

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

April 18, 2007

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**1934 Act Registration No. 1-14700
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934
For the month of April 2007
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
Years Ended December 31, 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 December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the years 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 December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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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 years ended December 31, 2006 and 2005, and have expressed an unqualified opinion on the consolidated financial statements. January 11, 2007

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 jurisdiction. 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.

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Table of Contents**Taiwan Semiconductor Manufacturing Company Limited****BALANCE SHEETS****DECEMBER 31, 2006 AND 2005****(In Thousands of New Taiwan Dollars, Except Par Value)**

	2006		2005	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 100,139,709	17	\$ 85,383,583	17
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	44,601		1,380,905	1
Available-for-sale financial assets (Notes 2, 3 and 6)	25,967,061	5	46,452,838	9
Held-to-maturity financial assets (Notes 2, 3 and 7)	8,510,823	2	602,509	
Notes and accounts receivable	16,278,164	3	20,591,818	4
Receivables from related parties (Note 23)	16,869,509	3	21,050,604	4
Allowance for doubtful receivables (Note 2)	(690,931)		(976,344)	
Allowance for sales returns and others (Note 2)	(2,751,065)		(4,269,969)	(1)
Other receivables from related parties (Note 23)	449,266		1,797,714	1
Other financial assets (Note 3)	653,460		1,106,030	
Inventories, net (Notes 2 and 8)	19,152,214	3	16,257,955	3
Deferred income taxes assets (Notes 2 and 16)	7,832,000	1	7,013,000	1
Prepaid expenses and other current assets (Note 3)	1,221,199		1,171,773	
Total current assets	193,676,010	34	197,562,416	39
LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 9 and 10)				
Investments accounted for using equity method	101,044,356	18	51,076,803	10
Available-for-sale financial assets	6,647,511	1		
Held-to-maturity financial assets	28,973,495	5	28,775,308	6
Financial assets carried at cost	712,843		807,490	
Total long-term investments	137,378,205	24	80,659,601	16
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 23)				
Cost				
Buildings	96,961,851	17	90,769,622	18
Machinery and equipment	527,850,728	92	459,850,773	91
Office equipment	8,659,225	2	7,850,035	1
	633,471,804	111	558,470,430	110

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Accumulated depreciation	(417,467,250)	(73)	(359,191,829)	(71)
Advance payments and construction in progress	12,230,805	2	14,867,032	3
Net property, plant and equipment	228,235,359	40	214,145,633	42
GOODWILL (Note 2)	1,567,756		1,567,756	
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 16)	5,761,127	1	6,759,955	2
Deferred charges, net (Notes 2 and 12)	5,593,068	1	6,681,144	1
Refundable deposits	1,306,234		83,642	
Assets leased to others, net (Note 2)	67,145		72,879	
Others			6,789	
Total other assets	12,727,574	2	13,604,409	3
TOTAL	\$ 573,584,904	100	\$ 507,539,815	100

	2006		2005	
	Amount	%	Amount	%
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)	\$ 10,751		\$ 234,279	
Accounts payable	6,143,679	1	8,052,106	1
Payables to related parties (Note 23)	3,326,916	1	3,242,197	1
Income tax payable (Notes 2 and 16)	7,850,418	1	3,815,888	1
Accrued expenses and other current liabilities (Notes 3 and 14)	7,903,867	1	7,980,715	1
Payables to contractors and equipment suppliers	10,669,523	2	8,859,230	2
Current portion of bonds payable (Note 13)	7,000,000	1		
Total current liabilities	42,905,154	7	32,184,415	6
LONG-TERM LIABILITIES				
Bonds payable (Note 13)	12,500,000	2	19,500,000	4
Other long-term payables (Note 14)	1,271,896		1,511,100	
Other payables to related parties (Notes 23 and 25)	403,375		1,100,475	
Total long-term liabilities	14,175,271	2	22,111,575	4

OTHER LIABILITIES

Accrued pension cost (Notes 2 and 15)	3,530,116	1	3,461,392	1
Guarantee deposits (Note 25)	3,809,961	1	2,892,945	1
Deferred credits (Notes 2 and 23)	1,183,118		1,259,139	

Total other liabilities	8,523,195	2	7,613,476	2
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Total liabilities	65,603,620	11	61,909,466	12
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CAPITAL STOCK - NT\$10 PAR VALUE

Authorized: 27,050,000 thousand shares

Issued: 25,829,688 thousand shares in 2006

24,730,025 thousand shares in 2005	258,296,879	45	247,300,246	49
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CAPITAL SURPLUS (Notes 2 and 18)	54,107,498	10	57,117,886	11
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RETAINED EARNINGS (Note 18)

Appropriated as legal capital reserve	43,705,711	8	34,348,208	7
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Appropriated as special capital reserve	640,742		2,226,427	
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Unappropriated earnings	152,778,079	26	106,196,399	21
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	197,124,532	34	142,771,034	28
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OTHERS (Notes 2, 3 and 22)

Cumulative translation adjustments	(1,191,165)		(640,742)	
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Unrealized gains on financial instruments	561,615			
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	(629,550)		(640,742)	
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TREASURY STOCK (AT COST, Notes 2 and 20)

33,926 thousand shares in 2006 and 32,938 thousand shares in 2005

	(918,075)		(918,075)	
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Total shareholders equity	507,981,284	89	445,630,349	88
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TOTAL	\$ 573,584,904	100	\$ 507,539,815	100
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The accompanying notes are an integral part of the financial statements.

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 23)	\$ 319,210,148		\$ 270,315,064	
SALES RETURNS AND ALLOWANCES (Note 2)	5,328,513		5,726,700	
NET SALES	313,881,635	100	264,588,364	100
COST OF SALES (Notes 17 and 23)	164,163,235	52	149,344,315	56
GROSS PROFIT	149,718,400	48	115,244,049	44
OPERATING EXPENSES (Notes 17 and 23)				
Research and development	14,601,385	5	13,395,801	5
General and administrative	7,190,422	2	7,485,011	3
Marketing	1,626,734	1	1,349,413	1
Total operating expenses	23,418,541	8	22,230,225	9
INCOME FROM OPERATIONS	126,299,859	40	93,013,824	35
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 9)	5,526,727	2		
Interest income (Notes 2 and 3)	3,382,868	1	2,506,769	1
Settlement income (Note 25)	967,506	1	950,046	
Technical service income (Notes 23 and 25)	670,297		491,267	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 23)	596,459		494,374	
Valuation gain on financial instruments, net (Notes 2, 3, 5 and 22)	33,850			
Foreign exchange gain, net (Notes 2 and 3)			2,572,560	1
Others (Note 23)	419,020		366,344	
Total non-operating income and gains	11,596,727	4	7,381,360	2
NON-OPERATING EXPENSES AND LOSSES				

Loss on settlement and disposal of financial instruments, net (Notes 2, 3 and 5)	1,623,882	1	3,742,312	2
Interest expense (Note 3)	661,200		1,180,484	
Foreign exchange loss, net (Note 2)	412,726			
Loss on disposal of property, plant and equipment (Note 2)	240,985		59,992	
Equity in losses of equity method investees, net (Notes 2 and 9)			1,052,045	
				(Continued)

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 22)	\$		\$ 337,160	
Others	151,294		203,768	
Total non-operating expenses and losses	3,090,087	1	6,575,761	2
INCOME BEFORE INCOME TAX	134,806,499	43	93,819,423	35
INCOME TAX EXPENSE (Notes 2 and 16)	(7,550,582)	(2)	(244,388)	
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	127,255,917	41	93,575,035	35
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$82,062 THOUSAND (Note 3)	(246,186)			
NET INCOME	\$ 127,009,731	41	\$ 93,575,035	35

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 21)				
Basic earnings per share	\$ 5.21	\$ 4.93	\$ 3.64	\$ 3.63
Diluted earnings per share	\$ 5.21	\$ 4.92	\$ 3.64	\$ 3.63

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

	2006	2005
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 127,338,237	\$ 93,881,698
NET INCOME	\$ 127,092,051	\$ 93,881,698

EARNINGS PER SHARE (NT\$)

Basic earnings per share	\$	4.92	\$	3.64
Diluted earnings per share	\$	4.92	\$	3.64

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 YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

Balance Sheet (in thousands)	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				
2004	\$ 232,519,637	\$ 56,537,259	\$ 25,528,007	\$	\$ 88,202,009	\$ 113,730,016	\$ (2,226,427)	\$	\$ (2,226,427)
			8,820,201		(8,820,201)				
				2,226,427	(2,226,427)				
					(3,086,215)	(3,086,215)			
2002	3,086,215				(3,086,215)	(3,086,215)			
					(46,504,097)	(46,504,097)			
2002	11,626,024				(11,626,024)	(11,626,024)			
					(231,466)	(231,466)			
					93,575,035	93,575,035			
		71,405							
							1,585,685		1,585,685
2007	68,370	202,559							
		84,285							

222,378

5 247,300,246 57,117,886 34,348,208 2,226,427 106,196,399 142,771,034 (640,742) (640,742)

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

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 127,009,731	\$ 93,575,035
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	66,699,455	67,991,423
Amortization of premium/discount of financial assets	2,399	120,872
Loss on disposal of available-for-sale financial assets, net	485	150,081
Equity in losses (earnings) of equity method investees, net	(5,526,727)	1,052,045
Dividends received from equity method investees	626,367	668,464
Gain on disposal of investments accounted for using equity method investees, net	(26,031)	(583)
Gain on disposal of financial assets carried at cost, net	(212)	(2,919)
Loss on impairment of financial assets carried at cost	36,608	
Gain on disposal of property, plant and equipment and other assets, net	(355,474)	(434,382)
Deferred income taxes	179,828	(3,278,952)
Loss on idle assets	44,072	131,849
Donation of idle assets		7,207
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	1,112,776	10,739
Notes and accounts receivable	4,313,654	(5,264,937)
Receivables from related parties	4,181,095	(4,914,565)
Allowance for doubtful receivables	(285,413)	(4,117)
Allowance for sales returns and others	(1,518,904)	942,055
Other receivables from related parties	985,419	(1,243,126)
Other financial assets	(99,109)	64,288
Inventories	(2,894,259)	(2,086,010)
Prepaid expenses and other current assets	(49,426)	(84,341)
Increase (decrease) in:		
Accounts payable	(1,908,427)	1,563,489
Payables to related parties	(612,381)	(1,224,371)
Income tax payable	4,034,530	3,435,985
Accrued expenses and other current liabilities	157,262	(1,001,293)
Accrued pension cost	68,724	360,196
Deferred credits	(95,745)	95,744
Net cash provided by operating activities	196,080,297	150,629,876
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	(98,679,832)	(99,436,242)

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Held-to-maturity financial assets	(18,554,027)	(14,199,142)
Financial assets carried at cost	(12,940)	(48,536)
Investments accounted for using equity method	(5,515,466)	(3,392,619)
Property, plant and equipment	(77,215,811)	(73,659,014)
		(Continued)

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Taiwan Semiconductor Manufacturing Company Limited
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
Proceeds from disposal of:		
Available-for-sale financial assets	\$ 73,212,019	\$ 101,609,384
Financial assets carried at cost	71,191	16,599
Investments accounted for using equity method	37,946	65,076
Property, plant and equipment and other assets	1,277,729	2,087,236
Redemption of held-to-maturity financial assets upon maturity	10,410,000	14,595,394
Proceeds from return of capital by investee	162,354	
Increase in deferred charges	(1,272,355)	(847,721)
Decrease (increase) in refundable deposits	(1,222,592)	1,771
 Net cash used in investing activities	 (117,301,784)	 (73,207,814)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid for common stock	(61,825,061)	(46,504,097)
Cash bonus paid to employees	(3,432,129)	(3,086,215)
Increase in guarantee deposits	917,016	2,480,552
Proceeds from exercise of employee stock options	575,197	270,929
Bonus to directors and supervisors	(257,410)	(231,466)
Repayment of long-term bonds payable		(10,500,000)
 Net cash used in financing activities	 (64,022,387)	 (57,570,297)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 14,756,126	 19,851,765
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 85,383,583	 65,531,818
 CASH AND CASH EQUIVALENTS, END OF YEAR	 \$ 100,139,709	 \$ 85,383,583
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 661,200	\$ 1,212,449
Income tax paid	\$ 3,189,528	\$ 87,351
 INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant, and equipment	\$ 79,026,104	\$ 51,363,935

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Decrease (increase) in payables to contractors and equipment suppliers	(1,810,293)	22,295,079
Cash paid	\$ 77,215,811	\$ 73,659,014

NON-CASH INVESTING AND FINANCING ACTIVITIES

Current portion of bonds payable	\$ 7,000,000	\$
Current portion of other payables to related parties (under payables to related parties)	\$ 688,591	\$ 693,956
Current portion of other long-term payable (under accrued expenses and other current liabilities)	\$ 617,892	\$ 869,072
Transfer of available-for-sale financial assets and other net assets to investments accounted for using equity method (Note 6)	\$ 39,687,637	\$

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

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Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 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 December 31, 2006 and 2005, the Company had 20,202 and 19,460 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, Business Accounting Law, Guideline Governing Business Accounting, 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, law 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 assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled 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 and corporate notes acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

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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 earnings. 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. 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.

Except structured time deposits whose fair value is estimated using valuation techniques, fair values of open-end mutual funds and publicly traded stocks are determined using the net assets value and the closing-price at the end of the year, respectively. For debt securities, fair value is determined using the average of bid and asked prices at the end of the year.

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 investments 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. Gains 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 that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

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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 manufacture 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 others 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. Year-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.

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. Prior to January 1, 2006, the difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was amortized by the straight-line method over five years, with the amortization 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), the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized and instead shall be tested for impairment annually. The accounting treatment for the investment premiums acquired before January 1, 2006 is the same as that for goodwill which is 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 recognized in earnings.

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 of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

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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 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 that record such gains or losses 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.

Financial Assets Carried at Cost

Investments in which the Company does not exercise significant influence and 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 mutual 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.

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 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: 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 recorded as 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. Prior to January 1, 2006, goodwill was 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 instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent recovery in fair value of goodwill is not allowed.

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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 subsequent period, the previously recognized impairment loss 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 their 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 year's tax provision.

Income tax on unappropriated earnings at a rate 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 (the 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 recognized in earnings over the employee vesting period.

Table of Contents**Treasury Stock**

The Company's stock held by 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 subsidiaries and cash dividends received by 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 earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

3. ACCOUNTING CHANGES

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (SFAS No. 34) and No. 36, Financial Instruments: Disclosure and Presentation 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 categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

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

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

The adoption of the newly released SFASs resulted in a increase in net income before cumulative effect of changes in accounting principles of NT\$280,036 thousand, a increase in net income of NT\$33,850 thousand, and a increase in

basic earnings per share (after income tax) of NT\$0.001, for the year ended December 31, 2006.

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

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b. Reclassifications

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

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

1) Short-term investments

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

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 year, 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 year 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 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 rates were amortized over the terms of the contracts using the straight-line method. At the end of each year, the receivables or payables arising from cross-currency swap contracts were restated using 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 year 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.

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Certain accounts in the financial statements as of and for the year ended December 31, 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:

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments, net	\$ 47,055,347	\$
Other financial assets	2,403,929	1,106,030
Prepaid expenses and other current assets	1,254,779	1,171,773
Long-term investments accounted for using cost method	807,490	
Long-term bond investments	18,548,308	
Other long-term investments	10,227,000	
Accrued expenses and other current liabilities	(8,214,994)	(7,980,715)
Financial assets at fair value through profit or loss		1,380,905
Financial liabilities at fair value through profit or loss		(234,279)
Available-for-sale financial assets		46,452,838
Held-to-maturity financial assets		29,377,817
Financial assets carried at cost		807,490
	\$ 72,081,859	\$ 72,081,859
Statement of income		
Interest income	\$ 2,769,978	\$ 2,506,769
Foreign exchange gain (loss), net	(34,379)	2,572,560
Interest expense	(2,429,568)	(1,180,484)
Unrealized valuation loss on short-term investments	(337,160)	
Loss on disposal of investments, net	(149,498)	
Valuation loss on financial instruments, net		(337,160)
Loss on settlement and disposal of financial instruments, net		(3,742,312)
	\$ (180,627)	\$ (180,627)

4. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash and deposits in banks	\$ 68,898,115	\$ 37,007,192
Repurchase agreements collateralized by government bonds	31,241,594	47,963,226
Corporate notes		413,165
	\$ 100,139,709	\$ 85,383,583

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

	December 31	
	2006	2005
Derivatives - financial assets		
Forward exchange contracts	\$	\$ 26,720
Cross currency swap contracts	44,601	1,354,185
	\$ 44,601	\$ 1,380,905
Derivatives - financial liabilities		
Cross currency swap contracts	\$ 10,751	\$ 234,279

The Company entered into derivative contracts during the years ended December 31, 2006 and 2005 to manage exposures due to 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 contracts.

Outstanding forward contracts as of December 31, 2005:

	Currency	Maturity Date	Contract Amount (in Thousands)
December 31, 2005			
Sell	US\$/NT\$	January 2006	US\$60,000

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

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2006			
January 2007 to February 2007	US\$820,000	3.19%-5.91%	0.90%-3.25%
December 31, 2005			
January 2006 to March 2006	US\$2,089,000	4.15%-4.54%	0.02%-2.12%

The Company did not enter into any interest rate swap contract during the year ended December 31, 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 loss on settlement and disposal of financial instruments account.

Net losses arising from derivative financial instruments for the year ended December 31, 2006 were NT\$1,615,796 thousand (including realized settlement losses of NT\$1,649,646 thousand and a valuation gain of NT\$33,850 thousand).

Table of Contents**6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	December 31	
	2006	2005
Open-end mutual funds	\$ 25,967,061	\$ 6,198,982
Corporate bonds	4,150,202	11,853,044
Government bonds	1,998,067	1,776,279
Structured time deposits	499,242	
Agency bonds		14,496,728
Corporate issued asset-backed securities		11,582,590
Corporate notes		263,249
Money market funds		260,686
Publicly-traded stocks		21,280
	32,614,572	46,452,838
Current portion	(25,967,061)	(46,452,838)
	\$ 6,647,511	\$

Starting from 2004, 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. Beginning from the third quarter of 2006, the Company transferred investment portfolios managed by the fund managers of US\$1,277,789 thousand to TSMC Global Ltd. (TSMC-Global), a subsidiary of TSMC. The transferred investment portfolios held by TSMC Global are still being managed by the same fund managers in accordance with the aforementioned investment guidelines and terms.

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

	Principal Amount	Carrying Amount	Range of Interest Rates	Maturity Date
Step-up callable deposits				
Domestic deposits	\$ 500,000	\$ 499,242	1.76%	March 2008

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

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2006	2005
Corporate bonds	\$ 13,742,541	\$ 8,927,317
Structured time deposits	11,671,120	10,227,000
Government bonds	12,070,657	10,223,500
	37,484,318	29,377,817

Current portion	(8,510,823)	(602,509)
	\$ 28,973,495	\$ 28,775,308

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

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
December 31, 2006				
Step-up callable deposits				
Domestic deposits Callable range accrual deposits	\$ 4,500,000	\$ 13,928	1.40%-1.83%	June 2007 to October 2008
Domestic deposits	3,911,520	4,808	(See below)	September 2009 to December 2009
Foreign deposits	3,259,600	4,998	(See below)	October 2009 to January 2010
	\$ 11,671,120	\$ 23,734		
December 31, 2005				
Step-up callable deposits				
Domestic deposits Callable range accrual deposits	\$ 3,000,000	\$ 8,145	1.40%-1.50%	June 2007 to October 2007
Domestic deposits	3,942,000	4,928	(See below)	September 2009 to December 2009
Foreign deposits	3,285,000	5,023	(See below)	October 2009 to January 2010
	\$ 10,227,000	\$ 18,096		

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 contracts, 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 December 31, 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.

