Taiwan Semiconductor
Manufacturing Company, Ltd.

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- 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.

Vision & Core Values

TSMC Vision

Our vision is to be the most advanced and largest technology and foundry services provider to fabless companies and IDMs, and in partnership with them, to forge a powerful competitive force in the semiconductor industry.

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

(1) be a technology leader, competitive with the leading IDMs
(2) be the lowest-cost manufacturer, and
(3) be 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 law, but we do not slander our competitors and we respect the 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. When selecting new employees, we place emphasis on the candidates' qualifications and character, not connections or access.

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, it means putting ideas 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 return, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

F. C. Tseng
Vice Chairman

Morris Chang
Chairman

Rick Tsai
President and CEO

Letter to Shareholders

Dear Shareholders,

As TSMC enters its 20th year as a public company, we take great pride in continuing our focus on growing shareholder value while maintaining market leadership in the dedicated semiconductor foundry segment that we created in 1987. During 2006, TSMC registered double-digit growth in full-year revenues and earnings from a year earlier. Nevertheless, an inventory correction that began in the third quarter in 2006 persisted through the first quarter of 2007. But, we expect demand to improve steadily through the remainder of the year.

Financial Results

Revenue for 2006 totaled NT$317.41 billion, an increase of 19.1% compared with NT$266.57 billion in 2005. Net income increased 35.7% to NT$127.01 billion in 2006 compared with NT$93.58 billion in 2005. Diluted earnings per share in 2006 increased 35.5% to NT$4.92 compared with NT$3.63 the previous year. In US dollars, TSMC in 2006 generated revenue of US$9.76 billion, an increase of 17.7%, and net income of US$3.91 billion, an increase of 34.2%. Among other highlights in 2006, TSMC achieved:

- Total average billing utilization of 102%
- Average gross profit margin of 49.1%
- Average operating profit margin of 40.1%

During the year, TSMC provided 7.06 million eight-inch equivalent wafer capacities, representing about 7% of worldwide IC wafer supply, and it shipped more than 7.2 million eight-inch equivalent wafers, representing about 8% of global IC wafer shipment.

Major Accomplishments

During 2006, TSMC achieved several noteworthy accomplishments:

- 49% of wafer sales were generated from advanced process technologies (i.e., 0.13-micron and below), and 65-nanometer process moved into volume production.
- TSMC's continual emphasis on cost improvement and manufacturing efficiencies generated more than US$3.8 billion free cash flow (for the ninth consecutive year) supporting its strong commitment to cash dividend.
- TSMC unveiled the industry's first 65-nm Design-for-Manufacturing (DFM) Ecosystem. Using TSMC's DFM platform, our customers can reduce the design complexity and utilize the same manufacturing data independent of the design tools that they select. Therefore, we will be able to assist our customers to improve efficiencies, shorten the design cycle, and accelerate time-to-volume and time-to-market.
- Early in 2006, TSMC's immersion lithography program produced nearly defect-free test wafers with acceptable parameters for volume manufacturing, using our proprietary techniques in 65-nanometer process. Ongoing efforts to further develop this technology to commercialize it are underway.

A Vision for Continued Growth

The foundry segment, driven by TSMC's successes, is of vital importance to the ongoing viability and growth of the semiconductor industry. Today, foundry segment revenues are approximately 10% of total semiconductor revenue, while the revenue generated by foundry customers accounts for nearly 25% of overall semiconductor revenues.

While there is every reason to anticipate that foundries will increase their importance in the semiconductor supply chain, it is equally clear that growth of the overall IC market has slowed since the beginning of the 21st Century. In order to sustain growth, we intend to expand into new CMOS logic IC product markets by providing an increasingly broad portfolio of CMOS logic and derivative technologies to address memory, analog, high performance logic or image sensor applications. Concurrently, we will continue our efforts in strengthening our ability to create a much deeper and broader relationship with each of our customers. This integrated relationship with customers will require a much greater information flow between the design and foundry teams, and optimization of both design and process technology to meet product requirements. TSMC's robust DFM platform and efficient manufacturing capabilities will bring win-win benefit to this collaborative partnership and ensure the continual success of the foundry business model.

Major Events

Corporate Governance, Social Responsibility and Innovation: TSMC is a model for corporate governance in Taiwan. For example, in 2002, we were the first Taiwan company to establish an audit committee. Again, in 2006 we were the first Taiwan publicly traded company to see its shareholders eliminate the Supervisor position (effective January 1, 2007) thereby consolidating the Supervisor responsibilities into the audit committee. Today, we have four independent directors.

Also, as you can see in our Annual Report, TSMC proudly received a number of awards in 2006 for its excellence in corporate governance and social responsibility. For example, TSMC won the *Globalviews Magazine*'s 2006 Corporate Social Responsibility Award in the Large Cap category for the second consecutive year. And, during 2006, TSMC was also recognized for our efforts in innovation when TSMC received the Outstanding Corporate Innovation Award from the Ministry of Economic Affairs (MOEA) of the Republic of China.

Change in Employee Profit Sharing: In light of new government regulations effective in 2008, TSMC, with the support from its Board of Directors, decided to take an early leadership position on profit sharing. In November 2006 TSMC was the first Taiwan company to announce a change in its profit sharing mechanism in order to better balance the interests of TSMC's employees and its shareholders.

Outlook

While the semiconductor industry grew between 8% and 9% in 2006, the outlook for 2007 is for the industry to grow more moderately. Although TSMC outpaced the industry in 2006, we anticipate a slower growth environment in the short term. Nevertheless, with our continued leadership in the foundry segment we are confident that we will experience over the mid-to-long term strong growth and return on investment to shareholders.

Morris Chang
Chairman

Rick Tsai
President and CEO

A Brief Introduction to TSMC

TSMC is the world's largest dedicated semiconductor foundry. Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the dedicated semiconductor foundry business model of focusing on manufacturing customers' product designs. The company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers. TSMC's diverse global customer base ensures that TSMC-manufactured microchips are used in a broad variety of applications, including automotive, consumer electronics, personal computers, and telecommunications.

Capacity of TSMC-managed manufacturing facilities, including subsidiaries and joint ventures, totaled 7.06 million eight-inch equivalent wafers in 2006. In Taiwan, TSMC operates two advanced 12-inch wafer fabs, four eight-inch wafer fabs, and one six-inch wafer fab. TSMC also manages two eight-inch fabs at wholly owned subsidiaries: Wafertech in the United States and TSMC (Shanghai) Company, Ltd. in China. In addition, TSMC obtains eight-inch wafer capacity from other companies in which TSMC has an equity interest. TSMC provides customer service through account management and engineering service offices in the United States, Europe, Japan, China, South Korea, and India. The company employed more than 20,000 people worldwide as of the end of 2006.

TSMC is the first foundry to provide 65nm production capability. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, mixed signal/RF, high voltage, CMOS image sensor, color filter, and silicon germanium technologies. In 2006, TSMC received the Outstanding Corporate Innovation Award from the Ministry of Economic Affairs (MOEA) of the Republic of China.

The company is listed on the Taiwan Stock Exchange (TSE) under the ticker number 2330 and its American Depositary Shares trade on the New York Stock Exchange (NYSE) under the symbol of TSM.

Market Overview

Semiconductor Market Analysis

Global semiconductor revenues increased about 8.9 percent in 2006 to US$247.7 billion. Fabless company revenues grew about 16 percent in 2006 to US$42.3 billion. The value of dedicated foundry output at the semiconductor market level is roughly three times foundry revenues and accounted for about 24 percent of semiconductor revenues in 2006. TSMC maintained its leading position in the dedicated foundry segment of the semiconductor industry with an estimated market share of 50 percent.

Market research firm IC Insights estimates that the largest geographic market for dedicated foundry services by corporate headquarter location is North America, which accounted for 63 percent of overall dedicated foundry revenue in 2006. The second largest geographic market is Asia-Pacific (excluding Japan), which accounted for 21 percent of total dedicated foundry revenue in 2006. Europe made up 10 percent, and Japan contributed six percent.

Semiconductor Industry Growth Analysis

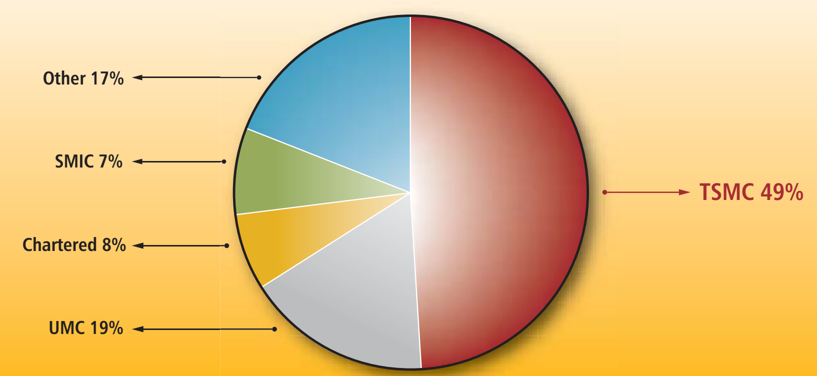
Analysts' consensus forecast for semiconductor market growth in 2007 is a mid-single digit percentage rise. The semiconductor market is forecasted to continue growing in 2008 with a consensus forecast of a low double digit percentage increase.

