TSMC 2005 Business Overview

Taiwan Semiconductor
Manufacturing Company, Ltd.

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TSMC's newest manufacturing facility, Fab 14 in Tainan Science Park, is depicted on the cover of this report. Fab 14 began operations in late 2004 and installed capacity grew to 20,000 12-inch wafers by the end of 2005. Fab 14's growth is one of many examples of TSMC's steady expansion in 2005 and in recent years. The picture below shows Fab 14 under construction in May, 2001.

- TSMC's shares are listed on the Taiwan Stock Exchange (TSE) under the code 2330.
- Depositary receipts of the common shares are listed on the New York Stock Exchange (NYSE) under the symbol TSM.

TSMC's Vision

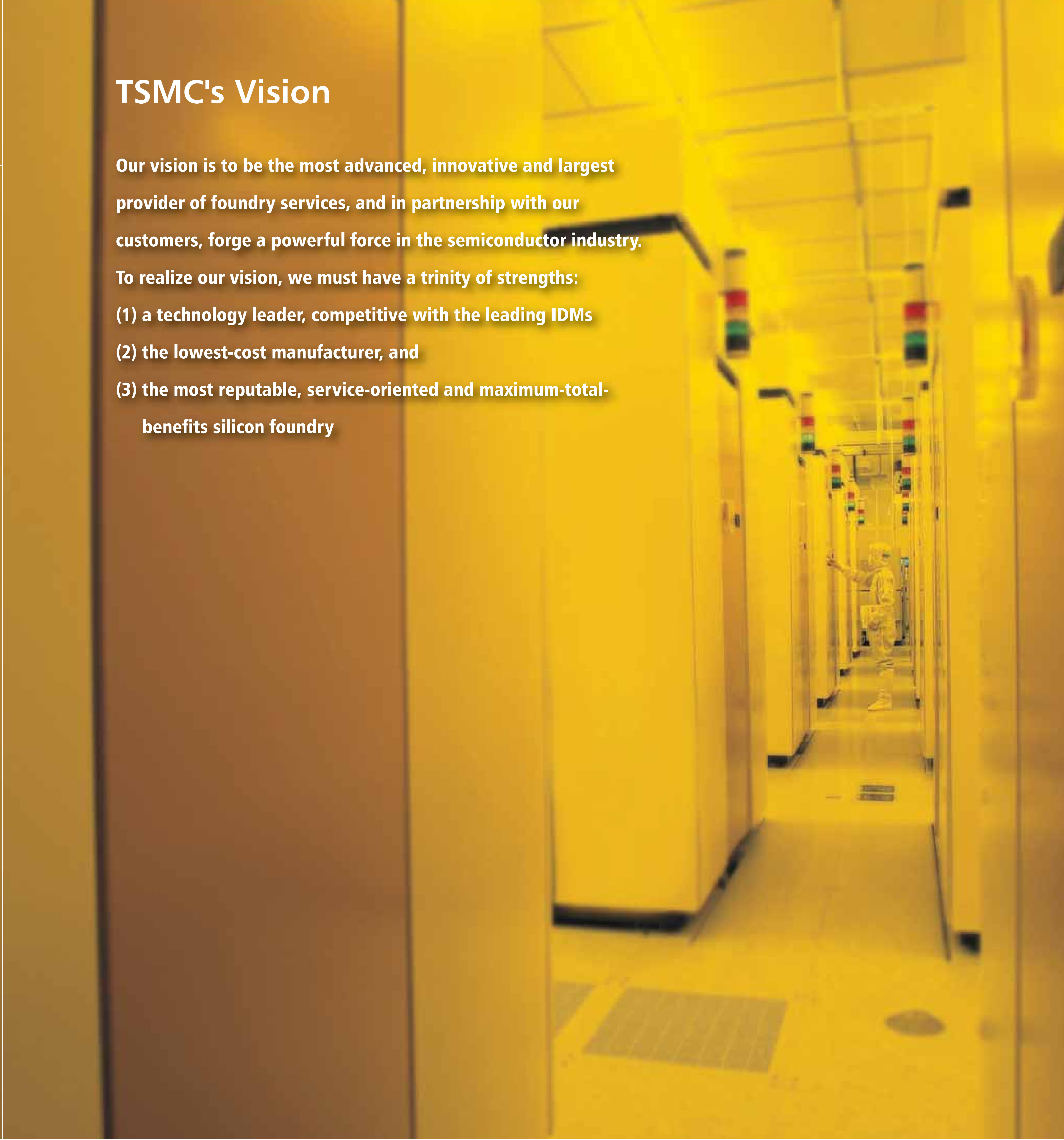
Our vision is to be the most advanced, innovative and largest provider of foundry services, and in partnership with our customers, forge a powerful force in the semiconductor industry.

To realize our vision, we must have a trinity of strengths:

(1) a technology leader, competitive with the leading IDMs

(2) the lowest-cost manufacturer, and

(3) the most reputable, service-oriented and maximum-total-benefits silicon foundry



TSMC Core Values

Integrity

Integrity is our most basic and most important core value. We tell the truth. We believe the record of our accomplishments is the best proof of our merit. Hence, we do not brag. We do not make commitments lightly. Once we make a commitment, we devote ourselves completely to meeting that commitment. We compete to our fullest within the limits of the law, but we do not slander our competitors. We also respect intellectual property rights of others. With vendors, we maintain an objective, consistent, and impartial attitude. We do not tolerate any form of corrupt behavior or politicking. At TSMC, company politics are forbidden. When selecting new employees, we place emphasis on the candidates' qualifications and character, not connections or "guan-xi".

Customer Partnership

At TSMC, customers come first. Their success is our success, and we value their ability to compete as we value our own. We strive to build deep and enduring relationships with our customers, who trust and rely on us to be part of their success over the long term.

Innovation

Innovation is the wellspring of TSMC's growth, and is a part of all aspects of our business, from strategic planning, marketing and management, to technology and manufacturing. At TSMC, innovation means more than new ideas. An idea does not bring any benefits unless it is put into practice.

Commitment

TSMC is committed to the welfare of customers, suppliers, employees, shareholders, and society. These stakeholders all contribute to TSMC's success, and TSMC is dedicated to serving their best interests. In turn, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

Rick Tsai
President and CEO

Morris Chang
Chairman

F. C. Tseng
Vice Chairman

Letter to Shareholders

Dear Shareholders,

TSMC continued to grow in 2005, a year that began at the low end of capacity utilization but ended with another record for revenue and earnings.

Since the worst downturn in semiconductor history in 2001, TSMC has steadily improved its performance year over year. Through cyclical upturns and downturns, TSMC has drawn on its industry-leading technology, manufacturing excellence, and strong customer partnerships to deliver consistent profitability and growth.

Financial Results

Revenue for 2005 totaled NT$264.6 billion, an increase of 3.4% compared with NT$255.9 billion in 2004. Net income was NT$93.58 billion, an increase of 1.4% compared with NT$92.32 billion in 2004. Earnings per share were NT$3.79, an increase of 1.5% compared with fully diluted earnings per share of NT$3.73 the previous year. In US dollars, revenue for 2005 was US$8.23 billion, an increase of 7.5%, while net income grew to US$2.91 billion, an increase of 5.4%.
Among other highlights in 2005, TSMC achieved:

- Total average capacity utilization of 92%
- Average gross profit margin of 43.6%
- Average operating profit margin of 35.2%

During the year, TSMC provided 5.96 million eight-inch equivalent wafer capacity, representing approximately 7.4% of global IC wafer supply.

Cycle Management

Since our founding in 1987 through this year, TSMC has steadily expanded our business and improved our ability to manage cycles and deliver profit and positive cash flows. With the single exception of 1997, we have achieved positive free cash flow every year since our Initial Public Offering in 1994, while trough utilization rates have improved with stronger gross margins since the industry's record downturn in 2001.

TSMC has painstakingly built internal long-range planning processes that strategically expand capacity and allow the company to respond appropriately to cyclical demand trends. In this way, the Company can optimize ramp-up times at each new generation of chip process technologies, while also increasing our reliability as a manufacturing partner, building sustainable market share and maximizing profitability. As a result of expanded capacity and quality improvement, TSMC's share of the pure-play semiconductor foundry segment expanded from 47% in 2000 to approximately 50% in 2005, while simultaneously delivering substantially higher operating profit than the rest of the sector competitors combined.

Core Strengths to Satisfy Customers

A solid foundation of technological innovation and the development and deployment of proprietary process technologies for the most advanced integrated devices drives TSMC's success. For example, since entering volume production, our proprietary 0.13μm process technology has consistently captured substantial market share among all other major foundries. Through our innovative Nexsys℠ process technology, the Company is well situated to capture a leading share position at the 90nm and 65nm nodes.

TSMC's manufacturing excellence is further enhanced by a company-wide focus on operating efficiency. Together, these strengths have allowed TSMC to leverage technology and capacity more effectively than other players in the dedicated semiconductor foundry segment. The Company has consistently achieved the foundry segment's highest utilization rates and won high customer satisfaction throughout the cycle.

Customer partnership, TSMC's third core strength, is central to building customer loyalty and sustainable, profitable market share. "Virtual Fab", the Company's unique customer-first business model, includes cutting-edge front-end and back-end services that help customers take full advantage of TSMC's technology and manufacturing capabilities. As a true partnership, each brings core strengths to a relationship that reflects the most efficient use of invested capital, with TSMC providing the proprietary process technologies and the most efficient production facilities that enable IC developers to continually reduce their time to market, time to volume and maximize their long-term profitability.

A New Stage of Continuity

As the Company continuously seeks to improve its strength and quality, we are entering a new stage in TSMC's maturity as a public company. Dr. Morris Chang, who founded TSMC in 1987, turned over the role of Chief Executive Officer on July 1, 2005 to Dr. Rick Tsai, who has served the Company since 1989, most recently as President and Chief Operating Officer. Dr. Chang will continue to dedicate his full time and efforts to the Company as Chairman of the Board of Directors. At the same time, the Board of Directors has elected Dr. F. C. Tseng as Vice Chairman. In his new capacity, Dr. Tseng will assist Dr. Chang and remain as Chairman of TSMC (Shanghai), and the TSMC Education and Culture Foundation.