8. INVENTORIES, NET

	December 31	
	2006	2005
Finished goods	\$ 4,754,342	\$ 2,768,575
Work in process	13,251,174	12,407,286
Raw materials	1,515,996	1,700,314

Supplies and spare parts	421,648	786,772
	19,943,160	17,662,947
Allowance for losses	(790,946)	(1,404,992)
	\$ 19,152,214	\$ 16,257,955

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Table of Contents**9. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	December 31		December 31	
	2006	% of	2005	% of
	Carrying	Owner-	Carrying	Owner-
	Amount	ship	Amount	ship
TSMC Global (Note 6)	\$ 42,496,592	100	\$	
TSMC International Investment Ltd. (TSMC International)	26,593,749	100	23,912,812	100
TSMC (Shanghai) Company Limited (TSMC-Shanghai)	9,027,984	100	9,438,856	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	7,960,869	39	4,215,200	32
Vanguard International Semiconductor Corporation (VIS)	5,741,870	27	5,419,747	27
TSMC Partners, Ltd. (TSMC Partners)	4,433,819	100	4,091,166	100
TSMC North America (TSMC-North America)	2,014,990	100	1,790,186	100
Emerging Alliance Fund, L.P. (Emerging Alliance)	793,585	99	850,534	99
VentureTech Alliance Fund II, L.P. (VTAF II)	733,130	98	642,479	98
Global UniChip Corporation (GUC)	629,755	38	442,233	46
VentureTech Alliance Fund III, L.P. (VTAF III)	228,005	98		
Chi Cherng Investment Co., Ltd. (Chi Cherng)	115,507	36	78,139	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	114,297	36	77,415	36
TSMC Japan K. K. (TSMC-Japan)	95,757	100	94,949	100
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe)	49,741	100	23,087	100
Taiwan Semiconductor Manufacturing Company Korea (TSMC-Korea)	14,706	100		
	\$ 101,044,356		\$ 51,076,803	

In November 2006, the Company acquired 81 thousand shares in SSMC from EDB Investments Pte Ltd. under a Shareholders Agreement. After the acquisition, the number of SSMC shares owned by the Company increased from 382 thousand to 463 thousand; the percentage of ownership increased from 32% to 39%.

For the years ended December 31, 2006 and 2005, net equity in earnings of NT\$5,526,727 thousand and net equity in losses of NT\$1,052,045 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.

10. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2006	2005
Non-publicly traded stocks	\$ 364,913	\$ 472,500
Mutual funds	347,930	334,990

\$ 712,843 \$ 807,490

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Table of Contents**11. PROPERTY, PLANT AND EQUIPMENT**

Accumulated depreciation consisted of the following:

	December 31	
	2006	2005
Buildings	\$ 49,595,917	\$ 42,902,526
Machinery and equipment	361,401,800	310,626,317
Office equipment	6,469,533	5,662,986
	\$ 417,467,250	\$ 359,191,829

No interest was capitalized during the years ended December 31, 2006 and 2005.

12. DEFERRED CHARGES, NET

	December 31	
	2006	2005
Technology license fees	\$ 4,038,551	\$ 4,985,806
Software and system design costs	1,517,575	1,623,276
Others	36,942	72,062
	\$ 5,593,068	\$ 6,681,144

13. BONDS PAYABLE

	December 31	
	2006	2005
Domestic unsecured bonds:		
Issued in December 2000 and repayable in December 2005 and 2007 in two installments, 5.25% and 5.36% interest payable annually, respectively	\$ 4,500,000	\$ 4,500,000
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	19,500,000
Current portion	(7,000,000)	
	\$ 12,500,000	\$ 19,500,000

As of December 31, 2006, future principal repayments for the Company's bonds were as follows:

Year of Repayment	Amount
2007	\$ 7,000,000
2009	8,000,000
2012	4,500,000

Table of Contents**14. OTHER LONG-TERM PAYABLES**

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

Year of Payment	Amount
2007	\$ 617,892
2008	337,043
2009	337,043
2010	337,043
2011	260,767
	1,889,788
Current portion (classified under accrued expenses and other current liabilities)	(617,892)
	\$ 1,271,896

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.

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\$618,975 thousand and NT\$261,096 thousand for the years ended December 31, 2006 and 2005, respectively.

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), which is administered by the pension fund monitoring committee (the Committee) and deposited in the Committee's name in the Central Trust of China.

Pension information on the defined benefit plan is summarized as follows:

- a. Components of net periodic pension cost for the year

	2006	2005
Service costs	\$ 178,432	\$ 468,044
Interest costs	163,740	163,294
Projected return on plan assets	(49,115)	(49,627)
Amortization	12,339	8,300
Net periodic pension costs	\$ 305,396	\$ 590,011

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b. Reconciliation of funded status of the plan and accrued pension cost at December 31, 2006 and 2005

	2006	2005
Benefit obligation		
Vested benefit obligation	\$ 102,920	\$ 62,302
Nonvested benefit obligation	3,873,239	3,356,213
Accumulated benefit obligation	3,976,159	3,418,515
Additional benefits based on future salaries	2,964,923	2,546,186
Projected benefit obligation	6,941,082	5,964,701
Fair value of plan assets	(1,945,572)	(1,681,365)
Funded status	4,995,510	4,283,336
Unrecognized net transition obligation	(116,191)	(124,491)
Unrecognized net loss	(1,349,203)	(697,453)
Accrued pension cost	\$ 3,530,116	\$ 3,461,392
Vested benefits	\$ 106,645	\$ 67,752
c. Actuarial assumptions at December 31, 2006 and 2005		
Discount rate used in determining present values	2.25%	2.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.50%	2.75%
d. Contributions to the Fund for the year	\$ 230,577	\$ 223,654
e. Payments from the Fund for the year	\$ 10,823	\$ 8,419

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:

	Years Ended December 31	
	2006	2005
Income tax expense based on income before income tax at statutory rate (25%)	\$ (33,701,625)	\$ (23,454,856)
Tax effect of the following:		
Tax-exempt income	12,274,041	12,243,435
Temporary and permanent differences	2,080,110	(860,918)
Cumulative effect of changes in accounting principles	82,062	
Additional tax at 10% on unappropriated earnings	(1,156,130)	(1,489,709)
Income tax credits	12,715,377	10,110,561

Income tax currently payable	\$ (7,706,165)	\$ (3,451,487)
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- b. Income tax expense consisted of the following:

	Years Ended	
	December 31	
	2006	2005
Income tax currently payable	\$ (7,706,165)	\$ (3,451,487)
Other income tax adjustments	335,411	(71,853)
Net change in deferred income tax assets		
Investment tax credits	(3,908,879)	(2,018,813)
Temporary differences	1,522,734	1,768,265
Adjustment in valuation allowance	2,206,317	3,529,500
Income tax expense	\$ (7,550,582)	\$ (244,388)

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

	December 31	
	2006	2005
Current deferred income tax assets		
Investment tax credits	\$ 7,832,000	\$ 7,013,000
Noncurrent deferred income tax assets, net		
Investment tax credits	\$ 12,124,892	\$ 16,852,771
Temporary differences	840,464	(682,270)
Valuation allowance	(7,204,229)	(9,410,546)
	\$ 5,761,127	\$ 6,759,955

- d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2006 and 2005 was NT\$ 828,612 thousand and NT\$20,087 thousand, respectively.

The estimated creditable ratio for distribution of earnings of 2006 and 2005 was 0.54% and 2.88%, respectively.

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

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

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f. As of December 31, 2006, investment tax credits consisted of the following:

Regulation	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 2,685,805	\$	2006
		4,113,439		2007
		6,802,469	3,955,466	2008
		6,030,309	6,030,309	2009
		5,114,762	5,114,762	2010
		\$ 24,746,784	\$ 15,100,537	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,780,480	\$	2006
		1,245,142		2007
		1,627,095	1,627,095	2008
		1,534,230	1,534,230	2009
		1,534,050	1,534,050	2010
		\$ 7,720,997	\$ 4,695,375	
Statute for Upgrading Industries	Personnel training	\$ 27,311	\$	2006
		16,197		2007
		40,734	40,734	2008
		40,442	40,442	2009
		\$ 124,684	\$ 81,176	
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:

	Tax-Exemption Period
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 2003.

Table of Contents**17. LABOR COST, DEPRECIATION AND AMORTIZATION**

	Year Ended December 31, 2006		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	\$ 9,877,603	\$ 4,172,915	\$ 14,050,518
Labor and health insurance	686,125	352,085	1,038,210
Pension	610,873	313,416	924,289
Meal	449,505	159,302	608,807
Welfare	184,560	99,323	283,883
Others	225,615	19,784	245,399
	\$ 12,034,281	\$ 5,116,825	\$ 17,151,106
Depreciation	\$ 61,028,727	\$ 3,296,764	\$ 64,325,491
Amortization	\$ 1,430,069	\$ 918,011	\$ 2,348,080

	Year Ended December 31, 2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	\$ 9,160,576	\$ 3,682,390	\$ 12,842,966
Labor and health insurance	625,744	297,483	923,227
Pension	576,776	274,280	851,056
Meal	429,307	141,259	570,566
Welfare	167,218	95,208	262,426
Others	159,724	44,783	204,507
	\$ 11,119,345	\$ 4,535,403	\$ 15,654,748
Depreciation	\$ 61,576,001	\$ 3,031,796	\$ 64,607,797
Amortization	\$ 1,763,527	\$ 1,603,496	\$ 3,367,023

18. SHAREHOLDERS EQUITY

As of December 31, 2006, 889,740 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs is 4,448,702 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 are limited to a certain percentage of the Company's paid-in capital.

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Capital surplus consisted of the following:

	December 31	
	2006	2005
From merger	\$ 24,003,546	\$ 24,003,546
Additional paid-in capital	19,974,431	23,254,234
From convertible bonds	9,360,424	9,360,424
From treasury stock transactions	389,188	306,868
From long-term investments	379,854	192,759
Donations	55	55
	\$ 54,107,498	\$ 57,117,886

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 provide 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.

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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	Fiscal
			Year	Year
			2005	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 shareholders' meeting held on May 16, 2006 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$3,709,504 thousand.

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 shown in the respective financial statements 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.

As of January 11, 2007, the Board of Directors had not resolved the appropriation for earnings of 2006.

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

Under the Integrated Income Tax System that became effective on January 1, 1998, 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 2004 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 2004 Plan, 2003 Plan and 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.

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

Information about outstanding options for the years ended December 31, 2006 and 2005 was as follows:

	Number of Options (in Thousands)	Weighted- Average Exercise Price (NT\$)
Year ended December 31, 2006		
Balance, beginning of year	67,758	\$ 39.4
Options granted	2,758	40.1
Options exercised	(14,550)	40.1
Options cancelled	(3,152)	43.7
Balance, end of year	52,814	39.6
Year ended December 31, 2005		
Balance, beginning of year	64,367	\$ 40.5
Options granted	14,864	48.4
Options exercised	(6,837)	39.6
Options cancelled	(4,636)	44.1
Balance, end of year	67,758	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 December 31, 2006, information about outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (in Thousands)	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	34,584	5.15	\$ 35.5	28,351	\$ 35.5
45.1- 52.3	18,230	6.88	47.5	4,390	45.7

52,814

32,741

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

	Years Ended December 31	
	2006	2005
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	\$ 127,009,731	\$ 93,575,035
Pro forma net income	126,889,209	93,458,191
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 4.93	\$ 3.63
Pro forma basic EPS	4.92	3.63
Diluted EPS as reported	4.92	3.63
Pro forma diluted EPS	4.92	3.63

20. TREASURY STOCK

(Shares in Thousands)

	Beginning Shares	Stock Dividends	Disposal	Ending Shares
Year ended December 31, 2006				
Parent company stock held by subsidiaries	32,938	988		33,926
Year ended December 31, 2005				
Parent company stock held by subsidiaries	45,521	2,242	14,825	32,938

Proceeds from sales of treasury stock for the year ended December 31, 2005 were NT\$899,489 thousand. As of December 31, 2006 and 2005, the book value of the treasury stock was NT\$918,075 thousand; the market value was NT\$ 2,290,026 thousand and NT\$2,047,126 thousand, respectively. The Company's stock held by 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.

Table of Contents**21. EARNINGS PER SHARE**

	Years Ended December 31			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS (NT\$)				
Income before cumulative effect of changes in accounting principles	\$ 5.22	\$ 4.94	\$ 3.64	\$ 3.63
Cumulative effect of changes in accounting principles	(0.01)	(0.01)		
Income for the year	\$ 5.21	\$ 4.93	\$ 3.64	\$ 3.63
Diluted EPS (NT\$)				
Income before cumulative effect of change in accounting principles	\$ 5.22	\$ 4.93	\$ 3.64	\$ 3.63
Cumulative effect of changes in accounting principles	(0.01)	(0.01)		
Income for the year	\$ 5.21	\$ 4.92	\$ 3.64	\$ 3.63

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (in Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Year ended December 31, 2006					
Basic EPS					
Income available to common shareholders	\$ 134,478,251	\$ 127,009,731	25,788,555	\$ 5.21	\$ 4.93
Effect of dilutive potential common stock					
stock options			24,628		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	\$ 134,478,251	\$ 127,009,731	25,813,183	\$ 5.21	\$ 4.92
Year ended December 31, 2005					

Basic EPS

Income available to common shareholders	\$ 93,819,423	\$ 93,575,035	25,763,320	\$ 3.64	\$ 3.63
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Effect of dilutive potential common stock			12,647		
stock options					

Diluted EPS

Income available to common shareholders (including effect of dilutive potential common stock)	\$ 93,819,423	\$ 93,575,035	25,775,967	\$ 3.64	\$ 3.63
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Table of Contents**22. DISCLOSURES FOR FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

	December 31			
	2006			2005
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	\$ 44,601	\$ 44,601	\$ 1,380,905	\$ 818,550
Available-for-sale financial assets	32,614,572	32,614,572	46,452,838	46,452,838
Held-to-maturity financial assets	37,484,318	37,375,517	29,377,817	29,063,831
Investments accounted for using equity method (with market price)	6,371,625	17,044,040	5,419,747	10,991,064
Liabilities				
Financial liabilities at fair value through profit or loss	10,751	10,751	234,279	173
Bonds payable (including current portion)	19,500,000	19,817,149	19,500,000	19,924,923
Other long-term payables (including current portion)	2,981,754	2,981,754	4,174,603	4,174,603

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) Fair values of financial assets/liabilities at fair value through profit or loss were determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
 - 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 value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.
- c. Gains recognized for the changes in fair value of derivatives estimated using valuation techniques were NT\$33,850 thousand for the year ended December 31, 2006.
- d. As of December 31, 2006 and 2005, financial assets exposed to fair value interest rate risk were NT\$70,143,491 thousand and NT\$77,190,280 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$10,751 thousand and NT\$234,279 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT\$7,171,120 thousand and NT\$7,227,000 thousand, respectively.

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- e. The Company recognized an unrealized gain of NT\$242,248 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the year ended December 31, 2006. The Company also recognized an unrealized gain of NT\$319,367 thousand in shareholders' equity for the changes in available-for-sale financial assets held by equity method investees for the year ended December 31, 2006.
- f. Information about financial risks
- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities 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 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 that the Company's 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 liquidity 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 was one of its supervisors, who resigned in October 2006.
- 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 interest)
 - VIS (accounted for using equity method)
 - SSMC (accounted for using equity method)

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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:

	2006		2005	
	Amount	%	Amount	%
For the year				
Sales				
TSMC-North America	\$ 190,459,073	60	\$ 153,618,916	57
Philips	4,024,990	1	3,298,770	1
Others	972,872		650,239	
	\$ 195,456,935	61	\$ 157,567,925	58
Purchases				
WaferTech	\$ 12,530,552	27	\$ 11,137,313	28
SSMC	6,820,632	15	5,729,672	15
TSMC-Shanghai	4,405,843	10	1,405,030	4
VIS	3,911,838	8	4,142,457	10
	\$ 27,668,865	60	\$ 22,414,472	57
Manufacturing expenses technical assistance fees				
Philips (Note 25a)	\$ 755,904	1	\$ 581,059	
Marketing expenses commission				
TSMC-Japan	\$ 254,758	16	\$ 243,646	18
TSMC-Europe	236,454	15	221,164	16
TSMC-Korea	9,981			
	\$ 501,193	31	\$ 464,810	34
General and administrative expenses rental expense				
GUC	\$ 14,606		\$ 16,744	
Research and development expenses				
GUC	\$ 39,421		\$ 19,467	

TSMC Technology

37,559

\$ 76,980

\$ 19,467

(Continued)

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	2006		2005	
	Amount	%	Amount	%
Sales of property, plant and equipment				
TSMC-Shanghai	\$ 401,561	44	\$ 125,381	13
VisEra			534,279	52
	\$ 401,561	44	\$ 659,660	65
Non-operating income and gains				
SSMC (primarily technical service income, see Note 25e)	\$ 314,953	3	\$ 316,243	4
TSMC-Shanghai	278,295	2	180,234	3
VIS (primarily technical service income, see Note 25h)	261,237	2	210,720	3
VisEra	246,242	2	308,071	4
	\$ 1,100,727	9	\$ 1,015,268	14
As of December 31				
Receivables				
TSMC-North America	\$ 16,461,956	97	\$ 20,407,621	97
Philips	250,919	2	573,565	3
Others	156,634	1	69,418	
	\$ 16,869,509	100	\$ 21,050,604	100
Other receivables				
TSMC-Shanghai	\$ 123,853	28	\$ 28,593	2
VIS	121,911	27	74,457	4
SSMC	69,568	15	149,251	8
TSMC-North America	59,547	13	198,505	11
VisEra	58,980	13	374,202	21
TSMC Technology	3,785	1	972,563	54
Others	11,622	3	143	
	\$ 449,266	100	\$ 1,797,714	100
Payables				
WaferTech	\$ 864,733	26	\$ 1,133,217	35

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VIS	717,562	22	563,240	17
Philips	688,591	21	693,956	21
TSMC-Shanghai	478,714	14	274,820	9
SSMC	459,305	14	485,873	15
Others	118,011	3	91,091	3
	\$ 3,326,916	100	\$ 3,242,197	100
Other long-term payables				
Philips (Note 25a)	\$ 403,375	100	\$ 1,100,475	100

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	2006		2005	
	Amount	%	Amount	%
Deferred credits				
TSMC-Shanghai	\$ 723,661	61	\$ 641,762	51
VisEra	124,350	11	186,525	15
	\$ 848,011	72	\$ 828,287	66

(Concluded)

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 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; beginning from June 2006, the renewed quarterly rental was NT\$3,473 thousand. The Company also leased certain buildings and facilities to VisEra with a monthly rental of NT\$7,684 thousand (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.

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

Year	Amount
2007	\$ 291,646
2008	260,249
2009	251,671
2010	204,603
2011	203,089
2012 and thereafter	1,487,039
	\$ 2,698,297

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

- a. On June 20, 2004, the Company and Philips amended the Technical Cooperation Agreement, which was originally signed on May 12, 1997. The amended Technical Cooperation Agreement is for five years beginning from January 1, 2004. Upon expiration, this amended Technical Cooperation Agreement will be terminated and will not be automatically renewed; however, the patent cross license arrangement between the Company and Philips will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, the Company will pay Philips royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of the Company's annual net sales. The Company and Philips agreed to cross license the patents owned by each party. The Company also obtained through Philips a number of cross patent licenses.

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- b. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity if TSMC's outstanding commitments to its customers are not prejudiced. 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, 1997, 2002 and on January 1, 2007.
- 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 December 31, 2006, the Company had a total of US\$116,297 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%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September, 2006. The Company and NXP purchased all the SSMC shares owned by EDB Investments Pte Ltd. Pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP) committed to buy specific percentages of the production capacity of SSMC. The Company and Philips (now NXP) are required, in the aggregate, to purchase up to 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its 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.

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- i. 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 December 31, 2006, SMIC had paid US\$ 60,000 thousand in accordance with the terms of this settlement agreement. In August 2006, TSMC, TSMC-North America and Wafertech filed a lawsuit against SMIC in Alameda County Superior Court in California for breach of aforementioned settlement agreement, breach of promissory notes and trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court, alleging TSMC of breach of the settlement agreement and implied covenant of good faith and fair dealing, in response to TSMC's August complaint. The outcome of this litigation cannot be determined at this time.
- j. Amounts available under unused letters of credit as of December 31, 2006 were NT\$6,480 thousand.

26. 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 year ended December 31, 2006 to manage exposures due to foreign exchange rate fluctuations.

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Outstanding forward exchange contracts as of December 31, 2006:

	Currency	Maturity Date	Contract Amount (in Thousands)
December 31, 2006			
Buy	US\$/JPY	January 2007	JPY 38,610
Net realized settlement gains arising from TSMC-Shanghai's forward transactions for the year ended December 31, 2006 were NT\$2,543 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.