Foundry Sector Outlook: Opportunities and Threats

TSMC believes foundry services will play an increasingly important role as Integrated Device Manufacturers, or IDMs, become increasingly reliant on outsourced manufacturing, and as fabless semiconductor companies continue to grow. IC insights forecasts that by 2010, 30 percent of global semiconductor revenue will come from dedicated foundries, compared with 24 percent in 2006.

Accordingly, TSMC plans to continue capacity expansion in 2007, with capital investment of approximately US$2.6 billion to US$2.8 billion. In addition to increasing capacity in Fab 12 and Fab 14, TSMC's two 12-inch GigaFabs^{SM}, TSMC is expanding capacity at its eight-inch fab in China, TSMC (Shanghai). TSMC will continue to focus on creating value for customers to capitalize on opportunities and maintain competitiveness.

Total Dedicated Foundry Market in 2006: US$19.7 billion



Meeting the Challenges of the 21st Century

Foundries are now an integral part of the overall semiconductor supply-chain, and there is every reason to anticipate that the importance of the foundry segment to the IC industry will increase further. As TSMC looks to the future, we see that maintaining historic levels of growth in the IC market will be challenging. The industry slow-down following 2000 was a watershed event: in its aftermath, the average growth rate between 2000 and 2010 is projected to reach just 6 percent. While projections from 2006 forward indicate that the overall market growth may increase to about 9 percent, it is quite clear that the growth of the overall IC market has slowed since the beginning of the 21st Century. Accordingly, it is critically necessary to scan ways whereby TSMC, as the leader of the dedicated foundry segment, can continue to support the IC industry to maintain or even improve growth rates.

We believe one way to revitalize IC market growth is to expand into new CMOS-logic IC product markets. As an example of CMOS-logic market expansion, consumer electronics will be one of the significant future growth drivers. Growth opportunities exist in cell-phone applications, game systems, digital TV, LCD displays, power management, MP3 devices, and digital cameras. Overall, the consumer-electronics market segment has its own set of challenges that TSMC is well-positioned to meet: Product cycles for consumer items are typically rapid, and so time-to-market considerations are important. Moreover, customers will expect an increasing focus on rapid prototyping, production-cycle-time reduction, and capability for rapid wafer volume ramp-up. Advanced technology capability is also important to meet cost, power consumption, and performance objectives. These attributes are areas of relative strength for TSMC. Therefore, strong relationships between TSMC and its customers are potentially advantageous to customers' success in these product markets.

At the same time, TSMC is also penetrating segments of the IC market that are currently not involved in foundry relationships by broadening the range of technologies that are offered. TSMC will provide an increasingly broad portfolio of CMOS-derived technologies such as, RF, mixed-signal, high-voltage, non-volatile memory, and embedded-DRAM, concurrently with the design environment necessary to address issues in memory, analog, high-performance logic, or image-sensor applications.

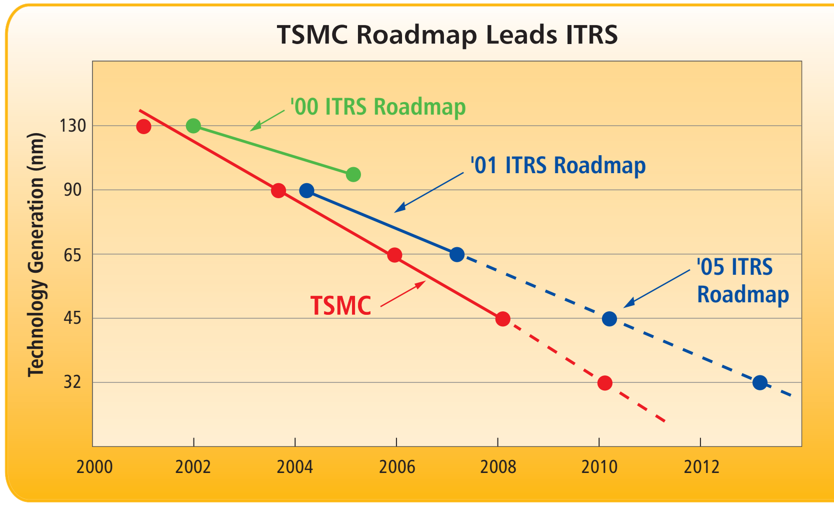
One of the most important elements of TSMC's future success is our ability to create a much deeper and broader relationship with each of our customers. Ideally, the customer should view TSMC as its own technology team and its own fab. This new type of integrated relationship differs from many previous foundry-customer relationships, in that both design and technology engineering proceed concurrently from an early stage in the product-development effort. The success of this relationship will require a much greater information flow between the design and foundry teams, and concurrent optimization of both design and process technology, to meet product requirements. Such relationships can offer a significant advantage to customers in meeting product cost, performance, and time-to-market requirements.

TSMC Worldwide

Trinity of Strengths

Technology Leadership

TSMC increased its research and development investment and expanded its world-class R&D organization in 2006 to provide best-in-class semiconductor technologies and design solutions to our customers. During 2006, the R&D organization was reorganized into exploratory research and platform development organizations to better support TSMC's technology development. R&D expenditure reached NT$14.6 billion, while R&D staff grew by 13.5 percent during the same period. We plan to continue to invest significant amounts on research and development in 2007, with the goal of maintaining a leading position in the development of advanced process technologies. TSMC also strengthened the capabilities and expanded the capacity of our 300mm R&D pilot line for advanced process development in 2006 to accommodate our growing R&D development activities. TSMC continued to accelerate the development of transistor, memory, and interconnect technologies.



What is the ITRS?

The International Technology Roadmap for Semiconductors, known as the ITRS, is a fifteen-year assessment of the semiconductor industry's future technology requirements sponsored by semiconductor industry associations in the five leading chip manufacturing regions in the world: Europe, Japan, Korea, Taiwan, and the United States.

ITRS: International Technology Roadmap for Semiconductors

Highlights of R&D Accomplishments in 2006

Sixty-five Nanometer Technology

TSMC was the first foundry to qualify production-ready 65 nanometer technology in 2006, beginning with low-power process technology. We continued to expand our 65 nanometer portfolio, successfully completing technology qualification and customer product pilot runs for various technology families.

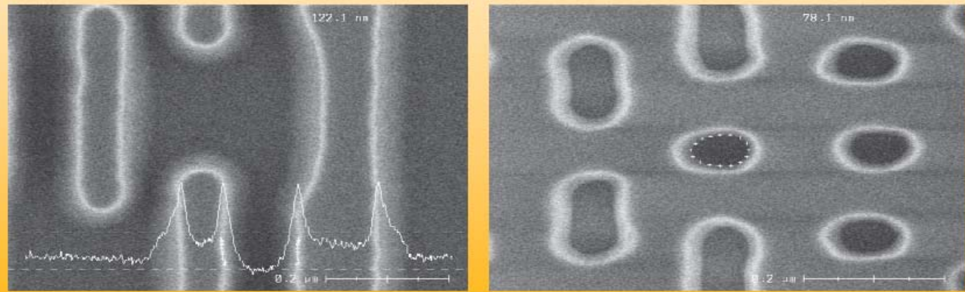
Sixty-five Nanometer Embedded DRAM

TSMC developed the foundry sector's first functional 65 nanometer embedded DRAM customer product in 2006. TSMC's 65 nanometer embedded DRAM features improved retention time and a low thermal budget module that can be added to the company's standard CMOS process.

TSMC Immersion Lithography Leadership

TSMC announced production-ready immersion lithography in February 2006, achieving a world record of low single-digit immersion-induced defects compared with published champion data in double digits.

Excellent 65nm 16Mb SRAM with 0.499µm^2 SRAM cell from immersion scanner



Immersion Lithography

TSMC's immersion lithography program used proprietary techniques to produce nearly defect-free test wafers well within acceptable parameters for volume manufacturing. On initial tests, TSMC's techniques produced less than seven immersion-induced defects on many 12-inch wafers, a defect density of 0.014/cm^2. Some wafers have yielded defects as low as three per wafer, or 0.006/cm^2. This compares to several hundred thousand defects produced by a prototype immersion scanner without these proprietary techniques, and is significantly better than published champion data in double digits.

Forty-five Nanometer Technology

TSMC's 45 nanometer technology development made a strong start in 2006. Our test vehicles achieved defect densities of less than 10 per wafer by the end of the year, reaching this important milestone two quarters earlier compared with our 65 nanometer technology development timeline. Having made substantial progress in technology development, we were able to offer the foundry sector's first 45 nanometer low-power design verification shuttle in 2006.

