

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 424B5

May 18, 2007

Table of ContentsFiled Pursuant to Rule 424(b)(5)
Registration File No. 333-142721**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount to be Registered	Maximum Aggregate Offering Price	Amount of registration fee
Common Shares, par value NT\$10 per share	1,200,000,000 ⁽¹⁾	\$2,563,200,000	\$78,691 ⁽²⁾

(1) This amount includes all common shares represented by American depositary shares initially offered and sold outside the United States but that may be resold from time to time in the United States either as part of the distribution or within 40 days after the later of the effective date of this registration statement and the date the common shares are first bona fide offered to the public. The common shares are not being registered for the purpose of sales outside the United States.

(2) The filing fee of \$78,691 is calculated in accordance with Rule 457(r) under the Securities Act of 1933.

Taiwan Semiconductor Manufacturing Company Limited
(Incorporated as a company limited by shares in the Republic of China)

240,000,000 American Depositary Shares
Representing
1,200,000,000 Common Shares

This is a global offering of 240,000,000 American depositary shares, or ADSs, representing common shares of Taiwan Semiconductor Manufacturing Company Limited, or Taiwan Semiconductor. Koninklijke Philips Electronics N.V., or Philips, our selling shareholder, is selling all of the ADSs being offered in this offering. We will not receive any proceeds from the sale of ADSs by Philips. The ADSs are not being offered in the Republic of China, or R.O.C. 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. Some of the underwriters are expected to offer the ADSs through their respective selling agents.

Our ADSs are listed on The New York Stock Exchange under the symbol TSM . The last reported sale price of the ADSs on The New York Stock Exchange on May 17, 2007 was US\$10.68 per ADS. Our outstanding common shares are listed on the Taiwan Stock Exchange under the symbol 2330 . The closing price of our common shares on the Taiwan Stock Exchange on May 17, 2007 was NT\$67.70 per share, which is equivalent to approximately US\$2.03, assuming an exchange rate of NT\$33.37=US\$1.00.

See Risk Factors beginning on page 15 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\$ 10.6800	US\$ 2,563,200,000
Underwriting discount	US\$ 0.1869	US\$ 44,856,000
Proceeds, before expenses ⁽¹⁾ , to the selling shareholder	US\$ 10.4931	US\$ 2,518,344,000

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

The underwriters expect to deliver the ADRs evidencing the ADSs through the book-entry transfer facilities of The Depository Trust Company against payment in U.S. dollars in New York, New York on or about May 23, 2007.

Sole Global Coordinator
Goldman Sachs International

Joint Bookrunners

Goldman Sachs International

JPMorgan

Co-Managers

ABN AMRO Rothschild
Citi
Credit Suisse

Banc of America Securities LLC
CLSA Asia-Pacific Markets
HSBC

Prospectus dated May 17, 2007.

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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.

In any member states of the European Economic Area (EEA) that has implemented Directive 2003/71/ EC (together with any applicable implementing measures in any member state, the Prospectus Directive), this communication is only addressed to and is only directed at qualified investors in that member state within the meaning of the Prospectus Directive.

This prospectus has been prepared on the basis that all offers of ADSs will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the EEA, from the requirement to produce a prospectus for offers of the ADSs. Accordingly any person making or intending to make any offer within the EEA of the ADSs should only do so in circumstances in which no obligation arises for us, the selling shareholder or the underwriters to produce a prospectus for such offer. None of such persons have authorized, nor do they authorize, the making of any offer of ADSs through any financial intermediary, other than offers made by the underwriters which constitute the final placement of ADSs contemplated in this prospectus.

Each person in a member state of the EEA that has implemented the Prospectus Directive (each, a Relevant Member State) who receives any communication in respect of, or who acquires any ADSs under, the offers contemplated in this prospectus will be deemed to have represented, warranted and agreed to and with each underwriter, the selling shareholder and us that:

It is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive;

In the case of any ADSs acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:

The ADSs acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of Goldman Sachs International has been given to the offer or resale; or

Where ADSs have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those ADSs to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an offer to the public in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any ADSs to be offered so as to enable an investor to decide to purchase or subscribe for the ADSs, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression Prospectus Directive means Directive 2003/71/ EC and includes any relevant implementing measure in each Relevant Member State.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to Qualified Investors who are (a) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000, (Financial Promotion) Order 2005 as amended (the Order) or (b) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The ADSs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such ADSs

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will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

All references to we, us, our and our company in this prospectus are to Taiwan Semiconductor Manufacturing Company Limited. All references to shares and common shares are to our common shares, par value NT\$10 per share, and to ADSs are to our American depositary shares, each of which represents five of our common shares. The ADSs are issued under the Amended and Restated Deposit Agreement, dated as of November 30, 2005, among Taiwan Semiconductor Manufacturing Company Limited, Citibank, N.A., as depositary and the holders and beneficial owners from time to time of American Depositary Receipts issued thereunder.

This prospectus, including the information summarized below, contains translations of some NT dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations of financial data from NT dollars to U.S. dollars and from U.S. dollars to NT dollars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of March 30, 2007, which was NT\$33.01 to US\$1.00. We make no representation that the NT dollar or U.S. 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 May 17, 2007, the noon buying rate was NT\$33.37 to US\$1.00.

In connection with this offering, Goldman Sachs International and J.P. Morgan Securities Ltd., or any person acting for them, may overallocate or effect transactions with a view to supporting the market price of the ADSs and, subject to applicable R.O.C. 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 is no obligation on Goldman Sachs International, J.P. Morgan Securities Ltd., or their agents, to do this. Such stabilizing, 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 200 mm 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.

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PROSPECTUS SUMMARY

In addition to this summary, you should read the entire prospectus carefully, especially the discussion of the risks of investing in our ADSs described under Risk Factors, before deciding whether to invest in our ADSs. Financial and other information about us is set forth in our annual report on Form 20-F for the year ended December 31, 2006 and other documents incorporated herein by reference, copies of which may be obtained as indicated under Where You Can Find More Information .

Our Business

We believe we are currently the world's largest dedicated IC foundry in the semiconductor industry. We were founded in 1987 as a joint venture among the R.O.C. government, Koninklijke Philips Electronics N.V., or Philips, and other private investors and were incorporated in the R.O.C. 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.

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 (The McClean Report 2007 Edition) estimates that our revenue market share among dedicated foundries worldwide was 50% in 2005 and 49% in 2006. 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 our net sales of advanced semiconductors with a resolution of 0.13 micron and below, and are one of the leaders in the semiconductor industry generally. For example, in 2004, our industry-leading low-k technology entered commercial production and we were the first semiconductor foundry with proven low-k technology in commercial production, in both the 0.13 micron process technology and the 90 nanometer NexsysSM technology. The 90-nanometer NexsysSM technology was the first process technology based entirely on low-k dielectrics. In 2005, we entered full commercial production of 80-nanometer NexsysSM process technology. Our 65-nanometer NexsysSM technology is the third-generation TSMC process to employ low-k dielectrics. In 2006, we fully qualified our 65-nanometer process technology and commenced full commercial production. We also believe that our large capacity, particularly for advanced technologies, is a major competitive advantage.

