

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

May 03, 2006

1934 Act Registration No. 1-14700
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the month of April 2006
Taiwan Semiconductor Manufacturing Company Ltd.
(Translation of Registrant's Name Into English)
No. 8, Li-Hsin Rd. 6,
Hsinchu Science Park,
Taiwan
(Address of Principal Executive Offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

**Taiwan Semiconductor Manufacturing
Company Limited
Financial Statements for the
Three Months Ended March 31, 2006 and 2005 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of March 31, 2006 and 2005, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

April 13, 2006

Notice to Readers

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

For the convenience of readers, the accountants' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and financial statements shall prevail.

Taiwan Semiconductor Manufacturing Company Limited
BALANCE SHEETS
MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

| | 2006 | | 2005 | |
|---|-----------------|--------|-----------------|--------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 109,989,790 | 20 | \$ 60,218,990 | 12 |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 5) | 58,545 | | 302,708 | |
| Available-for-sale financial assets (Notes 2, 3 and 6) | 58,815,063 | 11 | 48,601,822 | 10 |
| Held-to-maturity financial assets (Notes 2, 3 and 7) | 9,120,093 | 2 | 3,036,348 | 1 |
| Receivables from related parties (Note 23) | 21,248,956 | 4 | 14,079,482 | 3 |
| Notes and accounts receivable | 19,986,591 | 4 | 13,069,620 | 3 |
| Allowance for doubtful receivables (Note 2) | (975,704) | | (978,577) | |
| Allowance for sales returns and others (Note 2) | (4,479,954) | (1) | (3,741,534) | (1) |
| Other receivables from related parties (Note 23) | 683,675 | | 2,645,421 | |
| Other financial assets (Note 3) | 784,723 | | 828,065 | |
| Inventories, net (Notes 2 and 8) | 16,901,113 | 3 | 13,428,985 | 3 |
| Deferred income taxes assets (Notes 2 and 16) | 7,276,728 | 1 | 7,296,000 | 2 |
| Prepaid expenses and other current assets (Note 3) | 1,378,283 | | 957,067 | |
| Total current assets | 240,787,902 | 44 | 159,744,397 | 33 |
| LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 9 and 10) | | | | |
| Available-for-sale financial assets | 1,900,885 | | | |
| Held-to-maturity financial assets | 18,677,604 | 4 | 26,940,409 | 6 |
| Financial assets carried at cost | 813,354 | | 779,340 | |
| Investments accounted for using equity method | 54,047,343 | 10 | 49,157,468 | 10 |
| Total long-term investments | 75,439,186 | 14 | 76,877,217 | 16 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 23) | | | | |
| Cost | | | | |
| Buildings | 91,408,209 | 17 | 87,452,818 | 18 |
| Machinery and equipment | 468,724,647 | 86 | 424,088,493 | 88 |
| Office equipment | 7,978,549 | 2 | 7,360,112 | 2 |

Edgar Filing: TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD - Form 6-K

| | | | | |
|---|------------------------------|-------------|------------------------------|-------------|
| Accumulated depreciation | 568,111,405 (373,690,326) | 105 (69) | 518,901,423 (315,454,528) | 108 (65) |
| Advance payments and construction in progress | 18,101,402 | 3 | 26,406,814 | 5 |
| Net property, plant, and equipment | 212,522,481 | 39 | 229,853,709 | 48 |
| GOODWILL (Note 2) | 1,567,756 | | 1,829,049 | |
| OTHER ASSETS | | | | |
| Deferred income tax assets (Notes 2 and 16) | 7,064,964 | 2 | 3,751,059 | 1 |
| Deferred charges, net (Notes 2 and 12) | 6,179,470 | 1 | 8,438,529 | 2 |
| Refundable deposits | 83,642 | | 85,542 | |
| Assets leased to others, net (Note 2) | 71,446 | | 77,180 | |
| Idle assets (Note 2) | 6,789 | | 17,130 | |
| Total other assets | 13,406,311 | 3 | 12,369,440 | 3 |
| TOTAL | \$ 543,723,636 | 100 | \$ 480,673,812 | 100 |

| | 2006 | | 2005 | |
|---|---------------|----------|---------------|----------|
| | Amount | % | Amount | % |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5) | \$ 354,214 | | \$ 854,087 | |
| Accounts payable | 7,360,964 | 1 | 5,344,256 | 1 |
| Payables to related parties (Note 23) | 3,512,804 | 1 | 2,863,489 | 1 |
| Income tax payable (Notes 2 and 16) | 6,110,590 | 1 | 379,903 | |
| Payables to contractors and equipment suppliers | 11,621,333 | 2 | 10,920,422 | 2 |
| Accrued expenses and other current liabilities (Notes 2, 3 and 14) | 6,886,738 | 1 | 7,028,701 | 2 |
| Current portion of bonds payable (Note 13) | 2,500,000 | 1 | 10,500,000 | 2 |
| Total current liabilities | 38,346,643 | 7 | 37,890,858 | 8 |
| LONG-TERM LIABILITIES | | | | |
| Bonds payable (Note 13) | 17,000,000 | 3 | 19,500,000 | 4 |
| Other long-term payables (Note 14) | 1,493,160 | | 1,911,506 | 1 |
| Other payables to related parties (Notes 23 and 26) | 1,087,410 | | 1,722,326 | |

Edgar Filing: TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD - Form 6-K

| | | | | |
|--|-----------------------|------------|-----------------------|------------|
| Total long-term liabilities | 19,580,570 | 3 | 23,133,832 | 5 |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 15) | 3,437,287 | 1 | 3,240,343 | 1 |
| Guarantee deposits (Note 26) | 3,215,089 | 1 | 370,876 | |
| Deferred credits (Notes 2 and 23) | 1,211,019 | | 684,423 | |
| Total other liabilities | 7,863,395 | 2 | 4,295,642 | 1 |
| Total liabilities | 65,790,608 | 12 | 65,320,332 | 14 |
| CAPITAL STOCK \$10 PAR VALUE | | | | |
| Authorized: 27,050,000 thousand shares in 2006 24,600,000 thousand shares in 2005 | | | | |
| Issued: 24,733,053 thousand shares in 2006 23,252,863 thousand shares in 2005 | 247,330,530 | 45 | 232,528,635 | 48 |
| CAPITAL SURPLUS (Notes 2 and 18) | 57,208,367 | 11 | 56,574,377 | 12 |
| RETAINED EARNINGS (Note 18) | | | | |
| Appropriated as legal capital reserve | 34,348,208 | 6 | 25,528,007 | 5 |
| Appropriated as special capital reserve | 2,226,427 | | | |
| Unappropriated earnings | 138,803,185 | 26 | 105,020,406 | 22 |
| | 175,377,820 | 32 | 130,548,413 | 27 |
| OTHERS (Notes 2 and 3) | | | | |
| Cumulative translation adjustments | (1,098,483) | | (2,725,918) | (1) |
| Unrealized gains on financial instruments | 32,869 | | | |
| | (1,065,614) | | (2,725,918) | (1) |
| TREASURY STOCK (AT COST (Notes 2 and 20) | | | | |
| 32,938 thousand shares in 2006 and 45,037 thousand shares in 2005 | (918,075) | | (1,572,027) | |
| Total shareholders' equity | 477,933,028 | 88 | 415,353,480 | 86 |
| TOTAL | \$ 543,723,636 | 100 | \$ 480,673,812 | 100 |

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

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

| | 2006 | | 2005 | |
|--|---------------|----------|---------------|----------|
| | Amount | % | Amount | % |
| GROSS SALES (Notes 2 and 23) | \$ 78,637,640 | | \$ 56,413,097 | |
| SALES RETURNS AND ALLOWANCES (Note 2) | 1,344,296 | | 759,880 | |
| NET SALES | 77,293,344 | 100 | 55,653,217 | 100 |
| COST OF SALES (Notes 17 and 23) | 40,651,362 | 53 | 34,004,376 | 61 |
| GROSS PROFIT | 36,641,982 | 47 | 21,648,841 | 39 |
| OPERATING EXPENSES (Notes 17 and 23) | | | | |
| Research and development | 3,548,886 | 5 | 3,348,555 | 6 |
| General and administrative | 1,554,351 | 2 | 1,944,834 | 3 |
| Sales and marketing | 671,400 | | 278,876 | 1 |
| Total operating expenses | 5,774,637 | 7 | 5,572,265 | 10 |
| INCOME FROM OPERATIONS | 30,867,345 | 40 | 16,076,576 | 29 |
| NON-OPERATING INCOME AND GAINS | | | | |
| Equity in earnings of equity method investees, net (Notes 2 and 10) | 2,972,039 | 4 | | |
| Gain on disposal of financial instruments, net (Notes 2, 3, 5 and 22) | 1,115,518 | 2 | 1,897,289 | 4 |
| Interest income (Notes 2 and 3) | 902,043 | 1 | 619,986 | 1 |
| Technical service income (Notes 23 and 26) | 142,631 | | 77,111 | |
| Gain on disposal of property, plant and equipment and other assets (Notes 2 and 23) | 96,141 | | 60,707 | |
| Settlement income (Note 25) | | | 569,276 | 1 |
| Others (Note 23) | 78,440 | | 68,272 | |
| Total non-operating income and gains | 5,306,812 | 7 | 3,292,641 | 6 |