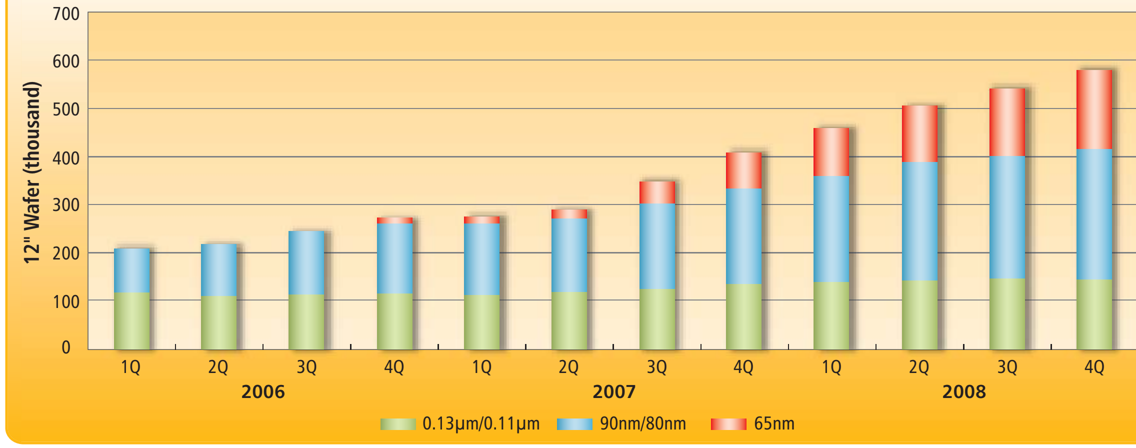
Manufacturing Excellence

TSMC is the foundry sector's capacity leader. In 2006, TSMC managed capacity of 7.06 million eight-inch equivalent wafers, an increase of 18.6 percent from 2005. However, capacity is not the only foundation for TSMC's manufacturing excellence. Our flexibility in assurance of supply for diverse customer needs, best-in-class cycle time, agility in meeting customers' capacity needs, ability to quickly ramp up and maintain high yield, accurate delivery, and in-house mask service make manufacturing excellence one of TSMC's core strengths.

Flexible Manufacturing

To serve a diverse customer base, TSMC's fabs have the flexibility to support numerous customers, products, and technologies. Each individual fab can support over one hundred customers and over one thousand different products.

TSMC 12" Capacity Build-up



Best-in-class Cycle Time

Our customers depend on TSMC's ability to deliver products with short demand fulfillment cycles. TSMC's production cycle time is the fastest in the foundry sector and is competitive with the leading benchmark manufacturers in the semiconductor industry. TSMC's advanced 12-inch fabs continued to break cycle time records in 2006.

Manufacturing Agility

TSMC adapts to surges in customer demand with large-capacity 12-inch GigaFabs^{SM} and fab clusters, supporting each other with seamless technology transfer. TSMC's technology transfer requires the second fab to match the first fab's yield and device performance, then strive further for higher performance.

Fast Yield Ramp Up

Fast yield ramp up for new products is crucial to the success of TSMC and our customers. We have developed a comprehensive methodology for transferring technologies from R&D to production to shorten the yield learning curve of leading edge technologies.

Accurate Delivery

TSMC has a proven record of providing customers with consistent on-time delivery. TSMC's stringent demands for accuracy require that deliveries be neither too late nor too early, as both could affect a customer's just-in-time supply chain management. In 2006, we were able to make over 90 percent of our deliveries within one day of the scheduled delivery date.

Mask Production

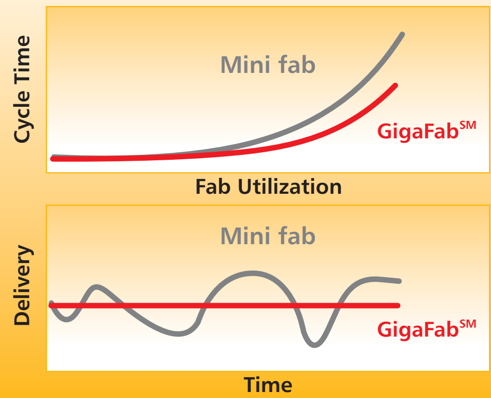
Mask technology is an integral part of advanced lithography, and TSMC's in-house mask shop is one of the world's largest mask making facilities, providing our customers with one-stop service for prototyping with short cycle time.

GigaFab℠

TSMC's 12-inch fabs are a key part of our manufacturing excellence, and will continue to grow more important in the future. TSMC operates two 300mm fabs - Fab 12 and Fab 14. Fab 12 is located in Hsinchu, Taiwan with a capacity of 166,000 12-inch wafers in the fourth quarter of 2006, and is the primary site for TSMC's R&D. Fab 14, located in Tainan, Taiwan, had capacity of 105,000 wafers in the fourth quarter of 2006. These advanced facilities will continue to be the focus of our capacity expansion in the near future. These "GigaFabs℠" are centers of our unceasing effort to improve manufacturing excellence and to continue to deliver breakthroughs. Our gigafabs attain lower operating costs by achieving near 100 percent automation, such as real-time wafer dispatching, a search engine optimizing route for Automated Materials Handling Systems (AMHS), full automation of production wafers and non-product wafers, as well as lean work-in-progress control.

TSMC GigaFab℠ Delivers Best Performance

	Mini	Mega	Giga
Monthly Capacity (pcs)	~10K	~25K	~80K
Investment ($B)	1	3~4	6~10
Operating Cost	High	Medium	Low
Flexibility	Limited	Medium	High
Ramp-up Agility	Limited	Medium	High
Cycle Time	Long	Medium	Short
Delivery Precision	Limited	Medium	High



Customer Partnership

Customer Service

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 technologies and foundry services. TSMC believes that achieving this goal will help retain existing customers, attract new customers, and strengthen customer partnerships.

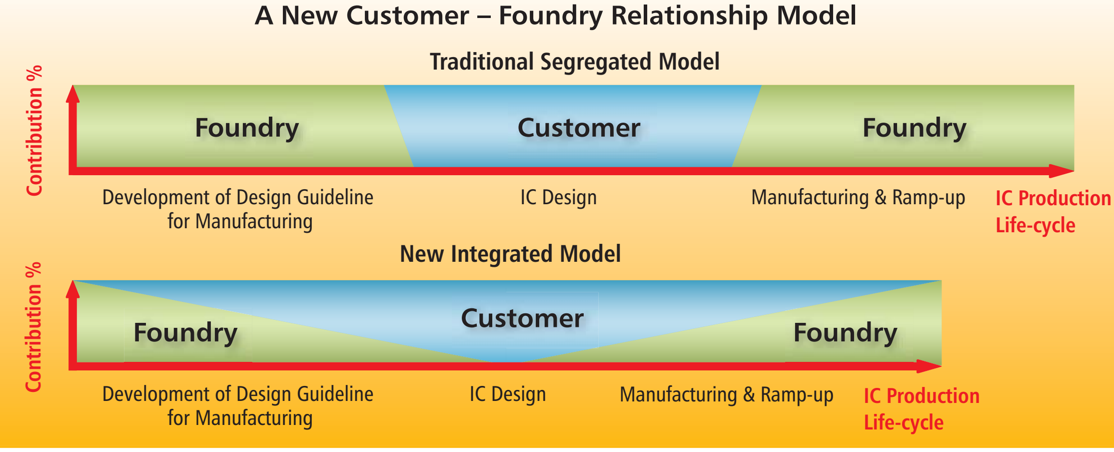
To facilitate customer interaction and information access on a real-time basis, TSMC has established a wide range of web-based services covering applications in design, engineering, and logistic collaborations. They are collectively branded as eFoundry℠.

Customer Satisfaction

TSMC regularly conducts surveys and reviews to ensure that customers' needs and wants are being adequately understood and then addressed. Continual improvement plans supplemented by customer feedback are an integral part of this business process.

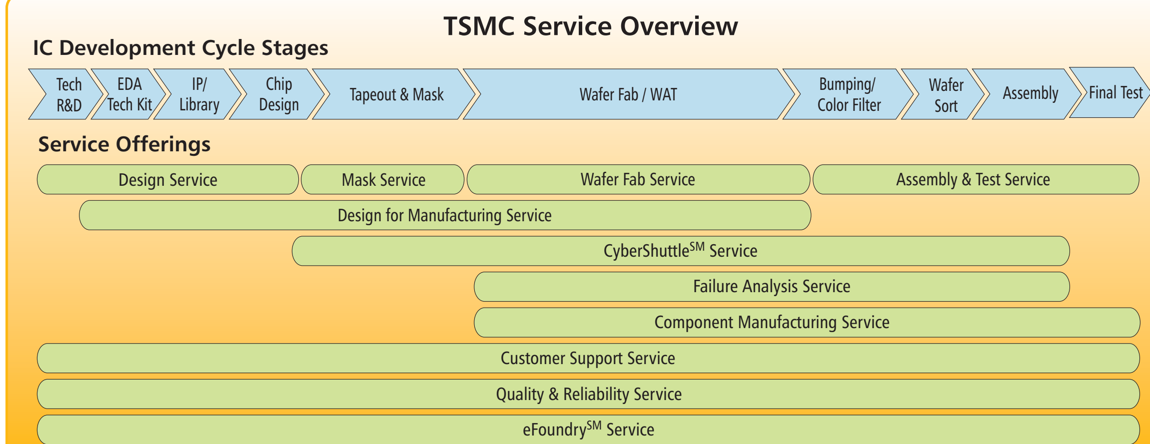
Market Expansion and Penetration

TSMC continues to diversify its customer base while supporting the growth of our existing customers. TSMC engaged more than 50 new customers in 2006. In addition, TSMC has opened offices in Korea and India to support local customers as well as branch offices of global customers.



Customer-driven Design and Technology Platform

In 2006, TSMC separated its Technology Platform and Design Services operations from R&D into an independent Design and Technology Platform organization. This reorganization tightens the link between TSMC's R&D capabilities with the needs of our customers and ensures that our technology road map is driven by customer applications. Design is becoming increasingly intertwined with manufacturing as technology advances into deep sub-micron nodes. TSMC is dedicated to serving its customers by lowering the barriers to advanced technology design. TSMC also collaborated with design tool vendors to set up a design for manufacturing ecosystem that ensures our customers can design with the same manufacturing data regardless of the design tools that they select. We believe that providing our customers with a robust DFM environment will become a more and more important factor in shortening the design cycle and accelerating time-to-volume and time-to-market with each technology generation.