With continuity in mind, all TSMC employees remain dedicated to bringing innovative thinking and strategic planning to bear on whatever changes the market presents in the decades to come. Core strengths - technology leadership, manufacturing excellence, and customer partnership - ensure TSMC's place as a pioneer in developing new ways of serving customers and shareholders better.

Innovation

TSMC enjoyed another year of leadership in innovation, providing the market with advanced process technology that represents a significant step-up in performance.

The focal point of technology innovation in 2005 was the unveiling and successful prototyping of the new 65nm Nexsys℠ Technology for SoC Design, the company's third-generation semiconductor process employing both copper interconnects and low-k dielectrics. The new process technology allows customers to build logic devices with double the density of 90nm node and leads the industry with a 50% gain in speed over the 90nm General Purpose process and a 20% reduction in standby power.

The Company continues to invest in enlarging its position as the foundry segment's technology leader. In 2005, TSMC spent approximately US$417 million, more than 5% of revenues, on Research and Development. It will dedicate a similar percentage of revenue to R&D in 2006.

Awards

In 2005, TSMC continued to receive recognition and awards from around the world as a corporate role model. Among the numerous media surveys conducted in 2005, *Institutional Investors*, *FinanceAsia* and *Asiamoney* have chosen TSMC as the Best Managed Company, with the Best Corporate Governance, Best Investor Relations, and Best CFO. *IR Magazine* has awarded TSMC six out of seven possible performance awards - ranging from Grand Prix for Best Overall Investor Relations in the region of Hong Kong and Taiwan, to Best Corporate Governance, Best Annual Report and Other Corporate Literature, and Best Web Site; and from Best Investor Relations by a CEO or Chairman, to Best IR Officer. *Globalviews* elected TSMC to receive the Award for Social Responsibility, while *CommonWealth Magazine* voted us the Most Admired Company for the ninth consecutive time. TSMC also received the Outstanding Nano-Tech Award from the Ministry of Economic Affairs (MOEA) of the Republic of China with a unanimous vote of recognition from The Award Steering Committee of the Industrial Development Bureau of MOEA.

Corporate Developments

In August, the Company successfully completed a secondary offering of approximately 163 million American Depositary Shares (ADSs) by Koninklijke Philips Electronics N.V., the Executive Yuan's Development Fund, and other shareholders at a price of US$8.60 per ADS. Each TSMC ADS represents five common shares of TSMC. After the offering, TSMC's outstanding ADSs represented approximately 17.5% of the total share capital.

Outlook

With the inventory adjustment that began in mid 2004 and carried through the first half of 2005, the IC industry was able to register another growth year in 2005 at 8%, according to IC Insights' latest estimates. The outlook for 2006 is for the industry to grow another 8%, representing the fifth consecutive year of expansion of the IC industry, as forecast by IC Insights. Although the foundry segment grew at a lower rate than the industry in 2005, affected by the need to digest excess inventory in the early part of the year, it is expected to resume its momentum and outpace the IC industry in 2006.

With our leadership in technology, manufacturing excellence, and customer partnership, as well as our focus on strategic planning and financial discipline, we are confident that TSMC should be able to compete well and continue to deliver growth and profitability to maximize shareholder value in the future.

Morris Chang,
Chairman

Rick Tsai,
President and CEO

A Brief Introduction to TSMC

Company Profile

TSMC is the world's largest dedicated semiconductor foundry. Since its inception in 1987, TSMC has won recognition for its trinity of strengths: technology leadership, manufacturing excellence, and customer partnership. TSMC entered the top 10 of global semiconductor companies ranked by revenue terms in 2002, and was the eighth position in 2005.

TSMC expects to manage installed capacity of about 6.9 million eight-inch equivalent wafers in 2006, up from 5.96 million in 2005. Fab operations are centered in Taiwan, primarily the Hsinchu Science Park and Tainan Science Park. TSMC-affiliated fabs are also located in Washington State, U.S.A. (Wafertech), Shanghai, China, and Singapore (SSMC, a joint venture with Philips Semiconductors).

TSMC was incorporated on February 21, 1987. TSMC's common shares are listed on the Taiwan Stock Exchange. About 17.5% of our common shares are also listed on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts under the symbol TSM.

As a responsible corporate citizen, the Company is committed to public service and to maintaining strong relationships with our customers, investors, employees, and the communities where TSMC does business.

TSMC's sound corporate governance is rooted in a strong Board of Directors comprised of experienced business leaders and distinguished scholars. The Board reinforces the Company's commitment to financial integrity and management soundness. There are three independent Board members among a total of nine directors. The Audit Committee, which reports to the Board, was established in 2002. It oversees the integrity of TSMC's financial and audit systems. The Audit Committee is comprised solely of independent members of the Board. The Compensation Committee was established in June 2003 and is comprised of three voting members, who are independent Board members, as well as two non-voting members. It reviews and makes recommendations on issues related to employee and executive compensation.

Corporate Recognition

With innovative technologies and a commitment to corporate governance, TSMC has been recognized with many awards of excellence. Awards honoring TSMC in 2005 included:

- Best Managed Company, Best Corporate Governance, Most Committed to Strong Dividend Policy (2nd place), and Best Investor Relations in the Taiwan region
  (*FinanceAsia*, 2005)
- Corporate Social Responsibility Award
  (*Globalviews Magazine*, May 2005)
- Prize for Innovation in Human Resource Development
  (Council of Labor Affairs, R.O.C., September 2005)
- First Outstanding Nano - Tech Award
  (Industrial Development Bureau of Ministry of Economic Affairs, R.O.C., September 2005)
- Top 50 Management Teams in Asia - excluding Japan
  (*CFO Asia*, October 2005)
- Most Admired Company in Taiwan
  (*CommonWealth Magazine*, October 2005 - for the ninth consecutive year)
- Grand Prix for Best Overall Investor Relations - Large Cap, Best Annual Report and Other Corporate Literature, Best Investor Relations Officer - Large Cap, Best Corporate Governance, Best Web Site, and Best Investor Relations by a CEO or Chairman in Hong Kong and Taiwan
  (*IR Magazine*, November 2005)
- Best Asia Investor Relations in Technology (Semiconductor) Sector - Buy-Side View, Best Asia CFO in Technology (Semiconductor) Sector - Sell-Side View, Best Asia Investor Relations in Technology (Semiconductor) Sector - Sell-Side View, Best Investor Relations in Taiwan - Buy-Side View
  (*Institutional Investor*, November 2005)

Market Overview

TSMC Achievements

In 2005, TSMC maintained its leading position in the dedicated foundry segment of the semiconductor industry, with an estimated market share of 50%.

A key factor in TSMC's strong position is our lead in advanced process technologies. In 2005, 45% of TSMC's wafer revenue came from manufacturing processes with geometries of 0.13μm and below. Working closely with our customers, TSMC took the lead in volume production of many products designed with our 90nm technology. By the fourth quarter of 2005, more than 17% of TSMC's wafer revenue came from 90nm processes or below, placing TSMC at the top of the foundry segment at this advanced process node. The Company also continued to generate many times the 0.13μm revenue of our nearest foundry competitor.

In line with its unwavering focus on customer partnership, TSMC offers innovative service as well as advanced technologies. In 2005, TSMC introduced the foundry industry's first comprehensive Design For Manufacturing (DFM) toolkits, which improve product yield, increase device performance and enhance semiconductor companies' return on design investment. These process-based toolkits, "Yield Plus" and "Yield Pro", allow designers to build on their best efforts, thereby generating greater returns to the bottom line. By providing these two DFM tool kits, TSMC extends its foundry leadership. TSMC also enhanced its advanced process design reference flows to provide state-of-the-art access to the Company's 65nm process technology. The new Reference Flow 6.0 provides innovative power management features within a comprehensive EDA methodology that is supported by TSMC's low-power libraries, as well as new DFM capabilities for faster yield ramps and increased return on investment. Reference Flow 6.0 lowers the initial learning-curve for designers wishing to create leading-edge products using advanced processes.

TSMC continued to advance the semiconductor roadmap in 2005. Examples of technologies the Company developed or rolled out this year include:

- Extension of advanced technologies to 45nm
- Extension of SiGe BiCMOS processes to 0.18μm
- Development of immersion lithography for 65nm geometries and below
- Extension of mixed-signal and radio frequency (MS/RF) technologies to 90nm
- Extension of high density embedded memory processes to 65nm
- Proving of logic processes with nonvolatile memory at 0.13μm
- Extension of high voltage processes to 0.18μm
- Development of 80-volt, 1.0μm high voltage technology

Market Analysis

Global semiconductor revenues increased about 6.8% in 2005 to US$227.5 billion. Fabless company revenues grew about 10% to US$37 billion, comprising 16.3% of total semiconductor revenues in 2005, up from 15.8% in 2004. Dedicated semiconductor foundry revenues grew about 2% in 2005 to US$16.4 billion. The value of dedicated foundry output at the semiconductor market level is roughly two and a half times foundry revenues and accounted for about 18% of semiconductor revenues in 2005.

TSMC estimates that the largest geographic market for dedicated foundry services is North America, which accounted for 62% of overall dedicated foundry revenue in 2005. The second largest geographic market is Asia Pacific (excluding Japan), which accounted for 22% of total dedicated foundry revenue in 2005. Europe accounted for 11%, and Japan contributed 5%.