NON-OPERATING EXPENSES AND LOSSES

| | | | | |
|---|-----------|---|-----------|---|
| Foreign exchange loss, net (Note 2) | 1,032,555 | 2 | 2,282,461 | 4 |
| Valuation loss on financial instruments, net (Notes 2, 3, 5 and 22) | 295,669 | | 257,718 | 1 |
| Interest expense (Notes 3 and 13) | 165,300 | | 303,112 | 1 |

(Continued)

| | 2006 | | 2005 | |
|---|---------------|-----|---------------|----|
| | Amount | % | Amount | % |
| Equity in losses of equity method investees, net (Notes 2 and 10) | \$ | | \$ 198,178 | |
| Others (Note 2) | 25,292 | | 62,407 | |
| Total non-operating expenses and losses | 1,518,816 | 2 | 3,103,876 | 6 |
| INCOME BEFORE INCOME TAX | 34,655,341 | 45 | 16,265,341 | 29 |
| INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 16) | (1,802,369) | (3) | 553,056 | 1 |
| NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES | 32,852,972 | 42 | 16,818,397 | 30 |
| CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$82,062 THOUSAND (Note 3) | (246,186) | | | |
| NET INCOME | \$ 32,606,786 | 42 | \$ 16,818,397 | 30 |

| | 2006 | | 2005 | |
|------------------------------|-------------------------|------------------------|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
| EARNINGS PER SHARE (Note 21) | | | | |
| Basic earnings per share | \$ 1.39 | \$ 1.32 | \$ 0.66 | \$ 0.68 |
| Diluted earnings per share | \$ 1.39 | \$ 1.32 | \$ 0.66 | \$ 0.68 |

The pro forma net income and after income tax earnings per share are shown as follows, based on the assumption that the Company's stock held by its subsidiaries is treated as an investment instead of treasury stock (Notes 2 and 20):

| | 2006 | 2005 |
|--|---------------|---------------|
| NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES | \$ 32,852,972 | \$ 16,821,282 |
| NET INCOME | \$ 32,606,786 | \$ 16,821,282 |
| EARNINGS PER SHARE (NT\$) | | |
| Basic earnings per share | \$ 1.32 | \$ 0.68 |

| | | | | |
|----------------------------|----|------|----|------|
| Diluted earnings per share | \$ | 1.32 | \$ | 0.68 |
|----------------------------|----|------|----|------|

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

(Concluded)

- 4 -

Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

| | 2006 | 2005 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 32,606,786 | \$ 16,818,397 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,974,533 | 16,668,655 |
| Amortization of premium/discount of financial assets | (15,834) | 28,956 |
| Loss (gain) on disposal of available-for-sale financial assets, net | (261,300) | 64,473 |
| Deferred income taxes | (568,737) | (553,056) |
| Equity in losses (earnings) of equity method investees, net | (2,972,039) | 198,178 |
| Gain on disposal of property, plant and equipment and other assets, net | (93,903) | (22,785) |
| Accrued pension cost | (24,105) | 139,147 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Receivables from related parties | (198,352) | 2,056,557 |
| Notes and accounts receivable | 605,227 | 2,257,261 |
| Allowance for doubtful receivables | (640) | (1,884) |
| Allowance for sales returns and others | 209,985 | 413,620 |
| Financial instruments at fair value through profit or loss | 1,442,295 | 1,708,744 |
| Other receivables from related parties | 846,108 | (881,321) |
| Other financial assets | 321,307 | 56,252 |
| Inventories | (643,158) | 742,960 |
| Prepaid expenses and other current assets | (206,510) | 129,751 |
| Increase (decrease) in: | | |
| Accounts payable | (691,142) | (1,144,361) |
| Payables to related parties | 257,542 | (901,983) |
| Income tax payable | 2,294,702 | |
| Accrued expenses and other current liabilities | (1,110,647) | (1,757,005) |
| Deferred credits | (23,936) | |
| Net cash provided by operating activities | 47,748,182 | 36,020,556 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Available-for-sale financial assets | (31,351,886) | (18,632,579) |
| Held-to-maturity financial assets | (1,379,009) | (1,762,393) |
| Financial assets carried at cost | (5,864) | (6,706) |
| Long-term investments accounted for using equity method | (19,214) | (2,992,406) |
| Property, plant and equipment | (11,114,607) | (38,161,372) |
| | | (Continued) |

| | 2006 | 2005 |
|--|--------------------|-------------------|
| Proceeds from disposal of Available-for-sale financial assets | \$ 16,951,250 | \$ 18,742,345 |
| Property, plant and equipment and other assets | 461,151 | 120,613 |
| Redemption of held-to-maturity financial assets upon maturity | 2,973,000 | 1,651,621 |
| Increase in deferred charges | (96,335) | (285,727) |
| Increase in refundable deposits | | (129) |
| Net cash used in investing activities | (23,581,514) | (41,326,733) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in guarantee deposits | 322,144 | (41,517) |
| Proceeds from exercise of employee stock options | 117,395 | 34,866 |
| Net cash provided by (used in) financing activities | 439,539 | (6,651) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 24,606,207 | (5,312,828) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 85,383,583 | 65,531,818 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 109,989,790 | \$ 60,218,990 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | \$ 420,000 | \$ 452,000 |
| Income tax paid | \$ 67,924 | \$ 22,522 |
| INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS | | |
| Acquisition of property, plant and equipment | \$ 13,876,710 | \$ 17,927,484 |
| Decrease (increase) in payables to contractors and equipment suppliers | (2,762,103) | 20,233,888 |
| Cash paid | \$ 11,114,607 | \$ 38,161,372 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Current portion of bonds payable | \$ 2,500,000 | \$ 10,500,000 |
| Current portion of other payables to related parties (under payables to related parties) | \$ 685,718 | \$ 949,841 |

| | | |
|--|------------|--------------|
| Current portion of other long-term payables (under accrued expenses and other current liabilities) | \$ 817,530 | \$ 1,487,737 |
|--|------------|--------------|

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

- 6 -

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated as a venture among the Government of the R.O.C., acting through the Development Fund of the Executive Yuan; Philips Electronics N.V. and certain of its affiliates (Philips); and certain other private investors. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

The Company is engaged mainly in the manufacturing, selling, packaging, testing and computer-aided designing of integrated circuits and other semiconductor devices and the manufacturing of masks.

As of March 31, 2006 and 2005, the Company had 20,027 and 18,648 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are those expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations expected to be due within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Government bonds under repurchase agreements and notes acquired with maturities less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value with the changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is a positive amount, the derivative is recognized as a financial asset; when the fair value is a negative amount, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Investments designated as available-for-sale financial assets include debt securities and equity securities. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares. Any difference between the initial carrying amount of a debt security and its amount at maturity is amortized and then recognized in earnings using the effective interest method.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-Maturity Financial Assets

Debt securities for which the Company has a positive intent and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Earnings or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, shipment is made, price is fixed or determinable, and collectibility is reasonably assured. Revenues from the design and manufacturing of photo masks, which are used as manufacturing tools in the fabrication process, are recognized when the photo masks are qualified by customers. The Company records a provision for estimated future returns and other allowances in the period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using the fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of cash to be received.

Inventories

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for finished goods and work in process. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Period-end inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 180 days or less. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

Financial Assets Carried at Cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks and mutual funds. The costs of funds and non-publicly traded stocks are determined using the weighted-average method. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence on the operating and financial policy decisions are accounted for using the equity method of accounting. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. When equity investments were made, the difference, if any, between the cost of investment and the Company's share of the investee's net equity was previously amortized using the straight-line method over five years and was also recorded

in the equity in earnings/losses of equity method investees, net account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5 Long-term Investments in Equity Securities (SFAS No. 5), investment premiums, representing goodwill, are no longer being amortized; while investment discounts continue to be

- 9 -

amortized over the remaining periods. When an indication of impairment is identified in an investment, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage of equity interest, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share in the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has a controlling interest is deferred until such gains or losses are realized through the subsequent sales of the related products to third parties. Gains or losses on sales from investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties.

Gains or losses on sales between investees accounted for using the equity method are deferred in proportion to the Company's weighted-average ownership percentages in the investees until realized through transactions with third parties.

If an investee's functional currency is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Property, Plant and Equipment, Assets Leased to Others and Idle Assets

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Idle assets are stated at the lower of net realizable value or book value. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred. Interest expense incurred during the purchase and construction period is also capitalized.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings 10 to 20 years; machinery and equipment 5 years; and office equipment 3 to 5 years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss credited or charged to non-operating gains or losses in the period of sale or disposal.