Corporate Governance

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. TSMC was recognized for its corporate governance in 2006 with the Best Corporate Governance Award for the Hong Kong and Taiwan Regions from *IR Magazine* and the Best Corporate Governance Award from *FinanceAsia* for the Taiwan region.

Board of Directors

We believe that the cornerstone for successful corporate governance is a sound and effective Board of Directors. TSMC's Board of Directors consists of eight (Note) distinguished members with a great breadth of experience as world-class business leaders or scholars. Four of the eight members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Massachusetts Institute of Technology, Professor Lester Thurow; former Acer Group Chairman, Mr. Stan Shih; and former Hewlett-Packard Chairman and CEO, Ms. Carly Fiorina. Ms. Fiorina was elected to the Board of Directors in May 2006, adding her wealth of experience in leading world-class companies and raising the number of independent directors to four from three. The Board's primary duty is to oversee the overall business and corporate affairs of TSMC. Day-to-day operations, preparation of financial statements, fund raising, and investments remain the responsibility of the company's management. In conjunction with the company's management, the Board also monitors regulatory activities, such as amendments to Taiwan's laws, amendments to SEC rules and regulations in the United States, and changes to New York Stock Exchange and Taiwan Stock Exchange listing requirements.

Note: Mr. J.C. Lobbezoo, the representative of Koninklijke Philips Electronics N.V., resigned from the Board on March 9, 2007.

Audit Committee and Compensation 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 internal control systems. TSMC's Audit Committee is empowered 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.

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

Financial Statements

Taiwan Semiconductor Manufacturing Company Limited

Balance Sheets (Unconsolidated)

December 31, 2006 ~ 2002

(In Thousands of New Taiwan Dollars)

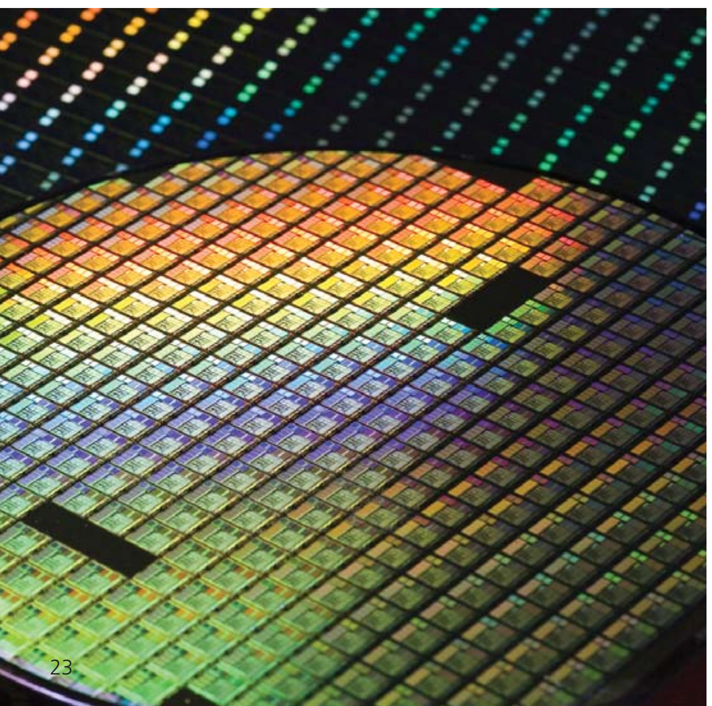
	2006	2005 (1)	2004	2003	2002
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 100,139,709	$ 85,383,583	$ 65,531,818	$ 98,288,002	$ 61,656,795
Short -term investments, net	-	-	52,979,095	12,559,019	-
Financial assets at fair value through profit or loss	44,601	1,380,905	-	-	-
Available-for-sale financial assets	25,967,061	46,452,838	-	-	-
Held-to-maturity financial assets	8,510,823	602,509	-	-	-
Note & accounts receivable	16,278,164	20,591,818	15,326,881	13,917,807	9,515,381
Receivables from related parties	16,869,509	21,050,604	16,136,039	14,830,758	10,114,917
Allowance for doubtful receivables	(690,931)	(976,344)	(980,461)	(1,016,022)	(929,864)
Allowance for sales returns and others	(2,751,065)	(4,269,969)	(3,327,914)	(2,126,025)	(2,363,067)
Other receivables from related parties	449,266	1,797,714	1,667,383	169,867	108,877
Other financial assets	653,460	1,106,030	2,080,640	543,750	458,859
Inventories, net	19,152,214	16,257,955	14,171,945	10,907,158	10,340,336
Deferred income tax assets	7,832,000	7,013,000	8,849,000	8,322,000	3,320,000
Prepaid expenses and other current assets	1,221,199	1,171,773	1,232,885	2,129,958	2,525,171
Total current assets	193,676,010	197,562,416	173,667,311	158,526,272	94,747,405
LONG-TERM INVESTMENTS					
Investments accounted for using equity method	101,044,356	51,076,803	46,828,322	37,262,237	33,042,029
Available-for-sale financial assets	6,647,511	-	-	-	-
Held-to-maturity financial assets	28,973,495	28,775,308	-	-	-
Financial assets carried at cost	712,843	807,490	772,634	703,116	1,087,106
Long-term bonds	-	-	15,170,167	-	-
Other investments	-	-	10,521,740	-	-
Prepayment for subscribed stocks	-	-	-	-	849,360
Total long-term investments	137,378,205	80,659,601	73,292,863	37,965,353	34,978,495
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Buildings	96,961,851	90,769,622	84,299,167	71,277,031	68,488,180
Machinery and equipment	527,850,728	459,850,773	390,719,215	332,252,225	303,334,232
Office equipment	8,659,225	7,850,035	7,041,132	6,180,495	5,697,828
Total costs	633,471,804	558,470,430	482,059,514	409,709,751	377,520,240
Accumulated depreciation	(417,467,250)	(359,191,829)	(300,006,201)	(247,514,312)	(188,447,604)
Advance payments and construction in progress	12,230,805	14,867,032	45,923,087	26,091,313	28,119,627
Property, plant and equipment, net	228,235,359	214,145,633	227,976,400	188,286,752	217,192,263
GOODWILL	1,567,756	1,567,756	1,916,146	2,264,536	2,612,926
OTHER ASSETS					
Deferred income tax assets	5,761,127	6,759,955	1,645,003	1,070,596	9,712,567
Deferred charges, net	5,593,068	6,681,144	8,845,144	7,947,331	9,792,490
Refundable deposits	1,306,234	83,642	85,413	177,379	543,469
Assets leased to others, net	67,145	72,879	78,613	84,347	87,246
Idle assets	-	6,789	46,317	94,296	339,400
Others	-	-	-	-	9,250
Total other assets	12,727,574	13,604,409	10,700,490	9,373,949	20,484,422
TOTAL ASSETS	$ 573,584,904	$ 507,539,815	$ 487,553,210	$ 396,416,862	$ 370,015,511

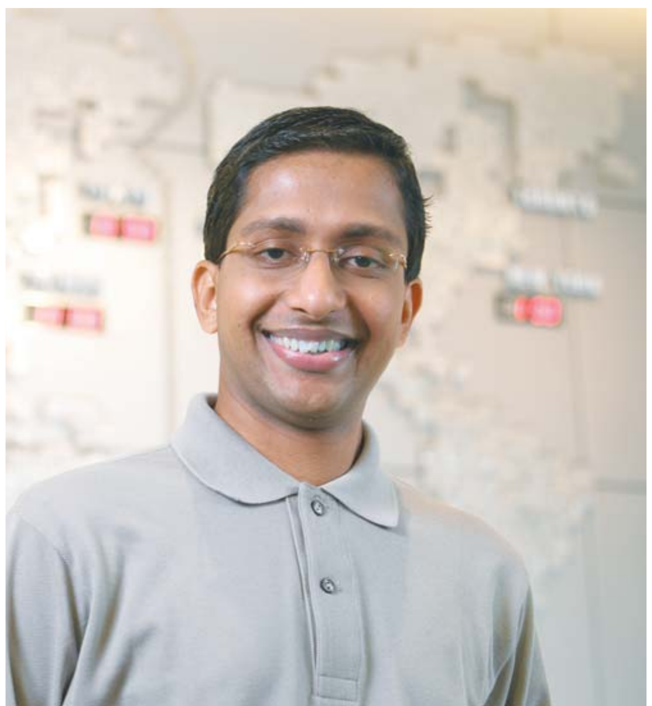
Note 1: Balances for 2005 have been reclassified to conform the current period presentation.