We currently operate one 150mm wafer fab, seven 200mm wafer fabs and two 300 mm wafer fabs, including Fab 14, where we commenced production in the fourth quarter of 2004. As of December 31, 2006, our monthly capacity (200mm equivalent wafers) was 654,831 wafers, compared to 555,084 wafers at the end of 2005. This increase was primarily due to the expansion of our 0.15/0.18 micron, 90-nanometer and 65-nanometer advanced technologies.

We count among our customers many of the world's leading semiconductor companies, ranging from fabless semiconductor and systems companies such as Altera Corporation, Broadcom Corporation, Marvell Semiconductor Inc., nVidia Corporation, Qualcomm Incorporated and VIA Technologies, Inc., to integrated device manufacturing companies such as Advanced Micro Devices, Analog Devices, Inc., Freescale Semiconductor Inc., Philips and NXP. Fabless semiconductor/system companies and integrated device manufacturers accounted for approximately 72% and 28%, respectively, of our net sales in 2006.

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

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THE OFFERING

See Selling Shareholder Offering Price	on page 30 for a description of Philips. US\$10.68 per ADS
ADSs offered by the selling shareholder	240,000,000 ADSs
ADSs outstanding after this offering	1,128,739,639 ADSs
Common shares outstanding after this offering	25,832,959,219 common shares
ADS:common share ratio	1:5
Trading market for the common shares	The only trading market for the common shares is the Taiwan Stock Exchange. The common shares have been listed on the Taiwan Stock Exchange since 1994 under the symbol 2330 .
New York Stock Exchange symbol for ADSs	TSM
ADS Depository	Citibank, N.A.
Use of proceeds	We will not receive any proceeds from the sale of ADSs by the selling shareholder.
Timing and settlement for the ADSs	The ADSs are expected to be delivered against payment on or about May 23, 2007.
	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.

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The summary financial information below should be read in conjunction with Item 5. Operating and Financial Reviews and Prospects and the consolidated financial statements, notes to the consolidated financial statements and other financial information included in our annual report on Form 20-F for the year ended December 31, 2006, incorporated by reference in this prospectus. The summary income statement data and cash flow data for the years ended December 31, 2004, 2005 and 2006 and the summary balance sheet data as of December 31, 2005 and 2006 set forth below are derived from our audited consolidated financial statements included in our Form 20-F for the year ended December 31, 2006, incorporated by reference in this prospectus, and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes to those consolidated financial statements. The summary income statement data and cash flow data for the years ended December 31, 2002 and 2003 and the summary balance sheet data as of December 31, 2002, 2003 and 2004 set forth below are derived from our audited consolidated financial statements not included in our Form 20-F for the year ended December 31, 2006. The consolidated financial statements set forth below have been prepared and presented in accordance with generally accepted accounting principles in the Republic of China, also called R.O.C. GAAP, which differ in some material respects from generally accepted accounting principles in the United States of America, also called U.S. GAAP. Please see note 30 to our audited consolidated financial statements included in our Form 20-F for the year ended December 31, 2006, incorporated by reference in this prospectus, for a description of the principal differences between R.O.C. GAAP and U.S. GAAP for the periods covered by these financial statements.

Year ended and as of December 31,

	2002	2003	2004	2005	2006	2006⁽¹⁾
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$

**(In millions, except for percentages,
earnings per share and per ADS, and operating data)**

Income Statement Data:**R.O.C. GAAP**

Net sales	162,301	202,997	257,213	266,565	317,407	9,615
Cost of sales	(109,988)	(128,113)	(141,394)	(148,362)	(161,597)	(4,895)
Gross profit	52,313	74,884	115,819	118,203	155,810	4,720
Operating expenses	(20,724)	(23,583)	(27,337)	(27,234)	(28,545)	(865)
Income from operations	31,589	51,301	88,482	90,969	127,265	3,855
Non-operating income and gains ⁽²⁾	2,350	5,669	8,581	9,399	9,705	294
Non-operating expenses and losses ⁽²⁾	(6,717)	(5,791)	(5,097)	(6,105)	(3,608)	(109)
Income before income tax and minority interest	27,222	51,179	91,966	94,263	133,362	4,040
Income tax benefit (expense)	(5,637)	(3,923)	363	(630)	(7,774)	(235)
Income before cumulative effect of changes in accounting principles	21,585	47,256	92,329	93,633	125,588	3,805
Cumulative effect of changes in accounting principles					1,607	48

Income before minority interest	21,585	47,256	92,329	93,633	127,195	3,853
Minority interest in loss (income) of subsidiaries	25	3	(13)	(58)	(185)	(5)
Net income attributable to shareholders of the parent	21,610	47,259	92,316	93,575	127,010	3,848
Basic earnings per share ⁽³⁾	0.82	1.82	3.58	3.63	4.93	0.15
Diluted earnings per share ⁽³⁾	0.82	1.82	3.58	3.63	4.92	0.15

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	Year ended and as of December 31,					
	2002	2003	2004	2005	2006	2006 ⁽¹⁾
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(In millions, except for percentages, earnings per share and per ADS, and operating data)					
Basic earnings per ADS equivalent ⁽³⁾	4.09	9.09	17.89	18.16	24.63	0.75
Diluted earnings per ADS equivalent ⁽³⁾	4.09	9.09	17.88	18.15	24.60	0.75
Basic weighted average shares outstanding ⁽³⁾	25,880	25,883	25,804	25,763	25,789	25,789
Diluted weighted average shares outstanding ⁽³⁾	25,880	25,893	25,810	25,776	25,813	25,813
U.S. GAAP						
Net sales	162,990	203,600	260,035	267,028	317,979	9,633
Cost of sales	(115,374)	(133,493)	(154,785)	(161,808)	(179,175)	(5,428)
Operating expenses ⁽⁴⁾	(21,154)	(27,369)	(32,191)	(32,764)	(37,050)	(1,122)
Income from operations	26,462	42,738	73,059	72,456	101,754	3,083
Income before income tax and minority interest	20,210	42,441	76,838	75,983	106,647	3,231
Income tax expense	(5,638)	(3,881)	(508)	(483)	(10,954)	(332)
Cumulative effect of changes in accounting principles					38	1
Net income	14,534	38,661	76,253	75,418	95,711	2,900
Cumulative preferred dividends	(455)	(184)				
Income attributable to common shareholders	14,079	38,477	76,253	75,418	95,711	2,900
Basic earnings per share ⁽⁵⁾	0.57	1.55	3.04	2.98	3.73	0.11
Diluted earnings per share ⁽⁵⁾	0.57	1.55	3.04	2.98	3.73	0.11
Basic earnings per ADS equivalent ⁽⁵⁾	2.85	7.74	15.22	14.90	18.67	0.57
Diluted earnings per ADS equivalent ⁽⁵⁾	2.85	7.74	15.22	14.89	18.66	0.57
Basic weighted average shares outstanding ⁽⁵⁾	24,691	24,847	25,044	25,308	25,629	25,629
Diluted weighted average shares outstanding ⁽⁵⁾	24,691	24,857	25,050	25,320	25,650	25,650
Balance Sheet Data:						
R.O.C. GAAP						
Working capital ⁽²⁾⁽⁶⁾	62,705	136,121	120,574	177,179	213,457	6,466
Long-term investments ⁽²⁾	10,635	10,748	38,058	42,383	53,895	1,633
Properties	246,498	211,854	258,911	244,823	254,094	7,697
Goodwill	10,159	8,721	7,116	6,011	5,985	181