Semiconductor Industry Growth Forecast

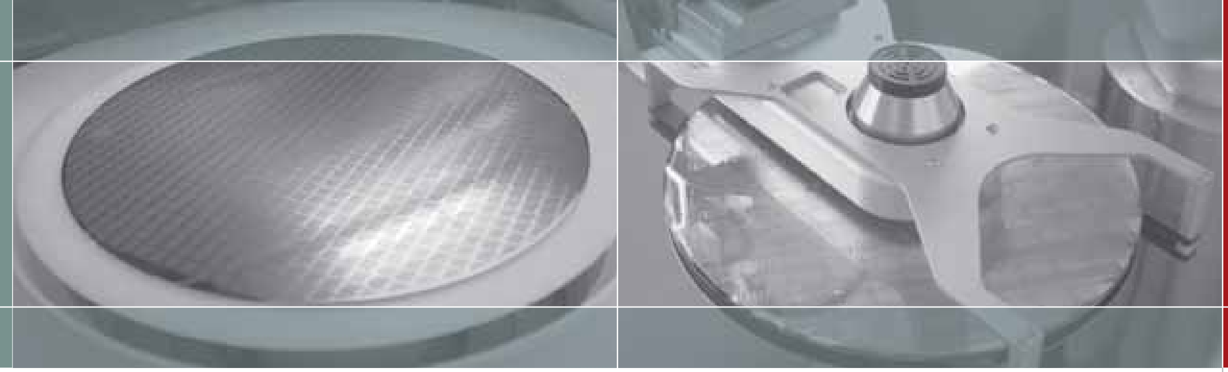
Analysts' consensus forecast for semiconductor growth in 2006 is close to 8%. The semiconductor market is forecasted to continue growing in 2007 with the consensus forecast close to 10%.

Foundry Market Outlook: Opportunities and Threats

TSMC believes foundry services will play an increasingly important role as the semiconductor industry becomes more reliant on outsourced manufacturing from IDM and growth of fabless semiconductor companies. Industry analysts forecast that by 2010, 30% of global semiconductor revenue will come from dedicated foundries, compared with 18% in 2005.

Accordingly, TSMC plans to continue capacity expansion in the year 2006, with capital investment of approximately US$2.6 billion to US$2.8 billion. In addition to continued ramping up and expansion of Fab 12, TSMC's first 12-inch production fab, the Company is also expanding capacity at Fab 14, another 12-inch fab in Taiwan, and at TSMC (Shanghai), an eight-inch fab in China.

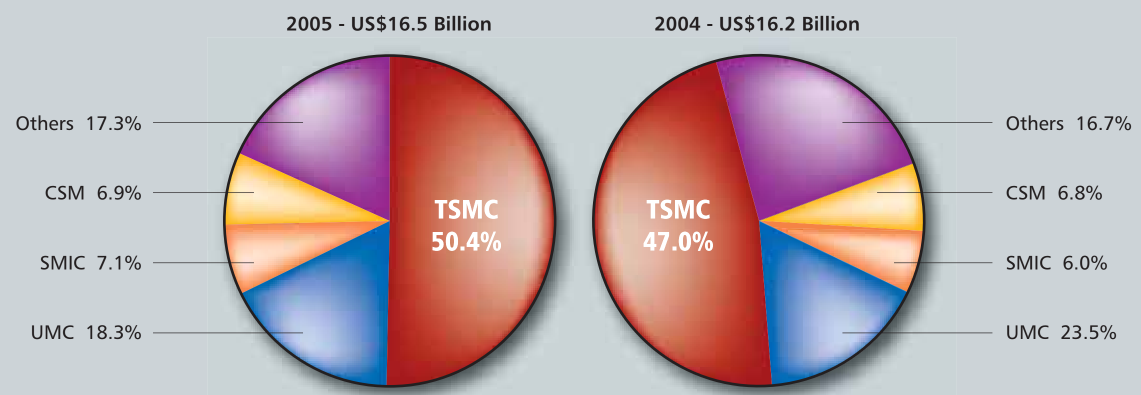
The threat of excess capacity due to demand fluctuation and wafer price pressure from competition, however, may return in the next few years. To capitalize on opportunities, win competition, and reduce excess capacity risk, TSMC will continue to focus on creating values to better serve customers' requirements.



The Proven Path to Success

TSMC ranks among the global top 10 of semiconductor companies. We not only led the foundry sector in 2005 with a 50% market share - more than twice the size of the nearest foundry competitor - our profit margins were far better than any of our competitors.

TSMC's Market Share



SMIC revenues included DRAM
(Source: TSMC Market Research Program estimates, Company Reports, IC Insights)

TSMC's formula for success is to build our business on a solid foundation of financial strength and manufacturing capacity. With this solid foundation, TSMC develops its "trinity of strengths": technology development and deployment, manufacturing efficiency and capacity, and building effective customer relationships. This trinity of strengths has helped TSMC's customers become successful and reinforces our leading market position and premium profit.

Our Trinity of Strengths

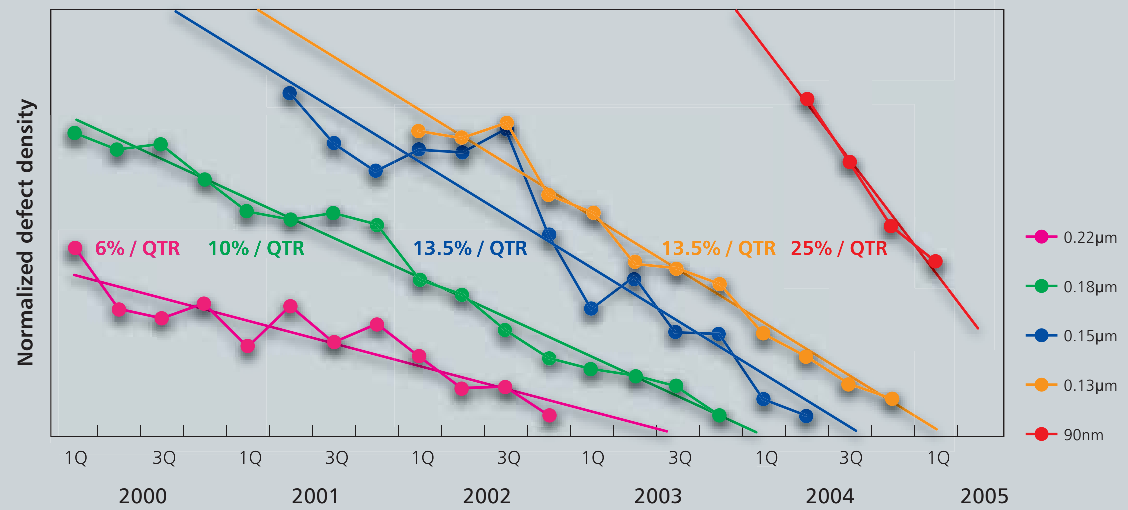
Leadership in Technology

TSMC is one of the most important technology suppliers in the global semiconductor market with a technology roadmap that is ahead of the International Technology Roadmap for Semiconductors (ITRS). TSMC's strength in integrating its front-end design and back-end turnkey services with its core manufacturing and logistics competencies meets the unique business and technology requirements of each individual customer and benefits our customers in terms of technical excellence, high product quality, fast cycle time, and the convenience of a one-stop service.

Demonstrating our commitment to innovation, TSMC was granted 437 U.S. patents and 331 R.O.C. patents in 2005. TSMC has a rich and strong patent portfolio, as well as a significant base of other intellectual property thanks to a growing number of key patent disclosures and patents granted in recent years. Our intellectual property is one key to maintaining our technology leadership and technology independence, including generating royalty revenue, and providing advantage during technology joint development and cross-licensing.

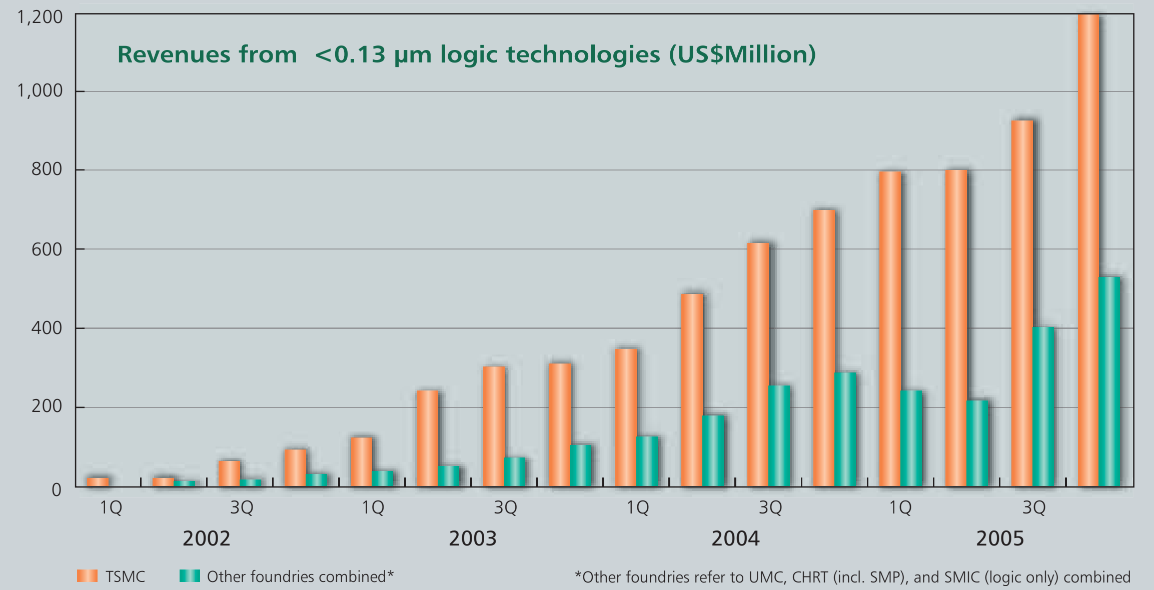
TSMC has pioneered the development of immersion lithography and worked closely with tool partners to set up the infrastructure that enables the readiness of prototyping and production of immersion tools. Immersion technology should extend the resolution capability of conventional 193nm imaging tools down to the 32nm technology node, without having to rely on expensive and high-risk 157nm alternatives. In 2005, TSMC demonstrated the manufacturing feasibility of 193nm immersion lithography using state-of-the-art 65nm process, continuing our record of breakthroughs in immersion technology.