(Continued)

	2006	2005 (1)	2004	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Financial liabilities at fair value through profit or loss	$ 10,751	$ 234,279	$ -	$ -	$ -
Accounts payable	6,143,679	8,052,106	6,488,617	6,083,876	4,849,234
Payables to related parties	3,326,916	3,242,197	3,198,490	4,500,140	2,466,998
Income tax payable	7,850,418	3,815,888	379,903	127,103	-
Accrued expenses and other current liabilities	7,903,867	7,980,715	8,917,533	7,708,981	5,839,488
Payables to contractors and equipment suppliers	10,669,523	8,859,230	31,154,309	7,117,884	14,004,383
Current portion of long-term bonds payable	7,000,000	-	10,500,000	5,000,000	4,000,000
Total current liabilities	42,905,154	32,184,415	60,638,852	30,537,984	31,160,103
LONG-TERM LIABILITIES					
Bonds payable	12,500,000	19,500,000	19,500,000	30,000,000	35,000,000
Other long-term payables	1,271,896	1,511,100	1,934,968	3,300,829	4,281,665
Other payables to related parties	403,375	1,100,475	2,317,972	-	-
Total long-term liabilities	14,175,271	22,111,575	23,752,940	33,300,829	39,281,665
OTHER LIABILITIES					
Accrued pension cost	3,530,116	3,461,392	3,101,196	2,600,251	2,210,542
Guarantee deposits	3,809,961	2,892,945	412,393	763,489	1,395,066
Deferred gain on sales and leaseback	-	-	-	-	114,928
Deferred credits	1,183,118	1,259,139	682,530	-	-
Total other liabilities	8,523,195	7,613,476	4,196,119	3,363,740	3,720,536
Total liabilities	65,603,620	61,909,466	88,587,911	67,202,553	74,162,304
SHAREHOLDERS' EQUITY					
Capital stock - $10 par value					
Preferred stock	-	-	-	-	13,000,000
Common stock	258,296,879	247,300,246	232,519,637	202,666,189	186,228,867
Capital surplus	54,107,498	57,117,886	56,537,259	56,855,885	57,004,789
Retained earnings					
Appropriated as legal reserve	43,705,711	34,348,208	25,528,007	20,802,137	18,641,108
Appropriated as special reserve	640,742	2,226,427	-	68,945	-
Unappropriated earnings	152,778,079	106,196,399	88,202,009	50,229,008	22,151,089
Unrealized loss on long-term investments	-	-	-	(35)	(194,283)
Cumulative translation adjustments	(1,191,165)	(640,742)	(2,226,427)	225,408	945,129
Unrealized gains on financial instruments	561,615	-	-	-	-
Treasury stock (at cost)	(918,075)	(918,075)	(1,595,186)	(1,633,228)	(1,923,492)
Total shareholders' equity	507,981,284	445,630,349	398,965,299	329,214,309	295,853,207
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 573,584,904	$ 507,539,815	$ 487,553,210	$ 396,416,862	$ 370,015,511

(Concluded)





Taiwan Semiconductor Manufacturing Company Limited

Statements of Income (Unconsolidated)

For the Years Ended December 31, 2006 ~ 2002

(In Thousands of New Taiwan Dollars, Except Earnings Per Shares)

	2006	2005[1]	2004	2003	2002
GROSS SALES	$ 319,210,148	$ 270,315,064	$ 260,726,896	$ 206,157,918	$ 164,805,296
SALES RETURNS AND ALLOWANCES	5,328,513	5,726,700	4,734,469	4,253,577	3,843,967
NET SALES	313,881,635	264,588,364	255,992,427	201,904,341	160,961,329
COST OF SALES	164,163,235	149,344,315	145,831,843	129,012,704	108,994,184
GROSS SALES	149,718,400	115,244,049	110,160,584	72,891,637	51,967,145
OPERATING EXPENSES					
Research and development	14,601,385	13,395,801	12,516,434	12,712,695	11,440,332
General and administrative	7,190,422	7,485,011	9,367,010	6,337,845	5,210,083
Marketing	1,626,734	1,349,413	1,454,362	1,193,520	1,140,424
Total operating expenses	23,418,541	22,230,225	23,337,806	20,244,060	17,790,839
INCOME FROM OPERATIONS	126,299,859	93,013,824	86,822,778	52,647,577	34,176,306
NON-OPERATING INCOME AND GAINS					
Equity in earnings of equity method investees, net	5,526,727	-	4,040,319	791,424	-
Interest income	3,382,868	2,506,769	1,687,681	819,377	1,008,147
Settlement income	967,506	950,046	-	-	-
Gain on disposal of property, plant and equipment and other assets	596,459	494,374	164,147	438,804	273,998
Technical service income	670,297	491,267	423,804	209,764	204,350
Gain on sales of investments, net	-	-	90,319	114,817	32,169
Valuation gain on financial instruments, net	33,850	-	-	-	-
Foreign exchange gain, net	-	2,572,560	-	-	-
Others	419,020	366,344	378,778	291,613	244,229
Total non-operating income and gains	11,596,727	7,381,360	6,785,048	2,665,799	1,762,893
NON-OPERATING EXPENSES AND LOSSES					
Interest expense	661,200	1,180,484	1,278,072	1,576,343	2,119,935
Equity in losses of equity method investees, net	-	1,052,045	-	-	5,716,510
Loss on disposal of property, plant, and equipment	240,985	59,992	107,722	373,472	117,955
Loss on idle assets	44,072	131,849	-	1,401,585	104,000
Amortization of premium expense from option contracts, net	-	-	-	153,783	419,513
Loss on settlement and disposal of financial instruments, net	1,623,882	3,742,312	-	-	-
Foreign exchange loss, net	412,726	-	323,080	755,713	120,568
Valuation loss on financial instruments, net	-	337,160	-	-	-
Casualty loss, net	-	-	-	-	119,485
Others	107,222	71,919	120,368	24,205	108,778
Total non-operating expenses and losses	3,090,087	6,575,761	1,829,242	4,285,101	8,826,744
INCOME BEFORE INCOME TAX	134,806,499	93,819,423	91,778,584	51,028,275	27,112,455
INCOME TAX BENEFITS (EXPENSES)	(7,550,582)	(244,388)	537,531	(3,769,575)	(5,502,164)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	127,255,917	93,575,035	92,316,115	47,258,700	21,610,291
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT$82,062 THOUSAND	(246,186)	-	-	-	-
NET INCOME	$ 127,009,731	$ 93,575,035	$ 92,316,115	$ 47,258,700	$ 21,610,291
EARNINGS PER SHARE[2]					
Basic earnings per share	$ 4.93	$ 3.63	$ 3.58	$ 1.82	$ 0.82
Diluted earnings per share	$ 4.92	$ 3.63	$ 3.58	$ 1.82	$ 0.82

Note 1: Balances for 2005 have been reclassified to conform the current period presentation.

Note 2: 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, 2006 ~ 2002

(In Thousands of New Taiwan Dollars)

	2006	2005[1]	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 127,009,731	$ 93,575,035	$ 92,316,115	$ 47,258,700	$ 21,610,291
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	66,699,455	67,991,423	63,072,140	61,786,114	57,621,462
Deferred income taxes	179,828	(3,278,952)	(1,101,407)	3,639,971	5,489,503
Equity in losses (earnings) of equity method investees, net	(5,526,727)	1,052,045	(4,040,319)	(791,424)	5,716,510
Amortization of premium/discount from long-term bond investments, net	-	-	28,673	-	-
Amortization of premium/discount of financial assets	2,399	120,872	-	-	-
Loss (Gain) on sales of long-term investments, net	-	-	(2,216)	(79,149)	2,403
Gain on disposal of investments accounted for using equity method investees, net	(26,031)	(583)	-	-	-
Gain on disposal of financial assets carried at cost, net	(212)	(2,919)	-	-	-
Loss (Gain) on disposal of property, plant and equipment and other assets, net	(355,474)	(434,382)	(56,425)	1,336,253	(52,043)
Loss on disposal of available-for-sale financial assets, net	485	150,081	-	-	-
Loss on impairment of financial assets carried at cost	36,608	-	-	-	-
Donation of idle assets	-	7,207	-	-	-
Loss on idle assets	44,072	131,849	-	-	-
Dividends received from equity method investees	626,367	668,464	-	-	-
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Financial assets and liabilities at fair value through profit or loss	1,112,776	10,739	-	-	-
Receivables from related parties	4,181,095	(4,914,565)	(1,301,979)	(4,784,365)	(9,961,035)
Notes & accounts receivable	4,313,654	(5,264,937)	(1,409,074)	(4,402,426)	10,618,837
Allowance for doubtful receivables	(285,413)	(4,117)	(35,561)	86,158	(170,628)
Allowance for sales returns and others	(1,518,904)	942,055	1,201,889	(237,042)	(218,484)
Inventories, net	(2,894,259)	(2,086,010)	(3,264,787)	(566,822)	(1,835,918)
Prepaid expenses and other current assets	836,884	(1,263,179)	(606,189)	317,856	(86,627)
Increase (decrease) in:					
Accounts payable	(1,908,427)	1,563,489	404,741	1,234,642	3,725,340
Payables to related parties	(612,381)	(1,224,371)	(1,771,144)	2,033,142	384,392
Accrued pension cost	68,724	360,196	500,945	389,709	355,689
Income tax payable	4,034,530	3,435,985	252,800	-	-
Accrued expenses and other liabilities	61,517	(905,549)	(507,984)	1,447,119	1,088,409
Net cash provided by operating activities	196,080,297	150,629,876	143,680,218	108,668,436	94,288,101
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of:					
Available-for-sale financial assets	(98,679,832)	(99,436,242)	-	-	-
Held-to-maturity financial assets	(18,554,027)	(14,199,142)	-	-	-
Financial assets carried at cost	(12,940)	(48,536)	-	-	-
Investments accounted for using equity method	(5,515,466)	(3,392,619)	-	-	-
Property, plant and equipment	(77,215,811)	(73,659,014)	(76,171,356)	(37,247,465)	(54,443,595)
Short-term investments	-	-	(43,822,489)	(12,529,448)	-
Long-term investments	-	-	(30,290,982)	(3,006,374)	(10,187,730)
Proceeds from disposal of:					
Available-for-sale financial assets	73,212,019	101,609,384	-	-	-
Financial assets carried at cost	71,191	16,599	-	-	-
Investments accounted for using equity method	37,946	65,076	-	-	-
Long-term investments	-	-	7,822	476,405	1,402
Property, plant and equipment and other assets	1,277,729	2,087,236	1,713,934	177,307	494,805
Redemption of held-to-maturity financial assets upon maturity	10,410,000	14,595,394	-	-	-
Proceeds from return of capital by investee	162,354	-	-	-	-
Increase in deferred charges	(1,272,355)	(847,721)	(2,404,130)	(2,137,932)	(5,724,583)
Decrease in other assets	(1,222,592)	1,771	91,966	375,340	229,443
Net cash used in investing activities	(117,301,784)	(73,207,814)	(150,875,235)	(53,892,167)	(69,630,258)

Note 1: Balances for 2005 have been reclassified to conform the current period presentation.