27. SEGMENT FINANCIAL INFORMATION

a. Industry financial information

The Company operates in one industry. Therefore, the disclosure of industry financial information is not applicable to the Company.

b. Export sales

Area	Years Ended December 31	
	2006	2005
Americas	\$ 153,974,683	\$ 119,838,520
Asia	102,121,046	99,594,071
Europe and others	29,109,649	20,041,920
	\$ 285,205,378	\$ 239,474,511

The export sales information is based on the amounts billed to customers within the areas.

c. Major customers representing at least 10% of gross sales

	Years Ended December 31			
	2006		2005	
	Amount	%	Amount	%
Customer A	\$ 190,459,073	60	\$ 153,618,916	57
Customer B	25,214,878	8	29,258,338	11
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Taiwan Semiconductor Manufacturing Company Limited and Investees
FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Financing No.	Name of Counter-Party	Type of Financial Statement (US\$ in Thousands)	Maximum Balance for the Period (US\$ in Thousands)	Interest Rate	Type of Financing (Note 1)	Reasons for Short-term Financing	Allowance for Collateral Debt Item Value	Financing Limit for Each Company	Financing Company's
									Financing Amount
1	Internal Development	Accounts Payable	\$ 1,140,860	1.50%	2	Operating capital	\$	N/A	\$ 32,203,805
			(US \$35,000)						(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.

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

Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousands)	Collateral/ Financing in Equity (US\$)	Ratio of Accumulated Amount of Collateral to Net Equity of Collateral/ Guarantee Amounts Allowable (Note 1)
	Name	Relationship (Note 2)				
0 TSMC	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.	\$1,303,840 (US\$ 40,000)	\$ \$	\$126,995,321
	TSMC Development	3		\$1,955,760 (US\$ 60,000)		

Note 1: 25% of the net worth of the Company as of December 31, 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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Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES HELD
DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership
Government bond					
04 Government Bond Series B		Available-for-sale financial assets		\$ 999,779	N/A
03 Government Bond Series B				998,288	N/A
06 Government Bond Series D		Held-to-maturity financial assets		3,657,320	N/A
05 Government Bond Series A				3,049,919	N/A
03 Government Bond Series B				1,647,851	N/A
03 Asian Development Bank Govt. bond				835,840	N/A
03 Government Bond Series F				797,299	N/A
04 Kaohsiung Municipal Series A				620,000	N/A
03 Government Bond Series H				401,568	N/A
European Investment Bank Bonds				372,265	N/A
02 Government Bond Series B				350,399	N/A
04 Kaohsiung Municipal Series B				249,998	N/A
03 European Bank for Reconstruction and Development Govt. Bond Series A				88,198	N/A
Open-end mutual funds					
TC Bond Fund		Available-for-sale financial assets	22,219	3,655,939	N/A
BN AMRO Bond Fund			175,156	2,639,459	N/A
n Hwa Bond			125,122	1,667,908	N/A
ega Diamond Bond Fund			139,333	1,602,947	N/A
idential Financial Bond Fund			103,751	1,516,294	N/A
TC Taiwan Bond			93,312	1,314,669	N/A
Taiwan Bond Fund			85,145	1,299,088	N/A
thay Bond			109,720	1,265,092	N/A
Sun Bond Fund			88,165	1,202,901	N/A
esdner Bond DAM Fund			95,553	1,107,206	N/A
BN AMRO Income			63,947	1,012,377	N/A
resident James Bond			65,496	1,010,426	N/A
G Taiwan Bond Fund			78,629	1,002,595	N/A
Taiwan First Bond Fund			66,826	939,082	N/A
ankong Chi Shin Bond Fund			62,183	890,660	N/A

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		December 31, 2006			
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	Carrying	Percentage
				Value (US\$ in Thousands)	of Ownership
ABN AMRO Select Bond Fund		Available-for-sale financial assets	76,593	\$ 868,076	NA
Taishin Lucky Fund			78,624	806,386	NA
Polaris De-Bao Fund			63,273	701,069	N/A
TIIM High Yield			44,685	554,863	N/A
HSBC Taiwan Money Management			34,093	506,250	N/A
Invesco Bond Fund			27,176	403,774	N/A
Corporate bond					
Hua Nan Bank		Available-for-sale financial assets		1,545,864	N/A
Cathay Bank				1,159,576	N/A
Taiwan Power Company				1,046,799	N/A
Formosa Petrochemical Corporation				397,963	N/A
Taiwan Power Company		Hold-to-maturity financial assets		4,080,391	N/A
Formosa Petrochemical Corporation				3,566,946	N/A
Nan Ya Plastics Corporation				2,773,810	N/A
Chinese Petroleum Corporation				1,451,378	N/A
China Steel Corporation				1,000,000	N/A
Formosa Plastic Corporation				516,663	N/A
Shanghai commercial & Saving Bank				286,497	N/A
Formosa Chemicals & Fiber Corporation				66,856	N/A
Stocks					
TSMC Global	Subsidiary	Invest accounted for using equity method	1	42,496,592	100
TSMC International	Subsidiary		987,968	26,593,749	100
SSMC	Investee accounted for using equity method		463	7,960,869	39
VIS	Investee accounted for using equity method		442,262	5,741,870	27
TSMC Partners	Subsidiary		300	4,433,819	100
TSMC-North America	Subsidiary		11,000	2,014,990	100
GUC	Investee with controlling financial interest		41,263	629,755	38
TSMC-Japan	Subsidiary		6	95,757	100
TSMC-Europe	Subsidiary			49,741	100
TSMC-Korea	Subsidiary		80	14,706	100
United Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584	10
Shin-Etsu Handotai Taiwan Co., Ltd.			10,500	105,000	7

W.K. Technology Fund IV	4,000	40,000	2
Hontung Venture Capital Co., Ltd.	2,633	26,329	10

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Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	December 31, 2006		Market Value (US\$ Thousands)
				Carrying Value (US\$ in Thousands)	Percentage of Ownership	
on Ventures Fund		Financial assets carried at cost		\$ 280,179	12	\$ 2
son Asia Capital				67,751	1	
al						
C-Shanghai	Subsidiary	Investment accounted for using equity method		9,027,984	100	9,0
ging Alliance	Subsidiary			793,585	99	7
F II	Subsidiary			733,130	98	7
F III	Subsidiary			228,005	98	2
Cheng	Subsidiary			115,507	36	5
Ruey	Subsidiary			114,297	36	5
	Parent Company	Available-for-sale financial assets	16,947	1,143,941	N/A	1,1
	Equity method investee	Investments accounted for using equity method	5,032	107,224		1
	Parent Company	Available-for-sale financial assets	16,979	1,146,085	N/A	1,1
	Equity method investee	Investments accounted for using equity method	3,711	82,661		
Star	Subsidiary	Investments accounted for using equity method	9,207	US\$ 26,185	97	US\$

Star II	Subsidiary		51,300	US\$	46,195	97	US\$
C Development	Subsidiary		1	US\$	659,356	100	US\$
C Technology	Subsidiary		1	US\$	6,058	100	US\$
rTech	Subsidiary	Investments accounted for using equity method		US\$	282,420	100	US\$
mon stock							
ra Holdings	Equity method investee	Investments accounted for using equity method	25,000	US\$	34,000	49	US\$

(Continued)

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Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006			
			Shares/Units (in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Value
Common stock						
NetLogic Microsystems, Inc.		Financial assets at fair value through profit or loss	84	US\$ 1,828		US\$
Pixim, Inc.		Financial assets carried at cost	1,924	US\$ 512	4	US\$
RichWave Technology Corp.			4,247	US\$ 1,648	13	US\$
Global Investment Holding Inc.			10,800	\$100,000	6	\$
Preferred stock						
Ikanos Communication, Inc.		Available-for-sale financial assets	515	US\$ 4,473	2	US\$
Audience, Inc.		Financial assets carried at cost	1,654	US\$ 250	1	US\$
Axiom Microdevices, Inc.			1,000	US\$ 1,000	3	US\$
Centrality Communications			1,325	US\$ 1,800	3	US\$
Miradia, Inc.			3,040	US\$ 1,000	3	US\$
Mobilygen			1,415	US\$ 750	1	US\$
Mosaic Systems, Inc.			2,481	US\$ 12	6	US\$
Next IO, Inc.			800	US\$ 500	2	US\$
NuCORE Technology Inc.			2,254	US\$ 1,455	2	US\$
Optichron, Inc.			714	US\$ 1,000	4	US\$
Optimal Corporation			582	US\$ 600	4	US\$
Pixim, Inc.			2,193	US\$ 583		US\$
Reflectivity, Inc.			4,848	US\$ 531	4	US\$
Teknovus, Inc.			6,977	US\$ 1,327	3	US\$
Zenasis Technologies, Inc.			2,410	US\$ 1,399	5	US\$
Option						
Pixim, Inc.		Financial assets carried at cost	242	US\$		NA US\$
Common stock						
Beceem Communications		Financial assets carried at cost	650	US\$ 1,600	1	US\$
Leadtrend			1,150	US\$ 660	6	US\$
Yobon			1,675	US\$ 787	13	US\$
Sentelic			1,200	US\$ 2,040	15	US\$
Preferred stock						
5V Technologies, Inc.		Financial assets carried at cost	2,357	US\$ 1,768	11	US\$
Ageia Technologies, Inc.			2,030	US\$ 2,074	2	US\$
Aquantia Corporation			1,264	US\$ 1,150	5	US\$
Audience, Inc.			2,208	US\$ 474	1	US\$
Axiom Microdevices, Inc.			3,015	US\$ 1,466	2	US\$
GemFire Corporation			600	US\$ 68	1	US\$
Impinj, Inc.			257	US\$ 500		US\$

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any	Relationship with the	Shares/Units (in	Carrying Value (US\$ in	Percentage of Ownership (%)	December 31, 2006
Marketable Securities Type and Name	Company	Financial Statement Account	Thousands)	Thousands)	Thousands)
Miradia, Inc.		Financial assets carried at cost	2,740	US\$ 2,424	3 US
Next IO, Inc.		"	216	US\$ 182	US
Optichron, Inc.		"	353	US\$ 869	2 US
Power Analog Microelectronics		"	2,000	US\$ 1,500	13 US
Powerprecise Solutions, Inc.		"	1,445	US\$ 1,400	11 US
RichWave Technology Corp.		"	500	US\$ 231	2 US
Teknovus, Inc.		"	518	US\$ 119	US
Tzero Technologies, Inc.		"	730	US\$ 1,500	2 US
Xceive		"	714	US\$ 1,000	2 US
Common stock					
M2000, Inc.		Financial assets carried at cost	1,500	US\$ 1,500	4 US
Mutual-Pak Limited		"	170	US\$ 52	13 US
Quellan, Inc.		"	2,231	US\$ 2,500	7 US
SynDiTec, Inc.		"	4,332	US\$ 720	7 US
Validity-Pak Limited		"	5,333	US\$ 2,000	7 US
Common stock					
Monolithic Power Systems, Inc.		Financial assets at fair value through profit or loss	1,975	US\$ 21,939	7 US
Broadtek Electronics Corp.		"	29	US\$ 10	US
Broadtek Electronics Corp.		Available-for-sale financial assets	116	US\$ 40	US
Capella Microsystems (Taiwan), Inc.		Financial assets carried at cost	530	US\$ 154	2 US
Preferred stock					
Integrated Memory Logic, Inc.		Financial assets carried at cost	1,831	US\$ 1,221	9 US
IP Unity, Inc.		"	1,008	US\$ 494	1 US
Memsic, Inc.		"	2,724	US\$ 1,500	9 US
NanoAmp Solutions, Inc.		"	541	US\$ 853	2 US
Sonics, Inc.		"	1,843	US\$ 3,530	2 US
Common stock					
Monolithic Power Systems, Inc.		Financial assets at fair value through profit or loss	864	US\$ 9,604	3 US
RichTek Technology Corp.		"	255	US\$ 2,045	US
Geo Vision, Inc.		"	46	US\$ 229	US
RichTek Technology Corp.		Available-for-sale financial assets	227	US\$ 1,824	US
Geo Vision, Inc.		"	15	US\$ 73	US
eChannelOpen Holding, Inc.		Financial assets carried at cost	358	US\$ 251	4 US
eLCOS Microdisplay Technology, Ltd.		"	270	US\$ 27	1 US
EoNEX Technologies, Inc.		"	55	US\$ 3,048	5 US

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			December 31, 2006					
Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units		Carrying Value		Percentage of Ownership	
			(in thousands)	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)	(US\$ in thousands)
Sonics, Inc.		Financial assets carried at cost	2,220	US\$ 32	US\$			
Epic Communications, Inc.			191	US\$ 37	1	US\$		
EON Technology, Corp.			4,247	US\$ 1,175	7	US\$		
Goyatek Technology, Corp.			2,088	US\$ 545	7	US\$		
Capella Microsystems (Taiwan), Inc.			534	US\$ 210	2	US\$		
Trendchip Technologies Corp.			2,000	US\$ 574	4	US\$		
Ralink Technology (Taiwan), Inc.			1,833	US\$ 791	3	US\$		
Auden Technology MFG Co., Ltd.			953	US\$ 223	4	US\$		
Preferred stock								
eLCOS Microdisplay Technology, Ltd.		Financial assets carried at cost	2,667	US\$ 3,500	8	US\$		
Alchip Technologies Limited			3,531	US\$ 2,950	15	US\$		
FangTek, Inc.			6,930	US\$ 3,250	20	US\$		
Kilopass Technology, Inc.			3,887	US\$ 2,000	6	US\$		
Memsic, Inc.			2,289	US\$ 1,560	7	US\$		
NanoAmp Solutions, Inc.			375	US\$ 1,500	1	US\$		
Sonics, Inc.			2,115	US\$ 3,082	6	US\$		
Open-end mutual funds								
ABN AMRO Bond Fund		Available-for-sale financial assets	2,352	\$ 35,041	N/A	US\$		
Ta Chong Bond Fund			2,306	30,037	N/A	US\$		
Dresdner Bond DAM Fund			2,592	30,036	N/A	US\$		
NITC Taiwan Bond			2,132	30,035	N/A	US\$		
AIG Taiwan Bond Fund			2,355	30,031	N/A	US\$		
Fuh Hwa You Li Bond Fund			2,018	25,035	N/A	US\$		
Stock								
Global Unichip Corporation America	North	Subsidiary	100	6,396	100	US\$		
Global Unichip Japan		Subsidiary		2,681	100	US\$		
Government bond								
United States Treas Nts		Available-for-sale financial assets		US\$ 151,045	N/A	US\$		
Corporate bonds								
Abbott Labs		Available-for-sale financial assets		US\$ 1,505	N/A	US\$		
Abbott Labs				US\$ 2,547	N/A	US\$		
Ace Ltd.				US\$ 1,001	N/A	US\$		
Aig Sunamerica Global Fing Ix				US\$ 1,000	N/A	US\$		
Allstate Life Global Fdg Secd				US\$ 2,956	N/A	US\$		

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Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006			
				Shares/Units (in US\$ in thousands)	Carrying Value (US\$ in thousands)	Percentage of Ownership	Net Value (US\$ in thousands)
	American Express Co.		Available-for-sale financial assets		US\$ 3,452	N/A	US\$
	American Gen Fin Corp.		"		US\$ 1,620	N/A	US\$
	American Gen Fin Corp. Mtn		"		US\$ 3,448	N/A	US\$
	American Gen Fin Corp. Mtn		"		US\$ 1,971	N/A	US\$
	American Gen Fin Corp. Mtn		"		US\$ 1,001	N/A	US\$
	American Honda Fin Corp. Mtn		"		US\$ 3,092	N/A	US\$
	American Honda Fin Corp. Mtn		"		US\$ 801	N/A	US\$
	Ameritech Capital Funding Co.		"		US\$ 483	N/A	US\$
	Amgen Inc.		"		US\$ 2,905	N/A	US\$
	Anz Cap Tr I		"		US\$ 972	N/A	US\$
	Associates Corp. North Amer		"		US\$ 2,541	N/A	US\$
	Axa Finl Inc.		"		US\$ 2,151	N/A	US\$
	Bank New York Inc.		"		US\$ 1,487	N/A	US\$
	Bank One Corp.		"		US\$ 3,365	N/A	US\$
	Bank One Corp.		"		US\$ 2,045	N/A	US\$
	Bank Utd Houston Tx Mtn		"		US\$ 528	N/A	US\$
	Bear Stearns Cos Inc.		"		US\$ 3,379	N/A	US\$
	Beneficial Corp. Mtn Bk Entry		"		US\$ 2,297	N/A	US\$
	Berkshire Hathaway Fin Corp.		"		US\$ 1,486	N/A	US\$
	Chase Manhattan Corp. New		"		US\$ 5,077	N/A	US\$
	Chase Manhattan Corp. New		"		US\$ 2,115	N/A	US\$
	Chubb Corp.		"		US\$ 2,116	N/A	US\$
	Cit Group Hldgs Inc.		"		US\$ 3,027	N/A	US\$
	Citicorp		"		US\$ 1,372	N/A	US\$
	Cogentrix Energy Inc.		"		US\$ 3,751	N/A	US\$
	Colonial Pipeline Co.		"		US\$ 1,494	N/A	US\$
	Consolidated Edison Inc.		"		US\$ 2,910	N/A	US\$
	Countrywide Fdg Corp. Mtn		"		US\$ 2,037	N/A	US\$
	Credit Suisse Fincl Products		"		US\$ 1,500	N/A	US\$
	Credit Suisse First Boston		"		US\$ 734	N/A	US\$
	Credit Suisse First Boston Usa		"		US\$ 2,177	N/A	US\$
	Daimlerchrysler North Amer		"		US\$ 977	N/A	US\$
	Daimlerchrysler North Amer Hld		"		US\$ 751	N/A	US\$
	Dayton Hudson Corp.		"		US\$ 2,020	N/A	US\$
	Deere John Cap Corp.		"		US\$ 4,928	N/A	US\$
	Dell Computer Corp.		"		US\$ 2,820	N/A	US\$
	Den Danske Bk Aktieselskab		"		US\$ 2,019	N/A	US\$
	Diageo Plc		"		US\$ 3,444	N/A	US\$
	Emerson Elec Co.		"		US\$ 3,215	N/A	US\$

European Invt Bk

"

US\$ 3,970 N/A US\$
(Continued)

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December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value Shares/Units (in US\$ in thousands)	Percentage of Ownership
European Invt Bk		Available-for-sale financial assets	US\$ 6,057	N/A
Federal Home Ln Bks			US\$ 7,937	N/A
Fifth Third Bk Cincinnati Oh			US\$ 2,427	N/A
Fleet Boston Corp.			US\$ 2,643	N/A
Fleet Finl Group Inc. New			US\$ 905	N/A
Fpl Group Cap Inc.			US\$ 849	N/A
Ge Global Ins Hldg Corp.			US\$ 1,915	N/A
General Elec Cap Corp. Mtn			US\$ 3,888	N/A
General Elec Cap Corp. Mtn			US\$ 8,759	N/A
General Elec Cap Corp. Mtn			US\$ 8,282	N/A
General Elec Cap Corp. Mtn			US\$ 2,119	N/A
General Re Corp.			US\$ 3,292	N/A
Goldman Sachs Group Inc.			US\$ 4,989	N/A
Goldman Sachs Group Inc.			US\$ 3,456	N/A
Greenpoint Finl Corp.			US\$ 968	N/A
Hancock John Global Fdg Ii Mtn			US\$ 2,896	N/A
Hancock John Global Fdg Ii Mtn			US\$ 5,132	N/A
Hancock John Global Fdg Mtn			US\$ 975	N/A
Hartford Finl Svcs Group Inc.			US\$ 5,037	N/A
Hartford Finl Svcs Group Inc.			US\$ 1,345	N/A
Hbos Plc Medium Term Sr Nts			US\$ 3,205	N/A
Hbos Plc Medium Term Sr Nts			US\$ 2,952	N/A
Heller Finl Inc.			US\$ 1,929	N/A
Hershey Foods Corp.			US\$ 1,504	N/A
Household Fin Corp.			US\$ 2,903	N/A
Household Fin Corp.			US\$ 501	N/A
Household Intl Inc.			US\$ 2,851	N/A
Hsbc Fin Corp.			US\$ 3,028	N/A
Hsbc Fin Corp. Mtn			US\$ 5,096	N/A
Huntington National Bank			US\$ 1,886	N/A
Ing Sec Life Instl Fdg			US\$ 2,483	N/A
International Business Machs			US\$ 2,217	N/A
Intl Lease Fin Corp. Mtn			US\$ 2,939	N/A
Intl Lease Fin Corp. Mtn			US\$ 4,138	N/A
J P Morgan Chase + Co.			US\$ 3,298	N/A
Jackson Natl Life Global Fdg			US\$ 1,000	N/A
Key Bk Na Med Term Nts Bk Entr			US\$ 4,401	N/A
KeyCorp. Mtn Book Entry			US\$ 3,010	N/A
Kraft Foods Inc.			US\$ 1,000	N/A

(Continued)

