

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

April 20, 2006

**1934 Act Registration No. 1-14700**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of April 2006**

**Taiwan Semiconductor Manufacturing Company Ltd.**

(Translation of Registrant's Name Into English)

**No. 8, Li-Hsin Rd. 6,  
Hsinchu Science Park,  
Taiwan**

(Address of Principal Executive Offices)

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

Form 20-F

Form 40-F

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

Yes

No

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

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**Taiwan Semiconductor Manufacturing Company Limited**  
**Financial Statements for the**  
**Years Ended December 31, 2005 and 2004 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, 2005 and 2004, 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the years ended December 31, 2005 and 2004, and have expressed an unqualified opinion on such financial statements.

January 12, 2006

### Notice to Readers

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED**  
**BALANCE SHEETS**  
**DECEMBER 31, 2005 AND 2004**  
(In Thousands of New Taiwan Dollars, Except Par Value)

	2005		2004	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2, 3 and 4)	\$ 85,383,583	17	\$ 65,531,818	14
Short-term investments, net (Notes 2 and 4)	47,055,347	9	52,979,095	11
Receivables from related parties (Note 18)	21,050,604	4	16,136,039	3
Notes and accounts receivable	20,591,818	4	15,326,881	3
Allowance for doubtful receivables (Note 2)	(976,344)		(980,461)	
Allowance for sales returns and others (Note 2)	(4,269,969)	(1)	(3,327,914)	(1)
Other receivables from related parties (Note 18)	1,797,714	1	1,667,383	
Other financial assets (Notes 2 and 22)	2,403,929	1	2,080,640	1
Inventories, net (Notes 2 and 5)	16,257,955	3	14,171,945	3
Deferred income tax assets (Notes 2 and 12)	7,013,000	1	8,849,000	2
Prepaid expenses and other current assets	1,254,779		1,232,885	
<b>Total current assets</b>	<b>197,562,416</b>	<b>39</b>	<b>173,667,311</b>	<b>36</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 16 and 22)</b>				
Equity method	51,076,803	10	46,828,322	10
Cost method	807,490		772,634	
Long-term bonds	18,548,308	4	15,170,167	3
Other investments	10,227,000	2	10,521,740	2
<b>Total long-term investments</b>	<b>80,659,601</b>	<b>16</b>	<b>73,292,863</b>	<b>15</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7 and 18)</b>				
<b>Cost</b>				
Buildings	90,769,622	18	84,299,167	17
Machinery and equipment	459,850,773	91	390,719,215	80
Office equipment	7,850,035	1	7,041,132	1
	558,470,430	110	482,059,514	98
Accumulated depreciation	(359,191,829)	(71)	(300,006,201)	(61)
Advance payments and construction in progress	14,867,032	3	45,923,087	10
<b>Property, plant and equipment, net</b>	<b>214,145,633</b>	<b>42</b>	<b>227,976,400</b>	<b>47</b>

GOODWILL (Note 2)	1,567,756		1,916,146	
<b>OTHER ASSETS</b>				
Deferred charges, net (Notes 2, 8 and 21)	6,681,144	1	8,845,144	2
Deferred income tax assets (Notes 2 and 12)	6,759,955	2	1,645,003	
Refundable deposits	83,642		85,413	
Assets leased to others, net (Note 2)	72,879		78,613	
Idle assets (Note 2)	6,789		46,317	
Total other assets	13,604,409	3	10,700,490	2
TOTAL	\$ 507,539,815	100	\$ 487,553,210	100

**LIABILITIES AND SHAREHOLDERS EQUITY****CURRENT LIABILITIES**

Accounts payable	\$ 8,052,106	1	\$ 6,488,617	1
Payables to related parties (Notes 18 and 21)	3,242,197	1	3,198,490	1
Income tax payable (Notes 2 and 12)	3,815,888	1	379,903	
Accrued expenses and other current liabilities (Notes 2, 10, 21 and 22)	8,214,994	1	8,917,533	2
Payables to contractors and equipment suppliers	8,859,230	2	31,154,309	6
Current portion of long-term bonds payable (Note 9)			10,500,000	2
Total current liabilities	32,184,415	6	60,638,852	12

**LONG-TERM LIABILITIES**

Bonds payable (Note 9)	19,500,000	4	19,500,000	4
Other long-term payables (Notes 10 and 21)	1,511,100		1,934,968	
Other payables to related parties (Notes 18 and 21)	1,100,475		2,317,972	1
Total long-term liabilities	22,111,575	4	23,752,940	5

**OTHER LIABILITIES**

Accrued pension cost (Notes 2 and 11)	3,461,392	1	3,101,196	1
Guarantee deposits (Note 21)	2,892,945	1	412,393	
Deferred credits (Notes 2 and 18)	1,259,139		682,530	
Total other liabilities	7,613,476	2	4,196,119	1

Total liabilities	61,909,466	12	88,587,911	18
SHAREHOLDERS' EQUITY (Notes 2, 14, 15 and 16)				
Capital stock \$10 par value				
Authorized: 27,050,000 thousand shares in 2005 and 24,600,000 thousand shares in 2004				
Issued: 24,730,025 thousand shares in 2005 and 23,251,964 thousand shares in 2004	247,300,246	49	232,519,637	48
Capital surplus	57,117,886	11	56,537,259	11
Retained earnings				
Appropriated as legal capital reserve	34,348,208	7	25,528,007	5
Appropriated as special capital reserve	2,226,427			
Unappropriated earnings	106,196,399	21	88,202,009	18
Others				
Cumulative translation adjustments	(640,742)		(2,226,427)	
Treasury stock (at cost) 32,938 thousand shares in 2005 and 45,521 thousand shares in 2004	(918,075)		(1,595,186)	
Total shareholders' equity	445,630,349	88	398,965,299	82
TOTAL	\$ 507,539,815	100	\$ 487,553,210	100

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005		2004	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 18)	\$ 270,315,064		\$ 260,726,896	
SALES RETURNS AND ALLOWANCES (Note 2)	5,726,700		4,734,469	
NET SALES	264,588,364	100	255,992,427	100
COST OF SALES (Notes 13 and 18)	149,344,315	56	145,831,843	57
GROSS PROFIT	115,244,049	44	110,160,584	43
OPERATING EXPENSES (Notes 13 and 18)				
Research and development	13,395,801	5	12,516,434	5
General and administrative	7,485,011	3	9,367,010	3
Sales and marketing	1,349,413	1	1,454,362	1
Total operating expenses	22,230,225	9	23,337,806	9
INCOME FROM OPERATIONS	93,013,824	35	86,822,778	34
NON-OPERATING INCOME AND GAINS				
Interest (Notes 2 and 22)	2,769,978	1	1,687,681	1
Settlement income (Note 20)	950,046	1		
Gain on disposal of property, plant and equipment (Notes 2 and 18)	494,374		164,147	
Technical service income (Notes 18 and 21)	491,267		423,804	
Equity in earnings of equity method investees, net (Notes 2 and 6)			4,040,319	2
Gain on sales of investments, net (Note 2)			90,319	
Others (Note 18)	366,344		378,778	
Total non-operating income and gains	5,072,009	2	6,785,048	3
NON-OPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 7, 9 and 22)	2,429,568	1	1,278,072	1



Equity in losses of equity method investees, net (Notes 2 and 6)	1,052,045	1	
Unrealized valuation loss on short-term investments (Notes 2 and 4)	337,160		75,212
Loss on sales of investments, net (Note 2)	149,498		

(Continued)

	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Loss on disposal of property, plant, equipment and idle assets (Note 2)	\$ 59,992		\$ 107,722	
Foreign exchange loss, net (Notes 2 and 22)	34,379		323,080	
Others (Note 2)	203,768		45,156	
Total non-operating expenses and losses	4,266,410	2	1,829,242	1
INCOME BEFORE INCOME TAX	93,819,423	35	91,778,584	36
INCOME TAX BENEFITS (EXPENSES) (Notes 2 and 12)	(244,388)		537,531	
NET INCOME	\$ 93,575,035	35	\$ 92,316,115	36

	<b>2005</b>		<b>2004</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
EARNINGS PER SHARE (NT\$, Note 17)				
Basic earnings per share	\$ 3.80	\$ 3.79	\$ 3.71	\$ 3.73
Diluted earnings per share	\$ 3.80	\$ 3.79	\$ 3.71	\$ 3.73

The pro forma net income and earnings per share (after income tax) are shown as follows, and are based on the assumption that the parent company stock held by its subsidiaries is treated as an investment instead of as treasury stock (Notes 2 and 16):

	<b>2005</b>	<b>2004</b>
NET INCOME	\$ 93,881,698	\$ 92,340,760
EARNINGS PER SHARE (NT\$)		
Basic earnings per share	\$ 3.80	\$ 3.73
Diluted earnings per share	\$ 3.79	\$ 3.73

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

(Concluded)

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

Shares (in thousands)	Capital Stock Amount	Capital Surplus	Legal Capital Reserve	Retained Earnings		Unrealized Loss on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	
				Special Capital Reserve	Unappropriated Earnings				
0,266,619	\$ 202,666,189	\$ 56,855,885	\$ 20,802,137	\$ 68,945	\$ 50,229,008	\$ 71,100,090	\$ (35)	\$ 225,408	\$ (1,633,222)
			4,725,870		(4,725,870)				
				(68,945)	68,945				
					(681,628)	(681,628)			
272,651	2,726,514				(2,726,514)	(2,726,514)			
					(184,493)	(184,493)			
					(12,159,971)	(12,159,971)			
2,837,327	28,373,267				(28,373,267)	(28,373,267)			
					(127,805)	(127,805)			
					92,316,115	92,316,115			

			34,059						
								35	
									(2,451,835)
87	867	2,757							
			22,781						
			1,864						38,04
									(7,059,79
(124,720)	(1,247,200)	(380,087)				(5,432,511)	(5,432,511)		7,059,79
3,251,964	232,519,637	56,537,259	25,528,007			88,202,009	113,730,016	(2,226,427)	(1,595,18
			8,820,201			(8,820,201)			
						2,226,427	(2,226,427)		
						(3,086,215)	(3,086,215)		

308,622	3,086,215				(3,086,215)	(3,086,215)		
					(46,504,097)	(46,504,097)		
1,162,602	11,626,024				(11,626,024)	(11,626,024)		
					(231,466)	(231,466)		
					93,575,035	93,575,035		
			71,405					
							1,585,685	
6,837	68,370	202,559						
			84,285					
				222,378				677,111
4,730,025	\$ 247,300,246	\$ 57,117,886	\$ 34,348,208	\$ 2,226,427	\$ 106,196,399	\$ 142,771,034	\$ (640,742)	\$ (918,071)

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



**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(In Thousands of New Taiwan Dollars)

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 93,575,035	\$ 92,316,115
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	67,991,423	63,072,140
Deferred income taxes	(3,278,952)	(1,101,407)
Equity in losses (earnings) of equity method investees, net	1,052,045	(4,040,319)
Gain on sales of long-term investments, net	(3,502)	(2,216)
Amortization of premium/discount from long-term bond investments, net	120,872	28,673
Gain on disposal of property, plant and equipment and idle assets, net	(434,382)	(56,425)
Loss on idle assets	131,849	
Donation of idle assets	7,207	
Provision for pension cost	360,196	500,945
Dividends received from equity method investees	668,464	
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables from related parties	(4,914,565)	(1,301,979)
Notes and accounts receivable	(5,264,937)	(1,409,074)
Allowance for doubtful receivables	(4,117)	(35,561)
Allowance for sales returns and others	942,055	1,201,889
Other receivables from related parties	(1,243,126)	(27,938)
Other financial assets	(98,854)	(1,329,634)
Inventories, net	(2,086,010)	(3,264,787)
Prepaid expenses and other current assets	(21,280)	751,383
Increase (decrease) in:		
Accounts payable	1,563,489	404,741
Payables to related parties	(1,224,371)	(1,771,144)
Income tax payable	3,435,985	252,800
Accrued expenses and other liabilities	(890,473)	(507,984)
Deferred credits	95,744	
 Net cash provided by operating activities	 150,479,795	 143,680,218
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in short-term investments, net	5,923,748	(43,822,489)
Acquisitions of:		
Long-term investments	(17,037,788)	(30,290,982)
Property, plant and equipment	(73,659,014)	(76,171,356)
Proceeds from disposal of:		
Long-term investments	10,474,035	7,822

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Property, plant and equipment and idle assets	2,087,236	1,713,934
Increase in deferred charges	(847,721)	(2,404,130)
Decrease in refundable deposits	1,771	91,966
Net cash used in investing activities	(73,057,733)	(150,875,235)

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	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid for common stock	\$ (46,504,097)	\$ (12,159,971)
Repayment of long-term bonds payable	(10,500,000)	(5,000,000)
Cash bonus paid to employees	(3,086,215)	(681,628)
Increase (decrease) in guarantee deposits	2,480,552	(351,096)
Proceeds from exercise of stock options	270,929	3,624
Bonus to directors and supervisors	(231,466)	(127,805)
Repurchase of treasury stock		(7,059,798)
Cash dividends paid for preferred stock		(184,493)
Net cash used in financing activities	(57,570,297)	(25,561,167)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,851,765	(32,756,184)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,531,818	98,288,002
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 85,383,583	\$ 65,531,818
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for		
Interest (excluding the amount capitalized of NT\$262,109 thousand in 2004, Note 7)	\$ 2,269,666	\$ 1,304,621
Income tax	\$ 87,351	\$ 309,522
Cash paid for acquisition of property, plant and equipment		
Total acquisitions	\$ 51,363,935	\$ 100,207,781
Decrease (increase) of payables to contractors and equipment suppliers	22,295,079	(24,036,425)
	\$ 73,659,014	\$ 76,171,356
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term bonds payable	\$	\$ 10,500,000
Current portion of other payables to related parties (under payables to related parties)	\$ 693,956	\$ 469,494
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 869,072	\$ 1,505,345
Reclassification of short-term investments to long-term investments	\$	\$ 3,402,413

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, 2005 AND 2004**

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

**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, 2005 and 2004, the Company had 19,460 and 18,562 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

Significant accounting policies are summarized as follows:

**Use of Estimates**

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

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

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

**Cash Equivalents**

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

### **Short-term Investments**

Short-term investments primarily consist of agency bonds, corporate bonds, asset-backed securities, bond funds, government bonds and others.

Short-term investments are recorded at historical cost and are carried at the lower of cost or market value as of the balance sheet date. An allowance for decline in value is provided and is charged to current income when the aggregate carrying amount of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the aggregate market value.

The costs of funds and listed stocks sold are accounted for using the weighted-average method; whereas the costs of other securities sold are accounted for using the specific identification method.

The market value of funds is determined using the net asset value of the funds at the end of the year, and the market value of listed stocks is determined using the average-closing prices of the listed stocks for the last month of the year. The market value of other short-term investments is determined using the average of bid and ask prices as of the balance sheet date.

Cash dividends are recorded as investment income in the current year.

### **Allowance for Doubtful Receivables**

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

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

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

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

### **Inventories**

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts and net realizable value for finished goods and work in process. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. 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.

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## Long-term Investments

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

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

Investments in companies wherein the Company does not exercise significant influence are recorded at historical cost. Cash dividends are recognized as investment income in the year received but are accounted for as reductions to the carrying amount of the investments if the dividends are received in the year of acquisition. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income or the carrying amount of the investment.

Investments in mutual funds are stated at the lower of aggregate cost or net asset value. An allowance is recognized when the net asset value of the funds is lower than their cost, with the corresponding amount recorded as a reduction to shareholders' equity. A reversal of the allowance will result from a subsequent recovery of the net asset value.

The costs of stocks and mutual funds sold are determined using the weighted-average method.

Investments in long-term bonds are stated at amortized cost. The discount or premium is amortized over the duration period using the interest method, and recorded as an adjustment to interest income.

When investments in public-traded securities are reclassified from short-term investments to long-term investments or from long-term investments to short-term investments, the Company recognizes a loss to the extent, if any, that the market value of such investments is lower than the carrying amount and the market value at the time of reclassification becomes the new basis.

If an investee recognizes an unrealized loss on its long-term investments using the lower-of-cost-or-market method, the Company also recognizes a corresponding unrealized loss in proportion to its ownership percentage in the investee and records the amount as a component of shareholders' equity.

When an indication of impairment is identified in an investment, the carrying amount of the investment is reduced to reflect other-than-temporary decline, with the related impairment loss charged to current income.

Gains or losses on sales from the Company to investees accounted for using the equity method are deferred in proportion to the Company's ownership percentages in the investees until realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has control 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 investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until realized through transactions with third parties. Gains or losses on sales between investees accounted for using the equity method are deferred in proportion to the Company's weighted-average

ownership percentages in the investees which record such gains or losses until 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 process of translating the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

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

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

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

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

### **Goodwill**

Goodwill represents the excess of the consideration paid for acquisition over the fair market value of identifiable net assets acquired and acquisition costs. Goodwill is amortized using the straight-line method over the estimated life of 10 years. If an event occurs or circumstances change that more likely than not reduce the fair value of goodwill below its carrying amount, an impairment loss is charged to current income. Subsequent recovery in the fair value of the goodwill may not be recorded such as to reverse the impairment loss previously recorded.

### **Deferred Charges**

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

### **Pension Costs**

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



## **Income Tax**

The Company uses an inter-period tax allocation method for income tax. 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 of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

## **Stock-based Compensation**

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

## **Treasury Stock**

When the Company repurchases its outstanding common stock, the cost of the reacquired such stock is recorded as treasury stock and deducted from shareholders' equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus—additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus—treasury stock transactions and to retained earnings for any remaining amount. The Company's stock held by its subsidiaries is also treated as treasury stock and reclassified from long-term investments to treasury stock. The gains resulted from the disposal of the treasury stock held by the subsidiaries and cash dividends received by the subsidiaries from the Company are recorded under capital surplus—treasury stock transactions.

## **Foreign-currency Transactions**

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

### Derivative Financial Instruments

The Company enters into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts are 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 are amortized over the terms of the forward contracts using the straight-line method. At the end of the year, the receivables or payables arising from forward contracts are restated using the prevailing exchange rates with the resulting differences credited or charged to income. In addition, the receivables and payables related to the forward contracts are netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

The Company enters into cross currency swap contracts to manage currency exposures on foreign-currency-denominated assets and liabilities. The principal amount is recorded using the current rate 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 are amortized over the terms of the contracts using the straight-line method. At the end of the year, the receivables or payables arising from cross-currency swap contracts are restated using the prevailing exchange rate with the resulting differences credited or charged to income. In addition, the receivables and payables related to the contracts of the same counter party are 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 is recorded as an adjustment to the interest income or expense associated with the hedged items. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

The contract amounts of foreign currency option contracts entered into for hedging purposes are not recognized as an asset or liability on the contract dates. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

The Company enters into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. The receivable or payable computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as an adjustment to the interest income or expense associated with the hedged items.

### Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2004 have been reclassified to conform to the financial statements as of and for the year ended December 31, 2005.

### 3. CASH AND CASH EQUIVALENTS

	<b>2005</b>	<b>2004</b>
Government bonds acquired under repurchase agreements	\$ 47,963,226	\$ 19,215,153
Cash and deposits in bank	37,007,192	45,838,453
Corporate notes	413,165	478,212
	<b>\$ 85,383,583</b>	<b>\$ 65,531,818</b>

**4. SHORT-TERM INVESTMENTS, NET**

	<b>2005</b>	<b>2004</b>
Agency bonds	\$ 14,607,694	\$ 8,633,889
Corporate bonds	12,463,688	13,554,598
Corporate issued asset-backed securities	11,724,149	11,766,877
Bond funds	6,055,578	10,662,758
Government bonds	2,087,418	7,346,858
Corporate notes	263,249	63,796
Money market funds	260,686	673,888
Public-traded stocks	5,257	6,528
Government bonds acquired under repurchase agreements		249,449
Commercial papers		95,666
	47,467,719	53,054,307
Allowance for valuation	(412,372)	(75,212)
	\$ 47,055,347	\$ 52,979,095
Market value	\$ 47,055,347	\$ 52,979,095

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, 2005, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as agency bonds, corporate bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

**5. INVENTORIES, NET**

	<b>2005</b>	<b>2004</b>
Finished goods	\$ 2,768,575	\$ 3,229,417
Work in process	12,407,286	10,713,178
Raw materials	1,700,314	808,722
Supplies and spare parts	786,772	779,368
	17,662,947	15,530,685
Allowance for valuation	(1,404,992)	(1,358,740)
	\$ 16,257,955	\$ 14,171,945

**6. LONG-TERM INVESTMENTS**

	<b>2005</b>		<b>2004</b>	
	<b>Carrying Amount</b>	<b>% of Owner- ship</b>	<b>Carrying Amount</b>	<b>% of Owner- ship</b>
Equity method				
TSMC International Investment Ltd. (TSMC International)	\$ 23,912,812	100	\$ 23,778,997	100
TSMC (Shanghai) Company Limited (TSMC-Shanghai)	9,438,856	100	8,113,511	100
Vanguard International Semiconductor Corporation (VIS)	5,419,747	27	5,401,982	28
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	4,215,200	32	3,290,888	32
TSMC Partners, Ltd. (TSMC Partners)	4,091,166	100	3,908,356	100
TSMC North America (TSMC-North America)	1,790,186	100	502,242	100
Emerging Alliance Fund, L.P. (Emerging Alliance)	850,534	99	823,232	99
VentureTech Alliance Fund II, L.P. (VTAF II)	642,479	98	329,968	98
Global UniChip Corporation (GUC)	442,233	46	391,626	47
TSMC Japan K. K. (TSMC-Japan)	94,949	100	102,572	100
Chi Cherng Investment Co., Ltd. (Chi Cherng)	78,139	36	50,570	36
Hsin Ruey Investment Co., Ltd. (Hsin Ruey)	77,415	36	49,823	36
Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe)	23,087	100	25,439	100
VisEra Technologies Company Ltd. (VisEra)			59,116	25
	51,076,803		46,828,322	
Cost method				
Unquoted stocks	472,500		482,500	
Funds	334,990		290,134	
	807,490		772,634	
Long-term bonds				
Government bonds	9,922,937		10,260,481	
Corporate bonds				
Taiwan Power Company	3,263,348		915,276	
Nan Ya Plastics Corporation	2,150,842		407,526	
China Steel Corporation	1,010,532		2,978,804	
Formosa Petrochemical Corporation	791,963			
Chinese Petroleum Corporation	705,436			
Far Eastone Telecommunication Co., Ltd.	300,026			
Formosa Plastics Corporation	268,855		405,485	
Formosa Chemical & Fiber Corporation	134,369		202,595	

	18,548,308	15,170,167
Other investments	10,227,000	10,521,740
	\$ 80,659,601	\$ 73,292,863

For the years ended December 31, 2005 and 2004, net equity in losses and earnings recognized from the equity method investees was NT\$1,052,045 thousand and NT\$4,040,319 thousand, respectively. The carrying amounts of investments accounted for under the equity method and the related equity in losses or earnings of equity method investees were determined based on the audited financial statements of the investees as of and for the same periods as the Company.

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

Other investments consisted of the following structured time-deposits:

	<b>Principal Amount</b>	<b>Interest Receivable</b>	<b>Range of Interest Rates</b>	<b>Maturity Date</b>
December 31, 2005				
Step-up callable deposits				
Foreign banks Callable range accrual deposits	\$ 3,000,000	\$ 8,145	1.40%-1.50%	Jun. 2007-Oct. 2007
Foreign banks	7,227,000	9,951	(see below)	Sep. 2009-Jan. 2010
	\$ 10,227,000	\$ 18,096		
December 31, 2004				
Step-up callable deposits				
Domestic banks	\$ 2,000,000	\$ 7,681	2.05%-2.20%	Jul. 2007-Aug. 2007
Foreign banks Callable range accrual deposits	2,138,340	14,054	1.44%-4.75%	Jun. 2007-Aug. 2007
Foreign banks	6,383,400	30,751	(see below)	Sep. 2009-Dec.2009
	\$ 10,521,740	\$ 52,486		

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

As of December 31, 2005 and 2004, deposits that resided in banks located in Hong Kong amounted to NT\$2,628,000 thousand and NT\$2,553,360 thousand, respectively; those that resided in banks located in Singapore amounted to NT\$657,000 thousand and NT\$638,340 thousand, respectively.

## 7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Buildings	\$ 42,902,526	\$ 35,546,918

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Machinery and equipment	310,626,317	259,782,721
Office equipment	5,662,986	4,676,562
	\$ 359,191,829	\$ 300,006,201

There was no capitalized interest for the year ended December 31, 2005. Interest expense for the year ended December 31, 2004 was NT\$1,614,847 thousand (before deducting the amount capitalized of NT\$262,109 thousand); the rate used for calculating the capitalized interest was 2.80%.

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**8. DEFERRED CHARGES, NET**

Deferred charges, net at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Technology license fees	\$ 4,985,806	\$ 6,534,899
Software and system design costs	1,623,276	2,160,636
Other	72,062	149,609
	<b>\$ 6,681,144</b>	<b>\$ 8,845,144</b>

**9. BONDS PAYABLE**

Bonds payable at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Domestic unsecured bonds:		
Issued in December 2000 and repayable in December 2005 and 2007 in two equal payments, 5.25% and 5.36% interest payable annually, respectively	\$ 4,500,000	\$ 15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three equal payments, 2.60%, 2.75% and 3.00% interest payable annually, respectively	15,000,000	15,000,000
	19,500,000	30,000,000
Current portion		(10,500,000)
	<b>\$ 19,500,000</b>	<b>\$ 19,500,000</b>

As of December 31, 2005, future principal repayments for the Company's bonds were as follows:

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

**10. OTHER LONG-TERM PAYABLES**

Most of the payables resulted from license arrangements related to semiconductor-related patents. Future payments for other long-term payables as of December 31, 2005 were as follows:

<b>Year of Payment</b>	<b>Amount</b>
2006	\$ 869,072
2007	459,900
2008	262,800
2009	262,800

(Continued)





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<b>Year of Payment</b>	<b>Amount</b>
2010	\$ 262,800
2011 and thereafter	262,800
	2,380,172
Current portion (under accrued expenses and other current liabilities)	(869,072)
	\$ 1,511,100

## 11. PENSION PLAN

The Labor Pension Act (the Act) became effective on July 1, 2005 and the pension mechanism under the Act is deemed a defined contribution plan. 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 or continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and have chosen to be subject to the pension mechanism under the Act, their seniority as of July 1, 2005 shall be maintained. The Act prescribes that the rate of contribution by an employer to employees' pension accounts per month shall not be less than 6% of each employee's monthly salary. Pursuant to the Act, the Company has made monthly contributions to employees' pension accounts starting from July 1, 2005, and recognized pension costs of NT\$261,096 thousand for the second half of 2005.

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

	<b>2005</b>	<b>2004</b>
Service costs	\$ 468,044	\$ 632,594
Interest costs	163,294	128,315
Projected return on plan assets	(49,627)	(41,925)
Amortization	8,300	8,300
Net periodic pension costs	\$ 590,011	\$ 727,284

b. Reconciliation of the funded status of the plan and accrued pension cost at December 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
Benefit obligation		
Vested benefit obligation	\$ 62,302	\$ 67,104

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Nonvested benefit obligation	3,356,213	2,704,251
Accumulated benefit obligation	3,418,515	2,771,355
Additional benefits based on future salaries	2,546,186	2,132,721
Projected benefit obligation	5,964,701	4,904,076
Fair value of plan assets	(1,681,365)	(1,447,540)
Funded status	4,283,336	3,456,536

(Continued)

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	<b>2005</b>	<b>2004</b>
Unrecognized net transitional obligation	\$ (124,491)	\$ (132,791)
Unrecognized net loss	(697,453)	(222,549)
Accrued pension cost	\$ 3,461,392	\$ 3,101,196
Vested benefits	\$ 67,752	\$ 76,003

## c. Actuarial assumptions

**GAINSCO, INC. AND SUBSIDIARIES**  
Notes to Consolidated Financial Statements  
December 31, 2005, 2004 and 2003

	<b>2005</b>	<b>2004</b>
Discount rated used in determining present values	2.75%	3.25%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.75%	3.25%
d. Contributions to the Fund for the year	\$ 223,654	\$ 226,339
e. Payments from the Fund for the year	\$ 8,419	\$ 1,446

**12. INCOME TAX**

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

	<b>2005</b>	<b>2004</b>
Income tax expense based on income before income tax at statutory rate (25%)	\$ 23,454,856	\$ 22,944,646
Tax-exempt income	(12,243,435)	(15,372,913)
Temporary and permanent differences	860,918	2,077,362
Current income tax expense before tax credits	\$ 12,072,339	\$ 9,649,095

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

Current income tax expense before tax credits	\$ 12,072,339	\$ 9,649,095
Additional tax at 10% on unappropriated earnings	1,489,709	821,767
Income tax credits	(10,110,561)	(10,470,862)
Other income tax adjustments	71,853	563,876
Net change in deferred income tax assets		
Investment tax credits	2,018,813	(234,690)
Temporary differences	(1,768,265)	(1,034,916)
Adjustment in valuation allowance	(3,529,500)	168,199

Income tax expense (benefit)	\$ 244,388	\$ (537,531)
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c. Net deferred income tax assets consisted of the following:

Current deferred income tax assets		
Investment tax credits	\$ 7,013,000	\$ 8,849,000

(Continued)

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	<b>2005</b>	<b>2004</b>
Non-current deferred income tax assets, net		
Investment tax credits	\$ 16,852,771	\$ 17,035,584
Temporary differences	(682,270)	(2,450,535)
Valuation allowances	(9,410,546)	(12,940,046)
	<b>\$ 6,759,955</b>	<b>\$ 1,645,003</b>

d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2005 and 2004 was NT\$20,087 thousand and zero, respectively.

The expected and actual creditable ratios for distribution of earnings of 2005 and 2004 were 0.02% and 0.11%, respectively.

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

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

f. As of December 31, 2005, investment tax credits consisted of the following:

<b>Law</b>	<b>Item</b>	<b>Total Creditable Amounts</b>	<b>Remaining Creditable Amounts</b>	<b>Expiry Year</b>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 134,467	\$	2005
		4,886,421		2006
		4,138,857	4,054,072	2007
		11,001,460	11,001,460	2008
		4,160,396	4,160,396	2009
		<b>\$ 24,321,601</b>	<b>\$ 19,215,928</b>	
Statute for Upgrading Industries	Research and development expenditures	\$ 3,127,586	\$	2005
		1,789,437		2006
		1,382,993	1,382,993	2007
		1,605,567	1,605,567	2008
		1,597,296	1,597,296	2009

\$ 9,502,879 \$ 4,585,856

Statute for Upgrading Industries	Personnel training			
		\$ 29,448	\$	2005
		20,381		2006
		26,780	26,780	2007
		37,207	37,207	2008

\$ 113,816 \$ 63,987

Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 38,036	\$	2005
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- g. The profits generated from the following expansion and construction projects are exempt from income tax:

	<b>Tax-Exemption Period</b>
Construction of Fab 8 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 the Company through 2001.

### 13. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSES

	<b>Year Ended December 31, 2005</b>			<b>Year Ended December 31, 2004</b>		
	<b>Classified as Operating Cost of Sales</b>	<b>Classified as Operating Expenses</b>	<b>Total</b>	<b>Classified as Operating Cost of Sales</b>	<b>Classified as Operating Expenses</b>	<b>Total</b>
Labor cost						
Salary	\$ 9,160,576	\$ 3,682,390	\$ 12,842,966	\$ 8,546,255	\$ 4,068,927	\$ 12,615,182
Labor and health insurance	625,744	297,483	923,227	571,853	309,585	881,438
Pension	576,776	274,280	851,056	471,646	255,482	727,128
Meal	429,307	141,259	570,566	391,834	150,297	542,131
Welfare benefit	167,218	95,208	262,426	150,754	90,611	241,365
Other	159,724	44,783	204,507	141,909	207,909	349,818
	\$ 11,119,345	\$ 4,535,403	\$ 15,654,748	\$ 10,274,251	\$ 5,082,811	\$ 15,357,062
Depreciation	\$ 61,576,001	\$ 3,031,796	\$ 64,607,797	\$ 56,001,719	\$ 2,429,967	\$ 58,431,686
Amortization	\$ 1,763,527	\$ 1,603,496	\$ 3,367,023	\$ 2,496,827	\$ 2,137,893	\$ 4,634,720

### 14. SHAREHOLDERS EQUITY

The Company has issued a total of 864,194 thousand ADSs which are traded on the NYSE as of December 31, 2005. The number of common shares represented by the ADSs is 4,320,969 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 issue 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 restricted to a certain percentage of the paid-in capital of the Company.

As of December 31, 2005 and 2004, the capital surplus consisted of the following:

<b>2005</b>	<b>2004</b>
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From merger	\$ 24,003,546	\$ 24,003,546
Additional paid-in capital	23,254,234	23,051,675
From convertible bonds	9,360,424	9,360,424
From treasury stock transactions	306,868	205
From long-term investments	192,759	121,354
Donations	55	55
	\$ 57,117,886	\$ 56,537,259

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

- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

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

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

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve can 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 shareholder's equity (for example, unrealized loss on long-term investments and cumulative translation adjustments, 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 2004 and 2003 had been approved in the shareholders' meetings held on May 10, 2005 and May 11, 2004, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For Fiscal</b>	<b>For Fiscal</b>	<b>For</b>	<b>For</b>
	<b>Year 2004</b>	<b>Year 2003</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2003</b>
Legal capital reserve	\$ 8,820,201	\$ 4,725,870		
Special capital reserve	2,226,427	(68,945)		
Employees' profit sharing in cash	3,086,215	681,628		
Employees' profit sharing in stock	3,086,215	2,726,514		

(Continued)

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal	For Fiscal	For	For
	Year 2004	Year 2003	Fiscal Year 2004	Fiscal Year 2003
Cash dividends to preferred shareholders	\$	\$ 184,493	\$	\$ 0.35
Cash dividends to common shareholders	46,504,097	12,159,971	2.00	0.60
Stock dividends to common shareholders	11,626,024	28,373,267	0.50	1.41
Bonus to directors and supervisors	231,466	127,805		
	\$ 75,580,645	\$ 48,910,603		

The amounts of the above appropriations of earnings for 2004 and 2003 are consistent with the resolutions of the meetings of the Board of Directors held on February 22, 2005 and February 17, 2004, respectively. However, the Company Law prescribes that TSMC, as a holder of treasury stock, shall not participate in the appropriation of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolutions. If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged against earnings for 2004 and 2003, the after income tax basic earnings per share for the years ended December 31, 2004 and 2003 would have decreased from NT\$3.97 to NT\$3.70 and NT\$2.33 to NT\$2.15, respectively. The shares distributed as a bonus to employees represented 1.33% and 1.35% of the Company's total outstanding common shares as of December 31, 2004 and 2003, respectively.

As of January 12, 2006, the board of directors have not resolved the appropriation for earnings of 2005.

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

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

## 15. STOCK-BASED COMPENSATION PLANS

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

Options that had never been granted or had been granted and subsequently cancelled under the 2003 Plan and the 2002 Plan were expired as of December 31, 2005.

Information about outstanding stock options for the years ended December 31, 2005 and 2004 was as follows:

	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
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
Year ended December 31, 2004		
Balance, beginning of year	49,357	\$ 43.0
Options granted	20,400	47.3
Options exercised	(87)	41.8
Options cancelled	(5,303)	45.9
 Balance, end of year	 64,367	 44.1

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

As of December 31, 2005, information about outstanding and exercisable options was as follows:

<b>Range of Exercise Price (NT\$)</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Remaining Contractual Life (Years)</b>	<b>Weighted- average Exercise Price (NT\$)</b>	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
\$29.9 -					
\$42.1	45,787	7.10	\$ 38.73	27,143	\$ 38.59
47.0 - 54.5	21,971	8.82	49.20	327	54.50
	67,758			27,470	

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2005 and 2004. 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, 2005 and 2004 would have been as follows:

	<b>2005</b>	<b>2004</b>
Assumptions:		
Expected dividend yield	1.00%-3.44%	1.00%
Expected volatility	43.77%-46.15%	43.77%-46.15%
Risk free interest rate	3.07%-3.85%	3.07%-3.85%
Expected life	5 years	5 years

(Continued)

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	2005	2004
Net income:		
Net income as reported	\$93,575,035	\$92,316,115
Pro forma net income	93,458,191	92,257,355
Earnings per share (EPS) after income tax (NT\$):		
Basic EPS as reported	\$ 3.79	\$ 3.73
Pro forma basic EPS	3.79	3.73
Diluted EPS as reported	3.79	3.73
Pro forma diluted EPS	3.78	3.73

The estimated weighted average fair value per unit for the options granted during the years ended December 31, 2005 and 2004 was NT\$17.69 and NT\$19.73, respectively.