(Continued)

	2006	2005[1]	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash dividends paid for common stock	$ (61,825,061)	$ (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	(3,432,129)	(3,086,215)	(681,628)	-	-
Increase (decrease) in guarantee deposits	917,016	2,480,552	(351,096)	(631,577)	(5,815,906)
Cash dividends paid for preferred stocks	-	-	(184,493)	(455,000)	(455,000)
Preferred stock redemption	-	-	-	(13,000,000)	-
Bonus to directors and supervisors	(257,410)	(231,466)	(127,805)	(58,485)	(133,848)
Others	575,197	270,929	3,624	-	-
Net cash (used in) provided by financing Activities	(64,022,387)	(57,570,297)	(25,561,167)	(18,145,062)	3,595,246
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,756,126	19,851,765	(32,756,184)	36,631,207	28,253,089
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	85,383,583	65,531,818	98,288,002	61,656,795	33,403,706
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 100,139,709	$ 85,383,583	$ 65,531,818	$ 98,288,002	$ 61,656,795
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest paid	$ 661,200	$ 1,212,449	$ 1,304,621	$ 1,652,579	$ 1,771,682
Income tax paid	$ 3,189,528	$ 87,351	$ 309,522	$ 2,500	$ 12,661
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS					
Acquisitions of property, plant, and equipment	$ 79,026,104	$ 51,363,935	$ 100,207,781	$ 30,360,966	$ 56,080,659
Decrease (increase) of payables to contractors and equipment suppliers	(1,810,293)	22,295,079	(24,036,425)	6,886,499	(1,637,064)
Cash paid	$ 77,215,811	$ 73,659,014	$ 76,171,356	$ 37,247,465	$ 54,443,595
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 bonds payable	$ 7,000,000	$ -	$ 10,500,000	$ 5,000,000	$ 4,000,000
Current portion of other payables to related parties (under payables to related parties)	$ 688,591	$ 693,956	$ 469,494	$ -	$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 617,892	$ 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	$ -	$ -
Transfer of available-for-sale financial assets and other net assets to investments accounted for using equity method	$ 39,687,637	$ -	$ -	$ -	$ -

(Concluded)

Taiwan Semiconductor Manufacturing Company, Ltd. and Subsidiaries

Balance Sheets (Consolidated)

December 31, 2006 ~ 2002

(In Thousands of New Taiwan Dollars)

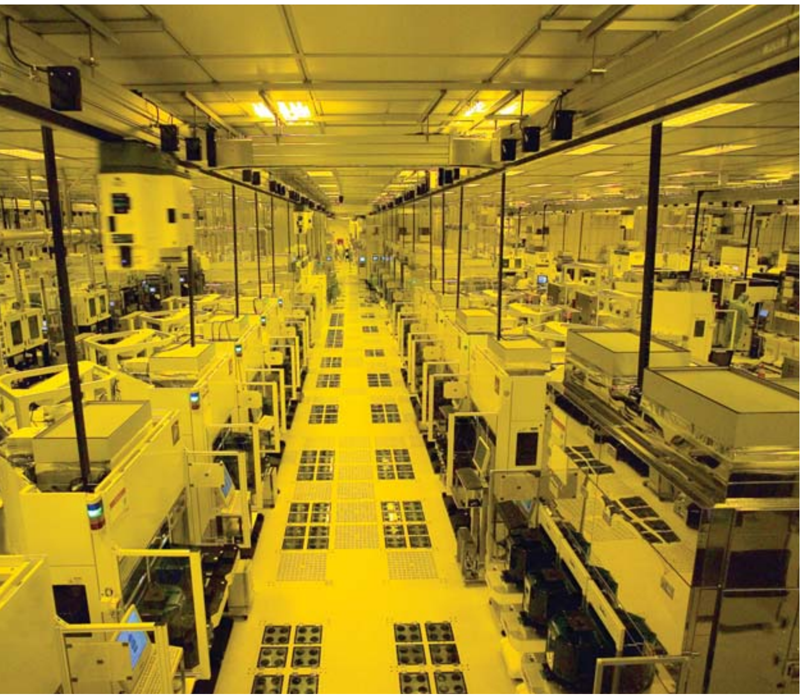
	2006	2005[1]	2004	2003	2002
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 117,837,192	$ 96,483,707	$ 74,302,351	$ 102,988,896	$ 67,790,204
Short-term investments, net	-	-	54,107,951	13,611,536	170,012
Financial assets at fair value through profit or loss	1,206,854	1,770,445	-	-	-
Available-for-sales financial assets	67,523,858	46,452,838	-	-	-
Held-to-maturity financial assets	8,510,823	602,509	-	-	-
Notes & accounts receivable	34,957,650	43,082,275	31,214,423	28,505,162	19,590,942
Receivable from related parties	252,339	693,266	654,377	920,444	433,981
Allowance for doubtful receivables	(749,888)	(980,594)	(982,843)	(1,020,398)	(932,993)
Allowance for sales returns and others	(2,870,802)	(4,317,413)	(3,342,450)	(2,135,843)	(2,372,515)
Other receivables from related parties	256,863	597,910	141,578	131,731	5,678
Other financial assets	2,356,542	1,617,797	2,212,371	1,228,015	499,643
Inventories, net	21,430,728	17,728,303	15,555,937	12,135,324	11,201,446
Deferred income tax assets	8,013,992	7,149,306	8,917,986	8,398,205	3,401,729
Prepaid expenses and other current assets	1,591,017	1,420,441	1,667,401	1,778,598	2,749,031
Total current assets	260,317,168	212,300,790	184,449,082	166,541,670	102,537,158
LONG-TERM INVESTMENTS					
Investment accounted for using equity method	15,000,891	10,287,424	9,143,612	7,255,239	5,551,412
Available-for-sales financial assets	6,648,485	117,247	-	-	-
Held-to-maturity financial assets	28,973,495	28,775,308	-	-	-
Financial assets carried at cost	3,272,280	3,202,515	-	-	-
Cost method	-	-	3,266,330	3,492,775	5,084,084
Long-term bonds	-	-	15,170,167	-	-
Other investments	-	-	10,521,740	-	-
Total long-term investments	53,895,151	42,382,494	38,101,849	10,748,014	10,635,496
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Land and land improvements	844,644	851,225	803,508	855,394	874,907
Buildings	112,595,124	105,832,028	97,882,699	79,778,533	76,428,851
Machinery and equipment	579,825,289	510,922,064	433,130,364	371,315,729	343,951,592
Office equipment	10,646,725	9,670,611	8,538,225	7,457,538	6,996,027
Leased assets	612,941	597,669	566,243	726,585	-
Total cost	704,524,723	627,873,597	540,921,039	460,133,779	428,251,377
Accumulated depreciation	(463,038,084)	(398,124,607)	(331,253,866)	(275,013,069)	(210,101,159)
Advance payments and construction in progress	12,607,551	15,074,302	49,244,153	26,733,553	28,348,093
Property, plant and equipment, net	254,094,190	244,823,292	258,911,326	211,854,263	246,498,311
GOODWILL	5,984,993	6,010,601	7,115,510	8,720,917	10,158,845
OTHER ASSETS					
Deferred charges, net	5,936,915	7,006,250	8,992,452	7,992,016	9,873,825
Deferred income tax assets	5,802,142	6,788,418	1,649,979	1,111,367	9,773,226
Refundable deposits	1,331,245	106,802	106,448	199,522	557,266
Others	123,355	90,942	127,445	232,762	508,272
Total other assets	13,193,657	13,992,412	10,876,324	9,535,667	20,712,589
TOTAL ASSETS	$ 587,485,159	$ 519,509,589	$ 499,454,091	$ 407,400,531	$ 390,542,399

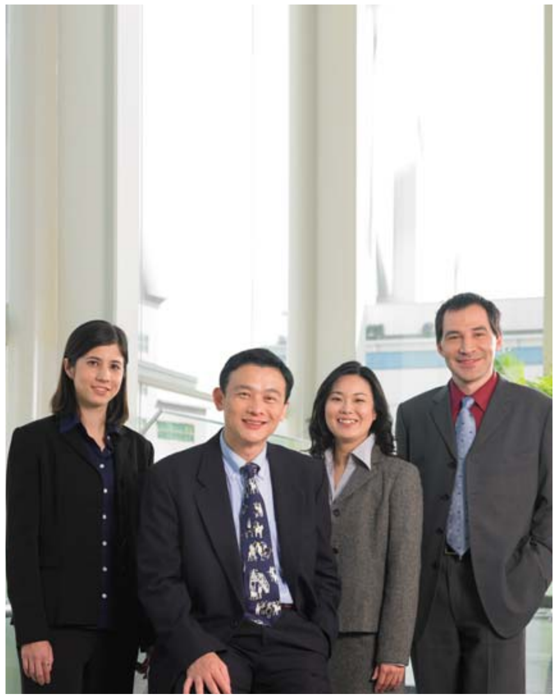
Note 1: Balances for 2005 have been reclassified to conform to the current period presentation.