Goodwill

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill was previously amortized using the straight-line method over the estimated life of 10 years. Effective January 1, 2006, pursuant to the newly revised SFAS No. 25 Business Combinations Accounting Treatment under Purchase Method (SFAS No. 25), goodwill is no longer amortized and is assessed for impairment at least on an annual basis. If an event occurs or circumstances change that more likely than not reduce the fair value of the goodwill below its carrying amount, an impairment loss is charged to current income. No recording of a

subsequent recovery in fair value of the goodwill is allowed.

- 10 -

Deferred Charges

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized over the following periods: Technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract; software and system design costs and other charges 3 years. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Pension Costs

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies intra-period and inter-period allocations for its income tax, that is, (1) a portion of current period income tax expense is allocated to the cumulative effect of changes in accounting principles; (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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

Income tax on unappropriated earnings of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

The R.O.C. government enacted the Alternative Minimum Tax Act (AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

Stock-based Compensation

Employee stock option plans that are amended or have options granted on or after January 1, 2004 are accounted for by the interpretations issued by the Accounting Research and Development Foundation. The Company adopted the intrinsic value method and any compensation cost determined using this method is charged to expense over the

employee vesting period.

Treasury Stock

The Company's stock held by its subsidiaries is treated as treasury stock and reclassified from long-term investments accounted using equity method to treasury stock. The gains resulted from disposal of the treasury stock held by the subsidiaries and cash dividends received by the subsidiaries from the Company are recorded under capital surplus treasury stock transactions.

Foreign-currency Transactions

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. At the end of each period, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rates with the resulting gains or losses recognized in current income.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34 Accounting for Financial Instruments (SFAS No. 34) and No. 36 Disclosure and Presentation for Financial Instruments and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Company had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

The effect of adopting the newly released SFASs is summarized as follows:

| | Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax) | Recognized as a Separate Component of Shareholders Equity |
|--|---|--|
| Financial assets or liabilities at fair value through profit or loss | \$ (246,186) | \$ |
| Available-for-sale financial assets | | |
| | \$ (246,186) | \$ |

The adoption of the newly released SFASs resulted in a decreased in net income before cumulative effect of changes in accounting principles of NT\$295,669 thousand, a decrease in net income of NT\$541,855 thousand, and a decrease in after income tax basic earnings per share of NT\$0.02, for the three months ended March 31,

2006.

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such change in accounting principle did not have a material effect on the Company's financial statements as of and for the three months ended March 31, 2006.

- 12 -

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the three months ended March 31, 2005 were reclassified to conform with the financial statements as of and for the three months ended March 31, 2006. The previous issued financial statements as of and for the three months ended March 31, 2005 need not be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

1) Short-term investments

Short-term investments that were publicly-traded, easily converted to cash, and not acquired for the purpose of controlling the investees or establishing close business relationship with the investees were carried at the lower of cost or market value at the balance sheet date, with any temporary decline in value charged to current income. The market value of publicly-traded stocks was determined using the average-closing prices for the last month of the period.

2) Derivative financial instruments

The Company entered into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts were recorded in New Taiwan dollars at the current rate of exchange at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted forward rates were amortized over the terms of the forward contracts using the straight-line method. At the end of each period, the receivables or payables arising from forward contracts were restated using the prevailing exchange rates with the resulting differences credited or charged to income. In addition, the receivables and payables related to the same forward contracts were netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement was credited or charged to income in the period of settlement.

The Company entered into cross currency swap contracts to manage currency exposures on foreign-currency-denominated assets and liabilities. The principal amount was recorded using the current rates at the contract date. The differences in the New Taiwan dollar amounts translated using the current rates and the amounts translated using the contracted rates were amortized over the terms of the contracts using the straight-line method. At the end of each period, the receivables or payables arising from cross-currency swap contracts were restated using the prevailing exchange rate with the resulting differences credited or charged to income. In addition, the receivables and payables related to the contracts of the same counter party were netted with the resulting amount presented as either an asset or a liability. The difference in interest computed pursuant to the contracts on each settlement date or the balance sheet date was recorded as an adjustment to the interest income or expense associated with the hedged items. Any resulting gain or loss upon settlement was credited or charged to income in the period of settlement.

The Company entered into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. These transactions were accounted for on an accrual basis, in which the cash settlement receivable or payable was recorded as an adjustment to interest income or expense associated with the hedged items.

Certain accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

| | Before Reclassification | After Reclassification |
|--|------------------------------------|-----------------------------------|
| Balance sheet | | |
| Short-term investments | \$ 51,638,170 | \$ |
| Other financial assets | 179,131 | |
| Prepaid expenses and other current assets | 123,577 | |
| Long-term investments accounted for using cost method | 779,340 | |
| Long-term bonds investment | 16,503,809 | |
| Other long-term investments | 10,436,600 | |
| Accrued expenses and other current liabilities | (854,087) | |
| Financial assets at fair value through profit or loss | | 302,708 |
| Financial liabilities at fair value through profit or loss | | (854,087) |
| Available-for-sale financial assets | | 48,601,822 |
| Held-to-maturity financial assets | | 29,976,757 |
| Financial assets carried at cost | | 779,340 |
| | \$ 78,806,540 | \$ 78,806,540 |
| Statement of income | | |
| Interest income | \$ 160,076 | \$ |
| Foreign exchange gain, net | 2,081,847 | |
| Interest expense | (280,161) | |
| Unrealized valuation loss on short-term investments | (257,718) | |
| Loss on disposal of investment, net | (64,473) | |
| Valuation loss on financial instruments, net | | (257,718) |
| Gain on disposal of financial instruments, net | | 1,897,289 |
| | \$ 1,639,571 | \$ 1,639,571 |

4. CASH AND CASH EQUIVALENTS

| | March 31 | |
|---|-----------------|---------------|
| | 2006 | 2005 |
| Government bonds acquired under repurchase agreements | \$ 61,427,311 | \$ 26,670,303 |
| Cash and deposits in banks | 48,126,259 | 33,198,480 |
| Corporate notes | 436,220 | 350,207 |
| | \$ 109,989,790 | \$ 60,218,990 |

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | March 31 | |
|-----------------------------------|-----------------|-------------|
| | 2006 | 2005 |
| Derivatives financial assets | | |
| Forward contracts | \$ 2,254 | \$ 56,781 |
| Cross currency swap contracts | 56,291 | 245,927 |
| | \$ 58,545 | \$ 302,708 |
| Derivatives financial liabilities | | |
| Forward contracts | \$ 6,597 | \$ 301,914 |
| Cross currency swap contracts | 347,617 | 552,173 |
| | \$ 354,214 | \$ 854,087 |

The Company entered into derivative transactions during the three months ended March 31, 2006 and 2005 to manage exposures related to foreign exchange rate and interest rate fluctuations. The derivative transactions entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, effective January 1, 2006, the Company has discontinued hedge accounting.

Outstanding forward contracts as of March 31, 2006 and 2005:

| | Currency | Maturity | Contract Amount (in Thousands) |
|----------------|-----------------|----------------------------|---|
| March 31, 2006 | | | |
| Sell | EUR/US\$ | April 2006 | US\$ 36,882 |
| March 31, 2005 | | | |
| Sell | US\$/NT\$ | April 2005 to June 2005 | US\$ 708,000 |
| Buy | US\$/NT\$ | April 2005 | US\$ 40,000 |

Outstanding cross currency swap contracts as of March 31, 2006 and 2005:

| Maturity Date | Contract Amount (in Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|----------------------|---|---|---|
| March 31, 2006 | | | |

Net gains arising from derivative financial instruments for the three months ended March 31, 2006 were NT\$558,549 thousand (including realized settlement gains of NT\$854,218 thousand and valuation losses of NT\$295,669 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | March 31 | |
|--|-----------------|---------------|
| | 2006 | 2005 |
| Bond funds | \$ 19,085,320 | \$ 10,667,000 |
| Agency bonds | 13,154,575 | 10,464,473 |
| Corporate bonds | 11,961,405 | 11,003,652 |
| Corporate issued asset backed securities | 10,936,373 | 12,084,193 |
| Government bonds | 4,884,533 | 3,424,308 |
| Structured time deposits | 499,091 | |
| Corporate notes | 97,863 | 157,612 |
| Money market funds | 90,509 | 677,811 |
| Publicly traded stocks | 6,279 | 28,267 |
| Commercial papers | | 94,506 |
| | 60,715,948 | 48,601,822 |
| Current portion | (58,815,063) | (48,601,822) |
| | \$ 1,900,885 | \$ |

The Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of March 31, 2006, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as agency bonds, corporate bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

As of March 31, 2006, structured time deposits categorized as available-for-sale financial assets consisted of the following:

| | Principal Amount | Carrying Amount | Range of Interest Rates | Maturity Date |
|---------------------------|-----------------------------|----------------------------|--|--------------------------|
| Step-up callable deposits | | | | |
| Domestic banks | \$ 500,000 | \$ 499,091 | 1.76% | March 2008 |

The interest rate of the step-up callable deposits is pre-determined by the Company and the banks.