Record Defect Density Reduction Rate



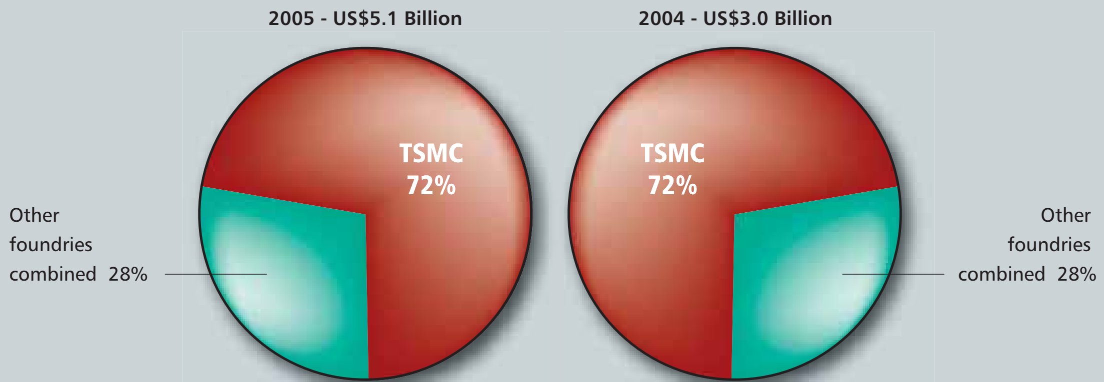
TSMC continued to advance our platform technologies and large-diameter wafer manufacturing technologies. In 2005, TSMC continued to ramp up the production of our 12-inch 90nm CMOS logic process, featuring advanced Cu/low-k interconnects, and achieved a record-breaking defect density reduction rate. TSMC also extended its commanding lead over competitors in volume production of advanced processes in 2005, bearing testimony to the company's technological leadership.

The Advanced Technology Leader



*Other foundries refer to UMC, CHRT (incl. SMP), and SMIC (logic only) combined

Advanced Technology Market Share



Source: Company Reports

TSMC also developed the baseline process of a 65nm CMOS logic platform featuring a gate length in the range of 35-45nm, and provided prototyping services to a number of early 65nm customers. In addition, TSMC started the development of 45nm CMOS logic platform and entered the path-finding stage of 32nm technology development.

TSMC continued to invest in long-term and high-payoff exploratory research activities such as strained-Si, ultra low-k dielectric, high-k gate dielectric, metal gate, nano device, SOI technology, MRAM, and advanced RFIC technologies. In 2005, we demonstrated 5nm nanowire devices, functional 1Mb MRAM devices, and innovative strained-Si techniques on both bulk silicon and SOI substrates. This exploratory work paves the way for semiconductor technology advancement, while at the same time strengthening TSMC's intellectual property position.

Manufacturing Excellence

In 2005, TSMC provided its customers with 5.96 million eight-inch equivalent wafers, representing 7.4% of global MOS IC capacity. This huge capacity demonstrated TSMC's manufacturing efficiency both in terms of the large number of customers served and the number of products manufactured. Furthermore, TSMC's manufacturing excellence is also demonstrated by our ability to deliver high yields and short cycle times across multiple fabs while each individual fab can also support numerous customers, products and processes with a high degree of flexibility.

Unrivalled Manufacturing Capabilities

- **Manufacturing excellence that ensures wafer delivery with high yields and short cycle times across multiple fabs**
- **Flexibility to support numerous customers, products and processes**

2005	Fab2	Fab3	Fab5	Fab6	Fab7	Fab8	Fab12	Fab14
Customers	128	169	72	120	58	159	63	23
Technologies	24	35	15	21	16	23	15	9
Products	1,432	1,023	312	687	200	730	298	87
Capacity (8" K eq.)	556	973	496	850	155	893	1,008	351

Fast yield ramp for new products is a crucial element to TSMC's success. The Company has developed a comprehensive technology transfer methodology extending from R&D to production in order to shorten the new technology learning curve. In 2005, the Company delivered a significant breakthrough on 90nm ramp-up by shortening the yield learning curve by 40% in comparison with the last generation, 0.13µm.

Customer Partnership

TSMC is committed to providing the best services to our customers and believes that customer service is critical to enhancing customer loyalty. In turn, customer loyalty leads to higher levels of customer retention and to expansion of business relationships. TSMC's goal is to maintain its position as the most advanced and largest provider of semiconductor manufacturing technology and foundry services. TSMC believes that achieving this goal will help retain existing customers, attract new customers, and strengthen existing partnership relationships.

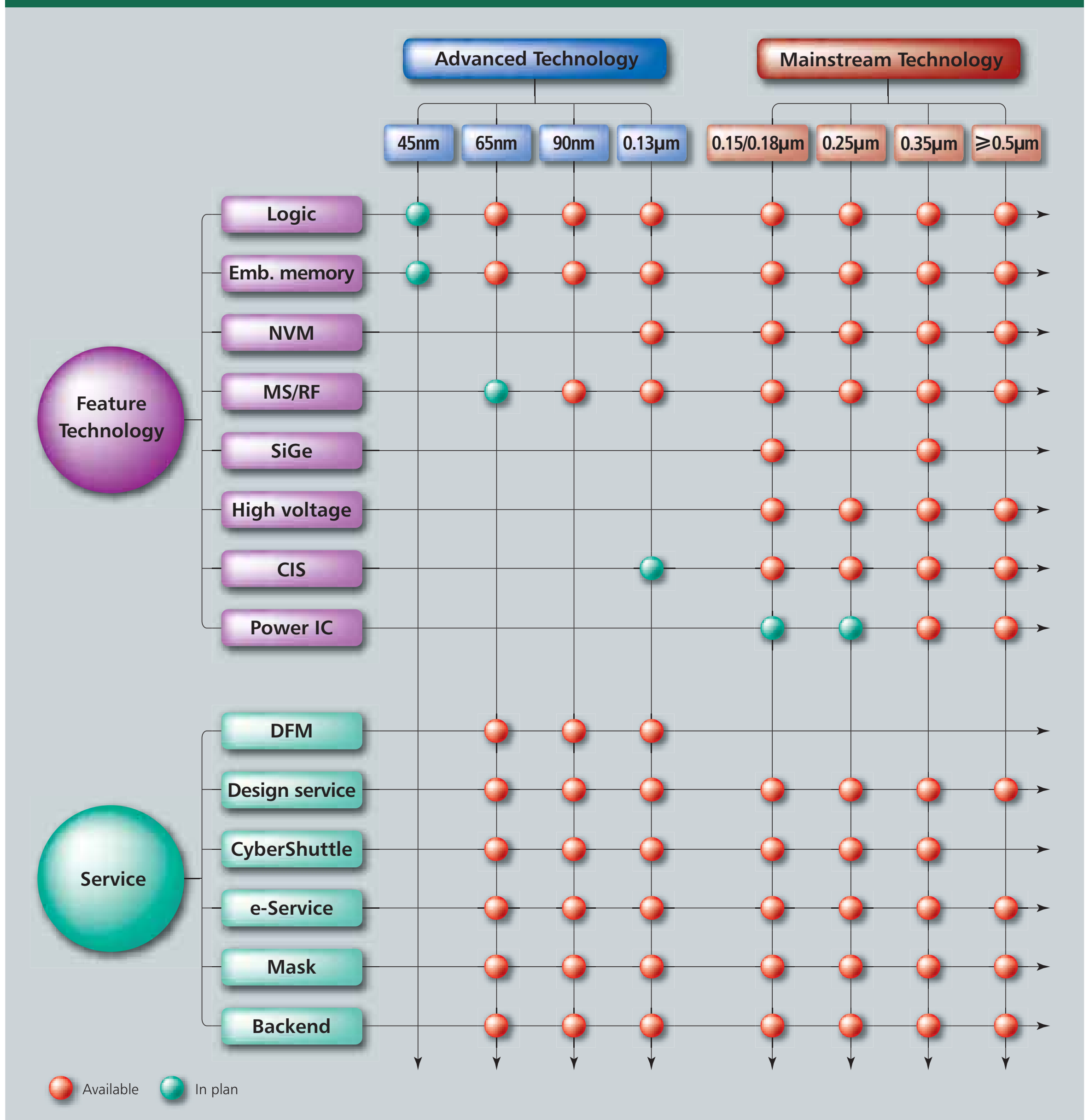
Over the past 19 years, more than 500 customers worldwide have relied on TSMC to manufacture chips used across the entire spectrum of electronic applications. A far from exhaustive list of applications includes computers and peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, as well as consumer electronics such as DVDs, digital TVs, game consoles, and digital still cameras (DSCs).

TSMC continues to diversify its customer base while supporting the growth of our existing customers. TSMC engaged more than 50 new customers in 2005. TSMC's customers also gained market share, notably in a number of end applications in computers, wired communications, wireless communications and consumer electronics.

Currently, TSMC offers two technology platforms: the Advanced Technology platform and the Mainstream Technology platform. Advanced Technology addresses the semiconductor industry's next technology frontier - the process technologies and tightly integrated services that are at the leading edge of the ITRS roadmap. Mainstream Technology supports a collection of product-proven process technologies and provides the best overall value with customer-focused enabling services. Platforms integrate feature technologies (i.e., mixed-signal, embedded memory, non-volatile memory, high voltage, and CMOS image sensor) with service products such as design service, CyberShuttle, on-line eFoundry innovations, mask service, and backend service.

The rapid evolution of end products drives our customers to utilize TSMC's innovative technologies and services, while at the same time spurring TSMC's own technology development. As always, success depends on leading rather than following industry trends.