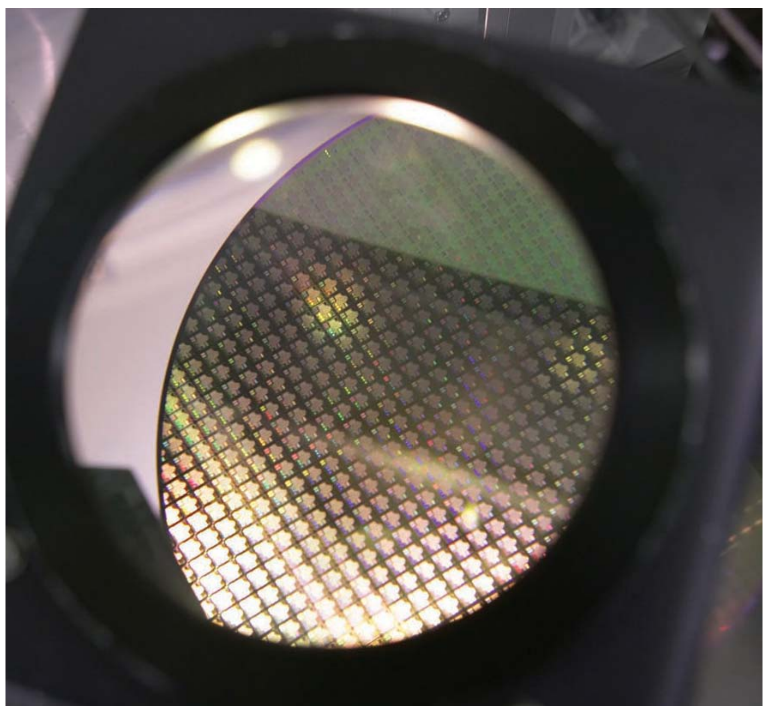
(Continued)

	2006	2005[1]	2004	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term bank loans	$ -	$ 328,500	$ 383,004	$ 407,736	$ 729,813
Financial liabilities at fair value through profit or loss	10,864	234,279	-	-	-
Accounts payable	7,934,388	9,421,452	7,264,419	6,438,604	5,138,592
Payable to related parties	1,867,728	1,743,069	2,217,815	3,248,289	1,776,149
Income tax payable	7,946,473	4,015,451	403,955	127,103	-
Accrued expenses and other current liabilities	11,328,350	10,307,951	9,722,413	7,967,088	5,947,229
Payable to contractors and equipment suppliers	10,768,591	9,066,036	33,427,702	7,232,103	14,132,100
Current portion of long-term liabilities	7,004,137	5,489	10,500,000	5,000,000	12,107,899
Total current liabilities	46,860,531	35,122,227	63,919,308	30,420,923	39,831,782
LONG-TERM LIABILITIES					
Long-term bonds payables	12,500,000	19,500,000	19,500,000	30,000,000	35,000,000
Long-term bank loans	653,959	663,140	1,915,020	8,800,302	11,051,454
Other long-term payables	8,703,267	8,548,887	7,964,975	3,300,829	4,281,665
Other payables to related parties	403,375	1,100,475	2,317,972	-	-
Liability under capital lease	612,941	597,669	566,243	726,585	-
Total long-term liabilities	22,873,542	30,410,171	32,264,210	42,827,716	50,333,119
OTHER LIABILITIES					
Accrued pension cost	3,540,060	3,474,384	3,101,707	2,601,450	2,211,560
Guarantee deposits	3,817,132	2,896,430	412,881	763,889	1,395,066
Deferred credits	1,177,138	1,343,959	704,991	-	-
Others	78,640	23,710	9,958	1,483,245	822,167
Total other liabilities	8,612,970	7,738,483	4,229,537	4,848,584	4,428,793
Total Liabilities	78,347,043	73,270,881	100,413,055	78,097,223	94,593,694
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT					
Capital stock - $10 par value					
Preferred stock	-	-	-	-	13,000,000
Common stock	258,296,879	247,300,246	232,519,637	202,666,189	186,228,867
Capital surplus	54,107,498	57,117,886	56,537,259	56,855,885	57,004,789
Retained earnings					
Appropriated as legal reserve	43,705,711	34,348,208	25,528,007	20,802,137	18,641,108
Appropriated as special reserve	640,742	2,226,427	-	68,945	-
Unappropriated earnings	152,778,079	106,196,399	88,202,009	50,229,008	22,151,089
Cumulative translation adjustments	(1,191,165)	(640,742)	(2,226,427)	225,408	945,129
Unrealized gain on financial instruments	561,615	-	-	-	-
Unrealized loss on long-term investments	-	-	-	(35)	(194,283)
Treasury stock (at cost)	(918,075)	(918,075)	(1,595,186)	(1,633,228)	(1,923,492)
Total equity attributable to shareholders of the parent	507,981,284	445,630,349	398,965,299	329,214,309	295,853,207
MINORITY INTEREST IN SUBSIDIARIES	1,156,832	608,359	75,737	88,999	95,498
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 587,485,159	$ 519,509,589	$ 499,454,091	$ 407,400,531	$ 390,542,399

(Concluded)







Taiwan Semiconductor Manufacturing Company, Ltd. and Subsidiaries

Statements of Income (Consolidated)

For the Years Ended December 31, 2006 ~ 2002

(In Thousands of New Taiwan Dollars, Except for Earnings Per Shares)

	2006	2005[1]	2004	2003	2002
GROSS SALES	$ 322,883,499	$ 271,801,696	$ 261,947,351	$ 207,279,137	$ 166,187,670
SALES RETURNS AND ALLOWANCES	(5,476,328)	(5,236,626)	(4,734,733)	(4,282,325)	(3,886,462)
NET SALES	317,407,171	266,565,070	257,212,618	202,996,812	162,301,208
COST OF SALES	161,597,081	148,362,196	141,393,435	128,113,334	109,988,058
GROSS SALES	155,810,090	118,202,874	115,819,183	74,883,478	52,313,150
OPERATING EXPENSES					
Research and development	16,076,432	14,016,506	12,516,434	12,712,695	11,725,035
General and administrative	8,716,653	9,085,536	11,454,374	8,199,965	6,767,756
Marketing	3,752,311	4,132,273	3,366,701	2,670,237	2,231,320
Total operating expenses	28,545,396	27,234,315	27,337,509	23,582,897	20,724,111
INCOME FROM OPERATIONS	127,264,694	90,968,559	88,481,674	51,300,581	31,589,039
NON-OPERATING INCOME AND GAINS					
Interest income	4,542,149	2,806,226	1,783,693	888,107	1,094,724
Equity in earnings of equity method investees, net	2,347,153	1,433,226	2,094,137	-	-
Settlement income	979,214	964,710	-	-	-
Technical service income	571,500	462,624	423,804	209,764	162,149
Gain on disposal of property, plant and equipment and other assets	421,051	342,756	242,785	438,809	273,998
Subsidy income	334,478	321,850	-	-	-
Foreign exchange gain, net	-	2,609,979	-	-	-
Royalty income	-	-	-	-	527,126
Gain on sales of investments, net	-	-	914,541	3,538,081	-
Others	510,047	457,989	556,598	594,551	291,860
Total non-operating income and gains	9,705,592	9,399,360	6,015,558	5,669,312	2,349,857
NON-OPERATING EXPENSES AND LOSSES					
Interest expense	890,602	1,413,374	1,454,242	1,891,009	2,616,740
Valuation loss on financial instruments, net	812,937	337,160	-	-	-
Loss on settlement and disposal of financial instruments, net	798,610	3,602,799	-	-	-
Foreign exchange loss, net	400,863	-	-	-	-
Loss on impairment of financial assets	279,690	128,900	-	-	-
Loss on disposal of property, plant and equipment	241,397	60,109	131,148	478,740	362,385
Loss on idle assets	44,072	131,849	-	1,401,585	104,000
Investment loss recognized by equity method, net	-	-	-	294,244	1,976,847
Premium expense from option contracts, net	-	-	-	153,783	419,513
Unrealized valuation loss of short-term investments	-	-	75,212	-	-
Loss on impairment of long-term investments	-	-	350,608	652,718	795,674
Loss on sales of investments, net	-	-	-	-	101,221
Others	139,907	430,481	520,435	919,169	340,368
Total non-operating expenses and losses	3,608,078	6,104,672	2,531,645	5,791,248	6,716,748
INCOME BEFORE INCOME TAX	133,362,208	94,263,247	91,965,587	51,178,645	27,222,148
INCOME TAX BENEFIT (EXPENSES)	(7,773,711)	(630,579)	363,426	(3,922,957)	(5,636,648)
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	125,588,497	93,632,668	92,329,013	47,255,688	21,585,500
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT$82,062 THOUSAND	1,606,749	-	-	-	-
NET INCOME	$ 127,195,246	$ 93,632,668	$ 92,329,013	$ 47,255,688	$ 21,585,500
ATTRIBUTABLE TO:					
Shareholders of the parent	$ 127,009,731	$ 93,575,035	$ 92,316,115	$ 47,258,700	$ 21,610,291
Minority interest	185,515	57,633	12,898	(3,012)	(24,791)
	$ 127,195,246	$ 93,632,668	$ 92,329,013	$ 47,255,688	$ 21,585,500
EARNINGS PER SHARE[2]					
Basic earnings per share	$ 4.93	$ 3.63	$ 3.58	$ 1.82	$ 0.82
Diluted earnings per share	$ 4.92	$ 3.63	$ 3.58	$ 1.82	$ 0.82

Note 1: Balances for 2005 have been reclassified to conform to the current period presentation.