## 16. TREASURY STOCK (COMMON STOCK)

(Shares in Thousands)

	Beginning Shares	Increase/ Stock Dividends	Disposal	Ending Shares
Year ended December 31, 2005				
Reclassification of parent company stock held by subsidiaries from long-term investment	45,521	2,242	14,825	32,938
Year ended December 31, 2004				
Reclassification of parent company stock held by subsidiaries from long-term investment	40,597	5,676	752	45,521
Repurchase under share buyback plan		124,720	124,720	
	40,597	130,396	125,472	45,521

Proceeds from disposal of treasury stock for the years ended December 31, 2005 and 2004 were NT\$899,489 thousand and NT\$39,906 thousand, respectively. As of December 31, 2005 and 2004, the book value of the treasury stock was NT\$918,075 thousand and NT\$1,595,186 thousand, respectively; the market value was NT\$2,047,126 thousand and NT\$2,241,009 thousand, respectively. The Company's stocks held by its subsidiaries are treated as treasury stock and the holders are entitled to the rights of shareholders, except that starting from June 24, 2005, pursuant to the revised Company Law, the holders are no longer entitled to the right to vote.

The Company held a special meeting of the Board of Directors and approved a share buyback plan to repurchase the Company's common shares listed on the TSE during the period from March 24, 2004 to May 23, 2004. The Company repurchased 124,720 thousand common shares for a total cost of NT\$7,059,798 thousand. All the treasury stock repurchased under the buyback plan was retired on August 16, 2004.

**17. EARNINGS PER SHARE**

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, 2005					
Basic EPS					
Income available to common shareholders	\$ 93,819,423	\$ 93,575,035	24,679,947	\$ 3.80	\$ 3.79
Effect of dilutive potential common stock stock options			13,165		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	\$ 93,819,423	\$ 93,575,035	24,693,112	\$ 3.80	\$ 3.79
Year ended December 31, 2004					
Basic EPS					
Income available to common shareholders	\$ 91,778,584	\$ 92,316,115	24,717,531	\$ 3.71	\$ 3.73
Effect of dilutive potential common stock stock options			6,484		
Diluted EPS					
Income available to common shareholders (including effect of dilutive potential common stock)	\$ 91,778,584	\$ 92,316,115	24,724,015	\$ 3.71	\$ 3.73

**18. RELATED PARTY TRANSACTIONS**

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

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

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

d. Investees

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

e. Indirect subsidiaries

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

f. Indirect investee

VisEra, originally an investee over which the Company has control; starting from November 2005, VisEra became an indirect investee accounted for using the equity method after an investment structuring.

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

	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
For the year				
Sales				
TSMC-North America	\$ 153,618,916	57	\$ 142,271,732	55
Philips	3,298,770	1	5,463,565	2
Others	650,239		466,345	
	\$ 157,567,925	58	\$ 148,201,642	57
Purchases				
WaferTech	\$ 11,137,313	28	\$ 15,203,047	34
SSMC	5,729,672	15	5,869,123	13
VIS	4,142,457	10	9,169,602	21
TSMC-Shanghai	1,405,030	4	12,752	
	\$ 22,414,472	57	\$ 30,254,524	68
Manufacturing expenses technical assistance fee (Note 21a)				
Philips	\$ 581,059		\$ 907,047	1
Marketing expenses commission				
TSMC-Japan	\$ 243,646	18	\$ 253,341	17
TSMC-Europe	221,164	16	202,678	14
	\$ 464,810	34	\$ 456,019	31
General and administrative expense rental expenses GUC	\$ 16,744		\$ 13,186	
Research and development expenses GUC	\$ 19,467		\$ 11,688	
Proceeds from sales of property, plant and equipment				

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VisEra	\$	534,279	52	\$		
TSMC-Shanghai		125,381	13		2,969,347	96
VIS					33,974	1
	\$	659,660	65	\$	3,003,321	97
Non-operating income and gains						
SSMC (primarily for technical service income, Note 21e)	\$	316,243	6	\$	364,505	5
VisEra		308,071	6		28,917	1
VIS (primarily for technical service income, Note 21j)		210,720	4		117,760	2
TSMC-Shanghai		180,234	4			
WaferTech					3,267	
	\$	1,015,268	20	\$	514,449	8

(Continued)

	2005		2004	
	Amount	%	Amount	%
At end of year				
Receivables				
TSMC-North America	\$ 20,407,621	97	\$ 15,476,920	96
Philips	573,565	3	581,487	4
Others	69,418		77,632	
	\$ 21,050,604	100	\$ 16,136,039	100
Other receivables				
TSMC Technology	\$ 972,563	54	\$ 2,880	
VisEra	374,202	21	30,279	2
TSMC-North America	198,505	11	50,044	3
SSMC	149,251	8	63,701	4
VIS	74,457	4	47,599	3
TSMC-Shanghai	28,593	2	1,472,880	88
Others	143			
	\$ 1,797,714	100	\$ 1,667,383	100
Payables				
WaferTech	\$ 1,133,217	35	\$ 913,107	29
Philips	693,956	21	469,494	15
VIS	563,240	17	1,533,938	48
SSMC	485,873	15	207,794	6
TSMC-Shanghai	274,820	9	12,591	
Others	91,091	3	61,566	2
	\$ 3,242,197	100	\$ 3,198,490	100
Other long-term payables				
Philips (Note 21a)	\$ 1,100,475	100	\$ 2,317,972	100
Deferred credits				
TSMC-Shanghai	\$ 641,762	51	\$ 682,530	100
VisEra	186,525	15		
	\$ 828,287	66	\$ 682,530	100

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

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

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**19. SIGNIFICANT LONG-TERM LEASES**

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

As of December 31, 2005, future lease payments were as follows:

<b>Year</b>	<b>Amount</b>
2006	\$ 258,069
2007	248,185
2008	222,450
2009	213,872
2010	166,803
2011 and thereafter	1,103,708
	<b>\$ 2,213,087</b>

**20. SETTLEMENT INCOME**

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

**21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The significant commitments and contingencies of the Company as of December 31, 2005 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 certain percentage of the Company's annual net sales. The Company and Philips agreed to cross license the patents owned by each party. The Company also obtained through Philips a number of cross patent licenses.
- b. Under a technical cooperation agreement with ITRI, the Company shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of December 31, 2005, the Company had a total of US\$87,660 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, for the purpose of constructing an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. The Company and Philips committed to buy specific percentages of the production capacity of SSMC. The Company and Philips are required, in the aggregate, to purchase up to 70% of SSMC's full capacity, but the Company alone is not required to purchase more than 28% of the annual installed capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. The Company provides technical services to SSMC under a Technology Cooperation Agreement (the Agreement) entered into on May 12, 1999. The Company receives compensation for such services computed at a specific percentage of net selling price of all products sold by SSMC. The Agreement shall remain in force for ten years and may be automatically renewed for successive periods of five years each unless pre-terminated by either party under certain conditions.
- f. Under a Technology Transfer Agreement (TTA) with National Semiconductor Corporation (National) entered into on June 27, 2000, the Company shall receive payments for the licensing of certain technology to National. The agreement was to remain in force for ten years and could be automatically renewed for successive periods of two years thereafter unless either party gives notice for early termination under certain conditions. In January 2003, the Company and National entered into a Termination Agreement whereby the TTA was terminated for convenience. 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. Beginning in 2001, the Company entered into several licensing arrangements for certain semiconductor patents. The terms of the contracts vary with payments to be made in the form of royalties. The Company has recorded the related amounts as a liability with the corresponding amounts recorded as deferred charges which are amortized and charged to cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.
- h. In November 2002, the Company entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Freescale Semiconductor, Inc. and STMicroelectronics to jointly develop 90-nm to 65-nm advanced CMOS Logic and e-DRAM technologies. The Company also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. The Company will contribute process technologies and share a portion of the costs associated with this joint development project. This agreement expired on December 31, 2005.
- i. 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.
- j. 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.

- k. Amounts available under unused letters of credit as of December 31, 2005 were NT\$6,480 thousand.
- l. The Company provided guarantees on loans amounting to US\$40,000 thousand for TSMC-North America.

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**22. 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 real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: None;
- f. Disposal of 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 5 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 7 attached;
- j. Financial instrument transactions:
  - 1) Derivative financial instruments

The Company and TSMC-Shanghai entered into derivative financial instrument transactions during the years ended December 31, 2005 and 2004 to manage exposures related to foreign exchange rate and interest rate fluctuations. Certain information on these contracts was as follows:

- a) Outstanding forward exchange contracts as of December 31, 2005 and 2004:
  - i) The Company

	<b>Financial Instruments</b>	<b>Currency</b>	<b>Maturity</b>	<b>Contract Amount (in Thousands)</b>
December 31, 2005				
	Sell	US\$/NT\$	Jan. 2006	US\$ 60,000
December 31, 2004				
	Sell	US\$/NT\$	Jan. 2005 to Mar. 2005	US\$ 733,000
	Sell	US\$/EUR	Jan. 2005	US\$ 159,081

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As of December 31, 2005 and 2004, receivables resulted from forward exchange contracts (classified under current assets) aggregated NT\$26,720 thousand, and NT\$392,534 thousand, respectively. As of December 31, 2004, payables resulted from forward exchange contracts (classified under current liabilities) aggregated NT\$559 thousand.

- ii) As of December 31, 2005, TSMC-Shanghai did not have any outstanding forward exchange contract. TSMC-Shanghai did not enter into any derivative financial instrument transaction during the year ended December 31, 2004.
- b) Cross currency swaps

Outstanding cross currency swap contracts as of December 31, 2005 and 2004 were as follows:

<b>Maturity Date</b>	<b>Contract Amount (in Thousands)</b>	<b>Range of Interest Rate Paid</b>	<b>Range of Interest Rate Received</b>
December 31, 2005			
Jan. 2006 to Mar. 2006	US\$ 2,089,000	4.15%-4.54%	0.02%-2.12%
December 31, 2004			
Jan. 2005 to Jun. 2005	US\$ 1,420,000	1.28%-2.72%	0.49%-1.17%

As of December 31, 2005 and 2004, receivables resulted from cross currency swap contracts (classified under current assets) were NT\$1,119,905 thousand and NT\$761,030 thousand, respectively.

- c) Option contracts

As of December 31, 2005, the Company did not have any outstanding foreign currency option contract. The Company did not enter into any foreign currency option contract for the year ended December 31, 2004.

During the years ended December 31, 2005 and 2004, the net exchange gain or loss arising from forward exchange contracts, cross currency swap contracts and foreign currency option contracts was recognized in the foreign exchange gain/loss, net account and the difference in interest was recorded in interest income/expense.

- d) Interest rate swap contracts

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 was recognized in the interest expense account. There was no outstanding contract as of December 31, 2005.

Outstanding contracts as of December 31, 2004 were as follows:

<b>Contract Date</b>	<b>Period</b>	<b>Contract Amount (in Thousands)</b>
Sep. 2003	Sep. 2003 to Dec. 2005	NT\$500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Nov. 2003	Nov. 2003 to Dec. 2005	500,000

e) Transaction risk

- i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss to be incurred by the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposure related to the potential default by those counter-parties is low.
- ii) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in foreign exchange rates and interest rates. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items. Thus, market price risk is believed to be low.
- iii) Cash flow risk and the amount and period of future cash needs.

As of December 31, 2005, the Company's future cash needs for outstanding forward exchange contracts and cross currency swap contracts were as follows:

<b>Term</b>	<b>Inflow (In Thousands)</b>	<b>Outflow (In Thousands)</b>
Within one year	NT\$71,820,892	US\$ 2,149,000

The Company has sufficient operating capital to meet the above cash needs. In addition, there will be corresponding cash inflow for the cash outflow. Therefore, the cash flow risk is low.

2) Fair values of financial instruments were as follows:

	<b>2005</b>		<b>2004</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Non-derivative financial instruments				
Assets				
Short-term investments, net	\$ 47,055,347	\$ 47,055,347	\$ 52,979,095	\$ 52,979,095
Long-term investments (securities with market price)	34,213,151	39,470,482	20,572,150	23,657,754
Liabilities				
Bonds payable (including current portion)	19,500,000	19,924,923	30,000,000	30,607,341

(Continued)



	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative financial instruments				
Assets (liabilities)				
Forward exchange contracts (sell)	\$ 26,720	\$ 28,474	\$ 391,975	\$ 317,090
Cross currency swap contracts	1,119,905	789,903	761,030	760,012
Interest rate swap contracts			4,361	(22,714)

The above financial instruments do not include cash and cash equivalents, receivables, other financial assets, payables, and payable to contractors and equipment suppliers. The carrying amounts of the aforementioned financial instruments reported in the balance sheet approximate their fair values.

The above financial instruments also exclude refundable deposits, guarantee deposits, long-term investments that do not have quoted market prices as well as other long-term payables. The future cash inflow and outflow of the deposits approximate their fair values. Some of the long-term investments do not have quoted market prices; therefore, fair values for those long-term investments are not shown above. The fair value of other long-term payables is determined using the discounted value of expected cash flows, which approximates their carrying amount.

Fair values of financial instruments were determined as follows:

- a) Fair value of short-term and publicly traded long-term investments is based on quoted market prices.
- b) Fair value of bonds payable is based on their quoted market price.
- c) Fair value of derivative financial instruments is the amount receivable from or payable to the counter-party if the contracts were terminated on the balance sheet date.

The fair values of some financial and non-financial instruments were not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not represent the fair value of the Company as a whole.

k. Information on investment in Mainland China

- 1) The name of the investee in mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investment: Please see Table 8 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 statements: Please see Note 18.

## 23. 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

	<b>Area</b>	<b>2005</b>	<b>2004</b>
Americas		\$ 119,838,520	\$ 113,948,320
Asia and others		101,698,615	91,057,215
Europe		17,937,376	19,084,530
		\$ 239,474,511	\$ 224,090,065

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

c. Major customers representing at least 10% of total net sales

The Company only has one customer that accounts for at least 10% of its total net sales in the year ended December 31, 2005. The net sales to such customer amounted to \$29,258,338 thousand and \$25,299,856 thousand in the years ended December 31, 2005 and 2004, representing 11% and 10% of its total net sales, respectively.

**TABLE 1**

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEEES  
FINANCING PROVIDED**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

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

Financing No.	Name of Company	Maximum Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Type of Financing (Note 1)	Reasons for Allowance Bad Debt	Collateral	Financing Limit for Each Borrowing Company	Financing Company's Financing Amount Limits (US\$ in Thousands)
1	TSMC Other Development	\$ 1,971,000 US\$ (60,000)	\$ 1,149,750 US\$ (35,000)	1.50%	2	Operating capital	\$ N/A	\$ 32,454,757 (US\$ 987,968) (Note 2)
2	TSMC Other Development	2,628,000 US\$ (80,000)		1.50%	2	Operating capital	N/A	(Note 3)

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

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

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

**TABLE 2**

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED  
ENDORSEMENT/GUARANTEE PROVIDED  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

No.	Endorsement/ Guarantee Provider	Relationship (Not 2)	Counter-party Limits on Nature Each Counter-party s Maximum	Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Value of Collateral Plant and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note 1)
0	TSMC-North Company	America	2	\$ 1,314,000 (40,000)	\$ 1,314,000 (40,000)	\$	0.29%	\$ 111,407,587
	TSMC Development		3	US\$ 60,000	US\$ 60,000			

Note 1: 25% of the net worth of the Company as of December 31, 2005.



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

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

**TABLE 3****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEEES  
MARKETABLE SECURITIES HELD****DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

				<b>December 31, 2005</b>			
				<b>Carrying Value</b>			
				<b>Percentage</b>			
				<b>of Net</b>			
				<b>Ownership T</b>			
<b>Name</b>	<b>Marketable Securities Type and Name</b>	<b>Relationship with the Company</b>	<b>Financial Statement Account</b>	<b>Shares/Units (In Thousands)</b>	<b>(US\$ in Thousands)</b>	<b>Ownership T</b>	<b>Ma</b>
<u>Government bonds</u>							
	United States Treas Nts		Short-term investment		US\$ 47,516	N/A	US\$
	Kreditanstal Fur Wiederaufbau		Short-term investment		US\$ 6,881	N/A	US\$
	2004 Government Bond Series E		Short-term investment		\$ 300,472	N/A	S
	2002 Government Bond Series B		Long-term investment		355,936	N/A	
	2002 Government Bond Series F		Long-term investment		149,441	N/A	
	2004 Government Bond Series A		Long-term investment		2,349,973	N/A	
	2004 Government Bond Series E		Long-term investment		3,898,610	N/A	
	2004 Kaohsiung Municipal Bond Series A		Long-term investment		620,000	N/A	
	2005 Government Bond Series A		Long-term investment		2,548,977	N/A	
<u>Bond funds</u>							
	JF Taiwan First Bond Fund		Short-term investment	63,131	856,359	N/A	
	ABN AMRO Bond Fund		Short-term investment	134,906	1,956,175	N/A	
	JF Taiwan Bond Fund		Short-term investment	62,009	908,656	N/A	
	Dresdner Bond DAM Fund		Short-term investment	69,303	771,617	N/A	
	Shinkong Chi Shin Bond Fund		Short-term investment	55,063	762,771	N/A	
	NITC Bond Fund		Short-term investment	3,764	600,000	N/A	
	ABN AMRO Select Bond Fund		Short-term investment	18,235	200,000	N/A	

Stock

Taiwan Mask Corp.		Short-term investment	1,439	5,257	
TSMC International	Subsidiary	Long-term investment	987,968	23,912,812	100
VIS	Investee accounted for using equity method	Long-term investment	437,891	5,419,747	27
SSMC	Investee accounted for using equity method	Long-term investment	382	4,215,200	32
TSMC Partners	Subsidiary	Long-term investment	300	4,091,166	100
TSMC-North America	Subsidiary	Long-term investment	11,000	1,790,186	100
GUC	Investee with controlling financial interest	Long-term investment	40,147	442,233	46
TSMC-Japan	Subsidiary	Long-term investment	6	94,949	100
TSMC-Europe	Subsidiary	Long-term investment		23,087	100
United Industrial Gases Co., Ltd.		Long-term investment	16,783	193,584	10
Shin-Etsu Handotai Taiwan Co., Ltd.		Long-term investment	10,500	105,000	7

(Continued)

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousands)	December 31, 2005		Market Value (US\$ in Thousands)
				Carrying Value (US\$ in Thousands)	Percentage of Ownership	
Hontung Venture Capital Co., Ltd.		Long-term investment	\$ 8,392	83,916	10	\$
Gobaltop Partner I Venture Capital Corp.		Long-term investment	5,000	50,000	1	
W.K. Technology Fund IV		Long-term investment	4,000	40,000	2	
<u>Capital</u>						
TSMC-Shanghai	Subsidiary	Long-term investment		9,438,856	100	9,438,856
Emerging Alliance	Subsidiary	Long-term investment		850,534	99	850,534
VTAF II	Subsidiary	Long-term investment		642,479	98	642,479
Chi Cherng	Subsidiary	Long-term investment		78,139	36	78,139
Hsin Ruey	Subsidiary	Long-term investment		77,415	36	77,415
<u>Corporate bonds</u>						
Abbott Labs		Short-term investment		US\$ 1,581	N/A	US\$ 1,581
Abbott Labs		Short-term investment		US\$ 2,732	N/A	US\$ 2,732
Ace Ltd.		Short-term investment		US\$ 1,046	N/A	US\$ 1,046
AIG Sunamerica Global Fing Ix		Short-term investment		US\$ 1,032	N/A	US\$ 1,032
Allstate Life Global Fdg Secd				US\$ 2,998	N/A	US\$ 2,998

