

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

September 01, 2006

1934 Act Registration No. 1-14700

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

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

Form 20-F

Form 40-F

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

Yes

No

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

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**Taiwan Semiconductor Manufacturing Company Limited**  
**Financial Statements for the**  
**Six Months Ended June 30, 2006 and 2005 and**  
**Independent Auditors Report**

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the six months ended June 30, 2006 and 2005, and have expressed an unqualified opinion on the consolidated financial statements.

July 12, 2006

### Notice to Readers

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

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

**Taiwan Semiconductor Manufacturing Company Limited****BALANCE SHEETS****JUNE 30, 2006 AND 2005****(In Thousands of New Taiwan Dollars, Except Par Value)**

	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 127,713,018	22	\$ 78,597,384	16
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	322,456		121,841	
Available-for-sale financial assets (Notes 2, 3 and 6)	62,102,387	11	48,298,762	10
Held-to-maturity financial assets (Notes 2, 3 and 7)	5,738,737	1	1,109,846	
Notes and accounts receivable	19,713,819	4	20,040,283	4
Receivables from related parties (Note 23)	22,909,889	4	14,999,678	3
Allowance for doubtful receivables (Note 2)	(975,704)		(978,577)	
Allowance for sales returns and others (Note 2)	(5,571,076)	(1)	(3,945,057)	
Other receivables from related parties (Note 23)	1,659,482		1,565,784	
Other financial assets (Note 3)	872,627		1,603,340	
Inventories, net (Notes 2 and 8)	18,375,580	3	14,113,615	3
Deferred income tax assets (Notes 2 and 16)	6,084,277	1	5,330,000	1
Prepaid expenses and other current assets (Note 3)	954,026		969,974	
<b>Total current assets</b>	<b>259,899,518</b>	<b>45</b>	<b>181,826,873</b>	<b>37</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 9 and 10)</b>				
Available-for-sale financial assets	4,873,970	1		
Held-to-maturity financial assets	23,524,067	4	27,297,965	5
Financial assets carried at cost	818,969		784,939	
Investments accounted for using equity method	54,000,233	9	48,351,666	10
<b>Total long-term investments</b>	<b>83,217,239</b>	<b>14</b>	<b>76,434,570</b>	<b>15</b>
<b>PROPERTY, PLANT, AND EQUIPMENT (Notes 2, 11 and 23)</b>				
<b>Cost</b>				
Buildings	91,815,148	16	88,695,499	18
Machinery and equipment	484,487,876	84	441,034,330	88
Office equipment	8,090,185	1	7,586,253	1
	584,393,209	101	537,316,082	107
Accumulated depreciation	(388,228,761)	(67)	(330,854,258)	(66)
Advance payments and construction in progress	27,054,673	5	18,601,286	4

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Net property, plant, and equipment	223,219,121	39	225,063,110	45
GOODWILL (Note 2)	1,567,756		1,741,951	
<b>OTHER ASSETS</b>				
Deferred income tax assets (Notes 2 and 16)	7,394,956	1	6,313,825	1
Deferred charges, net (Notes 2 and 12)	6,163,992	1	7,874,553	2
Refundable deposits	83,655		87,542	
Assets leased to others, net (Note 2)	70,012		75,746	
Idle assets	6,789		13,995	
Total other assets	13,719,404	2	14,365,661	3
<b>TOTAL</b>	<b>\$ 581,623,038</b>	<b>100</b>	<b>\$ 499,432,165</b>	<b>100</b>

**LIABILITIES AND SHAREHOLDERS EQUITY**

**CURRENT LIABILITIES**

Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	\$ 599,909		\$ 836,704	
Accounts payable	6,772,076	1	5,680,946	1
Payables to related parties (Note 23)	3,281,423		2,146,317	
Income tax payable (Notes 2 and 16)	4,486,901	1	252,800	
Cash dividends and bonus payable (Note 18)	65,257,190	11	49,590,312	10
Payables to contractors and equipment suppliers	16,952,057	3	10,004,328	2
Accrued expenses and other current liabilities (Notes 3 and 14)	7,385,228	1	7,712,787	2
Current portion of bonds payable (Note 13)	2,500,000	1	10,500,000	2
Total current liabilities	107,234,784	18	86,724,194	17

**LONG-TERM LIABILITIES**

Bonds payable (Note 13)	17,000,000	3	19,500,000	4
Other long-term payables (Note 14)	1,458,603		1,644,136	
Other payables to related parties (Notes 23 and 26)	1,085,366		1,727,133	1
Total long-term liabilities	19,543,969	3	22,871,269	5

**OTHER LIABILITIES**

Accrued pension cost (Notes 2 and 15)	3,484,350	1	3,410,250	1
Guarantee deposits (Note 26)	3,354,046	1	1,517,584	
Deferred credits (Notes 2 and 23)	1,173,542		708,941	

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Total other liabilities	8,011,938	2	5,636,775	1
Total liabilities	134,790,691	23	115,232,238	23
<b>CAPITAL STOCK \$10 PAR VALUE</b>				
Authorized: 27,050,000 thousand shares, Issued: 25,823,357 thousand shares in 2006, 24,726,129 thousand shares in 2005	258,233,569	44	247,261,288	50
CAPITAL SURPLUS (Notes 2 and 18)	53,822,486	9	56,720,875	11
<b>RETAINED EARNINGS (Note 18)</b>				
Appropriated as legal capital reserve	43,705,711	8	34,348,208	7
Appropriated as special capital reserve	640,742		2,226,427	
Unappropriated earnings	92,376,976	16	47,808,698	10
	136,723,429	24	84,383,333	17
<b>OTHERS (Notes 2 and 3)</b>				
Cumulative translation adjustments	(1,145,616)		(2,612,996)	(1)
Unrealized gains on financial instruments	116,554			
	(1,029,062)		(2,612,996)	(1)
<b>TREASURY STOCK (AT COST, Notes 2 and 20) 33,926 thousand shares in 2006 and 46,862 thousand shares in 2005</b>				
	(918,075)		(1,552,573)	
Total shareholders equity	446,832,347	77	384,199,927	77
<b>TOTAL</b>	<b>\$ 581,623,038</b>	<b>100</b>	<b>\$ 499,432,165</b>	<b>100</b>

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

**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
GROSS SALES (Notes 2 and 23)	\$ 161,789,754		\$ 116,819,058	
SALES RETURNS AND ALLOWANCES (Note 2)	3,269,063		2,649,624	
NET SALES	158,520,691	100	114,169,434	100
COST OF SALES (Notes 17 and 23)	80,991,942	51	69,315,398	61
GROSS PROFIT	77,528,749	49	44,854,036	39
OPERATING EXPENSES (Notes 17 and 23)				
Research and development	7,255,721	4	6,632,293	6
General and administrative	3,379,438	2	3,743,998	3
Marketing	1,053,473	1	617,811	
Total operating expenses	11,688,632	7	10,994,102	9
INCOME FROM OPERATIONS	65,840,117	42	33,859,934	30
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	3,404,382	2		
Interest income (Notes 2 and 3)	1,910,958	1	1,175,969	1
Settlement income (Note 25)	483,734	1	711,324	1
Gain on disposal of financial instruments, net (Notes 2, 3, 5 and 22)	468,482		1,394,620	1
Technical service income (Notes 23 and 26)	344,601		186,962	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 23)	257,239		107,395	
Others (Note 23)	172,551		221,233	
Total non-operating income and gains	7,041,947	4	3,797,503	3
NON-OPERATING EXPENSES AND LOSSES				



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Foreign exchange loss, net (Note 2)	1,250,047	1	2,035,490	2
Interest expense (Notes 3 and 13)	330,600		606,225	
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 22)	277,453		41,467	
Loss on idle assets	37,283		106,972	

(Continued)

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	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Loss on disposal of property, plant, and equipment (Note 2)	\$ 8,996		\$ 53,599	
Equity in losses of equity method investees, net (Notes 2 and 10)			786,018	1
Others	71,630		29,942	
 Total non-operating expenses and losses	 1,976,009	 1	 3,659,713	 3
 INCOME BEFORE INCOME TAX	 70,906,055	 45	 33,997,724	 30
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 16)	(4,051,241)	(3)	1,189,610	1
 NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	 66,854,814	 42	 35,187,334	 31
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$82,062 THOUSAND (Note 3)	(246,186)			
 NET INCOME	 \$ 66,608,628	 42	 \$ 35,187,334	 31

	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
EARNINGS PER SHARE (NT\$, Note 21)				
Basic earnings per share	\$ 2.74	\$ 2.58	\$ 1.32	\$ 1.37
Diluted earnings per share	\$ 2.73	\$ 2.58	\$ 1.32	\$ 1.37

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

	<b>2006</b>	<b>2005</b>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 66,937,134	\$ 35,278,370
 NET INCOME	 \$ 66,690,948	 \$ 35,278,370

EARNINGS PER SHARE (NT\$)

Basic earnings per share	\$	2.58	\$	1.37
Diluted earnings per share	\$	2.58	\$	1.37

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

(Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars, Except Dividend Per Share)

Period	Paid-in Capital Amount	Capital Surplus	Legal Capital Reserve	Retained Earnings		Total	Cumulative Translation Adjustments	Others Unrealized Gain on Financial Instruments	Total
				Special Capital Reserve	Unappropriated Earnings				
2005	\$ 247,300,246	\$ 57,117,886	\$ 34,348,208	\$ 2,226,427	\$ 106,196,399	\$ 142,771,034	\$ (640,742)	\$	\$ (640,742)
			9,357,503		(9,357,503)				
				(1,585,685)	1,585,685				
					(3,432,129)	(3,432,129)			
2003	3,432,129				(3,432,129)	(3,432,129)			
					(61,825,061)	(61,825,061)			
2000	3,709,504				(3,709,504)	(3,709,504)			
					(257,410)	(257,410)			
2000	3,709,504	(3,709,504)							
1999	82,186	243,864							
		87,920							

82,320

66,608,628      66,608,628

(504,874)

(504,874)

(191,469)

(191,469)

308,023

308,023

7 \$ 258,233,569 \$ 53,822,486 \$ 43,705,711 \$ 640,742 \$ 92,376,976 \$ 136,723,429 \$ (1,145,616) \$ 116,554 \$ (1,029,062

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Capital Stock (in thousands)	Amount	Capital Surplus	Legal Capital Reserve	Retained Earnings		Total	Cumulative on Translation Adjustments	Others Unrealized Gain	Total	Treasury Stock
				Special Capital Reserve	Unappropriated Earnings			Financial Instruments		
1,964	\$ 232,519,637	\$ 56,537,259	\$ 25,528,007	\$	\$ 88,202,009	\$ 113,730,016	\$ (2,226,427)	\$ (2,226,427)	\$ (1,500,000)	
			8,820,201		(8,820,201)					
				2,226,427	(2,226,427)					
					(3,086,215)	(3,086,215)				
1,622	3,086,215				(3,086,215)	(3,086,215)				
					(46,504,097)	(46,504,097)				
1,602	11,626,024				(11,626,024)	(11,626,024)				
					(231,466)	(231,466)				
1,941	29,412	87,806								
		4,774								

84,285

35,187,334 35,187,334

(386,569) (386,569)

6,751

,129 \$ 247,261,288 \$ 56,720,875 \$ 34,348,208 \$ 2,226,427 \$ 47,808,698 \$ 84,383,333 \$ (2,612,996) \$ (2,612,996) \$ (1,5

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

(Concluded)

**Taiwan Semiconductor Manufacturing Company Limited**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
**(In Thousands of New Taiwan Dollars)**

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 66,608,628	\$ 35,187,334
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,154,504	34,330,028
Amortization of premium/ discount of financial assets	43,781	58,771
Loss (gain) on disposal of available-for-sale financial assets, net	(1,116)	111,808
Gain on disposal of financial assets carried at cost, net		(94)
Gain on disposal of property, plant, and equipment, net	(248,243)	(53,796)
Equity in losses (earnings) of equity method investees, net	(3,404,382)	786,018
Loss on idle assets	37,283	106,972
Deferred income taxes	293,722	(1,149,822)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	1,424,079	1,872,228
Notes and accounts receivable	877,999	(4,713,402)
Receivables from related parties	(1,859,285)	1,136,361
Allowance for doubtful receivables	(640)	(1,884)
Allowance for sales returns and others	1,301,107	617,143
Other receivables from related parties	473,280	(1,095,494)
Other financial assets	233,403	(768,010)
Inventories, net	(2,117,625)	58,330
Prepaid expenses and other current assets	217,747	785,308
Increase (decrease) in:		
Accounts payable	(1,280,030)	(807,671)
Payables to related parties	24,117	(1,619,155)
Income tax payable	671,013	(127,103)
Accrued expenses and other current liabilities	(645,267)	(1,235,137)
Accrued pension cost	22,958	309,054
Deferred credits	(47,872)	
 Net cash provided by operating activities	 94,779,161	 63,787,787
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale financial assets	(64,826,510)	(42,911,838)
Held-to-maturity financial assets	(7,754,790)	(3,485,821)
Financial assets carried at cost	(11,479)	(14,207)
Investments accounted for using equity method	(274,687)	(3,225,972)
Property, plant, and equipment	(32,170,773)	(51,194,392)
Proceeds from disposal of:		



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Available-for-sale financial assets	44,101,660	43,277,329
Financial assets carried at cost		1,996
Property, plant, and equipment and other assets	710,702	1,430,769

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	<b>2006</b>	<b>2005</b>
Redemption of held-to-maturity financial assets upon maturity	\$ 7,837,000	\$ 4,914,180
Increase in deferred charges	(693,239)	(503,079)
Increase in refundable deposits	(13)	(2,129)
Proceeds from return of capital by investee	102,662	
 Net cash used in investing activities	 (52,979,467)	 (51,713,164)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in guarantee deposits	461,101	1,105,191
Proceeds from exercise of employee stock options	326,050	117,218
Bonus to directors and supervisors	(257,410)	(231,466)
 Net cash provided by financing activities	 529,741	 990,943
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 42,329,435	 13,065,566
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	 85,383,583	 65,531,818
 <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	 \$ 127,713,018	 \$ 78,597,384
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 420,000	\$ 420,000
Income tax paid	\$ 2,994,232	\$ 87,315
 <b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant, and equipment	\$ 40,263,600	\$ 30,044,411
Decrease (increase) in payables to contractors and equipment suppliers	(8,092,827)	21,149,981
 Cash paid	 \$ 32,170,773	 \$ 51,194,392
 <b>NON-CASH FINANCING ACTIVITIES</b>		
Current portion of bonds payable	\$ 2,500,000	\$ 10,500,000
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 940,123	\$ 1,417,437
 The accompanying notes are an integral part of the financial statements.		 (Concluded)



**Taiwan Semiconductor Manufacturing Company Limited**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2006 AND 2005**

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

**1. GENERAL**

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

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

As of June 30, 2006 and 2005, the Company had 20,357 and 18,734 employees, respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Significant accounting policies are summarized as follows:

**Use of Estimates**

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

**Classification of Current and Noncurrent Assets and Liabilities**

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

### **Cash Equivalents**

Repurchase agreements collateralized by government bonds, notes and treasury bills acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with the changes in fair value recognized in current income. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

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

### **Available-for-Sale Financial Assets**

Investments designated as available-for-sale financial assets include debt securities and equity securities.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. The changes in fair value from subsequent remeasurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair values for beneficiary certificates of open-end funds and publicly traded stocks are determined using the net assets value and the closing-price at the balance sheet date, respectively. For other debt securities, fair value is determined using the average of bid and asked prices at the balance sheet date.

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

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

### **Held-to-Maturity Financial Assets**

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

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

**Allowance for Doubtful Receivables**

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

**Revenue Recognition and Allowance for Sales Returns and Others**

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

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

**Inventories**

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

**Financial Assets Carried at Cost**

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their original cost, such as non-publicly traded stocks and mutual funds. The costs of funds and non-publicly traded stocks are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

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

### **Investments Accounted for Using Equity Method**

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. The difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was previously amortized by the straight-line method over five years and was also recorded in the equity in earnings/losses of equity method investees, net account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, Long-term Investments in Equity Securities (SFAS No. 5), investment premiums, representing goodwill, are no longer being amortized; while investment discounts continue to be amortized over the remaining periods. When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

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

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

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

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

### **Property, Plant, and Equipment and Assets Leased to Others**

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

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

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

### **Goodwill**

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

### **Deferred Charges**

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

### **Pension Costs**

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

### **Income Tax**

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

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

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

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

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



**Stock-based Compensation**

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

**Treasury Stock**

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

**Foreign-currency Transactions**

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

**3. ACCOUNTING CHANGES**

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

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

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

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

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

The adoption of the newly released SFASs resulted in a decrease in net income before cumulative effect of changes in accounting principles of NT\$31,267 thousand, a decrease in net income of NT\$277,453 thousand, and a decrease in basic earnings per share (after income tax) of NT\$0.01, for the six months ended June 30, 2006.

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such a change in accounting principle did not have a material effect on the Company's financial statements as of and for the six months ended June 30, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to conform with the financial statements as of and for the six months ended June 30, 2006. The previous issued financial statements as of and for the six months ended June 30, 2005 need not be restated.

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

1) Short-term investments

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

2) Derivative financial instruments

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

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



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

Certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified to conform to the classifications prescribed by the newly released SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	<b>Before Reclassification</b>	<b>After Reclassification</b>
Balance sheet		
Short-term investments	\$ 49,408,608	\$
Other financial assets	78,900	
Prepaid expenses and other current assets	42,941	
Long-term investments accounted for using cost method	784,939	
Long-term bonds investment	16,342,005	
Other long-term investments	10,955,960	
Accrued expenses and other current liabilities	(836,704)	
Financial assets at fair value through profit or loss		121,841
Financial liabilities at fair value through profit or loss		(836,704)
Available-for-sale financial assets		48,298,762
Held-to-maturity financial assets		28,407,811
Financial assets carried at cost		784,939
	\$ 76,776,649	\$ 76,776,649
Statement of income		
Interest income	\$ 449,756	\$
Foreign exchange gain, net	1,837,806	
Interest expense	(781,134)	
Unrealized valuation loss on short-term investments	(41,467)	
Loss on disposal of investment, net	(111,808)	
Valuation loss on financial instruments, net		(41,467)
Gain on disposal of financial instruments, net		1,394,620
	\$ 1,353,153	\$ 1,353,153

#### 4. CASH AND CASH EQUIVALENTS

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Cash and deposits in banks	\$ 67,694,314	\$ 48,158,582
Repurchase agreements collateralized by government bonds	59,351,764	29,804,199

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Corporate notes	666,940	172,291
Treasury bills		349,892
Agency notes		112,420
	\$ 127,713,018	\$ 78,597,384

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

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Derivatives financial assets		
Forward exchange contracts	\$	\$ 1,123
Cross currency swap contracts	322,456	120,718
	\$ 322,456	\$ 121,841
Derivatives financial liabilities		
Forward exchange contracts	\$ 8,265	\$ 41,092
Cross currency swap contracts	591,644	795,612
	\$ 599,909	\$ 836,704

The Company entered into derivative contracts for the six months ended June 30, 2006 and 2005 to manage exposures due to the fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, effective from January 1, 2006, the Company discontinued applying hedge accounting treatment for its derivative financial instruments.

Outstanding forward contracts as of June 30, 2006 and 2005:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (in Thousands)</b>
June 30, 2006			
Sell	US\$/NT\$	July 2006	US\$ 10,000
	EUR/US\$	July 2006	EUR 10,000
June 30, 2005			
Sell	US\$/NT\$	July 2005 to August 2005	US\$ 103,000

Outstanding cross currency swap contracts as of June 30, 2006 and 2005:

<b>Maturity Date</b>	<b>Contract Amount (in Thousands)</b>	<b>Range of Interest Rates Paid</b>	<b>Range of Interest Rates Received</b>
June 30, 2006			
July 2006 to September 2006	US\$2,266,000	2.40%-5.57%	0.60%-2.78%

June 30, 2005

July 2005 to August 2005

US\$2,045,000  
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3.10%-3.40%

1.03%-1.22%

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The Company did not enter into any interest rate swap contracts during the six months ended June 30, 2006. The Company rescinded all interest rate swap contracts in the first quarter of 2005 before their original maturities. The rescission loss of NT\$28,295 thousand has been reclassified and included in the losses on disposal of financial instrument account.

Net gains arising from derivative financial instruments for the six months ended June 30, 2006 were NT\$189,913 thousand (including realized settlement gains of NT\$467,366 thousand and valuation losses of NT\$277,453 thousand).

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Beneficiary certificates of open-end funds	\$ 22,157,124	\$ 10,300,638
Corporate bonds	14,297,001	11,555,183
Agency bonds	13,787,394	11,511,740
Corporate issued asset-backed securities	10,921,185	11,419,169
Government bonds	4,831,843	2,741,122
Structured time deposits	498,190	
Money market funds	385,937	491,465
Corporate notes	97,683	158,052
Commercial papers		94,770
Publicly-traded stocks		26,623
	66,976,357	48,298,762
Current portion	(62,102,387)	(48,298,762)
	\$ 4,873,970	\$

The Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of June 30, 2006, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as corporate bonds, agency bonds, asset-backed securities, government bonds and others. Securities acquired with maturities of less than three months from the date of purchase were classified as cash equivalents.

As of June 30, 2006, structured time deposits categorized as available-for-sale financial assets consisted of the following:

	<b>Principal Amount</b>	<b>Carrying Amount</b>	<b>Range of Interest Rates</b>	<b>Maturity Date</b>
Step-up callable deposits				
Domestic deposits	\$ 500,000	\$ 498,190	1.76%	March 2008

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





**7. HELD-TO-MATURITY FINANCIAL ASSETS**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Government bonds	\$ 5,239,892	\$ 11,817,146
Corporate bonds	12,895,132	5,634,705
Structured time deposits	11,127,780	10,955,960
	29,262,804	28,407,811
Current portion	(5,738,737)	(1,109,846)
	\$ 23,524,067	\$ 27,297,965

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

	<b>Principal Amount</b>	<b>Interest Receivable</b>	<b>Range of Interest Rates</b>	<b>Maturity Date</b>
June 30, 2006				
Step-up callable deposits				
Domestic deposits	\$ 4,000,000	\$ 27,016	1.40%-2.01%	June 2007 to March 2009
Callable range accrual deposits			(See below)	September 2009 to December 2009
Domestic deposits	3,887,880	4,725	(See below)	October 2009 to January 2010
Foreign deposits	3,239,900	4,914		
	\$ 11,127,780	\$ 36,655		
June 30, 2005				
Step-up callable deposits				
Domestic deposits	\$ 4,000,000	\$ 18,027	1.40%-2.44%	July 2006 to August 2007
Callable range accrual deposits			(See below)	September 2009 to December 2009
Domestic deposits	3,794,160	8,266	(See below)	October 2009 to January 2010
Foreign deposits	3,161,800	11,971		
	\$ 10,955,960	\$ 38,264		

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

As of June 30, 2006 and 2005, the principal of the deposits that resided in banks located in Hong Kong amounted to US\$80,000 thousand; those resided in banks located in Singapore amounted to US\$20,000 thousand.

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**8. INVENTORIES, NET**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Finished goods	\$ 4,163,346	\$ 2,600,225
Work in process	13,243,014	11,380,115
Raw materials	1,236,095	937,820
Supplies and spare parts	537,546	658,803
	19,180,001	15,576,963
Allowance for losses	(804,421)	(1,463,348)
	<b>\$ 18,375,580</b>	<b>\$ 14,113,615</b>

**9. FINANCIAL ASSETS CARRIED AT COST**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Non-publicly traded stocks	\$ 472,500	\$ 482,500
Funds	346,469	302,439
	<b>\$ 818,969</b>	<b>\$ 784,939</b>

**10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	<b>June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying Amount</b>	<b>% of Owner- ship</b>	<b>Carrying Amount</b>	<b>% of Owner- ship</b>
TSMC International Investment Ltd. (TSMC International)	\$ 25,984,419	100	\$ 23,057,382	100
TSMC (Shanghai) Company Limited (TSMC-Shanghai)	9,093,788	100	9,967,851	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	5,094,733	32	3,514,280	32
Vanguard International Semiconductor Corporation (VIS)	5,087,101	27	5,115,164	27
TSMC Partners, Ltd. (TSMC Partners)	4,225,071	100	3,873,176	100
TSMC North America (TSMC-North America)	1,790,365	100	794,692	100
Emerging Alliance Fund, L.P. (Emerging Alliance)	1,050,087	99	820,765	99
VentureTech Alliance Fund II, L.P. (VTAF II)	707,835	98	469,749	98
Global UniChip Corporation (GUC)	447,762	45	403,208	46
VentureTech Alliance Fund III, L.P. (VTAF III)	145,055	98		
Chi Cherng Investment Co., Ltd. (Chi Cherng)	113,574	36	77,971	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	113,246	36	77,256	36
TSMC Japan K. K. (TSMC-Japan)	96,536	100	95,013	100

Taiwan Semiconductor Manufacturing Company  
Europe B.V. (TSMC-Europe)

36,909

100

22,491

100

(Continued)

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	<b>June 30</b>			
	<b>2006</b>	<b>% of Owner- ship</b>	<b>2005</b>	<b>% of Owner- ship</b>
	<b>Carrying Amount</b>		<b>Carrying Amount</b>	
Taiwan Semiconductor Manufacturing Company Korea (TSMC-Korea)	\$ 13,752	100	\$	
VisEra Technologies Company, Ltd. (VisEra)			62,668	25
	\$ 54,000,233		\$ 48,351,666	

For the six months ended June 30, 2006 and 2005, net equity in earnings of NT\$3,404,382 thousand and net equity in losses of NT\$786,018 thousand were recognized, respectively. The carrying amounts of the investments accounted for using the equity method and the related equity in earnings or losses of equity method investees were determined based on the audited financial statements of the investees as of and for the same periods ended as the Company.

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

## 11. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Buildings	\$ 46,538,174	\$ 39,229,473
Machinery and equipment	335,618,032	286,453,058
Office equipment	6,072,555	5,171,727
	\$ 388,228,761	\$ 330,854,258

No interest was capitalized during the six months ended June 30, 2006 and 2005.