7. HELD-TO-MATURITY FINANCIAL ASSETS

| | March 31 | |
|--------------------------|-----------------|---------------|
| | 2006 | 2005 |
| Government bonds | \$ 7,868,330 | \$ 11,819,517 |
| Corporate bonds | 9,288,167 | 7,720,640 |
| Structured time deposits | 10,641,200 | 10,436,600 |
| | 27,797,697 | 29,976,757 |
| Current portion | (9,120,093) | (3,036,348) |
| | \$ 18,677,604 | \$ 26,940,409 |

Structured time deposits categorized as held-to-maturity financial assets consisted of the following:

| | Principal Amount | Interest Receivable | Range of Interest Rates | Maturity Date |
|---------------------------------|-----------------------------|--------------------------------|------------------------------------|--------------------------------|
| March 31, 2006 | | | | |
| Step-up callable deposits | | | | |
| Foreign bank | \$ 3,500,000 | \$ 16,881 | 1.40%-2.01% | June 2007 to March 2009 |
| Callable range accrual deposits | | | | |
| Foreign bank | 7,141,200 | 26,986 | (See below) | September 2009 to January 2010 |
| | \$ 10,641,200 | \$ 43,867 | | |
| March 31, 2005 | | | | |
| Step-up callable deposits | | | | |
| Domestic banks | \$ 2,000,000 | \$ 7,551 | 2.05%-2.20% | July 2007 to August 2007 |
| Foreign banks | 1,500,000 | 7,988 | 1.44%-2.47% | July 2006 to July 2007 |
| Callable range accrual deposits | | | | |
| Foreign bank | 6,936,600 | 91,730 | (See below) | September 2009 to January 2010 |
| | \$ 10,436,600 | \$ 107,269 | | |

The amount of interest earned by the Company for the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.10% and 3.45%. Based on the terms of the deposits, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the terms of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of March 31, 2006 and 2005, the deposits (under both available-for-sale and held-to-maturity financial assets) that resided in banks located in Hong Kong amounted to NT\$2,596,800 thousand and NT\$2,522,400 thousand, respectively; those resided in banks located in Singapore amounted to NT\$649,200 thousand and NT\$630,600 thousand, respectively.

- 17 -

8. INVENTORIES, NET

| | March 31 | |
|--------------------------|-----------------|---------------|
| | 2006 | 2005 |
| Finished goods | \$ 3,075,200 | \$ 2,844,581 |
| Work in process | 12,192,651 | 10,359,806 |
| Raw materials | 1,899,428 | 896,897 |
| Supplies and spare parts | 795,070 | 684,714 |
| | 17,962,349 | 14,785,998 |
| Allowance for valuation | (1,061,236) | (1,357,013) |
| | \$ 16,901,113 | \$ 13,428,985 |

9. FINANCIAL ASSETS CARRIED AT COST

| | March 31 | |
|----------------------------|-----------------|-------------|
| | 2006 | 2005 |
| Non-publicly traded stocks | \$ 472,500 | \$ 482,500 |
| Funds | 340,854 | 296,840 |
| | \$ 813,354 | \$ 779,340 |

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | March 31 | | | |
|--|-----------------|---------------|-----------------|---------------|
| | 2006 | | 2005 | |
| | Carrying | % of | Carrying | % of |
| | Amount | Owner- | Amount | Owner- |
| | | ship | | ship |
| TSMC International Investment Ltd. (TSMC International) | \$ 25,985,340 | 100 | \$ 23,184,094 | 100 |
| TSMC (Shanghai) Company Limited (TSMC-Shanghai) | 9,352,101 | 100 | 10,732,322 | 100 |
| Vanguard International Semiconductor Corporation (VIS) | 5,541,044 | 27 | 5,698,410 | 28 |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 4,629,413 | 32 | 3,364,490 | 32 |
| TSMC Partners, Ltd. (TSMC Partners) | 4,106,947 | 100 | 3,871,369 | 100 |
| TSMC North America (TSMC-North America) | 1,826,618 | 100 | 556,517 | 100 |
| Emerging Alliance Fund, L.P. (Emerging Alliance) | 1,250,283 | 99 | 747,632 | 99 |
| VentureTech Alliance Fund II, L.P. (VTAF II) | 630,569 | 98 | 321,035 | 98 |
| Global UniChip Corporation (GUC) | 451,841 | 45 | 396,716 | 47 |
| TSMC Japan K. K. (TSMC-Japan) | 94,218 | 100 | 97,787 | 100 |
| Chi Cherng Investment Co., Ltd. (Chi Cherng) | 78,197 | 36 | 50,629 | 36 |
| Hsin Ruey Investment Co., Ltd. (Hsin Ruey) | 77,470 | 36 | 49,879 | 36 |
| | 23,302 | 100 | 23,950 | 100 |

Taiwan Semiconductor Manufacturing Company
Europe B.V. (TSMC-Europe)
VisEra Technologies Company, Ltd. (VisEra)

62,638

25

\$ 54,047,343

\$ 49,157,468

- 18 -

For the three months ended March 31, 2006 and 2005, net equity in earnings of NT\$2,972,039 thousand and losses of NT\$198,178 thousand were recognized from the equity method investees, respectively. The carrying amounts of the investments accounted for using the equity method and the related equity in earnings or losses of equity method investees were determined based on the reviewed financial statements of the investees as of and for the same periods ended as the Company.

In November 2005, the Company transferred all of its shares in VisEra to VisEra Holding Company, an investee of TSMC Partners accounted for using the equity method, due to changes in investment structure.

11. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

| | March 31 | |
|-------------------------|----------------|----------------|
| | 2006 | 2005 |
| Buildings | \$ 44,728,744 | \$ 37,351,006 |
| Machinery and equipment | 323,087,400 | 273,182,396 |
| Office equipment | 5,874,182 | 4,921,126 |
| | \$ 373,690,326 | \$ 315,454,528 |

There was no capitalized interest for the three months ended March 31, 2006 and 2005.

12. DEFERRED CHARGES, NET

| | March 31 | |
|----------------------------------|--------------|--------------|
| | 2006 | 2005 |
| Technology license fees | \$ 4,670,054 | \$ 6,264,489 |
| Software and system design costs | 1,446,346 | 2,050,497 |
| Others | 63,070 | 123,543 |
| | \$ 6,179,470 | \$ 8,438,529 |

13. BONDS PAYABLE

| | March 31 | |
|---|--------------|---------------|
| | 2006 | 2005 |
| Domestic unsecured bonds: | | |
| Issued in December 2000 and repayable in December 2005 and 2007 in two installments, 5.25% and 5.36% interest payable annually, respectively | \$ 4,500,000 | \$ 15,000,000 |
| Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three installments, 2.60%, 2.75% and 3.00% interest payable annually, respectively | 15,000,000 | 15,000,000 |
| | 19,500,000 | 30,000,000 |
| Current portion | (2,500,000) | (10,500,000) |

\$ 17,000,000 \$ 19,500,000

- 19 -

As of March 31, 2006, future principal repayments for the bonds were as follows:

| Year of Repayment | Amount |
|--------------------------|---------------|
| 2007 | \$ 7,000,000 |
| 2009 | 8,000,000 |
| 2010 and thereafter | 4,500,000 |
| | \$ 19,500,000 |

14. OTHER LONG-TERM PAYABLES

Most of the payables resulted from license arrangements for certain semiconductor-related patents. As of March 31, 2006, future payments for other long-term payables were as follows:

| Year of Payment | Amount |
|---|---------------|
| 2006 (2 nd to 4 th quarter) | \$ 817,530 |
| 2007 | 454,440 |
| 2008 | 259,680 |
| 2009 | 259,680 |
| 2010 | 259,680 |
| 2011 and thereafter | 259,680 |
| | 2,310,690 |
| Current portion (classified under accrued expenses and other current liabilities) | (817,530) |
| | \$ 1,493,160 |

15. PENSION PLANS

The Labor Pension Act (the Act) became effective on July 1, 2005 and the pension mechanism under the Act is deemed a defined contribution plan. Employees who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act or continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and have chosen to be subject to the pension mechanism under the Act, their seniority as of July 1, 2005 shall be maintained. Employees who joined the Company after July 1, 2005 can only be subject to the pension mechanism under the Act.

The Act prescribes that the rate of contribution by an employer to employees' pension accounts per month shall not be less than 6% of each employee's monthly salary. Pursuant to the Act, the Company has made monthly contributions to employees' pension accounts starting from July 1, 2005, and recognized pension costs of NT\$155,470 thousand for the three months ended March 31, 2006.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund). The Fund is administered by the pension fund monitoring committee (the Committee) and deposited in the Committee's name in the Central Trust of China. As of March 31, 2006 and 2005, the balance of the Fund amounted to

NT\$1,767,611 thousand and NT\$1,511,688 thousand, respectively.