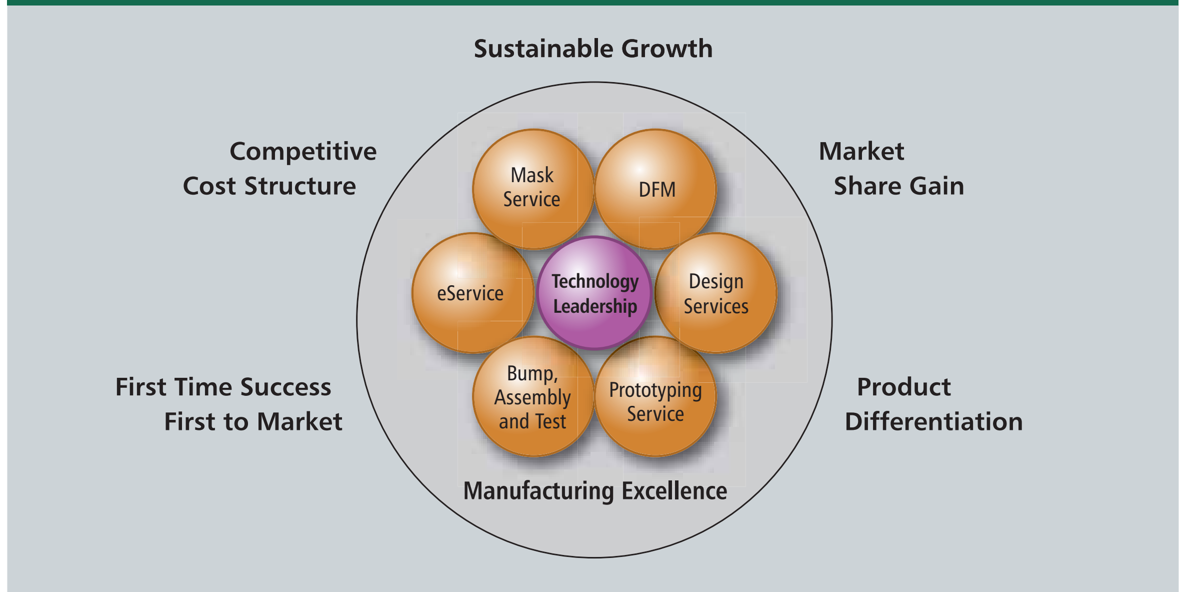
TSMC's Platform Portfolio



The Proven Path to Success

As the world's leading foundry with the broadest range of technologies and services, the greatest manufacturing capacity and an uncompromising commitment to customer success, TSMC provides the world's leading technology companies with the proven path to success so they can accelerate innovation, seize market opportunities and minimize risk.

TSMC's Value to Customers



We believe TSMC is the leader in mainstream silicon process technology and that we are ahead of everyone else in manufacturing efficiency. This is clearly demonstrated by our ability to manufacture a multitude of products for many customers. Finally, as a foundry service provider, TSMC is proud of the partnerships it has built with customers and our commitment and ability to provide both capacity and the highest quality of services. With the "trinity of strengths", TSMC believes it will continue to be the leading foundry in the world for many years to come.

Corporate Governance

Maintaining the highest standards of corporate governance has been integral to TSMC's core values since its founding. TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors established an Audit Committee in 2002 and a Compensation Committee in 2003.

During 2005, TSMC received a number of awards in recognition of our corporate governance practices, including the Best Corporate Governance award from *IR Magazine* for the Hong Kong and Taiwan regions and the Best Corporate Governance award from *FinanceAsia* for the Taiwan region. We hold ourselves to world-class standards of integrity and fairness, and we benchmark our transparency and disclosures against some of the best companies in the world.

Audit Committee

The Audit Committee assists the Board in carrying out its financial oversight responsibilities, which include reviewing the Company's financial reports, the Company's auditing and accounting policies and procedures, and the Company's internal control systems.

TSMC's Audit Committee is empowered by its Charter to conduct any study or investigation it deems appropriate to fulfill its responsibilities. It has direct access to TSMC's internal auditors, the Company's independent external auditors, and all employees of the Company. The Committee is authorized to retain and oversee special legal, accounting or other consultants as it deems appropriate to fulfill its mandate.

As of March 2006, the Audit Committee consisted of three members and a consulting financial expert. The three Audit Committee members are all independent directors. The Committee meets at least four times a year. The Audit Committee convened four regular meetings and two special meetings in 2005.

Compensation Committee

The Compensation Committee assists the Board in discharging its responsibilities related to the compensation and benefit policies, plans and programs of TSMC, and in the evaluation and compensation of TSMC's executives.

As of March 2006, the Compensation Committee was comprised of five members: three independent directors serving as voting members of the Committee, and two non-voting directors. The Compensation Committee convened four regular meetings in 2005.

Financial Statements

Taiwan Semiconductor Manufacturing Company Limited

Balance Sheets (Unconsolidated)

December 31, 2005~2001

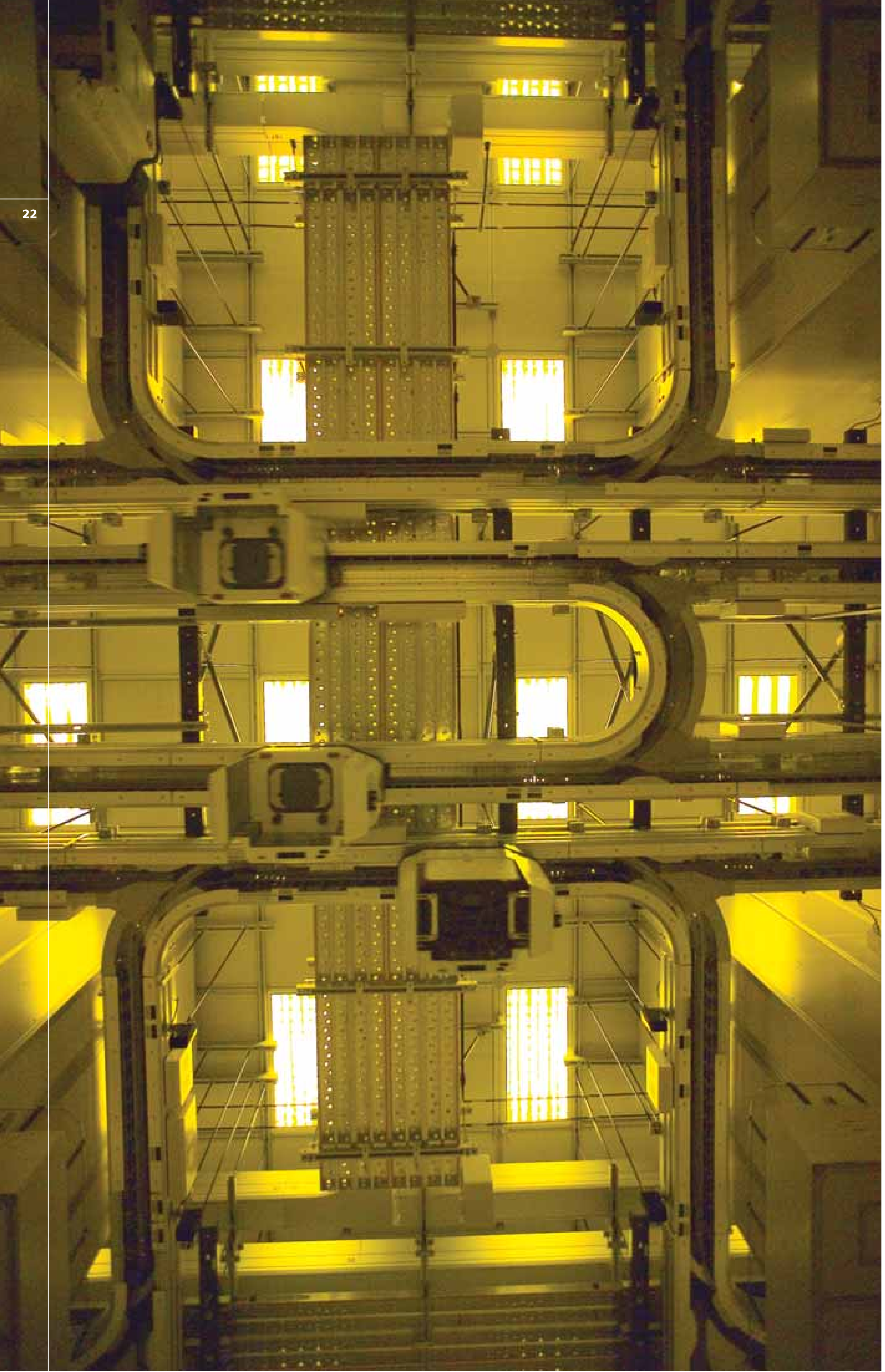
(In Thousands of New Taiwan Dollars)

	2005	2004	2003	2002	2001
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	85,383,583	65,531,818	98,288,002	61,656,795	33,403,706
Short -term investments, net	47,055,347	52,979,095	12,559,019	-	-
Receivables from related parties	21,050,604	16,136,039	14,830,758	10,114,917	153,882
Note & Accounts receivable	20,591,818	15,326,881	13,917,807	9,515,381	20,134,218
Allowance for doubtful receivables	(976,344)	(980,461)	(1,016,022)	(929,864)	(1,100,492)
Allowance for sales returns and others	(4,269,969)	(3,327,914)	(2,126,025)	(2,363,067)	(2,581,551)
Other receivables from related parties	1,797,714	1,667,383	169,867	108,877	369,979
Other financial assets	2,403,929	2,080,640	543,750	458,859	278,451
Inventories, net	16,257,955	14,171,945	10,907,158	10,340,336	8,504,418
Deferred income tax assets	7,013,000	8,849,000	8,322,000	3,320,000	2,347,000
Prepaid expenses and other current assets	1,254,779	1,232,885	2,129,958	2,525,171	2,143,115
Total current assets	197,562,416	173,667,311	158,526,272	94,747,405	63,652,726
LONG-TERM INVESTMENTS					
Equity method	51,076,803	46,828,322	37,262,237	33,042,029	31,905,138
Cost method	807,490	772,634	703,116	1,087,106	964,253
Long-term bonds	18,548,308	15,170,167	-	-	-
Other investments	10,227,000	10,521,740	-	-	-
Prepayment for subscribed stocks	-	-	-	849,360	-
Total long-term investments	80,659,601	73,292,863	37,965,353	34,978,495	32,869,391
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Buildings	90,769,622	84,299,167	71,277,031	68,488,180	52,527,184
Machinery and equipment	459,850,773	390,719,215	332,252,225	303,334,232	242,347,119
Office equipment	7,850,035	7,041,132	6,180,495	5,697,828	4,754,183
Total costs	558,470,430	482,059,514	409,709,751	377,520,240	299,628,486
Accumulated depreciation	(359,191,829)	(300,006,201)	(247,514,312)	(188,447,604)	(140,224,640)
Advance payments and construction in progress	14,867,032	45,923,087	26,091,313	28,119,627	56,095,396
Property, plant and equipment, net	214,145,633	227,976,400	188,286,752	217,192,263	215,499,242
GOODWILL	1,567,756	1,916,146	2,264,536	2,612,926	2,961,317
OTHER ASSETS					
Deferred charges, net	6,681,144	8,845,144	7,947,331	9,792,490	3,239,723
Deferred income tax assets	6,759,955	1,645,003	1,070,596	9,712,567	16,175,070
Refundable deposits	83,642	85,413	177,379	543,469	772,912
Assets leased to others, net	72,879	78,613	84,347	87,246	555,053
Idle assets	6,789	46,317	94,296	339,400	-
Others	-	-	-	9,250	9,250
Total other assets	13,604,409	10,700,490	9,373,949	20,484,422	20,752,008
TOTAL ASSETS	507,539,815	487,553,210	396,416,862	370,015,511	335,734,684

Note: Certain prior period balances have been reclassified to conform to the current period presentation.