## 12. DEFERRED CHARGES, NET

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Technology license fees	\$ 4,708,484	\$ 5,836,060
Software and system design costs	1,401,428	1,942,091
Others	54,080	96,402
	\$ 6,163,992	\$ 7,874,553



**13. BONDS PAYABLE**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Domestic unsecured bonds:		
Issued in December 2000 and repayable in December 2005 and 2007 in two installments, 5.25% and 5.36% interest payable annually, respectively	\$ 4,500,000	\$ 15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three installments, 2.60%, 2.75% and 3.00% interest payable annually, respectively	15,000,000	15,000,000
	19,500,000	30,000,000
Current portion	(2,500,000)	(10,500,000)
	<b>\$ 17,000,000</b>	<b>\$ 19,500,000</b>

As of June 30, 2006, future principal repayments for the Company's bonds were as follows:

<b>Year of Repayment</b>	<b>Amount</b>
2007	\$ 7,000,000
2009	8,000,000
2010 and thereafter	4,500,000
	<b>\$ 19,500,000</b>

**14. OTHER LONG-TERM PAYABLES**

Most of the payables resulted from license agreements for certain semiconductor-related patents. As of June 30, 2006, future payments for other long-term payables were as follows:

<b>Year of Payment</b>	<b>Amount</b>
2006 (3 <sup>rd</sup> to 4 <sup>th</sup> quarter)	\$ 493,300
2007	641,216
2008	335,006
2009	335,006
2010	335,006
2011 and thereafter	259,192
	<b>2,398,726</b>
Current portion (classified under accrued expenses and other current liabilities)	(940,123)
	<b>\$ 1,458,603</b>

**15. PENSION PLANS**



The Labor Pension Act (the Act) became effective on July 1, 2005. The employees who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act with their seniority as of July 1, 2005 retained or continue to be subject to the pension mechanism under the Labor Standards Law. Employees who joined the Company after July 1, 2005 can only be subject to the pension mechanism under the Act.

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The pension mechanism under the Act is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts starting from July 1, 2005, and recognized pension costs of NT\$309,709 thousand for the six months ended June 30, 2006.

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

Changes in the Fund and accrued pension cost under the defined benefit plan are summarized as follows:

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>The Fund</b>		
Balance, beginning of period	\$ 1,658,864	\$ 1,428,001
Contributions	131,250	122,103
Interest	34,384	15,629
Payment	(4,677)	(8,419)
Balance, end of period	\$ 1,819,821	\$ 1,557,314
<b>Accrued pension cost</b>		
Balance, beginning of period	\$ 3,461,392	\$ 3,101,196
Accruals	22,958	309,054
Balance, end of period	\$ 3,484,350	\$ 3,410,250

## 16. INCOME TAX

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

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Income tax expense based on income before income tax at statutory rate (25%)	\$ (17,726,514)	\$ (8,499,431)
Tax effect of the following:		
Tax-exempt income	6,411,975	4,734,183
Temporary and permanent differences	721,070	(635,273)
Additional tax at 10% on unappropriated earnings	(1,156,130)	(1,489,709)
Cumulative effect of changes in accounting principles	82,062	
Income tax credits	7,462,975	5,890,230
Income tax currently payable	\$ (4,204,562)	\$

(Continued)



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

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Income tax currently payable	\$ (4,204,562)	\$
Other income tax adjustments	447,043	39,788
Net change in deferred income tax assets		
Investment tax credits	(2,756,331)	2,512,133
Temporary differences	1,423,579	1,708,642
Adjustment in valuation allowance	1,039,030	(3,070,953)
Income tax benefit (expense)	\$ (4,051,241)	\$ 1,189,610

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

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Current deferred income tax assets		
Investment tax credits	\$ 6,084,277	\$ 5,330,000
Noncurrent deferred income tax assets, net		
Investment tax credits	\$ 15,025,163	\$ 23,066,717
Temporary differences	741,309	(741,893)
Valuation allowance	(8,371,516)	(16,010,999)
	\$ 7,394,956	\$ 6,313,825

d. Integrated income tax information:

The balance of the imputation credit account as of June 30, 2006 and 2005 was NT\$743,590 thousand and NT\$15,569 thousand, respectively.

The expected and actual creditable ratios for distribution of earnings of 2005 and 2004 were 2.88% and 0.11%, respectively.

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

e. All earnings generated prior to December 31, 1997 have been appropriated.

f. As of June 30, 2006, investment tax credits consisted of the following:

<b>Regulation</b>	<b>Item</b>	<b>Total Creditable Amount</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 2,685,805	\$	2006
		4,113,449	1,144,070	2007
		6,809,054	6,809,054	2008
		6,049,452	6,049,452	2009
		1,722,682	1,722,682	2010
		\$ 21,380,442	\$ 15,725,258	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,780,480	\$	2006
		1,243,821	1,243,821	2007
		1,627,535	1,627,535	2008
		1,534,670	1,534,670	2009
		797,450	797,450	2010
		\$ 6,983,956	\$ 5,203,476	
Statute for Upgrading Industries	Personnel training	\$ 27,311	\$	2006
		26,780	26,780	2007
		37,207	37,207	2008
		36,915	36,915	2009
		\$ 128,213	\$ 100,902	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 79,804	\$ 79,804	2010

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

	<b>Tax-Exemption Period</b>
Construction of Fab 8 - modules B	2002 to 2005
Expansion of Fab 2 - modules A and B, Fab 3, Fab 4, Fab 5 and Fab 6	2003 to 2006
Construction of Fab 12	2004 to 2007

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



**17. LABOR COST, DEPRECIATION AND AMORTIZATION**

	<b>Six Months Ended June 30, 2006</b>		
	<b>Classified</b>		
	<b>as</b>		
	<b>Classified</b>	<b>Operating</b>	
	<b>as</b>	<b>Expenses</b>	<b>Total</b>
	<b>Cost of</b>		
	<b>Sales</b>		
Labor cost			
Salary	\$ 5,183,360	\$ 2,144,658	\$ 7,328,018
Labor and health insurance	340,274	167,998	508,272
Pension	309,451	152,942	462,393
Meal	225,304	76,220	301,524
Welfare	94,186	48,784	142,970
Others	103,858	12,901	116,759
	<b>\$ 6,256,433</b>	<b>\$ 2,603,503</b>	<b>\$ 8,859,936</b>
Depreciation	\$ 29,319,569	\$ 1,617,095	\$ 30,936,664
Amortization	\$ 722,358	\$ 479,323	\$ 1,201,681

	<b>Six Months Ended June 30, 2005</b>		
	<b>Classified</b>		
	<b>as</b>		
	<b>Classified</b>	<b>Operating</b>	
	<b>as</b>	<b>Expenses</b>	<b>Total</b>
	<b>Cost of</b>		
	<b>Sales</b>		
Labor cost			
Salary	\$ 4,091,113	\$ 1,678,438	\$ 5,769,551
Labor and health insurance	303,436	144,065	447,501
Pension	295,506	140,296	435,802
Meal	208,186	67,904	276,090
Welfare	72,159	40,344	112,503
Others	51,139	45,032	96,171
	<b>\$ 5,021,539</b>	<b>\$ 2,116,079</b>	<b>\$ 7,137,618</b>
Depreciation	\$ 31,158,607	\$ 1,489,769	\$ 32,648,376
Amortization	\$ 814,069	\$ 859,118	\$ 1,673,187

**18. SHAREHOLDERS EQUITY**

The Company has issued a total of 863,834 thousand ADSs which are traded on the NYSE as of June 30, 2006. The number of common shares represented by the ADSs is 4,319,169 thousand (one ADS represents five common shares).

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

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Capital surplus consisted of the following:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
From merger	\$ 24,003,546	\$ 24,003,546
Additional paid-in capital	19,788,594	23,139,481
From convertible bonds	9,360,424	9,360,424
From treasury stock transactions	389,188	91,241
From long-term investments	280,679	126,128
Donations	55	55
	<b>\$ 53,822,486</b>	<b>\$ 56,720,875</b>

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

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled the Company's paid-in capital;
- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- c. Bonus to directors and supervisors and bonus to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors and supervisors. The Company may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

The Company's Articles of Incorporation also stipulate that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are recorded in the year of shareholder approval and given effect to in the financial statements of that year.

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

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



The appropriations of earnings for 2005 and 2004 had been approved in the shareholders' meetings held on May 16, 2006 and May 10, 2005, respectively. The appropriations and dividends per share were as follows:

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

The amounts of the above appropriations of earnings for 2005 and 2004 are consistent with the resolutions of the meetings of the Board of Directors held on February 14, 2006 and February 22, 2005, respectively. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2005 and 2004, the basic earnings per share (after income tax) for the years ended December 31, 2005 and 2004 would have decreased from NT\$3.79 to NT\$3.50 and NT\$3.97 to NT\$3.70, respectively.

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

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

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

## 19. STOCK-BASED COMPENSATION PLANS

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

Options of the aforementioned Plans that had never been granted or had been granted but subsequently canceled had expired as of June 30, 2006.

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Information about outstanding stock options for the six months ended June 30, 2006 and 2005 was as follows:

	<b>Number of Options (in Thousands)</b>	<b>Weighted- Average Exercise Price (NT\$)</b>
Six months ended June 30, 2006		
Balance, beginning of period	67,758	\$ 39.4
Options granted	2,517	39.7
Options exercised	(8,219)	39.7
Options canceled	(2,304)	44.5
 Balance, end of period	 59,752	 39.6
Six months ended June 30, 2005		
Balance, beginning of period	64,367	40.5
Options granted	14,864	48.4
Options exercised	(2,941)	39.9
Options canceled	(2,931)	42.7
 Balance, end of period	 73,359	 42.1

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

As of June 30, 2006, information about outstanding and exercisable options was as follows:

<b>Range of Exercise Price (NT\$)</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Remaining Contractual Life (Years)</b>	<b>Weighted- average Exercise Price (NT\$)</b>	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
\$27.6-\$39.7	39,415	5.64	\$35.6	29,458	\$35.6
\$45.1-\$52.3	20,337	7.34	47.3	312	45.5
	59,752			29,770	

No compensation cost was recognized under the intrinsic value method for the six months ended June 30, 2006 and 2005. Had the Company used the fair value based method (based on the Black-Scholes model) to evaluate the options granted after January 1, 2004, the assumptions and pro forma results of the Company for the six months ended June 30, 2006 and 2005 would have been as follows:

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Assumptions:		
Expected dividend yield	1.00%-3.44%	1.00%-3.44%
Expected volatility	43.77%-46.15%	43.77%-46.15%
Risk free interest rate	3.07%-3.85%	3.07%-3.85%
Expected life	5 years	5 years
Net income:		
Net income as reported	\$ 66,608,628	\$ 35,187,334
Pro forma net income	66,552,140	35,140,859
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 2.58	\$ 1.37
Pro forma basic EPS	2.58	1.36
Diluted EPS as reported	2.58	1.37
Pro forma diluted EPS	2.58	1.36

## 20. TREASURY STOCK

(Shares in Thousands)

	<b>Beginning Shares</b>	<b>Increase/ Dividend</b>	<b>Disposal</b>	<b>Ending Shares</b>
Six months ended June 30, 2006				
Parent company stock held by subsidiaries	32,938	988		33,926
Six months ended June 30, 2005				
Parent company stock held by subsidiaries	45,521	2,242	901	46,862

Proceeds from sales of treasury stock for the six months ended June 30, 2005 were NT\$49,364 thousand. As of June 30, 2006 and 2005, the book value of the treasury stock was NT\$918,075 thousand and NT\$1,552,573 thousand, respectively; the market value was NT\$1,952,452 thousand and NT\$2,648,643 thousand, respectively. The Company's stock held by its subsidiaries is treated as treasury stock and the holders are entitled to the rights of shareholders, except that starting from June 24, 2005, pursuant to the revised Company Law, the holders are no longer entitled to vote in shareholders' meetings.

**21. EARNINGS PER SHARE**

	<b>Six Months Ended June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
Basic EPS (NT\$)				
Income before cumulative effect of changes in accounting principles	\$ 2.75	\$ 2.59	\$ 1.32	\$ 1.37
Cumulative effect of changes in accounting principles	(0.01)	(0.01)		
Income for the period	\$ 2.74	\$ 2.58	\$ 1.32	\$ 1.37
Diluted EPS (NT\$)				
Income before cumulative effect of change in accounting principles	\$ 2.74	\$ 2.59	\$ 1.32	\$ 1.37
Cumulative effect of changes in accounting principles	(0.01)	(0.01)		
Income for the period	\$ 2.73	\$ 2.58	\$ 1.32	\$ 1.37

EPS is computed as follows:

	<b>Amounts (Numerator)</b>		<b>Number of Shares (Denominator) (in Thousands)</b>	<b>EPS (NT\$)</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>		<b>Before Income Tax</b>	<b>After Income Tax</b>
Six months ended June 30, 2006					
Basic EPS					
Income available to common shareholders	\$ 70,577,807	\$ 66,608,628	25,784,890	\$ 2.74	\$ 2.58
Effect of dilutive potential common stock					
stock options			23,529		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	\$ 70,577,807	\$ 66,608,628	25,808,419	\$ 2.73	\$ 2.58

Six months ended June 30, 2005

Basic EPS

Income available to common shareholders	\$ 33,997,724	\$ 35,187,334	25,759,865	\$ 1.32	\$ 1.37
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Effect of dilutive potential common stock stock options			10,032		
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Diluted EPS

Income available to common shareholders (including effect of dilutive potential common stock)	\$ 33,997,724	\$ 35,187,334	25,769,897	\$ 1.32	\$ 1.37
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**22. DISCLOSURES FOR FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

	June 30			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Available-for-sale financial assets	\$ 66,976,357	\$ 66,976,357	\$ 48,298,762	\$ 48,298,762
Held-to-maturity financial assets	29,262,804	28,857,510	28,407,811	28,299,261
Long-term investments accounted for using equity method (with market price)	5,087,101	9,567,918	5,115,164	12,449,270
<b>Liabilities</b>				
Forward exchange contracts, net	8,265	8,265	39,969	36,560
Cross currency swap contracts, net	269,188	269,188	674,894	452,530
Bonds payable (including current portion)	19,500,000	19,888,147	30,000,000	30,429,929

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, payables, and payables to contractors and equipment suppliers. The carrying amounts of these financial instruments approximate their fair values.
  - 2) The aforementioned financial instruments do not include long-term payables either. The fair value was determined using the discounted value of expected cash flows, which approximates their carrying amount.
  - 3) Fair values of available-for-sale and held-to-maturity financial assets were based on their quoted market prices; while fair values of structured time deposits were estimated using valuation techniques.
  - 4) Fair value of bonds payable was based on their quoted market price.
  - 5) Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- c. Losses recognized for the changes in fair value of derivatives estimated using valuation techniques were NT\$277,453 thousand for the six months ended June 30, 2006.
- d. As of June 30, 2006 and 2005, financial assets exposed to fair value interest rate risk were NT\$96,561,617 thousand and NT\$76,801,791 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$599,909 thousand and NT\$836,704 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT\$7,127,780 thousand and NT\$6,955,960 thousand, respectively.
- e. The Company recognized an unrealized loss of NT\$191,469 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006. The Company also recognized an unrealized gain of NT\$308,023 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity method investees for the six months ended June 30, 2006.

f. Information about financial risks

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

**23. RELATED PARTY TRANSACTIONS**

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

- a. Industrial Technology Research Institute (ITRI), the chairman of the Company is one of its supervisors.
- b. Philips, a major shareholder of the Company.
- c. Subsidiaries

TSMC-North America  
TSMC-Shanghai  
TSMC-Europe  
TSMC-Japan  
TSMC-Korea

- d. Investees

GUC (with a controlling financial interest)  
VIS (accounted for using equity method)  
SSMC (accounted for using equity method)

- e. Indirect subsidiaries

WaferTech, LLC (WaferTech)  
TSMC Technology, Inc. (TSMC Technology)

- f. Indirect investee

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

structure.

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

	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Six months ended June 30				
Sales				
TSMC-North America	\$ 94,075,632	58	\$ 64,760,945	56
Philips	2,318,898	2	1,147,115	1
Others	406,336		186,880	
	\$ 96,800,866	60	\$ 66,094,940	57
Purchases				
WaferTech	\$ 6,505,148	28	\$ 5,117,622	31
SSMC	3,718,466	16	2,094,617	13
TSMC-Shanghai	1,918,584	8	234,333	1
VIS	1,712,082	7	2,168,998	13
	\$ 13,854,280	59	\$ 9,615,570	58
Manufacturing expenses technical assistance fees				
Philips (Note 26a)	\$ 377,952	1	\$ 202,334	
Marketing expenses commission				
TSMC-Japan	\$ 125,553	12	\$ 133,765	22
TSMC-Europe	116,934	11	116,034	18
TSMC-Korea	1,118			
	\$ 243,605	23	\$ 249,799	40
General and administrative expenses rental expense				
GUC	\$ 7,659		\$ 8,162	
Research and development expenses				
GUC	\$ 19,582		\$ 3,089	
Sales of property, plant, and equipment				
TSMC-Shanghai	\$ 173,299	42	\$ 106,412	38

Non-operating income and gains

SSMC (primarily technical service income, see Note 26e)	\$ 147,219	2	\$ 146,655	4
VisEra	140,079	2	10,752	
TSMC-Shanghai	123,891	2	75,743	2
VIS (primarily technical service income, see Note 26h)	105,937	2	77,504	2
	\$ 517,126	8	\$ 310,654	8

(Continued)

	2006		2005	
	Amount	%	Amount	%
As of June 30				
Receivables				
TSMC-North America	\$ 22,374,338	98	\$ 14,513,699	97
Philips	382,251	2	467,843	3
Others	153,300		18,136	
	\$ 22,909,889	100	\$ 14,999,678	100
Other receivables				
VIS	\$ 688,807	42	\$ 46,399	3
TSMC Technology	485,449	29	715,306	46
TSMC-North America	205,327	12	415,650	27
TSMC-Shanghai	167,585	10	271,905	17
SSMC	92,700	6	115,460	7
Others	19,614	1	1,064	
	\$ 1,659,482	100	\$ 1,565,784	100
Payables				
WaferTech	\$ 1,155,023	35	\$ 793,200	37
VIS	943,129	29	883,144	41
SSMC	662,385	20	284,080	13
TSMC-Shanghai	401,379	12	70,080	3
Others	119,507	4	115,813	6
	\$ 3,281,423	100	\$ 2,146,317	100
Other long-term payables				
Philips (Note 26a)	\$ 1,085,366	100	\$ 1,727,133	100
Deferred credits				
TSMC-Shanghai	\$ 635,124	54	\$ 708,941	100
VisEra	155,437	13		
	\$ 790,561	67	\$ 708,941	100

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

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

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

**24. SIGNIFICANT LONG-TERM LEASES**

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

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As of June 30, 2006, future lease payments were as follows:

<b>Year</b>	<b>Amount</b>
2006 (3 <sup>rd</sup> to 4 <sup>th</sup> quarter)	\$ 132,607
2007	248,185
2008	222,450
2009	213,872
2010	166,803
2011 and thereafter	1,103,708
	<b>\$ 2,087,625</b>

## **25. SETTLEMENT INCOME**

TSMC, TSMC-North America and WaferTech filed a series of lawsuits in late 2003 and 2004 against Semiconductor Manufacturing International Corporation ( SMIC ), SMIC (Shanghai) and SMIC Americas. The lawsuits alleged that SMIC companies infringed multiple TSMC patents and misappropriated TSMC's trade secrets. These suits were settled out of court on January 30, 2005. As part of the settlement, SMIC shall pay TSMC US\$175,000 thousand over six years to resolve TSMC's claims. As of June 30, 2006, SMIC has paid US\$45,000 thousand in accordance with the terms of this settlement agreement.

## **26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The significant commitments and contingencies of the Company as of June 30, 2006, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, the Company and Philips amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between the Company and Philips will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, the Company will pay Philips royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the Company's annual net sales. The Company and Philips agreed to cross license the patents owned by each party. The Company also obtained through Philips a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of June 30, 2006, the Company had a total of US\$102,966 thousand of guarantee deposits.



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

## **27. ADDITIONAL DISCLOSURES**

Following are the additional disclosures required by the SFB for the Company and its investees:

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;



- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 8 attached;
- j. Information about derivatives of investees over which the Company has a controlling interest:

TSMC-Shanghai entered into forward exchange contracts during the six months ended June 30, 2006 to manage exposures related to foreign exchange rate fluctuations.

Outstanding forward exchange contracts as of June 30, 2006:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount</b> <b>(in Thousands)</b>
Sell	US\$/JPY	Jul 2006	JPY 13,500
	US\$/EUR	Jul 2006	EUR 1,134

Valuation losses arising from forward transactions for the six months ended June 30, 2006 were NT\$1,177 thousand.

k. Information on investment in Mainland China

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

**TABLE 1**

**Taiwan Semiconductor Manufacturing Company Limited and Investees  
FINANCING PROVIDED  
FOR THE SIX MONTHS ENDED JUNE 30, 2006  
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Financing No.	Name	Counter-party	Type	Maximum Balance for the Financial Statement (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Interest Rate	Type of Financing (Note 1)	Amount (US\$ in Thousands)	Reason for Financing Account Item	Allowance for Doubtful Collateral Value	Financing Company's Financing Limit for Each Borrowing Company	Financing Amount Limits (US\$ in Thousands)
1	TSMC	TSMC	Other receivables	133,965	(US\$35,000)	1.50%	2	\$	Operating capital	\$	N/A	\$32,009,175 ( US\$987,968 ) (Note 2)

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

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

**TABLE 2**

**Taiwan Semiconductor Manufacturing Company Limited**  
**ENDORSEMENT/GUARANTEE PROVIDED**

**FOR THE SIX MONTHS ENDED JUNE 30, 2006**

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

Counter-party	Nature of Limits on Each Counter-party's	Maximum	Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Ratio of Accumulated Amount of Collateral Value to Net of Equity Collateral/Plant and Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0 TSMC	SMC- North America of the Company, and be also limited to the paid-in capital of the endorsement/guarantee TSMC company, unless otherwise approved by Board of Directors.	Not exceed 10% of the net worth	\$ 1,314,000 (US\$ 40,000)	\$	\$	\$ 111,708,087
3 TSMC Development			1,943,940 (US\$ 60,000)	1,943,940 (US\$ 60,000)	0.44%	

Note 1: 25% of the net worth of the Company as of June 30, 2006.

Note 2: The No. 2 represents a subsidiary in which the Company holds directly over 50% of the equity interest.

The No. 3 represents an investee in which the Company holds directly and indirectly over 50% of the

equity interest.

