	10,871.9	29,517.7	38,840.2	1,126.5	51,147.3	41,524.6	1,204.3

i. Statement of comprehensive income

	Statement of Comprehensive Income Year Ended December 31,				Six Months Ended June 30,		
	1998	1999	2000	2000	2000	2001	2001
	NT$	NT$	NT$	US$ (in millions)	NT$	NT$	US$
Current earnings based on U.S. GAAP	1,249.3	13,884.1	21,740.4	630.5	5,107.8	(23,071.6)	(669.1)
Other comprehensive income, net of tax:							
Unrealized holding gain (loss) of marketable securities classified as available for sale							
— TSMC	(578.5)	33.3	(71.6)	(2.1)	—	31.6	0.8
— Investee	—	1,590.5	(14.0)	(0.4)	438.5	419.2	12.1
Reversal of unrealized gain of marketable securities classified as available for sale	—	—	(1,933.8)	(56.1)	(146.4)	39.5	1.2
Translation adjustment on subsidiaries	(625.4)	(362.7)	811.7	23.6	(258.0)	1,084.2	31.4
	(1,203.9)	1,261.1	(1,207.7)	(35.0)	34.1	1,574.5	45.5
Comprehensive Income	45.4	15,145.2	20,532.7	595.5	5,141.9	(21,497.1)	(623.6)

j. Pro forma information—Unaudited

Under APB Opinion No. 16, "Business Combination", the acquisition of 68% of TASMC on June 30, 2000 was accounted by the purchase method, and the merger with WSMC on June 30, 2000 was accounted for as a pooling of interests, with the results of operations of WSMC retroactively restated in the consolidated statements of income for all periods presented.

Unaudited pro forma net sales, net income and earnings per share of TSMC under US GAAP for 1999 and 2000, based on the assumption that the acquisition of TASMC was completed as of January 1, 1999 and January 1, 2000, respectively, are as follows:

	Year Ended December 31,	
	1999	2000
	NT$	NT$
	(Unaudited) (in millions)	
Net sales	86,130.1	170,132.4
Net income	(5,372.3)	17,745.3
Earnings per share		
Based on weighted-average number of shares outstanding—14,856,023 thousand shares and 16,162,634 thousand shares in 1999 and 2000, respectively (retroactively adjusted for the subsequent stock dividends distributed in July 2001)	(0.36)	1.10

Unaudited Unconsolidated ROC GAAP Financial Statements of

Taiwan Semiconductor Manufacturing Company Limited

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

UNCONSOLIDATED BALANCE SHEETS
(Unaudited)
September 30, 2001 and 2000
(In Thousands of New Taiwan Dollars, Except Par Value)

	2001		2000	
	Amount	%	Amount	%
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 2 and 3)	$ 30,658,085	9	$ 20,089,735	7
Receivables from related parties (Note 12)	368,869	—	755,860	—
Notes receivable	114,524	—	52,030	—
Accounts receivable	17,018,530	5	25,386,641	9
Allowance for doubtful receivables (Note 2)	(1,051,158)	—	(845,899)	—
Allowance for sales returns and others (Note 2)	(2,740,762)	(1)	(1,607,537)	(1)
Inventories—net (Notes 2 and 4)	7,395,135	2	11,151,916	4
Deferred income taxes (Notes 2 and 11)	443,706	—	1,597,958	1
Prepaid expenses and other current assets (Notes 2, 12 and 15)	1,903,665	1	3,833,489	1
Total Current Assets	54,110,594	16	60,414,193	21
Long-term Investments (Notes 2 and 5)	33,950,449	10	22,183,506	8
Property, Plant and Equipment (Notes 2, 6 and 12)				
Cost				
Buildings	50,718,361	15	45,421,821	15
Machinery and equipment	237,565,591	71	193,679,746	67
Office equipment	4,645,308	2	3,326,789	1
Total cost	292,929,260	88	242,428,356	83
Accumulated depreciation	(128,769,934)	(39)	(83,829,380)	(29)
Advance payments and construction in progress	55,418,377	17	28,350,815	10
Net Property, Plant and Equipment	219,577,703	66	186,949,791	64
Goodwill (Note 2)	3,048,414	1	3,270,602	1
Other Assets				
Assets leased to others (Note 2)	572,701	—	644,101	—
Deferred charges—net (Notes 2 and 7)	3,171,935	1	2,927,743	1
Deferred income taxes (Notes 2 and 11)	18,306,037	6	12,545,276	4
Refundable deposits	816,536	—	1,117,159	1
Miscellaneous	9,250	—	9,250	—
Total Other Assets	22,876,459	7	17,243,529	6
Total Assets	$333,563,619	100	$290,061,621	100

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

UNCONSOLIDATED BALANCE SHEETS
(Unaudited)
September 30, 2001 and 2000
(In Thousands of New Taiwan Dollars, Except Par Value)

	2001		2000	
	Amount	%	Amount	%
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Payables to related parties (Note 12)	$ 1,793,640	—	$ 3,765,250	1
Notes and accounts payable	1,983,154	1	7,683,347	3
Payables to contractors and equipment suppliers	14,086,339	4	21,162,800	7
Obligation under capital lease (Note 2)	—	—	75,000	—
Accrued expenses and other current liabilities (Notes 2 and 15)	5,209,992	2	4,431,368	2
Total Current Liabilities	23,073,125	7	37,117,765	13
Noncurrent Liabilities				
Bonds (Note 8)	29,000,000	8	20,000,000	7
Accrued pension cost (Notes 2 and 10)	1,867,601	1	1,390,515	—
Guarantee deposits (Note 14)	7,149,805	2	4,541,395	2
Deferred gain on sale-leaseback (Note 2)	306,474	—	484,017	—
Total Noncurrent Liabilities	38,323,880	11	26,415,927	9
Total Liabilities	61,397,005	18	63,533,692	22
Shareholders' Equity (Notes 2 and 9)				
Capital stock—$10 par value				
Authorized: 24,600,000 thousand shares in 2001 and 17,800,000 thousand shares in 2000				
Issued:				
Preferred—1,300,000 thousand shares	13,000,000	4	—	—
Common—16,832,554 thousand shares in 2001 and 11,689,365 thousand shares in 2000	168,325,531	51	116,893,646	40
Capital surplus	55,285,821	17	54,840,257	19
Retained earnings:				
Appropriated as legal reserve	17,180,067	5	10,689,323	4
Appropriated as special reserve	349,941	—	1,091,003	—
Unappropriated earnings	17,306,293	5	44,116,345	15
Unrealized loss on long-term investment	(167,908)	—	—	—
Cumulative translation adjustments	886,869	—	(1,102,645)	—
Total Shareholders' Equity	272,166,614	82	226,527,929	78
Total Liabilities and Shareholders' Equity	$333,563,619	100	$290,061,621	100

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

UNCONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
For the Nine Months Ended September 30, 2001 and 2000
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2001		2000	
	Amount	%	Amount	%
Gross Sales (Notes 2 and 12)	$95,112,470		$114,413,626	
Sales Returns and Allowance	(2,354,083)		(2,006,911)	
Net Sales	92,758,387	100	112,406,715	100
Cost of Sales (Note 12)	67,466,426	73	61,984,475	55
Gross Profit	25,291,961	27	50,422,240	45
Operating Expenses (Note 12)				
General and administrative	4,338,589	5	3,878,936	4
Marketing	1,729,154	2	2,130,575	2
Research and development	7,741,184	8	5,031,201	4
Total Operating Expenses	13,808,927	15	11,040,712	10
Income From Operations	11,483,034	12	39,381,528	35
Non-Operating Income				
Interest (Note 2)	1,178,585	2	1,186,131	1
Insurance compensation	230,736	—	1,500,627	1
Premium income (Notes 2 and 15)	98,551	—	116,248	—
Technical service income (Note 12)	41,550	—	—	—
Gain on disposal of property, plant and equipment	18,451	—	37,016	—
Equity in net income of investee companies—net (Notes 2 and 5)	—	—	914,128	1
Foreign exchange gain—net (Notes 2 and 15)	—	—	787,371	1
Gain on sale of short-term investments	—	—	83,953	—
Reversal of allowance for loss on short-term investments	—	—	678	—
Other (Note 12)	194,513	—	517,982	1
Total Non-Operating Income	1,762,386	2	5,144,134	5
Non-Operating Expenses				
Equity in net loss of investee companies—net (Notes 2 and 5)	4,681,528	5	—	—
Interest (Notes 2, 6 and 15)	1,397,979	2	1,498,713	2
Foreign exchange loss—net (Notes 2 and 15)	446,726	—	—	—
Loss on sale of long-term investments	104,252	—	—	—
Premium expenses (Notes 2 and 15)	60,679	—	—	—
Loss on disposal of property, plant and equipment	24,913	—	—	—
Amortization of bond issue cost (Notes 2 and 7)	9,378	—	12,268	—
Other	159,662	—	97,734	—
Total Non-Operating Expenses	6,885,117	7	1,608,715	2
Income Before Income Tax	6,360,303	7	42,916,947	38
Income Tax Benefit (Notes 2 and 11)	3,609,150	4	716,181	1
Net Income	$ 9,969,453	11	$ 43,633,128	39
Earnings Per Share				
Based on common stock weighted-average number of common shares outstanding 16,832,554 thousand shares in 2001 and 11,303,132 thousand shares in 2000	$ 0.57		$ 3.86	
Based on 16,276,383 thousand common shares			$ 2.68	

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

UNCONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
For the Nine Months Ended September 30, 2001 and 2000
(In Thousands of New Taiwan Dollars)