- 20 -

16. INCOME TAX

- a. A reconciliation of income tax expense based on income before income tax at statutory rate and current income tax expense before tax credits was as follows:

| | Three Months Ended | |
|--|---------------------------|--------------|
| | March 31 | |
| | 2006 | 2005 |
| Income tax expense based on income before income tax at statutory rate (25%) | \$ 8,663,835 | \$ 4,066,335 |
| Tax effect of the following: | | |
| Tax-exempt income | (3,772,846) | (2,236,484) |
| Temporary and permanent differences | (84,382) | 303,375 |
| Cumulative effect of changes in accounting principles | (82,062) | |
| | | |
| Current income tax expense before tax credits | \$ 4,724,545 | \$ 2,133,226 |

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

| | | |
|---|--------------|--------------|
| Current income tax expense before tax credits | \$ 4,724,545 | \$ 2,133,226 |
| Income tax credits | (2,362,272) | (2,133,226) |
| Other income tax adjustments | 8,833 | |
| Net change in deferred income tax assets | | |
| Investment tax credits | 503,405 | (2,557,893) |
| Temporary differences | (1,327,214) | (799,837) |
| Adjustment in valuation allowance | 255,072 | 2,804,674 |
| | | |
| Income tax expense (benefit) | \$ 1,802,369 | \$ (553,056) |

- c. Net deferred income tax assets consisted of the following:

| | March 31 | |
|--|-----------------|---------------|
| | 2006 | 2005 |
| Current deferred income tax assets | | |
| Investment tax credits | \$ 7,276,728 | \$ 7,296,000 |
| | | |
| Noncurrent deferred income tax assets, net | | |
| Investment tax credits | \$ 16,085,638 | \$ 21,146,477 |
| Temporary differences | 644,944 | (1,650,698) |
| Valuation allowances | (9,665,618) | (15,744,720) |
| | | |
| | \$ 7,064,964 | \$ 3,751,059 |

- d. Integrated income tax information:

The balance of the imputation credit account as of March 31, 2006 and 2005 was NT\$80,472 thousand and zero, respectively.

The expected and actual creditable ratio for distribution of earnings of 2005 and 2004 was 0.08% and 0.11%, respectively.

The imputation credit allocated to the shareholders is based on its balance as of the date of dividend distribution. The expected creditable ratio may change when the actual distribution of the imputation credits is made.

- 21 -

- e. All earnings generated prior to December 31, 1997 have been appropriated.
- f. As of March 31, 2006, investment tax credits consisted of the following:

| Law | Item | Total Creditable Amount | Remaining Creditable Amount | Expiry Year |
|-------------------------------------|--|--|--|------------------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment | \$ 4,052,808 | \$ 1,690,536 | 2007 |
| | | 10,994,284 | 10,994,284 | 2008 |
| | | 5,343,688 | 5,343,688 | 2009 |
| | | 252,346 | 252,346 | 2010 |
| | | \$ 20,643,126 | \$ 18,280,854 | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 1,382,993 | \$ 1,382,993 | 2007 |
| | | 1,605,567 | 1,605,567 | 2008 |
| | | 1,597,296 | 1,597,296 | 2009 |
| | | 431,669 | 431,669 | 2010 |
| | | \$ 5,017,525 | \$ 5,017,525 | |
| Statute for Upgrading Industries | Personnel training | \$ 26,780 | \$ 26,780 | 2007 |
| | | 37,207 | 37,207 | 2008 |
| | | \$ 63,987 | \$ 63,987 | |

- g. The profits generated from the following expansion and construction projects are exempt from income tax:

| | Tax-Exemption Period |
|--|-----------------------------|
| Expansion of Fab 2 - modules A and B, Fab 3 and Fab 4, Fab 5 and Fab 6 | 2003 to 2006 |
| Construction of Fab 12 | 2004 to 2007 |

- h. The tax authorities have examined income tax returns of the Company through 2002.

17. LABOR COST, DEPRECIATION AND AMORTIZATION

| Three Months Ended March 31, 2006 | | |
|--|-------------------|--------------|
| | Classified | |
| | as | |
| Classified | Operating | |
| as | Expenses | Total |
| Cost of | | |
| Sales | | |

Edgar Filing: TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD - Form 6-K

| | | | |
|----------------------------|---------------|--------------|---------------|
| Labor cost | | | |
| Salary | \$ 2,585,763 | \$ 1,029,808 | \$ 3,615,571 |
| Labor and health insurance | 168,406 | 81,425 | 249,831 |
| Pension | 141,112 | 68,183 | 209,295 |
| Meal | 115,836 | 39,662 | 155,498 |
| Welfare | 48,480 | 24,345 | 72,825 |
| Others | 51,769 | 3,614 | 55,383 |
| | \$ 3,111,366 | \$ 1,247,037 | \$ 4,358,403 |
| Depreciation | \$ 14,548,962 | \$ 818,442 | \$ 15,367,404 |
| Amortization | \$ 364,266 | \$ 237,773 | \$ 602,039 |

- 22 -

| | Three Months Ended March 31, 2005 | | |
|----------------------------|--|---------------------|---------------------|
| | Classified | | |
| | as | | |
| | Classified | Operating | |
| | as | Expenses | Total |
| | Cost of | | |
| | Sales | | |
| Labor cost | | | |
| Salary | \$ 2,029,905 | \$ 836,497 | \$ 2,866,402 |
| Labor and health insurance | 152,768 | 72,370 | 225,138 |
| Pension | 145,158 | 68,770 | 213,928 |
| Meal | 98,219 | 31,140 | 129,359 |
| Welfare | 34,846 | 20,295 | 55,141 |
| Others | 26,925 | 5,825 | 32,750 |
| | \$ 2,487,821 | \$ 1,034,897 | \$ 3,522,718 |
| Depreciation | \$ 15,164,392 | \$ 712,831 | \$ 15,877,223 |
| Amortization | \$ 328,014 | \$ 448,626 | \$ 776,640 |

18. SHAREHOLDERS EQUITY

The Company has issued a total of 864,194 thousand ADSs which are traded on the NYSE as of March 31, 2006. The number of common shares represented by the ADSs is 4,320,969 thousand shares (one ADS represents five common shares).

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which is limited to a certain percentage of the Company's paid-in capital.

Capital surplus consisted of the following:

| | March 31 | |
|----------------------------------|----------------------|----------------------|
| | 2006 | 2005 |
| From merger | \$ 24,003,546 | \$ 24,003,546 |
| Additional paid-in capital | 23,341,345 | 23,077,544 |
| From convertible bonds | 9,360,424 | 9,360,424 |
| From treasury stock transactions | 306,868 | 3,090 |
| From long-term investments | 196,129 | 129,718 |
| Donations | 55 | 55 |
| | \$ 57,208,367 | \$ 56,574,377 |

The Company's Articles of Incorporation as revised on May 10, 2005 provide that, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly:

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the Company's paid-in capital;
- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;

- 23 -

- c. Bonus to directors and supervisors and bonus to employees of the Company equal to not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors and supervisors. The Company may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting. The Company's Articles of Incorporation also stipulate that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are recorded in the financial statement in the year of shareholder approval.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company's paid-in capital, up to 50% of the reserve may be transferred to capital.

A special capital reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial assets, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2005 and 2004 were approved in the Board of Directors' meeting and the shareholders' meeting held on February 14, 2006 and May 10, 2005, respectively. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|--|----------------------------------|-------------------|---------------------------------------|---------------------------------|
| | For Fiscal | For Fiscal | For | For |
| | Year 2005 | Year 2004 | Fiscal Year 2005 | Fiscal Year 2004 |
| Legal capital reserve | \$ 9,357,503 | \$ 8,820,201 | | |
| Special capital reserve | (1,585,685) | 2,226,427 | | |
| Employees' profit sharing in cash | 3,432,129 | 3,086,215 | | |
| Employees' profit sharing in stock | 3,432,129 | 3,086,215 | | |
| Cash dividends to common shareholders | 61,825,061 | 46,504,097 | \$ 2.50 | \$ 2.00 |
| Stock dividends to common shareholders | 3,709,504 | 11,626,024 | 0.15 | 0.50 |
| Bonus to directors and supervisors | 257,410 | 231,466 | | |
| | \$ 80,428,051 | \$ 75,580,645 | | |

The Board of Directors also resolved to distribute stock dividends out of capital surplus in the amount of NT\$3,709,504 thousand on February 14, 2006.