**TABLE 3****Taiwan Semiconductor Manufacturing Company Limited and Investees  
MARKETABLE SECURITIES HELD****JUNE 30, 2006****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

			<b>June 30, 2006</b>			
any	Relationship with the	Financial Statement	Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership	Net Value (US\$ Thousands)
Marketable Securities Type and Name	Company	Account				
Government bond						
United States Treas NTS		Available-for-sale financial assets		US\$ 118,345	N/A	US\$
2004 Government Bond Series B		"		\$ 997,583	N/A	\$
2005 Government Bond Series A		Held-to-maturity financial assets		2,749,071	N/A	2
2006 Government Bond Series D		"		999,583	N/A	1
2004 Kaohsiung Municipal Series A		"		620,000	N/A	
European Investment Bank Bonds		"		368,482	N/A	
2002 Government Bond Series B		"		353,208	N/A	
2003 Government Bond Series F		"		149,548	N/A	
Beneficiary certificates of open-end funds						
NITC Bond Fund		Available-for-sale financial assets	22,219	3,630,743	N/A	3
ABN AMRO Bond Fund		"	175,156	2,620,910	N/A	2
Prudential Financial Bond Fund		"	103,751	1,505,992	N/A	1
Cathay Bond		"	122,762	1,406,342	N/A	1
NITC Taiwan Bond		"	93,312	1,305,711	N/A	1
ABN AMRO Select Bond Fund		"	111,974	1,260,332	N/A	1
Dresdner Bond DAM Fund		"	104,217	1,199,200	N/A	1
JF Taiwan Bond Fund		"	75,286	1,140,778	N/A	1
President James Bond		"	72,002	1,103,437	N/A	1
JF Taiwan First Bond Fund		"	77,530	1,082,117	N/A	1
Shinkong Chi Shin Bond Fund		"	72,680	1,034,238	N/A	1
ABN AMRO Income		"	63,947	1,004,697	N/A	1
Fuhwa Albatross Fund		"	89,510	1,003,570	N/A	1
Fuh Hwa Bond		"	60,642	802,844	N/A	
HSBC Taiwan Money Management		"	40,864	602,784	N/A	
Taishin Lucky Fund		"	54,132	551,429	N/A	
TIIM High Yield		"	40,639	500,864	N/A	
INVESCO Income Fund		"	35,359	401,136	N/A	

(Continued)

June 30, 2006						
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units	Carrying Value	Percentage	Market Value
			(in Thousands)	(US\$ in Thousands)	of Ownership	or Net Asset Value (US\$ in Thousands)
Rock						
SMC International	Subsidiary	Investments accounted for using equity method	987,968	\$25,984,419	100	\$25,984,419
SMC	Equity method investee	<sup>2</sup>	382	5,094,733	32	5,094,733
SMC	Equity method investee	<sup>2</sup>	437,891	5,087,101	27	9,567,101
SMC Partners	Subsidiary	<sup>2</sup>	300	4,225,071	100	4,225,071
SMC-North America	Subsidiary	<sup>2</sup>	11,000	1,790,365	100	1,790,365
SMC	Investee over which the company had a controlling interest	<sup>2</sup>	40,147	447,762	45	462,762
SMC-Japan	Subsidiary	<sup>2</sup>	6	96,536	100	96,536
SMC-Europe	Subsidiary	<sup>2</sup>		36,909	100	36,909
SMC-Korea	Subsidiary	<sup>2</sup>	80	13,752	100	13,752
United Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584	10	285,584
Yin-Etsu Handotai Taiwan Co., Ltd.		<sup>2</sup>	10,500	105,000	7	194,500
Yontung Venture Capital Co., Ltd.		<sup>2</sup>	8,392	83,916	10	53,916
Yobaltop Partner I Venture Capital Corp.		<sup>2</sup>	5,000	50,000	1	50,000
Y.K. Technology Fund IV		<sup>2</sup>	4,000	40,000	2	50,000
Capital						
SMC-Shanghai	Subsidiary	Investments accounted for using equity method		9,093,788	100	9,093,788
Emerging Alliance	Subsidiary	<sup>2</sup>		1,050,087	100	1,050,087
EAF II	Subsidiary	<sup>2</sup>		707,835	98	707,835
EAF III	Subsidiary	<sup>2</sup>		145,055	98	143,055
Ei Cheng	Subsidiary	<sup>2</sup>		113,574	36	572,574
Yin Ruey	Subsidiary	<sup>2</sup>		113,246	36	572,246



Agency bond						
d Hm Ln Pc Pool 1h2520	Available-for-sale	US\$	3,348	N/A	US\$	3
	financial assets					
d Hm Ln Pc Pool 1h2524	2	US\$	2,575	N/A	US\$	2
d Hm Ln Pc Pool 781959	2	US\$	6,640	N/A	US\$	6
d Hm Ln Pc Pool E89857	2	US\$	1,680	N/A	US\$	1
d Hm Ln Pc Pool G11295	2	US\$	1,492	N/A	US\$	1
d Hm Ln Pc Pool M80855	2	US\$	3,520	N/A	US\$	3

(Continued)

		June 30, 2006			Market Value or			
Held Company	Relationship with Financial the Statement	Shares/Units (in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Asset Value (US\$ in Thousands)	Note		
Name	Marketable Securities Type and Name	Company	Account	Ownership	Thousands)	Note		
	Federal Home Ln Mtg		Available-for-sale financial assets		US\$ 3,420	N/A	US\$ 3,420	
	Federal Home Ln Mtg Corp.		"		US\$ 2,786	N/A	US\$ 2,786	
	Federal Home Ln Mtg Corp.		"		US\$ 3,916	N/A	US\$ 3,916	
	Federal Home Ln Mtg Corp.		"		US\$ 4,665	N/A	US\$ 4,665	
	Federal Home Ln Mtg Corp.		"		US\$ 4,897	N/A	US\$ 4,897	
	Federal Home Ln Mtg Corp.		"		US\$ 2,278	N/A	US\$ 2,278	
	Federal Home Ln Mtg Corp.		"		US\$ 4,117	N/A	US\$ 4,117	
	Federal Home Ln Mtg Corp.		"		US\$ 3,671	N/A	US\$ 3,671	
	Federal Home Ln Mtg Corp.		"		US\$ 1,426	N/A	US\$ 1,426	
	Federal Home Ln Mtg Corp.		"		US\$ 9,168	N/A	US\$ 9,168	
	Federal Home Ln Mtg Corp.		"		US\$ 4,182	N/A	US\$ 4,182	
	Federal Home Ln Mtg Corp.		"		US\$ 3,358	N/A	US\$ 3,358	
	Federal Home Ln Mtg Corp.		"		US\$ 3,347	N/A	US\$ 3,347	
	Federal Home Ln Mtg Corp.		"		US\$ 3,834	N/A	US\$ 3,834	
	Federal Home Ln Mtg Corp.		"		US\$ 4,956	N/A	US\$ 4,956	
	Federal Home Loan Mtg		"		US\$ 5,009	N/A	US\$ 5,009	
	Federal Natl Mtg Assn		"		US\$ 3,193	N/A	US\$ 3,193	
	Federal Natl Mtg Assn		"		US\$ 1,035	N/A	US\$ 1,035	
	Federal Natl Mtg Assn		"		US\$ 3,673	N/A	US\$ 3,673	
	Federal Natl Mtg Assn		"		US\$ 3,256	N/A	US\$ 3,256	
	Federal Natl Mtg Assn		"		US\$ 1,976	N/A	US\$ 1,976	
	Federal Natl Mtg Assn		"		US\$ 1,085	N/A	US\$ 1,085	
	Federal Natl Mtg Assn Gtd		"		US\$ 2,403	N/A	US\$ 2,403	
	Federal Natl Mtg Assn Gtd		"		US\$ 2,915	N/A	US\$ 2,915	
	Fnma Pool 254507		"		US\$ 1,867	N/A	US\$ 1,867	
	Fnma Pool 254834		"		US\$ 1,527	N/A	US\$ 1,527	
	Fnma Pool 255883		"		US\$ 3,538	N/A	US\$ 3,538	
	Fnma Pool 685116		"		US\$ 635	N/A	US\$ 635	
	Fnma Pool 687863		"		US\$ 2,979	N/A	US\$ 2,979	
	Fnma Pool 696485		"		US\$ 3,533	N/A	US\$ 3,533	
	Fnma Pool 725095		"		US\$ 1,315	N/A	US\$ 1,315	
	Fnma Pool 730033		"		US\$ 1,581	N/A	US\$ 1,581	
	Fnma Pool 740934		"		US\$ 1,540	N/A	US\$ 1,540	
	Fnma Pool 790828		"		US\$ 2,965	N/A	US\$ 2,965	
	Fnma Pool 793025		"		US\$ 2,761	N/A	US\$ 2,761	
	Fnma Pool 793932		"		US\$ 664	N/A	US\$ 664	
	Fnma Pool 794040		"		US\$ 832	N/A	US\$ 832	
	Fnma Pool 795548		"		US\$ 501	N/A	US\$ 501	

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Fnma Pool 806642	"	US\$ 1,401	N/A	US\$ 1,401
Fnma Pool 815626	"	US\$ 3,272	N/A	US\$ 3,272

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							June 30, 2006	
							Market Value or	
Held Company	Relationship with Financial Statement			Shares/Units (in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Asset Value (US\$ in thousands)	Note
Name	Marketable Securities Type and Name	Company	Account	Thousands	Thousands	Ownership	Thousands	Note
	Fnma Pool 816594		Available-for-sale financial assets		US\$ 2,298	N/A	US\$ 2,298	
	Fnma Pool 825395		"		US\$ 2,910	N/A	US\$ 2,910	
	Fnma Pool 825398		"		US\$ 4,541	N/A	US\$ 4,541	
	Fnma Pool 841069		"		US\$ 3,281	N/A	US\$ 3,281	
	Fnma Pool 879906		"		US\$ 1,815	N/A	US\$ 1,815	
	Gnma II Pool 081150		"		US\$ 699	N/A	US\$ 699	
	Gnma II Pool 081153		"		US\$ 2,485	N/A	US\$ 2,485	
	Federal Farm Cr Bks		"		US\$ 3,919	N/A	US\$ 3,919	
	Federal Home Ln Bank		"		US\$ 3,938	N/A	US\$ 3,938	
	Federal Home Ln Bks		"		US\$ 3,965	N/A	US\$ 3,965	
	Federal Home Ln Bks		"		US\$ 4,916	N/A	US\$ 4,916	
	Federal Home Ln Bks		"		US\$ 8,650	N/A	US\$ 8,650	
	Federal Home Ln Bks		"		US\$ 4,123	N/A	US\$ 4,123	
	Federal Home Ln Bks		"		US\$ 4,855	N/A	US\$ 4,855	
	Federal Home Ln Bks		"		US\$ 8,609	N/A	US\$ 8,609	
	Federal Home Ln Bks		"		US\$ 4,779	N/A	US\$ 4,779	
	Federal Home Ln Bks		"		US\$ 5,772	N/A	US\$ 5,772	
	Federal Home Ln Bks		"		US\$ 7,482	N/A	US\$ 7,482	
	Federal Home Ln Bks		"		US\$ 4,818	N/A	US\$ 4,818	
	Federal Home Ln Bks		"		US\$ 2,963	N/A	US\$ 2,963	
	Federal Home Ln Bks		"		US\$ 7,960	N/A	US\$ 7,960	
	Federal Home Ln Bks		"		US\$ 6,034	N/A	US\$ 6,034	
	Federal Home Ln Bks		"		US\$ 12,145	N/A	US\$ 12,145	
	Federal Home Ln Bks		"		US\$ 3,936	N/A	US\$ 3,936	
	Federal Home Ln Bks		"		US\$ 6,817	N/A	US\$ 6,817	
	Federal Home Ln Bks		"		US\$ 5,800	N/A	US\$ 5,800	
	Federal Home Ln Bks		"		US\$ 3,292	N/A	US\$ 3,292	
	Federal Home Ln Bks		"		US\$ 7,475	N/A	US\$ 7,475	
	Federal Home Ln Bks		"		US\$ 2,378	N/A	US\$ 2,378	
	Federal Home Ln Mtg Corp.		"		US\$ 3,442	N/A	US\$ 3,442	
	Federal Home Ln Mtg Corp.		"		US\$ 9,759	N/A	US\$ 9,759	
	Federal Home Ln Mtg Corp.		"		US\$ 5,876	N/A	US\$ 5,876	
	Federal Home Ln Mtg Corp.		"		US\$ 6,398	N/A	US\$ 6,398	
	Federal Home Ln Mtg Corp.		"		US\$ 14,166	N/A	US\$ 14,166	
	Federal Home Ln Mtg Corp.		"		US\$ 9,887	N/A	US\$ 9,887	
	Federal Home Ln Mtg Corp. Mtn		"		US\$ 4,898	N/A	US\$ 4,898	
	Federal Home Loan Bank		"		US\$ 3,442	N/A	US\$ 3,442	
	Federal Home Loan Mtg Assn		"		US\$ 4,885	N/A	US\$ 4,885	

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Federal Home Loan Mtg Corp.	"	US\$ 4,912	N/A	US\$ 4,912
Federal Natl Mtg Assn	"	US\$ 4,292	N/A	US\$ 4,292

(Continued)

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							June 30, 2006	
							Market Value or	
Held Company	Relationship with Financial Statement			Shares/Units (in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Asset Value (US\$ in thousands)	
Name	Marketable Securities	Type and Name	Company	Account	(thousands)	Ownership	Thousands)	Note
	Federal Natl Mtg Assn			Available-for-sale financial assets	US\$ 5,847	N/A	US\$ 5,847	
	Federal Natl Mtg Assn			"	US\$ 7,763	N/A	US\$ 7,763	
	Federal Natl Mtg Assn			"	US\$ 19,565	N/A	US\$ 19,565	
	Federal Natl Mtg Assn			"	US\$ 4,104	N/A	US\$ 4,104	
	Federal Natl Mtg Assn			"	US\$ 10,413	N/A	US\$ 10,413	
	Federal Natl Mtg Assn			"	US\$ 7,963	N/A	US\$ 7,963	
	Federal Natl Mtg Assn Mtn			"	US\$ 2,873	N/A	US\$ 2,873	
	Federal Natl Mtg Assn Mtn			"	US\$ 2,852	N/A	US\$ 2,852	
	Federal Natl Mtg Assn Mtn			"	US\$ 5,553	N/A	US\$ 5,553	
	Freddie Mac			"	US\$ 9,273	N/A	US\$ 9,273	
Corporate issued asset-backed securities								
	American Home Mtg Invt Tr			Available-for-sale financial assets	US\$ 266	N/A	US\$ 266	
	Americredit Auto Rec Tr			"	US\$ 996	N/A	US\$ 996	
	Americredit Automobile Rec Tr			"	US\$ 690	N/A	US\$ 690	
	Americredit Automobile Rec Tr			"	US\$ 1,983	N/A	US\$ 1,983	
	Americredit Automobile Rec Tr			"	US\$ 2,591	N/A	US\$ 2,591	
	Americredit Automobile Receiva			"	US\$ 4,942	N/A	US\$ 4,942	
	Americredit Automobile Receivb			"	US\$ 4,021	N/A	US\$ 4,021	
	Atlantic City Elc Trns Fdglc			"	US\$ 548	N/A	US\$ 548	
	Banc Amer Coml Mtg Inc.			"	US\$ 3,327	N/A	US\$ 3,327	
	Banc Amer Mtg Secs Inc.			"	US\$ 1,840	N/A	US\$ 1,840	
	Bank Of Amer Lease Equip Tr			"	US\$ 1,943	N/A	US\$ 1,943	
	Bear Stearns Alt A Tr			"	US\$ 788	N/A	US\$ 788	
	Bear Stearns Arm Tr			"	US\$ 3,635	N/A	US\$ 3,635	
	Bear Stearns Arm Tr			"	US\$ 1,906	N/A	US\$ 1,906	
	Bear Stearns Coml Mtg Secs Inc.			"	US\$ 6,362	N/A	US\$ 6,362	
	California Infrastructure Dev			"	US\$ 180	N/A	US\$ 180	
	Capital Auto Receivables Asset			"	US\$ 3,217	N/A	US\$ 3,217	
	Capital One Auto Fin Tr			"	US\$ 2,599	N/A	US\$ 2,599	
	Capital One Auto Fin Tr			"	US\$ 2,968	N/A	US\$ 2,968	
	Capital One Auto Fin Tr			"	US\$ 4,979	N/A	US\$ 4,979	
	Capital One Multi Asset Execut			"	US\$ 4,815	N/A	US\$ 4,815	
	Capital One Multi Asset Execut			"	US\$ 3,904	N/A	US\$ 3,904	
	Capital One Multi Asset Execut			"	US\$ 2,933	N/A	US\$ 2,933	
	Capital One Prime Auto Receiv			"	US\$ 2,767	N/A	US\$ 2,767	

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Caterpillar Finl Asset Tr	"	US\$ 2,783	N/A	US\$ 2,783
Caterpillar Finl Asset Tr	"	US\$ 8,059	N/A	US\$ 8,059
Cendant Rent Car Fdg Aesop LLC	"	US\$ 9,186	N/A	US\$ 9,186
Centex Home Equity Ln Tr	"	US\$ 336	N/A	US\$ 336

(Continued)

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		June 30, 2006			Market Value or			
Held Company	Relationship with Financial the Statement	Shares/Units (in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Asset Value (US\$ in Thousands)	Note		
Name	Marketable Securities Type and Name	Company	Account	Ownership	Thousands)	Note		
	Cit Equip Coll Tr		Available-for-sale financial assets		US\$ 3,291	N/A	US\$ 3,291	
	Cit Equip Coll Tr		"		US\$ 3,941	N/A	US\$ 3,941	
	Citibank Cr Card Issuance Tr		"		US\$ 9,739	N/A	US\$ 9,739	
	Citicorp Mtg Secs		"		US\$ 682	N/A	US\$ 682	
	Cnh Equip Tr		"		US\$ 3,778	N/A	US\$ 3,778	
	Credit Suisse First Boston Mtg		"		US\$ 4,752	N/A	US\$ 4,752	
	Credit Suisse First Boston Mtg		"		US\$ 953	N/A	US\$ 953	
	Credit Suisse First Boston Mtg		"		US\$ 3,715	N/A	US\$ 3,715	
	Credit Suisse First Boston Mtg		"		US\$ 3,554	N/A	US\$ 3,554	
	Cwabs Inc.		"		US\$ 414	N/A	US\$ 414	
	Cwabs Inc.		"		US\$ 1,280	N/A	US\$ 1,280	
	Cwabs Inc.		"		US\$ 2,175	N/A	US\$ 2,175	
	Cwalt Inc.		"		US\$ 243	N/A	US\$ 243	
	Cwmb Inc.		"		US\$ 1,054	N/A	US\$ 1,054	
	Daimlerchrysler Auto Tr		"		US\$ 2,933	N/A	US\$ 2,933	
	Deere John Owner Tr		"		US\$ 2,425	N/A	US\$ 2,425	
	Drive Auto Receivables Tr		"		US\$ 3,174	N/A	US\$ 3,174	
	Fifth Third Auto Tr		"		US\$ 1,543	N/A	US\$ 1,543	
	First Horizon Abs Tr		"		US\$ 712	N/A	US\$ 712	
	First Union Lehman Bros Mtg Tr		"		US\$ 2,180	N/A	US\$ 2,180	
	Ford Cr Auto Owner Tr		"		US\$ 2,826	N/A	US\$ 2,826	
	Granite Mtgs Plc		"		US\$ 2,398	N/A	US\$ 2,398	
	Gs Auto Ln Tr		"		US\$ 746	N/A	US\$ 746	
	Gs Mtg Secs Corp.		"		US\$ 4,124	N/A	US\$ 4,124	
	Gsamp Tr		"		US\$ 4,232	N/A	US\$ 4,232	
	Harley Davidson Motorcycle Tr		"		US\$ 781	N/A	US\$ 781	
	Harley Davidson Motorcycle Tr		"		US\$ 5,783	N/A	US\$ 5,783	
	Hertz Veh Fing LLC		"		US\$ 5,256	N/A	US\$ 5,256	
	Holmes Fing No 8 Plc		"		US\$ 5,002	N/A	US\$ 5,002	
	HSBC Automotive Tr		"		US\$ 2,962	N/A	US\$ 2,962	
	Hyundai Auto Receivables Tr		"		US\$ 6,328	N/A	US\$ 6,328	
	Hyundai Auto Receivables Tr		"		US\$ 3,186	N/A	US\$ 3,186	
	Hyundai Auto Receivables Tr		"		US\$ 3,886	N/A	US\$ 3,886	
	Impac Cmb Tr		"		US\$ 494	N/A	US\$ 494	
	Impac Cmb Tr		"		US\$ 371	N/A	US\$ 371	
	Impac Secd Assets Corp.		"		US\$ 43	N/A	US\$ 43	
	Lb Ubs Coml Mtg Tr		"		US\$ 3,747	N/A	US\$ 3,747	
	Long Beach Accep Auto Receivab		"		US\$ 1,858	N/A	US\$ 1,858	



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Long Beach Mtg Ln Tr	"	US\$ 3,188	N/A	US\$ 3,188
Massachusetts Rrb Spl Purp Tr	"	US\$ 3,820	N/A	US\$ 3,820

(Continued)

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							June 30, 2006
							Market Value or
Held Company	Relationship with the			Shares/Units	Carrying Value	Percentage of Ownership	Net Asset Value
Name	Marketable Securities Type and Name	Company	Account	(in thousands)	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)
	Mastr Asset Backed Secs Tr		Available-for-sale financial assets		US\$3,504	N/A	US\$ 3,504
	Mbna Master Cr Card Tr II		"		US\$7,567	N/A	US\$ 7,567
	Merrill Lynch Mtg Invs Inc.		"		US\$6,635	N/A	US\$ 6,635
	Monumentl Global Fdg II		"		US\$1,002	N/A	US\$ 1,002
	National City Auto Receivables		"		US\$ 457	N/A	US\$ 457
	Navistar Finl 2003 A Owner Tr		"		US\$4,242	N/A	US\$ 4,242
	Nissan Auto Receivables		"		US\$1,437	N/A	US\$ 1,437
	Nomura Asset Accep Corp.		"		US\$4,131	N/A	US\$ 4,131
	Onyx Accep Owner Tr		"		US\$4,875	N/A	US\$ 4,875
	Pg+E Energy Recovery Fdg LLC		"		US\$4,628	N/A	US\$ 4,628
	Providian Gateway Owner Tr		"		US\$3,899	N/A	US\$ 3,899
	Reliant Energy Transition Bd		"		US\$3,989	N/A	US\$ 3,989
	Residential Asset Mtg Prods		"		US\$2,626	N/A	US\$ 2,626
	Residential Asset Sec Mtg Pass		"		US\$2,918	N/A	US\$ 2,918
	Residential Asset Sec Mtg Pass		"		US\$3,692	N/A	US\$ 3,692
	Residential Fdg Mtg Secs I Inc.		"		US\$2,217	N/A	US\$ 2,217
	Residential Fdg Mtg Secs I Inc.		"		US\$4,358	N/A	US\$ 4,358
	Revolving Home Equity Ln Tr		"		US\$2,096	N/A	US\$ 2,096
	Sequoia Mtg Tr		"		US\$ 948	N/A	US\$ 948
	Sequoia Mtg Tr		"		US\$ 735	N/A	US\$ 735
	Sequoia Mtg Tr		"		US\$ 794	N/A	US\$ 794
	Structured Adj Rate Mtg Ln Tr		"		US\$1,641	N/A	US\$ 1,641
	Structured Adj Rate Mtg Ln Tr		"		US\$ 555	N/A	US\$ 555
	Structured Asset Invt Ln Tr		"		US\$ 93	N/A	US\$ 93
	Terwin Mtg Tr		"		US\$4,014	N/A	US\$ 4,014
	Toyota Auto Receivables 2003 B		"		US\$4,898	N/A	US\$ 4,898
	TW Hotel Fdg 2005 LLC		"		US\$4,097	N/A	US\$ 4,097
	Txu Elec Delivery Transition		"		US\$2,619	N/A	US\$ 2,619
	Usaa Auto Owner Tr		"		US\$3,678	N/A	US\$ 3,678
	Wachovia Auto Owner Tr		"		US\$2,768	N/A	US\$ 2,768
	Washington Mut Mtg Secs Corp.		"		US\$3,354	N/A	US\$ 3,354
	Wells Fargo Finl Auto Owner Tr		"		US\$5,230	N/A	US\$ 5,230
	Wells Fargo Finl Auto Owner Tr		"		US\$4,885	N/A	US\$ 4,885
	Wells Fargo Mtg Backed Secs		"		US\$ 777	N/A	US\$ 777
	Wells Fargo Mtg Bkd Secs		"		US\$3,128	N/A	US\$ 3,128
	Wells Fargo Mtg Bkd Secs		"		US\$3,519	N/A	US\$ 3,519
	WFS Financial Owner Trust		"		US\$2,723	N/A	US\$ 2,723
	WFS Finl		"		US\$ 916	N/A	US\$ 916

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WFS Finl 2004 2 Owner Tr	"	US\$4,880	N/A	US\$ 4,880
WFS Finl 2004 4 Owner Tr	"	US\$1,672	N/A	US\$ 1,672

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		June 30, 2006				
					Market Value or	
Held Company	Relationship with Financial the Statement	Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership	Net Asset Value (US\$ in Thousands)	Note
<b>Name</b>	<b>Marketable Securities Type and Name Company</b>	<b>Account</b>	<b>Thousands</b>	<b>Thousands</b>	<b>Ownership</b>	<b>Thousands</b>
	WFS Finl 2005 2 Oner Tr	Available-for-sale financial assets	US\$ 2,205	N/A	US\$ 2,205	
	Whole Auto Ln Tr	"	US\$ 1,978	N/A	US\$ 1,978	
	Whole Auto Ln Tr	"	US\$ 3,803	N/A	US\$ 3,803	
	Whole Auto Ln Tr	"	US\$ 2,920	N/A	US\$ 2,920	
	World Omni Auto Receivables Tr	"	US\$ 5,848	N/A	US\$ 5,848	
	Corporate bond Hua Nan Bank	Available-for-sale financial assets	\$ 1,532,448	N/A	\$ 1,532,448	
	Cathay United Bank	"	1,149,382	N/A	1,149,382	
	Formosa Petrochemical Corporation	"	397,332	N/A	397,332	
	Taiwan Power Company	"	299,034	N/A	299,034	
	Taiwan Power Company	Held-to-maturity financial assets	4,217,617	N/A	4,219,522	
	Formosa Petrochemical Corporation	"	2,488,834	N/A	2,485,390	
	Nan Ya Plastics Corporation	"	2,379,459	N/A	2,381,576	
	Chinese Petroleum Corporation	"	1,703,676	N/A	1,702,082	
	China Steel Corporation	"	1,602,604	N/A	1,602,685	
	Far Eastone Telecommunications Co. Ltd.	"	300,012	N/A	299,989	
	Formosa Plastic Corporation	"	135,306	N/A	137,054	
	Formosa Chemicals & Fiber Corporation	"	67,624	N/A	69,791	
	Abbott Labs	Available-for-sale financial assets	US\$ 1,496	N/A	US\$ 1,496	
	Abbott Labs	"	US\$ 2,541	N/A	US\$ 2,541	
	Ace Ltd.	"	US\$ 1,001	N/A	US\$ 1,001	
	AIG Sunamerica Global Fing Ix	"	US\$ 996	N/A	US\$ 996	
	Allstate Life Global Fdg Secd	"	US\$ 2,927	N/A	US\$ 2,927	
	Alltel Corp.	"	US\$ 595	N/A	US\$ 595	
	American Express Co.	"	US\$ 3,420	N/A	US\$ 3,420	
	American Gen Fin Corp.	"	US\$ 1,616	N/A	US\$ 1,616	
	American Gen Fin Corp. Mtn	"	US\$ 1,001	N/A	US\$ 1,001	
	American Honda Fin Corp. Mtn	"	US\$ 3,046	N/A	US\$ 3,046	
	American Honda Fin Corp. Mtn	"	US\$ 802	N/A	US\$ 802	
	Ameritech Capital Funding Co.	"	US\$ 481	N/A	US\$ 481	

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Amgen Inc.	"	US\$	2,851	N/A	US\$	2,851
Amsouth Bk Birmingham Ala	"	US\$	1,982	N/A	US\$	1,982
Anz Cap Tr I	"	US\$	944	N/A	US\$	944
Associates Corp. North Amer	"	US\$	2,529	N/A	US\$	2,529
Bank New York Inc.	"	US\$	1,475	N/A	US\$	1,475
Bank One Corp.	"	US\$	3,303	N/A	US\$	3,303
Bank Utd Houston Tx Mtbm	"	US\$	528	N/A	US\$	528
Bear Stearns Cos Inc.	"	US\$	3,319	N/A	US\$	3,319

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							June 30, 2006	
							Market Value or	
Held Company	Relationship with Financial Statement			Shares/Units (in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Asset Value (US\$ in thousands)	
Name	Marketable Securities	Type and Name	Company Account	Thousands	Thousands	Ownership	Thousands	Note
	Bear Stearns Cos Inc.		Available-for-sale financial assets		US\$ 3,585	N/A	US\$ 3,585	
	Beneficial Corp.	Mtn Bk Entry	"		US\$ 2,289	N/A	US\$ 2,289	
	Berkshire Hathaway Fin Corp.		"		US\$ 1,470	N/A	US\$ 1,470	
	Caterpillar Finl Svcs Mtn		"		US\$ 5,752	N/A	US\$ 5,752	
	Chase Manhattan Corp.	New	"		US\$ 1,512	N/A	US\$ 1,512	
	Chase Manhattan Corp.	New	"		US\$ 2,106	N/A	US\$ 2,106	
	Chubb Corp.		"		US\$ 2,103	N/A	US\$ 2,103	
	Cit Group Hldgs Inc.		"		US\$ 3,011	N/A	US\$ 3,011	
	Citicorp		"		US\$ 1,382	N/A	US\$ 1,382	
	Cogentrix Energy Inc.		"		US\$ 3,777	N/A	US\$ 3,777	
	Colonial Pipeline Co.		"		US\$ 1,506	N/A	US\$ 1,506	
	Consolidated Edison Inc.		"		US\$ 2,866	N/A	US\$ 2,866	
	Corestates Cap Corp.		"		US\$ 1,006	N/A	US\$ 1,006	
	Countrywide Fdg Corp.	Mtn	"		US\$ 2,019	N/A	US\$ 2,019	
	Credit Suisse Fincl Products		"		US\$ 1,508	N/A	US\$ 1,508	
	Credit Suisse First Boston		"		US\$ 734	N/A	US\$ 734	
	Credit Suisse First Boston USA		"		US\$ 2,135	N/A	US\$ 2,135	
	Daimlerchrysler North Amer		"		US\$ 966	N/A	US\$ 966	
	Daimlerchrysler North Amer Hld		"		US\$ 753	N/A	US\$ 753	
	Dayton Hudson Corp.		"		US\$ 2,013	N/A	US\$ 2,013	
	Deere John Cap Corp.		"		US\$ 4,880	N/A	US\$ 4,880	
	Dell Computer Corp.		"		US\$ 2,822	N/A	US\$ 2,822	
	Den Danske Bk Aktieselskab		"		US\$ 2,034	N/A	US\$ 2,034	
	Diageo Plc		"		US\$ 3,405	N/A	US\$ 3,405	
	European Invt Bk		"		US\$ 3,918	N/A	US\$ 3,918	
	European Invt Bk		"		US\$ 5,945	N/A	US\$ 5,945	
	Federal Home Ln Bks		"		US\$ 7,937	N/A	US\$ 7,937	
	Fifth Third Bk Cincinnati Oh		"		US\$ 2,393	N/A	US\$ 2,393	
	First Data Corp.		"		US\$ 2,827	N/A	US\$ 2,827	
	Fleet Boston Corp.		"		US\$ 2,634	N/A	US\$ 2,634	
	Fleet Finl Group Inc.	New	"		US\$ 905	N/A	US\$ 905	
	Fpl Group Cap Inc.		"		US\$ 843	N/A	US\$ 843	
	Gannett Co. Inc.		"		US\$ 2,907	N/A	US\$ 2,907	
	General Elec Cap Corp.	Mtn	"		US\$ 3,363	N/A	US\$ 3,363	
	General Elec Cap Corp.	Mtn	"		US\$ 3,824	N/A	US\$ 3,824	
	General Elec Cap Corp.	Mtn	"		US\$ 8,678	N/A	US\$ 8,678	
	General Re Corp.		"		US\$ 3,307	N/A	US\$ 3,307	
	Genworth Finl Inc.		"		US\$ 3,417	N/A	US\$ 3,417	

Goldman Sachs Group Inc.