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	Short-term investment				
Alltel Corp.	Short-term investment	US\$	609	N/A	US\$
American Express Co.	Short-term investment	US\$	3,550	N/A	US\$
American Gen Fin Corp.	Short-term investment	US\$	1,768	N/A	US\$
American Gen Fin Corp. Mtn	Short-term investment	US\$	1,058	N/A	US\$
American Gen Fin Corp. Mtn	Short-term investment	US\$	3,130	N/A	US\$
American Honda Fin Corp. Mtn	Short-term investment	US\$	3,800	N/A	US\$
Ameritech Capital Funding Co.	Short-term investment	US\$	510	N/A	US\$
Amgen Inc.	Short-term investment	US\$	3,005	N/A	US\$
Amsouth Bk Birmingham Ala	Short-term investment	US\$	1,972	N/A	US\$
Anz Cap Tr I	Short-term investment	US\$	1,012	N/A	US\$
Associates Corp. North Amer	Short-term investment	US\$	2,700	N/A	US\$
Bank New York Inc.	Short-term investment	US\$	1,972	N/A	US\$
Bank New York Inc.	Short-term investment	US\$	1,525	N/A	US\$
Bank Scotland Treas Svcs Plc	Short-term investment	US\$	2,715	N/A	US\$
Bank Utd Houston Tx Mtn	Short-term investment	US\$	580	N/A	US\$
Bear Stearns Cos Inc.	Short-term investment	US\$	3,329	N/A	US\$
Bear Stearns Cos Inc.	Short-term investment	US\$	3,757	N/A	US\$
Beneficial Corp. Mtn Bk Entry	Short-term investment	US\$	2,434	N/A	US\$
Berkshire Hathaway Fin Corp.	Short-term investment	US\$	1,498	N/A	US\$
Cargill Inc.	Short-term investment	US\$	2,120	N/A	US\$
Caterpillar Finl Svcs Mtn	Short-term investment	US\$	5,721	N/A	US\$
Chase Manhattan Corp. New	Short-term investment	US\$	1,628	N/A	US\$
Chase Manhattan Corp. New	Short-term investment	US\$	2,246	N/A	US\$
Chubb Corp.	Short-term investment	US\$	2,138	N/A	US\$

(Continued)



			<b>December 31, 2005</b>		
			<b>Carrying</b>		
			<b>Value</b>		
			<b>(US\$ in</b>	<b>Percentage</b>	
<b>Marketable Securities Type and Name</b>	<b>Company</b>	<b>Relationship with the Financial Statement</b>	<b>Shares/Units</b>	<b>Thousands)</b>	<b>Ownership</b>
			<b>(In Thousands)</b>	<b>Thousands)</b>	<b></b>
	Cit Group Hldgs Inc.	Short-term investment		US\$3,203	N/A
	Citicorp	Short-term investment		US\$1,473	N/A
	Cogentrix Energy Inc.	Short-term investment		US\$2,885	N/A
	Colonial Pipeline Co.	Short-term investment		US\$1,625	N/A
	Corestates Cap Corp.	Short-term investment		US\$1,062	N/A
	Countrywide Fdg Corp. Mtn	Short-term investment		US\$2,100	N/A
	Countrywide Home Lns Inc.	Short-term investment		US\$5,210	N/A
	Credit Suisse Fb USA Inc.	Short-term investment		US\$4,141	N/A
	Credit Suisse Fincl Products	Short-term investment		US\$1,507	N/A
	Credit Suisse First Boston	Short-term investment		US\$ 786	N/A
	Credit Suisse First Boston USA	Short-term investment		US\$2,249	N/A
	Daimlerchrysler North Amer	Short-term investment		US\$ 997	N/A
	Daimlerchrysler North Amer Hld	Short-term investment		US\$ 749	N/A
	Dayton Hudson Corp.	Short-term investment		US\$2,104	N/A
	Deere John Cap Corp.	Short-term investment		US\$5,079	N/A
	Dell Computer Corp.	Short-term investment		US\$3,054	N/A
	Den Danske Bk Aktieselskab	Short-term investment		US\$2,192	N/A
	Diageo Plc	Short-term investment		US\$3,459	N/A
	Dow Chem Co.	Short-term investment		US\$ 921	N/A
	European Invt Bk	Short-term investment		US\$3,918	N/A
	European Invt Bk	Short-term investment		US\$8,315	N/A

	Short-term investment	
Fifth Third Bk Cincinnati OH	Short-term investment	US\$2,419 N/A
First Data Corp.	Short-term investment	US\$3,013 N/A
Fleet Boston Corp.	Short-term investment	US\$2,850 N/A
Fleet Finl Group Inc. New	Short-term investment	US\$ 975 N/A
Fleet Finl Group Inc. New	Short-term investment	US\$ 494 N/A
Fpl Group Cap Inc.	Short-term investment	US\$1,001 N/A
Fpl Group Cap Inc.	Short-term investment	US\$ 860 N/A
Gannett Co Inc.	Short-term investment	US\$2,999 N/A
General Elec Cap Corp. Mtn	Short-term investment	US\$3,989 N/A
General Elec Cap Corp. Mtn	Short-term investment	US\$8,862 N/A
General Re Corp.	Short-term investment	US\$3,500 N/A
Genworth Finl Inc.	Short-term investment	US\$3,412 N/A
Goldman Sachs Group Inc.	Short-term investment	US\$4,981 N/A
Goldman Sachs Group Inc.	Short-term investment	US\$3,477 N/A
Goldman Sachs Group LP	Short-term investment	US\$1,637 N/A
Greenpoint Finl Corp.	Short-term investment	US\$ 974 N/A
Gte Corp.	Short-term investment	US\$2,134 N/A
Hancock John Global Fdg II Mtn	Short-term investment	US\$3,566 N/A
Hancock John Global Fdg Mtn	Short-term investment	US\$1,003 N/A
Hartford Finl Svcs Group Inc.	Short-term investment	US\$ 296 N/A
Hartford Finl Svcs Group Inc.	Short-term investment	US\$1,435 N/A
Hbos Plc Medium Term Sr Nts	Short-term investment	US\$3,201 N/A
Hbos Plc Meduim Term Sr Nts	Short-term investment	US\$2,977 N/A
Heller Finl Inc.	Short-term investment	US\$2,071 N/A

(Continued)





			<b>December 31, 2005</b>		
			<b>Carrying</b>		
			<b>Value</b>		
			<b>(US\$ in</b>	<b>Percentage</b>	
<b>Marketable Securities Type and Name</b>	<b>Company</b>	<b>Relationship with the Financial Statement</b>	<b>Shares/Units</b>	<b>Thousands)</b>	<b>Ownership</b>
			<b>(In Thousands)</b>	<b>Thousands)</b>	<b></b>
Hershey Foods Corp.		Short-term investment		US\$ 1,627	N/A
Hewlett Packard Co.		Short-term investment		US\$ 3,373	N/A
Honeywell Inc.		Short-term investment		US\$ 3,284	N/A
Household Fin Corp.		Short-term investment		US\$ 2,993	N/A
Household Fin Corp.		Short-term investment		US\$ 532	N/A
Household Intl Inc		Short-term investment		US\$ 2,878	N/A
HSBC Fin Corp Mtn		Short-term investment		US\$ 5,097	N/A
HSBC USA Inc. New		Short-term investment		US\$ 1,154	N/A
Huntington Natl Bk Columbus OH		Short-term investment		US\$ 2,954	N/A
ING Bank		Short-term investment		US\$ 2,114	N/A
ING Sec Life Instl Fdg		Short-term investment		US\$ 2,544	N/A
International Business Machs		Short-term investment		US\$ 2,249	N/A
International Lease Fin Corp.		Short-term investment		US\$ 2,031	N/A
Intl Lease Fin Corp. Mtn		Short-term investment		US\$ 3,028	N/A
Intl Lease Fin Corp. Mtn		Short-term investment		US\$ 2,471	N/A
JP Morgan Chase + Co.		Short-term investment		US\$ 3,406	N/A
Jackson Natl Life Global Fdg		Short-term investment		US\$ 1,036	N/A
Jackson Natl Life Global Fdg S		Short-term investment		US\$ 1,999	N/A
JP Morgan Chase + Co.		Short-term investment		US\$ 3,663	N/A
Key Bk Na Med Term Nts Bk Entr		Short-term investment		US\$ 4,450	N/A
Keycorp Mtn Book Entry				US\$ 3,500	N/A

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	Short-term investment	
Kraft Foods Inc.	Short-term investment	US\$ 773 N/A
Kraft Foods Inc.	Short-term investment	US\$ 1,037 N/A
Lehman Brothers Hldgs Inc.	Short-term investment	US\$ 1,668 N/A
Lehman Brothers Hldgs Inc.	Short-term investment	US\$ 499 N/A
Lehman Brothers Hldgs Inc.	Short-term investment	US\$ 1,163 N/A
Lincoln Natl Corp. In	Short-term investment	US\$ 519 N/A
Merita Bk Ltd. Ny Brh	Short-term investment	US\$ 538 N/A
Merrill Lynch + Co. Inc.	Short-term investment	US\$ 3,486 N/A
Merrill Lynch + Co. Inc.	Short-term investment	US\$ 1,992 N/A
Merrill Lynch + Co. Inc.	Short-term investment	US\$ 4,900 N/A
Metropolitan Life Global Mtn	Short-term investment	US\$ 1,907 N/A
Monumental Global Fdg II	Short-term investment	US\$ 1,534 N/A
Monumental Global Fdg II 2002A	Short-term investment	US\$ 1,045 N/A
Morgan Stanley	Short-term investment	US\$ 2,144 N/A
Morgan Stanley Group Inc.	Short-term investment	US\$ 4,507 N/A
National City Corp.	Short-term investment	US\$ 3,426 N/A
National Westminster Bk Plc	Short-term investment	US\$ 1,433 N/A
Nationwide Bldg Soc	Short-term investment	US\$ 3,457 N/A
Nationwide Bldg Soc Mtn	Short-term investment	US\$ 3,000 N/A
Nationwide Life Global Mtn	Short-term investment	US\$ 1,463 N/A
Pepsico Inc. Mtn Book Entry	Short-term investment	US\$ 3,818 N/A
Pnc Fdg Corp.	Short-term investment	US\$ 1,080 N/A
Popular North Amer Inc. Mtn	Short-term investment	US\$ 3,042 N/A
Premark Intl Inc.	Short-term investment	US\$ 2,954 N/A

(Continued)



			<b>December 31, 2005</b>		
			<b>Carrying</b>		
			<b>Value</b>		
<b>Relationship with the</b>		<b>Financial Statement</b>	<b>Shares/Units</b>	<b>(US\$ in</b>	<b>Percentage</b>
<b>Marketable Securities Type and Name</b>	<b>Company</b>	<b>Account</b>	<b>(In Thousands)</b>	<b>Thousands)</b>	<b>Ownership</b>
Erico Global Fdg 1 Mtn		Short-term investment		US\$ 3,500	N/A
Protective Life Secd Trs		Short-term investment		US\$ 2,920	N/A
Prudential Ins Co. Amer		Short-term investment		US\$ 2,648	N/A
Prudential Ins Co. Amer		Short-term investment		US\$ 2,774	N/A
Public Svc Elec Gas Co.		Short-term investment		US\$ 3,225	N/A
Regions Finl Corp. New		Short-term investment		US\$ 2,397	N/A
Reinsurance Group Amer Inc.		Short-term investment		US\$ 2,091	N/A
Royal Bk Scotland Group Plc		Short-term investment		US\$ 1,563	N/A
Safeco Corp.		Short-term investment		US\$ 765	N/A
Santander US Debt S A Uniperso		Short-term investment		US\$ 4,998	N/A
Wara Lee Corp.		Short-term investment		US\$ 1,596	N/A
Wbc Communications Inc.		Short-term investment		US\$ 1,776	N/A
Wbc Communications Inc.		Short-term investment		US\$ 3,681	N/A
Wcotland Intl Fin B V 144a		Short-term investment		US\$ 1,533	N/A
Wlm Corp.		Short-term investment		US\$ 500	N/A
Wlm Corp. Medium Term Nts		Short-term investment		US\$ 2,950	N/A
Wp Powerassests Ltd. Global		Short-term investment		US\$ 991	N/A
Wt Paul Cos Inc. Mtn Bk Ent		Short-term investment		US\$ 2,661	N/A
Wuntrust Bks Inc.		Short-term investment		US\$ 1,062	N/A
Wwedbank Sparbanken Svenge Ab		Short-term investment		US\$ 1,084	N/A
Wvia Global Mkts Inc.				US\$ 519	N/A

	Short-term investment			
Fribune Co. Med Trm Nts	Short-term investment	US\$	2,943	N/A
Unitedhealth Group Inc.	Short-term investment	US\$	3,119	N/A
US Bk Natl Assn Cincinnati Oh	Short-term investment	US\$	2,669	N/A
Virginia Elec + Pwr Co.	Short-term investment	US\$	2,884	N/A
Vodafone Group Plc New	Short-term investment	US\$	2,559	N/A
Wal Mart Cda Venture Corp.	Short-term investment	US\$	3,670	N/A
Washington Mut Fin Corp.	Short-term investment	US\$	1,043	N/A
Washington Mut Inc.	Short-term investment	US\$	4,735	N/A
Washington Post Co.	Short-term investment	US\$	3,182	N/A
Wells Fargo + Co. New	Short-term investment	US\$	3,697	N/A
Westfield Cap Corp. Ltd.	Short-term investment	US\$	1,999	N/A
Wps Resources Corp.	Short-term investment	US\$	1,107	N/A
Formosa Petrochemical Corporation	Short-term investment	\$	311,568	N/A
Taiwan Power Company	Long term investment		3,263,348	N/A
Tan Ya Plastics Corporation	Long term investment		2,150,842	N/A
China Steel Corporation	Long term investment		1,010,532	N/A
Formosa Petrochemical Corporation	Long term investment		791,963	N/A
Chinese Petroleum Corporation	Long term investment		705,436	N/A
Far Eastone Telecommunications Co. Ltd.	Long term investment		300,026	N/A
Formosa Plastics Corporation	Long term investment		268,855	N/A
Formosa Chemicals & Fiber Corporation	Long term investment		134,369	N/A

(Continued)

				<b>December 31, 2005</b>		
				<b>Carrying</b>		
				<b>Value</b>		
		<b>Relationship with the</b>	<b>Financial Statement</b>	<b>Shares/Units</b>	<b>(US\$ in</b>	<b>Percentage</b>
<b>Marketable Securities Type and Name</b>	<b>Company</b>			<b>(In Thousands)</b>	<b>Thousands)</b>	<b>Ownership</b>
		<b>Account</b>				
Agency bonds						
Fed Hm Ln Pc Pool 1H2520		Short-term investment			US\$3,753	N/A
Fed Hm Ln Pc Pool 1H2524		Short-term investment			US\$2,861	N/A
Fed Hm Ln Pc Pool 781959		Short-term investment			US\$7,112	N/A
Fed Hm Ln Pc Pool E89857		Short-term investment			US\$1,980	N/A
Fed Hm Ln Pc Pool G11295		Short-term investment			US\$1,753	N/A
Federal Home Ln Mtg		Short-term investment			US\$3,848	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$ 887	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$3,454	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$3,954	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$6,096	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$3,280	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$4,098	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$9,905	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$4,902	N/A
Federal Home Ln Mtg Corp.		Short-term investment			US\$3,755	N/A
Federal Natl Mtg Assn		Short-term investment			US\$3,696	N/A
Federal Natl Mtg Assn		Short-term investment			US\$ 110	N/A
Federal Natl Mtg Assn		Short-term investment			US\$1,930	N/A
Federal Natl Mtg Assn		Short-term investment			US\$4,030	N/A
Federal Natl Mtg Assn		Short-term investment			US\$4,051	N/A

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Federal Natl Mtg Assn	Short-term investment	US\$ 1,668	N/A
Federal Natl Mtg Assn Gtd	Short-term investment	US\$ 3,659	N/A
Federal Natl Mtg Assn Gtd	Short-term investment	US\$ 445	N/A
Fnma Pool 254507	Short-term investment	US\$ 2,286	N/A
Fnma Pool 254834	Short-term investment	US\$ 1,750	N/A
Fnma Pool 255883	Short-term investment	US\$ 3,771	N/A
Fnma Pool 685116	Short-term investment	US\$ 842	N/A
Fnma Pool 687863	Short-term investment	US\$ 3,570	N/A
Fnma Pool 696485	Short-term investment	US\$ 4,175	N/A
Fnma Pool 725095	Short-term investment	US\$ 1,562	N/A
Fnma Pool 730033	Short-term investment	US\$ 1,793	N/A
Fnma Pool 740934	Short-term investment	US\$ 1,775	N/A
Fnma Pool 790828	Short-term investment	US\$ 3,504	N/A
Fnma Pool 793025	Short-term investment	US\$ 3,306	N/A
Fnma Pool 793932	Short-term investment	US\$ 764	N/A
Fnma Pool 794040	Short-term investment	US\$ 940	N/A
Fnma Pool 795548	Short-term investment	US\$ 623	N/A
Fnma Pool 806642	Short-term investment	US\$ 1,573	N/A
Fnma Pool 815626	Short-term investment	US\$ 3,622	N/A
Fnma Pool 816594	Short-term investment	US\$ 2,657	N/A
Fnma Pool 825395	Short-term investment	US\$ 3,265	N/A
Fnma Pool 825398	Short-term investment	US\$ 4,949	N/A
Fnma Pool 841069	Short-term investment	US\$ 3,673	N/A

(Continued)