(Continued)

	2005	2004	2003	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payable	8,052,106	6,488,617	6,083,876	4,849,234	1,123,894
Payables to related parties	3,242,197	3,198,490	4,500,140	2,466,998	2,082,606
Income tax payable	3,815,888	379,903	127,103	-	-
Accrued expenses and other current liabilities	8,214,994	8,917,533	7,708,981	5,839,488	4,636,800
Payables to contractors and equipment suppliers	8,859,230	31,154,309	7,117,884	14,004,383	12,367,319
Current portion of long-term bonds payable	-	10,500,000	5,000,000	4,000,000	5,000,000
Total current liabilities	32,184,415	60,638,852	30,537,984	31,160,103	25,210,619
LONG-TERM LIABILITIES					
Bonds payable	19,500,000	19,500,000	30,000,000	35,000,000	24,000,000
Other long-term payables	1,511,100	1,934,968	3,300,829	4,281,665	-
Other payables to related parties	1,100,475	2,317,972	-	-	-
Total long-term liabilities	22,111,575	23,752,940	33,300,829	39,281,665	24,000,000
OTHER LIABILITIES					
Accrued pension cost	3,461,392	3,101,196	2,600,251	2,210,542	1,854,853
Guarantee deposits	2,892,945	412,393	763,489	1,395,066	7,210,972
Deferred gain on sales and leaseback	-	-	-	114,928	268,165
Deferred credits	1,259,139	682,530	-	-	-
Total other liabilities	7,613,476	4,196,119	3,363,740	3,720,536	9,333,990
Total liabilities	61,909,466	88,587,911	67,202,553	74,162,304	58,544,609
SHAREHOLDERS' EQUITY					
Capital stock - $10 par value					
Preferred stock	-	-	-	13,000,000	13,000,000
Common stock	247,300,246	232,519,637	202,666,189	186,228,867	168,325,531
Capital surplus	57,117,886	56,537,259	56,855,885	57,004,789	57,128,433
Retained earnings					
Appropriated as legal reserve	34,348,208	25,528,007	20,802,137	18,641,108	17,180,067
Appropriated as special reserve	2,226,427	-	68,945	-	349,941
Unappropriated earnings	106,196,399	88,202,009	50,229,008	22,151,089	19,977,402
Unrealized loss on long-term investments	-	-	(35)	(194,283)	-
Cumulative translation adjustments	(640,742)	(2,226,427)	225,408	945,129	1,228,701
Treasury stock (at cost)	(918,075)	(1,595,186)	(1,633,228)	(1,923,492)	-
Total Shareholders' Equity	445,630,349	398,965,299	329,214,309	295,853,207	277,190,075
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	507,539,815	487,553,210	396,416,862	370,015,511	335,734,684



Taiwan Semiconductor Manufacturing Company Limited

Statements of income (Unconsolidated)

For the Years Ended December 31, 2005 ~ 2001

(In Thousands of New Taiwan Dollars, Except Par Value)

	2005	2004	2003	2002	2001
GROSS SALES	270,315,064	260,726,896	206,157,918	164,805,296	128,563,819
SALES RETURNS AND ALLOWANCES	5,726,700	4,734,469	4,253,577	3,843,967	2,675,816
NET SALES	264,588,364	255,992,427	201,904,341	160,961,329	125,888,003
COST OF SALES	149,344,315	145,831,843	129,012,704	108,994,184	89,506,952
GROSS SALES	115,244,049	110,160,584	72,891,637	51,967,145	36,381,051
OPERATING EXPENSES					
Research and development	13,395,801	12,516,434	12,712,695	11,440,332	10,649,019
General and administrative	7,485,011	9,367,010	6,337,845	5,210,083	6,048,665
Sales and marketing	1,349,413	1,454,362	1,193,520	1,140,424	2,341,081
Total Operating Expenses	22,230,225	23,337,806	20,244,060	17,790,839	19,038,765
INCOME FROM OPERATIONS	93,013,824	86,822,778	52,647,577	34,176,306	17,342,286
NON-OPERATING INCOME AND GAINS					
Equity in earnings of equity method investees, net	-	4,040,319	791,424	-	-
Interest	2,769,978	1,687,681	819,377	1,008,147	1,365,919
Settlement income	950,046	-	-	-	-
Gain on disposal of property, plant and equipment	494,374	164,147	438,804	273,998	52,376
Technical service income	491,267	423,804	209,764	204,350	55,077
Gain on sales of investments, net	-	90,319	114,817	32,169	-
Insurance compensation, net	5,835	79,797	7,410	-	860,835
Amortization of premium income from option contracts, net	-	-	-	-	234,732
Others	360,509	298,981	284,203	244,229	322,618
Total non-operating income and gains	5,072,009	6,785,048	2,665,799	1,762,893	2,891,557
NON-OPERATING EXPENSES AND LOSSES					
Interest	2,429,568	1,278,072	1,576,343	2,119,935	1,951,830
Equity in losses of equity method investees, net	1,052,045	-	-	5,716,510	6,429,631
Loss on disposal of property, plant, equipment and idle assets	59,992	107,722	1,775,057	221,955	234,862
Amortization of premium expense from option contracts, net	-	-	153,783	419,513	-
Loss on sales of investments, net	149,498	-	-	-	102,978
Foreign exchange loss, net	34,379	323,080	755,713	120,568	695,620
Unrealized valuation loss on short-term investments	337,160	75,212	-	-	-
Casualty loss, net	-	-	-	119,485	-
Others	203,768	45,156	24,205	108,778	160,207
Total non-operating expenses and losses	4,266,410	1,829,242	4,285,101	8,826,744	9,575,128
INCOME BEFORE INCOME TAX	93,819,423	91,778,584	51,028,275	27,112,455	10,658,715
INCOME TAX BENEFITS (EXPENSES)	(244,388)	537,531	(3,769,575)	(5,502,164)	3,824,459
NET INCOME	93,575,035	92,316,115	47,258,700	21,610,291	14,483,174
EARNINGS PER SHARE (Note)					
Basic earnings per share	3.79	3.73	1.90	0.87	0.58
Diluted earnings per share	3.79	3.73	1.90	0.87	0.58

Note: Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.

Taiwan Semiconductor Manufacturing Company Limited

Statements of Cash Flows (Unconsolidated)

For the Years Ended December 31, 2005 ~ 2001

(In Thousands of New Taiwan Dollars)

	2005	2004	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	93,575,035	92,316,115	47,258,700	21,610,291	14,483,174
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	67,991,423	63,072,140	61,786,114	57,621,462	48,875,754
Deferred income taxes	(3,278,952)	(1,101,407)	3,639,971	5,489,503	(3,840,777)
Equity in losses (earnings) of equity method investees, net	1,052,045	(4,040,319)	(791,424)	5,716,510	6,429,631
Amortization of premium/discount from long-term bond investments, net	120,872	28,673	-	-	-
Loss (Gain) on sales of long-term investments, net	(3,502)	(2,216)	(79,149)	2,403	102,978
Loss (Gain) on disposal of property, plant and equipment and idle assets, net	(302,533)	(56,425)	1,336,253	(52,043)	182,486
Donation of idle assets	7,207	-	-	-	-
Dividends received from equity method investees	668,464	-	-	-	-
Provision for pension cost	360,196	500,945	389,709	355,689	345,318
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Receivables from related parties	(4,914,565)	(1,301,979)	(4,784,365)	(9,961,035)	545,800
Notes & Accounts receivable	(5,264,937)	(1,409,074)	(4,402,426)	10,618,837	10,326,271
Allowance for doubtful receivables	(4,117)	(35,561)	86,158	(170,628)	153,758
Allowance for sales returns and others	942,055	1,201,889	(237,042)	(218,484)	377,384
Inventories, net	(2,086,010)	(3,264,787)	(566,822)	(1,835,918)	2,463,517
Prepaid expenses and other current assets (include other receivables from related parties and other financial assets)	(1,363,260)	(606,189)	317,856	(86,627)	333,976
Increase (decrease) in:					
Accounts payable	(1,224,371)	(1,771,144)	2,033,142	384,392	(2,263,972)
Payables to related parties	1,563,489	404,741	1,234,642	3,725,340	(6,866,059)
Accrued expenses and other liabilities (include income tax payable and deferred credits)	2,641,256	(255,184)	1,447,119	1,088,409	17,069
Net cash provided by operating activities	150,479,795	143,680,218	108,668,436	94,288,101	71,666,308
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (increase) in short-term investments, net	5,923,748	(43,822,489)	(12,529,448)	-	-
Acquisitions of :					
Long-term investments	(17,037,788)	(30,290,982)	(3,006,374)	(10,187,730)	(4,563,682)
Property, plant and equipment	(73,659,014)	(76,171,356)	(37,247,465)	(54,443,595)	(68,002,448)
Proceeds from sales of:					
Long-term investments	10,474,035	7,822	476,405	1,402	162,334
Property, plant and equipment and idle assets	2,087,236	1,713,934	177,307	494,805	298,231
Increase in deferred charges	(847,721)	(2,404,130)	(2,137,932)	(5,724,583)	(1,465,703)
Decrease in refundable deposits	1,771	91,966	366,090	229,443	195,073
Decrease in other assets	-	-	9,250	-	-
Net cash used in investing activities	(73,057,733)	(150,875,235)	(53,892,167)	(69,630,258)	(73,376,195)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash dividends paid for common stock	(46,504,097)	(12,159,971)	-	-	-
Repurchase of treasury stock	-	(7,059,798)	-	-	-
Issuance (repayment) of long-term bonds payable	(10,500,000)	(5,000,000)	(4,000,000)	10,000,000	-
Cash bonus paid to employees	(3,086,215)	(681,628)	-	-	-
Increase (decrease) in guarantee deposits	2,480,552	(351,096)	(631,577)	(5,815,906)	124,593
Cash dividends paid for preferred stocks	-	(184,493)	(455,000)	(455,000)	(41,137)
Preferred stock redemption	-	-	(13,000,000)	-	-
Bonus to directors and supervisors	(231,466)	(127,805)	(58,485)	(133,848)	(584,303)
Others	270,929	3,624	-	-	(50,000)
Net cash (used in) provided by financing Activities	(57,570,297)	(25,561,167)	(18,145,062)	3,595,246	(550,847)