”

US\$ 4,910

N/A

US\$ 4,910

(Continued)

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		June 30, 2006			Market	
Held		Relationship	Shares/Units	Carrying	Percentage	Net Asset
Company		with Financial	Statement (in	Value	of	Value
Name	Marketable Securities Type and Name	Company	Thousands)	(US\$ in	Ownership	(US\$ in
		Account	thousands)	thousands)	Thousands)	Note
	Goldman Sachs Group Inc.	Available-for-sale financial assets		US\$ 3,426	N/A	US\$ 3,426
	Goldman Sachs Group LP	"		US\$ 1,509	N/A	US\$ 1,509
	Greenpoint Finl Corp.	"		US\$ 954	N/A	US\$ 954
	Hancock John Global Fdg II Mtn	"		US\$ 3,481	N/A	US\$ 3,481
	Hancock John Global Fdg Mtn	"		US\$ 961	N/A	US\$ 961
	Hartford Finl Svcs Group Inc.	"		US\$ 1,342	N/A	US\$ 1,342
	Hbos Plc Medium Term Sr Nts	"		US\$ 3,172	N/A	US\$ 3,172
	Hbos Plc Medium Term Sr Nts	"		US\$ 2,921	N/A	US\$ 2,921
	Heller Finl Inc.	"		US\$ 1,923	N/A	US\$ 1,923
	Hershey Foods Corp.	"		US\$ 1,513	N/A	US\$ 1,513
	Honeywell Inc.	"		US\$ 3,031	N/A	US\$ 3,031
	Household Fin Corp.	"		US\$ 2,848	N/A	US\$ 2,848
	Household Fin Corp.	"		US\$ 504	N/A	US\$ 504
	Household Intl Inc.	"		US\$ 2,848	N/A	US\$ 2,848
	HSBC Fin Corp. Mtn	"		US\$ 5,045	N/A	US\$ 5,045
	HSBC USA Inc. New	"		US\$ 1,076	N/A	US\$ 1,076
	Huntington Natl Bk Columbus Oh	"		US\$ 2,977	N/A	US\$ 2,977
	ING Sec Life Instl Fdg	"		US\$ 2,445	N/A	US\$ 2,445
	International Business Machs	"		US\$ 2,194	N/A	US\$ 2,194
	Intl Lease Fin Corp. Mtn	"		US\$ 2,889	N/A	US\$ 2,889
	Intl Lease Fin Corp. Mtn	"		US\$ 4,100	N/A	US\$ 4,100
	Intl Lease Fin Corp. Mtn	"		US\$ 2,968	N/A	US\$ 2,968
	JP Morgan Chase + Co.	"		US\$ 3,285	N/A	US\$ 3,285
	Jackson Natl Life Global Fdg	"		US\$ 998	N/A	US\$ 998
	Key Bk Na Med Term Nts Bk Entr	"		US\$ 4,364	N/A	US\$ 4,364
	Keycorp Mtn Book Entry	"		US\$ 2,975	N/A	US\$ 2,975
	Kraft Foods Inc.	"		US\$ 748	N/A	US\$ 748
	Kraft Foods Inc.	"		US\$ 997	N/A	US\$ 997
	Lehman Brothers Hldgs Inc.	"		US\$ 1,599	N/A	US\$ 1,599
	Lehman Brothers Hldgs Inc.	"		US\$ 478	N/A	US\$ 478
	Lehman Brothers Hldgs Inc.	"		US\$ 1,075	N/A	US\$ 1,075
	Lincoln Natl Corp. In	"		US\$ 498	N/A	US\$ 498
	Merita Bk Ltd. Ny Brh	"		US\$ 505	N/A	US\$ 505
	Merrill Lynch + Co. Inc.	"		US\$ 3,415	N/A	US\$ 3,415
	Merrill Lynch + Co. Inc.	"		US\$ 1,972	N/A	US\$ 1,972
	Merrill Lynch + Co. Inc.	"		US\$ 4,822	N/A	US\$ 4,822
	Metropolitan Life Global Mtn	"		US\$ 3,306	N/A	US\$ 3,306
	Monumental Global Fdg II	"		US\$ 1,446	N/A	US\$ 1,446



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Monumental Global Fdg II 2002A	"	US\$ 998	N/A	US\$ 998
Morgan Stanley	"	US\$ 2,087	N/A	US\$ 2,087

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		June 30, 2006			Market		
Held		Relationship	Shares/Units	Carrying	Percentage	Net Asset	
Company		with Financial	Statement (in	Value	of	Value	
Name	Marketable Securities Type and Name	Company	thousands)	(US\$ in	Ownership	(US\$ in	
		Account			Thousands)	Thousands)	
						Note	
	Morgan Stanley Group Inc.	Available-for-sale financial assets		US\$ 4,385	N/A	US\$ 4,385	
	National City Corp.	"		US\$ 3,360	N/A	US\$ 3,360	
	National Westminster Bk Plc	"		US\$ 1,330	N/A	US\$ 1,330	
	Nationwide Bldg Soc	"		US\$ 3,484	N/A	US\$ 3,484	
	Nationwide Bldg Soc Mtn	"		US\$ 3,004	N/A	US\$ 3,004	
	Nationwide Life Global Mtn	"		US\$ 1,463	N/A	US\$ 1,463	
	Nucor Corp.	"		US\$ 2,513	N/A	US\$ 2,513	
	Pepsico Inc. Mtn Book Entry	"		US\$ 3,620	N/A	US\$ 3,620	
	Pnc Fdg Corp.	"		US\$ 1,012	N/A	US\$ 1,012	
	Popular North Amer Inc.	"		US\$ 2,880	N/A	US\$ 2,880	
	Praxair Inc.	"		US\$ 3,141	N/A	US\$ 3,141	
	Premark Intl Inc.	"		US\$ 2,721	N/A	US\$ 2,721	
	Pricoa Global Fdg 1 Mtn	"		US\$ 3,504	N/A	US\$ 3,504	
	Protective Life Secd Trs	"		US\$ 2,869	N/A	US\$ 2,869	
	Prudential Ins Co. Amer	"		US\$ 2,502	N/A	US\$ 2,502	
	Prudential Ins Co. Amer	"		US\$ 2,652	N/A	US\$ 2,652	
	Public Svc Elec Gas Co.	"		US\$ 3,631	N/A	US\$ 3,631	
	Regions Finl Corp. New	"		US\$ 2,347	N/A	US\$ 2,347	
	Safeco Corp.	"		US\$ 718	N/A	US\$ 718	
	Sbc Communications Inc.	"		US\$ 1,020	N/A	US\$ 1,020	
	Sbc Communications Inc.	"		US\$ 682	N/A	US\$ 682	
	Scotland Intl Fin B V 144a	"		US\$ 1,416	N/A	US\$ 1,416	
	Slm Corp.	"		US\$ 498	N/A	US\$ 498	
	Slm Corp. Medium Term Nts	"		US\$ 8,889	N/A	US\$ 8,889	
	Sp Powerassests Ltd. Global	"		US\$ 956	N/A	US\$ 956	
	St Paul Cos Inc. Mtn Bk Ent	"		US\$ 2,536	N/A	US\$ 2,536	
	Suntrust Bks Inc.	"		US\$ 1,000	N/A	US\$ 1,000	
	Swedbank Sparbanken Svenge Ab	"		US\$ 1,006	N/A	US\$ 1,006	
	Tiaa Global Mkts Inc.	"		US\$ 498	N/A	US\$ 498	
	Unitedhealth Group Inc.	"		US\$ 2,993	N/A	US\$ 2,993	
	Us Bk Natl Assn Cincinnati Oh	"		US\$ 2,692	N/A	US\$ 2,692	
	Virginia Elec + Pwr Co.	"		US\$ 2,652	N/A	US\$ 2,652	
	Vodafone Group Plc New	"		US\$ 2,483	N/A	US\$ 2,483	
	Washington Mut Inc.	"		US\$ 4,502	N/A	US\$ 4,502	
	Washington Post Co.	"		US\$ 2,970	N/A	US\$ 2,970	
	Wells Fargo + Co. New	"		US\$ 6,040	N/A	US\$ 6,040	
	Westfield Cap Corp. Ltd.	"		US\$ 2,008	N/A	US\$ 2,008	
	Wps Resources Corp.	"		US\$ 1,042	N/A	US\$ 1,042	



		June 30, 2006					
Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units	Carrying Value	Percentage of Ownership	Net Value
				(in Thousands)	(US\$ in Thousands)		(US\$ in Thousands)
	Corporate notes Canadian Imperial BK		Available-for-sale financial assets		US\$ 3,015	N/A	US\$
	Money market funds SSGA Cash Mgmt Global Offshore		Available-for-sale financial assets		US\$ 11,912	N/A	US\$
	Fund Horizon Ventures Fund I, L.P.		Financial assets carried at cost		\$ 280,179	N/A	\$ 2
	Crimson Asia Capital Ltd., L.P.		"		66,290	N/A	
	Stock TSMC	Parent company	Available-for-sale financial assets	16,947	989,720		9
	VIS	Equity method investee	Investments accounted for using equity method	341	7,905		
	Stock TSMC	Parent company	Available-for-sale financial assets	16,979	991,575		9
	VIS	Equity method investee	Investments accounted for using equity method	1,748	40,179		
International	Stock InveStar	Subsidiary	Investments accounted for using equity method	14,476	US\$ 43,604	97	US\$
	InveStar II	Subsidiary	"	51,300	US\$ 45,910	97	US\$
	TSMC Development	Subsidiary	"	1	US\$627,773	100	US\$6
	TSMC Technology	Subsidiary	"	1	US\$ 5,665	100	US\$
Finance	Common stock NetLogic Microsystems, Inc.		Financial assets at fair value through profit or loss	84	US\$ 2,718		US\$
	Ikanos Communication, Inc.			515	US\$ 7,819	2	US\$

	Available-for-sale financial assets				
RichWave Technology Corp.	Financial assets carried at cost	4,247	US\$	1,648	13 US\$
Quake Technologies, Inc.	"	46	US\$	35	US\$
Pixim, Inc.	"	1,924	US\$	512	4 US\$
Global Investment Holding Inc.	"	10,800		\$100,000	6 \$1

(Continued)

									June 30, 2006	
Held Company	Marketable Securities	Relationship with the	Financial Statement	Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership	Market Value or Net Asset Value (US\$ in Thousands)		Note	
Name	Type and Name	Company	Account							
	Preferred stock									
	Quake Technologies, Inc.		Financial assets carried at cost	555	US\$ 415	1	US\$	415		
	Quickilver Technology, Inc.		"	1,049	US\$	4	US\$			
	Mosaic Systems, Inc.		"	2,481	US\$ 12	6	US\$	12		
	Zenesis Technologies, Inc.		"	2,410	US\$ 1,399	5	US\$	1,399		
	Reflectivity, Inc.		"	4,848	US\$ 2,479	4	US\$	2,479		
	Miradia, Inc.		"	3,040	US\$ 1,000	4	US\$	1,000		
	Axiom Microdevices, Inc.		"	1,000	US\$ 1,000	3	US\$	1,000		
	Optichron, Inc.		"	714	US\$ 1,000	4	US\$	1,000		
	NuCORE Technology Inc.		"	2,254	US\$ 1,455	2	US\$	1,455		
	Next IO, Inc.		"	800	US\$ 500	2	US\$	500		
	Audience, Inc.		"	1,654	US\$ 250	2	US\$	250		
	Centrality Communications Britestream Networks, Inc.		"	1,325	US\$ 1,800	2	US\$	1,800		
	Teknovus, Inc.		"	2,444	US\$ 1,172	2	US\$	1,172		
	Teknovus, Inc.		"	6,977	US\$ 1,327	3	US\$	1,327		
	Optimal Corporation		"	485	US\$ 500	6	US\$	500		
	Mobilygen		"	1,415	US\$ 750	1	US\$	750		
	Pixim, Inc.		"	2,193	US\$ 583		US\$	583		
	Warrants									
	Pixim, Inc.		Financial assets carried at cost	242		N/A				
Partners	Common stock VisEra Holding Company	Equity method investee	Investments accounted for using equity	18,931	US\$ 24,113	48	US\$	24,113		

		method					
VTAF							
II	Common stock						
	Beceem						
	Communications	Financial					
		assets					
		carried at					
		cost	500	US\$ 1,000	1	US\$ 1,000	
	Yobon						
	Technologies, Inc.	"	1,675	US\$ 787	13	US\$ 787	
	Sentelic Corp.	"	1,200	US\$ 2,040	15	US\$ 2,040	
	Preferred stock						
	Powerprecise						
	Solutions, Inc.	Financial					
		assets					
		carried at					
		cost	1,445	US\$ 1,400	11	US\$ 1,400	
	Tzero						
	Technologies, Inc.	"	730	US\$ 1,500	2	US\$ 1,500	
	Miradia, Inc.	"	1,809	US\$ 1,600	2	US\$ 1,600	
	Axiom						
	Microdevices, Inc.	"	761	US\$ 776	2	US\$ 776	
	Next IO, Inc.	"	216	US\$ 182		US\$ 182	
	Ageia						
	Technologies, Inc.	"	2,030	US\$ 2,074	2	US\$ 2,074	

(Continued)

		June 30, 2006						Market Value or Net Asset Value (US\$ in Thousands)		
Held Company	Marketable Securities	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership			Note	
Name	Type and Name	Company					US\$	Thousands		
	Audience, Inc.		Financial assets carried at cost	2,208	US\$ 474	1	US\$	474		
	GemFire Corporation		"	600	US\$ 600	1	US\$	600		
	Optichron, Inc.		"	353	US\$ 869	2	US\$	869		
	Xceive		"	714	US\$ 1,000	2	US\$	1,000		
	5V Technologies, Inc.		"	2,357	US\$ 1,768	11	US\$	1,768		
	Power Analog Microelectronics Impinj, Inc.		"	2,000	US\$ 1,500	13	US\$	1,500		
	RichWave Technology Corp.		"	257	US\$ 500		US\$	500		
	Aquantia		"	500	US\$ 231	2	US\$	231		
	Leadtrend		"	1,264	US\$ 1,150	5	US\$	1,150		
	Technology, Inc.		"	900	US\$ 431	5	US\$	431		
	Teknorus, Inc.		"	518	US\$ 119		US\$	119		
VTAF III	Common stock Quellan, Inc.		Financial assets carried at cost	2,231	US\$ 2,500	7	US\$	2,500		
TSMC Development	WaferTech stock	Subsidiary	Investments accounted for using equity method		US\$ 391,196	100	US\$	391,196		
Investar	Common stock Rich Tek Technology Corp.		Financial assets at fair value through profit or loss	477	US\$ 3,198		US\$	3,198		
			"	236	US\$ 202	2	US\$	202		



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Advanced Power Electronics Corp.						
Broadtek Electronics Corp.	"	29	US\$	9		US\$ 9
Monolithic Power Systems, Inc.	"	1,975	US\$	23,361	7	US\$ 23,361
Global Testing Corp.	"	51,010	US\$	9,006	8	US\$ 9,006
Advanced Power Electronics Corp.	Available-for-sale financial assets	674	US\$	576	2	US\$ 576
Broadtek Electronics Corp.	"	116	US\$	35		US\$ 35
Rich Tek Technology Corp.	"	421	US\$	2,823		US\$ 2,823
Capella Microsystems (Taiwan), Inc	Financial assets carried at cost	530	US\$	154	3	US\$ 154
Preferred stock Integrated Memory Logic, Inc.	Financial assets carried at cost	1,831	US\$	1,221	9	US\$ 1,221
IP Unity, Inc.	"	1,008	US\$	494	1	US\$ 494
Sonics, Inc.	"	1,843	US\$	3,530	3	US\$ 3,530
NanoAmp Solutions, Inc.	"	541	US\$	853	2	US\$ 853
Memsic, Inc.	"	2,724	US\$	1,500	10	US\$ 1,500

(Continued)

Held Company	Marketable Securities	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	June 30, 2006		Market Value or Net Asset Value (US\$ in Thousands)	Note
					Carrying Value (US\$ in Thousands)	Percentage of Ownership		
Investar II	Common stock		Financial assets at fair value through profit or loss					
	Monolithic Power Systems, Inc.			864	US\$ 10,227	3	US\$ 10,227	
	Geo Vision, Inc.		"	46	US\$ 165	1	US\$ 165	
	RichTek Technology Corp.		"	296	US\$ 1,988		US\$ 1,988	
	Ralink Technology (Taiwan), Inc.		Financial assets carried at cost	1,833	US\$ 791	3	US\$ 791	
	Capella Microsystems (Taiwan), Inc.		"	419	US\$ 122	2	US\$ 122	
	Auden Technology MFG. Co., Ltd.		"	953	US\$ 410	4	US\$ 410	
	EoNEX Technologies, Inc.		"	55	US\$ 3,048	5	US\$ 3,048	
	Conwise Technology Corporation, Ltd.		"	700	US\$ 204	9	US\$ 204	
	Goyatek Technology, Corp.		"	2,088	US\$ 545	7	US\$ 545	
	Trendchip Technologies Corp.		"	2,000	US\$ 574	5	US\$ 574	
	EON Technology, Corp.		"	4,247	US\$ 1,175	7	US\$ 1,175	
	eChannelOpen Holding, Inc.		"	358	US\$ 251	4	US\$ 251	
	Epic Communications, Inc.		"	191	US\$ 37	1	US\$ 37	
	Preferred stock		Financial assets carried at	2,289	US\$ 1,560	8	US\$ 1,560	
	Memsic, Inc.							

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Treas	Available-for-sale financial assets								
Fur	"								
		US\$	6,881			US\$	6,866	US\$	6,881
								US\$	(15)
certificates									
funds									
und	Available-for-sale financial assets								
	National Investment Trust Co., Ltd.	3,764	\$ 610,864	18,455	\$3,000,000				22,219
Bond	" ABN-AMRO Securities Investment Trust (Taiwan) Ltd.	14,906	2,004,862	40,250	600,000				175,156
Financial	" Reliance Securities Investment Trust Co., Ltd.			103,751	1,500,000				103,751
	" Cathay Securities Investment Trust Co., Ltd.			122,762	1,400,000				122,762
Bond	" National Investment Trust Co., Ltd.			93,312	1,300,000				93,312
d DAM	" Allianz Dresdner Securities Investment Consulting Co.,Ltd.	69,303	792,068	34,914	400,000				104,217
nd Fund	" JF Asset Management (Taiwan) Ltd.	62,009	933,430	13,277	200,000				75,286
st Bond	" JF Asset Management (Taiwan)	63,131	875,416	14,399	200,000				77,530

Select	Ltd. " ABN-AMRO Securities Investment Trust (Taiwan) Ltd.	1,235	203,860	93,739	1,050,000					111,974
Income	" ABN-AMRO Securities Investment Trust (Taiwan) Ltd.			63,947	1,000,000					63,947
Loss Fund	" Fuh Hwa Investment Trust Co.			89,510	1,000,000					89,510
d	" Fuh Hwa Investment Trust Co.			60,642	800,000					60,642
n Money	" HSBC Investment (Taiwan) Ltd.			47,667	700,000	6,803	\$ 100,004	\$ 99,905	\$ 99	40,864
es Bond	" Uni-President Assets Management Corp.			72,002	1,100,000					72,002
ield	" Taiwan International Securities Corp.			40,639	500,000					40,639
Shin	" Shinkong Investment Trust Co., Ltd.	55,063	778,482	17,617	250,000					72,680
y Fund	" Taishin Investment Trust Co., Ltd.			54,132	550,000					54,132
come	" INVESCO Taiwan Ltd.			44,180	500,000	8,821	100,000	99,833	167	35,359

(Continued)

Company	Marketable Securities	Financial Instruments	Nature/Units	Beginning	Acquisition	Disposal (Note 1)		Ending Balance
				Balance	Amount (US\$)	Carrying Value	Gain (Loss) on Disposal	Amount (US\$)
Name	Type and Name	Account	Shares/Units	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)
	Corporate bond							
	Taiwan Power Company	Held-to-maturity financial assets	KGI Securities Co., Ltd.	\$3,263,349	\$1,092,832	\$	\$	\$4,217,617
	Formosa Petrochemical Corporation	"	KGI Securities Co., Ltd.	1,093,283	1,695,273			2,488,834
	Nan Ya Plastics Corporation	"	KGI Securities Co., Ltd.	2,150,842	499,073			2,379,459
	Chinese Petroleum Corporation	"	KGI Securities Co., Ltd. and several financial institutions	705,436	1,000,441			1,703,676
	China Steel Corporation	"	KGI Securities Co., Ltd.	1,010,532	1,000,000			1,602,604
	Formosa Plastic Corporation	"	KGI Securities Co., Ltd. and several financial institutions	268,855				135,306
	Formosa Chemicals &Fiber Corporation	"	KGI Securities Co., Ltd.	134,369				67,624
	Hua Nan Bank	Available-for-sale financial assets	HSBC		1,526,049			1,532,448

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Cathay United Bank	" HSBC and other financial institutions			1,144,877					1,149,382
Formosa Petrochemical Corporation	" KGI Securities Co., Ltd.			397,076					397,332
Taiwan Power Company	" KGI Securities Co., Ltd.			298,918					299,034
American Honda Fin Corp. Mtn	"		US\$	3,087				US\$	3,046
American Honda Fin Corp. Mtn	"	US\$	3,800		US\$3,004	US\$3,000	US\$ 4	US\$	802
Bank One Corp.	"			US\$ 3,326				US\$	3,303
Countrywide Home Lns Inc.	"	US\$	5,210		US\$5,001	US\$5,210	US\$(209)		
Credit Suisse Fb USA Inc.	"	US\$	4,141		US\$4,003	US\$4,141	US\$(138)		
Deere John Cap Corp.	"			US\$ 4,911				US\$	4,880
Deere John Cap Corp.	"	US\$	5,079		US\$5,013	US\$5,079	US\$ (66)		
European Invt Bk	"			US\$ 5,995		US\$		US\$	5,945
European Invt Bk	"	US\$	8,315		US\$8,002	US\$8,315	US\$(313)		
Federal Home Ln Bks	"			US\$ 7,937				US\$	7,937
General Elec Cap Corp. Mtn	"			US\$ 3,351				US\$	3,363
Hewlett Packard Co. Intl Lease Fin Corp. Mtn	"	US\$	3,373		US\$3,177	US\$3,373	US\$(196)		
Jp Morgan Chase + Co.	"	US\$	2,471	US\$ 4,100	US\$2,461	US\$2,471	US\$ (10)	US\$	4,100
Keycorp Mtn Book Entry	"	US\$	3,663		US\$3,519	US\$3,663	US\$(144)		
Keycorp Mtn Book Entry	"			US\$ 3,500		US\$3,508	US\$3,500	US\$ 8	
Keycorp Mtn Book Entry	"			US\$ 3,006				US\$	2,975
Praxair Inc.	"			US\$ 3,180				US\$	3,141
Santander Us Debt S A Uniperso Slm Corp. Medium Term Nts	"	US\$	4,998		US\$4,957	US\$4,998	US\$ (41)		
Wells Fargo + Co. New	"	US\$	2,950	US\$ 6,012				US\$	8,889
Wells Fargo + Co. New	"			US\$ 6,076				US\$	6,040
Agency bonds	"	US\$	3,697		US\$3,512	US\$3,697	US\$(185)		
Fed Hm Ln Pc Pool M80855	Available-for-sale financial assets			US\$ 3,882				US\$	3,520
Federal Home Ln Mtg Corp.	"			US\$ 4,962				US\$	4,897
	"			US\$ 4,317				US\$	4,117



Federal Home Ln Mtg  
Corp.