			<b>December 31, 2005</b>		
			<b>Carrying</b>		
			<b>Value</b>		
<b>Relationship with the</b>		<b>Financial Statement</b>	<b>Shares/Units</b>	<b>(US\$ in</b>	<b>Percentage</b>
<b>Marketable Securities Type and Name</b>	<b>Company</b>	<b>Account</b>	<b>(In Thousands)</b>	<b>Thousands)</b>	<b>Ownership</b>
Gnma II Pool 081150		Short-term investment		US\$ 813	N/A
Gnma II Pool 081153		Short-term investment		US\$ 2,956	N/A
Federal Farm Cr Bks		Short-term investment		US\$ 3,985	N/A
Federal Home Ln Bank		Short-term investment		US\$ 3,962	N/A
Federal Home Ln Bks		Short-term investment		US\$ 6,110	N/A
Federal Home Ln Bks		Short-term investment		US\$ 2,454	N/A
Federal Home Ln Bks		Short-term investment		US\$ 2,990	N/A
Federal Home Ln Bks		Short-term investment		US\$ 3,932	N/A
Federal Home Ln Bks		Short-term investment		US\$ 4,997	N/A
Federal Home Ln Bks		Short-term investment		US\$ 2,962	N/A
Federal Home Ln Bks		Short-term investment		US\$ 4,927	N/A
Federal Home Ln Bks		Short-term investment		US\$ 3,976	N/A
Federal Home Ln Bks		Short-term investment		US\$ 4,136	N/A
Federal Home Ln Bks		Short-term investment		US\$ 4,939	N/A
Federal Home Ln Bks		Short-term investment		US\$ 7,886	N/A
Federal Home Ln Bks		Short-term investment		US\$ 2,233	N/A
Federal Home Ln Bks		Short-term investment		US\$ 8,672	N/A
Federal Home Ln Bks		Short-term investment		US\$ 4,965	N/A
Federal Home Ln Bks		Short-term investment		US\$ 4,808	N/A
Federal Home Ln Bks		Short-term investment		US\$ 7,558	N/A
Federal Home Ln Bks		Short-term investment		US\$ 8,594	N/A

	Short-term investment	
Federal Home Ln Bks	Short-term investment	US\$ 3,024 N/A
Federal Home Ln Bks	Short-term investment	US\$ 3,972 N/A
Federal Home Ln Bks	Short-term investment	US\$ 7,887 N/A
Federal Home Ln Bks	Short-term investment	US\$19,846 N/A
Federal Home Ln Bks	Short-term investment	US\$ 6,908 N/A
Federal Home Ln Bks	Short-term investment	US\$ 6,098 N/A
Federal Home Ln Bks	Short-term investment	US\$ 9,134 N/A
Federal Home Ln Bks	Short-term investment	US\$ 3,379 N/A
Federal Home Ln Bks	Short-term investment	US\$ 1,042 N/A
Federal Home Ln Bks	Short-term investment	US\$ 2,532 N/A
Federal Home Ln Mtg Corp.	Short-term investment	US\$ 3,388 N/A
Federal Home Ln Mtg Corp.	Short-term investment	US\$ 9,997 N/A
Federal Home Ln Mtg Corp.	Short-term investment	US\$ 6,980 N/A
Federal Home Ln Mtg Corp.	Short-term investment	US\$ 5,929 N/A
Federal Home Ln Mtg Corp. Mtn	Short-term investment	US\$ 4,930 N/A
Federal Home Loan Bank	Short-term investment	US\$ 3,475 N/A
Federal Home Loan Mtg Assn	Short-term investment	US\$ 4,847 N/A
Federal Home Loan Mtg Corp.	Short-term investment	US\$ 4,903 N/A
Federal Natl Mtg Assn	Short-term investment	US\$ 4,921 N/A
Federal Natl Mtg Assn	Short-term investment	US\$ 7,892 N/A
Federal Natl Mtg Assn	Short-term investment	US\$ 4,943 N/A
Federal Natl Mtg Assn	Short-term investment	US\$ 8,971 N/A
Federal Natl Mtg Assn	Short-term investment	US\$ 4,430 N/A

(Continued)

**December 31, 2005**  
**Carrying**  
**Value**

Marketable Securities Type and Name	Company	Account	Shares/Units (In Thousands)	(US\$ in Thousands)	Percentage Ownership
Federal Natl Mtg Assn		Short-term investment		US\$ 17,888	N/A
Federal Natl Mtg Assn		Short-term investment		US\$ 5,928	N/A
Federal Natl Mtg Assn		Short-term investment		US\$ 7,926	N/A
Federal Natl Mtg Assn Mtn		Short-term investment		US\$ 9,758	N/A
Federal Natl Mtg Assn Mtn		Short-term investment		US\$ 15,787	N/A
Federal Natl Mtg Assn Mtn		Short-term investment		US\$ 7,000	N/A
Federal Natl Mtg Assn Mtn		Short-term investment		US\$ 2,876	N/A
Federal Natl Mtg Assn Mtn		Short-term investment		US\$ 2,866	N/A
Federal Natl Mtg Assn Mtn		Short-term investment		US\$ 5,740	N/A
<u>Corporate issued asset-backed securities</u>					
American Home Mtg Invt Tr		Short-term investment		US\$ 411	N/A
Americredit Automobile Rec Tr		Short-term investment		US\$ 1,034	N/A
Americredit Automobile Rec Tr		Short-term investment		US\$ 2,000	N/A
Americredit Automobile Receiva		Short-term investment		US\$ 5,000	N/A
Americredit Automobile Receivb		Short-term investment		US\$ 4,949	N/A
Atlantic City Elc Trns Fdg LLC		Short-term investment		US\$ 680	N/A
Banc Amer Coml Mtg Inc.		Short-term investment		US\$ 4,462	N/A
Banc Amer Mtg Secs Inc.		Short-term investment		US\$ 4,030	N/A
Bank Of Amer Lease Equip Tr		Short-term investment		US\$ 2,986	N/A
Bear Stearns Alt A Tr		Short-term investment		US\$ 958	N/A
Bear Stearns Arm Tr				US\$ 1,947	N/A

	Short-term investment	
Bear Stearns Coml Mtg Secs Inc	Short-term investment	US\$ 6,350 N/A
California Infrastructure Dev	Short-term investment	US\$ 864 N/A
Capital Auto Receivables Asset	Short-term investment	US\$ 1,588 N/A
Capital One Auto Fin Tr	Short-term investment	US\$ 2,650 N/A
Capital One Auto Fin Tr	Short-term investment	US\$ 3,000 N/A
Capital One Multi Asset Execut	Short-term investment	US\$ 4,957 N/A
Capital One Multi Asset Execut	Short-term investment	US\$ 3,974 N/A
Capital One Multi Asset Execut	Short-term investment	US\$ 2,999 N/A
Capital One Prime Auto Receiv	Short-term investment	US\$ 2,800 N/A
Caterpillar Finl Asset Tr	Short-term investment	US\$ 4,453 N/A
Caterpillar Finl Asset Tr	Short-term investment	US\$ 8,219 N/A
Cendant Rent Car Fdg Aesop LLC	Short-term investment	US\$11,626 N/A
Centex Home Equity Ln Tr	Short-term investment	US\$ 3,500 N/A
Cit Equip Coll Tr	Short-term investment	US\$ 4,999 N/A
Citibank Cr Card Issuance Tr	Short-term investment	US\$ 9,782 N/A
Citicorp Mtg Secs	Short-term investment	US\$ 1,025 N/A
Cnh Equip Tr	Short-term investment	US\$ 5,000 N/A
Comm	Short-term investment	US\$ 1,383 N/A
Credit Suisse First Boston Mtg	Short-term investment	US\$ 1,296 N/A
Credit Suisse First Boston Mtg	Short-term investment	US\$ 1,480 N/A
Cwabs Inc.	Short-term investment	US\$ 636 N/A
Cwabs Inc.	Short-term investment	US\$ 2,005 N/A
Cwabs Inc.	Short-term investment	US\$ 4,287 N/A

(Continued)

			<b>December 31, 2005</b>		
			<b>Carrying</b>		
			<b>Value</b>		
<b>Relationship with the</b>		<b>Financial Statement</b>	<b>Shares/Units</b>	<b>(US\$ in</b>	<b>Percentage</b>
<b>Marketable Securities Type and Name</b>	<b>Company</b>	<b>Account</b>	<b>(In Thousands)</b>	<b>Thousands)</b>	<b>Ownership</b>
Cwalt Inc.		Short-term investment		US\$ 1,143	N/A
Cwmbs Inc.		Short-term investment		US\$ 1,255	N/A
Daimlerchrysler Auto Tr		Short-term investment		US\$ 1,261	N/A
Daimlerchrysler Auto Tr		Short-term investment		US\$ 4,709	N/A
Deere John Owner Tr		Short-term investment		US\$ 2,501	N/A
Drive Auto Receivables Tr		Short-term investment		US\$ 3,200	N/A
Fifth Third Auto Tr		Short-term investment		US\$ 3,000	N/A
First Horizon Abs Tr		Short-term investment		US\$ 999	N/A
First Union Lehman Bros Mtg Tr		Short-term investment		US\$ 2,710	N/A
Ford Cr Auto Owner Tr		Short-term investment		US\$ 10,908	N/A
Granite Mtgs Plc		Short-term investment		US\$ 4,447	N/A
Gs Auto Ln Tr		Short-term investment		US\$ 1,899	N/A
Harley Davidson Motorcycle Tr		Short-term investment		US\$ 1,533	N/A
Harley Davidson Motorcycle Tr		Short-term investment		US\$ 5,999	N/A
Hertz Vehicle Financing LLC		Short-term investment		US\$ 5,350	N/A
Holmes Fing No 8 Plc		Short-term investment		US\$ 5,001	N/A
Household Automotive Tr		Short-term investment		US\$ 5,872	N/A
Hsbc Automotive Tr		Short-term investment		US\$ 2,999	N/A
Hyundai Auto Receivables Tr		Short-term investment		US\$ 6,442	N/A
Hyundai Auto Receivables Tr		Short-term investment		US\$ 3,250	N/A
Hyundai Auto Receivables Tr		Short-term investment		US\$ 3,999	N/A

	Short-term investment		
Impac Cmb Tr	Short-term investment	US\$ 638	N/A
Impac Cmb Tr	Short-term investment	US\$ 534	N/A
Impac Secd Assets Corp.	Short-term investment	US\$ 880	N/A
Lb Ubs Coml Mtg Tr	Short-term investment	US\$ 4,001	N/A
Long Beach Accep Auto Receivab	Short-term investment	US\$ 2,526	N/A
Massachusetts Rrb Spl Purp Tr	Short-term investment	US\$ 3,900	N/A
Mastr Asset Backed Secs Tr	Short-term investment	US\$ 206	N/A
Mastr Asset Backed Secs Tr	Short-term investment	US\$ 3,499	N/A
Mbna Master Cr Card Tr II	Short-term investment	US\$ 8,108	N/A
Monumentl Global Fdg II	Short-term investment	US\$ 1,000	N/A
National City Auto Receivables	Short-term investment	US\$ 914	N/A
Navistar Finl 2003 A Owner Tr	Short-term investment	US\$ 4,928	N/A
Nissan Auto Receivables	Short-term investment	US\$ 7,000	N/A
Onyx Accep Owner Tr	Short-term investment	US\$ 4,913	N/A
Pg+E Energy Recovery Fdg LLC	Short-term investment	US\$ 4,749	N/A
Providian Gateway Owner Tr	Short-term investment	US\$ 2,202	N/A
Providian Gateway Owner Tr	Short-term investment	US\$ 3,992	N/A
Reliant Energy Transition Bd	Short-term investment	US\$ 4,973	N/A
Residential Asset Mtg Prods	Short-term investment	US\$ 2,967	N/A
Residential Asset Sec Mtg Pass	Short-term investment	US\$ 3,000	N/A
Residential Asset Sec Mtg Pass	Short-term investment	US\$ 3,780	N/A
Residential Fdg Mtg Secs I Inc.	Short-term investment	US\$ 2,550	N/A
Residential Fdg Mtg Secs I Inc.	Short-term investment	US\$ 4,817	N/A
Revolving Home Equity Ln Tr	Short-term investment	US\$ 3,234	N/A

(Continued)



				<b>December 31, 2005</b>	
				<b>Carrying Value</b>	
<b>Marketable Securities Type and Name</b>	<b>Company</b>	<b>Account</b>	<b>Shares/Units (In Thousands)</b>	<b>(US\$ in Thousands)</b>	<b>Percentage of Ownership</b>
Sequoia Mtg Tr		Short-term investment		US\$ 1,209	N/A
Sequoia Mtg Tr		Short-term investment		US\$ 1,450	N/A
Sequoia Mtg Tr		Short-term investment		US\$ 1,070	N/A
Structured Adj Rate Mtg Ln Tr		Short-term investment		US\$ 2,059	N/A
Structured Adj Rate Mtg Ln Tr		Short-term investment		US\$ 746	N/A
Structured Asset Invt Ln Tr		Short-term investment		US\$ 856	N/A
Toyota Auto Receivables 2003 B		Short-term investment		US\$ 4,970	N/A
Triad Auto Receivables Tr		Short-term investment		US\$ 3,339	N/A
TW Hotel Fdg 2005 Lc		Short-term investment		US\$ 8,197	N/A
Txu Elec Delivery Transition		Short-term investment		US\$ 3,103	N/A
Usaa Auto Owner Tr		Short-term investment		US\$ 3,718	N/A
Wachovia Auto Owner Tr		Short-term investment		US\$ 38	N/A
Wachovia Auto Owner Tr		Short-term investment		US\$ 4,999	N/A
Washington Mut Mtg Secs Corp.		Short-term investment		US\$ 4,067	N/A
Wells Fargo Finl Auto Owner Tr		Short-term investment		US\$ 5,299	N/A
Wells Fargo Mtg Bkd Secs		Short-term investment		US\$ 3,661	N/A
WFS Financial Owner Trust		Short-term investment		US\$ 4,133	N/A
WFS Finl		Short-term investment		US\$ 1,311	N/A
WFS Finl 2004 2 Owner Tr		Short-term investment		US\$ 4,994	N/A
WFS Finl 2004 4 Owner Tr		Short-term investment		US\$ 5,399	N/A
WFS Finl 2005 2 Oner Tr				US\$ 2,250	N/A



Whole Auto Ln Tr		Short-term investment			
		Short-term investment	US\$	1,954	N/A
Whole Auto Ln Tr		Short-term investment	US\$	4,000	N/A
Whole Auto Ln Tr		Short-term investment	US\$	3,000	N/A
World Omni Auto Receivables Tr		Short-term investment	US\$	5,963	N/A
<u>Corporate issued notes</u>					
Canadian Imperial BK		Short-term investment	US\$	1,999	N/A
Canadian Imperial BK		Short-term investment	US\$	3,015	N/A
Washington Mutual		Short-term investment	US\$	3,000	N/A
<u>Money market funds</u>					
SSGA Cash Mgmt Global Offshore		Short-term investment	US\$	7,936	N/A
<u>Equity</u>					
Horizon Venture Fund I, L.P.		Long-term investment		\$280,179	N/A
Crimson Asia Capital Ltd., L.P.		Long-term investment		54,811	N/A
TSMC stock	Parent company	Short-term investment	16,454	458,564	
TSMC stock	Parent company	Short-term investment	16,484	459,511	

(Continued)

Security Name	Marketable Securities Type and Name	Company	Relationship with the Financial Statements	Account	Shares/Units (In Thousands)	December 31, 2005		Ownership Percentage of	Market Value (US\$)
						Carrying Value (US\$ in Thousands)	Market Value (US\$)		
Common Stock	TSMC Development	Subsidiary		Long-term investment	1	US\$ 588,685	100	US\$	
	TSMC Technology	Subsidiary		Long-term investment	1	US\$ 5,647	100	US\$	
	InveStar	Subsidiary		Long-term investment	18,505	US\$ 21,833	97	US\$	
	InveStar II	Subsidiary		Long-term investment	51,300	US\$ 33,451	97	US\$	
Common Stock	WaferTech stock	Subsidiary		Long-term investment		US\$ 368,886	99	US\$	
Common stock	RichTek Technology Corp.			Short-term investment	838	US\$ 71		US\$	
	Advanced Power Electronics Corp.			Short-term investment	525	US\$ 210	2	US\$	
	SiRF Technology Holdings, Inc.			Short-term investment	10	US\$ 44		US\$	
	Broadtek Electronics Corp.			Short-term investment	29	US\$ 9		US\$	
	Monolithic Power Systems, Inc.			Short-term investment	1,975	US\$ 1,567	7	US\$	
	Global Testing Corp.			Short-term investment	58,044	US\$ 4,961	8	US\$	
	Capella Microsystems (Taiwan), Inc.			Long-term investment	530	US\$ 154	4	US\$	
	Signia Technologies, Inc.			Long-term investment	701	US\$ 201	3	US\$	
	Advanced Power Electronics Corp.			Long-term investment	674	US\$ 270	2	US\$	
	Broadtek Electronics Corp.			Long-term investment	116	US\$ 37		US\$	
	RichTek Technology Corp.			Long-term investment	421	US\$ 36		US\$	
	Preferred stock	Integrated Memory Logic, Inc.			Long-term investment	1,831	US\$ 1,220	9	US\$
Sensory, Inc.					1,404	US\$ 125	6	US\$	

IP Unity, Inc.	Long-term investment	1,008	US\$	494	3	US\$
Sonics, Inc.	Long-term investment	2,686	US\$	3,530	4	US\$
NanoAmp Solutions, Inc.	Long-term investment	541	US\$	853	2	US\$
Memsic, Inc.	Long-term investment	2,727	US\$	1,500	10	US\$
Reflectivity, Inc.	Long-term investment	1,064	US\$	741	2	US\$
<u>Common stock</u>						
Monolithic Power Systems, Inc.	Short-term investment	864	US\$	2,081	3	US\$
GeoVision, Inc.	Short-term investment	336	US\$	74	1	US\$
Advanced Analogic Technology, Inc.	Short-term investment	484	US\$	1,261	1	US\$
RichTek Technology Corp.	Short-term investment	386	US\$	192		US\$
Signia Technologies, Inc.	Long-term investment	351	US\$	101	1	US\$
Ralink Technology (Taiwan), Inc.	Long-term investment	1,833	US\$	791	3	US\$
Procoat Technology, Inc.	Long-term investment	5,123	US\$	1,940	10	US\$
Capella Microsystems (Taiwan), Inc.	Long-term investment	419	US\$	122	2	US\$
Auden Technology MFG. Co., Ltd.	Long-term investment	953	US\$	410	4	US\$
EoNEX Technologies, Inc.	Long-term investment	55	US\$	3,048	5	US\$
Conwise Technology Corporation, Ltd.	Long-term investment	2,800	US\$	204	9	US\$
Goyatek Technology, Corp.	Long-term investment	2,088	US\$	545	7	US\$
Trendchip Technologies Corp.	Long-term investment	2,000	US\$	574	5	US\$
EON Technology, Corp.	Long-term investment	3,264	US\$	1,175	8	US\$

(Continued)