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Total assets	390,542	407,401	499,454	519,510	587,485	17,797
Long-term bank borrowing	11,051	8,800	1,915	663	654	20
Long-term bonds payable	35,000	30,000	19,500	19,500	12,500	379
Guaranty deposit-in and other liabilities ⁽⁶⁾⁽⁷⁾	8,710	8,876	15,079	17,986	18,333	555
Total liabilities	94,594	78,098	100,413	73,271	78,347	2,373
Capital stock	199,229	202,666	232,520	247,300	258,297	7,825
Cash dividend on common shares			12,160	46,504	61,825	1,873

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	Year ended and as of December 31,					
	2002	2003	2004	2005	2006	2006 ⁽¹⁾
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(In millions, except for percentages, earnings per share and per ADS, and operating data)					
Shareholders equity attributable to shareholders of the parent	295,853	329,214	398,965	445,631	507,981	15,389
Minority interest in subsidiaries	95	89	76	608	1,157	35
U.S. GAAP						
Goodwill	47,476	47,287	46,757	46,993	46,940	1,422
Total assets	420,528	439,853	536,286	558,919	626,108	18,967
Total liabilities	96,747	81,977	108,416	80,962	92,549	2,804
Capital Stock	186,229	202,666	232,520	247,300	258,297	7,825
Mandatory redeemable preferred stock	13,000					
Shareholders equity attributable to common shareholders of the parent	310,623	357,173	427,125	477,297	532,403	16,128
Minority interest in subsidiaries	158	703	745	660	1,156	35
Other Financial Data:						
R.O.C. GAAP						
Gross margin	32%	37%	45%	44%	49%	49%
Operating margin	19%	25%	34%	34%	40%	40%
Net margin	13%	23%	36%	35%	40%	40%
Capital expenditures	55,236	37,871	81,095	79,879	78,737	2,385
Depreciation and amortization	65,001	69,161	69,819	75,649	73,715	2,233
Cash provided by operating activities ⁽²⁾	98,507	116,037	153,523	157,225	204,997	6,210
Cash used in investing activities ⁽²⁾⁽⁸⁾	(62,190)	(53,702)	(148,359)	(77,652)	(119,724)	(3,627)
Cash used in financing activities ⁽⁸⁾	(6,346)	(27,073)	(32,181)	(57,969)	(63,783)	(1,932)
Net cash inflow (outflow)	30,234	35,199	(28,687)	22,181	21,353	647
Operating Data:						
Wafer (200mm equivalent) shipment ⁽⁹⁾	2,675	3,700	5,008	5,622	7,215	7,215
Billing Utilization Rate ⁽¹⁰⁾	69%	92%	105%	94%	102%	102%

(1) Translations from NT dollars to U.S. dollars were made at the noon buying rate as of March 30, 2007, which was NT\$33.01 to US\$1.00 on that date, and are presented for your convenience only.

- (2) As a result of the adoption of the newly released R.O.C. Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (R.O.C. SFAS No. 34), and R.O.C. Statements of Financial Accounting Standards No. 36, Financial Instruments: Disclosure and Presentation (R.O.C. SFAS No. 36), the balances in 2004 and 2005 were reclassified to be consistent with the classification used in our consolidated financial statements for 2006 included in our annual report on Form 20-F for the year ended December 31, 2006. Amounts in 2004 reflect the reclassification of NT\$2,565 million gains from non-operating expenses and losses to non-operating income and gains, NT\$44 million from long-term investments to current investments in marketable financial instruments, and NT\$372 million from cash used in investing activities to cash provided by operating activities. Amounts in 2005 reflect the reclassification of NT\$2,331 million gains from non-operating expenses and losses to non-operating income and gains, NT\$46 million from long-term investments to current investments in marketable financial instruments, and NT\$212 million from cash used in investing activities to cash provided by operating activities. Balances in 2002 and 2003 were not reclassified accordingly. See note 4 to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2006 for additional details about these new accounting standards.
- (3) Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.

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- (4) Amounts in 2006 include share-based compensation expenses as a result of the adoption of U.S. Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, effective January 1, 2006. See note 30.i. to our consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2006 for additional details about this new accounting standard. Amounts in 2002, 2003, and 2005 reflect the reclassification of NT\$390 million, NT\$1,625 million, and NT\$159 million, respectively, from net non-operating expenses to operating expenses. Amounts in 2004 reflect the reclassification of NT\$232 million from net non-operating income to operating expenses.
- (5) Retroactively adjusted for all subsequent stock dividends.
- (6) Amounts in 2003 reflect the reclassification of NT\$727 million from current liabilities to long-term liabilities.
- (7) Consists of other long term payables and total other liabilities.
- (8) Amounts in 2003 reflect the reclassification of NT\$300 million from cash used in investing activities to cash used in financing activities.
- (9) In thousands.
- (10) Billing Utilization Rate is equal to annual wafer shipment divided by annual capacity.

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Recent Developments

Dividends

On May 7, 2007, our shareholders approved cash dividends of NT\$77,489,063,538 and stock dividends of 129,148,440 shares (with 40% of such stock dividend to be paid out of retained earnings and 60% from capitalizing capital surplus). However, the actual amount of cash and stock dividends to be received on a per-share basis is presently undeterminable because TSMC has yet to decide the record date for making such determination. Therefore, before such record date, such dividends amount will vary according to changes in the number of our total outstanding shares, for example, from the exercise of employee stock options and share repurchases.

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 (including in cash and in common shares) in respect of the prior year is made following approval by our shareholders at the annual general meeting of shareholders. Distribution of stock dividends is subject to approval by the ROC Financial Supervisory Commission.

Under the R.O.C. Company Law, our register of shareholders should be closed for a period of five days immediately before the dividend record date. If this offering is completed prior to the commencement of such closed period, holders of our outstanding common shares on the dividend record date with respect to the dividend distribution in 2007 will be entitled to the full dividend declared in our May 7, 2007 shareholders meeting.

Unaudited Unconsolidated Financial Information as of and for the Three Months Ended March 31, 2006 and 2007

As a result of our common shares being publicly issued, we are required on an on-going basis to file with the R.O.C. Financial Supervisory Commission and the Taiwan Stock Exchange unaudited unconsolidated financial statements as of and for the year-to-date period ending on each of March 31 and September 30. We also regularly release unconsolidated financial statements as of and for the six months ended June 30 and as of and for the year ended December 31, prepared in accordance with R.O.C. GAAP. R.O.C. GAAP differ in some material respects from U.S. GAAP. Please see note 30 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2006, which is incorporated by reference in this prospectus, for a discussion of the material differences between R.O.C. GAAP and U.S. GAAP for the periods covered by these financial statements. In addition, by their nature, unconsolidated financial statements are not comparable in material respects with consolidated financial statements, and should not be compared to the consolidated financial statements for prior periods. Because we have released certain unconsolidated financial information as of and for the three months ended March 31, 2007, we are required under applicable rules of the SEC to include this unconsolidated financial information in this prospectus.