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December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value Shares/Units (in US\$ in thousands)	Percentage of Ownership T
Lehman Brothers Hldgs Inc.		Available-for-sale financial assets	US\$ 1,626	N/A
Lehman Brothers Hldgs Inc.			US\$ 487	N/A
Lehman Brothers Hldgs Inc.			US\$ 989	N/A
Lehman Brothers Hldgs Inc.			US\$ 3,150	N/A
Lehman Brothers Hldgs Inc.			US\$ 1,077	N/A
Lincoln Natl Corp. In			US\$ 500	N/A
Marshall + Ilsley Corp.			US\$ 8,420	N/A
Mbna America Bank Na Y			US\$ 6,403	N/A
Merita Bk Ltd. Ny Brh			US\$ 501	N/A
Merrill Lynch + Co. Inc.			US\$ 3,453	N/A
Merrill Lynch + Co. Inc.			US\$ 1,985	N/A
Merrill Lynch + Co. Inc.			US\$ 4,865	N/A
Metropolitan Life Global Mtn			US\$ 3,369	N/A
Mgic Invt Corp.			US\$ 1,204	N/A
Monumental Global Fdg Ii			US\$ 1,468	N/A
Monumental Global Fdg Ii 2002a			US\$ 1,000	N/A
Monunmetal Global Fdg Ii			US\$ 1,961	N/A
Mony Group Inc.			US\$ 2,175	N/A
Morgan Stanley			US\$ 1,926	N/A
Morgan Stanley			US\$ 2,126	N/A
National City Corp.			US\$ 3,410	N/A
National Westminster Bk Plc			US\$ 1,323	N/A
Nationwide Bldg Soc			US\$ 3,537	N/A
Nationwide Life Global Fdg I			US\$ 3,501	N/A
Nationwide Life Global Mtn			US\$ 1,485	N/A
Nucor Corp.			US\$ 3,797	N/A
Oracle Corp. / Ozark Hldg Inc.			US\$ 1,973	N/A
Pepsico Inc. Mtn Book Entry			US\$ 3,619	N/A
Pnc Fdg Corp.			US\$ 1,007	N/A
Popular North Amer Inc.			US\$ 2,910	N/A
Praxair Inc.			US\$ 3,138	N/A
Premark Intl Inc.			US\$ 2,729	N/A
Pricoa Global Fdg I Mtn			US\$ 3,401	N/A
Principal Finl Group Australia			US\$ 1,013	N/A
Principal Life Global Fdg I Gl			US\$ 1,165	N/A
Protective Life Secd Trs			US\$ 2,913	N/A
Protective Life Secd Trs Mtn			US\$ 3,390	N/A
Prudential Ins Co. Amer			US\$ 2,629	N/A
Public Svc Elec Gas Co.			US\$ 3,682	N/A
Regions Finl Corp. New			US\$ 2,371	N/A

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December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value Shares/Units (in US\$ in thousands)	Percentage of Ownership T
Safeco Corp.		Available-for-sale financial assets	US\$ 715	N/A
Sbc Communications Inc.			US\$ 1,041	N/A
Sbc Communications Inc.			US\$ 697	N/A
Simon Ppty Group Lp			US\$ 1,009	N/A
Slm Corp. Medium Term Nts			US\$ 8,998	N/A
Sp Powerasests Ltd. Global			US\$ 969	N/A
St Paul Cos Inc. Mtn Bk Ent			US\$ 2,550	N/A
Suntrust Bk Atlanta Ga Medium			US\$ 3,442	N/A
Tiaa Global Mkts Inc.			US\$ 500	N/A
Unitedhealth Group Inc.			US\$ 3,000	N/A
Us Bk Natl Assn Cincinnati Oh			US\$ 2,915	N/A
Vodafone Airtouch Plc			US\$ 4,449	N/A
Wachovia Corp. New			US\$ 2,040	N/A
Washington Mut Bk Fa			US\$ 3,997	N/A
Washington Mut Inc.			US\$ 1,692	N/A
Washington Mut Inc.			US\$ 1,000	N/A
Washington Post Co.			US\$ 3,001	N/A
Wells Fargo + Co. New			US\$ 2,943	N/A
Wells Fargo + Co. New Med Trm			US\$ 4,311	N/A
Westfield Cap Corp. Ltd.			US\$ 2,005	N/A
Wps Resources Corp.			US\$ 1,047	N/A
Corporate issued asset - backed securities				
American Home Mtg Invt Tr		Available-for-sale financial assets	US\$ 116	N/A
Americredit Auto Rec Tr			US\$ 1,004	N/A
Americredit Automobile Rec Tr			US\$ 1,116	N/A
Americredit Automobile Rec Tr			US\$ 2,598	N/A
Americredit Automobile Rec Tr			US\$ 3,269	N/A
Americredit Automobile Receiva			US\$ 4,609	N/A
Americredit Automobile Receivb			US\$ 2,891	N/A
Atlantic City Elc Trns Fdglc			US\$ 420	N/A
Ba Cr Card Tr			US\$ 4,300	N/A
Banc Amer Coml Mtg Inc.			US\$ 2,869	N/A
Banc Amer Fdg 2006 I Tr			US\$ 4,332	N/A
Bank Of Amer Lease Equip Tr			US\$ 1,057	N/A
Bear Stearns Alt A Tr			US\$ 628	N/A
Bear Stearns Arm Tr			US\$ 3,480	N/A
Bear Stearns Arm Tr			US\$ 1,951	N/A
Bear Stearns Coml Mtg Secs Inc.			US\$ 6,358	N/A
Bear Stearns Coml Mtg Secs Inc.			US\$ 3,541	N/A

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Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying	Percentage of Ownership
			Value	
			(in US\$ in thousands)	
Capital Auto Receivables Asset		Available-for-sale financial assets	US\$ 3,243	N/A
Capital One Auto Fin Tr			US\$ 2,618	N/A
Capital One Auto Fin Tr			US\$ 2,986	N/A
Capital One Auto Fin Tr			US\$ 4,998	N/A
Capital One Multi Asset Execut			US\$ 3,941	N/A
Capital One Multi Asset Execut			US\$ 2,963	N/A
Capital One Prime Auto Rec			US\$ 3,981	N/A
Capital One Prime Auto Receiv			US\$ 2,507	N/A
Caterpillar Finl Asset Tr			US\$ 1,525	N/A
Caterpillar Finl Asset Tr			US\$ 8,142	N/A
Cbass Tr			US\$ 4,262	N/A
Cendant Rent Car Fdg Aesop Llc			US\$ 9,297	N/A
Cit Equip Coll Tr			US\$ 1,899	N/A
Cit Equip Coll Tr			US\$ 3,985	N/A
Citibank Cr Card Issuance Tr			US\$ 9,864	N/A
Citibank Cr Card Issuance Tr			US\$ 2,688	N/A
CitiCorp. Mtg Secs			US\$ 582	N/A
Cnh Equip Tr			US\$ 1,984	N/A
Credit Suisse First Boston Mtg			US\$ 3,740	N/A
Credit Suisse First Boston Mtg			US\$ 3,576	N/A
Credit Suisse First Boston Mtg			US\$ 444	N/A
Cwabs			US\$ 4,261	N/A
Cwabs Inc.			US\$ 224	N/A
Cwmbs Inc.			US\$ 893	N/A
Daimlerchrysler Auto Tr			US\$ 4,315	N/A
Daimlerchrysler Auto Tr			US\$ 1,695	N/A
Deere John Owner Tr			US\$ 2,452	N/A
Drive Auto Receivables Tr			US\$ 3,191	N/A
Fifth Third Auto Tr			US\$ 12	N/A
First Franklin Mtg Ln Tr			US\$ 4,290	N/A
First Horizon Abs Tr			US\$ 528	N/A
First Union Lehman Bros Mtg Tr			US\$ 1,715	N/A
Ford Credit Auto Owner Trust			US\$ 4,324	N/A
Ge Cap Cr Card Master Nt Tr			US\$ 2,846	N/A
Granite Mtgs Plc			US\$ 564	N/A
Gs Mtg Secs Corp.			US\$ 4,145	N/A
Gsamp Tr			US\$ 4,251	N/A
Harley Davidson Motorcycle Tr			US\$ 150	N/A
Harley Davidson Motorcycle Tr			US\$ 5,825	N/A

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December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying Value Shares/Units (in US\$ in thousands)	Percentage of Ownership
Hertz Veh Fing Llc		Available-for-sale financial assets	US\$ 5,319	N/A
Holmes Fing No 8 Plc			US\$ 5,000	N/A
Home Equity Mtg Tr 2006 4			US\$ 4,222	N/A
Hsbc Automotive Tr			US\$ 2,980	N/A
Hyundai Auto Receivables Tr			US\$ 5,537	N/A
Hyundai Auto Receivables Tr			US\$ 3,212	N/A
Hyundai Auto Receivables Tr			US\$ 3,928	N/A
Impac Cmb Tr			US\$ 308	N/A
Impac Cmb Tr			US\$ 238	N/A
Lb Ubs Coml Mtg Tr			US\$ 3,493	N/A
Long Beach Mtg Ln Tr			US\$ 3,203	N/A
Mastr Asset Backed			US\$ 4,224	N/A
Mbna Master Cr Card Tr Ii			US\$ 7,605	N/A
Merrill Lynch Mtg Invs Inc.			US\$ 5,887	N/A
Morgan Stanley Ixis Estate Tr			US\$ 4,110	N/A
National City Auto Receivables			US\$ 41	N/A
Navistar Finl 2003 A Owner Tr			US\$ 2,956	N/A
Nissan Auto Receivables			US\$ 72	N/A
Nissan Auto Receivables			US\$ 3,928	N/A
Nomura Asset Accep Corp.			US\$ 4,150	N/A
Onyx Accep Owner Tr			US\$ 3,774	N/A
Pg+E Energy Recovery Fdg Llc			US\$ 3,997	N/A
Providian Gateway Owner Tr			US\$ 3,942	N/A
Reliant Energy Transition Bd			US\$ 2,486	N/A
Residential Asset Mtg Prods			US\$ 2,484	N/A
Residential Asset Sec Mtg Pass			US\$ 1,865	N/A
Residential Asset Sec Mtg Pass			US\$ 2,711	N/A
Residential Fdg Mtg Secs I Inc.			US\$ 2,014	N/A
Residential Fdg Mtg Secs I Inc.			US\$ 4,058	N/A
Sequoia Mtg Tr			US\$ 548	N/A
Sequoia Mtg Tr			US\$ 496	N/A
Sequoia Mtg Tr			US\$ 737	N/A
Structured Adj Rate Mtg Ln Tr			US\$ 1,389	N/A
Structured Adj Rate Mtg Ln Tr			US\$ 472	N/A
Terwin Mtg Tr			US\$ 4,065	N/A
Tw Hotel Fdg 2005 Llc			US\$ 4,103	N/A
Txu Elec Delivery Transition			US\$ 2,219	N/A
Usaa Auto Owner Tr			US\$ 4,238	N/A
Wamu Mtg Pass Thru Ctfs			US\$ 1,002	N/A
Wamu Tr			US\$ 975	N/A

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Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in thousands)	Carrying Value (in US\$ in thousands)	Percentage of Ownership
Washington Mut Mtg Pass		Available-for-sale financial assets		US\$ 1,759	N/A
Washington Mut Mtg Secs Corp.				US\$ 2,984	N/A
Wells Fargo Finl Auto Owner Tr				US\$ 4,986	N/A
Wells Fargo Finl Auto Owner Tr				US\$ 4,926	N/A
Wells Fargo Mtg Backed Secs				US\$ 4,367	N/A
Wells Fargo Mtg Bkd Secs				US\$ 2,856	N/A
Wells Fargo Mtg Bkd Secs				US\$ 3,399	N/A
Wells Fargo Mtg Bkd Secs Tr				US\$ 2,748	N/A
Wfs Finl				US\$ 620	N/A
Wfs Finl 2004 4 Owner Tr				US\$ 932	N/A
Wfs Finl 2005 2 Oner Tr				US\$ 2,220	N/A
Whole Auto Ln Tr				US\$ 1,219	N/A
Whole Auto Ln Tr				US\$ 2,955	N/A
Agency bond					
Federal Home Ln Bks		Available-for-sale financial assets		US\$ 8,768	N/A
Federal Home Ln Bks				US\$ 4,920	N/A
Federal Home Ln Bks				US\$ 8,743	N/A
Federal Home Ln Bks				US\$ 4,856	N/A
Federal Home Ln Bks				US\$ 5,851	N/A
Federal Home Ln Bks				US\$ 7,952	N/A
Federal Home Ln Bks				US\$ 4,885	N/A
Federal Home Ln Bks				US\$ 2,991	N/A
Federal Home Ln Bks				US\$ 6,099	N/A
Federal Home Ln Bks				US\$ 12,279	N/A
Federal Home Ln Bks				US\$ 6,905	N/A
Federal Home Ln Bks				US\$ 5,898	N/A
Federal Home Ln Bks				US\$ 7,506	N/A
Federal Home Ln Bks				US\$ 2,386	N/A
Federal Home Ln Mtg Corp.				US\$ 1,976	N/A
Federal Home Ln Mtg Corp.				US\$ 5,948	N/A
Federal Home Ln Mtg Corp.				US\$ 6,440	N/A
Federal Home Loan Banks				US\$ 8,049	N/A
Federal Natl Mtg Assn				US\$ 4,365	N/A
Federal Natl Mtg Assn				US\$ 5,915	N/A
Federal Natl Mtg Assn				US\$ 3,943	N/A
Federal Natl Mtg Assn				US\$ 7,868	N/A
Federal Natl Mtg Assn				US\$ 19,766	N/A
Federal Natl Mtg Assn				US\$ 14,973	N/A

(Continued)

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December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying	Percentage of Ownership	
			Shares/Units (in thousands)		Value (US\$ in thousands)
Federal Natl Mtg Assn		Available-for-sale financial assets		US\$ 10,467	N/A
Federal Natl Mtg Assn				US\$ 6,511	N/A
Federal Natl Mtg Assn				US\$ 3,000	N/A
Federal Natl Mtg Assn Medium				US\$ 3,415	N/A
Federal Natl Mtg Assn Mtn				US\$ 2,914	N/A
Federal Natl Mtg Assn Mtn				US\$ 2,900	N/A
Federal Natl Mtg Assn Mtn				US\$ 5,318	N/A
Tennessee Valley Auth				US\$ 6,024	N/A
Fed Hm Ln Pc Pool 1H2520				US\$ 3,100	N/A
Fed Hm Ln Pc Pool 1H2524				US\$ 2,354	N/A
Fed Hm Ln Pc Pool 781959				US\$ 6,040	N/A
Fed Hm Ln Pc Pool 847628				US\$ 3,796	N/A
Fed Hm Ln Pc Pool B19205				US\$ 8,560	N/A
Fed Hm Ln Pc Pool E89857				US\$ 1,595	N/A
Fed Hm Ln Pc Pool G11295				US\$ 1,371	N/A
Fed Hm Ln Pc Pool M80855				US\$ 3,287	N/A
Federal Home Ln Mtg				US\$ 3,019	N/A
Federal Home Ln Mtg Corp.				US\$ 2,208	N/A
Federal Home Ln Mtg Corp.				US\$ 3,917	N/A
Federal Home Ln Mtg Corp.				US\$ 3,626	N/A
Federal Home Ln Mtg Corp.				US\$ 3,076	N/A
Federal Home Ln Mtg Corp.				US\$ 4,464	N/A
Federal Home Ln Mtg Corp.				US\$ 1,389	N/A
Federal Home Ln Mtg Corp.				US\$ 3,176	N/A
Federal Home Ln Mtg Corp.				US\$ 3,738	N/A
Federal Home Ln Mtg Corp.				US\$ 3,216	N/A
Federal Home Ln Mtg Corp.				US\$ 1,356	N/A
Federal Home Ln Mtg Corp.				US\$ 8,535	N/A
Federal Home Ln Mtg Corp.				US\$ 3,409	N/A
Federal Home Ln Mtg Corp.				US\$ 2,976	N/A
Federal Home Ln Mtg Corp.				US\$ 4,502	N/A
Federal Home Ln Mtg Corp.				US\$ 2,965	N/A
Federal Home Ln Mtg Corp.				US\$ 3,743	N/A
Federal Home Ln Mtg Corp.				US\$ 4,381	N/A
Federal Home Ln Mtg Corp.				US\$ 4,223	N/A
Federal Natl Mtg Assn				US\$ 2,807	N/A
Federal Natl Mtg Assn				US\$ 259	N/A
Federal Natl Mtg Assn				US\$ 3,158	N/A
Federal Natl Mtg Assn				US\$ 2,465	N/A

(Continued)

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December 31, 2006

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Carrying	Percentage of Ownership
			Shares/Unit Value (in US\$ in thousands)	
Federal Natl Mtg Assn		Available-for-sale financial assets	US\$ 4,290	N/A
Federal Natl Mtg Assn			US\$ 1,994	N/A
Federal Natl Mtg Assn			US\$ 4,339	N/A
Federal Natl Mtg Assn			US\$ 632	N/A
Federal Natl Mtg Assn Gtd			US\$ 2,215	N/A
Federal Natl Mtg Assn Gtd			US\$ 2,239	N/A
Fnma Pool 254507			US\$ 1,616	N/A
Fnma Pool 254834			US\$ 1,417	N/A
Fnma Pool 255883			US\$ 3,490	N/A
Fnma Pool 555549			US\$ 1,616	N/A
Fnma Pool 632399			US\$ 434	N/A
Fnma Pool 662401			US\$ 659	N/A
Fnma Pool 667766			US\$ 1,574	N/A
Fnma Pool 680932			US\$ 1,307	N/A
Fnma Pool 681393			US\$ 2,749	N/A
Fnma Pool 685116			US\$ 629	N/A
Fnma Pool 687863			US\$ 2,647	N/A
Fnma Pool 696485			US\$ 3,194	N/A
Fnma Pool 703711			US\$ 538	N/A
Fnma Pool 725095			US\$ 1,204	N/A
Fnma Pool 730033			US\$ 1,470	N/A
Fnma Pool 740934			US\$ 1,415	N/A
Fnma Pool 790828			US\$ 2,559	N/A
Fnma Pool 793025			US\$ 2,466	N/A
Fnma Pool 793932			US\$ 631	N/A
Fnma Pool 794040			US\$ 825	N/A
Fnma Pool 795548			US\$ 411	N/A
Fnma Pool 806642			US\$ 1,235	N/A
Fnma Pool 813641			US\$ 3,720	N/A
Fnma Pool 815626			US\$ 2,945	N/A
Fnma Pool 816594			US\$ 2,067	N/A
Fnma Pool 825395			US\$ 2,818	N/A
Fnma Pool 825398			US\$ 4,224	N/A
Fnma Pool 841069			US\$ 2,882	N/A
Fnma Pool 879906			US\$ 1,636	N/A
Gnma Ii Pool 081150			US\$ 613	N/A
Gnma Ii Pool 081153			US\$ 2,119	N/A
Money market funds				
SSGA Cash Mgmt Global Offshore		Available-for-sale financial assets	US\$ 20,488	N/A

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Taiwan Semiconductor Manufacturing Company Limited and Investees
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Financial Statement Account	Nature of Shares/Units Counter-party Relationship (in Thousands)	Beginning Balance		Acquisition		Disposal
		Amount (US\$ in Thousands)	Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands)	
Available-for-sale financial assets		US\$ 6,881		US\$		US\$ 6
		US\$ 46,173		US\$ 268,521		US\$ 310
	KGI Securities Co., Ltd. and several financial institutions	\$		\$ 1,005,115		\$
	KGI Securities Co., Ltd. and several financial institutions			998,324		
Available-to-maturity financial assets	KGI Securities Co., Ltd. and several financial institutions			3,658,659		
	KGI Securities Co., Ltd. and several financial institutions	2,548,977		499,084		
	KGI Securities Co., Ltd. and several financial institutions			1,647,823		

	JP Morgan Chase Bank				827,820
	KGI Securities Co., Ltd. and several financial institutions	149,441			647,445
	KGI Securities Co., Ltd. and several financial institutions				401,728
	KGI Securities Co., Ltd. and several financial institutions				367,600
	KGI Securities Co., Ltd. and several financial institutions				249,998
	JP Morgan Chase Bank				87,461
available-for-sale financial assets	National Investment Trust Co., Ltd.	3,764	610,864	18,455	3,000,000
	ABN-AMRO Securities Investment Trust (Taiwan) Ltd.	134,906	2,004,862	40,250	600,000
	Fuh Hwa Investment Trust Co.			125,122	1,655,781
	Mega Investment Trust Corporation			139,333	1,600,000
	Cathay Securities			103,751	1,500,000

Investment
Trust Co., Ltd.