Company Name	Marketable Securities Type and Name	Company	Relationship with the Financial Statements	Account	Shares/Units (In Thousands)	December 31, 2005		Percentage of Ownership	Market Value (US\$)
						Carrying Value (US\$ in Thousands)	Market Value (US\$)		
eChannelOpen Holding, Inc.				Long-term investment	358	US\$ 251	4	US\$	
eLCOS Microdisplay Technology, Ltd.				Long-term investment	270	US\$ 27	1	US\$	
Epic Communications, Inc.				Long-term investment	302	US\$ 37	1	US\$	
RichTek Technology Corp.				Long-term investment	198	US\$ 98		US\$	
GeoVision, Inc.				Long-term investment	15	US\$ 3		US\$	
<u>Preferred stock</u>									
Memic, Inc.				Long-term investment	2,289	US\$ 1,560	8	US\$	
NanoAmp Solutions, Inc.				Long-term investment	375	US\$ 1,500	1	US\$	
Sonics, Inc.				Long-term investment	3,082	US\$ 3,082	5	US\$	
Reflectivity, Inc.				Long-term investment	4,255	US\$ 2,205	5	US\$	
Kilopass Technologies, Inc.				Long-term investment	3,887	US\$ 2,000	9	US\$	
FangTek, Inc.				Long-term investment	6,806	US\$ 3,250	28	US\$	
eLCOS Microdisplay Technology, Ltd.				Long-term investment	2,667	US\$ 3,500	15	US\$	
Alchip Technologies Limited				Long-term investment	2,597	US\$ 2,950	18	US\$	
<u>Common stock</u>									
Global Investment Holding, Inc.				Long-term investment	10,800	\$100,000	6	\$	
RichWave Technology Corp.				Long-term investment	3,380	US\$ 1,247	13	US\$	
NetLogic Microsystems, Inc.				Long-term investment	113	US\$ 1,388	1	US\$	
Quake Technologies, Inc.				Long-term investment	46	US\$ 35		US\$	
Pixim, Inc.				Long-term investment	1,924	US\$ 512	4	US\$	

Preferred stock

Quake Technologies, Inc.	Long-term investment	555	US\$	415	1	US\$
Pixim, Inc.	Long-term investment	2,193	US\$	583		US\$
Ikanos Communication, Inc.	Long-term investment	7,446	US\$	3,125	3	US\$
Quicksilver Technology, Inc.	Long-term investment	1,049	US\$		4	US\$
Mosaic Systems, Inc.	Long-term investment	2,481	US\$	12	6	US\$
Zenesis Technologies, Inc.	Long-term investment	1,204	US\$	699	4	US\$
Reflectivity, Inc.	Long-term investment	4,848	US\$	2,479	4	US\$
Miradia, Inc.	Long-term investment	3,040	US\$	1,000	4	US\$
Axiom Microdevices, Inc.	Long-term investment	1,000	US\$	1,000	3	US\$
Optichron, Inc.	Long-term investment	714	US\$	1,000	4	US\$
NuCORE Technology Inc.	Long-term investment	2,254	US\$	1,455	2	US\$
Next IO, Inc.	Long-term investment	800	US\$	500	2	US\$
Audience, Inc.	Long-term investment	1,654	US\$	250	2	US\$
Centrality Communications, Inc.	Long-term investment	1,325	US\$	1,800	3	US\$
Britestream Networks, Inc. (Layer N Networks, Inc.)	Long-term investment	2,444	US\$	1,172	2	US\$
Teknovus, Inc.	Long-term investment	6,977	US\$	1,327	3	US\$
Optimal Corporation	Long-term investment	485	US\$	500	6	US\$
Mobilygen Corporation	Long-term investment	1,415	US\$	750	1	US\$

(Continued)

Company Name	Marketable Securities Type and Name	Company	Relationship with the Financial Statements	Account	Shares/Units (US\$ in Thousands)	December 31, 2005		Percentage of Ownership	Market Value (US\$ Thousands)
						Carrying Value	Market Value		
	Warrants								
	Pixim, Inc.			Long-term investment	242				
	Common stock								
	VisEra Holding Company			Long-term investment	18,931	US\$ 19,862	50	US\$	
	Common stock								
	Yobon Technologies, Inc.			Long-term investment	1,675	US\$ 787	17	US\$	
	Sentelic, Corp.			Long-term investment	600	US\$ 1,022	15	US\$	
	Preferred stock								
	Powerprecise Solutions, Inc.			Long-term investment	1,032	US\$ 1,000	8	US\$	
	Tzero Technologies, Inc.			Long-term investment	244	US\$ 500	2	US\$	
	Miradia, Inc.			Long-term investment	1,809	US\$ 1,600	2	US\$	
	Axiom Microdevices, Inc.			Long-term investment	761	US\$ 776	2	US\$	
	Next IO, Inc.			Long-term investment	216	US\$ 182		US\$	
	Ageia Technologies, Inc.			Long-term investment	1,969	US\$ 2,000	2	US\$	
	Audience, Inc.			Long-term investment	531	US\$ 102	1	US\$	
	GemFire Corporation			Long-term investment	600	US\$ 600	1	US\$	
	Optichron, Inc.			Long-term investment	353	US\$ 869	2	US\$	
	Leadtrend Technology, Inc.			Long-term investment	900	US\$ 431	5	US\$	
	Aquantia Corporation			Long-term investment	1,401	US\$ 1,150	5	US\$	
	Xceive Corporation			Long-term investment	714	US\$ 1,000	2	US\$	
	5V Technologies, Inc.			Long-term investment	1,333	US\$ 1,000		US\$	

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Power Analog Microelectronics			Long-term investment	2,000	US\$	1,500	7	US\$
Impinj, Inc			Long-term investment	257	US\$	500		US\$
Warrants								
Aquantia Corporation			Long-term investment	46	\$			\$
Stock								
Global Unichip Corporation	NA	Subsidiary	Long-term investment	100		4,715	100	
Global Unichip Japan		Subsidiary	Long-term investment			2,153	100	

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**TABLE 4**

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND INVESTEEES  
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 END DECEMBER 31, 2005**

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

Counter-party	Beginning Balance		Acquisition		
	Nature of Relationship	Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ In Thousands)
Asset Management (Taiwan) Ltd.		78,698	\$1,153,209		\$
Asset Management (Taiwan) Ltd.		84,886	1,151,463		
ESCO Asset Management Taiwan		76,705	1,101,911		
Bank of Communications Securities Investment Consulting Co., Ltd.		80,833	900,000		
Bank of Communications Securities Investment Trust Co., Ltd.		76,640	900,000		
Bank of China Investment Trust Co., Ltd.		151,594	2,100,000		
Bank of Communications Shing Bills Finance Corp. and several financial institutions			249,449		
Bank of Communications and several financial institutions			1,207,409		
Bank of Communications Shing Bills Finance Corp. and several financial institutions					300,472
Bank of Communications Shing Bills Finance Corp. and several financial institutions					360,608
Bank of Communications Shing Bills Finance Corp. and several financial institutions					149,440
Bank of Communications Shing Bills Finance Corp. and several financial institutions					2,548,689
					US\$ 6,881
			US\$ 192,357		US\$ 494,515
Bank of Communications Shing Bills Finance Corp.			\$2,777,798		\$
Bank of Communications Shing Bills Finance Corp.					311,568
			US\$ 3,171		
			US\$ 3,795		
			US\$ 3,518		US\$ 3,329
			US\$ 3,105		US\$ 3,757
			US\$ 3,583		US\$ 5,721
					US\$ 3,500
					US\$ 3,000
			US\$ 2,645		US\$ 4,141
					US\$ 3,832
					US\$ 5,079
					US\$ 3,918
			US\$ 3,467		
					US\$ 3,989
					US\$ 8,862





Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Shares/Units (In Thousands)
		Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ In Thousands)	
			US\$ 3,886		US\$	
					US\$	3,500
					US\$	4,981
					US\$	3,477
			US\$ 3,505		US\$	3,566
					US\$	3,201
			US\$ 3,542			
			US\$ 3,012		US\$	7,894
					US\$	7,247
					US\$	3,028
					US\$	3,406
					US\$	4,450
			US\$ 3,705			
					US\$	4,900
			US\$ 1,050		US\$	4,507
			US\$ 3,638			
					US\$	3,426
			US\$ 3,644			
					US\$	3,000
					US\$	3,571
					US\$	3,500
			US\$ 3,050			
			US\$ 3,507			
			US\$ 3,168			
					US\$	3,225
			US\$ 3,160			
					US\$	4,998
			US\$ 3,720			
			US\$ 4,768			
Bill Finance Corp. and several financial institutions			\$915,276			\$2,967,681
Bill Finance Corp. and several financial institutions			407,526			1,883,901
					US\$	3,985
					US\$	3,962
					US\$	6,110
			US\$ 4,948			
			US\$ 7,962			
			US\$ 13,953			
					US\$	3,932
			US\$ 13,981			
			US\$ 13,983			

US\$ 7,042

US\$ 7,014

US\$ 4,136

US\$ 4,939

US\$ 7,886

US\$ 8,672

US\$ 7,018

US\$ 3,960

US\$ 4,965

(Continued)

Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Dispos	
			Shares/Units (In Thousands)	Amount (US\$ in Thousands) US\$	Shares/Units (In Thousands)	Amount (US\$ In Thousands)	Shares/Units (In Thousands)	Amount (US\$ in Thousands)
Short-term investment						US\$4,808		US\$
Short-term investment						US\$7,558		
Short-term investment						US\$8,594		
Short-term investment						US\$3,024		
Short-term investment						US\$3,972		
Short-term investment						US\$7,887		
Short-term investment						US\$19,846		
Short-term investment						US\$6,908		
Short-term investment						US\$9,134		
Short-term investment						US\$3,379		
Short-term investment				US\$4,933				US\$4,96
Short-term investment				US\$4,953				US\$4,93
Short-term investment						US\$6,925		US\$6,93
Short-term investment				US\$6,978				US\$6,92
Short-term investment						US\$6,980		
Short-term investment						US\$5,929		
Short-term investment						US\$3,475		
Short-term investment						US\$7,989		US\$7,92
Short-term investment				US\$4,903		US\$9,819		US\$9,79
Short-term investment				US\$3,466				US\$3,48
Short-term investment				US\$6,903				US\$6,94
Short-term investment				US\$5,270				US\$5,24
Short-term investment				US\$6,940				US\$6,93
Short-term investment				US\$4,981				US\$4,95
Short-term investment						US\$4,921		
Short-term investment						US\$7,892		
Short-term investment						US\$5,337		US\$5,30
Short-term investment				US\$6,997				US\$6,95
Short-term investment						US\$4,943		
Short-term investment						US\$14,952		US\$5,96
Short-term investment						US\$4,430		
Short-term investment						US\$4,061		US\$4,04
Short-term investment						US\$17,888		
Short-term investment						US\$5,928		
Short-term investment						US\$7,926		
Short-term investment						US\$9,758		
Short-term investment						US\$5,740		
Short-term investment				US\$4,929				US\$4,93
Short-term investment						US\$3,961		
Short-term investment						US\$7,913		
Short-term investment						US\$4,173		US\$4,17
Short-term investment						US\$3,958		
Short-term investment						US\$3,954		

ort-term investment	US\$4,154
ort-term investment	US\$9,955
ort-term investment	US\$5,389
ort-term investment	US\$3,930
ort-term investment	US\$3,918
ort-term investment	US\$4,030
ort-term investment	US\$4,051
ort-term investment	US\$3,892
ort-term investment	US\$3,827
ort-term investment	US\$3,848
ort-term investment	US\$4,345
ort-term investment	US\$3,915
ort-term investment	US\$3,663

(Continued)

d	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal
				Shares/Units (In Thousands)	Amount (US\$ in Thousands)	Shares/Units (In Thousands)	Amount (US\$ In Thousands)	
	Short-term investment						US\$3,417	
	Short-term investment						US\$5,246	
	Short-term investment						US\$3,966	
urities	Short-term investment				US\$4,955			US\$4,955
	Short-term investment				US\$3,445			US\$3,445
	Short-term investment						US\$5,000	
	Short-term investment						US\$6,350	
	Short-term investment				US\$4,978			US\$4,978
	Short-term investment				US\$4,298			US\$4,298
	Short-term investment				US\$6,126			US\$6,126
	Short-term investment						US\$3,974	
	Short-term investment				US\$10,008			US\$10,008
	Short-term investment						US\$8,219	
	Short-term investment						US\$11,626	
	Short-term investment				US\$4,959			US\$4,959
	Short-term investment						US\$9,782	
	Short-term investment				US\$1,903		US\$1,865	US\$1,865
	Short-term investment				US\$4,040			US\$4,040
	Short-term investment						US\$4,040	US\$4,040
	Short-term investment				US\$4,897			US\$4,897
	Short-term investment						US\$3,200	
	Short-term investment				US\$5,011			US\$5,011
	Short-term investment						US\$5,350	
	Short-term investment				US\$5,000			US\$5,000
	Short-term investment						US\$8,352	
	Short-term investment						US\$3,250	
	Short-term investment						US\$3,999	
	Short-term investment						US\$4,243	
	Short-term investment						US\$3,900	
	Short-term investment						US\$3,825	
	Short-term investment						US\$3,499	
	Short-term investment						US\$5,018	US\$5,018
	Short-term investment						US\$8,108	
	Short-term investment				US\$4,999			US\$4,999
	Short-term investment				US\$4,853			US\$4,853
	Short-term investment						US\$4,749	
	Short-term investment						US\$4,080	
	Short-term investment						US\$3,780	
	Short-term investment						US\$5,589	
	Short-term investment						US\$5,000	
	Short-term investment						US\$4,560	US\$4,560

Short-term investment		US\$3,500	US\$2
Short-term investment		US\$8,197	
Short-term investment	US\$7,736		US\$3
Short-term investment		US\$3,718	
Short-term investment	US\$4,000		US\$3
Short-term investment	US\$-	US\$4,365	U
Short-term investment		US\$5,299	
Short-term investment		US\$4,014	
Short-term investment	US\$5,967		US\$5
Long-term investment		18,931	US\$18,931

Note1: The proceeds of bond investments matured are excluded.

Note2: The ending balance included the amortization of premium or discount on bond investments.

**TABLE 5**

**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 YEARS ENDED DECEMBER 31, 2005  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Nature of Relationship	Purchase/ Sale	Transaction Details			Abnormal Tr Unit Price Pay (Note)
		Amount	% Total to	Payment Terms	
ca Subsidiary	Sales	\$153,618,916	57	Net 30 days after invoice date	
Major shareholder	Sales	3,298,770	1	Net 30 days after monthly closing	
Investee with controlling financial interest	Sales	347,456		Net 30 days after monthly closing	
Investee accounted for using equity method	Sales	195,253		Net 45 days after monthly closing	
Subsidiary	Purchases	11,137,313	28	Net 30 days after monthly closing	
Investee accounted for using equity method	Purchases	5,729,672	15	Net 30 days after monthly closing	
Investee accounted for using equity method	Purchases	4,142,457	10	Net 30 days after monthly closing	
Subsidiary	Purchases	1,405,030	4	Net 30 days after monthly closing	
ca The same Parent	Purchases	266,372	23	Net 30 days after invoice date	

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.



**TABLE 6**

**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, 2005**  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

<b>Nature of Relationship</b>	<b>Ending Balance</b>	<b>Turnover Rate</b>	<b>Amount</b>	<b>Overdue Action Taken</b>
Subsidiary	\$20,606,126	43 days	\$5,735,388	Accelerate demand on account receiv
Indirect subsidiaries	972,563	Note		Accelerate demand on account receiv
Major shareholder	573,565	64 days	45,909	Accelerate demand on account receiv
Indirect investee accounted for using equity method	374,200	Note	1,750	Accelerate demand on account receiv
Investee accounted for using equity method	149,251	Note		Accelerate demand on account receiv

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

**TABLE 7**

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED  
 NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE COMPANY  
 EXERCISES SIGNIFICANT INFLUENCE  
 DECEMBER 31, 2005**

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

Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee
			December 31, 2005	December 31, 2004	Shareholders	Percentage of Ownership	Carrying Value (Note 1)	
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	\$23,912,812	\$ (549,454)
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	9,187,962		100	9,438,856	(2,242,213)
	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	8,119,816	8,119,816	437,891	27	5,419,747	2,710,971
	Singapore	Fabrication and supply of integrated circuits	6,408,190	6,408,190	382	32	4,215,200	2,503,446
Partners	Tortola, British Virgin Islands	Investment activities	10,350	10,350	300	100	4,091,166	46,656
North America	San Jose, California, U.S.A.	Sales and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	1,790,186	564,201
Investing Alliance	Cayman Islands	Investing in new start-up technology companies	1,526,074	1,447,957		99	850,534	(77,208)
Investing Alliance	Cayman Islands	Investing in new start-up technology companies	654,509	332,412		98	642,479	(19,044)
Investing Alliance	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	409,920	409,920	40,147	46	442,233	106,748

Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	94,949	2,572
erng	Taipei, Taiwan	Investment activities	300,000	300,000		36	78,139	77,196
uey	Taipei, Taiwan	Investment activities	300,000	300,000		36	77,415	77,257
Europe	Amsterdam, the Netherlands	Marketing activities	15,749	15,749		100	23,087	295

Note 1: The treasury stock is deducted from the carrying value.

Note 2: The gains on disposal of the stocks of the Company held by subsidiaries and cash dividends from the Company are excluded.

**TABLE 8**

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED**  
**INFORMATION OF INVESTMENT IN MAINLAND CHINA**  
**DECEMBER 31, 2005**  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

<b>Total Amount</b>		<b>Accumulated Outflow of Investment from Taiwan as of</b>		<b>Investment Flows</b>		<b>Accumulated Outflow of Investment from Taiwan as of</b>		<b>Percent</b>
<b>of Paid-in Capital</b>		<b>of</b>		<b>Outflow</b>		<b>of</b>		<b>of</b>
<b>Capital</b>		<b>January 1, 2005</b>		<b>Outflow</b>		<b>December 31, 2005</b>		<b>Owners</b>
<b>(RMB in Thousand)</b>	<b>Investment Type</b>	<b>(US\$ in Thousand)</b>	<b>(US\$ in Thousand)</b>	<b>(US\$ in Thousand)</b>	<b>Inflow</b>	<b>(US\$ in Thousand)</b>	<b>Investment</b>	<b>in</b>
12,180,367	(RMB3,070,623)	(Note 1)	\$9,187,962(US\$276,000)	\$2,992,405(US\$95,000)	\$	\$12,180,367(US\$371,000)	100	

<b>Accumulated Investment in Mainland China as of December 31, 2005</b>	<b>Investment Amounts Authorized by Investment Commission, MOEA</b>	<b>Upper Limit on Investment</b>
<b>(US\$ in Thousand)</b>	<b>(US\$ in Thousand)</b>	<b>(US\$ in Thousand)</b>
\$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.