The unconsolidated financial information summarized below does not consolidate the financial position and operations of any of our subsidiaries. Instead, on an unconsolidated basis, we account for our investments in our subsidiaries, including TSMC (Shanghai) Limited, TSMC Global Ltd., TSMC International Investment Ltd. and TSMC Development, Inc., our holding companies for WaferTech LLC, by using the equity method of accounting, which differs materially from consolidation. Other differences resulting from non-consolidation 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;

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intercompany sales and expenses between us and our subsidiaries are not eliminated; and

individual assets, liabilities, revenue and expenses of unconsolidated subsidiaries are not included in the unconsolidated financial statements.

Because we account for subsidiaries in our unconsolidated financial statements based on the equity method, our unconsolidated net assets and net income would generally be the same as in our consolidated financial statements. The amounts of other line items in our unconsolidated financial statements may be materially different from that in our consolidated financial statements. We can give no assurance as to what the relative level of unconsolidated and consolidated assets, net sales, or any other financial statement line items will be for the year ending December 31, 2007. In addition, unconsolidated results of operations for the three months ended March 31, 2007 may not be indicative of our unconsolidated or consolidated results of operations for the full year ending December 31, 2007.

Summary Unaudited Unconsolidated Financial Information

	Three months ended and as of March 31,		
	2006	2007	2007⁽¹⁾
	NT\$	NT\$	US\$
	(In millions, except for earnings per share and per ADS)		
Income Statement Data:			
R.O.C. GAAP			
Net sales	77,293	63,347	1,919
Cost of sales	(40,651)	(39,379)	(1,193)
Gross profit	36,642	23,968	726
Unrealized gross profit		(199)	(6)
Realized gross profit	36,642	23,769	720
Operating expenses	(5,775)	(5,407)	(164)
Income from operations	30,867	18,362	556
Non-operating income and gains	5,307	2,348	71
Non-operating expenses and losses	(1,519)	(815)	(24)
Income before income tax	34,655	19,895	603
Income tax expense	(1,802)	(1,056)	(32)
Income before cumulative effect of changes in accounting principles	32,853	18,839	571
Cumulative effect of changes in accounting principles	(246)		
Net income	32,607	18,839	571
Basic earnings per share	1.26	0.73	0.02
Diluted earnings per share	1.26	0.73	0.02
Basic earnings per ADS equivalent	6.32	3.65	0.11
Diluted earnings per ADS equivalent	6.32	3.65	0.11
Average shares outstanding			
Basic	25,783	25,798	25,798
Diluted	25,805	25,820	25,820

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	Three months ended and as of March 31,		
	2006	2007	2007⁽¹⁾
	NT\$	NT\$	US\$
	(In millions, except for earnings per share and per ADS)		
Balance Sheet Data:			
R.O.C. GAAP			
Working capital	202,441	174,413	5,284
Long-term investments	75,439	139,045	4,212
Properties	212,522	222,546	6,742
Total assets	543,724	591,628	17,923
Long-term bank borrowing ⁽²⁾			
Long-term bonds payable	17,000	12,500	379
Guaranty deposit-in and other long-term liabilities ⁽³⁾	10,444	9,685	293
Total liabilities	65,791	63,002	1,909
Shareholders equity	477,933	528,626	16,014

	Three months ended and as of March 31,		
	2006	2007	2007⁽¹⁾
	NT\$	NT\$	US\$
	(In millions, except for percentages and operating data)		
Other Financial Data:			
R.O.C. GAAP			
Gross margin	47.4%	37.8%	37.8%
Operating margin	39.9%	29.0%	29.0%
Net margin	42.2%	29.7%	29.7%
Capital expenditures	11,115	13,783	418
Depreciation and amortization	15,975	18,488	560
Cash provided by operating activities	47,748	35,860	1,086
Cash used in investing activities	(23,582)	(13,485)	(408)
Cash provided by (used in) financing activities	440	(2,763)	(84)
Net cash flow	24,606	19,612	594
Operating Data:			
Wafer (200mm equivalent) shipment ⁽⁴⁾	1,738	1,565	1,565
Billing utilization rate ⁽⁵⁾	105%	83%	83%

(1)

Translations from NT dollars to U.S. dollars were made at the noon buying rate as of March 30, 2007, which was NT\$33.01 to US\$1.00 on that date, and are presented for your convenience only.

- (2) Excludes bonds payable. On an unconsolidated basis, we do not have any bank loans.
- (3) Consists of other long-term payables and total other liabilities.
- (4) In thousands.
- (5) Billing Utilization Rate is equal to quarterly wafer shipment divided by quarterly capacity.

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Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006
Net Sales

Our unconsolidated net sales decreased by 18.0% from NT\$77,293 million in the first three months of 2006 to NT\$63,347 million (US\$1,919 million) in the first three months of 2007. The decrease in our unconsolidated net sales was primarily attributable to a decrease in customer demand, which resulted in a 10.0% decrease in unconsolidated wafer shipments, from 1,738 thousand 200mm equivalent wafers in the first three months of 2006 to 1,565 thousand 200mm equivalent wafers in the first three months of 2007, and a decrease in the unconsolidated average selling price of our wafers. The decrease in the unconsolidated average selling price of our wafers was primarily the result of a decline in pricing for the same product or technology resulting primarily from pricing pressures in customers' end market and an increase in competition, partially offset by a more favorable product mix as we saw a continued shift toward higher priced products using more advanced technologies. Our net sales in the first three months of 2007 were also positively impacted by the fact that the average exchange rate for the NT dollar against the U.S. dollar depreciated by 1.7% in the first three months of 2007 compared to the first three months of 2006, as a significant portion of our sales are denominated in U.S. dollars.

Gross Margin

Our gross margin fluctuates, depending on the level of capacity utilization, wafer shipments and product mix, among other factors. Our unconsolidated gross margin decreased to 37.8% of net sales in the first three months of 2007 from 47.4% of net sales in the first three months of 2006. The lower margin in the first three months of 2007 was primarily driven by lower capacity utilization, resulting primarily from lower market demand in the first three months of 2007, which contributed 9.6 percentage points to the decrease in the gross margin. In addition, price declines, which contributed 3.1 percentage points to the decrease in gross margin, were offset by improvement in overall product mix, and favorable cost reduction, which positively contributed 2.5 percentage points to the gross margin, and a weakening of the NT dollar against the U.S. dollar, which positively contributed 0.6 percentage points to the gross margin.

Operating Expenses

Our total unconsolidated operating expenses decreased by NT\$368 million in the first three months of 2007, or 6.4%, from the first three months of 2006.

Research and Development Expenses

Unconsolidated research and development expenditures slightly decreased by NT\$70 million in the first three months of 2007, or 2.0%, from the first three months of 2006. Research and development activities were dedicated to developing 32/45 nanometer technologies in the first three months of 2007, compared to developing 65 nanometer technologies in the first three months of 2006.

General and Administrative, Sales and Marketing Expenses

Unconsolidated general and administrative, sales and marketing expenses decreased by NT\$298 million in the first three months of 2007, or 13.4%, from the first three months of 2006. The decrease was primarily due to less commission expenses, partially offset by higher litigation related expenditures in the first three months of 2007. The unconsolidated operating margin in the first three months of 2007 was 29.0%, compared to 39.9% in the first three months of 2006.