(Continued)

	2005	2004	2003	2002	2001
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,851,765	(32,756,184)	36,631,207	28,253,089	(2,260,734)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,531,818	98,288,002	61,656,795	33,403,706	35,664,440
CASH AND CASH EQUIVALENTS, END OF YEAR	85,383,583	65,531,818	98,288,002	61,656,795	33,403,706
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest paid (excluding the amounts capitalized)	2,269,666	1,304,621	1,652,579	1,771,682	1,980,399
Income tax paid	87,351	309,522	2,500	12,661	16,318
Total acquisitions	51,363,935	100,207,781	30,360,966	56,080,659	55,977,367
Decrease (increase) of payables to contractors and equipment suppliers	22,295,079	(24,036,425)	6,886,499	(1,637,064)	12,025,081
Cash paid for acquisition of property, plant and equipment	73,659,014	76,171,356	37,247,465	54,443,595	68,002,448
NONCASH INVESTING AND FINANCING ACTIVITIES					
Reclassification of a parent company stock held by subsidiaries from long-term investments to treasury stock	-	-	-	1,923,492	-
Current portion of long-term liabilities	-	10,500,000	5,000,000	4,000,000	5,000,000
Current portion of other payables to related parties (under payables to related parties)	693,956	469,494	-	-	-
Current portion of other long-term payables (under accrued expenses and other current liabilities)	869,072	1,505,345	1,591,972	1,157,299	-
Reclassification of long-term investments to short-term investments	-	-	29,571	-	-
Reclassification of short-term investments to long-term investments	-	3,402,413	-	-	-

Taiwan Semiconductor Manufacturing Company, Ltd. and Subsidiaries

Balance Sheets (Consolidated)

December 31, 2005 ~ 2001

(In Thousands of New Taiwan Dollars)

	2005	2004	2003	2002	2001
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 96,483,707	$ 74,302,351	$ 102,988,896	$ 67,790,204	$ 37,556,295
Short-term investments	47,399,308	54,107,951	13,611,536	170,012	1,398,071
Notes and Accounts receivable	43,082,275	31,214,423	28,505,162	19,590,942	20,134,218
Receivable from related parties	693,266	654,377	920,444	433,981	474,061
Allowance for doubtful receivables	(980,594)	(982,843)	(1,020,398)	(932,993)	(1,100,492)
Allowance for sales returns and others	(4,317,413)	(3,342,450)	(2,135,843)	(2,372,515)	(2,581,551)
Other receivables from related parties	597,910	141,578	131,731	5,678	20,671
Other financial assets	2,915,696	2,212,371	1,228,015	499,643	278,451
Inventories-net	17,728,303	15,555,937	12,135,324	11,201,446	9,828,328
Deferred income tax assets	7,149,306	8,917,986	8,398,205	3,401,729	2,350,147
Prepaid expenses and other current assets	1,503,447	1,667,401	1,778,598	2,749,031	2,442,970
Total Current Assets	212,255,211	184,449,082	166,541,670	102,537,158	70,801,169
LONG-TERM INVESTMENTS					
Equity method	10,287,424	9,143,612	7,255,239	5,551,412	6,285,493
Cost method	3,365,341	3,266,330	3,492,775	5,084,084	5,313,657
Long-term bonds	18,548,308	15,170,167	-	-	-
Other investments	10,227,000	10,521,740	-	-	-
Total long-term investments	42,428,073	38,101,849	10,748,014	10,635,496	11,599,150
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Land and land improvements	851,225	803,508	855,394	874,907	877,371
Buildings	105,832,028	97,882,699	79,778,533	76,428,851	60,523,505
Machinery and equipment	510,922,064	433,130,364	371,315,729	343,951,592	280,023,690
Office equipment	9,670,611	8,538,225	7,457,538	6,996,027	6,062,496
Leased assets	597,669	566,243	726,585	-	-
Total cost	627,873,597	540,921,039	460,133,779	428,251,377	347,487,062
Accumulated depreciation	(398,124,607)	(331,253,866)	(275,013,069)	(210,101,159)	(155,948,960)
Advance payments and construction in progress	15,074,302	49,244,153	26,733,553	28,348,093	59,749,530
Net Property, Plan and Equipment0	244,823,292	258,911,326	211,854,263	246,498,311	251,287,632
GOODWILL	6,010,601	7,115,510	8,720,917	10,158,845	11,437,572
OTHER ASSETS					
Deferred charges-net	7,006,250	8,992,452	7,992,016	9,873,825	3,769,750
Deferred income tax assets	6,788,418	1,649,979	1,111,367	9,773,226	16,245,828
Refundable deposits	106,802	106,448	199,522	557,266	784,089
Assets leased to others,net	72,879	78,613	-	-	-
Others	18,063	48,832	232,762	508,272	592,505
Total Other Assets	13,992,412	10,876,324	9,535,667	20,712,589	21,392,172
TOTAL ASSETS	$519,509,589	$499,454,091	$407,400,531	$390,542,399	$366,517,695

Note: Certain prior period balances have been reclassified to conform to the current period presentation.

(Continued)

	2005	2004	2003	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term bank loans	$ 328,500	$ 383,004	$ 407,736	$ 729,813	$ 6,269,181
Accounts payable	9,421,452	7,264,419	6,438,604	5,138,592	1,397,879
Payable to related parties	1,743,069	2,217,815	3,248,289	1,776,149	1,048,273
Income tax payable	4,015,451	403,955	127,103	-	-
Accrued expenses and other current liabilities	10,542,230	9,722,413	7,967,088	5,947,229	6,746,483
Payable to contractors and equipment suppliers	9,066,036	33,427,702	7,232,103	14,132,100	12,867,236
Current portion of long-term liabilities	5,489	10,500,000	5,000,000	12,107,899	5,000,000
Total Current Liabilities	35,122,227	63,919,308	30,420,923	39,831,782	33,329,052
LONG-TERM LIABILITIES					
Long-term bonds payables	19,500,000	19,500,000	30,000,000	35,000,000	24,000,000
Long-term bank loans	663,140	1,915,020	8,800,302	11,051,454	22,399,360
Other long-term payables	8,548,887	7,964,975	3,300,829	4,281,665	-
Other payables to related parties	1,100,475	2,317,972	-	-	-
Liability under capital lease	597,669	566,243	726,585	-	-
Total Long-term Liabilities	30,410,171	32,264,210	42,827,716	50,333,119	46,399,360
OTHER LIABILITIES					
Accrued pension cost	3,474,384	3,101,707	2,601,450	2,211,560	1,856,617
Guarantee deposits	2,896,430	412,881	763,889	1,395,066	7,212,688
Deferred gain on sales and leaseback	-	-	-	114,928	268,165
Deferred credits	1,343,959	704,991	-	-	-
Others	23,710	9,958	1,483,245	707,239	141,498
Total Other Liabilities	7,738,483	4,229,537	4,848,584	4,428,793	9,478,968
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT					
Capital stock - $10 par value					
Preferred - 1,300,000 thousand shares	-	-	-	13,000,000	13,000,000
Common - 24,730,025 thousand shares in 2005	247,300,246	232,519,637	202,666,189	186,228,867	168,325,531
23,251,964 thousand shares in 2004					
20,266,619 thousand shares in 2003					
18,622,887 thousand shares in 2002					
16,832,554 thousand shares in 2001					
11,689,365 thousand shares in 2000					
Capital surplus:	57,117,886	56,537,259	56,855,885	57,004,789	57,128,433
Retained earnings:					
Appropriated as legal reserve	34,348,208	25,528,007	20,802,137	18,641,108	17,180,067
Appropriated as special reserve	2,226,427	-	68,945	-	349,941
Unappropriated earnings	106,196,399	88,202,009	50,229,008	22,151,089	19,977,402
Unrealized loss on long-term investments	-	-	(35)	(194,283)	-
Cumulative translation adjustments	(640,742)	(2,226,427)	225,408	945,129	1,228,701
Treasury stock (at cost)-32,938 and 45,521 thousand in 2005 and 2004 shares	(918,075)	(1,595,186)	(1,633,228)	(1,923,492)	-
Total Equity Attributable to Shareholders of the Parent	445,630,349	398,965,299	329,214,309	295,853,207	277,190,075
MINORITY INTEREST IN SUBSIDIARIES	608,359	75,737	88,999	95,498	120,240
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$519,509,589	$499,454,091	$407,400,531	$390,542,399	$366,517,695

Taiwan Semiconductor Manufacturing Company, Ltd. and Subsidiaries

Statements of Income (Consolidated)

For the Years Ended December 31, 2005 ~ 2001

(In Thousands of New Taiwan Dollars, Except Par Value)