**Taiwan Semiconductor Manufacturing  
Company Limited and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2005 and 2004 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, 2005, which were prepared in conformity with the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised R.O.C. Statement of Financial Accounting Standards No. 7 Consolidated Financial Statements . In addition, the information needed to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By

MORRIS CHANG

Chairman

January 12, 2006

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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 (the Company) as of December 31, 2005 and 2004, 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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

January 12, 2006

### Notice to Readers

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

*For the convenience of readers, the auditors' report and the accompanying 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, 2005 AND 2004**

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

	2005		2004	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2, 3 and 4)	\$ 96,483,707	19	\$ 74,302,351	15
Short-term investments, net (Notes 2 and 4)	47,399,308	9	54,107,951	11
Notes and accounts receivable	43,082,275	8	31,214,423	7
Receivables from related parties (Note 20)	693,266		654,377	
Allowance for doubtful receivables (Note 2)	(980,594)		(982,843)	
Allowance for sales returns and others (Note 2)	(4,317,413)	(1)	(3,342,450)	(1)
Other receivables from related parties (Note 20)	597,910		141,578	
Other financial assets (Notes 2 and 24)	2,915,696	1	2,212,371	
Inventories, net (Notes 2 and 5)	17,728,303	3	15,555,937	3
Deferred income tax assets, net (Notes 2 and 14)	7,149,306	2	8,917,986	2
Prepaid expenses and other current assets	1,503,447		1,667,401	
<b>Total current assets</b>	<b>212,255,211</b>	<b>41</b>	<b>184,449,082</b>	<b>37</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 18 and 24)</b>				
Equity method	10,287,424	2	9,143,612	2
Cost method	3,365,341		3,266,330	1
Long-term bonds	18,548,308	4	15,170,167	3
Other investments	10,227,000	2	10,521,740	2
<b>Total long-term investments</b>	<b>42,428,073</b>	<b>8</b>	<b>38,101,849</b>	<b>8</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7, 10 and 20)</b>				
<b>Cost</b>				
Land and land improvements	851,225		803,508	
Buildings	105,832,028	21	97,882,699	19
Machinery and equipment	510,922,064	98	433,130,364	87
Office equipment	9,670,611	2	8,538,225	2
Leased assets	597,669		566,243	
	627,873,597	121	540,921,039	108
Accumulated depreciation	(398,124,607)	(77)	(331,253,866)	(66)
Advance payments and construction in progress	15,074,302	3	49,244,153	10



Property, plant and equipment, net	244,823,292	47	258,911,326	52
GOODWILL (Note 2)	6,010,601	1	7,115,510	1
<b>OTHER ASSETS</b>				
Deferred charges, net (Notes 2, 8 and 23)	7,006,250	2	8,992,452	2
Deferred income tax assets, net (Notes 2 and 14)	6,788,418	1	1,649,979	
Refundable deposits	106,802		106,448	
Assets leased to others, net (Note 2)	72,879		78,613	
Others (Note 2)	18,063		48,832	
Total other assets	13,992,412	3	10,876,324	2
TOTAL	\$ 519,509,589	100	\$ 499,454,091	100

	<b>2005</b>		<b>2004</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term bank loans (Note 9)	\$ 328,500		\$ 383,004	
Accounts payable	9,421,452	2	7,264,419	2
Payables to related parties (Note 20)	1,743,069		2,217,815	1
Income tax payable (Notes 2 and 14)	4,015,451	1	403,955	
Accrued expenses and other current liabilities (Notes 2, 12, 23 and 24)	10,542,230	2	9,722,413	2
Payables to contractors and equipment suppliers	9,066,036	2	33,427,702	6
Current portion of long-term liabilities (Note 10)	5,489		10,500,000	2
Total current liabilities	35,122,227	7	63,919,308	13
<b>LONG-TERM LIABILITIES</b>				
Bonds payable (Note 11)	19,500,000	4	19,500,000	4
Long-term bank loans (Note 10)	663,140		1,915,020	
Other long-term payables (Note 12)	8,548,887	2	7,964,975	2
Other payables to related parties (Notes 20 and 23)	1,100,475		2,317,972	
Liability under capital lease (Note 2)	597,669		566,243	
Total long-term liabilities	30,410,171	6	32,264,210	6

## OTHER LIABILITIES

Accrued pension cost (Notes 2 and 13)	3,474,384	1	3,101,707	1
Guarantee deposits (Note 23)	2,896,430		412,881	
Deferred credits (Notes 2 and 20)	1,343,959		704,991	
Others	23,710		9,958	
Total other liabilities	7,738,483	1	4,229,537	1
Total liabilities	73,270,881	14	100,413,055	20

EQUITY ATTRIBUTABLE TO SHAREHOLDERS  
OF PARENT (Notes 2, 16, 17 and 18)

Capital stock \$10 par value				
Authorized: 27,050,000 thousand shares in 2005 and 24,600,000 thousand shares in 2004				
Issued: 24,730,025 thousand shares in 2005 and 23,251,964 thousand shares in 2004	247,300,246	48	232,519,637	47
Capital surplus	57,117,886	11	56,537,259	11
Retained earnings				
Appropriated as legal capital reserve	34,348,208	7	25,528,007	5
Appropriated as special capital reserve	2,226,427			
Unappropriated earnings	106,196,399	20	88,202,009	18
Others				
Cumulative translation adjustments	(640,742)		(2,226,427)	(1)
Treasury stock (at cost) 32,938 thousand shares in 2005 and 45,521 thousand shares in 2004	(918,075)		(1,595,186)	
Total equity attributable to shareholders of the parent	445,630,349	86	398,965,299	80
MINORITY INTEREST IN SUBSIDIARIES (Note 2)	608,359		75,737	
Total shareholders equity	446,238,708	86	399,041,036	80
TOTAL	\$ 519,509,589	100	\$ 499,454,091	100

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

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED  
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

	2005		2004	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 20)	\$ 271,801,696		\$ 261,947,351	
SALES RETURNS AND ALLOWANCES (Note 2)	5,236,626		4,734,733	
NET SALES	266,565,070	100	257,212,618	100
COST OF SALES (Notes 15 and 20)	148,362,196	56	141,393,435	55
GROSS PROFIT	118,202,874	44	115,819,183	45
OPERATING EXPENSES (Notes 15 and 20)				
Research and development	14,016,506	5	12,516,434	5
General and administrative	9,085,536	3	11,454,374	4
Sales and marketing	4,132,273	2	3,366,701	1
Total operating expenses	27,234,315	10	27,337,509	10
INCOME FROM OPERATIONS	90,968,559	34	88,481,674	35
NON-OPERATING INCOME AND GAINS				
Interest (Notes 2 and 24)	3,069,435	1	1,783,693	1
Equity in earnings of equity method investees, net (Notes 2 and 6)	1,433,226	1	2,094,137	1
Settlement income (Note 22)	964,710			
Technical service income (Notes 20 and 23)	462,624		423,804	
Gain on disposal of property, plant and equipment (Note 2)	342,756		242,785	
Subsidy income	321,850			
Gain on sales of investments, net (Note 2)			914,541	
Others (Note 20)	472,896		556,598	
Total non-operating income and gains	7,067,497	2	6,015,558	2

NON-OPERATING EXPENSES AND LOSSES

Interest (Notes 2, 7 and 24)	2,662,458	1	1,454,242	1
Unrealized valuation loss on short-term investments (Note 2)	337,160		75,212	
Loss on idle assets (Note 2)	131,849			
Loss on impairment of long-term investments (Note 2)	128,900		350,608	

(Continued)

	2005		2004	
	Amount	%	Amount	%
Loss on disposal of property, plant and equipment and idle assets (Note 2)	\$ 60,109		\$ 131,148	
Others	452,333		520,435	
Total non-operating expenses and losses	3,772,809	1	2,531,645	1
INCOME BEFORE INCOME TAX	94,263,247	35	91,965,587	36
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 14)	(630,579)		363,426	
NET INCOME	\$ 93,632,668	35	\$ 92,329,013	36
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 93,575,035	35	\$ 92,316,115	36
Minority interest	57,633		12,898	
	\$ 93,632,668	35	\$ 92,329,013	36

	2005		2004	
	Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent	
	Before Tax	After Tax	Before Tax	After Tax
CONSOLIDATED EARNINGS PER SHARE (Note 19)				
Basic earnings per share	\$ 3.82	\$ 3.79	\$ 3.72	\$ 3.73
Diluted earnings per share	\$ 3.82	\$ 3.79	\$ 3.72	\$ 3.73

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

(Concluded)

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

Stock Amount	Equity Attributable to Shareholders of the Parent (Notes 2, 16, 17 and 18)								Total
	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Retained Earnings Total	Unrealized Loss on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	
202,666,189	\$ 56,855,885	\$ 20,802,137	\$ 68,945	\$ 50,229,008	\$ 71,100,090	\$ (35)	\$ 225,408	\$ (1,633,228)	\$ 329,214,
		4,725,870		(4,725,870)					
			(68,945)	68,945					
				(681,628)	(681,628)				(681,
2,726,514				(2,726,514)	(2,726,514)				
				(184,493)	(184,493)				(184,
				(12,159,971)	(12,159,971)				(12,159,
28,373,267				(28,373,267)	(28,373,267)				
				(127,805)	(127,805)				(127,
				92,316,115	92,316,115				92,316,

	34,059							34,
					35			
						(2,451,835)		(2,451,
867	2,757							3,
	22,781							22,
	1,864						38,042	39,
							(7,059,798)	(7,059,
(1,247,200)	(380,087)		(5,432,511)	(5,432,511)			7,059,798	
232,519,637	56,537,259	25,528,007	88,202,009	113,730,016		(2,226,427)	(1,595,186)	398,965,
		8,820,201	(8,820,201)					

		2,226,427	(2,226,427)		
			(3,086,215)	(3,086,215)	(3,086,215)
3,086,215			(3,086,215)	(3,086,215)	
			(46,504,097)	(46,504,097)	(46,504,097)
11,626,024			(11,626,024)	(11,626,024)	
			(231,466)	(231,466)	(231,466)
			93,575,035	93,575,035	93,575,035
	71,405				71,405
				1,585,685	1,585,685
68,370	202,559				270,929

(Continued)



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

Preferred Stock Amount	Retained Earnings				Unappropriated Earnings	Unrealized Loss on Cumulative Long-term Investments	Translation Adjustments	Treasury Stock	Total
	Capital Surplus	Legal Capital Reserve	Special Capital Reserve						
\$	\$ 84,285	\$	\$	\$	\$	\$	\$	\$	\$ 84,285
	222,378							677,111	899,489
\$ 247,300,246	\$ 57,117,886	\$ 34,348,208	\$ 2,226,427	\$ 106,196,399	\$ 142,771,034	\$ (640,742)	\$ (918,075)		\$ 445,630,349

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

(Concluded)

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**  
(In Thousands of New Taiwan Dollars)

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income attributable to shareholders of the parent	\$ 93,575,035	\$ 92,316,115
Net income attributable to minority interest	57,633	12,898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	75,649,429	69,818,457
Deferred income taxes	(3,353,013)	(1,058,393)
Equity in earnings of equity method investees, net	(1,433,226)	(2,094,137)
Amortization of premium/discount of long-term bond investments, net	120,872	28,673
Loss on impairment of long-term investments	128,900	350,608
Gain on sales of long-term investments, net	(15,304)	(85,203)
Gain on disposal of property, plant and equipment and idle assets, net	(282,647)	(111,637)
Loss on idle assets	131,849	
Donation of idle assets	7,207	
Provision for pension cost	360,128	500,257
Dividends received from equity method investees	668,464	
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Notes and accounts receivable	(11,572,809)	(2,709,261)
Receivables from related parties	(101,915)	266,067
Allowance for doubtful receivables	(3,145)	(37,555)
Allowance for sales returns and others	974,963	1,206,607
Other receivables from related parties	(87,979)	(9,847)
Other financial assets	(469,023)	(777,100)
Inventories, net	(2,006,165)	(3,420,613)
Prepaid expenses and other current assets	183,046	(34,493)
Increase (decrease) in:		
Accounts payable	2,088,582	825,815
Payables to related parties	(1,629,217)	(1,499,968)
Income tax payable	3,611,486	266,526
Accrued expenses and other current liabilities	292,568	(602,911)
Deferred credits	117,335	
 Net cash provided by operating activities	 157,013,054	 153,150,905
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in short-term investments, net	6,954,230	(43,554,878)
Acquisitions of:		
Long-term investments	(14,675,413)	(23,054,379)
Property, plant and equipment	(79,878,724)	(81,094,557)
Proceeds from disposal of:		

Long-term investments	10,533,622	165,243
Property, plant, and equipment and idle assets	480,707	1,812,633

(Continued)

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	<b>2005</b>	<b>2004</b>
Increase in deferred charges	\$ (855,967)	\$ (2,405,673)
Decrease in refundable deposits	771	93,074
Decrease in other assets	741	51,604
 Net cash used in investing activities	 (77,440,033)	 (147,986,933)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments on:		
Short-term bank loans	(54,504)	
Bonds payable	(10,500,000)	(5,000,000)
Long-term bank loans	(1,337,489)	(6,656,152)
Increase (decrease) in guarantee deposits	2,483,549	(351,008)
Cash bonus paid to employees	(3,086,215)	(681,628)
Cash dividends paid for preferred stock		(184,493)
Cash dividends paid for common stock	(46,419,812)	(12,137,190)
Bonus to directors and supervisors	(231,466)	(127,805)
Repurchase of treasury stock		(7,059,798)
Proceeds from:		
Exercise of employee stock options	270,929	3,624
Disposal of treasury stock	899,489	39,906
Increase (decrease) in minority interest in subsidiaries	6,832	(26,160)
 Net cash used in financing activities	 (57,968,687)	 (32,180,704)
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 21,604,334	 (27,016,732)
 <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	 348,921	 (1,669,813)
 <b>EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES</b>	 228,101	
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	 74,302,351	 102,988,896
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 \$ 96,483,707	 \$ 74,302,351
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for		
Interest (excluding the amount capitalized of NT\$278,334 thousand in 2004, Note 7)	\$ 2,435,827	\$ 1,470,333

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Income tax	\$ 341,671	\$ 389,189
Cash paid for acquisition of property, plant and equipment		
Total acquisitions	\$ 56,166,205	\$ 113,043,552
Decrease (increase) in payables to contractors and equipment suppliers	24,361,666	(26,195,599)
Increase in other long-term payables	(649,147)	(5,913,737)
Decrease in liability under capital lease		160,341
	\$ 79,878,724	\$ 81,094,557

(Continued)

	<b>2005</b>	<b>2004</b>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	\$ 5,489	\$ 10,500,000
Current portion of other payables to related parties (classified under payables to related parties)	\$ 693,956	\$ 469,494
Current portion of other long-term payables (classified under accrued expenses and other current liabilities)	\$ 869,072	\$ 1,505,345
Reclassification of long-term investments to short-term investments	\$ 245,587	\$ 343,950
Reclassification of short-term investments to long-term investments	\$	\$ 3,402,413
The accompanying notes are an integral part of the consolidated financial statements.	(Concluded)	

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

**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, 2005 and 2004, TSMC and its subsidiaries had 21,950 and 20,444 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

Significant accounting policies are summarized as follows:

**Principles of Consolidation**

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

In compliance with the revised R.O.C. Statement of Financial Accounting Standards ( SFAS ) No. 7 Consolidated Financial Statements , the consolidated financial statements included new consolidated entities, including Global Unichip Corporation (GUC), Global Unichip Corp.-North America (GUC-NA), Global Unichip Japan Co., Ltd. (GUC-Japan) and VisEra Technology Company, Ltd. (VisEra; due to the changes in investment structure, the Company no longer had a controlling interest over VisEra in November 2005; the consolidated statement of income for the year ended December 31, 2005 included the revenue and expenses of VisEra for the ten months ended October 31, 2005); moreover, pursuant to the newly adopted standard, the Company did not retroactively restate its consolidated financial statements as of and for the year ended December 31, 2004.

The consolidated entities were as follows:

<b>Name of Investor</b>	<b>Name of Investee</b>	<b>Percentage of Ownership at December 31, 2005</b>	<b>Remark</b>
TSMC	TSMC North America (TSMC-NA)	100%	
	TSMC Japan K. K. (TSMC-Japan)	100%	
	Taiwan Semiconductor Manufacturing Company Europe B.V. (TSMC-Europe)	100%	
	TSMC (Shanghai) Company Limited (TSMC-Shanghai)	100%	
	TSMC Partners, Ltd. (TSMC Partners)	100%	
	TSMC International Investment Ltd. (TSMC International)	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, 2005, Chi Cherng held 16,454 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, 2005, Hsin Ruey held 16,484 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%	
	GUC	46%	Starting from January 1, 2005, 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. Please see Note 20 for significant intercompany transactions between TSMC and GUC during 2004.

(Continued)



Name of Investor	Name of Investee	Percentage of Ownership at December 31, 2005	Remark
	VisEra		Starting from January 1, 2005, VisEra became a consolidated entity of TSMC as VisEra's president was assigned by TSMC and TSMC no longer had a controlling interest over the financial, operating and personnel hiring decisions of VisEra. However, due to the changes in investment structure, TSMC no longer had a controlling interest over VisEra beginning in November 2005. As a result, its revenue and expenses after October 31, 2005 were excluded from the consolidated statements of income for the year ended December 31, 2005.
TSMC International	TSMC Technology, Inc. (TSMC Technology)	100%	
	TSMC Development, Inc. (TSMC Development)	100%	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	
	InveStar Semiconductor Development Fund, Inc. (II) LDC (ISDF II)	97%	
TSMC Development GUC	WaferTech, LLC (WaferTech)	99.996%	
	GUC-NA	100%	Starting from January 1, 2005, GUC-NA became a consolidated entity of TSMC as TSMC has control over GUC. TSMC did not enter into significant transactions with GUC-NA in prior years.
	GUC-Japan	100%	Starting from January 1, 2005, GUC-Japan became a consolidated entity of TSMC as TSMC has control over GUC. TSMC did not enter into significant transactions with GUC-Japan in prior years.

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of December 31, 2005:

TSMC-NA is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC-Japan and TSMC-Europe are engaged mainly in marketing activities. TSMC-Shanghai is engaged in the manufacturing and sales of integrated circuits at the order of and pursuant to product design specifications provided by customers. TSMC Partners, TSMC Development, Chi Cherng and Hsin Ruey are engaged in investing activities. TSMC International is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC Technology is engaged mainly in engineering support activities. Emerging Alliance, VTAF II, ISDF and ISDF II are engaged in investing in new start-up technology companies. 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. TSMC together with its consolidated entities are hereinafter referred to collectively as the Company . Minority interest in subsidiaries aforementioned is presented under minority interest in subsidiaries in the consolidated balance sheets.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C. that require management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

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

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

**Cash Equivalents**

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

### **Short-term Investments**

Short-term investments primarily consist of agency bonds, corporate bonds, asset-backed securities, bond funds, government bonds and others.

Short-term investments are recorded at historical cost and are carried at the lower of cost or market value as of the balance sheet date. An allowance for decline in value is provided and is charged to current income when the aggregate carrying amount of the investments exceeds the aggregate market value. A reversal of the allowance is recorded for a subsequent recovery of the aggregate market value.