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Non-Operating Income and Expenses

Unconsolidated net non-operating income and gains decreased by NT\$2,255 million in the first three months of 2007, or 59.5%, from NT\$3,788 million in the first three months of 2006 primarily due to a change from a NT\$1,116 million gain on settlement and disposal of financial instruments in the first three months of 2006 to a loss of NT\$481 million (US\$15 million) in the first three months of 2007, a NT\$2,119 million decrease in equity in earnings of equity method investees, partially offset by a change from NT\$1,033 million net foreign exchange loss in the first three months of 2006 to a net foreign exchange gain of NT\$441 million (US\$13 million) in the first three months of 2007. The change from a NT\$1,116 million gain on settlement and disposal of financial instruments in the first three months of 2006 to a loss of NT\$481 million in the first three months of 2007 was mainly due to a change from a settlement gain on hedging instruments in the first three months of 2006 to a settlement loss on hedging instruments in the first three months of 2007 as a result of an appreciation of the NT dollar against the U.S. dollar in the first three months of 2006 compared to a depreciation of the NT dollar against the U.S. dollar in the first three months of 2007, partially offset by lower hedging costs due to a smaller size of foreign-currency-denominated assets and liabilities on which we needed to manage foreign exchange exposures. The decrease in equity in earnings of equity method investees was primarily due to equity method investees' recognition of one-time valuation gain on financial instruments in the first three months of 2006 as a result of adoption of R.O.C. SFAS No. 34, Financial Instruments: Recognition and Measurement effective as of January 1, 2006. The change from NT\$1,033 million net foreign exchange loss in the first three months of 2006 to a net foreign exchange gain of NT\$441 million in the first three months of 2007 was primarily due to an appreciation of the NT dollar against the U.S. dollar in the first three months of 2006 compared to a depreciation of the NT dollar against the U.S. dollar in the first three months of 2007.

Income Tax Expense

Unconsolidated income tax expense decreased by NT\$746 million in the first three months of 2007, or 41.4%, from NT\$1,802 million in the first three months of 2006. The decrease was mainly due to lower taxable income in the first three months of 2007.

Consolidated Financial Information as of and for the Three Months Ended March 31, 2007

Under applicable rules issued by the R.O.C. Financial Supervisory Commission, we are not required to file interim consolidated financial statements as of and for the three months ended March 31. However, for purposes of easy reference only, we provide below comparative unaudited consolidated financial information in accordance with R.O.C. GAAP. Please see note 30 to our audited consolidated financial statements included in our annual report on Form 20-F for the year ended December 31, 2006, which is incorporated by reference in this prospectus, for a discussion of the material differences between R.O.C. GAAP and U.S. GAAP.

In addition, consolidated results of operations for the three months ended March 31, 2007 may not be indicative of our unconsolidated or consolidated results of operations for the full year ending December 31, 2007.

Table of Contents**Summary Unaudited Consolidated Financial Information**

	Three months ended and as of March 31,		
	2006	2007	2007⁽¹⁾
	(In millions, except for earnings per share and per ADS)		
Income Statement Data:			
R.O.C. GAAP			
Net sales	77,850	64,897	1,966
Cost of sales	(40,123)	(40,287)	(1,220)
Gross profit	37,727	24,610	746
Operating expenses	(6,825)	(6,733)	(204)
Income from operations	30,902	17,877	542
Non-operating income and gains	3,493	2,870	87
Non-operating expenses and losses	(1,476)	(679)	(21)
Income before income tax	32,919	20,068	608
Income tax expense	(1,855)	(1,107)	(34)
Income before cumulative effect of changes in accounting principles	31,064	18,961	574
Cumulative effect of changes in accounting principles	1,607		
Income before minority interest	32,671	18,961	574
Minority interest in income of subsidiaries	(64)	(122)	(3)
Net income attributable to the shareholders of the parent	32,607	18,839	571
Basic earnings per share	1.26	0.73	0.02
Diluted earnings per share	1.26	0.73	0.02
Basic earnings per ADS equivalent	6.32	3.65	0.11
Diluted earnings per ADS equivalent	6.32	3.65	0.11
Average shares outstanding			
Basic	25,783	25,798	25,798
Diluted	25,805	25,820	25,820

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	Three months ended and as of March 31,		
	2006	2007	2007⁽¹⁾
	NT\$	NT\$	US\$
	(In millions, except for percentages and operating data)		
Balance Sheet Data:			
R.O.C. GAAP			
Working capital	218,382	240,962	7,300
Long-term investments	34,726	52,185	1,581
Properties	241,544	250,348	7,584
Total assets	555,292	608,771	18,442
Long-term bank borrowing ⁽²⁾	654	1,328	40
Long-term bonds payable	17,000	12,500	379
Guaranty deposit-in and other long-term liabilities ⁽³⁾	18,159	18,087	548
Total liabilities	76,681	77,032	2,334
Shareholders' equity attributable to the shareholders of the parent	477,933	528,626	16,014
Minority interest in subsidiaries	678	3,113	94
Other Financial Data:			
R.O.C. GAAP			
Gross margin	48.5%	37.9%	37.9%
Operating margin	39.7%	27.5%	27.5%
Net margin	41.9%	29.0%	29.0%
Capital expenditures	11,510	13,959	423
Depreciation and amortization	17,734	20,251	613
Cash provided by operating activities	48,914	38,144	1,156
Cash used in investing activities	(24,112)	(13,410)	(406)
Cash provided by (used in) financing activities	116	(2,794)	(85)
Net cash inflow	24,767	22,437	680
Operating Data:			
Wafer (200mm equivalent) shipment ⁽⁴⁾	1,738	1,566	1,566
Billing utilization rate ⁽⁵⁾	105%	83%	83%

(1) Translations from NT dollars to U.S. dollars were made at the noon buying rate as of March 30, 2007, which was NT\$33.01 to US\$1.00 on that date, and are presented for your convenience only.

(2) Excludes bonds payable. On an unconsolidated basis, we do not have any bank loans.

(3) Consists of other long-term payables and total other liabilities.

(4) In thousands.

(5) Billing Utilization Rate is equal to quarterly wafer shipment divided by quarterly capacity.

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Recent Accounting Pronouncement

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted FIN 48 on January 1, 2007. We are currently evaluating the effect that the adoption of FIN 48 will have on our results of operations and financial positions and are not yet in a position to determine such effects.

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RISK FACTORS

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

Risks Relating to Our Business

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

The semiconductor market and microelectronics industries have historically been cyclical and subject to significant and often rapid increases and decreases in product demand. Our semiconductor foundry business is affected by market conditions in such highly cyclical semiconductor and microelectronics industries. Most of our customers operate in these industries. Variations in order levels from our customers result in volatility in our revenues and earnings. From time to time, the semiconductor and microelectronics industries have experienced significant and sometimes prolonged periods of downturns and overcapacity. Because our business is, and will continue to be, dependent on the requirements of semiconductor and microelectronics companies for our services, periods of downturns and overcapacity in the general semiconductor and microelectronics industries lead to reduced demand for overall semiconductor foundry services worldwide, including our services. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand, our revenues, margins and earnings will suffer during downturns and periods of overcapacity.