Allianz 93,312 1,300,000
Dresdner
Securities
Investment
Consulting
Co.,Ltd.

JF Asset 62,009 933,430 23,136 350,000
Management
(Taiwan)
Ltd.

National 122,762 1,400,000 13,042 150
Investment
Trust Co., Ltd.

JIH SUN 88,165 1,200,000
Investment
Trust (Taiwan)
Ltd.

JF Asset 69,303 792,068 34,914 400,000 8,664 100
Management
(Taiwan) Ltd.

Fuh Hwa 63,947 1,000,000
Investment
Trust Co.

HSBC 72,002 1,100,000 6,506 100
Investment
(Taiwan) Ltd.

AGI Securities 78,629 1,000,000
Investment
Trust (Taiwan)
Ltd.

ABN-AMRO 63,131 875,416 14,399 200,000 10,704 150
Securities
Investment
Trust (Taiwan)
Ltd.

Fuh Hwa 55,063 778,482 17,617 250,000 10,497 150
Investment
Trust Co.

ABN-AMRO 18,235 203,860 93,738 1,050,000 35,380 400
Securities
Investment
Trust (Taiwan)

Ltd.

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Financial Statement	Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Shares/Units (in thousands)	Total
				Amount	Amount	Amount	Amount		
Available-for-sale financial assets		Uni-President Assets Management Corp.		\$		\$	78,624	\$	800,000
		Polaris International Securities Investment Trust Co., Ltd.					63,273		700,000
		Shinkong Securities Investment Trust (Taiwan) Ltd.					56,812		700,000
		Taiwan International Securities Corp.					47,667		700,000
		Taishin Securities Investment Trust (Taiwan) Ltd.					27,176		403,727
		Invesco Asset management Taiwan					89,510		1,000,000
		Taishin Securities Investment Trust (Taiwan) Ltd.					44,180		500,000
Investment accounted for using equity method			Equity method investee	382	4,215,200	81			2,432,705

Investment accounted for using equity method	Subsidiary	642,479	130,956		
			243,545		
Held-to-maturity financial assets	KGI Securities Co., Ltd.	3,263,349	1,690,567		
	KGI Securities Co., Ltd.	1,093,283	2,769,533		
	KGI Securities Co., Ltd.	2,150,842	1,097,943		
	KGI Securities Co., Ltd. and several financial institutions	705,436	1,000,441		
	KGI Securities Co., Ltd.	1,010,532	1,000,000		
	KGI Securities Co., Ltd. and several financial institutions	268,855	379,809		
	KGI Securities Co., Ltd.		283,996		
	Available-for-sale financial assets	HSBC		1,526,049	
		HSBC		1,144,877	
		KGI Securities Co., Ltd.		1,046,302	
	KGI Securities Co., Ltd.		397,076		
		US\$ 3,550		US\$	
			US\$ 3,415	US\$	
			US\$ 3,087	US\$	
		US\$ 3,800		US\$	
			US\$ 3,326	US\$	
		US\$ 3,329		US\$	
		US\$ 3,757		US\$	
			US\$ 3,337	US\$	
		US\$ 5,721		US\$	
		US\$ 1,628	US\$ 3,540	US\$	
		US\$ 3,203		US\$	
		US\$ 2,885	US\$ 1,132	US\$	
		US\$ 5,210		US\$	
		US\$ 4,141		US\$	

		US\$	4,911	US\$
	US\$	5,079		US\$
	US\$	3,459		US\$
	US\$	8,315		US\$
	US\$	3,918		US\$
		US\$	5,995	US\$
		US\$	7,937	US\$
		US\$	3,351	US\$
			(Continued)	

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Name	Account	Counter-party Relationship	Nature of Shares/Units (in Thousands)	Beginning Balance	Acquisition	Disposal
				Amount (US\$ in Thousands)	Amount (US\$ in Thousands)	Amount (US\$ in Thousands)
o Corp. Mtn	Available-for-sale financial assets			US\$ 3,989	US\$	US\$ 3,893
o Corp. Mtn				US\$ 8,862		US\$ 8,716
.				US\$ 3,500		US\$ 3,319
ic.				US\$ 3,412		US\$ 3,415
Group Inc.				US\$ 4,981		US\$ 4,941
Group Inc.				US\$ 3,477		US\$ 3,453
lobal Fdg Ii Mtn				US\$ 3,566		US\$ 3,486
lobal Fdg Ii Mtn					US\$ 3,808	US\$ 3,808
es Group Inc.					US\$ 5,016	US\$ 5,048
m Term Sr Nts				US\$ 3,201		US\$ 3,182
Co.				US\$ 3,373		US\$ 3,177
				US\$ 3,284		US\$ 3,017
Mtn				US\$ 5,097		US\$ 5,066
orp. Mtn				US\$ 2,471	US\$ 4,100	US\$ 6,578
e + Co.				US\$ 3,406		US\$ 3,310
e + Co.				US\$ 3,663		US\$ 3,519
Term Nts Bk Entr				US\$ 4,450		US\$ 4,393
ok Entry				US\$ 3,500		US\$ 3,508
ok Entry					US\$ 3,006	US\$ 3,016
Co. Inc.				US\$ 3,486		US\$ 3,426
Co. Inc.				US\$ 4,900		US\$ 4,842
e Global Mtn				US\$ 1,907	US\$ 1,419	US\$ 3,361
bal Fdg Ii 2					US\$ 3,348	US\$ 3,382
Group Inc.				US\$ 4,507		US\$ 4,386
rp.				US\$ 3,426		US\$ 3,402
Soc				US\$ 3,457		US\$ 3,495
Soc Mtn				US\$ 3,000		US\$ 3,004
Global Fdg I					US\$ 3,491	US\$ 3,520
					US\$ 3,828	US\$ 3,811
Book Entry				US\$ 3,818		US\$ 3,624
					US\$ 3,180	US\$ 3,147
g 1 Mtn				US\$ 3,500		US\$ 3,504
g I Mtn					US\$ 3,394	US\$ 3,403
Gas Co.				US\$ 3,225	US\$ 483	US\$ 3,684
bt S A Uniperso				US\$ 4,998		US\$ 4,957
m Term Nts				US\$ 2,950	US\$ 6,012	US\$ 8,949
nta Ga Medium					US\$ 3,409	US\$ 3,448
Inc.				US\$ 4,735		US\$ 4,505

Co.		US\$ 3,182		US\$ 3,007
D. New		US\$ 3,697		US\$ 3,512
D. New			US\$ 6,076	US\$ 6,073
asset-backed				
omobile Rec Tr	Available-for-sale financial assets		US\$ 3,249	US\$ 3,261
omobile Recept		US\$ 5,000		US\$ 4,959
omobile Recept		US\$ 4,949		US\$ 3,826
l Mtg Inc.		US\$ 4,462		US\$ 3,254
n Tr			US\$ 3,826	US\$ 3,597
nl Mtg Secs Inc.		US\$ 6,350		US\$ 6,362
ceivables Asset			US\$ 3,250	US\$ 3,232
o Fin Tr			US\$ 5,000	US\$ 5,008
ti Asset Execut		US\$ 4,957		US\$ 4,879
ti Asset Execut		US\$ 3,974		US\$ 3,932
Asset Tr		US\$ 8,219		US\$ 8,121
r Fdg Aesop Llc		US\$ 11,626		US\$ 11,412
r			US\$ 3,975	US\$ 3,996

(Continued)

Table of Contents

Securities Type and Financial Statement	Name	Account	Counter-party Relationship	Nature of	Beginning Balance	Acquisition	Disposal
					Shares/Units	Amount	Amount
					(US\$ in	(in	(in
				(in Thousands)	Thousands	Thousands	Thousands
					(US\$ in	(in	(in
					Thousands	Thousands	Thousands
	Available-for-sale				US\$ 9,782	US\$	US\$ 9,797
	financial assets				US\$ 5,000		US\$ 3,457
First Boston Mtg						US\$ 4,773	US\$ 4,834
First Boston Mtg						US\$ 3,750	US\$ 3,728
First Boston Mtg						US\$ 3,572	US\$ 3,566
Receivables Tr					US\$ 3,200		US\$ 3,183
Leasing Assn						US\$ 4,828	US\$ 4,577
Owner Tr					US\$ 10,908		US\$ 5,782
Corp.						US\$ 4,150	US\$ 4,134
						US\$ 4,250	US\$ 4,241
Motorcycle Tr					US\$ 5,999		US\$ 5,793
Llc					US\$ 5,350		US\$ 5,284
8 Plc					US\$ 5,001		US\$ 5,000
Mtg Tr 2006 4						US\$ 4,200	US\$ 4,200
Receivables Tr					US\$ 6,442		US\$ 6,202
Receivables Tr					US\$ 3,250		US\$ 3,208
Receivables Tr					US\$ 3,999		US\$ 3,904
Mtg Tr					US\$ 4,001		US\$ 3,733
g Ln Tr						US\$ 3,200	US\$ 3,195
Trb Spl Purp Tr					US\$ 3,900		US\$ 3,830
ked Secs Tr					US\$ 3,499		US\$ 3,083
Card Tr li					US\$ 8,108		US\$ 7,653
Mtg Invs Inc.						US\$ 6,665	US\$ 6,561
03 A Owner Tr					US\$ 4,928		US\$ 3,994
Receivables					US\$ 7,000		US\$ 6,132
Accep Corp.						US\$ 4,150	US\$ 4,144
Owner Tr					US\$ 4,913		US\$ 4,885
Recovery Fdg Llc					US\$ 4,749		US\$ 4,646
Way Owner Tr					US\$ 3,992		US\$ 3,911
Transition Bd					US\$ 4,973		US\$ 3,994
st Sec Mtg Pass					US\$ 3,780		US\$ 3,052
Mtg Secs I Inc.					US\$ 4,817		US\$ 4,224
						US\$ 4,050	US\$ 4,033
Receivables 2003 B					US\$ 4,970		US\$ 4,963
005 Llc					US\$ 8,197	US\$ (4,100)	US\$ 4,116
er Tr					US\$ 3,718		US\$ 3,696
st Mtg Secs Corp.					US\$ 4,067		US\$ 3,261
1 Auto Owner Tr					US\$ 5,299		US\$ 5,235

l Auto Owner Tr		US\$ 4,893	US\$ 4,932
g Bkd Secs		US\$ 3,661	US\$ 3,020
g Bkd Secs			US\$ 3,488
Owner Tr		US\$ 4,994	US\$ 4,913
Owner Tr		US\$ 5,399	US\$ 4,883
to Receivables Tr		US\$ 5,963	US\$ 5,869
Pool 1h2520	Available-for-sale financial assets	US\$ 3,753	US\$ 3,329
Pool 781959		US\$ 7,112	US\$ 6,577
Pool M80855			US\$ 3,882
n Mtg		US\$ 3,848	US\$ 3,308
n Mtg Corp.			US\$ 3,898
n Mtg Corp.		US\$ 3,954	US\$ 3,909
n Mtg Corp.		US\$ 6,096	US\$ 4,316
n Mtg Corp.			US\$ 4,962
n Mtg Corp.			US\$ 3,351
n Mtg Corp.			US\$ 4,317
n Mtg Corp.		US\$ 4,098	US\$ 3,388
n Mtg Corp.		US\$ 9,905	US\$ 8,812

(Continued)

Table of Contents

Item	Account	Counter-party	Relationship	Beginning Balance	Acquisition	Disposal	
							Shares/Units
Item	Account	Counter-party	Relationship	Shares/Units	Amount	Amount	Amount
				(US\$ in	(in	(US\$ in	(in
				Thousands)	Thousands)	Thousands)	Thousands)
Mtg Corp.	Available-for-sale financial assets			US\$ 4,902	US\$	US\$ 4,069	
Mtg Corp.				US\$ 3,755		US\$ 3,308	
Mtg Corp.					US\$ 4,481	US\$ 4,476	
Mtg Corp.					US\$ 3,349	US\$ 3,114	
Mtg Corp.					US\$ 3,857	US\$ 3,789	
Mtg Corp.					US\$ 5,380	US\$ 4,574	
Mtg Corp.					US\$ 4,631	US\$ 4,450	
Mtg Corp.					US\$ 4,488	US\$ 4,444	
an Mtg					US\$ 5,009	US\$ 4,937	
Assn				US\$ 4,030		US\$ 3,515	
Assn				US\$ 4,051		US\$ 3,131	
3				US\$ 3,771		US\$ 3,559	
5				US\$ 4,175		US\$ 3,393	
1					US\$ 3,906	US\$ 3,916	
6				US\$ 3,622		US\$ 3,189	
8				US\$ 4,949		US\$ 4,562	
9				US\$ 3,673		US\$ 3,134	
Bks				US\$ 3,985		US\$ 3,940	
Bank				US\$ 3,962		US\$ 3,955	
Bks				US\$ 3,976		US\$ 3,964	
Bks				US\$ 8,594		US\$ 8,519	
Bks				US\$ 3,932		US\$ 3,980	
Bks				US\$ 4,927		US\$ 4,930	
Bks					US\$ 8,628	US\$ 8,716	
Bks				US\$ 4,136		US\$ 4,140	
Bks				US\$ 4,939		US\$ 4,872	
Bks				US\$ 8,672		US\$ 8,735	
Bks				US\$ 4,965		US\$ 4,944	
Bks				US\$ 4,808		US\$ 4,850	
Bks					US\$ 5,740	US\$ 5,825	
Bks				US\$ 7,558		US\$ 7,515	
Bks					US\$ 4,823	US\$ 4,882	
Bks				US\$ 7,886		US\$ 7,960	
Bks				US\$ 6,110		US\$ 6,061	
Bks					US\$ 12,227	US\$ 12,233	
Bks				US\$ 3,972		US\$ 3,951	
Bks				US\$ 7,887		US\$ 7,758	
Bks				US\$ 19,846		US\$ 19,800	

Bks	US\$ 6,908		US\$ 6,881
Bks	US\$ 6,098		US\$ 5,907
Bks	US\$ 9,134		US\$ 8,968
Bks	US\$ 3,379		US\$ 3,296
Bks		US\$ 7,490	US\$ 7,490
Mtg Corp.	US\$ 3,388		US\$ 3,481
Mtg Corp.	US\$ 9,997		US\$ 9,788
Mtg Corp.	US\$ 6,980		US\$ 6,941
Mtg Corp.	US\$ 5,929		US\$ 5,930
Mtg Corp.		US\$ 6,415	US\$ 6,410
Mtg Corp.		US\$ 14,175	US\$ 14,269
Mtg Corp.		US\$ 9,974	US\$ 9,929
Mtg Corp. Mtn	US\$ 4,930		US\$ 4,912
an Bank	US\$ 3,475		US\$ 3,459
an Mtg Assn	US\$ 4,847		US\$ 4,901
an Mtg Corp.	US\$ 4,903		US\$ 4,927
Assn	US\$ 4,943		US\$ 4,944
Assn	US\$ 8,971		US\$ 8,940
Assn	US\$ 4,921		US\$ 4,916
Assn	US\$ 7,892		US\$ 7,908
Assn	US\$ 4,430		US\$ 4,364

(Continued)

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Account and Financial Statement	Nature of Counter-party Relationship (in Thousands)	Beginning Balance		Acquisition		Disposal	
		Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands)	Amount (US\$ in Thousands)	Shares/Units (in Thousands)	Amount (US\$ in Thousands)
Available-for-sale financial assets			US\$ 17,888		US\$		US\$ 17,782
			US\$ 5,928				US\$ 5,885
					US\$ 7,800		US\$ 7,832
			US\$ 7,926				US\$ 7,834
					US\$ 19,539		US\$ 19,702
					US\$ 14,901		US\$ 14,931
					US\$ 10,430		US\$ 10,459
					US\$ 7,966		US\$ 7,979
					US\$ 3,353		US\$ 3,417
				US\$ 15,787			US\$ 15,851
				US\$ 9,758			US\$ 9,781
				US\$ 7,000			US\$ 6,925
					US\$ 5,255		US\$ 5,292
				US\$ 5,740			US\$ 5,562
					US\$ 9,391		US\$ 9,314
			US\$ 6,039		US\$ 6,038		
Investment accounted for using equity method	Equity method investee		\$	5,032	\$	100,116	\$
Available-for-sale financial assets					US\$ 501,897		US\$ 351,917
Available-for-sale financial assets					US\$ 3,432		
					US\$ 3,446		
					US\$ 3,095		
					US\$ 3,325		
					US\$ 3,340		
					US\$ 3,036		
					US\$ 5,091		
					US\$ 3,777		
					US\$ 5,005		US\$ 5,005
					US\$ 4,899		
			US\$ 3,436				
			US\$ 3,222				

	US\$ 3,930
	US\$ 5,994
	US\$ 7,937
	US\$ 8,716
	US\$ 3,893
	US\$ 8,268
	US\$ 3,319
	US\$ 3,453
	US\$ 4,941
Nts	US\$ 3,182
	US\$ 5,066
	US\$ 3,028
Mtn	US\$ 5,170
c.	US\$ 5,048
	US\$ 4,118
	US\$ 3,310
3k Entr	US\$ 4,393
	US\$ 3,016
	US\$ 3,150

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Name	Account	Counter-party Relationship	Nature of	Shares/Units (in Thousands)	Beginning Balance	Acquisition	Disposal	Ca
					Amount (US\$ in Thousands)	Amount (US\$ in Thousands)	Amount (US\$ in Thousands)	V
a Bank Na Y	Available-for-sale financial assets				US\$	US\$ 6,437	US\$	US\$
ley Corp.						US\$ 8,453		
+ Co. Inc.						US\$ 3,426		
+ Co. Inc.						US\$ 4,842		
Life Global Mtn						US\$ 3,361		
ey Group Inc.						US\$ 4,386	US\$ 4,384	US\$
Corp.						US\$ 3,402		
ldg Soc						US\$ 3,495		
ife Global Fdg I						US\$ 3,520		
						US\$ 3,811		
Mtn Book Entry						US\$ 3,624		
						US\$ 3,147		
Fdg I Mtn						US\$ 3,403		
e Secd Trs Mtn						US\$ 3,396		
ec Gas Co.						US\$ 3,684		
edium Term Nts						US\$ 8,949		
atlanta Ga Medium						US\$ 3,448		
touch Plc						US\$ 4,477		
mut Inc.						US\$ 4,505	US\$ 3,500	US\$
mut Bk Fa						US\$ 5,000	US\$ 1,000	US\$
ost Co.						US\$ 3,007		
Co. New						US\$ 6,073	US\$ 3,167	US\$
Co. New Med Trm						US\$ 4,282		
ed asset-backed								
utomobile Rec Tr	Available-for-sale financial assets					US\$ 3,261		
utomobile Receivb						US\$ 3,826		
utomobile Receiva						US\$ 4,959		
						US\$ 4,350		
oml Mtg Inc.						US\$ 3,254		
lg 2006 I Tr						US\$ 4,336		
Coml Mtg Secs Inc.						US\$ 3,551		
Arm Tr						US\$ 3,597		
Coml Mtg Secs Inc.						US\$ 6,362		
l Tr						US\$ 3,996		

	US\$ 3,457	
	US\$ 4,300	
Receivables Asset	US\$ 3,232	
Auto Fin Tr	US\$ 5,008	
Multi Asset Execut	US\$ 4,879	US\$ 4,883 US\$
Multi Asset Execut	US\$ 3,932	
Prime Auto Rec	US\$ 3,999	
l Asset Tr	US\$ 8,121	
	US\$ 4,260	
Car Fdg Aesop Llc	US\$ 9,249	
ard Issuance Tr	US\$ 9,797	
First Boston Mtg	US\$ 3,566	
First Boston Mtg	US\$ 3,728	
er Auto Tr	US\$ 4,334	
Receivables Tr	US\$ 3,183	
Mtg Ln Tr	US\$ 4,301	
Auto Owner Trust	US\$ 4,310	
Corp.	US\$ 4,134	
	US\$ 4,241	
son Motorcycle Tr	US\$ 5,793	
g Llc	US\$ 5,284	
No 8 Plc	US\$ 5,000	

(Continued)