(Continued)

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Company Name	Type and Name	Financial Statement of (in US\$ in thousands)	Beginning Balance	Acquisition	Disposal (Note 1)			Ending Balance
			Amount	Amount	Carrying Value	Gain (Loss) on Disposal	Amount	
		Shares/Units	(in US\$ in thousands)	(in US\$ in thousands)	(in US\$ in thousands)	(in US\$ in thousands)	(in US\$ in thousands)	(in US\$ in thousands)
		Available-for-sale financial assets	US\$	US\$ 3,349	US\$	US\$	US\$	US\$ 3,347
Federal Home Ln Mtg Corp.		"		US\$ 3,857				US\$ 3,834
Federal Home Ln Mtg Corp.		"		US\$ 5,380				US\$ 4,956
Federal Home Loan Mtg		"		US\$ 5,009				US\$ 5,009
Federal Home Ln Bks		"	US\$ 3,976		US\$ 3,964	US\$ 3,976	US\$ (12)	
Federal Home Ln Bks		"		US\$ 8,628				US\$ 8,650
Federal Home Ln Bks		"	US\$ 4,965		US\$ 4,944	US\$ 4,965	US\$ (21)	
Federal Home Ln Bks		"		US\$ 5,740				US\$ 5,772
Federal Home Ln Bks		"		US\$ 4,823				US\$ 4,818
Federal Home Ln Bks		"	US\$ 8,594		US\$ 8,519	US\$ 8,594	US\$ (75)	
Federal Home Ln Bks		"		US\$12,227				US\$12,145
Federal Home Ln Bks		"	US\$ 7,887		US\$ 7,758	US\$ 7,887	US\$(129)	
Federal Home Ln Bks		"	US\$19,846		US\$19,800	US\$19,846	US\$ (46)	
Federal Home Ln Bks		"	US\$ 9,134		US\$ 8,968	US\$ 9,134	US\$(166)	
Federal Home Ln Bks		"		US\$ 7,490				US\$ 7,475
Federal Home Ln Mtg Corp.		"	US\$ 6,980		US\$ 6,941	US\$ 6,980	US\$ (39)	
Federal Home Ln Mtg Corp.		"		US\$ 6,415				US\$ 6,398
Federal Home Ln Mtg Corp.		"		US\$14,175				US\$14,166
Federal Home Ln Mtg Corp.		"		US\$ 9,974				US\$ 9,887
Federal Natl Mtg Assn		"	US\$ 4,921		US\$ 4,916	US\$ 4,921	US\$ (5)	
Federal Natl Mtg Assn		"	US\$ 7,892		US\$ 7,908	US\$ 7,892	US\$ 16	
Federal Natl Mtg Assn		"	US\$ 4,943		US\$ 4,944	US\$ 4,943	US\$ 1	
Federal Natl Mtg Assn		"	US\$ 8,971		US\$ 8,940	US\$ 8,971	US\$ (31)	
Federal Natl Mtg Assn		"	US\$17,888		US\$17,782	US\$17,888	US\$(106)	
Federal Natl Mtg Assn		"		US\$19,539				US\$19,565
Federal Natl Mtg Assn		"		US\$ 4,123				US\$ 4,104
Federal Natl Mtg Assn		"		US\$10,430				US\$10,413
Federal Natl Mtg Assn		"		US\$ 7,966				US\$ 7,963
Federal Natl Mtg Assn Mtn		"	US\$ 9,758		US\$ 9,781	US\$ 9,758	US\$ 23	
		"	US\$15,787		US\$15,851	US\$15,787	US\$ 64	

Federal Natl Mtg Assn Mtn						
Federal Natl Mtg AssnMtn	"	US\$ 7,000		US\$ 6,925	US\$ 7,000	US\$ (75)
Freddie Mac	"		US\$ 9,391			US\$ 9,273
Corporate issued asset-backed securities						
Bear Stearns Arm Tr	Available-for-sale financial assets		US\$ 3,826			US\$ 3,635
Capital Auto Receivables Asset	"		US\$ 3,250			US\$ 3,217
Capital One Auto Fin Tr	"		US\$ 5,000			US\$ 4,979
Cit Equip Coll Tr	"		US\$ 3,975			US\$ 3,941
Credit Suisse First Boston Mtg	"		US\$ 4,773			US\$ 4,752

(Continued)

Company Name	Type and Name	Account Type	Beginning	Acquisition	Disposal (Note 1)			Ending
			Balance		Carrying	Gain	Balance	
			Amount	Amount	Value	on	Amount	
			(US\$ in Thousands)	(US\$ in Thousands)	(US\$ in Thousands)	(US\$ in Thousands)	(US\$ in Thousands)	
			Shares/Units	Shares/Units	Shares/Units	Disposal	Shares/Units	
			(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	
Credit Suisse First Boston Mtg	Available-for-sale financial assets		US\$	US\$3,750	US\$	US\$	US\$3,715	
Credit Suisse First Boston Mtg	"			US\$3,572			US\$3,554	
Ford Cr Auto Owner Tr	"		US\$10,908		US\$4,181	US\$4,225	US\$(44)	
Gs Mtg Secs Corp.	"			US\$4,150			US\$4,124	
Gsamp Tr	"			US\$4,250			US\$4,232	
Long Beach Mtg Ln Tr	"			US\$3,200			US\$3,188	
Merrill Lynch Mtg Invs Inc.	"			US\$6,665			US\$6,635	
Nissan Auto Receivables	"		US\$ 7,000		US\$4,944	US\$5,000	US\$(56)	
Nomura Asset Accep Corp.	"			US\$4,150			US\$4,131	
Terwin Mtg Tr	"			US\$4,050			US\$4,014	
Wells Fargo Finl Auto Owner Tr	"			US\$4,893			US\$4,885	
Wells Fargo Mtg Bkd Secs	"			US\$3,772			US\$3,128	
WFS Finl 2004 4 Owner Tr	"		US\$ 5,399		US\$3,346	US\$3,400	US\$(54)	

Note 1: The proceeds of bond investments matured are excluded.

Note 2: The ending balance included the amortization of premium or discount on bond investments and valuation gain or loss.

**TABLE 5**

**Taiwan Semiconductor Manufacturing Company Limited**  
**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT\$100 MILLION OR 20%**  
**OF THE PAID-IN CAPITAL**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**  
**(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Transaction Date	Transaction		Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party			Price Reference	
	Amount	Payment Term			Owner Relationship	Transfer Date	Amount		
5, 2006	\$ 854,000	By the construction progress	M+W Zander Facility Engineering Co., Ltd.		N/A	N/A	N/A	N/A	Public bidding
0, 2006	US \$ 3,340	By the construction progress	M+W Zander Facility Engineering Co., Ltd.		N/A	N/A	N/A	N/A	Public bidding
006	\$ 197,500	By the construction progress	China Steel Structure Co., Ltd.		N/A	N/A	N/A	N/A	Public bidding
2006	EUR 2,733	By the construction progress	Siemens Limited		N/A	N/A	N/A	N/A	Public bidding
2006	\$ 517,500	By the construction progress	United Steel Engineering & Construction Corp.		N/A	N/A	N/A	N/A	Public bidding

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**TABLE 6**

**Taiwan Semiconductor Manufacturing Company Limited and Investees**  
**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100**  
**MILLION OR 20% OF THE PAID-IN CAPITAL**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**  
**(Amounts in Thousands of New Taiwan Dollars)**

e	Related Party	Nature of Relationship	Purchase/ Sale	Transaction Details			Abnormal Transaction		Notes/A
				Amount	% to	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Payable Receivable
									Ending Balance
	TSMC-North America	Subsidiary	Sales	\$94,075,632	58	Net 30 days after invoice date			\$22,374,000
	Philips	Major shareholder	Sales	2,318,898	2	Net 30 days after monthly closing			382,000
	GUC	Investee over which the Company had a controlling interest	Sales	332,080		Net 30 days after monthly closing			148,000
	WaferTech	Indirect subsidiary	Purchases	6,505,148	28	Net 30 days after monthly closing			(1,155,000)
	SSMC	Investee accounted for using equity method	Purchases	3,718,466	16	Net 30 days after monthly closing			(662,000)
	TSMC-Shanghai	Subsidiary	Purchases	1,918,584	8	Net 30 days after monthly closing			(401,000)
	VIS	Investee accounted for using equity method	Purchases	1,712,082	7	Net 30 days after monthly closing			(943,000)
	TSMC-North America	The same Parent	Purchases	253,238	51	Net 30 days after invoice date			(75,000)

Note: The terms of sales to related parties were not significantly different from those to third parties. For purchase transactions, prices are determined in accordance with the related contractual agreements and no other similar transaction could be compared with.

**TABLE 7**

**Taiwan Semiconductor Manufacturing Company Limited**  
**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%**  
**OF THE PAID-IN CAPITAL**  
**JUNE 30, 2006**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Amounts	Overdue	Action Taken	Period	Amounts Received
the Company	TSMC-North America	Subsidiary	\$22,579,665	42 days	\$5,809,994				\$8,734,125
	Philips		382,251	38 days	21,743		Accelerate demand on account receivables		20,826
	GUC	Major shareholder Investee over which the Company had a controlling interest	148,386	54 days	2,019				60,991
	VIS		688,807	Note	6,668		Accelerate demand on account receivables		
	TSMC Technology	Investee accounted for using equity method	485,449	Note	495		Accelerate demand on account receivables		
	TSMC-Shanghai	Indirect subsidiaries	167,585	Note	32,343		Accelerate demand on account receivables		
		Subsidiary							

Note: The ending balance primarily consisted of other receivables, it is not applicable for the calculation of the turnover rate.

**TABLE 8**

**Taiwan Semiconductor Manufacturing Company Limited**  
**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE COMPANY**  
**EXERCISES SIGNIFICANT INFLUENCE**  
**JUNE 30, 2006**

(Amounts in Thousands of New Taiwan Dollars)

Investee Company	Location	Main Businesses and Products	Original Investment		Balance as of June 30, 2006			Net Income (Losses) of the Investee
			Amount December 31, 2005	Amount June 30, 2006	Share Percentage (in thousands)	Ownership Percentage	Carrying Value (Note)	
International	Tortola, British Virgin Islands	Providing investment in companies involved in the design, manufacture, and other related business in the semiconductor industry	\$31,445,780	\$31,445,780	987,968	100	\$25,984,419	\$2,264,286
-Shanghai	Shanghai, China	Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers	12,180,367	12,180,367		100	9,093,788	(302,853)
	Singapore	Fabrication and supply of integrated circuits	6,408,190	6,408,190	382	32	5,094,733	2,916,458
	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	8,119,816	8,119,816	437,891	27	5,087,101	1,043,109
Partners	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	4,225,071	137,223
-North ca	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	1,790,365	24,647
ing Alliance	Cayman Islands	Investing in new start-up technology companies	1,455,564	1,545,288		99	1,050,087	114,784
II	Cayman Islands	Investing in new start-up technology companies	736,934	654,509		98	707,835	(9,355)
	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	409,920	409,920	40,147	45	447,762	31,320



III	Cayman Islands	Investing in new start-up technology companies	146,454		98	145,055	(5,744)
erng	Taipei, Taiwan	Investment activities	300,000	300,000	36	113,574	99,216
uey	Taipei, Taiwan	Investment activities	300,000	300,000	36	113,246	100,327
-Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	96,536	798
-Europe	Amsterdam, the Netherlands	Marketing activities	15,749	15,749	100	36,909	12,048
-Korea	Seoul, Korea	Marketing activities	13,656		80	13,752	112

Note: The treasury stock is deducted from the carrying value.

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**TABLE 9**

**Taiwan Semiconductor Manufacturing Company Limited**  
**INFORMATION OF INVESTMENT IN MAINLAND CHINA**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**

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

Main Businesses and	Products	Total Amount		Accumulated Outflow of Investment from Taiwan as of January 1, 2006		Accumulated Outflow of Investment from Taiwan as of June 30, 2006		Equity in the Earnings
		of Paid-in Capital	Method of Investment	(US\$ in Thousand)	(US\$ in Thousand)	(US\$ in Thousand)	Percentage of Ownership	
Company (Shanghai) Limited	Manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$12,180,367 (RMB 3,070,623)	(Note 1)	\$12,180,367 (US\$ 371,000)	\$ \$	\$12,180,367 (US\$ 371,000)	100%	\$(302,853)

**Accumulated Investment in Mainland**

**China as of June 30, 2006**  
**(US\$ in Thousand)**

\$ 12,180,367  
(US\$ 371,000)

**Investment Amounts Authorized by**

**Investment Commission, MOEA**  
**(US\$ in Thousand)**

\$12,180,367  
(US\$ 371,000)

**Upper Limit on Investment**  
**(US\$ in Thousand)**

\$12,180,367  
(US\$ 371,000)

Note 1: Direct investments US\$371,000 thousand in TSMC-Shanghai.

Note 2: Amount was recognized based on the audited financial statements.

**Taiwan Semiconductor Manufacturing  
Company Limited and Subsidiaries  
Consolidated Financial Statements for the  
Six Months Ended June 30, 2006 and 2005 and  
Independent Auditors Report**

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## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of June 30, 2006 and 2005, and the results of their consolidated operations and their consolidated cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

July 12, 2006

### Notice to Readers

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

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

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 141,451,709	24	\$ 88,405,154	17
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	1,970,690		315,550	
Available-for-sale financial assets (Notes 2, 3 and 6)	62,429,761	11	48,298,762	10
Held-to-maturity financial assets (Notes 2, 3 and 7)	5,738,737	1	1,109,846	
Notes and accounts receivable	44,231,283	8	36,302,501	7
Receivables from related parties (Note 25)	387,388		740,202	
Allowance for doubtful receivables (Note 2)	(991,840)		(984,650)	
Allowance for sales returns and others (Note 2)	(5,657,954)	(1)	(3,963,039)	(1)
Other receivables from related parties (Note 25)	798,883		161,859	
Other financial assets (Note 3)	1,625,406		1,816,025	1
Inventories, net (Notes 2 and 8)	20,051,180	3	15,158,776	3
Deferred income tax assets (Notes 2 and 18)	6,258,263	1	5,408,883	1
Prepaid expenses and other current assets (Note 3)	1,396,823		1,230,671	
<b>Total current assets</b>	<b>279,690,329</b>	<b>47</b>	<b>194,000,540</b>	<b>38</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 9 and 10)</b>				
Available-for-sale financial assets	4,955,849	1	24,646	3
Held-to-maturity financial assets	23,524,067	4	27,297,965	2
Financial assets carried at cost	3,287,050		3,255,358	1
Investments accounted for using equity method	11,011,139	2	8,629,444	2
<b>Total long-term investments</b>	<b>42,778,105</b>	<b>7</b>	<b>39,207,413</b>	<b>8</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)</b>				
<b>Cost</b>				
Land and land improvements	839,539		795,981	
Buildings	106,751,906	18	102,814,480	20
Machinery and equipment	534,997,102	90	488,162,101	95
Office equipment	9,901,513	2	9,261,975	2
Leased assets	595,172		560,957	

	653,085,232	110	601,595,494	117
Accumulated depreciation	(429,993,526)	(72)	(365,018,772)	(71)
Advance payments and construction in progress	28,038,154	5	20,429,713	4
Net property, plant and equipment	251,129,860	43	257,006,435	50
GOODWILL (Note 2)	5,953,802	1	6,441,721	1
<b>OTHER ASSETS</b>				
Deferred income tax assets (Notes 2 and 18)	7,428,728	1	6,338,720	1
Deferred charges, net (Notes 2 and 12)	6,512,023	1	8,210,644	2
Refundable deposits	106,600		114,435	
Others	143,562		101,340	
Total other assets	14,190,913	2	14,765,139	3
<b>TOTAL</b>	<b>\$ 593,743,009</b>	<b>100</b>	<b>\$ 511,421,248</b>	<b>100</b>

## **LIABILITIES AND SHAREHOLDERS EQUITY**

### **CURRENT LIABILITIES**

Short-term bank loans (Note 13)	\$		\$ 316,180	
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	601,086		841,617	
Accounts payable	8,676,146	2	6,365,721	1
Payables to related parties (Note 25)	1,605,514		1,239,322	
Income tax payable (Notes 2 and 18)	4,602,621	1	444,303	
Cash dividends and bonus payable (Note 20)	65,174,870	11	49,506,027	10
Payables to contractors and equipment suppliers	17,214,474	3	11,383,836	3
Accrued expenses and other current liabilities (Notes 2, 3 and 16)	9,920,464	2	9,459,152	2
Current portion of bonds payable and long-term bank loans (Notes 14 and 15)	2,505,489		10,505,489	2
Total current liabilities	110,300,664	19	90,061,647	18

### **LONG-TERM LIABILITIES**

Bonds payable (Note 14)	17,000,000	3	19,500,000	4
Long-term bank loans (Note 15)	651,604		957,510	
Other long-term payables (Note 16)	8,466,995	2	8,020,949	2
Other payables to related parties (Notes 25 and 28)	1,085,366		1,727,133	

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Obligations under capital leases (Note 2)	595,172		560,957	
Total long-term liabilities	27,799,137	5	30,766,549	6
<b>OTHER LIABILITIES</b>				
Accrued pension cost (Notes 2 and 17)	3,495,542	1	3,424,325	1
Guarantee deposits (Note 28)	3,357,528		1,518,850	
Deferred credits (Notes 2 and 25)	1,219,120		673,746	
Others	71,794		35,297	
Total other liabilities	8,143,984	1	5,652,218	1
Total liabilities	146,243,785	25	126,480,414	25
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>				
Capital stock \$10 par value Authorized: 27,050,000 thousand shares Issued: 25,823,357 thousand shares in 2006, 24,726,129 thousand shares in 2005	258,233,569	43	247,261,288	48
Capital surplus (Notes 2 and 20)	53,822,486	9	56,720,875	11
Retained earnings (note 20)				
Appropriated as legal capital reserve	43,705,711	7	34,348,208	7
Appropriated as special capital reserve	640,742		2,226,427	1
Unappropriated earnings	92,376,976	16	47,808,698	9
	136,723,429	23	84,383,333	17
Others (Notes 2 and 3)				
Cumulative translation adjustments	(1,145,616)		(2,612,996)	(1)
Unrealized gain on financial instruments	116,554			
	(1,029,062)		(2,612,996)	(1)
Treasury stock (at cost, Notes 2 and 22) 33,926 thousand shares in 2006 and 46,862 thousand shares in 2005	(918,075)		(1,552,573)	
Equity attributable to shareholders of the parent	446,832,347	75	384,199,927	75
MINORITY INTERESTS (Note 2)	666,877		740,907	

Total shareholders equity	447,499,224	75	384,940,834	75
TOTAL	\$ 593,743,009	100	\$ 511,421,248	100

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

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

**(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)**

	2006		2005	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 25)	\$ 163,304,513		\$ 118,589,458	
SALES RETURNS AND ALLOWANCES (Note 2)	3,336,353		1,753,728	
NET SALES	159,968,160	100	116,835,730	100
COST OF SALES (Notes 19 and 25)	79,742,976	50	70,903,582	61
GROSS PROFIT	80,225,184	50	45,932,148	39
OPERATING EXPENSES (Notes 19)				
Research and development	7,839,586	5	6,973,117	5
General and administrative	4,046,885	3	4,766,049	4
Marketing	2,113,687	1	1,810,727	2
Total operating expenses	14,000,158	9	13,549,893	11
INCOME FROM OPERATIONS	66,225,026	41	32,382,255	28
NON-OPERATING INCOME AND GAINS				
Interest income (Notes 2 and 3)	2,136,142	1	1,307,115	1
Equity in earnings of equity method investees, net (Notes 2 and 10)	1,249,875	1	623,046	1
Gain on disposal of financial instruments, net (Notes 2, 3, 5 and 24)	812,356	1	1,442,104	1
Settlement income (Note 27)	483,840		786,750	1
Subsidy income	329,312		311,846	
Technical service income (Notes 25 and 28)	302,720		186,962	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 25)	176,277		35,808	
Others (Note 25)	227,921		220,040	
Total non-operating income and gains	5,718,443	3	4,913,671	4

NON-OPERATING EXPENSES AND LOSSES

Foreign exchange loss, net (Notes 2 and 3)	1,244,308	1	2,004,430	2
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 24)	770,634		40,971	
Interest expense (Notes 2 and 3)	437,365		718,599	1
Loss on impairment of financial assets (Note 2)	171,394		88,486	
Loss on idle assets	37,283		106,972	

(Continued)

	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Loss on disposal of property, plant and equipment (Note 2)	\$ 9,211		\$ 53,625	
Others	82,734		75,003	
Total non-operating expenses and losses	2,752,929	1	3,088,086	3
INCOME BEFORE INCOME TAX	69,190,540	43	34,207,840	29
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 18)	(4,135,397)	(2)	1,003,785	1
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	65,055,143	41	35,211,625	30
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF INCOME TAX BENEFIT OF NT\$82,062 THOUSAND (Note 3)	1,606,749	1		
NET INCOME	\$ 66,661,892	42	\$ 35,211,625	30
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 66,608,628	42	\$ 35,187,334	30
Minority interests	53,264		24,291	
	\$ 66,661,892	42	\$ 35,211,625	30

	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
CONSOLIDATED EARNINGS PER SHARE (NT\$, Note 23)				
Basic earnings per share	\$ 2.74	\$ 2.58	\$ 1.33	\$ 1.37
Diluted earnings per share	\$ 2.74	\$ 2.58	\$ 1.33	\$ 1.37

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

(Concluded)



**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Shareholders of the Parent					Cumulative Translation Adjustments	Others Unrealized Gain on Financial Instruments	Total	Treasury Stock
	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Retained Earnings Unappropriated Earnings	Total				
2006	\$ 57,117,886	\$ 34,348,208	\$ 2,226,427	\$ 106,196,399	\$ 142,771,034	\$ (640,742)	\$	\$ (640,742)	\$ (918,075)
		9,357,503		(9,357,503)					
			(1,585,685)	1,585,685					
				(3,432,129)	(3,432,129)				
2005				(3,432,129)	(3,432,129)				
				(61,825,061)	(61,825,061)				
				(3,709,504)	(3,709,504)				
				(257,410)	(257,410)				
2005	(3,709,504)								
2006	243,864								
	87,920								

82,320

66,608,628 66,608,628

(504,874) (504,874)

102,614 102,614

13,940 13,940

569 \$ 53,822,486 \$ 43,705,711 \$ 640,742 \$ 92,376,976 \$ 136,723,429 \$ (1,145,616) \$ 116,554 \$ (1,029,062) \$ (918,075)

537 \$ 56,537,259 \$ 25,528,007 \$ 88,202,009 \$ 113,730,016 \$ (2,226,427) \$ (2,226,427) \$ (1,595,186)

8,820,201 (8,820,201)

2,226,427 (2,226,427)

(3,086,215) (3,086,215)

215 (3,086,215) (3,086,215)

(46,504,097) (46,504,097)

024			(11,626,024)	(11,626,024)		
			(231,466)	(231,466)		
412	87,806					
	4,774					
	84,285					
			35,187,334	35,187,334		
					(386,569)	(386,569)
	6,751					42,613
288	\$ 56,720,875	\$ 34,348,208	\$ 2,226,427	\$ 47,808,698	\$ 84,383,333	\$ (2,612,996) \$ (2,612,996) \$ (1,552,573)

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

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)

	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income attributable to shareholders of the parent	\$ 66,608,628	\$ 35,187,334
Net income attributable to minority interests	53,264	24,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,621,785	37,917,458
Amortization of premium/discount of financial assets, net	43,781	58,771
Loss on impairment of financial assets	171,394	88,486
Loss (gain) on disposal of available-for-sale financial assets	(51,671)	111,808
Gain on disposal of financial assets carried at cost		(94)
Equity in earnings of equity method investees, net	(1,249,875)	(623,046)
Gain on disposal of property, plant and equipment and other assets, net	(167,066)	17,817
Loss on idle assets	37,283	106,972
Deferred income tax	250,733	(1,179,638)
Net changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	166,562	1,905,815
Notes and accounts receivable	(1,149,008)	(4,861,416)
Receivables from related parties	305,878	126,139
Allowance for doubtful receivables	11,246	(1,847)
Allowance for sales returns and others	1,340,541	620,589
Other receivables from related parties	413,595	(20,281)
Other financial assets	(7,609)	(842,265)
Inventories	(2,322,877)	454,008
Prepaid expenses and other current assets	23,618	1,028,107
Increase (decrease) in:		
Accounts payable	(745,306)	(1,121,457)
Payables to related parties	(137,555)	(1,572,227)
Income tax payable	587,170	33,947
Accrued expenses and other current liabilities	(436,589)	(526,717)
Accrued pension cost	21,158	308,978
Deferred credits	(84,275)	
 Net cash provided by operating activities	 99,304,805	 67,241,532
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale financial assets	(64,826,510)	(42,911,838)
Held-to-maturity financial assets	(7,754,790)	(3,485,821)
Financial assets carried at cost	(289,572)	(185,834)
Property, plant and equipment	(32,900,861)	(55,769,360)



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Investments accounted for using equity method	(48,084)	
Proceeds from disposal of:		
Available-for-sale financial assets	44,169,400	44,244,414
Redemption of held-to-maturity financial assets upon maturity	7,837,000	4,914,180
		(Continued)

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	<b>2006</b>	<b>2005</b>
Financial assets carried at cost	\$	\$ 19,860
Property, plant and equipment and other assets	247,133	127,264
Increase in deferred charges	(739,933)	(506,210)
Decrease (increase) in refundable deposits	202	(3,147)
Decrease (increase) in other assets	(55,749)	416
 Net cash used in investing activities	 (54,361,764)	 (53,556,076)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of short-term bank loans	(328,500)	(63,236)
Repayments of long-term bank loans	(2,745)	(944,100)
Increase in guarantee deposits	461,098	1,105,969
Bonus to directors and supervisors	(257,410)	(231,466)
Proceeds from:		
Disposal of treasury stock		49,364
Exercise of employee stock options	326,050	117,218
Increase (decrease) in minority interests	(8,125)	11,571
 Net cash provided by financing activities	 190,368	 45,320
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 45,133,409	 13,730,776
 <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	 (165,407)	 (109,281)
 <b>EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES</b>		 481,308
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	 96,483,707	 74,302,351
 <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	 \$ 141,451,709	 \$ 88,405,154
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 608,339	\$ 659,902
Income tax paid	\$ 3,391,986	\$ 148,831
 <b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant and equipment	\$ 41,049,299	\$ 34,127,442

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Decrease (increase) in payables to contractors and equipment suppliers	(8,148,438)	22,045,021
Increase in other long-term payables		(403,103)
Cash paid	\$ 32,900,861	\$ 55,769,360
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 2,505,489	\$ 10,505,489
Current portion of other long-term payables (classified under accrued expenses and other current liabilities)	\$ 940,123	\$ 1,417,437

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

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**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

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

**1. GENERAL**

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

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

As of June 30, 2006 and 2005, TSMC and its subsidiaries had 23,044 and 20,991 employees, respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

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

Significant accounting policies are summarized as follows:

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of investees in which TSMC's ownership percentage is less than 50% but over which TSMC has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

<b>Name of Investor</b>	<b>Name of Investee</b>	<b>Percentage of Ownership at June 30, 2006</b>	<b>Remark</b>
TSMC	TSMC North America (TSMC-NA)	100%	
	TSMC Japan K. K. (TSMC-Japan)	100%	
	Taiwan Semiconductor Manufacturing Company Korea (TSMC-Korea)	100%	TSMC-Korea was established in May 2006.
	TSMC International Investment Ltd. (TSMC International)	100%	
	Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe)	100%	
	TSMC Partners, Ltd. (TSMC Partners)	100%	
	TSMC (Shanghai) Company Limited (TSMC-Shanghai)	100%	
	Chi Cherng Investment Co., Ltd. (Chi Cherng)	36%	TSMC and Hsin Ruey held in aggregate a 100% ownership of Chi Cherng. As of June 30, 2006, Chi Cherng held 16,947 thousand common shares in TSMC (approximately 0.07% of outstanding common shares).
	Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	36%	TSMC and Chi Cherng held in aggregate a 100% ownership of Hsin Ruey. As of June 30, 2006, Hsin Ruey held 16,979 thousand common shares in TSMC (approximately 0.07% of outstanding common shares).
	Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	
	VentureTech Alliance Fund III, L.P. (VTAF III)	98%	VTAF III was established in April 2006.
	Global Unichip Corporation (GUC)	45%	GUC became a consolidated entity of TSMC as GUC's president was assigned by TSMC and TSMC has control over the financial, operating and personnel hiring decisions of GUC.