The amounts of the above appropriation of earnings for 2004 are consistent with those resolved in the meeting of the Board of Directors on February 22, 2005. The appropriation of earnings for 2005 and the stock dividends to be distributed out of capital surplus have not yet been resolved by the shareholders. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings for 2005 and 2004, the after income tax basic earnings per share for the years ended December 31, 2005 and 2004 would have decreased from NT\$3.79 to NT\$3.50 and NT\$3.97 to NT\$3.70, respectively.

- 24 -

The shares distributed as a bonus to employees represented 1.39% and 1.33% of the Company's total outstanding common shares as of December 31, 2005 and 2004, respectively.

The above information about the appropriations of bonus to employees, directors and supervisors is available at Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated since January 1, 1998.

19. STOCK-BASED COMPENSATION PLANS

The Company's Employee Stock Option Plans under the 2005 Plan, 2003 Plan and 2002 Plan were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of options authorized to be granted under the 2005 Plan, the 2003 Plan and the 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share when exercisable. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of the Company's common shares listed on the TSE on the grant date.

Options of the aforementioned Plans that had never been granted or had been granted but subsequently cancelled had expired as of March 31, 2006.

Information about outstanding stock options for the three months ended March 31, 2006 and 2005 was as follows:

| | Number of Stock Options (in Thousands) | Weighted- average Exercise Price (NT\$) |
|-----------------------------------|---|--|
| Three months ended March 31, 2006 | | |
| Balance, beginning of period | 67,758 | 42.1 |
| Options exercised | (3,028) | 38.8 |
| Options cancelled | (1,117) | 46.6 |
| Balance, end of period | 63,613 | 42.2 |
| Three months ended March 31, 2005 | | |
| Balance, beginning of period | 64,367 | 44.1 |
| Options exercised | (899) | 41.2 |
| Options cancelled | (1,688) | 44.7 |

| | | |
|------------------------|--------|------|
| Balance, end of period | 61,780 | 44.1 |
|------------------------|--------|------|

The numbers of outstanding options and exercise prices have been adjusted to reflect the appropriations of dividends in accordance with the Plans.

- 25 -

As of March 31, 2006, information about outstanding and exercisable options was as follows:

| Range of Exercise Price (NT\$) | Number of Options (in Thousands) | Options Outstanding | | Options Exercisable | |
|--------------------------------------|--|---|---|--|---|
| | | Weighted- average Remaining Contractual Life (Years) | Weighted- average Exercise Price (NT\$) | Number of Options (in Thousands) | Weighted- average Exercise Price (NT\$) |
| \$29.9-\$42.1 | 42,459 | 5.87 | \$ 38.72 | 26,600 | \$ 38.1 |
| \$47.0-\$54.5 | 21,154 | 7.58 | 49.19 | 300 | 54.4 |
| | 63,613 | | | 26,900 | |

No compensation cost was recognized under the intrinsic value method for the three months ended March 31, 2006 and 2005. Had the Company used the fair value based method (based on the Black-Scholes model) to evaluate the options granted after January 1, 2004, the assumptions and pro forma results of the Company for the three months ended March 31, 2006 and 2005 would have been as follows:

| | Three Months Ended March 31 | |
|---|-----------------------------|---------------|
| | 2006 | 2005 |
| Assumptions: | | |
| Expected dividend yield | 1.00%-3.44% | 1.00% |
| Expected volatility | 43.77%-46.15% | 43.77%-46.15% |
| Risk free interest rate | 3.07%-3.85% | 3.07%-3.85% |
| Expected life | 5 years | 5 years |
| Net income: | | |
| Net income as reported | \$32,606,786 | \$ 16,818,397 |
| Pro forma net income | 32,577,069 | 16,798,577 |
| Earnings per share (EPS) after income tax (NT\$): | | |
| Basic EPS as reported | 1.32 | 0.68 |
| Pro forma basic EPS | 1.32 | 0.68 |
| Diluted EPS as reported | 1.32 | 0.68 |
| Pro forma diluted EPS | 1.32 | 0.68 |

20. TREASURY STOCK

| | Beginning Shares | Increase | Disposal | (Shares in Thousands) Ending Shares |
|---|---------------------|----------|----------|--|
| Three months ended March 31, 2006 | | | | |
| Parent company stock held by subsidiaries | 32,938 | | | 32,938 |

Edgar Filing: TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD - Form 6-K

Three months ended March 31, 2005

| | | | |
|---|--------|-----|--------|
| Parent company stock held by subsidiaries | 45,521 | 484 | 45,037 |
|---|--------|-----|--------|

- 26 -

Proceeds from sales of treasury stock for the three months ended March 31, 2005 were NT\$26,044 thousand. As of March 31, 2006 and 2005, the book value of the treasury stock were NT\$918,075 thousand and NT\$1,572,027 thousand, respectively; the market value was NT\$2,114,650 thousand and NT\$2,336,080 thousand, respectively. The Company's stocks held by its subsidiaries are treated as treasury stock and the holders are entitled to the rights of shareholders, except that starting from June 24, 2005, pursuant to the revised Company Law, the holders are no longer entitled to vote in shareholders' meetings.

21. EARNINGS PER SHARE

| | For the Three Months Ended March 31 | | | |
|---|-------------------------------------|------------------------|-------------------------|------------------------|
| | 2006 | | 2005 | |
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
| Basic EPS (NT\$) | | | | |
| Income before cumulative effect of changes in accounting principles | \$ 1.40 | \$ 1.33 | \$ 0.66 | \$ 0.68 |
| Cumulative effect of changes in accounting principles | (0.01) | (0.01) | | |
| Income for the period | \$ 1.39 | \$ 1.32 | \$ 0.66 | \$ 0.68 |
| Diluted EPS (NT\$) | | | | |
| Income before cumulative effect of change in accounting principles | \$ 1.40 | \$ 1.33 | \$ 0.66 | \$ 0.68 |
| Cumulative effect of changes in accounting principles | (0.01) | (0.01) | | |
| Income for the period | \$ 1.39 | \$ 1.32 | \$ 0.66 | \$ 0.68 |

EPS is computed as follows:

| | Amounts (Numerator) | | Number of Shares (Denominator) (in Thousands) | EPS (NT\$) | |
|---|-------------------------|------------------------|---|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |
| Three months ended March 31, 2006 | | | | | |
| Basic EPS | | | | | |
| Income available to common shareholders | \$ 34,327,093 | \$ 32,606,786 | 24,699,304 | \$ 1.39 | \$ 1.32 |
| Effect of dilutive potential common stock - stock options | | | 21,320 | | |
| Diluted EPS | | | | | |
| Income available to common shareholders (including effect of dilutive potential common stock) | \$ 34,327,093 | \$ 32,606,786 | 24,720,624 | \$ 1.39 | \$ 1.32 |

Three months ended March 31,
2005

Basic EPS

| | | | | | |
|--|---------------|---------------|------------|---------|---------|
| Income available to common shareholders | \$ 16,265,341 | \$ 16,818,397 | 24,675,841 | \$ 0.66 | \$ 0.68 |
|--|---------------|---------------|------------|---------|---------|

Effect of dilutive potential common
stock stock options

8,525

Diluted EPS

| | | | | | |
|---|---------------|---------------|------------|---------|---------|
| Income available to common shareholders (including effect of dilutive potential common stock) | \$ 16,265,341 | \$ 16,818,397 | 24,684,366 | \$ 0.66 | \$ 0.68 |
|---|---------------|---------------|------------|---------|---------|

- 27 -

22. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

| | March 31 | | | |
|---|--------------------|---------------|--------------------|---------------|
| | 2006 | | 2005 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | |
| Available-for-sale financial assets | \$ 60,715,948 | \$ 60,715,948 | \$ 48,601,822 | \$ 48,601,822 |
| Held-to-maturity financial assets | 27,797,697 | 27,386,028 | 29,976,757 | 29,979,070 |
| Long-term investments accounted for using equity method (with market price) | 5,541,044 | 10,378,016 | 5,698,410 | 9,705,906 |
| Liabilities | | | | |
| Forward contracts, net | 4,343 | 4,343 | 245,133 | 207,356 |
| Cross currency swap contracts, net | 291,326 | 291,326 | 306,246 | 331,511 |
| Bonds payable (including current portion) | 19,500,000 | 19,904,420 | 30,000,000 | 30,522,754 |

b. Methods and assumptions used in the determination of fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable (guarantee) deposits, payables, and payable to contractors and equipment suppliers. The carrying amounts of these financial instruments approximate their fair values.
 - 2) The aforementioned financial instruments do not include long-term payables either. The fair value was determined using the discounted value of expected cash flows, which approximates their carrying amount.
 - 3) Fair values of available-for-sale and held-to-maturity financial assets were based on their quoted market price.
 - 4) Fair value of bonds payable was based on their quoted market price.
 - 5) Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- c. Loss recognized for the changes in fair value of derivatives estimated using valuation techniques were NT\$295,669 thousand for the three months ended March 31, 2006.
- d. As of March 31, 2006 and 2005, financial assets exposed to fair value interest rate risk were NT\$88,565,911 thousand and NT\$78,853,020 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$354,214 thousand and NT\$854,087 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT\$7,141,200 thousand and NT\$6,936,600 thousand, respectively.
- e. The Company recognized an unrealized loss of NT\$400,789 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2006. The Company also recognized an unrealized gain of NT\$433,658 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity method investees for the three months ended March 31, 2006.

f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets at fair value through profit or loss are mainly used to hedge foreign exchange fluctuations of foreign- currency- denominated assets and liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of these assets and liabilities. Available-for-sale financial assets held by the Company are mainly fixed interest rate debt instruments. Therefore, the fluctuations in prevailing interest rates would result in changes in fair values of these debt instruments. However, the market risk could not be reasonably estimated due to the complexity of the Company's investment portfolios.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached the contracts. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing derivative financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes its exposure to default by those parties is low.
- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlements of derivative financial instruments. Therefore, the cash flow risk is low.