Decreases in demand and average selling prices for products that contain semiconductors may adversely affect demand for our products and may result in a decrease in our net sales and earnings.

A vast majority of our sales revenue is derived from customers who use our products in personal computers, communications devices and consumer electronics. Any significant decrease in the demand for these products may decrease the demand for overall global semiconductor foundry services, including our products and may adversely affect our net sales. In addition, the historical and current trend of declining average selling prices of end use applications places pressure on the prices of the components that go into these end use applications. If the average selling prices of end use applications continue to decrease, the pricing pressure on components produced by us may lead to a reduction of our net sales.

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

The markets for our foundry services are highly competitive both in Taiwan and internationally. We compete with other dedicated foundry service providers, as well as integrated device manufacturers. Some of these companies may have access to more advanced technologies and greater financial and other resources than us. Our competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Competitive activities may cause us to lose customers or to decrease our average selling prices.

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

The semiconductor industry and the technologies used in it are constantly changing. If we do not anticipate these changes in technologies and rapidly develop new and innovative technologies or our competitors unforeseeably gain sudden access to more advanced technologies, we may not be able to provide advanced foundry services on competitive terms. Although we have concentrated on maintaining a competitive edge in research and development, 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.

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

We have been ramping up production at Fab 12 and Fab 14, our 300mm wafer fabs in the Hsinchu Science Park and in the Southern Taiwan Science Park, respectively, since 2004. In 2006, with the commencement of commercial production at Fab 14 (Phase II) and as a result of our ramping up efforts, the capacity of our 300mm wafer fabs increased from 68,000 wafer per month to 93,700 wafer per month at Fab 12 and Fab 14.

Although we have studied the potential effects of vibration from the high speed railway passing through the Southern Taiwan Science Park and believe that the vibrations are not affecting our yield rates for production in the Southern Taiwan Science Park, we can give no assurances that our yields will not be negatively affected by the continued operation of the high-speed railway.

Expansion and modification of our production facilities will, among other factors, increase our costs. For example, we will need to purchase additional equipment, train personnel to operate the new equipment or hire additional personnel. In addition, we may incur other expenditures resulting from any negative effects of the high-speed railway on our expansions in the Southern Taiwan Science Park. If we do not increase our net sales accordingly in order to offset these higher costs, our financial performance may 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.

Capital requirements are difficult to plan in the highly dynamic, cyclical and rapidly changing semiconductor industry. We will continue to need significant capital to fund our operations and growth. Although we currently have adequate financial resources and excellent relations with financial institutions who are willing to consider extending credit to us if needed on market terms, our continued ability to obtain sufficient external financing in the future is subject to a variety of uncertainties, including:

our future financial condition, results of operations and cash flow;

general market conditions for financing activities by semiconductor companies; and

economic, political and other conditions in Taiwan and elsewhere.

Sufficient external financing may not be available to us on a timely basis, on general market terms, or at all. As a result, we may be forced to curtail our expansion and modification plans or delay the deployment of new or expanded services until we obtain such financing.

We may not be able to implement our planned growth or maintain our leading position if we are unable to recruit and retain qualified management and skilled technical and service personnel.

We depend on the continued services and contributions of our executive officers and skilled technical and other personnel. Our business could suffer if we lose, for whatever reasons, the

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services and contributions of some of these personnel and we cannot adequately replace them. We may be required to increase the number of employees in connection with any business expansion, and since there is intense competition for the recruitment of these personnel, we cannot ensure that we will be able to fulfill our personnel requirements in a timely manner.

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

Our operations and ongoing expansion plans depend on our ability to obtain a significant amount of equipment and related services from a limited number of suppliers in a market that is characterized, from time to time, by intense demand, limited supply and long delivery cycles. During such times, supplier-specific or industry-wide lead times for delivery can be as long as four to ten months or more. Supplier-specific or industry-wide shortages of equipment could result in an increase in equipment prices and longer delivery times. 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.

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

Our production operations require that we obtain adequate supplies of raw materials, such as silicon wafers, gases, chemicals, and photoresist, on a timely basis. Shortages in the supply of some materials experienced by specific vendors or by the semiconductor industry generally have in the past resulted in occasional industry-wide price adjustments and delivery delays. Also, since we procure some of our raw materials from sole-source suppliers, there is a risk that our need for such raw materials may not be timely met. Our revenue and earnings could decline if we are unable to obtain adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that we cannot pass on to our customers.

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

According to our agreement with the Industrial Technology Research Institute of Taiwan, or ITRI, the Ministry of Economic Affairs of the R.O.C., or an entity designated by the Ministry of Economic Affairs, has an option to purchase up to 35% of certain of our capacity. Although the Ministry of Economic Affairs has never exercised this option, if this option is exercised to any significant degree during tight market conditions, we may not be able to provide services to all of our other customers unless we are able to increase our capacity accordingly or outsource such increased demand and in a timely manner.

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

Our ability to compete successfully and to achieve future growth will depend in part on the continued strength of our intellectual property portfolio. There can be no assurance that, as our business or business models expand into new areas, we will be able to independently develop the technology, trade secrets, software or know-how necessary to conduct our business or that we can do so without infringing the intellectual property rights of others. We may have to rely increasingly on licensed technology from others. To the extent that we rely on licenses from others, there can be no assurance that we will be able to obtain all of the licenses we desire in the future on terms we consider reasonable or at all. The lack of necessary licenses could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify our customers against damages resulting from infringement claims. We have received, from time-to-time, communications from third parties asserting that our technologies, manufacturing

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processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe their patents or other intellectual property rights. And, because of the nature of the industry, we may continue to receive such communications in the future. In some instances, these disputes have resulted in litigation. While we actively enforce and protect our intellectual property rights, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of the protected technology, trade secret, software or know-how.

If we fail to obtain or maintain certain government, technology or intellectual property licenses and, if litigation relating to alleged intellectual property matters occurs, it could prevent us from manufacturing or selling particular products or applying particular technologies, which could reduce our opportunities to generate revenues. See Item 8. Financial Information Legal Proceedings included in our annual report on Form 20-F for the year ended December 31, 2006, which is incorporated by reference in this prospectus, for a further discussion.

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

We and many of our suppliers use highly combustible and toxic materials in manufacturing processes and are therefore subject to the risk of loss arising from explosion, fire, or environmental excursions which cannot be completely eliminated. Although we maintain many overlapping risk prevention and protection systems, as well as comprehensive fire and casualty insurance, including insurance for loss of property and loss of profit resulting from business interruption, our risk management and insurance coverage may not be sufficient to cover all of our potential losses. If any of our fabs were to be damaged or cease operations as a result of an explosion, fire, or environmental excursions, it could reduce our manufacturing capacity and may cause us to lose important customers, thereby having a potentially material adverse impact on our financial performance.

Any impairment charges may have a material adverse effect on our net income.

Under R.O.C. GAAP and U.S. GAAP, we are required to evaluate our equipment and other long-lived assets for impairment whenever there is an indication of impairment. If certain criteria are met, we are required to record an impairment charge. We are also required under R.O.C. GAAP and U.S. GAAP to evaluate goodwill for impairment at least on an annual basis or whenever a triggering event or an indication of impairment occurs.

We currently are not able to estimate the extent or timing of any impairment charge for future years. Any impairment charge required may have a material adverse effect on our net income.