	2005	2004	2003	2002	2001
GROSS SALES	$ 271,801,696	$ 261,947,351	$ 207,279,137	$ 166,187,670	$ 128,560,708
SALES RETURNS AND ALLOWANCES	(5,236,626)	(4,734,733)	(4,282,325)	(3,886,462)	(2,675,816)
NET SALES	266,565,070	257,212,618	202,996,812	162,301,208	125,884,892
COST OF SALES	148,362,196	141,393,435	128,113,334	109,988,058	92,228,098
GROSS SALES	118,202,874	115,819,183	74,883,478	52,313,150	33,656,794
OPERATING EXPENSES					
Research and development	14,016,506	12,516,434	12,712,695	11,725,035	10,293,544
General and administrative	9,085,536	11,454,374	8,199,965	6,767,756	8,129,980
Marketing	4,132,273	3,366,701	2,670,237	2,231,320	2,455,473
Total Operating Expenses	27,234,315	27,337,509	23,582,897	20,724,111	20,878,997
INCOME FROM OPERATIONS	90,968,559	88,481,674	51,300,581	31,589,039	12,777,797
NON-OPERATING INCOME					
Interest	3,069,435	1,783,693	888,107	1,094,724	1,486,656
Investment income recognized by equity method-net	1,433,226	2,094,137	-	-	-
Settlement income	964,710	-	-	-	-
Technical service income	462,624	423,804	209,764	162,149	55,077
Royalty income	-	-	-	527,126	1,301,606
Gain on sales of property, plant and equipment	342,756	242,785	438,809	273,998	52,376
Subsidy income	321,850	-	-	-	-
Gain on sales of investments-net	-	914,541	3,538,081	-	1,724,501
Insurance compensation-net	5,835	79,797	7,410	-	860,835
Premium income from option contracts- net	-	-	-	-	234,732
Foreign exchange gain-net	-	-	-	-	-
Other	467,061	476,801	587,141	291,860	759,793
Total Non-operating Income	7,067,497	6,015,558	5,669,312	2,349,857	6,475,576
NON-OPERATING EXPENSES					
Interest	2,662,458	1,454,242	1,891,009	2,616,740	3,144,042
Unrealized valuation loss of short-term investments	337,160	75,212	-	-	-
Investment loss recognized by equity method-net	-	-	294,244	1,976,847	3,959,020
Loss on impairment of long-term investments	128,900	350,608	652,718	795,674	-
Loss on sales of and provision for loss on property, plant and equipment	191,958	131,148	1,880,325	466,385	235,629
Premium expense from option contracts-net	-	-	153,783	419,513	-
Loss on sales of investments-net	-	-	-	101,221	-
Other	452,333	520,435	919,169	340,368	1,128,177
Total Non-operating Expenses	3,772,809	2,531,645	5,791,248	6,716,748	8,466,868
INCOME BEFORE INCOME TAX AND MINORITY INTEREST	94,263,247	91,965,587	51,178,645	27,222,148	10,786,505
INCOME TAX BENEFIT (EXPENSE)	(630,579)	363,426	(3,922,957)	(5,636,648)	3,740,678
NET INCOME	$ 93,632,668	$ 92,329,013	$ 47,255,688	$ 21,585,500	$ 14,527,183
ATTRIBUTABLE TO:					
Shareholders of the parent	$ 93,575,035	$ 92,316,115	$ 47,258,700	$ 21,610,291	$ 14,483,174
Minority interest	57,633	12,898	(3,012)	(24,791)	44,009
	$ 93,632,668	$ 92,329,013	$ 47,255,688	$ 21,585,500	$ 14,527,183
EARNINGS PER SHARE (Note)					
Basic earnings per share	$ 3.79	$ 3.73	$ 1.90	$ 0.87	$ 0.58
Diluted earnings per share	$ 3.79	$ 3.73	$ 1.90	$ 0.87	$ 0.58

Note: Retroactively adjusted for all subsequent stock dividends and employee stock bonuses.

Taiwan Semiconductor Manufacturing Company, Ltd. and Subsidiaries

Statements of Cash Flows (Consolidated)

For the Years Ended December 31, 2005 ~ 2001

(In Thousands of New Taiwan Dollars)

	2005	2004	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	93,575,035	92,316,115	47,258,700	21,610,291	14,483,174
Minority interest in income (loss) of subsidiaries	57,633	12,898	(3,012)	(24,791)	44,009
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	75,649,429	69,818,457	69,161,317	65,000,873	55,323,040
Deferred income taxes	(3,353,013)	(1,058,393)	3,665,383	5,421,020	(3,788,154)
Investment loss recognized by equity method-net	(1,433,226)	(2,094,137)	294,244	1,976,847	3,959,020
Amortization of premium/discount of long-term bond investments	120,872	28,673	-	-	-
Permanent loss on long-term investments	128,900	350,608	652,718	795,674	-
Loss (gain)on sales of long-term, investments-net	(15,304)	(85,203)	(78,694)	170,831	(105,439)
Loss on impairment and disposal of property, plant and equipment and idle assets-net	(143,591)	(111,637)	1,441,516	192,387	183,253
Reversal of provision for losses on short-term investments-net	-	-	-	-	(13,146)
Pension cost accrued	360,128	500,257	389,890	355,705	345,340
Dividends received from equity method investees	668,464	-	-	-	-
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Notes and accounts receivable	(11,572,809)	(2,709,261)	(8,914,220)	543,276	10,326,271
Receivable from related parties	(101,915)	266,067	(618,194)	40,080	385,511
Allowance for doubtful receivables	(3,145)	(37,555)	87,405	(167,499)	153,758
Allowance for sales returns and others	974,963	1,206,607	(236,672)	(209,036)	123,228
Prepaid expenses and other current assets (include other receivables from related parties and other financial assets)	(373,956)	(821,440)	263,518	(478,468)	320,266
Inventories-net	(2,006,165)	(3,420,613)	(933,878)	(1,373,118)	2,957,395
Increase (decrease) in:					
Accounts payables	2,088,582	825,815	1,300,012	3,740,713	(7,109,948)
Payable to related parties	(1,629,217)	(1,499,968)	1,472,140	727,876	(1,558,066)
Income tax payable	3,611,486	266,526	127,103	-	-
Accrued expenses and other current liabilities	409,903	(602,911)	707,838	184,564	(211,800)
Net Cash Provided by Operating Activities	157,013,054	153,150,905	116,037,114	98,507,225	75,817,712
CASH FLOWS FROM INVESTING ACTIVITIES					
Decrease (increase) in short-term investments	6,954,230	(43,554,878)	(13,326,339)	1,184,419	117,173
Acquisitions of :					
Long-term investments	(14,675,413)	(23,054,379)	(1,412,335)	(3,192,427)	(5,120,580)
Property, plant and equipment	(79,878,724)	(81,094,557)	(37,870,907)	(55,235,458)	(70,201,205)
Proceeds from sales of:					
Long-term investments	10,533,622	165,243	505,702	53,048	559,137
Property, plant, and equipment	480,707	1,812,633	177,312	495,878	301,416
Increase in deferred charges	(855,967)	(2,405,673)	(2,138,087)	(5,724,583)	(1,805,250)
Decrease (increase) in refundable deposits	771	93,074	357,744	226,823	194,978
Decrease (increase) in other assets	741	51,604	4,610	2,711	(9,162)
Increase in goodwill	-	-	-	-	(1,019,227)
Net Cash Used in Investing Activities	(77,440,033)	(147,986,933)	(53,702,300)	(62,189,589)	(76,982,720)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash dividends paid for common stock	(46,419,812)	(12,137,190)	-	-	-
Repurchase of treasury stock	-	(7,059,798)	-	-	-
Proceeds from:					
Issuance of short-term bank loans	-	-	-	-	2,435,340
Issuance of long-term bonds	-	-	-	10,000,000	-
Issuance of stock inconnection with the exercise of stock options	270,929	3,624	-	-	-
Disposal of treasury stock	899,489	39,906	300,284	-	-
Payments on:					
Short-term bank loans	(54,504)	-	(309,807)	(5,539,368)	-
Bonds payable	(10,500,000)	(5,000,000)	(4,000,000)	-	-
Long-term bank loans	(1,337,489)	(6,656,152)	(8,915,557)	(4,397,306)	(940,007)

(Continued)

	2005	2004	2003	2002	2001
Increase (decrease) in guarantee deposits	2,483,549	(351,008)	(631,177)	(5,817,622)	126,309
Cash bonus paid to employees	(3,086,215)	(681,628)	-	-	-
Decrease in lease obligation	-	-	-	-	(51,286)
Cash dividends paid for preferred stocks	-	(184,493)	(455,000)	(455,000)	(455,000)
Redemption of preferred stock	-	-	(13,000,000)	-	-
Remuneration paid to directors and supervisors	(231,466)	(127,805)	(58,485)	(133,848)	(170,440)
Increase in financing costs	-	-	-	(3,002)	(47,689)
Increase(decrease) in minority interest in subsidiaries	6,832	(26,160)	(3,487)	49	(249,166)
Net Cash (Uses in) Provided by Financing Activities	(57,968,687)	(32,180,704)	(27,073,229)	(6,346,097)	648,061
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,604,334	(27,016,732)	35,261,585	29,971,539	(516,947)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	348,921	(1,669,813)	(62,893)	262,370	(766,975)
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES	228,101	-	-	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	74,302,351	102,988,896	67,790,204	37,556,295	38,840,217
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 96,483,707	$ 74,302,351	$ 102,988,896	$ 67,790,204	$ 37,556,295
SUPPLEMENTAL INFORMATION					
Interest paid (excluding the amounts capitalized)	$ 2,435,827	$ 1,470,333	$ 1,982,594	$ 2,301,765	$ 3,468,112
Income tax paid	$ 341,671	$ 389,189	$ 218,954	$ 165,121	$ 20,767
Noncash investing and financing activities:					
Reclassification of a parent company stock held by subsidiaries from long-term investments to treasury stock	$ -	$ -	$ -	$ 1,923,492	$ -
Current portion of long-term liabilities	$ 5,489	$ 10,500,000	$ 5,000,000	$ 12,107,899	$ 5,001,116
Current portion of other payables to related parties (under payables to related parties)	$ 693,956	$ 469,494	$ -	$ -	$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 869,072	$ 1,505,345	$ 1,591,972	$ 1,157,299	$ -
Reclassification of long-term investments to short-term investments	$ 245,587	$ 343,950	$ 140,984	$ -	$ -
Reclassification of short-term investments to long-term investments	$ -	$ 3,402,413	$ -	$ -	$ -

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Department of China Trust Commercial Bank
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Address: 388 Greenwich Street, New York, NY10013, U.S.A.
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TSMC's depositary receipts of the common shares are listed on New York Stock Exchange (NYSE) under the symbol TSM. The information relating to TSM is available at http://www.nyse.com and http://newmops.tse.com.tw