23. RELATED PARTY TRANSACTIONS

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

- a. Industrial Technology Research Institute (ITRI), the chairman of the Company is one of its supervisors.
- b. Philips, a major shareholder of the Company.
- c. Subsidiaries
 - TSMC-North America
 - TSMC-Europe
 - TSMC-Japan
 - TSMC-Shanghai
- d. Investees
 - GUC (with a controlling financial interest)
 - VIS (accounted for using equity method)
 - SSMC (accounted for using equity method)
- e. Indirect subsidiaries
 - WaferTech, LLC (WaferTech)
 - TSMC Technology, Inc. (TSMC Technology)
- f. Indirect investee

VisEra, originally an investee over which the Company had a controlling interest; beginning in November 2005, VisEra became an indirect investee accounted for using the equity method due to changes in investment structure.

Transactions with the aforementioned parties, excluding those disclosed in other notes, are summarized as follows:

| | 2006 | | 2005 | |
|--|---------------|----|---------------|----|
| | Amount | % | Amount | % |
| For the three months ended March 31 | | | | |
| Sales | | | | |
| TSMC-North America | \$ 44,102,519 | 56 | \$ 31,759,070 | 56 |
| Philips | 1,035,524 | 1 | 469,031 | 1 |
| Others | 170,866 | | 101,362 | |
| | \$ 45,308,909 | 57 | \$ 32,329,463 | 57 |
| Purchases | | | | |
| WaferTech | \$ 3,118,957 | 26 | \$ 2,514,006 | 32 |
| SSMC | 1,936,912 | 16 | 1,053,623 | 13 |
| TSMC-Shanghai | 996,913 | 9 | 73,752 | 1 |
| VIS | 736,971 | 6 | 1,013,490 | 13 |
| | \$ 6,789,753 | 57 | \$ 4,654,871 | 59 |
| Manufacturing expenses technical assistance fees Philips (Note 26a) | \$ 188,976 | 1 | \$ 11,391 | |
| Marketing expenses commission | | | | |
| TSMC-Japan | \$ 48,686 | 7 | \$ 55,692 | 20 |
| TSMC-Europe | 45,213 | 7 | 44,797 | 16 |
| | \$ 93,899 | 14 | \$ 100,489 | 36 |
| General and administrative expenses rental expense GUC | \$ 4,186 | | \$ 3,976 | |
| Research and development expenses GUC | \$ 22,389 | 1 | \$ 1,000 | |
| Sales of property, plant and equipment TSMC-Shanghai | \$ 100,423 | 22 | \$ 36,469 | 30 |

| | | | | | |
|---|----|---------|---|------------|---|
| Non-operating income and gains | | | | | |
| SSMC (primarily technical service income, see Note 26e) | \$ | 71,952 | 1 | \$ 62,342 | 2 |
| TSMC-Shanghai | | 60,776 | 1 | 1,394 | |
| VIS (primarily technical service income, see Note 26h) | | 49,537 | 1 | 32,303 | 1 |
| VisEra | | 45,922 | 1 | 4,017 | |
| | \$ | 228,187 | 4 | \$ 100,056 | 3 |

(Continued)

| | 2006 | | 2005 | |
|--------------------------|---------------|-----|---------------|-----|
| | Amount | % | Amount | % |
| As of March 31 | | | | |
| Receivables | | | | |
| TSMC-North America | \$ 20,821,546 | 98 | \$ 13,822,886 | 98 |
| Philips | 321,540 | 2 | 179,348 | 1 |
| Others | 105,870 | | 77,248 | 1 |
| | \$ 21,248,956 | 100 | \$ 14,079,482 | 100 |
| Other receivables | | | | |
| TSMC-North America | \$ 319,449 | 47 | \$ 377,009 | 14 |
| TSMC-Shanghai | 154,400 | 23 | 1,553,163 | 59 |
| SSMC | 98,395 | 14 | 75,472 | 3 |
| VisEra | 58,445 | 8 | 34,296 | 1 |
| VIS | 51,144 | 8 | 34,850 | 1 |
| TSMC Technology | 1,839 | | 570,601 | 22 |
| Others | 3 | | 30 | |
| | \$ 683,675 | 100 | \$ 2,645,421 | 100 |
| Payables | | | | |
| WaferTech | \$ 1,076,937 | 31 | \$ 735,306 | 26 |
| VIS | 716,048 | 20 | 636,782 | 22 |
| Philips | 685,718 | 20 | 1,032,341 | 36 |
| SSMC | 428,357 | 12 | 337,355 | 12 |
| TSMC-Shanghai | 361,221 | 10 | 48,265 | 2 |
| Others | 244,523 | 7 | 73,440 | 2 |
| | \$ 3,512,804 | 100 | \$ 2,863,489 | 100 |
| Other long-term payables | | | | |
| Philips (Note 26a) | \$ 1,087,410 | 100 | \$ 1,722,326 | 100 |
| Deferred credits | | | | |
| TSMC-Shanghai | \$ 633,122 | 52 | \$ 684,423 | 100 |
| VisEra | 170,981 | 14 | | |
| | \$ 804,103 | 66 | \$ 684,423 | 100 |

The terms of sales to related parties were not significantly different from those to third parties. For other related party transactions, prices were determined in accordance with related contractual agreements.

The Company deferred the gains (classified under the deferred credits) derived from sales of property, plant and equipment to TSMC-Shanghai and VisEra, and then recognized such gains (classified under the non-operating income and gains) over the depreciable lives of the disposed assets.

The Company leased part of its office space from GUC with a quarterly rental of NT\$4,186 thousand. The Company also leased certain buildings and facilities to VisEra with a monthly rental of NT\$7,684 (classified under the non-operating income and gains).

24. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science-Based Industrial Park Administration. These operating leases expire on various dates from March 2008 to December 2020 and can be renewed upon expiration.

As of March 31, 2006, future lease payments were as follows:

| Year | Amount |
|---|---------------|
| 2006 (2 nd to 4 th quarter) | \$ 193,552 |
| 2007 | 248,185 |
| 2008 | 222,450 |
| 2009 | 213,872 |
| 2010 | 166,803 |
| 2011 and thereafter | 1,103,708 |
| | \$ 2,148,570 |

25. SETTLEMENT INCOME

TSMC, TSMC-North America and WaferTech filed a series of lawsuits in late 2003 and 2004 against Semiconductor Manufacturing International Corporation (SMIC), SMIC (Shanghai) and SMIC Americas. The lawsuits alleged that SMIC companies infringed multiple TSMC patents and misappropriated TSMC's trade secrets. These suits were settled out of court on January 30, 2005. As part of the settlement, SMIC shall pay TSMC US\$175 million over six years to resolve TSMC's claims.

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of March 31, 2006, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, the Company and Philips amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between the Company and Philips will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, the Company will pay Philips royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the Company's annual net sales. The Company and Philips agreed to cross license the patents owned by each party. The Company also obtained through Philips a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of March 31, 2006, the Company had a

total of US\$98,586 thousand of guarantee deposits.

- 32 -

- d. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. The Company and Philips committed to buy specific percentages of the production capacity of SSMC. The Company and Philips are required, in the aggregate, to purchase up to 70% of SSMC's full capacity, but the Company alone is not required to purchase more than 28% of the annual installed capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. The Company provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling price of all products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each unless pre-terminated by either party under certain conditions.
- f. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated. Under the Termination Agreement, the Company will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- g. In December 2003, the Company entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. The Company will also license related 90-nm SOI technology from Freescale Semiconductor, Inc. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company will pay royalties to Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- h. The Company provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into on April 1, 2004. The Company receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for the Company certain products at prices as agreed by the parties.
- i. Amounts available under unused letters of credit as of March 31, 2006 were NT\$6,480 thousand.

27. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for the Company and its 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 or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;

- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;

- 33 -

- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 8 attached;
- j. Information about derivatives of investees over which the Company has a controlling interest:

TSMC-Shanghai entered into forward contracts during the three months ended March 31, 2006 to manage exposures related to foreign exchange rate fluctuations.