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

Item 5. Operating and Financial Reviews and Prospects Critical Accounting Policies included in our annual report on Form 20-F for the year ended December 31, 2006, which is incorporated by reference in this prospectus, for a further discussion of our estimates made for determining an impairment charge.

The loss of or significant curtailment of purchases by any of our largest customers could adversely affect our results of operations.

While we generate revenue from hundreds of customers worldwide, our ten largest customers accounted for 52% and 53% of our net sales in 2005 and 2006, respectively, and our largest two customers accounted for approximately 10% and 8% of our net sales in 2006. The loss of, or significant curtailment of purchases by, one or more of our top customers, including curtailments due to a change in the design or manufacturing sourcing policies or practices of

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these customers, or the timing of customer or distributor inventory adjustments, may adversely affect our results of operations and financial condition.

Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business, results of operations and the market price of our common shares and ADSs.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our reputation and results of operations could be harmed.

We are required to comply with various R.O.C. and U.S. laws and regulations on internal controls. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the annual report on Form 20-F for the fiscal year ended December 31, 2006, we are required to furnish a report by management on our internal control over financial reporting, including management's assessment of the effectiveness of our internal control over financial reporting. Moreover, R.O.C. law requires us to establish internal control systems that would reasonably ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. We are also required under R.O.C. law to file an internal control declaration within four months of the end of each fiscal year.

Internal controls may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on the market price of our common shares and ADSs.

Our global manufacturing, design and sales activities subject us to risks associated with legal, political, economic or other conditions or developments in various jurisdictions, including in particular the Republic of China, which could negatively affect our business and financial status and therefore the market value of your investment.

Our principal executive officers and our principal production facilities are located in the R.O.C. and a substantial majority of our net revenues are derived from our operations in the R.O.C. In addition, we have operations worldwide and a significant percentage of our revenue come from sales to locations outside the R.O.C. Operating in the R.O.C. and overseas exposes us to changes in policies and laws, as well as the general political and economic conditions, security risks, health conditions and possible disruptions in transportation networks, in the various countries in which we operate, which could result in an adverse effect on our business operations in such countries and our results of operations as well as the market price and the liquidity of our ADSs and common shares.

For example, past developments in relations between the R.O.C. and the People's Republic of China (PRC) have on occasion depressed the market prices of the securities of Taiwanese companies, including our own. Although the R.O.C. and PRC have co-existed for the past 58 years and significant economic and cultural relations have been established, relations have often been strained and the government of the PRC has announced its intent to use military force to gain control over the R.O.C. if the R.O.C. declares itself independent. In addition, the R.O.C. government currently restricts transfer by Taiwanese companies of certain technologies to and

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certain types of investments by Taiwanese companies in Mainland China. While the R.O.C. government in April 2002 partially lifted the ban on investment by Taiwan semiconductor manufacturing companies in 200mm wafer fabs in Mainland China and the R.O.C. government has been gradually liberalizing other restrictions, allowing us, for example, to transfer 0.18 micron process technologies to our fab in Mainland China, significant restrictions remain.

Our results of operations could be materially adversely affected by natural disasters or interruptions in the supply of utilities (such as water or electricity) in the locations in which we, our customers or suppliers operate.

We have manufacturing and other operations in locations subject to natural disasters such as severe weather and earthquakes as well as interruptions or shortages in the supply of utilities (such as water and electricity) that could disrupt operations. In addition, our suppliers and customers also have operations in such locations. For example, most of our production facilities, as well as many of our suppliers and customers and upstream providers of complementary semiconductor manufacturing services, are located in Taiwan, which is susceptible to earthquakes, typhoons, and has experienced droughts from time to time. In addition, we have sometimes suffered power outages caused by our major electricity supplier, the Taiwan Power Company, or other power consumers on the same power supply line, which have caused interruptions in our production schedule. A natural disaster or interruptions in the supply of utilities that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may adversely affect our results of operations and financial condition.

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 in U.S. dollars, Japanese yen and Euros. A larger portion of our sales are denominated in U.S. dollars and currencies other than NT dollars. Therefore, any significant fluctuation to our disadvantage in such 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 may 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 R.O.C. 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. Election of directors 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.

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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 depositary 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 United States Securities Act of 1933, as amended, or the Securities Act, 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 assurance 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 the Republic of China (Taiwan) for the conversion of the subscription payments into NT dollars or if the depositary bank 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 Item 10. Additional Information Foreign Investment in the R.O.C. and Exchange Controls in the R.O.C. included in our annual report on Form 20-F for the year ended December 31, 2006, which is incorporated by reference in this prospectus, for a further discussion. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

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

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

One or more of our existing shareholders may, from time to time, dispose of significant numbers of common shares or ADSs. The National Development Fund, one of our two largest shareholders, has sold ADSs in several transactions since 1997, including 44,172,500 ADSs in August and September 2005. In May 2005, Philips reiterated its intention, first announced in October 2003, to gradually and orderly reduce its equity interest in us, and sold in August and September 2005 an additional 113,521,000 ADSs. Further, on March 9, 2007, we and Philips jointly announced a multi-phased plan to facilitate an orderly exit by Philips from its current shareholding in us. Specifically, the announced plan contemplates that Philips intends to divest its current shareholding in us through one or more block trades on the Taiwan Stock Exchange, a public offering of our common shares in the form of ADSs, and through participation in share buy-backs conducted by us in the period beginning in 2007 and ending in 2010. The plan's initial step occurred on March 12, 2007, when Philips sold approximately US\$1.75 billion worth of our common shares over the Taiwan Stock Exchange through block trades to a few institutional investors in Taiwan. As a result of such disposition, Philips owned 12.78% of our outstanding equity securities as of March 12, 2007. Further, the plan's contemplated second step is a sale in 2007, subject to receipt of all regulatory approvals and market conditions, by Philips in a public offering registered with the U.S. Securities and Exchange Commission of up to approximately US\$2.50 billion worth of our common shares in the form of ADSs. It is the intention of TSMC and Philips that no further ADS offerings will be conducted in respect of Philips shareholding in TSMC. In addition, under the plan's third step, we currently contemplate to conduct in 2007, subject to the approval by our board of directors, a tender offer to repurchase, and subsequently cancel, up to approximately US\$1.50 billion worth of our common shares and we currently understand that Philips intends to participate and sell its shares to us in such share repurchase. Lastly, the plan's fourth step calls for us to conduct, subject to us maintaining our current annual cash dividend per share, additional share repurchase and cancellation programs between 2008

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and 2010, in which Philips has informed us that it intends to tender its remaining common shares held in us at such time. In addition, the announced plan contemplates that Philips may also consider to sell its remaining common shares held in us to specified long-term investors mutually agreeable to Philips and us. While we hope to continue to work with Philips to implement the above plan to facilitate the contemplated disposals by Philips of its equity interests in us in a way that minimizes, to the extent possible, any adverse impact on us and the market price of our ADSs and common shares, there is no written agreement between us and Philips in respect of the above plan and no assurances can be given as to the timing and potential impact of the implementation of such plan or any other method of disposal by Philips.