(Continued)

<b>Name of Investor</b>	<b>Name of Investee</b>	<b>Percentage of Ownership at June 30, 2006</b>	<b>Remark</b>
	VisEra Technology Company, Ltd. (VisEra)		VisEra president was assigned by TSMC. However, due to the changes in investment structure, TSMC no longer had a controlling interest in VisEra beginning in November 2005 resulting in VisEra being no longer treated as a consolidated entity.
TSMC International	TSMC Technology, Inc. (TSMC Technology)	100%	
	TSMC Development, Inc. (TSMC Development)	100%	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	
	InveStar Semiconductor Development Fund, Inc. (II) LDC (ISDF II)	97%	
TSMC Development GUC	WaferTech, LLC (WaferTech)	99.996%	
	Global Unichip Corp.-North America (GUC-NA)	100%	GUC-NA, a subsidiary of GUC, became a consolidated entity of TSMC in 2005 since TSMC has control over GUC.
	Global Unichip Japan Co., Ltd. (GUC-Japan)	100%	GUC-Japan, a subsidiary of GUC, became a consolidated entity of TSMC in 2005 since TSMC has control over GUC.

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of June 30, 2006:

TSMC-NA is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC-Japan, TSMC-Korea and TSMC-Europe are engaged mainly in marketing activities. TSMC International is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC-Shanghai is engaged in the manufacturing and selling of integrated circuits and pursuant to the orders from and product design specifications provided by customers. TSMC Partners, TSMC Development, Chi Cherng and Hsin Ruey are engaged in investing activities. Emerging Alliance, VTAF II, VTAF III, ISDF and ISDF II are engaged in investing in new start-up technology companies. TSMC Technology is engaged mainly in engineering support activities. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. GUC is engaged in researching, developing, manufacturing, testing and marketing of integrated circuits. GUC-NA and GUC-Japan are engaged in providing products consulting in North America and Japan, respectively.

TSMC together with its consolidated entities are hereinafter referred to collectively as the Company . Minority interests in subsidiaries aforementioned are presented as a separate component of shareholders equity.

#### **Use of Estimates**

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

#### **Classification of Current and Noncurrent Assets and Liabilities**

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

#### **Cash Equivalents**

Repurchase agreements collateralized by government bonds, notes and treasury bills acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

#### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

Derivatives that do not meet the criteria for hedge accounting and financial assets acquired principally for the purpose of selling them in the near term are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives and financial assets are remeasured at fair value subsequently with the changes in fair value recognized in current income. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

Fair value is determined as follows: Publicly-traded stocks closing price at the balance sheet date; and derivatives using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

### **Available-for-Sale Financial Assets**

Investments designated as available-for-sale financial assets include debt securities and equity securities.

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. The changes in fair value from a subsequent remeasurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: Beneficiary certificates of open-end funds - net asset value at the balance sheet date; publicly-traded stocks - closing price at the balance sheet date; and other debt securities - average of bid and asked prices at the balance sheet date.

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

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

### **Held-to-Maturity Financial Assets**

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition.

Earnings or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

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

### **Allowance for Doubtful Receivables**

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



### **Revenue Recognition and Allowance for Sales Returns and Others**

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

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

### **Inventories**

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

### **Financial Assets Carried at Cost**

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their original cost, such as non-publicly traded stocks and mutual funds. The costs of funds and non-publicly traded stocks are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

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

### **Investments Accounted for Using Equity Method**

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the equity in earnings/losses of equity method investees, net account. The difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was previously amortized by the straight-line method over five years and was also recorded in the equity in earnings/losses of equity method investees, net account. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, Long-term Investments in Equity Securities (SFAS No. 5), investment premiums, representing goodwill, are no longer being amortized; while investment discounts continue to be amortized over the remaining periods. When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

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

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties.

Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties.

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

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, with the corresponding amount recorded as obligations under capital leases. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: Land improvements 20 years; buildings 10 to 20 years; machinery and equipment 3 to 10 years; office equipment 3 to 15 years and leased assets 20 years.

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

#### **Goodwill**

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

#### **Deferred Charges**

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized over the following periods: Technology license fees the shorter of the estimated life of the technology or the term of the technology transfer contract; software and system design costs and other charges 2 to 5 years. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

### **Pension Costs**

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

### **Income Tax**

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

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

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

Income tax on unappropriated earnings (excluding earnings from foreign consolidating subsidiaries) of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

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

### **Stock-based Compensation**

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

### **Treasury Stock**

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

### **Foreign-currency Transactions**

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

**Translation of Foreign-currency Financial Statements**

SFAS No. 14, Accounting for Foreign-currency Translation applies to foreign subsidiaries that use the local currency as their functional currency. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities spot rate at period-end; shareholders equity historical rates; income and expenses average rate during the period. The resulting translation adjustments are recorded as a separate component of shareholders equity.

**3. ACCOUNTING CHANGES**

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

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

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

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

	<b>Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)</b>	<b>Recognized as a Separate Component of Shareholders Equity</b>
Financial assets or liabilities at fair value through profit or loss	\$ 1,606,749	\$
Available-for-sale financial assets		306,531
	\$ 1,606,749	\$ 306,531

The adoption of the newly released SFASs resulted in a decrease in net income before cumulative effect of changes in accounting principles of NT\$839,900 thousand, an increase in net income of NT\$766,849 thousand, and an increase in basic earnings per share (after income tax) of NT\$0.03, for the six months ended June 30, 2006.

Effective January 1, 2006, the Company adopted the newly revised SFAS No. 5 and SFAS No. 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment at least on an annual basis instead of being amortized. Such a change in accounting principle did not have a material effect on the Company's financial statements as of and for the six months ended June 30, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2005 were reclassified to conform with the consolidated financial statements as of and for the six months ended June 30, 2006. The previous issued consolidated financial statements as of and for the six months ended June 30, 2005 need not be restated.

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

1) Short-term investments

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

2) Derivative financial instruments

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

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

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

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

	<b>Before Reclassification</b>	<b>After Reclassification</b>
Balance sheet		
Short-term investments, net	\$ 49,558,447	\$
Other financial assets	78,900	
Prepaid expenses and other current assets	42,941	
Long-term investments accounted for using cost method	3,323,874	
Long-term bonds investment	16,342,005	
Other long-term investments	10,955,960	
Accrued expenses and other current liabilities	(841,617)	
Financial assets at fair value through profit or loss		315,550
Financial liabilities at fair value through profit or loss		(841,617)
Available-for-sale financial assets		48,323,408
Held-to-maturity financial assets		28,407,811
Financial assets carried at cost		3,255,358
	\$ 79,460,510	\$ 79,460,510
Statement of income		
Interest income	\$ 449,756	\$
Foreign exchange gain, net	1,837,806	
Interest expense	(781,134)	
Unrealized valuation loss on short-term investments	(40,971)	
Loss on disposal of investment, net	(64,324)	
Gain on disposal of financial instruments, net		1,442,104
Valuation loss on financial instruments, net		(40,971)
	\$ 1,401,133	\$ 1,401,133

#### 4. CASH AND CASH EQUIVALENTS

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Cash and deposits in bank	\$ 81,433,005	\$ 57,966,352
Repurchase agreements collateralized by government bonds	59,351,764	29,804,199
Corporate notes	666,940	172,291
Treasury bills		349,892
Agency notes		112,420

\$ 141,451,709      \$ 88,405,154

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**5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Trading financial assets		
Publicly-traded stocks	\$ 1,648,234	\$ 193,709
Forward exchange contracts		1,123
Cross currency swap contracts	322,456	120,718
	<b>\$ 1,970,690</b>	<b>\$ 315,550</b>
Trading financial liabilities		
Forward exchange contracts	\$ 9,442	\$ 46,005
Cross currency swap contracts	591,644	795,612
	<b>\$ 601,086</b>	<b>\$ 841,617</b>

The Company entered into derivative contracts during the six months ended June 30, 2006 and 2005 to manage exposures due to the fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, effective from January 1, 2006, the Company discontinued applying hedge accounting treatment for its derivative financial instruments. Outstanding forward contracts as of June 30, 2006 and 2005:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (in Thousands)</b>
June 30, 2006			
Sell	US\$/NT\$	July 2006	US\$ 10,000
	EUR/US\$	July 2006	EUR 10,000
Buy	US\$/EUR	July 2006	EUR 1,134
	US\$/JPY	July 2006	JPY 13,500
June 30, 2005			
Sell	US\$/NT\$	July 2005 to August 2005	US\$ 103,000
	US\$/NT\$	July 2005	US\$ 6,500

Outstanding cross currency swap contracts as of June 30, 2006 and 2005:

<b>Maturity Date</b>	<b>Contract Amount (in Thousands)</b>	<b>Range of Interest Rates Paid</b>	<b>Range of Interest Rates Received</b>
June 30, 2006			



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July 2006 to September 2006	US\$2,266,000	2.40%-5.57%	0.60%-2.78%
June 30, 2005			
July 2005 to August 2005	US\$2,045,000	3.10%-3.40%	1.03%-1.22%

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The Company did not enter into any interest rate swap contracts during the six months ended June 30, 2006. The Company rescinded all interest rate swap contracts in the first quarter of 2005 before their original maturities. The rescission loss of NT\$28,295 thousand has been reclassified and included in the losses on disposal of financial instruments account.

Net gains arising from derivative financial instruments for the six months ended June 30, 2006 were NT\$191,799 thousand (including realized settlement gains of NT\$470,429 thousand and valuation losses of NT\$278,630 thousand).

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Beneficiary certificates of open-end funds	\$ 22,157,124	\$ 10,300,638
Corporate bonds	14,297,001	11,555,183
Agency bonds	13,787,394	11,511,740
Corporate issued asset-backed securities	10,921,185	11,419,169
Government bonds	4,831,843	2,741,122
Structured time deposits	498,190	
Publicly-traded stocks	409,253	51,269
Money market funds	385,937	491,465
Corporate notes	97,683	158,052
Commercial papers		94,770
	67,385,610	48,323,408
Current portion	(62,429,761)	(48,298,762)
	\$ 4,955,849	\$ 24,646

The Company entered into investment management agreements with three well-known financial institutions (fund managers) to manage its investment portfolios. In accordance with the investment guidelines and terms specified in these agreements, the securities invested by the fund managers cannot be below a pre-defined credit rating. As of June 30, 2006, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as corporate bonds, agency bonds, asset-backed securities, government bonds and others. Securities acquired with maturities of less than three months from the date of purchase were classified as cash equivalents.

As of June 30, 2006, structured time deposits categorized as available-for-sale financial assets consisted of the following:

	<b>Principal Amount</b>	<b>Carrying Amount</b>	<b>Range of Interest Rates</b>	<b>Maturity Date</b>
Step-up callable deposits				
Domestic deposits	\$ 500,000	\$ 498,190	1.76%	March 2008

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

**7. HELD-TO-MATURITY FINANCIAL ASSETS**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Corporate bonds	\$ 12,895,132	\$ 5,634,705
Structured time deposits	11,127,780	10,955,960
Government bonds	5,239,892	11,817,146
	29,262,804	28,407,811
Current portion	(5,738,737)	(1,109,846)
	\$ 23,524,067	\$ 27,297,965

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

	<b>Principal Amount</b>	<b>Interest Receivable</b>	<b>Range of Interest Rates</b>	<b>Maturity Date</b>
June 30, 2006				
Step-up callable deposits				
Domestic deposits	\$ 4,000,000	\$ 27,016	1.40%-2.01%	June 2007 to March 2009
Callable range accrual deposits				
Domestic deposits	3,887,880	4,725	(See below)	September 2009 to December 2009
Foreign deposits	3,239,900	4,914	(See below)	October 2009 to January 2010
	\$ 11,127,780	\$ 36,655		
June 30, 2005				
Step-up callable deposits				
Domestic deposits	\$ 4,000,000	\$ 18,027	1.40%-2.44%	July 2006 to August 2007
Callable range accrual deposits				
Domestic deposits	3,794,160	8,266	(See below)	September 2009 to December 2009
Foreign deposits	3,161,800	11,971	(See below)	October 2009 to January 2010
	\$ 10,955,960	\$ 38,264		

The amount of interest earned by the Company for the callable range accrual deposits is based on a pre-defined range as determined by the 3-month or 6-month LIBOR plus an agreed upon rate ranging between 2.10% and 3.45%. Based

on the terms of the deposits, if the 3-month or 6-month LIBOR moves outside of the pre-defined range, the interest paid to the Company is at a fixed rate between zero and 1.5%. Under the terms of the contracts, the bank has the right to cancel the contracts prior to the maturity date.

As of June 30, 2006 and 2005, the principal of the deposits that resided in banks located in Hong Kong amounted to US\$80,000 thousand; those resided in banks located in Singapore amounted to US\$20,000 thousand.

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**8. INVENTORIES, NET**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Finished goods	\$ 4,298,472	\$ 2,746,425
Work in process	14,439,386	12,145,548
Raw materials	1,299,483	992,651
Supplies and spare parts	1,042,615	1,141,717
	21,079,956	17,026,341
Allowance for losses	(1,028,776)	(1,867,565)
	\$ 20,051,180	\$ 15,158,776

**9. FINANCIAL ASSETS CARRIED AT COST**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Non-publicly traded stocks	\$ 2,940,582	\$ 2,952,919
Funds	346,468	302,439
	\$ 3,287,050	\$ 3,255,358

**10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	<b>June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying Amount</b>	<b>% of Owner- ship</b>	<b>Carrying Amount</b>	<b>% of Owner- ship</b>
Vanguard International Semiconductor Corporation (VIS)	\$ 5,135,185	27	\$ 5,115,164	27
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	5,094,733	32	3,514,280	32
VisEra Holding Company (VisEra Holding)	781,221	48		
	\$ 11,011,139		\$ 8,629,444	

For the six months ended June 30, 2006 and 2005, net equity in earnings recognized from the equity method investees were NT\$1,249,875 thousand and NT\$623,046 thousand, respectively. The carrying amounts of the investments accounted for using the equity method and the related equity in earnings or losses of equity method investees were determined based on the audited financial statements of the investees as of and for the same periods as the Company.

**11. PROPERTY, PLANT AND EQUIPMENT**

Accumulated depreciation consisted of the following:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Land improvements	\$ 218,267	\$ 184,622
Buildings	50,653,432	42,260,855
Machinery and equipment	371,700,414	316,242,660
Office equipment	7,342,367	6,283,931
Leased assets	79,046	46,704
	<b>\$ 429,993,526</b>	<b>\$ 365,018,772</b>

No interest was capitalized during the six months ended June 30, 2006 and 2005.

**12. DEFERRED CHARGES, NET**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Technology license fees	\$ 4,809,479	\$ 5,929,347
Software and system design costs	1,552,297	2,114,718
Others	150,247	166,579
	<b>\$ 6,512,023</b>	<b>\$ 8,210,644</b>

**13. SHORT-TERM BANK LOANS**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Unsecured loan:		
US\$10,000 thousand, repayable by June 2006, annual interest at 3.61%	\$	\$ 316,180

**14. BONDS PAYABLE**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Domestic unsecured bonds:		
Issued in December 2000 and repayable in December 2005 and 2007 in two installments, 5.25% and 5.36% interest payable annually, respectively	\$ 4,500,000	\$ 15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three installments, 2.60%, 2.75% and 3.00% interest payable annually, respectively	15,000,000	15,000,000
	19,500,000	30,000,000
Current portion	(2,500,000)	(10,500,000)
	<b>\$ 17,000,000</b>	<b>\$ 19,500,000</b>



As of June 30, 2006, future principal repayments for the bonds were as follows:

<b>Year of Repayment</b>	<b>Amount</b>
2007	\$ 7,000,000
2009	8,000,000
2010 and thereafter	4,500,000
	\$ 19,500,000

## 15. LONG-TERM BANK LOANS

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Secured loan:		
US\$20,000 thousand, repayable by November 2010 in 5 payments, annual interest at 5.66%	\$ 648,123	\$
Unsecured loans:		
Science Park Administration (SPA) SOC loan, repayable by July 2008 in 20 installments, interest-free	6,265	9,050
SPA DSP loan, repayable by April 2007 in 20 installments, interest-free	2,705	5,409
US\$30,000 thousand, repaid in December 2005 before original maturities, annual interest at 3.60%		948,540
	657,093	962,999
Current portion	(5,489)	(5,489)
	\$ 651,604	\$ 957,510

As of June 30, 2006, assets of TSMC-Shanghai with an aggregate carrying amount of NT\$4,828,782 thousand (RMB1,191,409 thousand) were provided as collateral for the aforementioned secured loan. Pursuant to the loan agreement, the annual audited financial statements of TSMC-Shanghai must comply with certain financial covenants.

As of June 30, 2006, future principal repayments under the Company's long-term bank loans were as follows:

<b>Year of Repayment</b>	<b>Amount</b>
2006 (3 <sup>rd</sup> to 4 <sup>th</sup> quarter)	\$ 2,745
2007	4,137
2008	131,711
2009	259,250
2010	259,250
	\$ 657,093



**16. OTHER LONG-TERM PAYABLES**

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Payables for acquisition of property, plant and equipment (Note 28j)	\$ 7,008,392	\$ 6,376,813
Payables for royalties	2,398,726	3,061,573
	9,407,118	9,438,386
Current portion (classified under accrued expenses and other current liabilities)	(940,123)	(1,417,437)
	\$ 8,466,995	\$ 8,020,949

The payables for royalties were primarily attributable to several license arrangements that the Company entered into for certain semiconductor-related patents.

As of June 30, 2006, future payments for other long-term payables were as follows:

<b>Year of Payment</b>	<b>Amount</b>
2006 (3 <sup>rd</sup> to 4 <sup>th</sup> quarter)	\$ 493,300
2007	641,216
2008	335,006
2009	335,006
2010	335,006
2011 and thereafter	7,267,584
	\$ 9,407,118

**17. PENSION PLANS**

The Labor Pension Act (the Act) became effective on July 1, 2005. The employees of TSMC and GUC who were subject to the Labor Standards Law prior to July 1, 2005 were allowed to choose to be subject to the pension mechanism under the Act with their seniority as of July 1, 2005 retained or continue to be subject to the pension mechanism under the Labor Standards Law. Employees who joined TSMC and GUC after July 1, 2005 can only be subject to the pension mechanism under the Act.

The pension mechanism under the Act is deemed a defined contribution plan. Pursuant to the Act, TSMC and GUC have made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts starting from July 1, 2005. Furthermore, TSMC-NA and TSMC-Shanghai are required to make monthly contributions, at a certain percentage of the monthly basic salary of its local employees. Pursuant to the aforementioned Act and local regulations, the Company has made monthly contributions and recognized pension costs of NT\$342,329 thousand and NT\$20,334 thousand for the six months ended June 30, 2006 and 2005, respectively.

TSMC and GUC have defined benefit plans under the Labor Standards Law that provide benefits based on an employee's length of service and average monthly salary at retirement. TSMC and GUC contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds). The Funds are administered by the pension fund monitoring committees and deposited in the committees' names in the Central Trust of China.



Changes in the Funds and accrued pension cost under the defined benefit plans for the six months ended June 30, 2006 and 2005 are summarized as follows:

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>The Funds</b>		
Balance, beginning of period	\$ 1,669,102	\$ 1,435,609
Contributions	132,536	123,331
Interest	34,467	15,629
Payments	(4,677)	(8,419)
Balance, end of period	\$ 1,831,430	\$ 1,566,150
<b>Accrued pension cost</b>		
Balance, beginning of period	\$ 3,473,941	\$ 3,113,041
Accruals	21,601	310,849
Balance, end of period	\$ 3,495,542	\$ 3,423,890

#### **18. INCOME TAX**

a. A reconciliation of income tax expense based on income before income tax at statutory rates and income tax currently payable was as follows:

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Income tax expense based on income before income tax at statutory rate (25%)	\$ (18,266,397)	\$ (8,486,984)
Tax-exempt income	6,411,975	4,734,183
Temporary and permanent differences	1,144,388	(863,534)
Additional tax at 10% on unappropriated earnings	(1,170,031)	(1,495,145)
Cumulative effect of changes in accounting principles	82,062	
Net operating loss carryforwards	6,785	
Investment tax credits	7,462,975	5,896,073
Income tax currently payable	\$ (4,328,243)	\$ (215,407)

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

Income tax currently payable	\$ (4,328,243)	\$ (215,407)
Other income tax adjustments	445,618	39,554
Net change in deferred income tax assets		
Investment tax credits	(2,775,753)	2,534,406
Temporary differences	1,837,418	2,150,088
Net operating loss carryforwards	(865,927)	(409,319)
Adjustments in valuation allowance	1,551,490	(3,095,537)

Income tax benefit (expense)	\$ (4,135,397)	\$ 1,003,785
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c. Net deferred income tax assets (liabilities) consisted of the following:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Current deferred income tax assets, net		
Investment tax credits	\$ 6,104,899	\$ 5,347,938
Temporary differences	588,984	373,860
Net operating loss carryforwards	9,040	6,660
Valuation allowance	(444,660)	(319,575)
	<b>\$ 6,258,263</b>	<b>\$ 5,408,883</b>
Noncurrent deferred income tax assets, net		
Investment tax credits	\$ 15,196,138	\$ 23,190,292
Temporary differences	(3,882,178)	(5,659,538)
Net operating loss carryforwards	5,303,080	6,369,671
Valuation allowance	(9,188,312)	(17,561,705)
	<b>\$ 7,428,728</b>	<b>\$ 6,338,720</b>

As of June 30, 2006, the net operating loss carryforwards were generated by WaferTech, TSMC Development, TSMC Technology and GUC and will expire on various dates through 2026.

d. Integrated income tax information:

The balance of the imputation credit account (ICA) of TSMC as of June 30, 2006 and 2005 was NT\$743,590 thousand and NT\$15,569 thousand, respectively.

The expected and actual creditable ratio for distribution of TSMC's earnings of 2005 and 2004 was 2.88% and 0.11%, respectively.

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

e. All of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

f. As of June 30, 2006, the Company's investment tax credits consisted of the following:

<b>Regulation</b>	<b>Item</b>	<b>Total Creditable Amount</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 2,685,977	\$ 172	2006
		4,113,449	1,144,070	2007
		6,809,568	6,809,568	2008

6,049,452	6,049,452	2009
1,722,682	1,722,682	2010
\$ 21,381,128	\$ 15,725,944	

(Continued)

<b>Regulation</b>	<b>Item</b>	<b>Total Creditable Amount</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Statute for Upgrading Industries	Research and development expenditures	\$ 1,800,884	\$ 20,404	2006
		1,282,439	1,282,439	2007
		1,669,220	1,669,220	2008
		1,605,163	1,605,163	2009
		816,735	816,735	2010
		\$ 7,174,441	\$ 5,393,961	
Statute for Upgrading Industries	Personnel training	\$ 27,357	\$ 46	2006
		26,962	26,962	2007
		37,250	37,250	2008
		36,933	36,933	2009
		137	137	2010
		\$ 128,639	\$ 101,328	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 79,804	\$ 79,804	2010

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

	<b>Tax-Exemption Periods</b>
Construction of Fab 8 - module B	2002 to 2005
Expansion of Fab 2 - modules A and B, Fab 3 and Fab 4, Fab 5 and Fab 6	2003 to 2006
Construction of Fab 12	2004 to 2007

h. The tax authorities have examined income tax returns of TSMC through 2002.