Outstanding forward contracts as of March 31, 2006:

| | Currency | Maturity Date | Contract Amount (in Thousands) |
|---|-----------------|----------------------|---|
| Sell | US\$/JPY | April 2006 | JPY 63,500 |
| Valuation losses arising from forward contracts for the three months ended March 31, 2006 were NT\$57 thousand. | | | |

- k. Information on investment in Mainland China
 - 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investment: Please see Table 9 attached.
 - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: Please see Note 23.

TABLE 1

**Taiwan Semiconductor Manufacturing Company Limited and Investees
FINANCING PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Financial Statement | Account | Maximum | Ending Balance | Type of Financing | Transaction | Reasons for Short-term Financing | Allowance for Bad Debt | Collateral Item | Value |
|---------------------|-------------------|--|-----------------|-------------------|-------------|----------------------------------|------------------------|-----------------|-------|
| | | Balance for the Period (US\$ in Thousands) | | | | | | | |
| | Other receivables | \$ 1,136,100 | \$ 1,136,100 | 1.50% | 2 | \$ | Operating capital | \$ | - |
| | | (US\$ 35,000) | (US\$ 35,000) | | | | | | |

Note 1: The type No. 2 represents necessary for short-term financing.

Note 2: Not exceeding the issued capital of the Company.

Note 3: Generally not exceeding the issued capital of the Company, unless approved by all members of the board.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited
ENDORSEMENT/GUARANTEE PROVIDED
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| Counter-party | Nature of Relationship | Limits on Each Counter-party | Endorsement/ Guarantee Amounts | Maximum Balance for the Period | Ending Balance | Value of Collateral | Property, Plant and Equipment |
|------------------|------------------------|---|--------------------------------|--------------------------------|--------------------------------|---------------------|-------------------------------|
| | (Note) | | | (US\$ in Thousands) | (US\$ in Thousands) | Equipment | State |
| TSMC Development | 2 | Not exceed 10% of the net worth of the Company, and be also limited to the paid-in capital of the endorsement/guarantee company, unless otherwise approved by Board of Directors. | | \$ 1,947,600 (US\$ 60,000) | \$ 1,947,600 (US\$ 60,000) | \$ | 0.4 |

Note 1: 25% of the net worth of the Company as of March 31, 2006.

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

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES HELD
MARCH 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (in Thousands) | March 31, 2006 | | Percentage of Ownership |
|---|-------------------------------|--|-----------------------------------|---|--|----------------------------|
| | | | | Carrying Value (US\$ in Thousands) | | |
| Government bonds | | | | | | |
| Kreditanstalt Fur Wiederaufbau | | Available-for-sale financial assets | | US\$ 6,853 | | N/A |
| United States Treas Nts | | | | US\$ 112,671 | | N/A |
| 2004 Government Bond Series B | | | | \$1,004,783 | | N/A |
| 2004 Government Bond Series E | | Held-to-maturity financial assets | | 4,200,354 | | N/A |
| 2005 Government Bond Series A | | | | 2,545,192 | | N/A |
| 2004 Kaohsiung Municipal Bond Series A | | | | 619,995 | | N/A |
| 2002 Government Bond Series B | | | | 353,481 | | N/A |
| 2002 Government Bond Series F | | | | 149,308 | | N/A |
| Bond funds | | | | | | |
| NITC Bond Fund | | Available-for-sale financial assets | 20,992 | 3,418,415 | | N/A |
| ABN AMRO Bond Fund | | | 158,407 | 2,362,227 | | N/A |
| Prudential Financial Bond Fund | | | 103,751 | 1,500,960 | | N/A |
| Cathay Bond | | | 122,762 | 1,401,845 | | N/A |
| NITC Taiwan Bond | | | 93,312 | 1,301,437 | | N/A |
| Dresdner Bond DAM Fund | | | 104,217 | 1,195,177 | | N/A |
| JF Taiwan Bond Fund | | | 75,286 | 1,136,999 | | N/A |
| JF Taiwan First Bond Fund | | | 77,530 | 1,078,535 | | N/A |
| ABN AMRO Select Bond Fund | | | 89,700 | 1,006,294 | | N/A |
| ABN AMRO Income | | | 63,947 | 1,000,751 | | N/A |
| Fuhwa Albatross Fund | | | 71,619 | 800,314 | | N/A |
| Fuh Hwa Bond | | | 60,642 | 800,237 | | N/A |
| Shinkong Chi Shin Bond Fund | | | 55,063 | 780,982 | | N/A |
| HSBC Taiwan Money Management | | | 40,864 | 600,978 | | N/A |
| President James Bond | | | 39,288 | 600,169 | | N/A |
| TIIM High Yield | | | 8,147 | 100,000 | | N/A |

(Continued)

| | | March 31, 2006 | | | | |
|--|--|---|-----------------------------|------------------------------------|-------------------------|------------------------|
| | | Carrying Value | | | Net Ass | |
| | | (US\$ in | | | of | |
| | | Thousands) | | | Ownership Thou | |
| | | (in | | | Percentage | |
| | | Thousands) | | | (US | |
| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (in Thousands) | Carrying Value (US\$ in Thousands) | Percentage of Ownership | Net Ass (US Thousands) |
| Stock | | | | | | |
| Taiwan Mask Corp. | | Available-for-sale financial assets | 389 | \$ 6,279 | | \$ |
| TSMC International | Subsidiary | Investments accounted for using equity method | 987,968 | 25,985,340 | 100 | 25, |
| VIS | Investee accounted for using equity method | | 437,891 | 5,541,044 | 27 | 10, |
| SSMC | Investee accounted for using equity method | | 382 | 4,629,413 | 32 | 4, |
| TSMC Partners | Subsidiary | | 300 | 4,106,947 | 100 | 4, |
| TSMC-North America | Subsidiary | | 11,000 | 1,826,618 | 100 | 1, |
| GUC | Investee with controlling financial interest | | 40,147 | 451,841 | 45 | |
| TSMC-Japan | Subsidiary | | 6 | 94,218 | 100 | |
| TSMC-Europe | Subsidiary | | | 23,302 | 100 | |
| United Industrial Gases Co., Ltd. | | Financial assets carried at cost | 16,783 | 193,584 | 10 | |
| Shin-Etsu Handotai Taiwan Co., Ltd. | | | 10,500 | 105,000 | 7 | |
| Hontung Venture Capital Co., Ltd. | | | 8,392 | 83,916 | 10 | |
| Gobaltop Partner I Venture Capital Corp. | | | 5,000 | 50,000 | 1 | |
| W.K. Technology Fund IV | | | 4,000 | 40,000 | 2 | |
| Capital | | | | | | |
| TSMC-Shanghai | Subsidiary | Investments accounted for using equity method | | 9,352,101 | 100 | 9, |
| Emerging Alliance | Subsidiary | | | 1,250,283 | 99 | 1, |
| VTAI II | Subsidiary | | | 630,569 | 98 | |
| Chi Cherng | Subsidiary | | | 78,197 | 36 | |
| Hsin Ruey | Subsidiary | | | 77,470 | 36 | |

| | | | | | |
|-------------------------------|--------------------|------|-------|-----|------|
| Corporate bonds | | | | | |
| Abbott Labs | Available-for-sale | US\$ | 1,508 | N/A | US\$ |
| | financial assets | | | | |
| Abbott Labs | | US\$ | 2,567 | N/A | US\$ |
| Ace Ltd. | | US\$ | 1,005 | N/A | US\$ |
| AIG Sunamerica Global Fing Ix | | US\$ | 997 | N/A | US\$ |
| Allstate Life Global Fdg Secd | | US\$ | 2,931 | N/A | US\$ |
| Alltel Corp. | | US\$ | 596 | N/A | US\$ |
| American Express Co. | | US\$ | 3,422 | N/A | US\$ |

(Continued)

March 31, 2006

Carrying
Value

| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (in Thousands) | (US\$ in Thousands) | Percentage Ownership |
|-------------------------------------|-------------------------------|-------------------------------------|-----------------------------|---------------------|----------------------|
| American Gen Fin Corp. | | Available-for-sale financial assets | | US\$ 1,638 | N/A |
| American Gen Fin Corp. Mtn | | | | US\$ 1,005 | N/A |
| American Honda Fin Corp. Mtn | | | | US\$ 802 | N/A |
| American Honda Fin Corp. Mtn | | | | US\$ 3,068 | N/A |
| Ameritech Capital Funding Co. | | | | US\$ 485 | N/A |
| Amgen Inc. | | | | US\$ 2,870 | N/A |
| Amsouth Bk Birmingham Ala | | | | US\$ 1,972 | N/A |
| Anz Cap Tr I | | | | US\$ 957 | N/A |
| Associates Corp. North Amer | | | | US\$ 2,549 | N/A |
| Bank New York Inc. | | | | US\$ 1,477 | N/A |