	2001	2000
Cash Flows From Operating Activities		
Net income	$ 9,969,453	$ 43,633,128
Net income of the merged companies	—	(135,077)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,898,840	22,089,528
Deferred income taxes	(4,068,450)	(521,782)
Equity in net loss (net income) of investee companies—net	4,681,528	(914,128)
Loss on sale of long-term investments	104,252	—
Loss on disposal of property, plant and equipment—net	6,462	27,092
Accrued pension cost	358,066	241,653
Allowance for doubtful receivables	104,424	390,000
Allowance for sales returns and others	536,595	368,873
Changes in operation assets and liabilities:		
Decrease (increase) in:		
Short-term investments	—	236,250
Forward exchange contract receivable	(48,951)	26,530
Receivables from related parties	625,946	(299,246)
Notes receivable	10,651	169,509
Accounts receivable	13,316,784	(9,319,756)
Inventories—net	3,572,800	(3,169,114)
Prepaid expenses and other current assets	1,086,371	(231,328)
Increase (decrease) in:		
Payables to related parties	(2,552,938)	2,971,318
Notes and accounts payable	(6,006,799)	2,067,455
Forward exchange contract payable	(1,925)	(81,703)
Accrued expenses and other current liabilities	802,186	921,438
Net Cash Provided by Operating Activities	58,395,295	58,470,640
Cash Flows from Investing Activities		
Acquisitions of:		
Property, plant and equipment	(57,955,473)	(51,622,840)
Long-term investments	(4,390,435)	(1,245,981)
Proceeds from sales of:		
Property, plant and equipment	291,231	113,852
Long-term investments	145,118	—
Increase in deferred charges	(1,031,526)	(592,239)
Decrease (increase) in refundable deposits	151,449	(919,908)
Cash from the merged companies	—	1,412,404
Net Cash Used in Investing Activities	(62,789,636)	(52,854,712)

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

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS ORIGINALLY ISSUED IN CHINESE

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

UNCONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Unaudited)
For the Nine Months Ended September 30, 2001 and 2000
(In Thousands of New Taiwan Dollars)

	2001	2000
Cash Flows from Financing Activities		
Payments on:		
Short-term loans	$ —	$(12,635,000)
Commercial paper	—	(5,479,288)
Long-term bank loans	—	(7,525,000)
Current portion of long-term loans	(50,000)	—
Increase (decrease) in guarantee deposits	63,426	(644,321)
Bonus paid to directors and supervisors	(584,303)	(215,151)
Proceeds from issuance of shares	—	24,322,550
Cash dividends paid on preferred shares	(41,137)	—
Net Cash Used in Financing Activities	(612,014)	(2,176,210)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,006,355)	3,439,718
Cash and Cash Equivalents, Beginning of the Period	35,664,440	16,650,017
Cash and Cash Equivalents, End of the Period	$30,658,085	$ 20,089,735
Supplemental Information		
Interest paid (excluding the amounts of $163,380 and $72,903 capitalized in 2001 and 2000, respectively)	$ 465,199	$ 813,506
Noncash investing and financing activities—		
Effect of exchange rate changes on cash and cash equivalents	$ 999,164	$ 95,036
Current portion of long-term loans	$ —	$ 75,000
Cash paid for acquisitions of property, plant and equipment:		
Total acquisitions	$47,649,412	$ 59,086,437
Decrease (increase) in payables to contractors and equipment suppliers	10,306,061	(7,463,597)
	$57,955,473	$ 51,622,840

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

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. General

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

2. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the Republic of China. The significant accounting principles adopted by the Company are as follows:

Cash equivalents

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

Allowance for doubtful receivables

Allowance for doubtful receivables are provided based on a review of the collectibility of individual receivables.

Allowance for sales returns and others

Sales are recognized when titles over the products and risks of ownership are transferred to customers, primarily upon shipment. Allowances and the related provision for sales returns and others are provided based on experience. Such provisions are accounted for as reduction from sales.

Inventories

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

Long-term investments

Investments in shares of stock of companies wherein the Company exercises significant influence on 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. The increase in the Company's proportionate equity in the net assets of its investee company resulting from its subscription to additional shares of stock, issued by such investee company, at the rate not proportionate to its existing equity ownership in such investee company, is credited to a capital surplus account while any decrease in the Company's proportionate share in the net assets of investee company is debited against the existing balance of the similar capital surplus account with the difference debited against unappropriated retained earnings.

The portion of the capital surplus (excluding the portion of the reserve for asset revaluation increment) generated subsequent to the acquisition by the Company of its equity interest in the investee company that is offset against the deficit in a quasi-reorganization is also recognized by the Company, at an amount equal to its equity interest in the investee company, as a debit to "Capital surplus" account and a credit to "Retained earnings" account.

Other investments in shares of stock are accounted for using the cost method. These investments are stated at cost less the decline in market value of listed stocks (with the corresponding amounts debited to shareholders' equity) or the other than temporary decline in the value of those with no quoted market prices (with the corresponding amounts charged to income). Cash dividends are recognized as income in the year received but are accounted for as reduction in the carrying value of the long-term investments 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.

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 net income or net loss of equity-accounted investee companies for the current year is reclassified to capital surplus from retained earnings. Such amount is reclassified back to retained earnings when the Company subsequently disposed the related investment. Also, if an investee company has unrealized loss on its own long-term investment which is evaluated using the lower-of-cost-or-market method, the Company recognizes that unrealized loss in proportion to the Company's equity interest and is recorded in an account that is a component of its own shareholders' equity.

If an investee's functional currency is a foreign currency; "cumulative translation adjustments" would result from the process of translating the investees financial statements into the reporting currency.

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

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, improvements, 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 leased property's market value at the inception date of the lease. The lessee's periodic rental payments include the purchase price of the leased property and the interest expense.

Depreciation is provided using the straight-line method over these estimated service lives: Buildings—10 to 20 years; machinery and equipment—5 to 10 years; and office equipment—3 to 5 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.

Goodwill

Goodwill arising from business combinations is amortized using the straight-line method over 10 years.

Deferred charges

Deferred charges consist of software and system design costs, technology know-how, bond issue costs and technology license fees. 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, and technology license fees—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 transition obligation is 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 estimated useful life or the term of the lease.

Income tax

The Company adopted inter-period income tax allocation method. Deferred income taxes are recognized for the tax effects of taxable 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, 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, it is classified as current or non-current based on the expected reversal date of temporary difference.

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

Income taxes (10%) on unappropriated earnings generated starting January 1, 1998 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 liabilities. These transactions are accounted for on an accrual basis, in which cash settlement receivables or payables are 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.

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 are 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 period-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.

Reclassifications

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

3. Cash and Cash Equivalents

	September 30,	
	2001	2000
Cash and bank deposits	$29,845,452	$17,058,901
Government bonds acquired under repurchase agreements	812,633	3,030,834
	$30,658,085	$20,089,735

4. Inventories—Net

	September 30,	
	2001	2000
Finished goods	$ 2,718,641	$ 1,375,246
Work in process	5,628,481	8,956,682
Raw materials	409,636	467,741
Supplies and spare parts	995,833	1,186,101
	9,752,591	11,985,770
Less—allowance for losses	(2,357,456)	(833,854)
	$ 7,395,135	$11,151,916

5. Long-Term Investments

	September 30,			
	2001		2000	
	Carrying Value	% of Owner-Ship	Carrying Value	% of Owner-Ship
Shares of stock				
Equity method				
TSMC International Investment	$20,536,161	100	$13,133,597	100
Vanguard International Semiconductor	4,331,322	25	5,484,646	25
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	3,258,974	32	865,004	32
TSMC Partners	2,515,490	100	13,057	100
Emerging Alliance Fund	670,785	99	—	—
TSMC—North America	666,393	100	673,897	100
Kung Cherng Investment	165,729	25	160,967	25
Chi Hsin Investment	146,153	25	141,180	25
Chi Cherng Investment	145,368	25	132,905	25
Cherng Huei Investment	144,520	25	140,544	25
Po Cherng Investment	143,384	25	139,362	25
Hsin Ruey Investment	143,361	25	133,073	25
TSMC—Japan	92,869	100	37,762	100
TSMC—Europe	10,353	100	26,960	100
	32,970,862		21,082,954	
Cost method				
Listed				
Amkor Technology	280,748	—	—	—
Taiwan Mask Corp.	32,129	2	32,129	2
Non-Listed				
United Technology	193,584	11	146,250	10
Hon Tung Venture Capital	150,000	10	120,000	10
Shin-Etsu Handotai Taiwan Company Ltd.	105,000	7	105,000	7
W.K. Technology Fund IV	50,000	2	50,000	4
Taiwan Semiconductor Technology	—	—	500,000	19
	811,461		953,379	
Funds				
Horizon Ventures	125,701	—	93,304	—
Crimson Asia Capital	42,425	—	53,869	—
	168,126		147,173	
	$33,950,449		$22,183,506	

The equity in net income or net loss of subsidiaries and investee companies consisted of the following:

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
TSMC International Investment	$ (4,055,762)	$ 695,621
TSMC Partners	1,880,706	3,145
SSMC	(1,334,119)	(291,663)
Vanguard International Semiconductor	(1,278,781)	476,548
TASMC	—	(311,330)
Others	106,428	341,807
	$ (4,681,528)	$ 914,128

The carrying values of equity-accounted investments and the related equity in net income or net loss for the nine months ended September 30, 2001 and 2000 were based on reviewed financial statements in the same periods.

Information on the long-term investments is as follows:

	September 30, 2001	September 30, 2000
Market value of listed stocks	$ 4,165,750	$19,396,223
Equity in the net assets of unlisted stocks	29,228,807	16,480,695
Net asset value of funds	168,126	147,173

6. Property, Plant and Equipment

Accumulated depreciation consisted of the following:

	September 30, 2001	September 30, 2000
Buildings	$ 13,242,012	$ 8,747,534
Machinery and equipment	113,268,739	73,488,226
Office equipment	2,259,183	1,593,620
	$128,769,934	$83,829,380

Information on the status of construction of the Company's manufacturing facilities as of September 30, 2001 is as follows:

Manufacturing Plant	Estimated Cost	Accumulated Expenditures	Expected or Actual Date of the Start of Operations
Fab 6	$76,889,000	$69,208,700	March 2000
Fab 7	5,930,500	3,059,700	March 2001
Fab 8	28,322,100	11,397,700	March 2001
Fab 12—1st stage	38,280,800	32,183,200	April 2002
Fab 14—1st stage	9,711,000	8,461,800	June 2003

Interest expenses (excluding $163,380 and $72,903 that were capitalized in 2001 and 2000, respectively) for the nine months ended September 30, 2001 and 2000 were $1,561,359 and $1,571,616, respectively. The capitalized rate were 5.283% in 2001 and 6.468% to 6.62% in 2000.