#### **19. LABOR COST, DEPRECIATION AND AMORTIZATION**

	<b>Six Months Ended June 30, 2006</b>		
	<b>Classified as Cost of Sales</b>	<b>Classified as Operating Expenses</b>	<b>Total</b>
Labor cost			
Salary	\$ 6,081,251	\$ 3,231,766	\$ 9,313,017
Labor and health insurance	352,183	193,046	545,229
Pension	317,709	182,702	500,411

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Meal	228,844	84,037	312,881
Welfare	114,761	85,204	199,965
Others	104,187	138,639	242,826
	\$ 7,198,935	\$ 3,915,394	\$ 11,114,329
Depreciation	\$ 32,621,813	\$ 1,729,941	\$ 34,351,754
Amortization	\$ 725,722	\$ 532,234	\$ 1,257,956

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	<b>Six Months Ended June 30, 2005</b>		
	<b>Classified</b>		
	<b>as</b>		
	<b>Classified</b>	<b>as</b>	
	<b>Cost of</b>	<b>Operating</b>	
	<b>Sales</b>	<b>Expenses</b>	<b>Total</b>
Labor cost			
Salary	\$ 5,001,599	\$ 3,028,345	\$ 8,029,944
Labor and health insurance	306,336	154,502	460,838
Pension	300,353	150,980	451,333
Meal	208,373	76,789	285,162
Welfare	72,674	42,701	115,375
Others	54,134	137,290	191,424
	<b>\$ 5,943,469</b>	<b>\$ 3,590,607</b>	<b>\$ 9,534,076</b>
Depreciation	\$ 34,223,394	\$ 1,589,927	\$ 35,813,321
Amortization	\$ 814,085	\$ 1,350,140	\$ 2,164,225

## 20. SHAREHOLDERS EQUITY

The Company has issued a total of 863,834 thousand ADSs which are traded on the NYSE as of June 30, 2006. The number of common shares represented by the ADSs is 4,319,169 thousand (one ADS represents five common shares). Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which is limited to a certain percentage of the paid-in capital of TSMC.

Capital surplus consisted of the following:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
From merger	\$ 24,003,546	\$ 24,003,546
Additional paid-in capital	19,788,594	23,139,481
From convertible bonds	9,360,424	9,360,424
From treasury stock transactions	389,188	91,241
From long-term investments	280,679	126,128
Donations	55	55
	<b>\$ 53,822,486</b>	<b>\$ 56,720,875</b>

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

- a. Legal capital reserve at 10% of the net profits left over, until the accumulated legal capital reserve has equaled TSMC's paid-in capital;

- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;

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c. Bonus to directors and supervisors and bonus to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors and supervisors. TSMC may issue stock bonuses to employees of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;

d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting. The Articles of Incorporation also stipulate that profits of TSMC may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are recorded in the year of shareholder approval and given effect to in the financial statements of that year.

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

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

The appropriations of earnings for 2005 and 2004 had been approved in the shareholders' meetings held on May 16, 2006 and May 10, 2005, respectively. The appropriations and dividends per share were as follows:

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

The amounts of the above appropriations of earnings for 2005 and 2004 are consistent with the resolutions of the meetings of the Board of Directors held on February 14, 2006 and February 22, 2005, respectively. If the above

bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2005 and 2004, the basic earnings per share (after income tax) for the years ended December 31, 2005 and 2004 would have decreased from NT\$3.79 to NT\$3.50 and NT\$3.97 to NT\$3.70, respectively.

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

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

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

## 21. STOCK-BASED COMPENSATION PLANS

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

Options of the aforementioned TSMC Plans that had never been granted or had been granted but subsequently canceled had expired as of June 30, 2006.

Information about TSMC's outstanding stock options for the six months ended June 30, 2006 and 2005 was as follows:

	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
Six months ended June 30, 2006		
Balance, beginning of period	67,758	\$39.4
Options granted	2,517	39.7
Options exercised	(8,219)	39.7
Options canceled	(2,304)	44.5
Balance, end of period	59,752	39.6
Six months ended June 30, 2005		
Balance, beginning of period	64,367	40.5
Options granted	14,864	48.4
Options exercised	(2,941)	39.9
Options canceled	(2,931)	42.7

Balance, end of period	73,359	42.1
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The number of outstanding options and exercise prices have been adjusted to reflect the appropriations of dividends in accordance with the plans.

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As of June 30, 2006, information about TSMC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Number of Options (in Thousands)	Options Outstanding		Options Exercisable	
		Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options (in Thousands)	Weighted-average Exercise Price (NT\$)
\$27.6-\$39.7	39,415	5.64	\$ 35.6	29,458	\$ 35.6
\$45.1-\$52.3	20,337	7.34	47.3	312	45.5
	59,752			29,770	

GUC's Employee Stock Option Plans, consisting of GUC 2003 Plan and GUC 2002 Plan, were approved by its Board of Directors on January 23, 2003 and July 1, 2002, respectively. The maximum number of options authorized to be granted under the GUC 2003 Plan and GUC 2002 Plan was 7,535 and 5,000, respectively, with each option eligible to subscribe for one thousand common shares when exercisable. The options may be granted to qualified employees of GUC. The options of all the plans are valid for six years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Moreover, GUC 2006 Plan and GUC 2004 Plan were approved by the SFB on July 3, 2006 and August 16, 2004 to grant a maximum of 3,665 options and 2,500 options, respectively, with each option eligible to subscribe for one thousand common shares when exercisable. The options may be granted to qualified employees of GUC or any of its subsidiaries. The options of the GUC 2006 Plan are valid until August 15, 2011 and the options of the GUC 2004 Plan are valid for six years. Options of both Plans are exercisable at certain percentages subsequent to the second anniversary of the grant date.

Options of the aforementioned GUC Plans, except those of the GUC 2006 Plan, that had never been granted, or had been granted but subsequently canceled had expired as of June 30, 2006.

Information about GUC's outstanding stock options for the six months ended June 30, 2006 and 2005 was as follows:

	Number of Options	Weighted-average Exercise Prices (NT\$)
Six months ended June 30, 2006		
Balance, beginning of period	7,132	\$ 10.66
Options exercised	(629)	10.50
Options canceled	(216)	10.90
Balance, end of period	6,287	10.66

Six months ended June 30, 2005

Balance, beginning of period	7,889	10.50
Options exercised	(1,959)	10.50
Options canceled	(447)	10.50
Balance, end of period	5,483	10.50

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As of June 30, 2006, information about GUC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Number of Options	Options Outstanding		Options Exercisable	
		Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (NT\$)
\$10.5-\$11.0	6,287	2.08-5.25	\$ 10.7	596	\$ 10.5

No compensation cost was recognized under the intrinsic value method for the six months ended June 30, 2006 and 2005. Had the Company used the fair value based method (based on the Black-Scholes model) to evaluate the options granted after January 1, 2004, the assumptions and pro forma results of the Company for the six months ended June 30, 2006 and 2005 would have been as follows:

		2006	2005
Assumptions:			
TSMC	Expected dividend yield	1.00%-3.44%	1.00%-3.44%
	Expected volatility	43.77%-46.15%	43.77%-46.15%
	Risk free interest rate	3.07%-3.85%	3.07%-3.85%
	Expected life	5 years	5 years
GUC	Expected dividend yield		
	Expected volatility	22.65%-41.74%	38.74%-41.74%
	Risk free interest rate	2.56%	2.56%
	Expected life	6 years	6 years
Net income attributable to shareholders of the parent:			
As reported		\$66,608,628	\$35,187,334
Pro forma		66,551,357	35,140,555
Consolidated earnings per share (EPS) after income tax (NT\$):			
Basic EPS as reported		\$2.58	\$1.37
Pro forma basic EPS		2.58	1.36
Diluted EPS as reported		2.58	1.37
Pro forma diluted EPS		2.58	1.36

## 22. TREASURY STOCK

(Shares in Thousands)

	Beginning Shares	Increase/ Dividend	Disposal	Ending Shares
Six months ended June 30, 2006				
Parent company stock held by subsidiaries	32,938	988		33,926

Six months ended June 30, 2005

Parent company stock held by subsidiaries	45,521	2,242	901	46,862
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Proceeds from sales of treasury stock for the six months ended June 30, 2005 were NT\$49,364 thousand. As of June 30, 2006 and 2005, the book value of the treasury stock was NT\$918,075 thousand and NT\$1,552,573 thousand, respectively; the market value was NT\$1,952,452 thousand and NT\$2,648,643 thousand, respectively. TSMC's stock held by its subsidiaries is treated as treasury stock and the holders are entitled to the rights of shareholders, except that starting from June 24, 2005, pursuant to the revised Company Law, the holders are no longer entitled to vote in shareholders' meetings.

### 23. CONSOLIDATED EARNINGS PER SHARE

	For the Six Months Ended June 30			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Consolidated basic EPS (NT\$)				
Income before cumulative effect of changes in accounting principles attributable to shareholders of the parent	\$ 2.68	\$ 2.52	\$ 1.33	\$ 1.37
Cumulative effect of changes in accounting principles attributable to shareholders of the parent	0.06	0.06		
Income attributable to shareholders of the parent	\$ 2.74	\$ 2.58	\$ 1.33	\$ 1.37
Consolidated diluted EPS (NT\$)				
Income before cumulative effect of changes in accounting principles attributable to shareholders of the parent	\$ 2.68	\$ 2.52	\$ 1.33	\$ 1.37
Cumulative effect of changes in accounting principles attributable to shareholders of the parent	0.06	0.06		
Income attributable to shareholders of the parent	\$ 2.74	\$ 2.58	\$ 1.33	\$ 1.37

Consolidated EPS for the six months ended June 30, 2006 and 2005 is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (in Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Six months ended June 30, 2006					
Consolidated basic EPS					
Income attributable to shareholders of the parent	\$ 70,661,864	\$ 66,608,628	25,784,890	\$ 2.74	\$ 2.58

Effect of dilutive potential common stock    stock options			23,529		
Consolidated diluted EPS Income attributable to shareholders of the parent (including effect of dilutive potential common stock)	\$ 70,661,864	\$ 66,608,628	25,808,419	\$ 2.74	\$ 2.58
Six months ended June 30, 2005					
Consolidated basic EPS Income attributable to shareholders of the parent	\$ 34,177,232	\$ 35,187,334	25,759,865	\$ 1.33	\$ 1.37
Effect of dilutive potential common stock    stock options			10,032		
Consolidated diluted EPS Income attributable to shareholders of the parent (including effect of dilutive potential common stock)	\$ 34,177,232	\$ 35,187,334	25,769,897	\$ 1.33	\$ 1.37

**24. DISCLOSURES FOR FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

	June 30			
	2006			2005
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Financial assets at fair value through profit or loss (excluding derivatives)	\$ 1,648,234	\$ 1,648,234	\$ 193,709	\$ 1,042,040
Available-for-sale financial assets	67,385,610	67,385,610	48,323,408	48,432,034
Held-to-maturity financial assets	29,262,804	28,857,510	28,407,811	28,299,261
Investments accounted for using equity method (with market price)	5,135,185	9,613,553	5,115,164	12,449,270
<b>Liabilities</b>				
Forward exchange contracts, net	9,442	9,442	44,882	41,381
Cross currency swap contracts, net	269,188	269,188	674,894	452,530
Bonds payable (including current portion)	19,500,000	19,888,147	30,000,000	30,429,929
Long-term bank loans (including current portion)	657,093	657,093	962,999	962,999
Other long-term payables (including current portion)	10,492,484	10,492,484	11,165,519	11,165,519

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, short-term bank loans, payables, and payables to contractors and equipment suppliers. The carrying amounts of these financial instruments approximate their fair values.
- 2) Fair values of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity financial assets other than derivatives and structured deposits were based on their quoted market prices.
- 3) Fair values of derivatives and structured deposits were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Fair value of bonds payable was based on their quoted market price.
- 5) The fair value of long-term bank loans and other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.

c. Losses recognized for the changes in fair value of derivatives estimated using valuation techniques were NT\$770,634 thousand for the six months ended June 30, 2006.

d. As of June 30, 2006 and 2005, financial assets exposed to fair value interest rate risk were NT\$96,561,617 thousand and NT\$76,801,791 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$601,086 thousand and NT\$841,617 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT\$7,127,780 thousand and NT\$6,955,960 thousand, respectively.

- e. The Company recognized an unrealized gain of NT\$107,228 thousand (NT\$102,614 thousand attributable to shareholders of the parent and NT\$4,614 thousand attributable to minority interests) in shareholder's equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006. The Company also recognized an unrealized gain of NT\$13,940 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets held by equity method investees for the six months ended June 30, 2006.

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f. Information about financial risk

- 1) Market risk. The publicly-traded stocks categorized as financial assets at fair value through profit or loss are exposed to the market risk. The derivative financial instruments categorized as financial assets at fair value through profit or loss are mainly used to hedge the exchange rate fluctuations of foreign-currency-denominated assets and liabilities. Therefore, the market risk (exchange rate risk) of derivatives will be offset by the exchange rate risk of these assets and liabilities. Available-for-sale financial assets held by the Company are mainly fixed-interest-rate debt securities. Therefore, the fluctuations in market interest rates would result in changes in fair value of these debt securities.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes its exposure to default by those parties is low.
- 3) Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments, bonds payable and loans. Therefore, the cash flow risk is low.
- 4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

**25. RELATED PARTY TRANSACTIONS**

Except as disclosed in the consolidated financial statements and other notes, the following is a summary of significant related party transactions:

- a. Industrial Technology Research Institute (ITRI), the chairman of TSMC is one of ITRI's supervisors
- b. Philips, a major shareholder of TSMC
- c. Investees of TSMC

VIS (accounted for using equity method)

SSMC (accounted for using equity method)

- d. Indirect investee

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

XinTec Corporation (XinTec), the chairman of VisEra was previously one of Xintec's directors. Because VisEra has not been a consolidated entity of the Company since November 2005, XinTec is no longer considered a related party.

- e. Omnivision International Holding, Ltd. (Omnivision), originally a shareholder holding a 25% ownership in VisEra. Because VisEra has not been a consolidated entity of the Company since November 2005, Omnivision is no longer considered a related party.
- f. Huawei Semiconductor (Shanghai) Co., Ltd. (Huawei), same president as VisEra. However, because VisEra has not been a consolidated entity of the Company since in November 2005, Huawei is no longer considered a

related party.



	2006		2005	
	Amount	%	Amount	%
Six months ended June 30				
Sales				
Philips	\$ 2,318,898	1	\$ 1,147,115	1
Omnivision			1,268,365	1
Others	95,062		45,689	
	\$ 2,413,960	1	\$ 2,461,169	2
Purchases				
SSMC	\$ 3,718,466	5	\$ 2,094,617	3
VIS	1,712,082	2	2,168,998	3
XinTec			321,924	1
Others			86,739	
	\$ 5,430,548	7	\$ 4,672,278	7
Manufacturing expenses technical assistance fees				
Philips (see Note 28a)	\$ 377,952		\$ 202,334	
Non-operating income and gains				
SSMC (primarily technical service income; see Note 28e)	\$ 147,219	3	\$ 146,655	3
VisEra	140,079	2		
VIS (primarily technical service income; see Note 28h)	105,937	2	77,504	2
	\$ 393,235	7	\$ 224,159	5
As of June 30				
Receivables				
Philips	\$ 382,251	99	\$ 467,843	63
Omnivision			266,276	36
Others	5,137	1	6,083	1
	\$ 387,388	100	\$ 740,202	100

Other receivables				
VIS	\$	688,807	86	\$ 46,399 29
SSMC		92,700	12	115,460 71
VisEra		17,376	2	
	\$	798,883	100	\$ 161,859 100

(Continued)

	2006		2005	
	Amount	%	Amount	%
Payables				
SSMC	\$ 943,129	59	\$ 883,144	71
VIS	662,385	41	284,080	23
XinTec			45,308	4
Huawei			26,790	2
	\$ 1,605,514	100	\$ 1,239,322	100
Other long-term payables				
Philips (see Note 28a)	\$ 1,085,366	100	\$ 1,727,133	100
Deferred credits				
VisEra	\$ 155,437	13	\$	

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

The Company leased certain buildings and facilities to VisEra at a monthly rental of NT\$7,684 (classified under the non-operating income and gains). Furthermore, the Company deferred the gains (classified under deferred credits) derived from sales of property, plant and equipment to VisEra, and then recognized (or will recognize) such gains (classified under non-operating income and gains) over the depreciable lives of the disposed assets.

## 26. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the SPA. These operating leases expire on various dates from March 2008 to December 2021 and can be renewed upon expiration.

The Company entered into lease agreements for its office premises and certain equipment located in the North America and Japan. These operating leases expire between 2010 and 2011 and can be renewed upon expiration.

As of June 30, 2006, future lease payments were as follows:

	Year	Amount
2006 (3 <sup>rd</sup> to 4 <sup>th</sup> quarter)		\$ 189,234
2007		359,990
2008		337,423
2009		332,109
2010		265,747
2011 and thereafter		1,129,247
		\$ 2,613,750



## 27. SETTLEMENT INCOME

The Company filed a series of lawsuits in late 2003 and 2004 against Semiconductor Manufacturing International Corporation (SMIC), SMIC (Shanghai) and SMIC Americas. The lawsuits alleged that SMIC companies infringed multiple the Company's patents and misappropriated the Company's trade secrets. These suits were settled out of court on January 30, 2005. As part of the settlement, SMIC shall pay the Company US\$175,000 thousand over six years to resolve the Company's claims. As of June 30, 2006, SMIC has paid US\$45,000 thousand in accordance with the terms of this settlement agreement.

## 28. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of June 30, 2006, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, the Company and Philips amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between the Company and Philips will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, the Company will pay Philips royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the Company's annual net sales. The Company and Philips agreed to cross license the patents owned by each party. The Company also obtained through Philips a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of June 30, 2006, the Company had a total of US\$102,966 thousand of guarantee deposits.
- d. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. The Company and Philips committed to buy specific percentages of the production capacity of SSMC. The Company and Philips are required, in the aggregate, to purchase up to 70% of SSMC's full capacity, but the Company alone is not required to purchase more than 28% of the annual installed capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. The Company provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling price of all products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each unless pre-terminated by either party under certain conditions.

- f. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives written notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated. Under the Termination Agreement, the Company will be relieved of any further obligation to transfer any additional technology. In addition, the Company granted National an option to request the transfer of certain technologies under the same terms and conditions as the terminated TTA. The option will expire in January 2008.
- g. In December 2003, the Company entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. The Company will also license related 90-nm SOI technology from Freescale Semiconductor, Inc. Any intellectual properties arising out of the co-development project shall be jointly owned by the parties. In accordance with the agreement, the Company will pay royalties to Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- h. The Company provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into on April 1, 2004. The Company receives compensation for such technology transfer in the form of royalty payments from VIS computed at specific percentages of net selling price of certain products sold by VIS. VIS agreed to reserve its certain capacity to manufacture for the Company certain products at prices as agreed by the parties.
- i. Effective January 1, 2006, the Company entered into the Joint Technology Cooperation Agreement with Philips, Freescale Semiconductor, Inc. and STMicroelectronics to jointly develop 45-nm and beyond advanced CMOS Logic and e-DRAM technologies. The Company will contribute process technologies and share a portion of the costs associated with this joint development project. This agreement will expire on December 31, 2008.
- j. TSMC-Shanghai entered into an agreement with a certain foreign company. In accordance with the agreement, TSMC-Shanghai is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. If the purchase is not completed, TSMC-Shanghai is obligated to compensate the counterparty for the loss incurred.
- k. Amounts available under unused letters of credit as of June 30, 2006 were NT\$6,480 thousand.

## 29. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for TSMC and its investees:

- a. Financing provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held: Please see Table 3 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;

- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital:  
None;

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- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 8 attached;
- j. Information on investment in Mainland China
  - 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investment: Please see Table 9 attached.
  - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in mainland China on financial reports: Please see Table 10 attached.
- k. Intercompany relationships and significant intercompany transactions: Please see Table 10 attached.

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**TABLE 1**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**FINANCING PROVIDED**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**  
**(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Financing No.	Name of Center-Account	Maximum		Type of Financing (Note 1)	Reason for Short-term Financing Amounts	Allowance for Doubtful Collateral Value	Financing Limit for Each Company	Financing Company's Financing Amount Limits (US\$ in Thousands)
		Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)					
1	Internal Development TSMC TSMC Other	\$ 1,133,965 (US\$35,000)	\$ 1,33,965	2	Operating capital	\$	N/A	\$ 32,009,175 (US\$987,968) (Note 2)

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

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

**TABLE 2**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**ENDORSEMENT/GUARANTEE PROVIDED**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**  
**(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Endorsement/ Guarantee Provider	Counter-party Name	Nature of Relationship (Note 2)	Limits on Each Counter-party s Endorsement/ Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Plant and Equipment	Ratio
							of Accumulated Amount of Collateral Value to Net of Equity Collateral Property, Latest Financial Statement
	TSMC-North America	2	Not exceed 10% of the net worth of the Company, and be also limited to the paid-in capital of the endorsement/guarantee company, unless otherwise approved by Board of Directors.	\$ 1,314,000 (US\$40,000)	\$	\$	\$
	TSMC Development	3		1,943,940 (US\$60,000)	1,943,940 (US\$60,000)		0.44%

Note 1: 25% of the net worth of the Company as of June 30, 2006.

Note 2: The No. 2 represents a subsidiary in which the Company holds directly over 50% of the equity interest.

The No. 3 represents an investee in which the Company holds directly and indirectly over

50% of the  
equity interest.

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**TABLE 3****Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries  
MARKETABLE SECURITIES HELD****JUNE 30, 2006****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)****June 30, 2006**

<b>Marketable Securities Type and Name</b>	<b>Relationship with the Company</b>	<b>Financial Statement Account</b>	<b>Shares/Units (in Thousands)</b>	<b>Carrying Value (US\$ in Thousands)</b>	<b>Percentage of Ownership</b>
Government bond					
United States Treas NTS		Available-for-sale financial assets		US\$ 118,345	N/A
004 Government Bond Series B		"		\$ 997,583	N/A
005 Government Bond Series A		Held-to-maturity financial assets		2,749,071	N/A
006 Government Bond Series D		"		999,583	N/A
004 Kaohsiung Municipal Series A		"		620,000	N/A
European Investment Bank Bonds		"		368,482	N/A
002 Government Bond Series B		"		353,208	N/A
003 Government Bond Series F		"		149,548	N/A
Beneficiary certificates of open-end funds					
WITC Bond Fund		Available-for-sale financial assets	22,219	3,630,743	N/A
ABN AMRO Bond Fund		"	175,156	2,620,910	N/A
Prudential Financial Bond Fund		"	103,751	1,505,992	N/A
Cathay Bond		"	122,762	1,406,342	N/A
WITC Taiwan Bond		"	93,312	1,305,711	N/A
ABN AMRO Select Bond Fund		"	111,974	1,260,332	N/A
Dresdner Bond DAM Fund		"	104,217	1,199,200	N/A
W F Taiwan Bond Fund		"	75,286	1,140,778	N/A
President James Bond		"	72,002	1,103,437	N/A
W F Taiwan First Bond Fund		"	77,530	1,082,117	N/A
Chinkong Chi Shin Bond Fund		"	72,680	1,034,238	N/A
ABN AMRO Income		"	63,947	1,004,697	N/A
Huhwa Albatross Fund		"	89,510	1,003,570	N/A
Huh Hwa Bond		"	60,642	802,844	N/A
HSBC Taiwan Money Management		"	40,864	602,784	N/A
Caishin Lucky Fund		"	54,132	551,429	N/A
WIM High Yield		"	40,639	500,864	N/A
WVESCO Income Fund		"	35,359	401,136	N/A

(Continued)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	June 30, 2006		Market Value or Net Asset Value (US\$ in Thousands)
				Carrying Value (US\$ in Thousands)	Percentage of Ownership	
SMC International	Subsidiary	Investments accounted for using equity method	987,968	\$25,984,419	100	\$25,984,419
SMC	Equity method investee	"	382	5,094,733	32	5,094,733
SMC	Equity method investee	"	437,891	5,087,101	27	9,567,101
SMC Partners	Subsidiary	"	300	4,225,071	100	4,225,071
SMC-North America	Subsidiary	"	11,000	1,790,365	100	1,790,365
SMC	Investee over which the company had a controlling interest	"	40,147	447,762	45	462,762
SMC-Japan	Subsidiary	"	6	96,536	100	96,536
SMC-Europe	Subsidiary	"		36,909	100	36,909
SMC-Korea	Subsidiary	"	80	13,752	100	13,752
United Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584	10	285,584
Chin-Etsu Handotai Taiwan Co., Ltd.		"	10,500	105,000	7	194,000
Montung Venture Capital Co., Ltd.		"	8,392	83,916	10	53,916
Globaltop Partner I Venture Capital Corp.		"	5,000	50,000	1	50,000
Globaltop Technology Fund IV		"	4,000	40,000	2	50,000
SMC-Shanghai	Subsidiary	Investments accounted for using equity method		9,093,788	100	9,093,788

Emerging Alliance	Subsidiary	"	1,050,087	100	1,050,087
TAF II	Subsidiary	"	707,835	98	707,835
TAF III	Subsidiary	"	145,055	98	145,055
Cheng	Subsidiary	"	113,574	36	113,574

sin Ruey	Subsidiary	"	113,246	36	113,246
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Agency bond							
Fixed Hm Ln Pc Pool 1h2520	Available-for-sale financial assets		US\$ 3,348	N/A	US\$ 3,348		
Fixed Hm Ln Pc Pool 1h2524	"		US\$ 2,575	N/A	US\$ 2,575		
Fixed Hm Ln Pc Pool 781959	"		US\$ 6,640	N/A	US\$ 6,640		
Fixed Hm Ln Pc Pool E89857	"		US\$ 1,680	N/A	US\$ 1,680		
Fixed Hm Ln Pc Pool G11295	"		US\$ 1,492	N/A	US\$ 1,492		
Fixed Hm Ln Pc Pool M80855	"		US\$ 3,520	N/A	US\$ 3,520		

(Continued)