Table of Contents

Securities Type and Financial Statement	Name	Account	Counter-party Relationship (in Thousands)	Nature of	Beginning Balance	Acquisition	Disposal	Ca
					Amount	Amount	Amount	V
					(US\$ in (US\$ in (US\$ in (US\$ in (US\$ in (US\$ in (US\$ in (US\$ in	Shares/Units	Shares/Units	Shares/Units
	Mtg Tr 2006 4	Available-for-sale financial assets			US\$	US\$ 4,200	US\$	US\$
	Receivables Tr					US\$ 6,202		
	Receivables Tr					US\$ 3,208		
	Receivables Tr					US\$ 3,904		
	Mtg Tr					US\$ 3,733		
	Mtg Ln Tr					US\$ 3,195		
	Cr Card Tr Ii					US\$ 7,653		
	Rrb Spl Purp Tr					US\$ 3,830	US\$ 3,416	US\$
	Backed Secs Tr					US\$ 3,083	US\$ 3,082	US\$
	Backed					US\$ 4,300		
	Mtg Invs Inc.					US\$ 6,561		
	Key Ixis Estate Tr					US\$ 4,300		
	2003 A Owner Tr					US\$ 3,994		
	Receivables					US\$ 3,943		
	Accep Corp.					US\$ 4,144		
	Owner Tr					US\$ 4,885		
	Recovery Fdg Llc					US\$ 4,646		
	eway Owner Tr					US\$ 3,911		
	y Transition Bd					US\$ 3,994		
	Asset Sec Mtg Pass					US\$ 3,052		
	g Mtg Secs I Inc.					US\$ 4,224		
	2005 Llc					US\$ 4,116		
	r					US\$ 4,033		
	wner Tr					US\$ 4,246		
	Mut Mtg Secs Corp.					US\$ 3,261		
	Mtg Backed Secs					US\$ 4,426		
	inl Auto Owner Tr					US\$ 5,235		
	inl Auto Owner Tr					US\$ 4,932		
	Mtg Bkd Secs					US\$ 3,020		
	Mtg Bkd Secs					US\$ 3,488		
	s							
	Pool M80855	Available-for-sale financial assets				US\$ 3,381		
	Pool 847628					US\$ 3,884		
	Pool 1h2520					US\$ 3,286		
	Pool B19205					US\$ 8,626		

Ln Mtg Corp.	US\$ 4,574		
Pool 781959	US\$ 6,472		
5883	US\$ 3,559		
Mtg Assn	US\$ 4,375		
Mtg Assn	US\$ 4,577		
Ln Mtg Corp.	US\$ 3,919		
Ln Mtg Corp.	US\$ 4,316		
Mtg Assn	US\$ 3,515		
Mtg Assn	US\$ 3,131		
Ln Mtg Corp.	US\$ 3,909		
Ln Mtg Corp.	US\$ 3,789		
Ln Mtg Corp.	US\$ 3,388		
Ln Mtg Corp.	US\$ 4,450		
Ln Mtg Corp.	US\$ 4,069		
Ln Mtg Corp.	US\$ 3,893		
Ln Mtg Corp.	US\$ 3,114		
Ln Mtg Corp.	US\$ 3,299		
Ln Mtg Corp.	US\$ 4,665		
Ln Mtg Corp.	US\$ 3,308		
Ln Mtg	US\$ 3,308		
Ln Mtg Corp.	US\$ 8,812		
Loan Mtg	US\$ 4,937	US\$ 4,868	US\$

(Continued)

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Securities Type and Financial Statement	Account	Counter-party Relationship	Nature of	Beginning Balance	Acquisition	Disposal (Ca
				Amount	Amount	Amount	V
				(Shares/Units	Shares/Units	(US\$ in	(US\$ in
			Shares/Units	in (in	(US\$ in	(in (US\$ in	(U
			(in Thousands)	Thousands	Thousands	Thousands	Thousands
Home Mtg Corp.	Available-for-sale financial assets			US\$	US\$ 4,476	US\$	US\$
85					US\$ 3,393		
41					US\$ 3,916		
26					US\$ 3,189		
98					US\$ 4,562		
69					US\$ 3,134		
Home Mtg Corp.					US\$ 3,481		
Home Mtg Corp. Mtn					US\$ 4,912	US\$ 4,953	US\$
Loan Mtg Assn					US\$ 4,901	US\$ 4,951	US\$
Loan Mtg Corp.					US\$ 4,927	US\$ 4,968	US\$
Home Mtg Corp.					US\$ 9,789	US\$ 7,906	US\$
					US\$ 9,314	US\$ 9,378	US\$
Home Mtg Corp.					US\$ 6,410		
Home Mtg Corp.					US\$ 5,930		
Home Mtg Corp.					US\$ 9,929	US\$ 10,000	US\$
Home Mtg Corp.					US\$ 14,269	US\$ 14,304	US\$
Bks					US\$ 3,940	US\$ 3,946	US\$
Home Bks					US\$ 4,851		
Home Bks					US\$ 3,296	US\$ 3,297	US\$
Home Bks					US\$ 4,930	US\$ 4,971	US\$
Home Bks					US\$ 4,882		
Home Bks					US\$ 8,735		
Home Bks					US\$ 8,716		
Home Bks					US\$ 5,825		
Home Bks					US\$ 5,907		
Home Bks					US\$ 7,960		
Home Bks					US\$ 4,872		
Home Bks					US\$ 6,061		
Home Bks					US\$ 4,140	US\$ 4,141	US\$
Home Bks					US\$ 12,233		
Home Bks					US\$ 7,515	US\$ 7,520	US\$
Home Bks					US\$ 6,881		
Loan Bank					US\$ 3,459	US\$ 3,463	US\$
Home Bank					US\$ 3,955	US\$ 3,967	US\$
Home Bks					US\$ 7,490		
Loan Banks					US\$ 8,081		
g Assn					US\$ 14,931		

g Assn	US\$ 7,979	US\$ 5,001	US\$
g Assn	US\$ 4,364		
g Assn	US\$ 6,516		
g Assn	US\$ 5,885		
g Assn	US\$ 7,834		
g Assn	US\$ 3,950		
g Assn	US\$ 19,702		
g Assn	US\$ 10,459		
g Assn Mtn	US\$ 5,562	US\$ 5,560	US\$
g Assn Mtn	US\$ 5,292		
g Assn Medium	US\$ 3,417		
y Auth	US\$ 6,038		

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

Note 2: The ending balance included the amortization of premium or discount on bonds investments and unrealized valuation gains or losses on financial assets.

(Concluded)

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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 YEAR ENDED DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party Owner Relationships	Transfer Date	Amount	Price Range	
2006	\$ 854,000	By the construction progress	M+W Zander Facility Engineering Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	US\$ 3,340	By the construction progress	M+W Zander Facility Engineering Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	\$ 487,000	By the construction progress	United Integrated Services Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	US\$ 3,770	By the construction progress	Celerity, Inc.		N/A	N/A	N/A	N/A	Public bid
2006	\$ 197,500	By the construction progress	China Steel Structure Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	192,000	By the construction progress	Marketch International Corp.		N/A	N/A	N/A	N/A	Public bid
2006	142,000	By the construction progress	Uangyih-tech Industrial Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	EUR 2,733	By the construction progress	Siemens Limited		N/A	N/A	N/A	N/A	Public bid
2006	\$ 517,500	By the construction progress	United Steel Engineering & Construction Corp.		N/A	N/A	N/A	N/A	Public bid
2006	453,000	By the construction progress	China Steel Structure Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	1,365,000	By the construction progress	Fu Tsu Construction Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
2006	JPY 1,080,000	By the construction progress	Organo Corporation		N/A	N/A	N/A	N/A	Public bid

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r 28,	\$	407,000	By the construction progress	Organo Technology Co., Ltd.	N/A	N/A	N/A	N/A	Public bi
r 29,	US\$	4,250	By the construction progress	York Internation Corp.	N/A	N/A	N/A	N/A	Public bi
2, 2006	\$	278,950	By the construction progress	Shihlin Electric & Engineering Corp.	N/A	N/A	N/A	N/A	Public bi
r 20,	US\$	9,150	By the construction progress	Mega Union Technology Inc.	N/A	N/A	N/A	N/A	Public bi
r 23,	\$	179,573	By the construction progress	United Integrated Services Co., Ltd.	N/A	N/A	N/A	N/A	Public bi
r 24,	US\$	9,890	By the construction progress	Marketech International Corp.	N/A	N/A	N/A	N/A	Public bi
r 28,	US\$	29,750	By the construction progress	United Integrated Services Co., Ltd.	N/A	N/A	N/A	N/A	Public bi
r 29,	US\$	15,000	By the construction progress	M+W Zander Facility Engineering Co., Ltd.	N/A	N/A	N/A	N/A	Public bi

(Continued)

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Transaction Date	Transaction		Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party			Price Ref	
	Amount	Payment Term			Owner	Relationships	Transfer Date		Amount
er 29,	\$847,365	By the construction progress	M+W Zander Facility Engineering Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
er 29,	123,000	By the construction progress	Desiccant Technology Corp.		N/A	N/A	N/A	N/A	Public bid
er 7, 2006	177,200	By the construction progress	Uangyih-tech Industrial Co., Ltd.		N/A	N/A	N/A	N/A	Public bid
er 8, 2006	US\$ 12,900	By the construction progress	Marketch International Corp.		N/A	N/A	N/A	N/A	Public bid
er 28,	US\$ 9,100	By the construction progress	Celerity, Inc.		N/A	N/A	N/A	N/A	Public bid

(Concluded)

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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 YEAR ENDED DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details		Total Payment Terms	Abnormal Transaction Payment Unit Price	Notes/Accounts Payable or Receivable	Ending Balance	%
			Purchase/Sale	Amount					
Company	TSMC-North America	Subsidiary	Sales	\$190,459,073	60	Net 30 days after invoice date		\$ 16,461,956	5
	Philips	Major shareholder			1	Net 30 days/Net 45 days (since 12/27/2006) after monthly closing		250,919	1
	GUC	Investee over which the Company had a controlling interest	Sales	4,024,990		Net 30 days after monthly closing		155,216	
	WaferTech	Indirect subsidiary			27	Net 30 days after monthly closing		(864,733)	9
	SSMC	Investee accounted for using equity method	Purchase	2,530,552	15	Net 30 days after monthly closing		(459,305)	5
	TSMC-Shanghai	Subsidiary	Purchase	6,820,632	10	Net 30 days after monthly closing		(478,714)	5
	VIS	Investee accounted for using equity method	Purchase	4,405,843	8	Net 30 days after monthly closing		(717,562)	8
	TSMC-North America	The same parent	Purchase	3,911,838	60	Net 30 days after invoice date		(301,507)	4

Note: The terms of sales to related parties are 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.

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Taiwan Semiconductor Manufacturing Company Limited
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20%
OF THE PAID-IN CAPITAL
DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars)

Name	Related Party	Nature of Relationships	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance
					Amounts	Action Taken		
	TSMC-North America	Subsidiary	\$ 16,521,503	36 days	\$ 4,721,288		\$ 5,883,939	\$
	Philips	Major shareholder	257,313	38 days	11,304		18,648	
	GUC	Investee over which the Company had a controlling interest	155,216	49 days	117		38,062	
	TSMC-Shanghai	Subsidiary	123,853	Note	21,089	Accelerate demand on account receivables		
	VIS	Investee accounted for using equity method	121,911	Note	3,064		3,064	

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

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Taiwan Semiconductor Manufacturing Company Limited
NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY
EXERCISES SIGNIFICANT INFLUENCE
DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars)

Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Losses) of the Investee
			December 31, 2006	December 31, 2005	Share (in Thousands)	Percentage of Ownership	Carrying Value (Note)	
Global	Tortola, British Virgin Islands	Investment activities	\$42,327,245		1	100	42,496,592	616,171
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	\$ 26,593,749	\$ 2,802,637
-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	9,027,984	(637,220)
	Singapore	Fabrication and supply of integrated circuits	8,840,895	6,408,190	463	39	7,960,869	4,437,059
	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	442,262	27	5,741,870	3,018,694
Partners	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	4,433,819	308,009
-North America	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	2,014,990	238,111
ing Alliance	Cayman Islands	Investing in new start-up technology companies	1,418,717	1,526,074		99	793,585	(2,644)
II	Cayman Islands	Investing in new start-up technology companies	785,465	654,509		98	733,130	(37,339)
	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and	386,568	409,920	41,263	38	629,755	237,295

marketing of integrated circuits

III	Cayman Islands	Investing in new start-up technology companies	243,545		98	228,005	(20,794)
erng	Taipei, Taiwan	Investment activities	300,000	300,000	36	115,507	99,647
uey	Taipei, Taiwan	Investment activities	300,000	300,000	36	114,297	98,605
-Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	95,757	2,963
-Europe	Amsterdam, the Netherlands	Marketing activities	15,749	15,749	100	49,741	23,164
-Korea	Seoul, Korea	Marketing activities	13,656		80	14,706	685

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

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Taiwan Semiconductor Manufacturing Company Limited
INFORMATION OF INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2006

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

	Total Amount		Accumulated Outflow of Investment from Taiwan as of January 1, 2006		Accumulated Outflow of Investment from Taiwan as of December 31, 2006 (US\$ in Thousand)		Equity in the Earnings (Losses) (Note 2)	Percentage of Ownership
	of Paid-in Capital	Method of Investment	(US\$ in Thousand)	Investment Flows Outflow (US\$ in Thousand)	Investment Flows Inflow (US\$ in Thousand)	(US\$ in Thousand)	(Losses)	
Manufacturing and of integrated products at the order of pursuant to product design modifications provided by customers	(RMB in Thousand) \$ 12,180,367 (RMB3,070,623)	(Note 1)	\$12,180,367 (US\$371,000)	\$	\$	\$ 12,180,367 (US\$371,000)	\$ (637,220)	100%
	Accumulated Investment in Mainland China as of December 31, 2006 (US\$ in Thousand)		Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)			Upper Limit on Investment (US\$ in Thousand)		
	\$12,180,367 (US\$371,000)		\$12,180,367 (US\$371,000)			\$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.

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**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries
Consolidated Financial Statements for the
Years Ended December 31, 2006 and 2005 and
Independent Auditors Report**

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REPRESENTATION LETTER

The entities included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2006, which are required under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, Consolidated Financial Statements . In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By /s/ MORRIS CHANG

MORRIS CHANG

Chairman

January 11, 2007

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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 December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years 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 December 31, 2006 and 2005, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

January 11, 2007

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 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.

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 117,837,192	20	\$ 96,483,707	19
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	1,206,854		1,770,445	
Available-for-sale financial assets (Notes 2, 3 and 6)	67,523,858	12	46,452,838	9
Held-to-maturity financial assets (Notes 2, 3 and 7)	8,510,823	2	602,509	
Notes and accounts receivable	34,957,650	6	43,082,275	8
Receivables from related parties (Note 25)	252,339		693,266	
Allowance for doubtful receivables (Note 2)	(749,888)		(980,594)	
Allowance for sales returns and others (Note 2)	(2,870,802)	(1)	(4,317,413)	(1)
Other receivables from related parties (Note 25)	256,863		597,910	
Other financial assets (Note 3)	2,356,542	1	1,617,797	1
Inventories, net (Notes 2 and 8)	21,430,728	4	17,728,303	3
Deferred income tax assets, net (Notes 2 and 18)	8,013,992	1	7,149,306	2
Prepaid expenses and other current assets (Note 3)	1,591,017		1,420,441	
Total current assets	260,317,168	45	212,300,790	41
LONG-TERM INVESTMENTS (Notes 2, 3, 6, 7, 9 and 10)				
Investments accounted for using equity method	15,000,891	2	10,287,424	2
Available-for-sale financial assets	6,648,485	1	117,247	
Held-to-maturity financial assets	28,973,495	5	28,775,308	5
Financial assets carried at cost	3,272,280	1	3,202,515	1
Total long-term investments	53,895,151	9	42,382,494	8
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 25)				
Cost				
Land and land improvements	844,644		851,225	
Buildings	112,595,124	19	105,832,028	21
Machinery and equipment	579,825,289	99	510,922,064	98
Office equipment	10,646,725	2	9,670,611	2
Leased assets	612,941		597,669	

	704,524,723	120	627,873,597	121
Accumulated depreciation	(463,038,084)	(79)	(398,124,607)	(77)
Advance payments and construction in progress	12,607,551	2	15,074,302	3
Net property, plant and equipment	254,094,190	43	244,823,292	47
GOODWILL (Note 2)	5,984,993	1	6,010,601	1
OTHER ASSETS				
Deferred charges, net (Notes 2, and 12)	5,936,915	1	7,006,250	2
Deferred income tax assets, net (Notes 2 and 18)	5,802,142	1	6,788,418	1
Refundable deposits	1,331,245		106,802	
Others	123,355		90,942	
Total other assets	13,193,657	2	13,992,412	3
TOTAL	\$ 587,485,159	100	\$ 519,509,589	100

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT LIABILITIES

Short-term bank loans (Note 13)	\$		\$ 328,500	
Financial liabilities at fair value through profit or loss (Notes 2, 3 and 5)		10,864	234,279	
Accounts payable		7,934,388	9,421,452	2
Payables to related parties (Note 25)		1,867,728	1,743,069	
Income tax payable (Notes 2 and 18)		7,946,473	4,015,451	1
Accrued expenses and other current liabilities (Notes 2, 3 and 16)		11,328,350	10,307,951	2
Payables to contractors and equipment suppliers		10,768,591	9,066,036	2
Current portion of bonds payable and long-term liabilities (Notes 14 and 15)		7,004,137	5,489	
Total current liabilities		46,860,531	35,122,227	7

LONG-TERM LIABILITIES

Bonds payable (Note 14)		12,500,000	19,500,000	4
Long-term bank loans (Note 15)		653,959	663,140	
Other long-term payables (Notes 16 and 27)		8,703,267	8,548,887	2
Other payables to related parties (Notes 25 and 27)		403,375	1,100,475	
Obligations under capital leases (Note 2)		612,941	597,669	

Total long-term liabilities	22,873,542	4	30,410,171	6
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	3,540,060	1	3,474,384	1
Guarantee deposits (Note 27)	3,817,132	1	2,896,430	
Deferred credits (Notes 2 and 25)	1,177,138		1,343,959	
Others	78,640		23,710	
Total other liabilities	8,612,970	2	7,738,483	1
Total liabilities	78,347,043	14	73,270,881	14
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Capital stock \$10 par value Authorized:27,050,000 thousand shares Issued: 25,829,688 thousand shares in 2006 and 24,730,025 thousand shares in 2005	258,296,879	44	247,300,246	48
Capital surplus (Notes 2 and 20)	54,107,498	9	57,117,886	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	
Unappropriated earnings	152,778,079	26	106,196,399	20
	197,124,532	33	142,771,034	27
Others (Notes 2 and 3)				
Cumulative translation adjustments	(1,191,165)		(640,742)	
Unrealized gain on financial instruments	561,615			
	(629,550)		(640,742)	
Treasury stock (at cost) -33,926 thousand shares in 2006 and 32,938 thousand shares in 2005 (Notes 2 and 22)	(918,075)		(918,075)	
Equity attributable to shareholders of the parent	507,981,284	86	445,630,349	86
MINORITY INTERESTS (Note 2)	1,156,832		608,359	

Total shareholders equity	509,138,116	86	446,238,708	86
TOTAL	\$ 587,485,159	100	\$ 519,509,589	100

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

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Table of Contents**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005****(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)**

	2006		2005	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 25)	\$ 322,883,499		\$ 271,801,696	
SALES RETURNS AND ALLOWANCES (Note 2)	5,476,328		5,236,626	
NET SALES	317,407,171	100	266,565,070	100
COST OF SALES (Notes 19 and 25)	161,597,081	51	148,362,196	56
GROSS PROFIT	155,810,090	49	118,202,874	44
OPERATING EXPENSES (Note 19)				
Research and development	16,076,432	5	14,016,506	5
General and administrative	8,716,653	3	9,085,536	3
Marketing	3,752,311	1	4,132,273	2
Total operating expenses	28,545,396	9	27,234,315	10
INCOME FROM OPERATIONS	127,264,694	40	90,968,559	34
NON-OPERATING INCOME AND GAINS				
Interest income (Notes 2 and 3)	4,542,149	2	2,806,226	1
Equity in earnings of equity method investees, net (Notes 2 and 9)	2,347,153	1	1,433,226	1
Settlement income (Note 27)	979,214		964,710	
Technical service income (Notes 25 and 27)	571,500		462,624	
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 25)	421,051		342,756	
Subsidy income (Note 2)	334,478		321,850	
Foreign exchange gain, net (Notes 2 and 3)			2,609,979	1
Others (Note 25)	510,047		457,989	
Total non-operating income and gains	9,705,592	3	9,399,360	3
NON-OPERATING EXPENSES AND LOSSES				

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Interest expense (Note 3)	890,602	1	1,413,374	
Valuation loss on financial instruments, net (Notes 2, 3, 5 and 24)	812,937		337,160	
Loss on settlement and disposal of financial instruments, net (Notes 2, 3 and 5)	798,610		3,602,799	2
Foreign exchange loss, net (Notes 2 and 3)	400,863			
Loss on impairment of financial assets (Note 2)	279,690		128,900	