As of September 30, 2001, properties with an aggregate net book value of $1,644,250 were mortgaged as collateral for long-term loans.

7. Deferred Charges—Net

	September 30,	
	2001	2000
Software and system design costs	$ 1,871,936	$ 1,109,874
Technology license fee	1,108,007	1,553,720
Technology know-how	117,000	171,000
Bonds issue costs	36,217	29,441
Others	38,775	63,708
	$ 3,171,935	$ 2,927,743

8. Bonds

	September 30,	
	2001	2000
Domestic unsecured bonds		
Repayable in March 2003, 7.71% annual interest payable semi-annually	$ 4,000,000	$ 4,000,000
Repayable in November 2003, 7.12% annual interest payable annually, redeemed in November 2000	—	6,000,000
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	15,000,000	—
	$29,000,000	$20,000,000

9. Shareholders' Equity

Capital surplus that arose from the application of the equity method of accounting can, pursuant to ROC Company Law, only be used to offset a deficit or transferred to capital (as a stock dividend). Such transfer from capital surplus into capital can only be made once a year at a specific percentage.

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 according to the relevant laws or the regulatory authorities;

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 3.5% annual rate, based on outstanding period; and

e. The appropriation of the remaining balance after the above shall be decided in 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 to 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.

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 nonpublic 1,300,000 thousand Series A—preferred shares to certain investors. The following are the rights of the holders of the preferred shares and other terms and conditions:

a. Entitled to receive cumulative cash dividends at an annual rate of 3.5%.

b. Not entitled to participate in any additional shares of stock upon transfer of unappropriated earnings and capital surplus to capital stock.

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. No right to convert their shares into common shares. The preferred shares will be redeemed within thirty months from its issuance. The holders will have the foregoing rights and the Company's related obligations would remain the same until the preferred shares are actually redeemed by the Company.

10. Pension Plan

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

The Company contributes at an amount equal to 2% of salaries every month to a Pension Fund (the "Fund"). The Fund is administered by pension fund monitoring committee (the "committee") and deposited in the committee's name in the Central Trust of China.

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

	Nine Months Ended September 30,	
	2001	2000
Pension fund		
Balance, beginning of the period	$ 631,348	$ 350,454
Contributions	100,067	62,994
Interest income	41,194	—
Transfers from the merged companies	—	173,339
Payment	—	(240)
Balance, end of the period	$ 772,609	$ 586,547
Accrued pension cost		
Balance, beginning of the period	$1,509,535	$ 998,203
Accruals	358,066	242,476
Transfers from the merged companies	—	150,659
Payment	—	(823)
Balance, end of the period	$1,867,601	$1,390,515

11. 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:

	Nine Months Ended September 30, 2001	2000
Income tax expense based on "income before income tax" at statutory rate	$(1,590,076)	$(8,583,389)
Tax-exempt income	624,500	5,091,000
Temporary differences	(365,870)	246,389
Income tax expenses—current before tax credits	$(1,331,446)	$(3,246,000)

The statutory rates for 2001 and 2000 were 25% and 20%, respectively.

b. Income tax benefits consist of:

	Nine Months Ended September 30, 2001	2000
Income tax expenses—current before tax credits	$(1,331,446)	$(3,246,000)
Additional 10% tax on the unappropriated earnings	(319,000)	—
Income tax credits	1,650,446	3,246,000
Other income tax	(452,330)	—
Income tax payable—current	(452,330)	—
Net change in deferred income tax assets (liabilities) for the period		
Investment tax credits	3,061,461	(153,487)
Temporary differences	(1,100,559)	(148,725)
Valuation allowance	2,107,548	850,000
Adjustment of prior years' taxes	(6,970)	168,393
	$ 3,609,150	$ 716,181

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

	September 30, 2001	September 30, 2000
Current:		
Investment tax credits	$ 443,706	$ 1,897,958
Less—valuation allowance	—	(300,000)
	$ 443,706	$ 1,597,958
Noncurrent:		
Investment tax credits	$26,530,291	$16,319,042
Less—valuation allowance	(6,504,885)	(3,727,431)
Temporary differences	(1,719,369)	(46,335)
	$18,306,037	$12,545,276

The effective tax rates for deferred income tax as of September 30, 2001 and 2000 were 17.01% and 7.43%, respectively.

d. Integrated income tax information:

The balances of the imputation credit account (ICA) as of September 30, 2001 and 2000 were $2,374 and $2,429, respectively.

The actual creditable ratio for 2000 and 1999 were 0.01% and 0.009%, respectively.

e. The unappropriated retained earnings as of September 30, 2001 and 2000 included the earnings generated up to December 31, 1997 of $4,827.

f. Unused investment tax credits arising from investments in machinery and equipment, and research and development expenditures as of September 30, 2001 will expire as follows:

Year of Expiry	Amount
2001	$ 3,326,741
2002	4,488,678
2003	5,782,226
2004	10,713,565
2005	2,662,787
	$26,973,997

The income from the following projects and services are exempt from income tax:

	Tax-Exemption Period
Expansion of first and second manufacturing plants-modules I and II, third manufacturing plant and fourth manufacturing plant, and construction of fifth manufacturing plant	1999 to 2002

g. The tax authorities have examined income tax returns of TSMC through 1997. The tax authorities have assessed deficiency income taxes in respect to the Company's income tax return; which assessment is being contested by the Company.

12. Related Party Transactions

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

a. Industrial Technology Research Institute (ITRI); Chairman of the Company is a director of ITRI

b. Philips Electronics N.V. (Philips); a major shareholder

c. Subsidiaries

TSMC International Investment (TSMC-BVI)
TSMC—North America
TSMC—Europe
TSMC—Japan

d. Investees

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

e. TSMC Technology, a subsidiary of TSMC-BVI

f. WaferTech, LLC, an indirect subsidiary of TSMC-BVI

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

	Nine Months Ended September 30,			
	2001		2000	
	Amount	%	Amount	%
For the period				
Sales				
Philips and its affiliates	$1,971,991	2	$ 3,691,582	3
VIS	955,473	1	8,482	—
ITRI	72,244	—	139,076	—
SSMC	28,669	—	—	—
WaferTech, LLC	3,017	—	6,538	—
	$3,031,394	3	$ 3,845,678	3
Purchases				
WaferTech, LLC	$5,125,312	37	$ 8,828,427	38
VIS	3,059,907	22	4,057,565	17
SSMC	1,579	—	—	—
	$8,186,798	59	$12,885,992	55
Rental expense—ITRI	$ 121,203	11	$ 121,145	21
Manufacturing expenses				
Technical assistance fee—Philips	$1,814,294	100	$ 1,410,955	100
Marketing expenses				
Commission				
TSMC—North America	$ 768,146	44	$ 719,206	34
TSMC—Japan	152,063	9	118,173	5
TSMC—Europe	92,209	5	99,454	5
Service Charge				
TSMC—North America	82,194	5	82,650	4
	$1,094,612	63	$ 1,019,483	48
Disposal of property, plant and equipment—VIS	$ 268,871	92	$ 62,790	56
Non-operating income				
SSMC (mainly technical service income)	$ 70,491	4	$ 120,603	2
WaferTech, LLC (mainly technology license income)	3,584	—	1,343	—
Others	—	—	18,640	—
	$ 74,075	4	$ 140,586	2

	Nine Months Ended September 30,			
	2001		2000	
	Amount	%	Amount	%
At end of the period				
Receivables				
VIS	$ 218,128	59	$ 131,908	17
Philips and its affiliates	82,599	22	567,259	75
TSMC Technology	44,105	12	11,639	2
ITRI	13,841	4	29,185	4
SSMC	10,196	3	13,120	2
WaferTech, LLC	—	—	2,749	—
	$ 368,869	100	$ 755,860	100
Prepaid expense and other current assets				
Purchase prepayments—WaferTech, LLC	$ 691,460	36	$ —	—
Advance rent—ITRI	10,328	1	10,328	—
	$ 701,788	37	$ 10,328	—
Payables				
Philips and its affiliates	$ 622,268	35	$ 625,416	17
VIS	596,990	33	1,633,842	43
WaferTech, LLC	382,567	21	1,299,935	34
TSMC—North America	112,405	6	134,323	4
TSMC—Europe	51,841	3	41,804	1
TSMC—Japan	15,330	1	18,984	1
TSMC Technology	11,292	1	6,146	—
SSMC	947	—	—	—
ITRI	—	—	4,800	—
	$1,793,640	100	$3,765,250	100

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

The amount payable to WaferTech, LLC included the costs of finished goods purchased by TSMC. The amount of the compensation was calculated in accordance with the related contractual agreements.

13. Long-Term Operating Leases

The Company 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 rent and other related charges under such agreement amount to $170,656. The agreement can be renewed upon their expiration.

The Company 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 $208,716. The agreements can also be renewed upon their expiration.

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

Year	Amount
2002	$ 251,380
2003	208,716
2004	208,716
2005	208,716
2006	208,716
2007-2020	1,789,499
	$2,875,743

14. Commitments as of September 30, 2001

The Company's commitments as of September 30, 2001 are as follows:

a. Under a Technical Cooperation Agreement with Philips, as amended on May 12, 1997, the Company shall pay technical assistance fee at 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 for successive periods of three years. Under the amended agreement, the fee is subject to deduction by the amounts the Company pays to any third party for settling any licensing/infringement issue after the first five-year period of the amended agreement, provided that the fee after reduction will not be below a certain percentage of the net selling price.

b. Subject to certain equity ownership and notification requirements, Philips and its affiliates can avail themselves each year up to 30% of the Company's production capacity.