				June 30, 2006		
				Carrying	Percentage	Market
				Value	of	Value on
				(in US\$ in	Ownership	Net Assets
Company	Relationship with the	Financial Statement	Shares/Units	Value	of	Value
Name	Marketable Securities Type and Name	Company	Account	Thousand	Thousand	Thousand
			(in US\$ in	Thousand	Thousand	Thousand
	Federal Home Ln Mtg		Available-for-sale financial assets	US\$3,420	N/A	US\$3,420
	Federal Home Ln Mtg Corp.		"	US\$2,786	N/A	US\$2,786
	Federal Home Ln Mtg Corp.		"	US\$3,916	N/A	US\$3,916
	Federal Home Ln Mtg Corp.		"	US\$4,665	N/A	US\$4,665
	Federal Home Ln Mtg Corp.		"	US\$4,897	N/A	US\$4,897
	Federal Home Ln Mtg Corp.		"	US\$2,278	N/A	US\$2,278
	Federal Home Ln Mtg Corp.		"	US\$4,117	N/A	US\$4,117
	Federal Home Ln Mtg Corp.		"	US\$3,671	N/A	US\$3,671
	Federal Home Ln Mtg Corp.		"	US\$1,426	N/A	US\$1,426
	Federal Home Ln Mtg Corp.		"	US\$9,168	N/A	US\$9,168
	Federal Home Ln Mtg Corp.		"	US\$4,182	N/A	US\$4,182
	Federal Home Ln Mtg Corp.		"	US\$3,358	N/A	US\$3,358
	Federal Home Ln Mtg Corp.		"	US\$3,347	N/A	US\$3,347
	Federal Home Ln Mtg Corp.		"	US\$3,834	N/A	US\$3,834
	Federal Home Ln Mtg Corp.		"	US\$4,956	N/A	US\$4,956
	Federal Home Loan Mtg		"	US\$5,009	N/A	US\$5,009
	Federal Natl Mtg Assn		"	US\$3,193	N/A	US\$3,193
	Federal Natl Mtg Assn		"	US\$1,035	N/A	US\$1,035
	Federal Natl Mtg Assn		"	US\$3,673	N/A	US\$3,673
	Federal Natl Mtg Assn		"	US\$3,256	N/A	US\$3,256
	Federal Natl Mtg Assn		"	US\$1,976	N/A	US\$1,976
	Federal Natl Mtg Assn		"	US\$1,085	N/A	US\$1,085
	Federal Natl Mtg Assn Gtd		"	US\$2,403	N/A	US\$2,403
	Federal Natl Mtg Assn Gtd		"	US\$2,915	N/A	US\$2,915
	Fnma Pool 254507		"	US\$1,867	N/A	US\$1,867
	Fnma Pool 254834		"	US\$1,527	N/A	US\$1,527
	Fnma Pool 255883		"	US\$3,538	N/A	US\$3,538
	Fnma Pool 685116		"	US\$ 635	N/A	US\$ 635
	Fnma Pool 687863		"	US\$2,979	N/A	US\$2,979
	Fnma Pool 696485		"	US\$3,533	N/A	US\$3,533
	Fnma Pool 725095		"	US\$1,315	N/A	US\$1,315
	Fnma Pool 730033		"	US\$1,581	N/A	US\$1,581
	Fnma Pool 740934		"	US\$1,540	N/A	US\$1,540
	Fnma Pool 790828		"	US\$2,965	N/A	US\$2,965
	Fnma Pool 793025		"	US\$2,761	N/A	US\$2,761
	Fnma Pool 793932		"	US\$ 664	N/A	US\$ 664
	Fnma Pool 794040		"	US\$ 832	N/A	US\$ 832
	Fnma Pool 795548		"	US\$ 501	N/A	US\$ 501
	Fnma Pool 806642		"	US\$1,401	N/A	US\$1,401
	Fnma Pool 815626		"	US\$3,272	N/A	US\$3,272









		June 30, 2006				
		Carrying		Percentage		
Company	Relationship with the	Financial Statement	Shares/Units	Value	of	Net Asset
Name	Marketable Securities Type and Name	Company	(in	(US\$ in	Ownership	Value
		Account	Thousand	Thousand	Percentage	(US\$ in
						Thousand
	Federal Natl Mtg Assn	Available-for-sale	US\$ 5,847	N/A	US\$ 5,847	
		financial assets				
	Federal Natl Mtg Assn	"	US\$ 7,763	N/A	US\$ 7,763	
	Federal Natl Mtg Assn	"	US\$ 19,565	N/A	US\$ 19,565	
	Federal Natl Mtg Assn	"	US\$ 4,104	N/A	US\$ 4,104	
	Federal Natl Mtg Assn	"	US\$ 10,413	N/A	US\$ 10,413	
	Federal Natl Mtg Assn	"	US\$ 7,963	N/A	US\$ 7,963	
	Federal Natl Mtg Assn Mtn	"	US\$ 2,873	N/A	US\$ 2,873	
	Federal Natl Mtg Assn Mtn	"	US\$ 2,852	N/A	US\$ 2,852	
	Federal Natl Mtg Assn Mtn	"	US\$ 5,553	N/A	US\$ 5,553	
	Freddie Mac	"	US\$ 9,273	N/A	US\$ 9,273	
	Corporate issued asset-backed securities					
	American Home Mtg Invt Tr	Available-for-sale	US\$ 266	N/A	US\$ 266	
		financial assets				
	Americredit Auto Rec Tr	"	US\$ 996	N/A	US\$ 996	
	Americredit Automobile Rec Tr	"	US\$ 690	N/A	US\$ 690	
	Americredit Automobile Rec Tr	"	US\$ 1,983	N/A	US\$ 1,983	
	Americredit Automobile Rec Tr	"	US\$ 2,591	N/A	US\$ 2,591	
	Americredit Automobile Receiva	"	US\$ 4,942	N/A	US\$ 4,942	
	Americredit Automobile Receivb	"	US\$ 4,021	N/A	US\$ 4,021	
	Atlantic City Elc Trns Fdglc	"	US\$ 548	N/A	US\$ 548	
	Banc Amer Coml Mtg Inc.	"	US\$ 3,327	N/A	US\$ 3,327	
	Banc Amer Mtg Secs Inc.	"	US\$ 1,840	N/A	US\$ 1,840	
	Bank Of Amer Lease Equip Tr	"	US\$ 1,943	N/A	US\$ 1,943	
	Bear Stearns Alt A Tr	"	US\$ 788	N/A	US\$ 788	
	Bear Stearns Arm Tr	"	US\$ 3,635	N/A	US\$ 3,635	
	Bear Stearns Arm Tr	"	US\$ 1,906	N/A	US\$ 1,906	
	Bear Stearns Coml Mtg Secs Inc.	"	US\$ 6,362	N/A	US\$ 6,362	
	California Infrastructure Dev	"	US\$ 180	N/A	US\$ 180	
	Capital Auto Receivables Asset	"	US\$ 3,217	N/A	US\$ 3,217	
	Capital One Auto Fin Tr	"	US\$ 2,599	N/A	US\$ 2,599	
	Capital One Auto Fin Tr	"	US\$ 2,968	N/A	US\$ 2,968	
	Capital One Auto Fin Tr	"	US\$ 4,979	N/A	US\$ 4,979	
	Capital One Multi Asset Execut	"	US\$ 4,815	N/A	US\$ 4,815	
	Capital One Multi Asset Execut	"	US\$ 3,904	N/A	US\$ 3,904	
	Capital One Multi Asset Execut	"	US\$ 2,933	N/A	US\$ 2,933	
	Capital One Prime Auto Receiv	"	US\$ 2,767	N/A	US\$ 2,767	
	Caterpillar Finl Asset Tr	"	US\$ 2,783	N/A	US\$ 2,783	
	Caterpillar Finl Asset Tr	"	US\$ 8,059	N/A	US\$ 8,059	
	Cendant Rent Car Fdg Aesop LLC	"	US\$ 9,186	N/A	US\$ 9,186	

Centex Home Equity Ln Tr

"

US\$ 336 N/A US\$ 33

(Continued)

				June 30, 2006		
				Carrying	Percentage	Market
				Value	of	Value on
				(in US\$ in	Ownership	Net Asset
Company	Relationship with the	Financial Statement	Shares/Units	Value		Value
Name	Marketable Securities Type and Name	Company	Account	Thousand	Thousand	Thousand
				(in US\$ in	(in US\$ in	(US\$ in
	Cit Equip Coll Tr		Available-for-sale financial assets	US\$3,291	N/A	US\$3,291
	Cit Equip Coll Tr		"	US\$3,941	N/A	US\$3,941
	Citibank Cr Card Issuance Tr		"	US\$9,739	N/A	US\$9,739
	Citicorp Mtg Secs		"	US\$ 682	N/A	US\$ 682
	Cnh Equip Tr		"	US\$3,778	N/A	US\$3,778
	Credit Suisse First Boston Mtg		"	US\$4,752	N/A	US\$4,752
	Credit Suisse First Boston Mtg		"	US\$ 953	N/A	US\$ 953
	Credit Suisse First Boston Mtg		"	US\$3,715	N/A	US\$3,715
	Credit Suisse First Boston Mtg		"	US\$3,554	N/A	US\$3,554
	Cwabs Inc.		"	US\$ 414	N/A	US\$ 414
	Cwabs Inc.		"	US\$1,280	N/A	US\$1,280
	Cwabs Inc.		"	US\$2,175	N/A	US\$2,175
	Cwalt Inc.		"	US\$ 243	N/A	US\$ 243
	Cwmbs Inc.		"	US\$1,054	N/A	US\$1,054
	Daimlerchrysler Auto Tr		"	US\$2,933	N/A	US\$2,933
	Deere John Owner Tr		"	US\$2,425	N/A	US\$2,425
	Drive Auto Receivables Tr		"	US\$3,174	N/A	US\$3,174
	Fifth Third Auto Tr		"	US\$1,543	N/A	US\$1,543
	First Horizon Abs Tr		"	US\$ 712	N/A	US\$ 712
	First Union Lehman Bros Mtg Tr		"	US\$2,180	N/A	US\$2,180
	Ford Cr Auto Owner Tr		"	US\$2,826	N/A	US\$2,826
	Granite Mtgs Plc		"	US\$2,398	N/A	US\$2,398
	Gs Auto Ln Tr		"	US\$ 746	N/A	US\$ 746
	Gs Mtg Secs Corp.		"	US\$4,124	N/A	US\$4,124
	Gsamp Tr		"	US\$4,232	N/A	US\$4,232
	Harley Davidson Motorcycle Tr		"	US\$ 781	N/A	US\$ 781
	Harley Davidson Motorcycle Tr		"	US\$5,783	N/A	US\$5,783
	Hertz Veh Fing LLC		"	US\$5,256	N/A	US\$5,256
	Holmes Fing No 8 Plc		"	US\$5,002	N/A	US\$5,002
	HSBC Automotive Tr		"	US\$2,962	N/A	US\$2,962
	Hyundai Auto Receivables Tr		"	US\$6,328	N/A	US\$6,328
	Hyundai Auto Receivables Tr		"	US\$3,186	N/A	US\$3,186
	Hyundai Auto Receivables Tr		"	US\$3,886	N/A	US\$3,886
	Impac Cmb Tr		"	US\$ 494	N/A	US\$ 494
	Impac Cmb Tr		"	US\$ 371	N/A	US\$ 371
	Impac Secd Assets Corp.		"	US\$ 43	N/A	US\$ 43
	Lb Ubs Coml Mtg Tr		"	US\$3,747	N/A	US\$3,747
	Long Beach Accep Auto Receivab		"	US\$1,858	N/A	US\$1,858
	Long Beach Mtg Ln Tr		"	US\$3,188	N/A	US\$3,188
	Massachusetts Rrb Spl Purp Tr		"	US\$3,820	N/A	US\$3,820



		June 30, 2006				
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying	Percentage	Market
				Value	of	Value on
				(in US\$ in	Ownership	Net Asset
				Thousand)	Thousand	Value
				(in US\$ in	Thousand	(US\$ in
	Mastr Asset Backed Secs Tr		Available-for-sale financial assets	US\$3,504	N/A	US\$3,504
	Mbna Master Cr Card Tr II		"	US\$7,567	N/A	US\$7,567
	Merrill Lynch Mtg Invs Inc.		"	US\$6,635	N/A	US\$6,635
	Monumentl Global Fdg II		"	US\$1,002	N/A	US\$1,002
	National City Auto Receivables		"	US\$ 457	N/A	US\$ 457
	Navistar Finl 2003 A Owner Tr		"	US\$4,242	N/A	US\$4,242
	Nissan Auto Receivables		"	US\$1,437	N/A	US\$1,437
	Nomura Asset Accep Corp.		"	US\$4,131	N/A	US\$4,131
	Onyx Accep Owner Tr		"	US\$4,875	N/A	US\$4,875
	Pg+E Energy Recovery Fdg LLC		"	US\$4,628	N/A	US\$4,628
	Providian Gateway Owner Tr		"	US\$3,899	N/A	US\$3,899
	Reliant Energy Transition Bd		"	US\$3,989	N/A	US\$3,989
	Residential Asset Mtg Prods		"	US\$2,626	N/A	US\$2,626
	Residential Asset Sec Mtg Pass		"	US\$2,918	N/A	US\$2,918
	Residential Asset Sec Mtg Pass		"	US\$3,692	N/A	US\$3,692
	Residential Fdg Mtg Secs I Inc.		"	US\$2,217	N/A	US\$2,217
	Residential Fdg Mtg Secs I Inc.		"	US\$4,358	N/A	US\$4,358
	Revolving Home Equity Ln Tr		"	US\$2,096	N/A	US\$2,096
	Sequoia Mtg Tr		"	US\$ 948	N/A	US\$ 948
	Sequoia Mtg Tr		"	US\$ 735	N/A	US\$ 735
	Sequoia Mtg Tr		"	US\$ 794	N/A	US\$ 794
	Structured Adj Rate Mtg Ln Tr		"	US\$1,641	N/A	US\$1,641
	Structured Adj Rate Mtg Ln Tr		"	US\$ 555	N/A	US\$ 555
	Structured Asset Invt Ln Tr		"	US\$ 93	N/A	US\$ 93
	Terwin Mtg Tr		"	US\$4,014	N/A	US\$4,014
	Toyota Auto Receivables 2003 B		"	US\$4,898	N/A	US\$4,898
	TW Hotel Fdg 2005 LLC		"	US\$4,097	N/A	US\$4,097
	Txu Elec Delivery Transition		"	US\$2,619	N/A	US\$2,619
	Usaa Auto Owner Tr		"	US\$3,678	N/A	US\$3,678
	Wachovia Auto Owner Tr		"	US\$2,768	N/A	US\$2,768
	Washington Mut Mtg Secs Corp.		"	US\$3,354	N/A	US\$3,354
	Wells Fargo Finl Auto Owner Tr		"	US\$5,230	N/A	US\$5,230
	Wells Fargo Finl Auto Owner Tr		"	US\$4,885	N/A	US\$4,885
	Wells Fargo Mtg Backed Secs		"	US\$ 777	N/A	US\$ 777
	Wells Fargo Mtg Bkd Secs		"	US\$3,128	N/A	US\$3,128
	Wells Fargo Mtg Bkd Secs		"	US\$3,519	N/A	US\$3,519
	WFS Financial Owner Trust		"	US\$2,723	N/A	US\$2,723
	WFS Finl		"	US\$ 916	N/A	US\$ 916
	WFS Finl 2004 2 Owner Tr		"	US\$4,880	N/A	US\$4,880
	WFS Finl 2004 4 Owner Tr		"	US\$1,672	N/A	US\$1,672





Company	Relationship with the	Financial Statement	Shares/Units (in Thousands)	June 30, 2006		Ownership Percentage	Market Value or Net Asset Value (US\$ Thousands)
				Value (US\$ in Thousands)	of		
Marketable Securities Type and Name	Company	Account					
WFS Finl 2005 2 Oner Tr		Available-for-sale financial assets	US\$	2,205	N/A	US\$	2,205
Whole Auto Ln Tr		"	US\$	1,978	N/A	US\$	1,978
Whole Auto Ln Tr		"	US\$	3,803	N/A	US\$	3,803
Whole Auto Ln Tr		"	US\$	2,920	N/A	US\$	2,920
World Omni Auto Receivables Tr		"	US\$	5,848	N/A	US\$	5,848
Corporate bond							
Hua Nan Bank		Available-for-sale financial assets		\$1,532,448	N/A		\$1,532,448
Cathay United Bank		"		1,149,382	N/A		1,149,382
Formosa Petrochemical Corporation		"		397,332	N/A		397,332
Taiwan Power Company		"		299,034	N/A		299,034
Taiwan Power Company		Held-to-maturity financial assets		4,217,617	N/A		4,217,617
Formosa Petrochemical Corporation		"		2,488,834	N/A		2,488,834
Nan Ya Plastics Corporation		"		2,379,459	N/A		2,379,459
Chinese Petroleum Corporation		"		1,703,676	N/A		1,703,676
China Steel Corporation		"		1,602,604	N/A		1,602,604
Far Eastone Telecommunications Co. Ltd.		"		300,012	N/A		299,012
Formosa Plastic Corporation		"		135,306	N/A		135,306
Formosa Chemicals & Fiber Corporation		"		67,624	N/A		67,624
Abbott Labs		Available-for-sale financial assets	US\$	1,496	N/A	US\$	1,496
Abbott Labs		"	US\$	2,541	N/A	US\$	2,541
Ace Ltd.		"	US\$	1,001	N/A	US\$	1,001
AIG Sunamerica Global Fing Ix		"	US\$	996	N/A	US\$	996
Allstate Life Global Fdg Secd		"	US\$	2,927	N/A	US\$	2,927
Alltel Corp.		"	US\$	595	N/A	US\$	595
American Express Co.		"	US\$	3,420	N/A	US\$	3,420
American Gen Fin Corp.		"	US\$	1,616	N/A	US\$	1,616
American Gen Fin Corp. Mtn		"	US\$	1,001	N/A	US\$	1,001
American Honda Fin Corp. Mtn		"	US\$	3,046	N/A	US\$	3,046
American Honda Fin Corp. Mtn		"	US\$	802	N/A	US\$	802
Ameritech Capital Funding Co.		"	US\$	481	N/A	US\$	481
Amgen Inc.		"	US\$	2,851	N/A	US\$	2,851
Amsouth Bk Birmingham Ala		"	US\$	1,982	N/A	US\$	1,982
Anz Cap Tr I		"	US\$	944	N/A	US\$	944
Associates Corp. North Amer		"	US\$	2,529	N/A	US\$	2,529
Bank New York Inc.		"	US\$	1,475	N/A	US\$	1,475
Bank One Corp.		"	US\$	3,303	N/A	US\$	3,303

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Bank Utd Houston Tx Mtbn	"	US\$	528	N/A	US\$
Bear Stearns Cos Inc.	"	US\$	3,319	N/A	US\$

(Continued)

		June 30, 2006			Market	
					Value or	
Held Company	Relationship	with Financial	Carrying Percentage	Net Asset		
						the Stat
Name	Marketable Securities Type and Name	Company Account	(in US\$ in thousands)	Ownership	(US\$ in thousands)	Note
	Bear Stearns Cos Inc.	Available-for-sale financial assets	US\$ 3,585	N/A	US\$ 3,585	
	Beneficial Corp. Mtn Bk Entry	"	US\$ 2,289	N/A	US\$ 2,289	
	Berkshire Hathaway Fin Corp.	"	US\$ 1,470	N/A	US\$ 1,470	
	Caterpillar Finl Svcs Mtn	"	US\$ 5,752	N/A	US\$ 5,752	
	Chase Manhattan Corp. New	"	US\$ 1,512	N/A	US\$ 1,512	
	Chase Manhattan Corp. New	"	US\$ 2,106	N/A	US\$ 2,106	
	Chubb Corp.	"	US\$ 2,103	N/A	US\$ 2,103	
	Cit Group Hldgs Inc.	"	US\$ 3,011	N/A	US\$ 3,011	
	Citicorp	"	US\$ 1,382	N/A	US\$ 1,382	
	Cogentrix Energy Inc.	"	US\$ 3,777	N/A	US\$ 3,777	
	Colonial Pipeline Co.	"	US\$ 1,506	N/A	US\$ 1,506	
	Consolidated Edison Inc.	"	US\$ 2,866	N/A	US\$ 2,866	
	Corestates Cap Corp.	"	US\$ 1,006	N/A	US\$ 1,006	
	Countrywide Fdg Corp. Mtn	"	US\$ 2,019	N/A	US\$ 2,019	
	Credit Suisse Fincl Products	"	US\$ 1,508	N/A	US\$ 1,508	
	Credit Suisse First Boston	"	US\$ 734	N/A	US\$ 734	
	Credit Suisse First Boston USA	"	US\$ 2,135	N/A	US\$ 2,135	
	Daimlerchrysler North Amer	"	US\$ 966	N/A	US\$ 966	
	Daimlerchrysler North Amer Hld	"	US\$ 753	N/A	US\$ 753	
	Dayton Hudson Corp.	"	US\$ 2,013	N/A	US\$ 2,013	
	Deere John Cap Corp.	"	US\$ 4,880	N/A	US\$ 4,880	
	Dell Computer Corp.	"	US\$ 2,822	N/A	US\$ 2,822	
	Den Danske Bk Aktieselskab	"	US\$ 2,034	N/A	US\$ 2,034	
	Diageo Plc	"	US\$ 3,405	N/A	US\$ 3,405	
	European Invt Bk	"	US\$ 3,918	N/A	US\$ 3,918	
	European Invt Bk	"	US\$ 5,945	N/A	US\$ 5,945	
	Federal Home Ln Bks	"	US\$ 7,937	N/A	US\$ 7,937	
	Fifth Third Bk Cincinnati Oh	"	US\$ 2,393	N/A	US\$ 2,393	
	First Data Corp.	"	US\$ 2,827	N/A	US\$ 2,827	
	Fleet Boston Corp.	"	US\$ 2,634	N/A	US\$ 2,634	
	Fleet Finl Group Inc. New	"	US\$ 905	N/A	US\$ 905	
	Fpl Group Cap Inc.	"	US\$ 843	N/A	US\$ 843	
	Gannett Co. Inc.	"	US\$ 2,907	N/A	US\$ 2,907	
	General Elec Cap Corp. Mtn	"	US\$ 3,363	N/A	US\$ 3,363	
	General Elec Cap Corp. Mtn	"	US\$ 3,824	N/A	US\$ 3,824	
	General Elec Cap Corp. Mtn	"	US\$ 8,678	N/A	US\$ 8,678	
	General Re Corp.	"	US\$ 3,307	N/A	US\$ 3,307	
	Genworth Finl Inc.	"	US\$ 3,417	N/A	US\$ 3,417	

Goldman Sachs Group Inc.

”

US\$ 4,910

N/A

US\$ 4,910

(Continued)

		June 30, 2006			Market	
					Value or	
Held Company	Relationship	with Financial	Carrying Percentage	Net Asset		
						the State
Name	Marketable Securities Type and Name	Company Account	(in US\$ thousands)	Ownership	(US\$ thousands)	Note
	Goldman Sachs Group Inc.	Available-for-sale financial assets	US\$ 3,426	N/A	US\$ 3,426	
	Goldman Sachs Group LP	"	US\$ 1,509	N/A	US\$ 1,509	
	Greenpoint Finl Corp.	"	US\$ 954	N/A	US\$ 954	
	Hancock John Global Fdg II Mtn	"	US\$ 3,481	N/A	US\$ 3,481	
	Hancock John Global Fdg Mtn	"	US\$ 961	N/A	US\$ 961	
	Hartford Finl Svcs Group Inc.	"	US\$ 1,342	N/A	US\$ 1,342	
	Hbos Plc Medium Term Sr Nts	"	US\$ 3,172	N/A	US\$ 3,172	
	Hbos Plc Medium Term Sr Nts	"	US\$ 2,921	N/A	US\$ 2,921	
	Heller Finl Inc.	"	US\$ 1,923	N/A	US\$ 1,923	
	Hershey Foods Corp.	"	US\$ 1,513	N/A	US\$ 1,513	
	Honeywell Inc.	"	US\$ 3,031	N/A	US\$ 3,031	
	Household Fin Corp.	"	US\$ 2,848	N/A	US\$ 2,848	
	Household Fin Corp.	"	US\$ 504	N/A	US\$ 504	
	Household Intl Inc.	"	US\$ 2,848	N/A	US\$ 2,848	
	HSBC Fin Corp. Mtn	"	US\$ 5,045	N/A	US\$ 5,045	
	HSBC USA Inc. New	"	US\$ 1,076	N/A	US\$ 1,076	
	Huntington Natl Bk Columbus Oh	"	US\$ 2,977	N/A	US\$ 2,977	
	ING Sec Life Instl Fdg	"	US\$ 2,445	N/A	US\$ 2,445	
	International Business Machs	"	US\$ 2,194	N/A	US\$ 2,194	
	Intl Lease Fin Corp. Mtn	"	US\$ 2,889	N/A	US\$ 2,889	
	Intl Lease Fin Corp. Mtn	"	US\$ 4,100	N/A	US\$ 4,100	
	Intl Lease Fin Corp. Mtn	"	US\$ 2,968	N/A	US\$ 2,968	
	JP Morgan Chase + Co.	"	US\$ 3,285	N/A	US\$ 3,285	
	Jackson Natl Life Global Fdg	"	US\$ 998	N/A	US\$ 998	
	Key Bk Na Med Term Nts Bk Entr	"	US\$ 4,364	N/A	US\$ 4,364	
	Keycorp Mtn Book Entry	"	US\$ 2,975	N/A	US\$ 2,975	
	Kraft Foods Inc.	"	US\$ 748	N/A	US\$ 748	
	Kraft Foods Inc.	"	US\$ 997	N/A	US\$ 997	
	Lehman Brothers Hldgs Inc.	"	US\$ 1,599	N/A	US\$ 1,599	
	Lehman Brothers Hldgs Inc.	"	US\$ 478	N/A	US\$ 478	
	Lehman Brothers Hldgs Inc.	"	US\$ 1,075	N/A	US\$ 1,075	
	Lincoln Natl Corp. In	"	US\$ 498	N/A	US\$ 498	
	Merita Bk Ltd. Ny Brh	"	US\$ 505	N/A	US\$ 505	
	Merrill Lynch + Co. Inc.	"	US\$ 3,415	N/A	US\$ 3,415	
	Merrill Lynch + Co. Inc.	"	US\$ 1,972	N/A	US\$ 1,972	
	Merrill Lynch + Co. Inc.	"	US\$ 4,822	N/A	US\$ 4,822	
	Metropolitan Life Global Mtn	"	US\$ 3,306	N/A	US\$ 3,306	
	Monumental Global Fdg II	"	US\$ 1,446	N/A	US\$ 1,446	

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Monumental Global Fdg II 2002A	"	US\$ 998	N/A	US\$ 998
Morgan Stanley	"	US\$ 2,087	N/A	US\$ 2,087

(Continued)

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