Note 2: 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, 2006 ~ 2002

(In Thousands of New Taiwan Dollars)

	2006	2005[1]	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income attributable to shareholders of the parent	$ 127,009,731	$ 93,575,035	$ 92,316,115	$ 47,258,700	$ 21,610,291
Net income attributable to minority interests	185,515	57,633	12,898	(3,012)	(24,791)
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	73,715,242	75,649,429	69,818,457	69,161,317	65,000,873
Amortization of premium/discount of financial assets	2,399	120,872	-	-	-
Loss (gain) on disposal of available-for-sale financial assets, net	(90,826)	150,081	-	-	-
Equity in earnings of equity method investees, net	(2,347,153)	(1,433,226)	(2,094,137)	294,244	1,976,847
Dividends received from equity method investees	614,567	668,464	-	-	-
Loss (gain) on disposal of investments accounted for using equity method	-	(583)	-	-	-
Gain on disposal of financial assets carried at cost, net	(16,210)	(14,721)	-	-	-
Loss on impairment of financial assets	279,690	128,900	350,608	652,718	795,674
Gain on disposal of property, plant and equipment and other assets, net	(179,654)	(282,647)	(111,637)	(64,683)	(52,043)
Deferred income taxes	121,590	(3,353,013)	(1,058,393)	3,665,383	5,421,020
Loss on idle assets	44,072	131,849	-	1,506,199	244,430
Donation of idle assets	-	7,207	-	-	-
Amortization of premium/discount of long-term bond investments	-	-	28,673	-	-
Loss (gain) on sales of long-term investments, net	-	-	(85,203)	(78,694)	170,831
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Financial assets and liabilities at fair value through profit or loss	340,176	72,842	-	-	-
Notes and accounts receivable	8,124,625	(11,572,809)	(2,709,261)	(8,914,220)	543,276
Receivable from related parties	440,927	(101,915)	266,067	(618,194)	40,080
Allowance for doubtful receivables	(230,706)	(3,145)	(37,555)	87,405	(167,499)
Allowance for sales returns and others	(1,446,611)	974,963	1,206,607	(236,672)	(209,036)
Other receivables from related parties	341,047	(87,979)	(9,847)	5,678	14,993
Other financial assets	(738,745)	(305,881)	(777,100)	(347,161)	(162,642)
Inventories, net	(3,702,425)	(2,006,165)	(3,420,613)	(933,878)	(1,373,118)
Prepaid expenses and other current assets	(170,576)	119,985	(34,493)	605,001	(330,819)
Increase (decrease) in:					
Accounts payables	(1,487,064)	2,088,582	825,815	1,300,012	3,740,713
Payable to related parties	(572,441)	(1,629,217)	(1,499,968)	1,472,140	727,876
Income tax payable	3,931,022	3,611,486	266,526	127,103	-
Accrued expenses and other current liabilities	862,428	181,748	(602,911)	707,838	184,564
Pension cost accrued	65,676	360,128	500,257	389,890	355,705
Deferred credits	(99,310)	117,335	-	-	-
Net Cash Provided by Operating Activities	204,996,986	157,225,238	153,150,905	116,037,114	98,507,225
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of:					
Available-for-sale financial assets	(119,291,685)	(99,436,242)	-	-	-
Held-to-maturity financial assets	(18,554,027)	(14,199,142)	-	-	-
Financial assets carried at cost	(511,632)	(456,897)	-	-	-
Investments accounted for using equity method	(2,613,009)	(621,883)	-	-	-
Long-term investments	-	-	(23,054,379)	(1,412,335)	(3,192,427)
Property, plant and equipment	(78,737,265)	(79,878,724)	(81,094,557)	(37,870,907)	(55,235,458)
Proceeds from sales of:					
Available-for-sale financial assets	91,620,367	102,577,763	-	-	-
Financial assets carried at cost	126,465	76,186	-	-	-
Investments accounted for using equity method	-	65,076	-	-	-
Long-term investments	-	-	165,243	505,702	53,048
Property, plant, and equipment and other assets	518,705	480,707	1,812,633	177,312	495,878
Decrease (increase) in short-term investments	-	-	(43,554,878)	(13,326,339)	1,184,419
Redemption of held-to-maturity financial assets upon maturity	10,410,000	14,595,394	-	-	-
Increase in deferred charges	(1,414,742)	(855,967)	(2,405,673)	(2,138,087)	(5,724,583)
Decrease (increase) in refundable deposits	(1,224,443)	771	93,074	357,744	226,823
Decrease (increase) in other assets	(52,086)	741	51,604	4,610	2,711
Net Cash Used in Investing Activities	(119,723,352)	(77,652,217)	(147,986,933)	(53,702,300)	(62,189,589)

Note 1: Balances for 2005 have been reclassified to conform to the current period presentation.

(Continued)

	2006	2005[1]	2004	2003	2002
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments on:					
Short-term bank loans	$ (328,500)	$ (54,504)	$ -	$ (309,807)	$ (5,539,368)
Bonds payable	-	(10,500,000)	(5,000,000)	(4,000,000)	-
Long-term bank loans	(5,489)	(1,337,489)	(6,656,152)	(8,915,557)	(4,397,306)
Increase (decrease) in guarantee deposits	920,702	2,483,549	(351,008)	(631,177)	(5,817,622)
Cash bonus paid to employees	(3,432,129)	(3,086,215)	(681,628)	-	-
Cash dividends paid for common stock	(61,742,741)	(46,419,812)	(12,137,190)	-	-
Bonus to directors and supervisors	(257,410)	(231,466)	(127,805)	(58,485)	(133,848)
Proceeds from issuance of:					
Issuance of stock arising from exercising stock options	575,197	270,929	3,624	-	-
Disposal of treasury stock	-	899,489	39,906	300,284	-
Issuance of long-term bonds	-	-	-	-	10,000,000
Increase (decrease) in minority interest in subsidiaries	487,017	6,832	(26,160)	(3,487)	49
Repurchase of treasury stock	-	-	(7,059,798)	-	-
Cash dividends paid for preferred stocks	-	-	(184,493)	(455,000)	(455,000)
Preferred stock redemption	-	-	-	(13,000,000)	-
Increase in issuance costs of financing	-	-	-	-	(3,002)
Net Cash Used in Financing Activities	(63,783,353)	(57,968,687)	(32,180,704)	(27,073,229)	(6,346,097)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,490,281	21,604,334	(27,016,732)	35,261,585	29,971,539
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(136,796)	348,921	(1,669,813)	(62,893)	262,370
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES	-	228,101	-	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	96,483,707	74,302,351	102,988,896	67,790,204	37,556,295
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 117,837,192	$ 96,483,707	$ 74,302,351	$ 102,988,896	$ 67,790,204
SUPPLEMENTAL INFORMATION					
Interest paid	$ 951,450	$ 1,378,610	$ 1,470,333	$ 1,982,594	$ 2,301,765
Income tax paid	$ 3,630,029	$ 341,671	$ 389,189	$ 218,954	$ 165,121
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS					
Acquisition of property, plant and equipment	$ 80,675,310	$ 56,166,205	$ 113,043,552	$ 31,697,495	$ 56,500,322
Decrease (increase) in payables to contractors and equipment suppliers	(1,702,555)	24,361,666	(26,195,599)	6,899,997	(1,264,864)
Increase in other long-term payables	(235,490)	(649,147)	(5,913,737)	(726,585)	-
Decrease in liability under capital lease	-	-	160,341	-	-
Cash paid	$ 78,737,265	$ 79,878,724	$ 81,094,557	$ 37,870,907	$ 55,235,458
NON-CASH 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	$ 7,004,137	$ 5,489	$ 10,500,000	$ 5,000,000	$ 12,107,899
Current portion of other payables to related parties (under payables to related parties)	$ 688,591	$ 693,956	$ 469,494	$ -	$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 617,892	$ 869,072	$ 1,505,345	$ 1,591,972	$ 1,157,299
Reclassification of long-term investments to short-term investments	$ -	$ -	$ 343,950	$ 140,984	$ -
Reclassification of short-term investments to long-term investments	$ -	$ -	$ 3,402,413	$ -	$ -

(Concluded)

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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

A Group of Kindred Spirits

In 1987, Dr. Morris Chang founded TSMC
Gathering the power of a group of kindred spirits
to change the rules of the semiconductor industry

From the first 200 people to more than 20,000 today
The TSMC team has always been hard at work
Doing their best for customers, shareholders, and TSMC

These silent heroes behind the scenes
Continue to carry the torch
and have reached the 20th anniversary milestone
TSMC employees are the stars of the photos in this overview
From the cover to the pages inside
From top management to workers
You will see the smiles of many TSMC employees
And their boundless hope for the future