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

d. Under several foundry agreements, the Company shall allocate a portion of its production output for sale to certain major customers from whom guarantee deposits of US$206,534 thousand had been received as of September 30, 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 the Company to invest 32% of SSMC's capital. The Company and Philips committed to buy a certain percentage of the production capacity of SSMC. If any party defaults on the agreement and the capacity utilization of SSMC falls below a certain percentage of its total capacity, the defaulting party should compensate SSMC for all related unavoidable costs.

f. Under a Technical Cooperation Agreement with SSMC entered into on May 12, 1999, SSMC shall compensate TSMC for technology service provided to SSMC. The compensation shall be a certain percentage of net selling prices of certain products sold by SSMC. The agreement will remain in force for ten years and be automatically renewed for successive periods of five years unless pre-terminated by either party under certain conditions.

g. The Company provides guarantee for loans of US$268,000 thousand, US$40,000 thousand and US$410,000 thousand obtained by TSMC Development, Inc., TSMC-North America and WaferTech, LLC, respectively.

h. 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.

i. The Company entered into a Manufacturing Agreement with Vanguard International Semiconductor Corp. (VIS). VIS agrees to reserve certain capacity to manufacture for the Company certain devices on logic or other technologies required by the Company's customers, at discounted actual setting prices as agreed by the parties. The Company shall pay $1,200,000 to VIS as Security Bond. VIS shall return certain amount of the Bond without any interest to the Company for some wafers ordered by the Company. The contract will remain in force for five years.

j. Unused letter of credits as of September 30, 2001 were $29,010.

k. As of September 30, 2001, unused credit lines for short-term loans were $16,376,270.

l. As of September 30, 2001, unused credit lines for long-term loans were $5,304,225.

15. Additional Disclosures

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

a. Financing provided: Please see Table 1 attached;

b. Endorsement/guarantee provided: Please see Table 2 attached;

c. Marketable securities held: Please see Table 3 attached;

d. Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Please see Table 4 attached;

e. Acquisition of individual real estates at costs of at least NT$100 million or 20% of the paid-in capital: Please see Table 5 attached;

f. Disposal of individual real estates at prices of at least NT$100 million or 20% of the paid-in capital: None;

g. Total purchase from or sale to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 6 attached;

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 7 attached;

i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 8 attached;

j. Financial instrument transactions:

1) Derivative financial instruments

The Company entered into derivative transactions to hedge foreign-currency denominated receivables or payables, identifiable foreign currency purchase commitments, and interest rate fluctuations. The relevant information on the derivative financial instruments entered into by the Company is as follows:

a) Open forward exchange contracts as of September 30, 2001:

	Currency	Contract Amount (Thousand)	Fair Value (Thousand)	Settlement Dates	Maturity (Thousand)
Sell	US$	US$104,856	$ 3,634,879	Oct.-Nov., 2001	EUR 115,000
Sell	US$	US$ 84,000	2,878,905	Oct., 2001	JPY 9,941,605
Sell	US$	US$635,000	21,827,416	Oct.-Dec., 2001	NT$21,843,319
Buy	US$	US$ 17,846	639,200	Oct., 2001	EUR 20,000
Buy	US$	US$ 35,000	1,218,514	Oct., 2001	NT$ 1,214,500

Receivables from forward exchange contracts (shown in the balance sheet as part of "Other current assets" account) as of September 30, 2001 aggregate $98,430, and payables from forward exchange contracts (shown in the balance sheet as part of "Other current liabilities" account) aggregate $177,026 as of September 30, 2001. Net exchange loss for the nine months ended September 30, 2001 was $1,308,392.

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

	Amount (Thousand)
Accounts receivable	US$450,447
Time deposits	US$726,357
Accounts payable	US$239,361

b) Interest rate swaps

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

Contract Date	Period	Amount (Thousand)
April 28, 1998	May 21, 1998 to May 21, 2003	NT$2,000,000
April 29, 1998	May 21, 1998 to May 21, 2003	NT$1,000,000
June 26, 1998	June 26, 1998 to June 26, 2003	NT$1,000,000
June 26, 1998	July 6, 1998 to July 6, 2003	NT$1,000,000
May 2, 2001	May 9, 2001 to Dec 28, 2001	US$10,000
May 7, 2001	May 9, 2001 to Dec 17, 2001	US$4,000

Interest expenses on these swaps for the nine months ended September 30, 2001 were $296,108.

c) Option contracts

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

Outstanding option contracts as of September 30, 2001 were as follows:

Contract	Currency	Contract Amount (Thousand)	Carrying Value	Fair Value (Thousand)	Strike Price	Maturity
Put option sell	EURO	EURO344,000	$—	($231,325)	0.906-0.96 (EURO/US$)	Oct.-Nov., 2001
Put option sell	US$	US$30,000	—	(35,065)	122.8 (US$/JPY)	Dec., 2001
Call option sell	US$	US$70,000	—	(6,794)	34.7 (US$/NT$)	Oct., 2001
Put option sell	US$	US$15,000	—	(3,845)	119 (US$/JPY)	Oct., 2001

For the nine months ended September 30, 2001, the amortization of amounts received by the Company on options written amounted to $98,551 while the amortization of the amounts paid on options bought amounted to $60,679.

d) Transaction risk

i. *Credit risk.* The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposures related to the potential default by those counter parties are low.

ii. *Market price risk.* All derivative financial instruments are intended as hedges for receivables or payables denominated in foreign currencies and interest rate fluctuations. 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.

iii. *Liquidity and cash flows requirements.* The cash flows 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 believed that the foregoing requirements are not material.

2) Fair value of financial instruments

	September 30, 2001		September 30, 2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Cash and cash equivalents	$30,658,085	$30,658,085	$20,089,735	$20,089,735
Receivables from related parties	368,869	368,869	755,860	755,860
Notes and accounts receivable	17,133,054	17,133,054	25,438,671	25,438,671
Long-term investments	33,950,449	33,562,683	22,183,506	36,024,091
Pledged deposits	25,356	25,356	184,710	184,740
Refundable deposits	816,536	816,536	1,117,159	1,117,159
Liabilities				
Payables to related parties	1,793,640	1,793,640	3,765,250	3,765,250
Notes and accounts payable	1,983,154	1,983,154	7,683,347	7,683,347
Payables to contractors and equipment suppliers	14,086,339	14,086,339	21,162,800	21,162,800
Bonds	29,000,000	29,397,374	20,000,000	20,088,569
Guarantee deposits	7,149,805	7,149,805	4,541,395	4,541,395
Derivative financial instruments				
Forward exchange contracts (buy)	1,853,700	1,857,714	—	—
Forward exchange contracts (sell)	28,463,393	28,341,200	7,734,708	7,758,126
Interest rate swaps	18,607	(567,867)	13,351	240,043
Option	—	(277,029)	—	(545,700)

Fair values of financial instruments were determined as follows:

a) Short-term financial instruments—carrying values.

b) Long-term investments—market value for listed companies and net equity for the others.

c) Refundable deposits and guarantees deposits—carrying values.

d) Long-term liabilities—based on forecasted cash flows discounted at interest rates of similar long-term liabilities. Bonds payable is discounted at present value. Fair values of other long-term liabilities are also their carrying values as they use floating interest rates.

e) Derivative financial instruments—based on the quotations from bank.

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

TABLE 1

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES UNCONSOLIDATED AND UNAUDITED

FINANCING PROVIDED
For the Nine Months Ended September 30, 2001
(Amounts in Thousands of 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$14,469	US$14,469	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 limiting 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 LIMITED AND INVESTEES UNCONSOLIDATED AND UNAUDITED

ENDORSEMENT/GUARANTEE PROVIDED
For the Nine Months Ended September 30, 2001
(Amounts in Thousands of 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)	$ 9,259,132 (US$268,000)	$ 9,259,132 (US$268,000)	$—	3.40%	$54,397,659
		TSMC—North America	2		1,381,960 (US$40,000)	1,381,960 (US$40,000)	—	0.51%	
		WaferTech, LLC	3		14,165,090 (US$410,000)	14,165,090 (US$410,000)	—	5.20%	

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

Note 2: The No. 2 represents subsidiary that directly held exceeding 50% of the issued. The No. 3 represents the investee that has over 50% of the common shares holds by the parent company and subsidiary.

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 with the exception of approval from BOD.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

MARKETABLE SECURITIES HELD
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2001 Shares (Thousand)	Carrying Value (US$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US$ in Thousand)	Note
TSMC	**Stock**							
	TSMC—North America	Subsidiary	Long-term investment	11,000	$ 666,393	100	$ 666,393	
	TSMC—Europe	Subsidiary	Long-term investment	—	10,353	100	10,353	
	TSMC—Japan	Subsidiary	Long-term investment	6	92,869	100	92,869	
	VIS	Investee	Long-term investment	556,133	4,331,322	25	3,820,637	
	TSMC-BVI	Subsidiary	Long-term investment	779,968	20,536,161	100	20,536,161	
	TSMC Partners	Subsidiary	Long-term investment	300	2,515,490	100	2,515,490	
	SSMC	Investee	Long-term investment	301	3,258,974	32	3,258,974	
	Emerging Alliance Fund	Subsidiary	Long-term investment	—	670,785	99	670,785	
	Taiwan Mask Corp.	—	Long-term investment	7,782	32,129	2	120,545	
	United Technology Co., Ltd.	—	Long-term investment	14,722	193,584	11	265,121	
	Shin-Etsu Handotai Taiwan Co., Ltd.	—	Long-term investment	10,500	105,000	7	112,362	
	W.K. Technology Fund IV	—	Long-term investment	5,000	50,000	2	63,333	
	Hon Tung Ventures Capital	—	Long-term investment	15,000	150,000	10	148,451	
	Amkor Technology	—	Long-term investment	505	280,748	—	224,568	
	Certificate							
	Po Cherng Investment	Investee	Long-term investment	—	143,384	25	143,384	
	Chi Hsin Investment	Investee	Long-term investment	—	146,153	25	146,153	
	Kung Cherng Investment	Investee	Long-term investment	—	165,729	25	165,729	
	Chi Cherng Investment	Investee	Long-term investment	—	145,368	25	145,368	
	Hsin Ruey Investment	Investee	Long-term investment	—	143,361	25	143,361	
	Cherng Huei Investment	Investee	Long-term investment	—	144,520	25	144,520	
	Equity							
	Crimson Asia Capital Fund	—	Long-term investment	—	42,425	N/A	42,425	
	Horizon Ventures Fund	—	Long-term investment	—	125,701	N/A	125,701	
Chi Cherng Investment	**Stock**							
	TSMC	Major shareholder	Short-term investment	3,023	98,282	—	170,389	