In addition, we have in place a conversion sale program that allows some of our shareholders to sell their common shares in ADS form to a specified financial intermediary during a 30-day period not more than once every three months. Since the establishment of the program in 1999, a total of 42,076,000 ADSs (without adjustments for subsequent stock dividends) were sold in four transactions under the program. We cannot predict the effect, if any, that future sales of ADSs or common shares, or the availability of ADSs or common shares for future sale, will have on the market price of ADSs or common shares prevailing from time to time. Sales of substantial amounts of ADSs or common shares in the public market, or the perception that such sales may occur, could depress the prevailing market price of our ADSs or common shares and could reduce the premium, if any, that the price per ADS on the New York Stock Exchange represents over the corresponding aggregate price of the underlying five common shares on the Taiwan Stock Exchange.

The underwriting agreement does not impose any restrictions on the ability of Philips or us to offer, sell, contract to sell or otherwise dispose of any common shares or depositary shares representing our common shares.

The market value of our shares may fluctuate due to the volatility of, and government intervention in, the R.O.C. securities market.

Because the Taiwan Stock Exchange experiences from time to time substantial fluctuations in the prices and volumes of sales of listed securities, there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. In response to past declines and volatility in the securities markets in Taiwan, and in line with similar activities by other countries in Asia, the government of the R.O.C. formed the Stabilization Fund, which has purchased and may from time to time purchase shares of Taiwan companies to support these markets. In addition, other funds associated with the R.O.C. government have in the past purchased, and may from time to time purchase, shares of Taiwan companies on the Taiwan Stock Exchange or other markets. In the future, market activity by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause fluctuations in the market prices of our ADSs and common shares.

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USE OF PROCEEDS

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

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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 United States Securities and Exchange Commission, or the SEC. This prospectus is a part of that registration statement, which includes additional information. A registration statement on Form F-6 has also previously been filed with the SEC with respect to the ADSs. You should refer to these registration statements and their exhibits and schedules if you would like to find out more about us and about the ADSs and the common shares represented by the ADSs. This prospectus summarizes material provisions of contracts and other documents that we refer to. Since this prospectus may not contain all the information that you may find important, you should review a full text of these documents. We have included copies of these documents as exhibits to our registration statements.

We file annual reports on Form 20-F with, and furnish periodic reports on Form 6-K to, the SEC. You may read and copy this information at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. 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. Our filings with the SEC are also available to the public from the SEC's website at <http://www.sec.gov>. The SEC website contains reports, proxy and information statements and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. Since November 4, 2002, we have been required to file annual reports on Form 20-F with, and submit reports on Form 6-K and other information to, the SEC through the EDGAR system.

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 and supersede the 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:

our annual report on Form 20-F for the year ended December 31, 2006, filed on April 20, 2007, to the extent the information in that report has not been updated or superseded by this prospectus;

our report on Form 6-K submitted on April 30, 2007, which contains the unaudited unconsolidated interim financial statements as of and for the three months ended March 31, 2006 and 2007, excluding the report by our independent public accountants contained therein. These unaudited unconsolidated financial statements are prepared in accordance with R.O.C. GAAP and are not indicative of our consolidated financial position or results of operations;

any amendment to our annual report on Form 20-F for the year ended December 31, 2006, and any annual report on Form 20-F or amendment thereto 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.

You may request a copy of these filings, at no cost, by writing or telephoning us at No. 8, Li-Hsin Road 6, Hsinchu Science Park, Hsinchu, Taiwan, Attention: Wendell Huang or Diane Kao, telephone number: (886-3) 505-5920 or (886-3) 505-5923.

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We will furnish to Citibank, N.A., as depositary of the ADSs, our annual reports. 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.

You should rely only on the information that we incorporate by reference or provide in this document. We have not authorized anyone to provide you with different information. You should not assume that the information in this document is accurate as of any date other than the date on the front of this document.

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The principal trading market for our common shares is the Taiwan Stock Exchange. Our 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 (in thousands of shares) ⁽²⁾	Closing price per ADS ⁽²⁾		Average daily trading volume (in thousands of ADSs) ⁽²⁾
	High	Low		High	Low	
	(NT\$)	(NT\$)		(US\$)	(US\$)	
2002	60.79	24.42	67,213	13.31	3.77	7,957
2003	52.96	27.57	57,614	9.85	4.52	9,026
2004	50.74	34.98	57,181	8.86	5.79	7,635
2005	59.43	40.03	54,111	9.47	6.70	8,164
First Quarter	47.04	40.03	50,736	8.23	6.70	7,008
Second Quarter	53.20	42.42	46,780	8.85	7.04	6,348
Third Quarter	53.11	47.44	42,826	8.82	7.32	9,869
Fourth Quarter	59.43	45.76	75,443	9.47	7.17	9,394
2006	67.90	51.99	41,988	11.18	7.94	9,663
First Quarter	63.34	54.88	44,165	10.26	9.21	10,853
Second Quarter	65.01	51.99	49,122	10.57	7.95	9,465
Third Quarter	60.90	52.90	36,915	9.92	8.00	9,303
Fourth Quarter	67.90	58.50	38,130	11.18	9.46	10,224
November	65.50	60.00	40,666	10.75	9.46	10,645
December	67.90	64.10	33,702	11.18	10.57	9,473
2007						
First Quarter	71.20	63.30	66,665	11.55	10.11	12,649
January	71.20	64.20	56,676	11.49	10.62	15,420
February	69.30	65.80	49,671	11.55	10.68	9,723
March	70.20	63.30	85,087	11.55	10.11	12,658
April	69.90	67.40	37,750	11.03	10.52	13,519
May (through May 17, 2007)	69.10	66.50	45,289	10.71	10.23	11,278

(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 10% stock dividend in July 2002, an 8% stock dividend in July 2003, a 14.08668% stock dividend in July 2004, a 4.99971% stock dividend in July 2005 and a 2.99903% stock dividend in July 2006.

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.

As of March 31, 2007, a total of 25,832,959,219 common shares were outstanding, including 4,443,698,206 common shares represented by 888,739,639 ADSs.

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The following table sets forth our consolidated capitalization as of March 31, 2007 (including the appropriation from the earnings of 2006 and capitalization of capital surplus approved by our shareholders). On May 7, 2007, our shareholders approved cash dividends of NT\$77,489,063,538 and stock dividends of 129,148,440 shares (with 40% of such stock dividend to be paid out of retained earnings and 60% from capitalizing capital surplus) and employee bonus and remuneration to directors and supervisors. You should read this table together with our consolidated financial statements contained in our Form 20-F for the year ended December 31, 2006, which is incorporated by reference herein. Please also refer to Recent Developments Dividends.

	March 31, 2007	
	Actual (NT\$)	As adjusted⁽¹⁾ (NT\$)
	(In thousands)	
Long-term obligations (excluding current portion of long-term obligations)		
Unguaranteed and unsecured long-term debt	12,501,392	12,501,392
Unguaranteed and secured long-term debt	1,326,846	1,326,846
Unguaranteed and unsecured other long-term payable	9,871,780	9,871,780
Total long-term obligations	23,700,018	23,700,018
Shareholder s equity		
Common shares, NT\$10 par value	258,329,592	264,193,875
Capital surplus	54,231,465	53,456,574
Retained earnings	215,963,171	128,526,117
Cumulative translations adjustments and others	1,019,466	1,019,466