(Continued)

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Diluted earnings per share	\$ 5.22	\$ 4.92	\$ 3.66	\$ 3.63
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The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

Equity Attributable to Shareholders of the Parent (Notes 2, 16, 17 and 18)

Account	Capital Surplus	Legal Capital Reserve	Retained Earnings		Total	Others		Treasury Stock	Total
			Special Capital Reserve	Unappropriated Earnings		Cumulative Translation Adjustments	Gain on Financial Instruments		
2,519,637	\$ 56,537,259	\$ 25,528,007		\$ 88,202,009	\$ 113,730,016	\$ (2,226,427)		\$ (1,595,186)	\$ 398,9
		8,820,201		(8,820,201)					
			2,226,427	(2,226,427)					
				(3,086,215)	(3,086,215)				(3,0
3,086,215				(3,086,215)	(3,086,215)				
				(46,504,097)	(46,504,097)				(46,5
1,626,024				(11,626,024)	(11,626,024)				
				(231,466)	(231,466)				(2
				93,575,035	93,575,035				93,5
	71,405								
						1,585,685			1,5
68,370	202,559								2

84,285

222,378

677,111

8

7,300,246 57,117,886 34,348,208 2,226,427 106,196,399 142,771,034 (640,742) (918,075) 445,6

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8,296,879 \$ 54,107,498 \$ 43,705,711 \$ 640,742 \$ 152,778,079 \$ 197,124,532 \$(1,191,165) \$ 561,615 \$ (918,075) \$ 507,9

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 CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 127,009,731	\$ 93,575,035
Net income attributable to minority interests	185,515	57,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	73,715,242	75,649,429
Amortization of premium/discount of financial assets	2,399	120,872
Loss (gain) on disposal of available-for-sale financial assets, net	(90,826)	150,081
Equity in earnings of equity method investees, net	(2,347,153)	(1,433,226)
Dividends received from equity method investees	614,567	668,464
Gain on disposal of investments accounted for using equity method		(583)
Gain on disposal of financial assets carried at cost, net	(16,210)	(14,721)
Loss on impairment of financial assets	279,690	128,900
Gain on disposal of property, plant and equipment and other assets, net	(179,654)	(282,647)
Deferred income taxes	121,590	(3,353,013)
Loss on idle assets	44,072	131,849
Donation of idle assets		7,207
Net changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	340,176	72,842
Notes and accounts receivable	8,124,625	(11,572,809)
Receivables from related parties	440,927	(101,915)
Allowance for doubtful receivables	(230,706)	(3,145)
Allowance for sales returns and others	(1,446,611)	974,963
Other receivables from related parties	341,047	(87,979)
Other financial assets	(738,745)	(305,881)
Inventories, net	(3,702,425)	(2,006,165)
Prepaid expenses and other current assets	(170,576)	119,985
Increase (decrease) in:		
Accounts payable	(1,487,064)	2,088,582
Payables to related parties	(572,441)	(1,629,217)
Income tax payable	3,931,022	3,611,486
Accrued expenses and other current liabilities	862,428	181,748
Accrued pension cost	65,676	360,128
Deferred credits	(99,310)	117,335
Net cash provided by operating activities	204,996,986	157,225,238

(Continued)

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	\$ (119,291,685)	\$ (99,436,242)
Held-to-maturity financial assets	(18,554,027)	(14,199,142)
Financial assets carried at cost	(511,632)	(456,897)
Investments accounted for using equity method	(2,613,009)	(621,883)
Property, plant and equipment	(78,737,265)	(79,878,724)
Proceeds from disposal of:		
Available-for-sale financial assets	91,620,367	102,577,763
Financial assets carried at cost	126,465	76,186
Investments accounted for using equity method	518,705	65,076
Property, plant and equipment and other assets	10,410,000	14,595,394
Redemption of held-to-maturity financial assets upon maturity	(1,414,742)	(855,967)
Increase in deferred charges	(1,224,443)	771
Decrease (increase) in refundable deposits	(52,086)	741
Decrease (increase) in other assets		
 Net cash used in investing activities	 (119,723,352)	 (77,652,217)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on:		
Short-term bank loans	(328,500)	(54,504)
Bonds payable		(10,500,000)
Long-term bank loans	(5,489)	(1,337,489)
Increase in guarantee deposits	920,702	2,483,549
Cash bonus paid to employees	(3,432,129)	(3,086,215)
Cash dividends	(61,742,741)	(46,419,812)
Bonus to directors and supervisors	(257,410)	(231,466)
Proceeds from:		
Exercise of employee stock options	575,197	270,929
Disposal of treasury stock		899,489
Increase in minority interests	487,017	6,832
 Net cash used in financing activities	 (63,783,353)	 (57,968,687)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 21,490,281	 21,604,334
 EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	 (136,796)	 348,921

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES	\$	\$ 228,101
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	96,483,707	74,302,351
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 117,837,192	\$ 96,483,707
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 951,450	\$ 1,378,610
Income tax paid	\$ 3,630,029	\$ 341,671
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 80,675,310	\$ 56,166,205
Decrease (increase) in payables to contractors and equipment suppliers	(1,702,555)	24,361,666
Increase in other long-term payables	(235,490)	(649,147)
Cash paid	\$ 78,737,265	\$ 79,878,724
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 7,004,137	\$ 5,489
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 617,892	\$ 869,072
Current portion of other payables to related parties (under payables to related parties)	\$ 688,591	\$ 693,956
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 YEARS ENDED DECEMBER 31, 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 December 31, 2006 and 2005, TSMC and its subsidiaries had 22,969 and 21,950 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, Business Accounting Law, Guideline Governing Business Accounting, 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:

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Name of Investor	Name of Investee	Percentage of Ownership at December 31, 2006	Remark
TSMC	TSMC Global, Ltd. (TSMC Global)	100%	TSMC Global was acquired in August 2006.
	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 December 31, 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 December 31, 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)	38%	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.
	VisEra Technology Company, Ltd. (VisEra)		Due to the changes in investment structure, TSMC no longer had a controlling interest in VisEra beginning

in November 2005 resulting in VisEra
being deconsolidated.

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Name of Investor	Name of Investee	Percentage of Ownership at December 31, 2006	Remark
TSMC Partners	VisEra Holding Company (VisEra Holding)	49%	Due to the changes in investment structure, TSMC no longer had a controlling interest in VisEra beginning in November 2005 resulting in VisEra Holding being deconsolidated.
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	WaferTech, LLC (WaferTech)	99.996%	
GUC	Global Unichip Corp.-North America (GUC-NA)	100%	GUC-NA, a subsidiary of GUC, became a consolidated entity of TSMC 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 since TSMC has control over GUC.

(Concluded)

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated subsidiaries as of December 31, 2006:

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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 Global, TSMC Partners, TSMC Development, Chi Cherng and Hsin Ruey are engaged in investing activities. TSMC-Shanghai is engaged in the manufacturing and selling of integrated circuits pursuant to the orders from and product design specifications provided by customers. 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 subsidiaries are hereinafter referred to collectively as the Company .

Minority interests in the aforementioned subsidiaries are presented as a separate component of shareholders equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with the aforementioned guidelines, law 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 assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled 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, corporate 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 changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: Publicly-traded stocks closing price at the end of the year; 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.

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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. 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 value is determined as follows: Structured time deposits - using valuation techniques; open-end mutual funds and money market funds - net asset value at the end of the year; publicly-traded stocks - closing prices at the end of the year; and other debt securities - average of bid and asked prices at the end of the year.

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 investments 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. Gains 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 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.

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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 manufacture 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 others 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. Year-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.

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. Prior to January 1, 2006, the difference, if any, between the cost of investment and the Company's proportionate share of the investee's equity was amortized by the straight-line method over five years, with the amortization 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), the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized and instead shall be tested for impairment annually. The accounting treatment for the investment premiums acquired before January 1, 2006 is the same as that for goodwill which is 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 recognized in earnings.

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 of the investee's 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.

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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.

Financial Assets Carried at Cost

Investments in which the Company does not exercise significant influence and 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 non-publicly traded stocks and mutual funds 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.

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 recorded as non-operating gains or losses in the year of sale or disposal.

Goodwill

Goodwill represents the excess of the consideration paid for an acquisition over the fair value of identifiable net assets acquired. Prior to January 1, 2006, goodwill was 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 instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent recovery in fair value of goodwill is not allowed.

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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 previously recognized impairment loss 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 their service periods. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Government Subsidies

Income-related subsidies from foreign governments are recognized in earnings when the requirements for subsidies are met.

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 year's tax provision.

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate 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 (the 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.

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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 recognized in earnings over the employee vesting period.

Treasury Stock

TSMC's stock held by 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 subsidiaries and cash dividends received by 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 earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

Translation of Foreign-currency Financial Statements

Statements of Financial Accounting Standards 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 rates at year-end; shareholders' equity historical rates; income and expenses average rates during the year. 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 Statements of Financial Accounting Standards No. 34, Financial Instruments: Recognition and Measurement (SFAS No. 34) and No. 36, Financial Instruments: Disclosure and Presentation 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 categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

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

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders Equity
Financial assets/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\$1,083,574 thousand, an increase in net income of NT\$ 523,175 thousand, and an increase in basic earnings per share (after income tax) of NT\$0.02 for the year ended December 31, 2006.

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

b. Reclassifications

Upon adoption of SFAS No. 34, certain accounts in the consolidated financial statements as of and for the year ended December 31, 2005 were reclassified to conform with the consolidated financial statements as of and for the year ended December 31, 2006. The previously issued consolidated financial statements as of and for the year ended December 31, 2005 were not required to 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 year.

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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 year, 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 year 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 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 rates were amortized over the terms of the contracts using the straight-line method. At the end of each year, the receivables or payables arising from cross-currency swap contracts were restated using 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 year 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 year ended December 31, 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:

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments, net	\$ 47,399,308	\$
Other financial assets	2,915,696	1,617,797
Prepaid expenses and other current assets	1,503,447	1,420,441
Long-term investments accounted for using cost method	3,365,341	
Long-term bond investments	18,548,308	
Other long-term investments	10,227,000	
Accrued expenses and other current liabilities	(10,542,230)	(10,307,951)
Financial assets at fair value through profit or loss		1,770,445
Financial liabilities at fair value through profit or loss		(234,279)
Available-for-sale financial assets		46,570,085
Held-to-maturity financial assets		29,377,817
Financial assets carried at cost		3,202,515

\$ 73,416,870 \$ 73,416,870

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	Before Reclassification	After Reclassification
Statement of income		
Interest income	\$ 3,069,435	\$ 2,806,226
Foreign exchange gain, net	3,040	2,609,979
Interest expense	(2,662,458)	(1,413,374)
Unrealized valuation loss on short-term investments	(337,160)	
Loss on disposal of investment, net	(9,985)	
Valuation loss on financial instruments, net		(337,160)
Loss on settlement and disposal of financial instruments, net		(3,602,799)
	\$ 62,872	\$ 62,872

(Concluded)

4. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash and deposits in banks	\$ 85,496,085	\$ 48,107,316
Repurchase agreements collateralized by government bonds	31,241,594	47,963,226
Corporate notes	1,026,522	413,165
Treasury bills	72,991	
	\$ 117,837,192	\$ 96,483,707

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

	December 31	
	2006	2005
Trading financial assets		
Publicly-traded stocks	\$ 1,162,253	\$ 389,540
Forward exchange contracts		26,720
Cross currency swap contracts	44,601	1,354,185
	\$ 1,206,854	\$ 1,770,445
Trading financial liabilities		
Forward exchange contracts	\$ 113	\$
Cross currency swap contracts	10,751	234,279
	\$ 10,864	\$ 234,279

The Company entered into derivative contracts during the years ended December 31, 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 contracts.

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

	Currency	Maturity Date	Contract Amount (in Thousands)
December 31, 2006			
Buy	US\$/JPY\$	January 2007	JPY\$ 38,610
December 31, 2005			
Sell	US\$/NT\$	January 2006	US\$ 60,000

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

Maturity Date	Contract Amount (in Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
December 31, 2006			
January 2007 to February 2007	US\$ 820,000	3.19%-5.91%	0.90%-3.25%
December 31, 2005			
January 2006 to March 2006	US\$2,089,000	4.15%-4.54%	0.02%-2.12%

The Company did not enter into any interest rate swap contracts during the year ended December 31, 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 loss on settlement and disposal of financial instruments account.

Net losses arising from derivative financial instruments for the year ended December 31, 2006 were NT\$1,613,366 thousand (including realized settlement losses of NT\$1,647,103 thousand and a valuation gain of NT\$33,737 thousand).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2006	2005
Open-end mutual funds	\$ 26,147,276	\$ 6,198,982
Corporate bonds	16,494,244	11,853,044
Agency bonds	12,691,612	14,496,728
Corporate issued asset-backed securities	10,541,679	11,582,590
Government bonds	6,921,532	1,776,279
Money market funds	667,828	260,686
Structured time deposits	499,242	
Publicly-traded stocks	208,930	138,527
Corporate notes		263,249
	74,172,343	46,570,085
Current portion	(67,523,858)	(46,452,838)

\$ 6,648,485 \$ 117,247

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Starting from 2004, 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 December 31, 2006, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$1,206,211 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 December 31, 2006, structured time deposits categorized as available-for-sale financial assets consisted of the following:

	Principal Amount	Carrying Amount	Range of Interest Rates	Maturity Date
Step-up callable deposits				
Domestic deposits	\$ 500,000	\$ 499,242	1.76%	March 2008

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

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2006	2005
Corporate bonds	\$ 13,742,541	\$ 8,927,317
Structured time deposits	11,671,120	10,227,000
Government bonds	12,070,657	10,223,500
	37,484,318	29,377,817
Current portion	(8,510,823)	(602,509)
	\$ 28,973,495	\$ 28,775,308

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

	Principal Amount	Interest Receivable	Range of Interest Rates	Maturity Date
December 31, 2006				
Step-up callable deposits				
Domestic deposits	\$ 4,500,000	\$ 13,928	1.40%-1.83%	June 2007 to October 2008
Callable range accrual deposits			(See below)	September 2009 to December 2009
Domestic deposits	3,911,520	4,808	(See below)	October 2009 to January 2010
Foreign deposits	3,259,600	4,998		
	\$ 11,671,120	\$ 23,734		

December 31, 2005

Step-up callable deposits				
Domestic deposits	\$ 3,000,000	\$ 8,145	1.40%-1.50%	June 2007 to October 2007
Callable range accrual deposits				
			(See below)	September 2009 to December 2009
Domestic deposits	3,942,000	4,928	(See below)	October 2009 to January 2010
Foreign deposits	3,285,000	5,023		
	\$ 10,227,000	\$ 18,096		

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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 contracts, 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 December 31, 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.

8. INVENTORIES, NET

	December 31	
	2006	2005
Finished goods	\$ 5,146,839	\$ 2,963,989
Work in process	14,688,719	13,359,209
Raw materials	1,673,982	1,765,369
Supplies and spare parts	926,120	1,325,582
	22,435,660	19,414,149
Allowance for losses	(1,004,932)	(1,685,846)
	\$ 21,430,728	\$ 17,728,303

9. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2006		2005	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	\$ 7,960,869	39	\$ 4,215,200	32
Vanguard International Semiconductor Corporation (VIS)	5,931,755	27	5,419,747	27
VisEra Holding	1,108,267	49	652,477	50
	\$ 15,000,891		\$ 10,287,424	

In November 2006, the Company acquired 81 thousand shares in SSMC from EDB Investments Pte Ltd. under a Shareholders Agreement. After the acquisition, the number of SSMC shares owned by the Company increased from 382 thousand to 463 thousand; the percentage of ownership increased from 32% to 39%.

For the years ended December 31, 2006 and 2005, net equity in earnings of NT\$2,347,153 thousand and NT\$1,433,226 thousand were recognized, respectively. The carrying amounts of the investments accounted for using the equity method and the related equity in earnings 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.

Table of Contents**10. FINANCIAL ASSETS CARRIED AT COST**

	December 31	
	2006	2005
Non-publicly traded stocks	\$ 2,924,350	\$ 2,867,525
Mutual funds	347,930	334,990
	\$ 3,272,280	\$ 3,202,515

11. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation consisted of the following:

	December 31	
	2006	2005
Land improvements	\$ 234,377	\$ 206,408
Buildings	54,288,225	46,560,127
Machinery and equipment	400,579,587	344,431,001
Office equipment	7,839,303	6,862,502
Leased assets	96,592	64,569
	\$ 463,038,084	\$ 398,124,607

No interest was capitalized during the years ended December 31, 2006 and 2005.

12. DEFERRED CHARGES, NET

	December 31	
	2006	2005
Technology license fees	\$ 4,132,174	\$ 5,099,227
Software and system design costs	1,669,781	1,737,384
Others	134,960	169,639
	\$ 5,936,915	\$ 7,006,250

13. SHORT-TERM BANK LOANS

	December 31	
	2006	2005
Unsecured loans:		
US\$10,000 thousand repayable by June 2006, annual interest at 4.77%	\$	\$ 328,500

Table of Contents**14. BONDS PAYABLE**

	December 31	
	2006	2005
Domestic unsecured bonds:		
Issued in December 2000 and repayable in December 2005 and 2007 in two installments, 5.25% and 5.36% interest payable annually, respectively	\$ 4,500,000	\$ 4,500,000
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	19,500,000
Current portion	(7,000,000)	
	\$ 12,500,000	\$ 19,500,000

As of December 31, 2006, future principal repayments for the Company's bonds were as follows:

Year of Repayment	Amount
2007	\$ 7,000,000
2009	8,000,000
2012	4,500,000
	\$ 19,500,000

15. LONG-TERM BANK LOANS

	December 31	
	2006	2005
Secured loan:		
US\$20,000 thousand, repayable by November 2008 in 5 payments, annual interest at 5.91%	\$ 651,871	\$ 656,914
Unsecured loans:		
Science Park Administration (SPA) SOC loan, repayable by July 2008 in 20 payments, interest-free	4,873	7,658
SPA DSP loan, repayable by April 2007 in 20 payments, interest-free	1,352	4,057
	658,096	668,629
Current portion	(4,137)	(5,489)
	\$ 653,959	\$ 663,140

As of December 31, 2006, assets of TSMC-Shanghai with an aggregate carrying amount of NT\$4,293,595 thousand (RMB1,028,652 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 December 31, 2006, TSMC-Shanghai was in compliance with all such financial covenants.

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As of December 31, 2006, future principal repayments under the Company's long-term bank loans were as follows:

Year of Repayment	Amount
2007	\$ 4,137
2008	132,463
2009	260,748
2010	260,748
	\$ 658,096

16. OTHER LONG-TERM PAYABLES

	December 31	
	2006	2005
Payables for acquisition of property, plant and equipment (Note 27k)	\$ 7,431,371	\$ 7,037,787
Payables for royalties	1,889,788	2,380,172
	9,321,159	9,417,959
Current portion (under accrued expenses and other current liabilities)	(617,892)	(869,072)
	\$ 8,703,267	\$ 8,548,887

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

As of December 31, 2006, future payments for other long-term payables were as follows:

Year of Payment	Amount
2007	\$ 617,892
2008	337,043
2009	337,043
2010	337,043
2011	260,767
2012 and thereafter	7,431,371
	\$ 9,321,159

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.

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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 by local regulations to make monthly contributions, at a certain percentage of the monthly basic salary of their local employees. Pursuant to the aforementioned Act and local regulations, the Company has made monthly contributions and recognized pension costs of NT\$679,919 thousand and NT\$305,270 thousand for the years ended December 31, 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), which are administered by the pension fund monitoring committees and deposited by the names of the committees in the Central Trust of China.