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

				September 30, 2001				
Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousand)	Carrying Value (US$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US$ in Thousand)	Note
Chi Cherng Investment	**Certificate**							
	Po Cherng Investment	Major shareholder	Long-term investment	6,000	$ 86,030	15	$ 86,030	
	Chi Hsin Investment	Major shareholder	Long-term investment	6,000	87,692	15	87,692	
	Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	86,017	15	86,017	
	Kung Cherng Investment	Major shareholder	Long-term investment	6,000	99,437	15	99,437	
	Cherng Huei Investment	Major shareholder	Long-term investment	6,000	86,712	15	86,712	
Kung Cherng Investment	**Stock**							
	TSMC	Major shareholder	Short-term investment	6,758	226,819	—	380,883	
	Certificate							
	Po Cherng Investment	Major shareholder	Long-term investment	6,000	86,030	15	86,030	
	Chi Hsin Investment	Major shareholder	Long-term investment	6,000	87,692	15	87,692	
	Chi Cherng Investment	Major shareholder	Long-term investment	6,000	87,221	15	87,221	
	Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	86,017	15	86,017	
	Cherng Huei Investment	Major shareholder	Long-term investment	6,000	86,712	15	86,712	
Po Cherng Investment	**Stock**							
	TSMC	Major shareholder	Short-term investment	5,340	236,150	—	300,952	
	Certificate							
	Chi Hsin Investment	Major shareholder	Long-term investment	6,000	87,692	15	87,692	
	Chi Cherng Investment	Major shareholder	Long-term investment	6,000	87,221	15	87,221	
	Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	86,017	15	86,017	
	Kung Cherng Investment	Major shareholder	Long-term investment	6,000	99,437	15	99,437	
	Cherng Huei Investment	Major shareholder	Long-term investment	6,000	86,712	15	86,712	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

				September 30, 2001				
Held Company Name	**Marketable Securities Type and Name**	**Relationship with the Company**	**Financial Statement Account**	**Shares (Thousand)**	**Carrying Value (US$ in Thousand)**	**Percentage of Ownership**	**Market Value or Net Asset Value (US$ in Thousand)**	**Note**
Cherng Huei Investment	**Stock**							
	TSMC	Major shareholder	Short-term investment	6,017	$243,391	—	$339,089	
	Certificate							
	Po Cherng Investment	Major shareholder	Long-term investment	6,000	86,030	15	86,030	
	Chi Hsin Investment	Major shareholder	Long-term investment	6,000	87,692	15	87,692	
	Chi Cherng Investment	Major shareholder	Long-term investment	6,000	87,221	15	87,221	
	Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	86,017	15	86,017	
	Kung Cherng Investment	Major shareholder	Long-term investment	6,000	99,437	15	99,437	
Chi Hsin Investment	**Stock**							
	TSMC	Major shareholder	Short-term investment	3,561	138,747	—	200,760	
Chi Hsin Investment	**Certificate**							
	Po Cherng Investment	Major shareholder	Long-term investment	6,000	86,030	15	86,030	
	Chi Cherng Investment	Major shareholder	Long-term investment	6,000	87,221	15	87,221	
	Hsin Ruey Investment	Major shareholder	Long-term investment	6,000	86,017	15	86,017	
	Kung Cherng Investment	Major shareholder	Long-term investment	6,000	99,437	15	99,437	
	Cherng Huei Investment	Major shareholder	Long-term investment	6,000	86,712	15	86,712	
Hsin Ruey Investment	**Stock**							
	TSMC	Major shareholder	Short-term investment	1,407	86,591	—	79,305	
	Certificate							
	Po Cherng Investment	Major shareholder	Long-term investment	6,000	86,030	15	86,030	
	Chi Hsin Investment	Major shareholder	Long-term investment	6,000	87,692	15	87,692	
	Chi Cherng Investment	Major shareholder	Long-term investment	6,000	87,221	15	87,221	
	Kung Cherng Investment	Major shareholder	Long-term investment	6,000	99,437	15	99,437	
	Cherng Huei Investment	Major shareholder	Long-term investment	6,000	86,712	15	86,712	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

				September 30, 2001				
Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousand)	Carrying Value (US$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US$ in Thousand)	Note
TSMC-BVI	**Stock**							
	InveStar Semiconductor Development Fund Inc.	Subsidiary of TSMC-BVI	Long-term investment	45,000	US$ 60,485	97	US$ 60,485	
	InveStar Semiconductor Development Fund (II) Inc.	Subsidiary of TSMC-BVI	Long-term investment	31,950	US$ 32,846	97	US$ 32,846	
	TSMC Development Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US$219,839	100	US$ 219,839	
	TSMC Technology Inc.	Subsidiary of TSMC-BVI and its chairman is also TSMC's chairman	Long-term investment	1	US$ 964	100	US$ 964	
	3DFX. Interactive Inc.	—	Long-term investment	68	US$ 297	—	US$ 19	
VIS	**Bond fund**							
	THE TP ROC	—	Short-term investment	25,923	350,000	—	352,792	
	Yuan Da Duo Li #2	—	Short-term investment	15,207	200,000	—	201,811	
	Home Run	—	Short-term investment	27,796	350,000	—	353,325	
	Stock							
	VIS Associates Inc.	Subsidiary	Long-term investment	41,070	837,618	100	837,618	
	PowerChip Semiconductor Inc.	Investee	Long-term investment	202,185	2,533,380	9	2,533,380	
	Etron Technology Inc.	Investee	Long-term investment	6,317	132,342	3	132,342	
	Walsin Technology Inc.	Investee	Long-term investment	34,551	414,481	10	408,580	
VIS	MEGIC Corporation	Investee	Long-term investment	16,500	177,000	9	192,649	
	Form Factor Inc.	Investee	Long-term investment	267	64,360	1	64,360	
	United Technology Co., Ltd.	Investee	Long-term investment	2,944	38,717	2	53,073	

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

				September 30, 2001				
Held Company Name	**Marketable Securities Type and Name**	**Relationship with the Company**	**Financial Statement Account**	**Shares (Thousand)**	**Carrying Value (US$ in Thousand)**	**Percentage of Ownership**	**Market Value or Net Asset Value (US$ in Thousand)**	**Note**
VIS Associates Inc.	**Stock**							
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term investment	67,800	US$ 924	100	US$ 924	
	Equity							
	Silicon Valley Equity Fund	—	Long-term investment	—	US$ 10,000	35	US$ 8,797	
	Silicon Valley Equity Fund II	—	Long-term investment	—	US$ 5,900	14	US$ 5,668	
	Fund							
	Grand Palace Trust	—	Long-term investment	—	US$ 2,874	100	US$ 2,874	
VIS Investment Holding, Inc.	**Stock**							
	VIS Micro Inc.	Investee	Long-term investment	200	US$ 257	100	US$ 257	
TSMC Development	**Stock**							
	WaferTech, LLC	Investee of TSMC Development and its chairman is also chairman of TSMC	Long-term investment	—	US$235,400	99	US$ 223,503	
TSMC Partners	**ADR**							
	TSMC	Parent Company	Short-term investment	495	US$ 7,357	—	US$ 5,254	
InveStar Semiconductor Development Fund Inc.	**Stock**							
	Silicon Image, Inc.	—	Short-term investment	297	US$ 520	—	US$ 821	
	Marvell Technology Group Ltd.	—	Short-term investment	4,083	US$ 4,008	—	US$ 79,834	
	Silicon Labo Ratories	—	Short-term investment	15	US$ 895	—	US$ 249	
	Chang Yi Technology	—	Long-term investment	1,528	US$ 1,626	—	US$ 1,562	
	Capella Microsystems, Inc.	—	Long-term investment	42	US$ 10	—	US$ 10	
	Equator Technologies, Inc.	—	Long-term investment	133	US$ 90	—	US$ 90	
	Empower Tel 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	11,292	US$ 5,559	—	US$ 8,881	
	Chip Strate	—	Long-term investment	6,660	US$ 2,142	—	US$ 2,104	
	Ritch Tech	—	Long-term investment	790	US$ 313	—	US$ 290	
	APE Fu Ding Technology	—	Long-term investment	2,750	US$ 1,518	—	US$ 1,356	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2001 Shares (Thousand)	Carrying Value (US$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US$ in Thousand)	Note
InveStar Semiconductor Development Fund Inc.	**Preferred stock**							
	Integrated Memory Logic, Inc.	—	Long-term investment	1,831	US$ 1,809	—	US$ 3,057	
	Divio (Next wave)	—	Long-term investment	667	US$ 500	—	US$ 2,233	
	SiRF Technology Inc.	—	Long-term investment	306	US$ 1,333	—	US$ 1,771	
	Rise	—	Long-term investment	600	US$ 1,500	—	US$ 1,500	
	Capella Microsystems, Inc.	—	Long-term investment	1,883	US$ 1,508	—	US$ 1,508	
	Sensory, Inc.	—	Long-term investment	1,404	US$ 1,250	—	US$ 1,250	
	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$ 5,639	
	Empower Tel Networks, Inc.	—	Long-term investment	3,840	US$ 5,128	—	US$ 14,296	
	Ubicom, Inc.	—	Long-term investment	1,056	US$ 2,111	—	US$ 2,919	
	RapidStream	—	Long-term investment	2,056	US$ 1,050	—	US$ 7,286	
	Tropian, Inc.	—	Long-term investment	1,758	US$ 2,334	—	US$ 7,498	
	Sonics, Inc.	—	Long-term investment	2,686	US$ 3,530	—	US$ 4,110	
	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$ 2,933	
	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	
	Bond							
	Rise	—	Long-term investment	N/A	US$ 300	—	US$ 300	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2001 Shares (Thousand)	Carrying Value (US$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US$ in Thousand)	Note
InveStar Semiconductor Development Fund (II) Inc.	**Preferred stock**							
	Pro Coat Technology, Inc.	—	Long-term investment	2,500	US$ 869	—	US$ 868	
	OmegaBand, 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	—	Long-term investment	2,696	US$ 2,500	—	US$ 3,023	
	FabCentric, Inc.	—	Long-term investment	1,048	US$ 501	—	US$ 501	
	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	
	Advanced Analogic Technology, Inc.	—	Long-term investment	948	US$ 1,261	—	US$ 1,261	
InveStar Semiconductor Development Fund (II) Inc.	Y-MEDIA Corporation	—	Long-term investment	281	US$ 1,500	—	US$ 1,500	
	Monolithic Power System, 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	
	Newport Opticom, Inc.	—	Long-term investment	4,629	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	
	Angstron Systems, Inc.	—	Long-term investment	1,567	US$ 750	—	US$ 750	
	Tropian, Inc.	—	Long-term investment	1,464	US$ 2,000	—	US$ 2,000	
	Bond							
	FabCentric, Inc.	—	Long-term investment	N/A	US$ 500	—	US$ 500	
	Pico Turbo, Inc.	—	Long-term investment	N/A	US$ 295	—	US$ 295	
	Sonics, Inc.	—	Long-term investment	N/A	US$ 1,500	—	US$ 1,500	
	OmegaBand, Inc.	—	Long-term investment	N/A	US$ 192	—	US$ 192	

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

MARKETABLE SECURITIES HELD—(Continued)
September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2001 Shares (Thousand)	Carrying Value (US$ in Thousand)	Percentage of Ownership	Market Value or Net Asset Value (US$ in Thousand)	Note
Emerging Alliance Fund	**Stock**							
	Global Investment Holding Inc.	Investee	Long-term investment	10,000	$100,000	6	$ 100,000	
	Preferred stock							
	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	—	US$ 2,500	—	US$ 2,500	
	Ikanos Communication, Inc.	—	Long-term investment	1,741	US$ 1,500	3	US$ 1,500	
	Convertible commercial paper							
	VM Labs, Inc.	—	Long-term investment	N/A	US$ 4,000	—	US$ 4,000	

TABLE 4

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

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 Nine Months Ended September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

					Beginning Balance		Acquisition		Disposal				Ending Balance	
Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Shares (Thousand)	Amount	Shares (Thousand)	Amount (US$ in Thousand)	Shares (Thousand)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount (US$ in Thousand) (Note 1)
TSMC	**Stock**													
	Emerging Alliance Fund	Long-term investment	Emerging Alliance Fund	Subsidiary	—	$ —	—	$ 664,405	—	$ —	$ —	$ —	—	$ 670,785
	Systems on Silicon Manufacturing Company (SSMC)	Long-term investment	SSMC	Investee	90	935,870	211	3,553,862	—	—	—	—	301	3,258,974
	Taiwan Semiconductor Technology	Long-term investment	Amkor Technology	—	50,000	500,000	—	—	50,000	395,748 (Note 2)	500,000	(104,252)	—	—
	Amkor Technology	Long-term investment	Amkor Technology	—	—	—	505	280,748	—	—	—	—	505	280,748
Emerging Alliance Fund	**Stock**													
	Global Investment Holding, Inc.	Long-term investment	Global Investment Holding, Inc.	Investee	—	—	10,000	100,000	—	—	—	—	10,000	100,000
	Convertible commercial paper													
	VM Labs, Inc.	Long-term investment	VM Lab, Inc.	Investee	—	—	—	US$ 4,000	—	—	—	—	—	US$ 4,000
VIS	**Bond fund**													
	THE TP ROC	Short-term investment	—	—	—	—	40,875	550,000	14,952	201,482	200,000	1,482	25,923	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	24,015	301,722	300,000	1,722	27,796	350,000
	Yuan Da Duo Li #2	Short-term investment	—	—	—	—	15,207	200,000	—	—	—	—	15,207	200,000

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.

TABLE 5

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
For the Nine Months Ended September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

							Prior Transaction of Related Counter-party						
Company Name	Property	Transaction Date	Transaction Amount	Payment Term	Counter-Party	Nature of Relationship	Owner	Relationship	Transfer Date	Amount	Price Reference	Purpose of Acquisition	Other Terms
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

TABLE 6

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
For the Nine Months Ended September 30, 2001
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

			Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		
Company Name	Related Party	Nature of Relationship	Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	Note
TSMC	Phillips and its affiliates	Major shareholder	Sales	$1,971,991	2	Net 30 days from invoice date	None	None	$ 82,599	22	
	VIS	Investee	Sales	955,473	1	Net 45 days from monthly closing date	None	None	218,128	59	
	WaferTech, LLC	Indirect investee of the subsidiary (TSMC-BVI)	Purchase	5,125,312	37	Net 30 days from monthly closing date	None	None	(382,567)	21	
	VIS	Investee	Purchase	3,059,907	22	Net 45 days from monthly closing date	None	None	(596,990)	33	

TABLE 7

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES
UNCONSOLIDATED AND UNAUDITED

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
September 30, 2001
(Amounts in Thousands of 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	Investee	$218,128	N/A	$137,829	Accelerate demand on account receivables	$—	$—

TABLE 8

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEES UNCONSOLIDATED AND UNAUDITED

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

September 30, 2001

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

				Original Investment Amount		Balance as of September 30, 2001					
Investor Company	Investee Company	Location	Main Businesses and Products	Sept. 30, 2001	Dec. 31, 2000	Shares (Thousand)	Percentage of Ownership	Carrying Value	Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
TSMC	TSMC—North America	San Jose, California, U.S.A.	Marketing and engineering support	$ 333,718	$ 333,718	11,000	100	$ 666,393	$ 61,485	$ 61,485	Subsidiary
	TSMC—Europe	Amsterdam, The Netherlands	Marketing and engineering support	2,960	2,960	—	100	10,353	326	326	Subsidiary
	TSMC—Japan	Yokohama, Japan	Marketing and engineering support	83,760	35,142	6	100	92,869	5,115	5,115	Subsidiary
	VIS	Hsin-Chu, Taiwan	IC Design and manufacturing	6,503,640	6,503,640	556,133	25	4,331,322	(4,954,273)	(1,278,781)	Investee
	TSMC-BVI	Tortola, British Virgin Islands	Investment	24,165,780	24,159,958	779,968	100	20,536,161	(4,055,762)	(4,055,762)	Subsidiary
	Po Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	—	25	143,384	25,600	6,400	Investee
	Chi Hsin Investment	Taipei, Taiwan	Investment	100,000	100,000	—	25	146,153	28,609	7,152	Investee
	Kung Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	—	25	165,729	27,908	6,977	Investee
	Chi Cherng Investment	Taipei, Taiwan	Investment	100,000	100,000	—	25	145,368	58,296	14,574	Investee
	Hsin Ruey Investment	Taipei, Taiwan	Investment	100,000	100,000	—	25	143,361	61,042	15,261	Investee
	Cherng Huei Investment	Taipei, Taiwan	Investment	100,000	100,000	—	25	144,520	25,280	6,320	Investee
	TSMC Partners	Tortola, British Virgin Islands	Investment	10,350	10,350	300	100	2,515,490	1,880,706	1,880,706	Subsidiary
	SSMC	Singapore	Manufacturing the wafer	4,986,344	1,432,482	301	32	3,258,974	(4,169,067)	(1,334,119)	Investee
	Emerging Alliance Fund	Cayman Islands	Investment	664,405	—	—	99	670,785	(17,268)	(17,182)	Subsidiary

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

Foreign Investment in the ROC

Historically, foreign investment in the ROC securities markets has been restricted. Since 1983, the ROC government has periodically enacted legislation and adopted regulations to permit foreign investment in the ROC securities market. Currently, non-ROC persons may invest in ROC securities through the following vehicles.

Qualified Foreign Institutional Investment. On December 28, 1990, the Executive Yuan approved guidelines drafted by the ROC Securities and Futures Commission which, since January 1, 1991, allow direct investment in ROC securities listed on the Taiwan Stock Exchange or other ROC securities approved by the ROC Securities and Futures Commission by certain eligible foreign institutional investors. Under the guidelines as currently in effect, eligible foreign institutional investors include:

(1) banks which hold securities assets of at least US$200 million and have experience in custody and management of securities and assets, and international finance or trust business;

(2) insurance companies which hold securities assets of at least US$200 million;

(3) fund management companies which manage assets of at least US$200 million;

(4) offshore fund management companies which are more than 50% owned by an ROC securities investment trust enterprise provided that the funds to be invested do not come from (1) the ROC, (2) self-own fund of such offshore fund management companies or (3) the People's Republic of China;

(5) general securities firms which have a net worth of at least US$100 million and experience in international securities investments;

(6) offshore securities firms which are more than 50% owned by an ROC securities firm, or other offshore securities firms which are wholly-owned by such offshore securities firms;

(7) offshore securities firms which are wholly-owned by an ROC securities firm, or other offshore securities firms which are more than 51% owned by such offshore securities firms;

(8) foreign government-owned investment institutions provided that the funds completely come from the government;

(9) pension funds;

(10) mutual funds, unit trusts or investment trusts which have assets of at least US$200 million;

(11) trust companies which hold securities assets in trust of at least US$200 million and have experience in custody and management of securities and assets, and international finance or trust business; and

(12) other institutional investors which hold securities assets of at least US$200 million.