Information about the defined benefit plans is summarized as follows:

a. Components of net periodic pension cost for the year

	2006	2005
Service cost	\$ 178,460	\$ 470,886
Interest cost	164,168	163,854
Projected return on plan assets	(49,399)	(49,843)
Amortization	12,096	8,345
Net periodic pension cost	\$ 305,325	\$ 593,242

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2006 and 2005

	2006	2005
Benefit obligation		
Vested benefit obligation	\$ 102,920	\$ 62,302
Nonvested benefit obligation	3,883,344	3,364,333
Accumulated benefit obligation	3,986,264	3,426,635
Additional benefits based on future salaries	2,969,830	2,550,307
Projected benefit obligation	6,956,094	5,976,942
Fair value of plan assets	(1,958,595)	(1,691,603)
Funded status	4,997,499	4,285,339
Unrecognized net transition obligation	(118,420)	(126,969)
Unrecognized net loss	(1,339,019)	(684,429)
Accrued pension cost	\$ 3,540,060	\$ 3,473,941
Vested benefit	\$ 106,645	\$ 67,752

c. Actuarial assumptions at December 31, 2006 and 2005

	2006	2005
Discount rate used in determining present values	2.25%-3.50%	2.75%-3.50%
Future salary increase rate	2.00%-3.00%	2.00%-3.00%
Expected rate of return on plan assets	2.50%	2.50%-2.75%

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	2006	2005
d. Contributions to the Funds for the year	\$ 233,111	\$ 226,181
e. Payments from the Funds for the year	\$ 7,407	\$ 8,419

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:

	Years Ended December 31	
	2006	2005
Income tax expense based on income before income tax at statutory rates	\$ (34,786,278)	\$ (23,658,498)
Tax effect of the following:		
Tax-exempt income	12,281,413	12,243,435
Temporary and permanent differences	2,817,104	(1,123,735)
Additional tax at 10% on unappropriated earnings	(1,170,108)	(1,494,811)
Cumulative effect of changes in accounting principles	82,062	
Investment tax credits used	12,769,386	10,133,848
Income tax currently payable	\$ (8,006,421)	\$ (3,899,761)

- b. Income tax expense consisted of the following:

	Years Ended December 31	
	2006	2005
Income tax currently payable	\$ (8,006,421)	\$ (3,899,761)
Other income tax adjustments	328,152	(117,314)
Net change in deferred income tax assets		
Investment tax credits	(3,914,757)	(1,965,878)
Temporary differences	2,181,558	2,402,406
Net operating loss carryforwards	(1,412,946)	(690,615)
Adjustments in valuation allowance	3,050,703	3,640,583
Income tax expense	\$ (7,773,711)	\$ (630,579)

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

	December 31	
	2006	2005
Current deferred income tax assets, net		
Investment tax credits	\$ 7,870,800	\$ 7,033,622
Temporary differences	584,210	454,051
Net operating loss carryforwards		15,825
Valuation allowance	(441,018)	(354,192)

\$ 8,013,992 \$ 7,149,306

(Continued)

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	December 31	
	2006	2005
Non-current deferred income tax assets, net		
Investment tax credits	\$ 12,252,389	\$ 17,004,324
Temporary differences	(3,580,754)	(5,640,477)
Net operating loss carryforwards	4,816,846	6,261,469
Valuation allowance	(7,686,339)	(10,836,898)
	\$ 5,802,142	\$ 6,788,418

(Concluded)

As of December 31, 2006, the net operating loss carryforwards were generated by WaferTech, TSMC Development and TSMC Technology and will expire on various dates through 2026.

d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2006 and 2005 was NT\$828,612 thousand and NT\$20,087 thousand, respectively.

The estimated creditable ratio for distribution of TSMC's earnings of 2006 and 2005 was 0.54% and 2.88%, respectively.

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

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

f. As of December 31, 2006, the Company's investment tax credits consisted of the following:

Regulation	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 2,685,977	\$	2006
		4,113,439		2007
		6,802,983	3,955,980	2008
		6,030,309	6,030,309	2009
		5,114,762	5,114,762	2010
		\$ 24,747,470	\$ 15,101,051	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,800,884	\$	2006
		1,283,760	38,618	2007
		1,668,780	1,668,780	2008

1,572,164	1,572,164	2009
1,580,589	1,580,589	2010

\$ 7,906,177	\$ 4,860,151
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Regulation	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Personnel training	\$ 27,357	\$	2006
		16,379	182	2007
		40,777	40,777	2008
		40,628	40,628	2009
		596	596	2010
		\$ 125,737	\$ 82,183	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 79,804	\$ 79,804	2010

(Concluded)

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

	Tax-Exemption Periods
Construction of Fab 8 - module 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 TSMC through 2003.

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2006		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	\$ 11,713,445	\$ 6,692,437	\$ 18,405,882
Labor and health insurance	714,170	404,845	1,119,015
Pension	627,731	369,398	997,129
Meal	460,980	173,185	634,165
Welfare	236,022	211,272	447,294
Others	226,032	217,045	443,077
	\$ 13,978,380	\$ 8,068,182	\$ 22,046,562
Depreciation	\$ 67,685,744	\$ 3,539,472	\$ 71,225,216

Amortization	\$ 1,436,908	\$ 1,035,482	\$ 2,472,390
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	Year Ended December 31, 2005		
	Classified		
	as		
	Classified	Operating	
	as	Expenses	Total
	Cost of		
	Sales		
Labor cost			
Salary	\$ 11,031,464	\$ 6,678,630	\$ 17,710,094
Labor and health insurance	633,790	343,937	977,727
Pension	589,342	320,607	909,949
Meal	434,729	160,175	594,904
Welfare	167,218	166,360	333,578
Others	168,959	225,389	394,348
	\$ 13,025,502	\$ 7,895,098	\$ 20,920,600
Depreciation	\$ 68,135,117	\$ 3,250,651	\$ 71,385,768
Amortization	\$ 1,766,702	\$ 2,574,566	\$ 4,341,268

20. SHAREHOLDERS EQUITY

As of December 31, 2006, 889,740 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs is 4,448,702 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 are limited to a certain percentage of the Company's paid-in capital.

Capital surplus consisted of the following:

	December 31	
	2006	2005
From merger	\$ 24,003,546	\$ 24,003,546
Additional paid-in capital	19,974,431	23,254,234
From convertible bonds	9,360,424	9,360,424
From treasury stock transactions	389,188	306,868
From long-term investments	379,854	192,759
Donations	55	55
	\$ 54,107,498	\$ 57,117,886

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 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 provide 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:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal	For Fiscal	For	For
	Year 2005	Year 2004	Fiscal	Fiscal
			Year	Year
			2005	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 shareholders' meeting held on May 16, 2006 also resolved to distribute stock dividends out of capital surplus in the amount of NT\$3,709,504 thousand.

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 shown in the respective financial statements would have decreased from NT\$3.79 to NT\$3.50 and NT\$3.97 to NT\$3.70, respectively.

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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.

As of January 11, 2007, the Board of Directors had not resolved the appropriation for earnings of 2006.

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

Under the Integrated Income Tax System that became effective on January 1, 1998, 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 2004 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 2004 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 cancelled had expired as of December 31, 2006.

Information about TSMC's outstanding stock options for the years ended December 31, 2006 and 2005 was as follows:

	Number of Options (in Thousands)	Weighted- average Exercise Price (NT\$)
Year ended December 31, 2006		
Balance, beginning of year	67,758	\$39.4
Options granted	2,758	40.1
Options exercised	(14,550)	40.1
Options canceled	(3,152)	43.7
Balance, end of year	52,814	39.6
Year ended December 31, 2005		

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Balance, beginning of year	64,367	\$40.5
Options granted	14,864	48.4
Options exercised	(6,837)	39.6
Options canceled	(4,636)	44.1
Balance, end of year	67,758	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.

As of December 31, 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	34,584	5.15	\$ 35.5	28,351	\$ 35.5
45.1- 52.3	18,230	6.88	47.5	4,390	45.7
	52,814			32,741	

GUC's Employee Stock Option Plans, consisting of the 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, the 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 December 31, 2006.

Information about GUC's outstanding stock options for the years ended December 31, 2006 and 2005 was as follows:

	Number of Options	Weighted- average Exercise Prices (NT\$)
Year ended December 31, 2006		
Balance, beginning of year	7,132	\$ 10.7

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Options granted	3,689	19.5
Options exercised	(2,862)	10.5
Options canceled	(617)	12.1
Balance, end of year	7,342	14.0

(Continued)

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	Number of Options	Weighted- average Exercise Prices (NT\$)
Year ended December 31, 2005		
Balance, beginning of year	7,889	10.5
Options granted	2,499	11.0
Options exercised	(2,641)	10.5
Options canceled	(615)	10.6
Balance, end of year	7,132	10.7

(Concluded)

As of December 31, 2006, information about GUC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options	Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (NT\$)
\$10.0-\$18.4	7,342	1.58-4.75	\$ 14.0	15	\$ 10.5

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2006 and 2005. Had the Company used the fair value based method (based on the Black-Scholes model) to evaluate the options granted after January 1, 2004, the assumptions and pro forma results of the Company for the years ended December 31, 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	22.65%-41.74%	22.65%-28.02%
	Expected volatility	2.23%-2.56%	2.56%
	Risk free interest rate	3-6 years	6 years

	2006	2005
Net income attributable to shareholders of the parent:		
As reported	\$ 127,009,731	\$ 93,575,035

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Pro forma	126,887,247	93,456,533
Consolidated earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 4.93	\$ 3.63
Pro forma basic EPS	4.92	3.63
Diluted EPS as reported	4.92	3.63
Pro forma diluted EPS	4.92	3.63

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Table of Contents**22. TREASURY STOCK**

	(Shares in Thousands)			
	Beginning Shares	Stock Dividends	Disposal	Ending Shares
Year ended December 31, 2006				
Parent company stock held by subsidiaries	32,938	988		33,926
Year ended December 31, 2005				
Parent company stock held by subsidiaries	45,521	2,242	14,825	32,938

Proceeds from sales of treasury stock for the year ended December 31, 2005 were NT\$899,489 thousand. As of December 31, 2006 and 2005, the book value of the treasury stock was NT\$918,075 thousand, the market value was NT\$2,290,026 thousand and NT\$2,047,126 thousand, respectively. TSMC's stock held by 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

	Years Ended December 31			
	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	\$ 5.16	\$ 4.87	\$ 3.66	\$ 3.63
Cumulative effect of changes in accounting principles attributable to shareholders of the parent	0.06	0.06		
Income attributable to shareholders of the parent	\$ 5.22	\$ 4.93	\$ 3.66	\$ 3.63
Consolidated diluted EPS (NT\$)				
Income before cumulative effect of changes in accounting principles attributable to shareholders of the parent	\$ 5.16	\$ 4.86	\$ 3.66	\$ 3.63
Cumulative effect of changes in accounting principles attributable to shareholders of the parent	0.06	0.06		
Income attributable to shareholders of the parent	\$ 5.22	\$ 4.92	\$ 3.66	\$ 3.63

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Consolidated EPS for the years ended December 31, 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
Year ended December 31, 2006					
Consolidated basic EPS					
Income available to common shareholders of the parent	\$ 134,698,725	\$ 127,009,731	25,788,555	\$ 5.22	\$ 4.93
Effect of dilutive potential common stock stock options			24,628		
Consolidated diluted EPS					
Income available to common shareholders of the parent (including effect of dilutive potential common stock)	\$ 134,698,725	\$ 127,009,731	25,813,183	\$ 5.22	\$ 4.92
Year ended December 31, 2005					
Consolidated basic EPS					
Income available to common shareholders of the parent	\$ 94,214,625	\$ 93,575,035	25,763,320	\$ 3.66	\$ 3.63
Effect of dilutive potential common stock stock options			12,647		
Consolidated diluted EPS					
Income available to common shareholders of the parent (including effect of dilutive potential common stock)	\$ 94,214,625	\$ 93,575,035	25,775,967	\$ 3.66	\$ 3.63

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
	\$ 1,206,854	\$ 1,206,854	\$ 1,770,445	\$ 3,000,839

Financial assets at fair value through profit or loss

Available-for-sale financial assets	74,172,343	74,172,343	46,570,085	46,560,924
Held-to-maturity financial assets	37,484,318	37,375,517	29,377,817	29,081,927
Investments accounted for using equity method (with market price)	5,931,755	11,027,066	5,419,747	10,991,064

Liabilities

Financial liabilities at fair value through profit or loss

Bonds payable (including current portion)	10,864	10,864	234,279	173
Long-term bank loans (including current portion)	19,500,000	19,817,149	19,500,000	19,924,923
Other long-term payables (including current portion)	658,096	658,096	668,629	668,629
Obligations under capital leases	10,413,125	10,413,125	11,212,390	11,212,390
	612,941	612,941	597,669	597,669

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 time deposits were based on their quoted market prices.

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- 3) Fair values of derivatives and structured time 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) Fair values of long-term bank loans, other long-term payables and obligation under capital leases were based on the present value of expected cash flows, which approximate their carrying amount.
- c. Gains recognized for the changes in fair value of derivatives estimated using valuation techniques were NT\$33,739 thousand for the year ended December 31, 2006.
- d. As of December 31, 2006 and 2005, financial assets exposed to fair value interest rate risk were NT\$111,492,332 thousand and NT\$77,190,280 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$10,864 thousand and NT\$234,279 thousand, respectively, and financial assets exposed to cash flow interest rate risk were NT\$7,171,120 thousand and NT\$7,227,000 thousand, respectively.
- e. The Company recognized an unrealized gain of NT\$388,164 thousand (NT\$386,017 thousand attributable to shareholders' equity of the parent and NT\$2,147 thousand attributable to minority interests) in shareholders' equity for the changes in fair value of available-for-sale financial assets for the year ended December 31, 2006. The Company also recognized an unrealized gain of NT\$175,598 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets held by equity method investees for the year ended December 31, 2006.
- 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 market risk. The derivative financial instruments categorized as financial assets/liabilities 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 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 that the Company's 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 liquidity 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.

Table of Contents**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 was one of ITRI's supervisors, who resigned in October 2006.

- 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), which has the same president as VisEra. However, because VisEra has not been a consolidated entity of the Company since November 2005, Huawei is no longer considered a related party.

	2006		2005	
	Amount	%	Amount	%
For the year				
Sales				
Philips	\$ 4,024,990	1	\$ 3,298,770	1
Omnivision			2,489,252	1
Others	162,343		492,683	
	\$ 4,187,333	1	\$ 6,280,705	2
Purchases				
SSMC	\$ 6,820,632	4	\$ 5,729,672	4
VIS	3,919,566	3	4,142,457	3
	\$ 10,740,198	7	\$ 9,872,129	7

Manufacturing expenses - technical assistance fees		
Philips (see Note 27a)	\$ 755,904	\$ 581,059

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	2006		2005	
	Amount	%	Amount	%
Non-operating income and gains SSMC (primarily technical service income; see Note 27e)	\$ 314,953	3	\$ 316,243	4
VIS (primarily technical service income; see Note 27h)	261,245	3	210,720	3
VisEra	246,242	2	308,071	4
	\$ 822,440	8	\$ 835,034	11
As of December 31				
Receivables				
Philips	\$ 250,919	99	\$ 573,565	83
Others	1,420	1	119,701	17
	\$ 252,339	100	\$ 693,266	100
Other receivables				
VIS	\$ 121,911	47	\$ 74,457	12
SSMC	69,568	27	149,251	25
VisEra	58,989	23	374,202	63
Others	6,395	3		
	\$ 256,863	100	\$ 597,910	100
Payables				
VIS	\$ 719,832	38	\$ 563,240	32
Philips	688,591	37	693,956	40
SSMC	459,305	25	485,873	28
	\$ 1,867,728	100	\$ 1,743,069	100
Other long-term payables Philips (see Note 27a)	\$ 403,375	100	\$ 1,100,475	100
Deferred credits				
VisEra	\$ 124,350	11	\$ 186,525	14

(Concluded)

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 with a monthly rental of NT\$7,684 thousand (classified under non-operating incomes and gains). The Company deferred the gains (classified under deferred credits) derived from sales of property, plant, and equipment to VisEra, and then recognized such gains (classified under non-operating incomes and gains) over the depreciable lives of the disposed assets.

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Table of Contents**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 North America, Japan and Shanghai. These operating leases expire between 2007 and 2011 and can be renewed upon expiration.

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

Year	Amount
2007	\$ 945,657
2008	697,264
2009	422,415
2010	306,709
2011	211,051
2012 and thereafter	1,507,005
	\$ 4,090,101

27. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2006, excluding those disclosed in other notes, were as follows:

- a. On June 20, 2004, TSMC 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 TSMC and Philips will survive the expiration of the amended Technical Cooperation Agreement. Under this amended Technical Cooperation Agreement, TSMC will pay Philips royalties based on a fixed amount mutually agreed-on, rather than under a certain percentage of TSMC's annual net sales. TSMC and Philips agreed to cross license the patents owned by each party. TSMC also obtained through Philips a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity if TSMC's outstanding commitments to its customers are not prejudiced. 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, 1997, 2002 and on January 1, 2007.
- c. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2006, TSMC had a total of US\$116,297 thousand of guarantee deposits.

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- 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. TSMC's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. TSMC and NXP purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP) committed to buy specific percentages of the production capacity of SSMC. TSMC and Philips (now NXP) are required, in the aggregate, to purchase up to 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. TSMC provides technical services to SSMC under a Technical Cooperation Agreement (the Agreement) entered into on May 12, 1999. TSMC 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, TSMC 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, TSMC and National entered into a Termination Agreement whereby the TTA was terminated. Under the Termination Agreement, TSMC will be relieved of any further obligation to transfer any additional technology. In addition, TSMC 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, TSMC entered into a Technology Development and License Agreement with Freescale Semiconductor, Inc. to jointly develop 65-nm SOI (silicon on insulator) technology. TSMC 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, TSMC will pay royalties to Freescale Semiconductor, Inc. and will share a portion of the costs associated with the joint development project.
- h. TSMC provides a technology transfer to VIS under a Manufacturing License and Technology Transfer Agreement entered into on April 1, 2004. TSMC 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 TSMC 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.

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- j. 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 December 31, 2006, SMIC had paid US\$ 60,000 thousand in accordance with the terms of this settlement agreement. In August 2006, TSMC, TSMC-North America and Wafertech filed a lawsuit against SMIC in Alameda County Superior Court in California for breach of aforementioned settlement agreement, breach of promissory notes and trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court, alleging TSMC of breach of the settlement agreement and implied covenant of good faith and fair dealing, in response to TSMC's August complaint. The outcome of this litigation cannot be determined at this time.
- k. 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.
- l. Amounts available under unused letters of credit as of December 31, 2006 were NT\$6,480 thousand.

28. 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;
- 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;

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- 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 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 Table 10 attached.
- k. Intercompany relationships and significant intercompany transactions: Please see Table 10 attached.

29. SEGMENT FINANCIAL INFORMATION

a. Industry financial information

The Company is engaged mainly in the manufacturing, selling, packaging and testing of integrated circuits. Therefore, the disclosure of industry financial information is not applicable to the Company.

b. Geographic information:

	North America and Others		Taiwan	Adjustments and Elimination	Consolidated
2006					
Sales to other than consolidated entities	\$	191,511,929	\$ 125,895,242	\$	\$ 317,407,171
Sales among consolidated entities		18,998,614	191,345,140	(210,343,754)	
Total sales	\$	210,510,543	\$ 317,240,382	\$ (210,343,754)	\$ 317,407,171
Gross profit	\$	5,641,405	\$ 150,498,038	\$ (329,353)	\$ 155,810,090
Operating expenses					(28,545,396)
Non-operating income and gains					9,705,592
Non-operating expenses and losses					(3,608,078)
Income before income tax					\$ 133,362,208
Identifiable assets	\$	133,341,631	\$ 441,339,388	\$ (41,091,011)	\$ 533,590,008
Long-term investments					53,895,151
Total assets					\$ 587,485,159

(Continued)

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	North America and Others		Taiwan	Adjustments and Elimination	Consolidated
2005					
Sales to other than consolidated entities	\$	152,517,793	\$ 114,047,277	\$	\$ 266,565,070
Sales among consolidated entities		13,513,219	152,132,512	(165,645,731)	
Total sales	\$	166,031,012	\$ 266,179,789	\$ (165,645,731)	\$ 266,565,070
Gross profit	\$	2,858,063	\$ 115,722,187	\$ (377,376)	\$ 118,202,874
Operating expenses					(27,234,315)
Non-operating income and gains					9,399,360
Non-operating expenses and losses					(6,104,672)
Income before income tax					\$ 94,263,247
Identifiable assets	\$	92,904,411	\$ 430,083,964	\$ (45,861,280)	\$ 477,127,095
Long-term investments					42,382,494
Total assets					\$ 519,509,589
					(Concluded)

c. Export sales

The export sales were as follows:

Area	Years Ended December 31	
	2006	2005
Asia	\$ 62,434,071	\$ 64,942,647
Europe and others	23,764,877	15,932,575
	\$ 86,198,948	\$ 80,875,222

The export sales information is based on the amounts billed to customers within the areas.

d. Major customers representing at least 10% of gross sales

	Years Ended December 31			
	2006		2005	
	Amount	%	Amount	%
Customer A	\$ 33,950,441	11	\$ 24,718,306	9

Customer B	25,214,878	8	29,855,447	11
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TABLE 1

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
FINANCING PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2006
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**