Eligible foreign institutional investors who wish to qualify as qualified foreign institutional investors need to apply for and receive an investment permit from the ROC Securities and Futures Commission. Any application for investment exceeding US$50 million must also be approved by the Central Bank of China. Application with the ROC Securities and Futures Commission requires the submission of, among other documents, proof of eligibility, proof of appointment of a local agent and custodian, credentials of the local agent and custodian and a copy of the custodial contract. Foreign institutional investors who receive a permit may currently invest up to US$3 billion (with certain limited exceptions, the maximum amount of US$3 billion may be exceeded) and are required to remit the full amount into the ROC within one year after receiving the investment permit.

Except for certain specified industries, such as telecommunications, investments in ROC-listed companies by qualified foreign institutional investors are not subject to individual or aggregate foreign ownership limits. Custodians for qualified foreign institutional investors are also required to submit to the Central Bank of China and the ROC Securities and Futures Commission a monthly report of trading activities and status of assets under custody and other matters. Capital remitted to the ROC under these guidelines may be remitted out of the ROC at any time after the date this capital is remitted to the ROC. Capital remitted out of the ROC may be returned to the ROC within one year of the outward remittance without the ROC Securities and Futures Commission's approval. Capital gains and income on investments may be remitted out of the ROC at any time.

In March 7, 2001, the government of the ROC further amended the guidelines regarding investments by qualified foreign institutional investors. Pursuant to the amended guidelines, a qualified foreign institutional investor may, effective from May 1, 2001, remit the full amount into the ROC within two years, instead of one year, after receiving the investing permit. In addition, the previous rules allowing the capital remitted out of the ROC to be returned to the ROC within one year of the outward remittance will no longer be applicable. For a qualified foreign institutional investor whose investment is approved prior to May 1, 2001, the one-year period for remitting full investment amount into the ROC and the one-year period for return of capital remitted out of the ROC shall be extended for one additional year after the date of the last outward remittance of investment amount by the qualified foreign institutional investor made prior to May 1, 2001. If the qualified foreign institutional investor has not made any outward remittance of investment amount on or before May 1, 2001, the extended one additional year period shall commence on the anniversary date of receiving the investment permit.

Other Foreign Investment. In addition to qualified foreign institutional investors, under existing ROC laws and regulations relating to foreign investment, individual and institutional foreign investors which meet certain qualifications set by the ROC Securities and Futures Commission may invest in the shares of Taiwan Stock Exchange-listed companies or companies whose shares are traded on the ROC Over-the-Counter Securities Exchange up to a limit of US$50 million (in the case of institutional investors) and US$5 million (in the case of individual investors) after obtaining permission from the Taiwan Stock Exchange. These investors, known as general foreign investors, are also subject to the foreign ownership limitations on certain specified industries as described above.

Foreign investors (other than qualified foreign institutional investors, general foreign investors or investors investing in overseas convertible bonds and depositary receipts) who wish to make direct investments in the shares of ROC companies are required to submit a foreign investment approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each foreign investment approval application and approves or disapproves each application after consultation with other governmental agencies (such as the Central Bank of China and the ROC Securities and Futures Commission).

Under current law, any non-ROC person possessing a foreign investment approval may repatriate annual net profits, interest and cash dividends attributable to the approved investment. Stock dividends attributable to this investment, investment capital and capital gains attributable to this investment may be repatriated by the non-ROC person possessing a foreign investment approval after approvals of the Investment Commission or other government authorities have been obtained.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a "negative list", as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the negative list is absolute in the absence of specific exemption from the application of the negative list. Pursuant to the negative list, certain other industries are restricted so that non-ROC persons (except in limited cases) may invest in these industries only up to a specified level and with the specific approval of the relevant competent authority that is responsible for enforcing the relevant legislation that the negative list is intended to implement.

Depositary Receipts. In April 1992, the ROC Securities and Futures Commission enacted regulations permitting ROC companies with securities listed on the Taiwan Stock Exchange, with the prior approval of the ROC Securities and Futures Commission, to sponsor the issuance and sale to foreign investors of depositary receipts. Depositary receipts represent deposited shares of ROC companies. In December 1994, the Ministry of Finance allowed companies whose shares are traded on the ROC Over-the-Counter Securities Exchange or listed on the Taiwan Stock Exchange, upon approval of the ROC Securities and Futures Commission, to sponsor the issuance and sale of depositary receipts. The approval will be granted (1) if the underlying shares are newly issued shares, for a fixed number of depositary receipts or (2) if the underlying shares are not newly issued shares, for a maximum number of depositary receipts and, with limited exceptions (as described below), may not be increased without additional approvals by the ROC Securities and Futures Commission.

A holder of depositary receipts may, from three months (in the case that the underlying shares are new shares) or immediately (in the case that the underlying shares are not newly issued shares) after the initial issue date for the deposit receipts, request the foreign depositary bank issuing the depositary receipts to cause the underlying securities to be sold in the ROC and to distribute the proceeds of the sale to the depositary receipt holder or to withdraw from the depositary receipt facility shares represented by depositary receipts and transfer the shares to the depositary receipt holder (other than citizens of the People's Republic of China and entities organized under the laws of the People's Republic of China); *provided* that settlement for trading of shares represented by the depositary receipts through the book-entry system maintained by the Taiwan Securities Central Depositary Co. Ltd. is permitted. As discussed above, because the ROC Securities and Futures Commission approval is for a fixed or maximum number of depositary receipts, we or the foreign depositary bank may not increase the number of depositary receipts by depositing shares in a depositary receipt facility or issuing additional depositary receipts against these deposits without specific ROC Securities and Futures Commission approval, except in limited circumstances. These circumstances include issuances of additional depositary receipts in connection with:

(1) dividends on or free distributions of shares;

(2) the exercise by holders of existing depositary receipts of their pre-emptive rights in connection with capital increases for cash; or

(3) if permitted under the deposit agreement and custody agreement, the purchase directly by any person or through a depositary of the underlying shares on the Taiwan Stock Exchange or the ROC Over-the-Counter Securities Exchange (as applicable) or delivery of the underlying shares for deposit in the depositary receipt facility.

However, the total number of deposited shares outstanding after an issuance under the circumstances described in clause (3) above may not exceed the number of deposited shares previously approved by the ROC Securities and Futures Commission plus any depositary receipts created under the circumstances described in clauses (1) and (2) above. Issuances of additional depositary receipts under the circumstances described in clause (3) above will be permitted to the extent that previously issued depositary receipts have been canceled and, for so long as may be required by applicable law, the shares withdrawn from the depositary receipt facility upon cancellation of such depositary receipts have been sold.

Under current ROC law, a non-ROC holder of ADSs who withdraws the underlying shares must appoint an eligible local agent to:

(1) open a securities trading account with a local securities brokerage firm after having obtained consent from the Taiwan Stock Exchange or the ROC Over-the-Counter Securities Exchange;

(2) remit funds; and

(3) exercise rights on securities and perform other matters as may be designated by the holder.

In addition, a withdrawing non-ROC holder must appoint a local bank to act as custodian for handling confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Under existing ROC laws and regulations, without this account, holders of ADSs that withdraw and hold the common shares represented by the ADSs would not be able to hold or transfer the common shares, whether on the Taiwan Stock Exchange or otherwise.

Holders of ADSs withdrawing common shares represented by ADSs who are non-ROC persons are required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. This agent, a "tax guarantor", must meet certain qualifications set by the ROC Ministry of Finance and, upon appointment, becomes a guarantor of the withdrawing holder's ROC tax payment obligations. In addition, under current ROC law, repatriation of profits by a non-ROC withdrawing holder is subject to the submission of evidence of the appointment of a tax guarantor to, and approval thereof by, the tax authority or submission of tax clearance certificates so long as the capital gains from securities transactions are exempt from ROC income tax. As required by the Central Bank of China, if repatriation by a holder is based on a tax clearance certificate, the aggregate amount of the cash dividends or interest on bank deposits converted into foreign currencies to be repatriated by the holder shall not exceed the amount of:

(1) the net payment indicated on the withholding tax voucher issued by the tax authority;

(2) the net investment gains as indicated on the holder's certificate of tax payment; or

(3) the aggregate transfer price as indicated on the income tax return for transfer of tax-deferred dividend shares, whichever is applicable.

Under existing laws and regulations relating to foreign exchange control, a depositary may, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the ROC, convert NT dollars into other currencies, including US dollars, in respect of the following: proceeds of the sale of shares represented by depositary receipts, proceeds of the sale of shares received as stock dividends and deposited into the depositary receipt facility and any cash dividends or cash distributions received. In addition, a depositary, also without any of these approvals, may convert inward remittances of payments into NT dollars for purchases of underlying shares for deposit into the depositary receipt facility against the creation of additional depositary receipts. The approval from the Central Bank of China is required for a depositary on a payment-by-payment basis for conversion into NT dollars of subscription payments relating to rights offerings. A depositary may also be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depositary receipts withdrawn from the depositary receipt facility may be converted into other currencies without obtaining Central Bank of China approval. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the Taiwan Stock Exchange or the ROC Over-the-Counter Securities Exchange, subject to limitations and restrictions applicable to qualified foreign institutional investors or general foreign investors (as described below).

Direct Share Offerings

The ROC Government has promulgated regulations to permit ROC companies listed on the Taiwan Stock Exchange or ROC Over-the-Counter Securities Exchange market to issue shares directly (not through depositary receipt facility) overseas.

Overseas Corporate Bonds. Since 1989, the ROC Securities and Futures Commission has approved a series of overseas bonds issued by ROC companies listed on the Taiwan Stock Exchange in offerings outside the ROC. Under current ROC law, these overseas corporate bonds can be:

(1) converted by bondholders, other than citizens of the People's Republic of China and entities organized under the laws of the People's Republic of China, into shares of ROC companies; or

(2) subject to ROC Securities and Futures Commission approval, may be converted into depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds.

The relevant regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the Taiwan Stock Exchange or traded on the ROC Over-the-Counter Securities Exchange, subject to limitations and restrictions applicable to qualified foreign institutional investors or general foreign investors (as applicable).

Exchange Controls

The Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated to handle such business by the Ministry of Finance or by the Central Bank of China. Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US$50 million (or its equivalent) and US$5 million (or its equivalent), respectively, in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US$50 million (or its equivalent) and US$5 million (or its equivalent), respectively, in each calendar year. Furthermore, any remittance of foreign currency into the ROC by a ROC company or resident individual in a year will be offset by the amount remitted out of ROC by such company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the Central Bank of China.

In addition, foreign persons, may, subject to certain requirements, but without foreign exchange approval of the Central Bank of China, remit outside and into the ROC foreign currencies of up to US$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT dollars to a foreign currency and vice versa. The above limit does not, however, apply to the conversion of NT dollars into other currencies, including US dollars, in respect of the proceeds of sale of any underlying shares withdrawn from a depositary receipt facility.

GLOSSARY OF TECHNICAL TERMS

ASIC . . . . Application Specific Integrated Circuit. A custom-designed integrated circuit that performs specific functions that would otherwise require a number of off-the-shelf integrated circuits to perform. The use of an ASIC in place of a conventional integrated circuit reduces product size and cost and also improves reliability.

BiCMOS . . . . Integrated circuit fabrication technology that produces both bipolar transistors and CMOS transistors and combine them on one chip.

Cell . . . . A primary unit that normally repeats many times in an integrated circuit. For example, a cell represents a bit in a memory integrated circuit.

CMOS . . . . Complementary Metal Oxide Silicon. Currently the most common integrated circuit fabrication process technology, CMOS is one of the latest fabrication techniques to use metal oxide semiconductor transistors.

CVD . . . . Chemical Vapor Deposition. A process in which gaseous chemicals react on a heated surface to form solid crystalline materials.

Die . . . . A piece of a semiconductor wafer containing the circuitry of a single chip.

DRAM . . . . Dynamic Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. It is the most common type of RAM and must be refreshed with electricity thousands of times per second or else it will fade away.

DSP . . . . Digital Signal Processor. A type of integrated circuit that processes and manipulates digital information after it has been converted from an analog source.

EPROM . . . . Erasable Programmable Read-Only Memory. A form of PROM that can be erasable using ultraviolet light, so that it can be reprogrammed.

Flash memory . . . . A type of non-volatile memory, similar to an EEPROM in that it is erasable and reprogrammable. The difference is that it can be erased and reprogrammed in the electronic system into which the flash memory chip has been incorporated.

Integrated circuit . . . . A combination of two or more transistors on a base material, usually silicon. All semiconductor chips, including memory chips and logic chips, are just very complicated integrated circuits with thousands of transistors.

Logic device . . . . A device that contains digital integrated circuits that process, rather than store, information.

Mask	A piece of glass on which an integrated circuit's circuitry design is laid out. Integrated circuits may require up to 20 different layers of design, each with its own mask. In the integrated circuit production process, a light shines through the mask leaving an image of the design on the wafer. Also known as a reticle.
Memory	A group of integrated circuits that a computer uses to store data and programs, such as ROM, RAM, DRAM and SRAM.
Micron	1/25,000 of an inch. Circuitry on an integrated circuit typically follows lines that are less than one micron wide.
MOS......................	A device which consists of three layers (metal, oxide and semiconductors) and operates as a transistor.
Nonvolatile memory..........	Memory products which retain their data content without the need for constant power supply.
RAM......................	Random Access Memory. A type of volatile memory, forming the main memory of a computer where applications and files are run.
Reticle	See "Mask" herein.
RISC	Reduced Instruction Set Computing. A type of processor architecture that processes programs more quickly than conventional micro processors because it uses a smaller, faster, less complex set of instructions.
ROM	Read-Only Memory. Memory that is programmed by the manufacturer and cannot be changed. Typically, ROM is used to provide start-up data when a computer is first turned on.
Semiconductor.............	A material with electrical conducting properties in between those of metals and insulators. (Metals always conduct and insulators never conduct, but semiconductors sometimes conduct.) Essentially, semiconductors transmit electricity only under certain circumstances, such as when given a positive or negative electric charge. Therefore, a semiconductor's ability to conduct can be turned on or off by manipulating those charges and this allows the semiconductor material to act as an electric switch. The most common semiconductor material is silicon, used as the base of most semiconductor chips today because it is relatively inexpensive and easy to create.
SRAM	Static Random Access Memory. A type of volatile memory product that is used in electronic systems to store data and program instructions. Unlike the more common DRAM, it does not need to be refreshed.
Stepper	A machine used in the photolithography process in making wafers. With a stepper, a small portion of the wafer is aligned with the mask upon which the circuitry design is laid out and is then exposed to strong light. The machine then "steps" to the next

area, repeating the process until the entire wafer has been done. Exposing only a small area of a wafer at a time allows the light to be focused more strongly, which gives better resolution of the circuitry design.

Transistor . . . . An individual circuit that can amplify or switch electric current. This is the building block of all integrated circuits.

Volatile memory . . . . Memory products which lose their data content when the power supply is switched off.

Wafer . . . . A thin, round, flat piece of silicon that is the base of most integrated circuits.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

TABLE OF CONTENTS

Taiwan Semiconductor Manufacturing Company Limited

51,000,000
American Depositary Shares
Representing
255,000,000 Common Shares

tsmc

Sole Bookrunner

Goldman Sachs International

Merrill Lynch & Co.

Banc of America Securities LLC
Credit Suisse First Boston
Deutsche Banc Alex. Brown
JPMorgan

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 8. *Indemnification of Directors and Officers*

The relationship between us and our directors and officers is governed by the ROC Civil Code, ROC Company Law and our articles of incorporation. There is no written contract between us and our directors and officers governing the rights and obligations of these parties. Each person who was or is a party or is threatened to be made a party to, or is involved in any threatened, pending or completed action, suit or proceeding by reason of the fact that that person is or was a director or officer of us, in the absence of willful misconduct or negligence on the part of that person in connection with that person's performance of duties as a director or officer, as the case may be, may be indemnified and held harmless by us to the fullest extent permitted by applicable law.

Item 9. *Exhibits*

*1.1 Underwriting Agreement

*4.1 Amended and Restated Deposit Agreement, dated as of June 7, 2000, among us, Citibank, N.A., as depositary, and all holders and beneficial owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated by reference to exhibit (a) to the registration statement on Form F-6 (Registration No. 333-14230), dated December 21, 2001, filed by Citibank, N.A., as depositary and Taiwan Semiconductor Manufacturing Company Limited)

*5.1 Opinion of Lee and Li, ROC counsel to the registrant, as to the validity of the common shares

*5.2 Opinion of counsel to the depositary bank as to the legality of the American depositary shares (incorporated by reference to exhibit (b) to the Registration Statement on Form F-6 (Registration No. 333-14230), dated December 21, 2001, filed by Citibank, N.A., as depositary, and Taiwan Semiconductor Manufacturing Company Limited)

*8.1 U.S. Tax Opinion of Sullivan & Cromwell

*8.2 ROC Tax Opinion of Lee and Li (included in Exhibit 5.1)

23.1 Consent of T N Soong & Co.

*23.2 Consent of Lee and Li (included in Exhibit 5.1)

*23.3 Consent of Sullivan & Cromwell as to tax matters (included in Exhibit 8.1)

*23.4 Consent of Sullivan & Cromwell

*23.5 Consent of IC Insights

---

* Previously filed.

Item 10. *Undertakings*

(a) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to Item 8 or otherwise, the registrant has been advised that, in the opinion of the United States Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by a director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether indemnification by it in that case is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, hereunto duly authorized, in Hsinchu, Taiwan, on January 31, 2002.

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By: /S/ HARVEY H.W. CHANG

Name: Harvey H.W. Chang
Title: Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to this registration statement has been signed by the following persons in the following capacities on January 31, 2002.

Signature	Title
* MORRIS CHANG	Chairman and Chief Executive Officer
* F.C. TSENG	Director and Deputy Chief Executive Officer
A.P.M. VAN DER POEL	Director
J.C. LOBBEZOO	Director
* P.J. ZEVEN	Director
STAN SHIH	Director
* CHINTAY SHIH	Director

Signature	Title
* HARVEY H.W. CHANG	Senior Vice President and Chief Financial Officer
* LORA HO	Controller

*By /s/ Morris Chang
Morris Chang
Attorney-in-fact

SIGNATURE OF AUTHORIZED REPRESENTATIVE OF THE REGISTRANT

Pursuant to the Securities Act of 1933, the undersigned, the duly authorized representative in the United States of Taiwan Semiconductor Manufacturing Company Limited, has signed this registration statement or amendment thereto, as the case may be, in San Jose, California, on January 31, 2002.

TSMC NORTH AMERICA

By /S/ EDWARD C. ROSS

Name: Edward C. Ross
Title: President

INDEX TO EXHIBITS

Exhibit Number	Description
*1.1	Underwriting Agreement
*4.1	Amended and Restated Deposit Agreement, dated as of June 7, 2000, among us, Citibank, N.A., as depositary, and all holders and beneficial owners of American depositary shares evidenced by American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated by reference to exhibit (a) to the Registration Statement on Form F-6 (Registration No. 333-14230), date December 21, 2001, filed by Citibank, N.A., as depositary and Taiwan Semiconductor Manufacturing Company Limited)
*5.1	Opinion of Lee and Li, ROC counsel to the registrant, as to the validity of the common shares
*5.2	Opinion of counsel to the depositary bank as to the legality of the American depositary shares (incorporated by reference to exhibit (b) to the Registration Statement on Form F-6 (Registration No. 333-14230), dated December 21, 2001, filed by Citibank, N.A., as depositary, and Taiwan Semiconductor Manufacturing Company Limited)
*8.1	U.S. Tax Opinion of Sullivan & Cromwell
*8.2	ROC Tax Opinion of Lee and Li (included in Exhibit 5.1)
23.1	Consent of T N Soong & Co.
*23.2	Consent of Lee and Li (included in Exhibit 5.1)
*23.3	Consent of Sullivan & Cromwell as to tax matters (included in Exhibit 8.1)
*23.4	Consent of Sullivan & Cromwell
*23.5	Consent of IC Insights

* Previously filed.