The costs of funds and public-traded stocks sold are accounted for using the weighted-average method; whereas the costs of other securities sold are accounted for using the specific identification method.

The market value of funds is determined using the net asset value of the funds at the end of the year, and the market value of public-traded stocks is determined using the average-closing prices of the listed stocks for the last month of the year. The market value of other short-term investments is determined using the average of bid and ask prices at the end of the year.

Cash dividends are recorded as investment income in the current year.

### **Allowance for Doubtful Receivables**

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

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

The Company recognizes revenue when evidence of an arrangement exists, shipment is made, price is fixed or determinable, and collectibility is reasonably assured. Revenues from the design and manufacturing of photo masks, which are used as manufacturing tools in the fabrication process, are recognized when the photo masks are qualified by customers. The Company records a provision for estimated future returns and other allowances in the period the related revenue is recorded. Provisions for estimated sales returns and other allowances are generally made based on historical experience, management's judgment, and any known factors that would significantly affect the allowance. Sales are determined using the fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

### **Inventories**

Inventories are stated at the lower of cost or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the balance sheet date. Market value represents replacement cost for raw materials, supplies and spare parts, and net realizable value is used for finished goods and work in process. The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. 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.

### **Long-term Investments**

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

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

Investments in companies wherein the Company does not exercise significant influence are recorded at historical cost. Cash dividends are recognized as investment income in the year received but are accounted for as reductions to the carrying amount of the investments if the dividends are received in the year of acquisition. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income or the carrying amount of the investment. An allowance is recognized for any decline in the market value of investments in publicly traded stocks with readily ascertainable fair market value, with the corresponding amount recorded as an unrealized loss, a component of shareholders' equity. A reversal of the allowance is recorded for a subsequent recovery of the market value of such investment.

Investments in mutual funds are stated at the lower of aggregate cost or net asset value. An allowance is recognized when the net asset value of the funds is lower than their cost, with the corresponding amount recorded as a reduction to shareholders' equity. A reversal of the allowance will result from a subsequent recovery of the net asset value. The costs of stocks and mutual funds sold are determined using the weighted-average method.

Investments in long-term bonds are stated at amortized cost. The discount or premium is amortized over the duration period using the interest method, and the amortization is recorded as an adjustment to interest income.

When investments in public-traded securities are reclassified from short-term investments to long-term investments or from long-term investments to short-term investments, the Company recognizes a loss to the extent, if any, that the market value of such investments is lower than the carrying amount and the market value at the time of reclassification becomes the new basis.

If an investee recognizes an unrealized loss on its long-term investments using the lower-of-cost-or-market method, the Company also recognizes a corresponding unrealized loss in proportion to its ownership percentage in the investee and records the amount as a component of shareholders' equity.

When an indication of impairment is identified in an investment, the carrying amount of the investment is reduced to reflect such other-than-temporary decline, with the related impairment loss charged to current income.

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

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

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

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

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements 20 years; buildings 10 to 50 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 removed from the corresponding accounts, with any gain or loss credited or charged to non-operating gains or losses in the year of sale or disposal.

**Goodwill**

Goodwill represents the excess of the consideration paid for acquisition over the fair market value of identifiable net assets acquired. Goodwill is amortized using the straight-line method over the estimated life of 10 years. If an event occurs or circumstances change that more likely than not reduce the fair value of goodwill below its carrying amount, an impairment loss is charged to current income. No recording of subsequent recovery in the fair value of the goodwill is allowed.

**Deferred Charges**

Deferred charges consist of technology license fees, software and system design costs and other charges. The amounts are amortized as follows: 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 future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

**Pension Costs**

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

### **Income Tax**

The Company uses an inter-period tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, net operating loss carryforwards and unused tax credits.

Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

### **Stock-based Compensation**

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

### **Treasury Stock**

When TSMC repurchases its outstanding common stock, the cost of the reacquired stock is recorded as treasury stock, a reduction to shareholders' equity. When TSMC retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus - additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount. TSMC's stock held by its subsidiaries is treated as treasury stock and reclassified from long-term investments to treasury stock. The gains resulted from the disposal of treasury stock held by the subsidiaries and cash dividends received by the subsidiaries from TSMC are recorded under capital surplus - treasury stock transactions.

### **Foreign-currency Transactions**

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

### **Derivative Financial Instruments**

The Company enters into foreign currency forward contracts to manage foreign exchange exposures on foreign-currency-denominated assets and liabilities. The contracts are 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 are amortized over the terms of the forward contracts using the straight-line method. At the end of the year, the receivables or payables arising from forward contracts are 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 are netted with the resulting amount presented as either an asset or a liability. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

The Company enters into cross currency swap contracts to manage currency exposures on foreign-currency-denominated assets and liabilities. The principal amount is recorded using the current rate 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 are amortized over the terms of the contracts using the straight-line method. At the end of the year, the receivables or payables arising from cross-currency swap contracts are restated using the prevailing exchange rate with the resulting differences credited or charged to income. In addition, the receivables and payables related to the contracts of the same counter party are 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 is recorded as an adjustment to the interest income or expense associated with the hedged items. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

The contract amounts of foreign currency option contracts entered into for hedging purposes are not recognized as an asset or liability on the contract dates. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement.

The Company enters into interest rate swap contracts to manage exposures to changes in interest rates on existing assets or liabilities. The receivable or payable computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as an adjustment to the interest income or expense associated with the hedged items.

### **Translation of Foreign-currency Financial Statements**

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

### **Reclassifications**

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2004 have been reclassified to conform to the consolidated financial statements as of and for the year ended December 31, 2005.

**3. CASH AND CASH EQUIVALENTS**

	<b>2005</b>	<b>2004</b>
Cash and deposits in bank	\$ 48,107,316	\$ 54,608,986
Government bonds acquired under repurchase agreements	47,963,226	19,215,153
Corporate notes	413,165	478,212
	\$ 96,483,707	\$ 74,302,351

**4. SHORT-TERM INVESTMENTS, NET**

	<b>2005</b>	<b>2004</b>
Agency bonds	\$ 14,607,694	\$ 8,633,889
Corporate bonds	12,463,688	13,554,598
Corporate issued asset-backed securities	11,724,149	11,766,877
Bond funds	6,055,578	10,662,758
Government bonds	2,087,418	7,346,858
Public-traded stocks	349,218	168,299
Corporate notes	263,249	63,796
Money market funds	260,686	1,640,973
Government bonds acquired under repurchase agreements		249,449
Commercial papers		95,666
	47,811,680	54,183,163
Allowance for valuation	(412,372)	(75,212)
	\$ 47,399,308	\$ 54,107,951
Market value	\$ 49,137,413	\$ 54,990,545

TSMC 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, 2005, TSMC's investment portfolios managed by these fund managers aggregated to an original amount of US\$1,200,000 thousand. The investment portfolios included securities such as agency bonds, corporate bonds, asset-backed securities, government bonds and others. Securities acquired with maturities less than three months from the date of purchase were reclassified as cash equivalents.

**5. INVENTORIES, NET**

	<b>2005</b>	<b>2004</b>
Finished goods	\$ 2,963,989	\$ 3,526,036
Work in process	13,359,209	11,437,466
Raw materials	1,765,369	993,151
Supplies and spare parts	1,325,582	1,176,735
	19,414,149	17,133,388



Allowance for valuation	(1,685,846)	(1,577,451)
	\$ 17,728,303	\$ 15,555,937

**6. LONG-TERM INVESTMENTS**

	<b>2005</b>		<b>2004</b>	
	<b>Carrying Amount</b>	<b>% of Owner- ship</b>	<b>Carrying Amount</b>	<b>% of Owner- ship</b>
Equity method				
Vanguard International Semiconductor Corporation (VIS)	\$ 5,419,747	27	\$ 5,401,982	28
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	4,215,200	32	3,290,888	32
VisEra Holding Company (VisEra Holding)	652,477	50		
GUC (Note 2)			391,626	47
VisEra			59,116	25
	10,287,424		9,143,612	
Cost method				
Common stocks				
Publicly traded stocks	60,177		71,832	
Non-publicly traded stocks	1,006,203		1,226,499	
Preferred stocks	1,963,971		1,677,865	
Funds	334,990		290,134	
	3,365,341		3,266,330	
Long-term bonds				
Government bonds	9,922,937		10,260,481	
Corporate bonds				
Taiwan Power Company	3,263,348		915,276	
Nan Ya Plastics Corporation	2,150,842		407,526	
China Steel Corporation	1,010,532		2,978,804	
Formosa Petrochemical Corporation	791,963		202,595	
Chinese Petroleum Corporation	705,436			
Far Eastone Telecommunication Co., Ltd.	300,026			
Formosa Plastics Corporation	268,855		405,485	
Formosa Chemical & Fiber Corporation	134,369			
	18,548,308		15,170,167	
Other investments	10,227,000		10,521,740	
	\$ 42,428,073		\$ 38,101,849	

For the years ended December 31, 2005 and 2004, net equity in earnings recognized from the equity method investees was NT\$1,433,226 thousand and NT\$2,094,137 thousand, respectively. The carrying amounts of the investments accounted for under 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 as the Company. In November 2005, the Company transferred all of its shares in VisEra to VisEra Holding Company, an investee accounted for using the equity method of TSMC Partners, due to the changes in investment structure.

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Other investments consisted of the following structured time-deposits:

	<b>Principal Amount</b>	<b>Interest Receivable</b>	<b>Range of Interest Rates</b>	<b>Maturity Date</b>
December 31, 2005				
Step-up callable deposits				
Foreign banks Callable range accrual deposits	\$ 3,000,000	\$ 8,145	1.40%-1.50%	Jun. 2007-Oct. 2007
Foreign banks	7,227,000	9,951	(See below)	Sep. 2009-Jan. 2010
	\$ 10,227,000	\$ 18,096		
December 31, 2004				
Step-up callable deposits				
Domestic banks	\$ 2,000,000	\$ 7,681	2.05%-2.20%	Jul. 2007-Aug. 2007
Foreign banks Callable range accrual deposits	2,138,340	14,054	1.44%-4.75%	Jun. 2007-Aug. 2007
Foreign banks	6,383,400	30,751	(See below)	Sep. 2009-Dec. 2009
	\$ 10,521,740	\$ 52,486		

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

As of December 31, 2005 and 2004, deposits that reside in banks located in Hong Kong amounted to NT\$2,628,000 thousand and NT\$2,553,360 thousand, respectively; those that reside in banks located in Singapore amounted to NT\$657,000 thousand and NT\$638,340 thousand, respectively.

## 7. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Land improvements	\$ 206,408	\$ 172,484
Buildings	46,560,127	38,160,322

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Machinery and equipment	344,431,001	287,204,368
Office equipment	6,862,502	5,683,577
Leased assets	64,569	33,115
	\$ 398,124,607	\$ 331,253,866

There was no capitalized interest for the year ended December 31, 2005. Interest expense for the year ended December 31, 2004 was NT\$1,732,576 thousand (before deducting the amount capitalized of NT\$278,334 thousand); the rates used for calculating the capitalized interest ranged from 1.89% to 2.89%.

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**8. DEFERRED CHARGES, NET**

Deferred charges, net at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Technology license fees	\$ 5,099,227	\$ 6,534,899
Software and system design costs	1,737,384	2,213,636
Other	169,639	243,917
	<b>\$ 7,006,250</b>	<b>\$ 8,992,452</b>

**9. SHORT-TERM BANK LOANS**

Short-term bank loans at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Unsecured loans: US\$10,000 thousand and US\$12,000 thousand in 2005 and 2004, respectively, repayable by June 2006, annual interest at 4.77% and 2.80% in 2005 and 2004, respectively	\$ 328,500	\$ 383,004

**10. LONG-TERM BANK LOANS**

Long-term bank loans at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Unsecured loan: US\$60,000 thousand, repaid before original maturities, annual interest at 2.475% in 2004	\$	\$ 1,915,020
Secured loan: US\$20,000 thousand, repayable by November 2010 in 5 payments, annual interest at 5.01%	656,914	
Science Park Administration (SPA) SOC loan (GUC, Note 2), repayable by July 2008 in 20 payments, interest-free	7,658	
SPA DSP loan (GUC, Note 2), repayable by April 2007 in 20 payments, interest-free	4,057	
	<b>668,629</b>	<b>1,915,020</b>
Current portion	(5,489)	
	<b>\$ 663,140</b>	<b>\$ 1,915,020</b>

As of December 31, 2005, assets of TSMC-Shanghai with a carrying amount aggregating NT\$5,511,456 thousand (RMB1,354,166 thousand) were provided as collateral for the aforementioned secured loan. Pursuant to the loan agreement, the annual audited financial statements of TSMC-Shanghai must maintain certain financial covenants. As of December 31, 2005, TSMC-Shanghai did not violate those financial covenants.

As of December 31, 2005, future principal repayments for the Company's long-term bank loans were as follows:

<b>Year of Repayment</b>	<b>Amount</b>
2006	\$ 5,489
2007	4,137
2008	133,471
2009	262,766
2010	262,766
	\$ 668,629

### **11. BONDS PAYABLE**

Bonds payable at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Domestic unsecured bonds:		
Issued in December 2000 and repayable in December 2005 and 2007 in two installments, 5.25% and 5.36% interest payable annually, respectively	\$ 4,500,000	\$ 15,000,000
Issued in January 2002 and repayable in January 2007, 2009 and 2012 in three installments, 2.60%, 2.75% and 3.00% interest payable annually, respectively	15,000,000	15,000,000
	19,500,000	30,000,000
Current portion		(10,500,000)
	\$ 19,500,000	\$ 19,500,000

As of December 31, 2005, future principal repayments for the Company's bonds were as follows:

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

### **12. OTHER LONG-TERM PAYABLES**

Other long-term payables at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Payables for acquisition of property, plant and equipment (Note 23k)	\$ 7,037,787	\$ 6,030,007
Payables for royalties	2,380,172	3,440,313
	9,417,959	9,470,320
Current portion (classified under accrued expenses and other current liabilities)	(869,072)	(1,505,345)

\$ 8,548,887      \$ 7,964,975

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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, 2005, future payments for the Company's other long-term payables were as follows:

<b>Year of Payment</b>	<b>Amount</b>
2006	\$ 869,072
2007	459,900
2008	262,800
2009	262,800
2010	262,800
2011 and thereafter	7,300,587
	<b>\$ 9,417,959</b>

### **13. PENSION PLAN**

The Labor Pension Act (the Act) became effective on July 1, 2005 and the pension mechanism under the Act is deemed a defined contribution plan. 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 or continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and have chosen to be subject to the pension mechanism under the Act, their seniority as of July 1, 2005 shall be maintained. The Act prescribes that the rate of contribution by an employer to employees' pension accounts per month shall not be less than 6% of each employee's monthly salary. Furthermore, TSMC-Shanghai is required to make contributions to a state-managed retirement plan at a certain ratio of the monthly basic salary of its local employees. Pursuant to the aforementioned Act and regulation, the Company made monthly contributions and recognized pension costs of NT\$280,317 thousand and NT\$7,503 thousand for the years ended December 31, 2005 and 2004, 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 prior to retirement. TSMC and GUC contribute an amount equal to 2% of salaries paid each month to their respective pension fund (the Funds). The Funds are administered by pension fund monitoring committees and deposited in the committees' name in the Central Trust of China.

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

a. Components of net periodic pension cost for the year

	<b>2005</b>	<b>2004</b>
Service cost	\$ 470,886	\$ 632,594
Interest cost	163,854	128,315
Projected return on plan assets	(49,843)	(41,925)
Amortization	8,345	8,300
<b>Net periodic pension cost</b>	<b>\$ 593,242</b>	<b>\$ 727,284</b>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2005 and 2004

	<b>2005</b>	<b>2004</b>
Benefit obligation		
Vested benefit obligation	\$ 62,302	\$ 67,104
Nonvested benefit obligation	3,364,333	2,704,251
Accumulated benefit obligation	3,426,635	2,771,355
Additional benefits based on future salaries	2,550,307	2,132,721
Projected benefit obligation	5,976,942	4,904,076
Fair value of plan assets	(1,691,603)	(1,447,540)
Funded status	4,285,339	3,456,536
Unrecognized net transitional obligation	(126,969)	(132,791)
Unrecognized net loss	(684,429)	(222,549)
Accrued pension cost	\$ 3,473,941	\$ 3,101,196
Vested benefit	\$ 67,752	\$ 76,003

c. Actuarial assumptions

Discount rate used in determining present values	2.75%-3.50%	3.25%
Future salary increase rate	2.00%-3.00%	3.00%
Expected rate of return on plan assets	2.50%-2.75%	3.25%

d. Contributions to the Funds for the year

	\$ 226,181	\$ 226,339
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e. Payments from the Funds for the year

	\$ 8,419	\$ 1,446
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**14. INCOME TAX**

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

	<b>2005</b>	<b>2004</b>
Income tax expense based on income before income tax at statutory rate	\$ 23,658,498	\$ 23,840,497
Tax-exempt income	(12,243,435)	(14,712,500)
Temporary and permanent differences	1,123,735	658,164
Current income tax expense before income tax credits	\$ 12,538,798	\$ 9,786,161

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

	<b>2005</b>	<b>2004</b>
Current income tax expense before income tax credits	\$ 12,538,798	\$ 9,786,161
Additional tax at 10% on unappropriated earnings	1,494,811	823,932
Income tax credits	(10,133,848)	(10,470,862)
Other income tax adjustment	117,314	555,736
Net change in deferred income tax assets		
Net operating loss carryforwards	690,615	1,652,983
Investment tax credits	1,965,878	(234,690)
Temporary differences	(2,402,406)	(1,131,331)
Adjustment in valuation allowance	(3,640,583)	(1,345,355)
Income tax expense (benefit)	\$ 630,579	\$ (363,426)

c. Net deferred income tax assets at December 31, 2005 and 2004 consisted of the following:

	<b>2005</b>	<b>2004</b>
Current deferred income tax assets, net		
Investment tax credits	\$ 7,033,621	\$ 8,849,000
Temporary differences	454,052	319,717
Net operating loss carryforwards	15,825	
Valuation allowance	(354,192)	(250,731)
	<b>\$ 7,149,306</b>	<b>\$ 8,917,986</b>
Non-current deferred income tax assets, net		
Investment tax credits	\$ 17,004,324	\$ 17,035,584
Net operating loss carryforwards	6,261,469	6,735,080
Temporary differences	(5,640,477)	(7,760,152)
Valuation allowance	(10,836,898)	(14,360,533)
	<b>\$ 6,788,418</b>	<b>\$ 1,649,979</b>

As of December 31, 2005, the net operating loss carryforwards pertained to WaferTech, TSMC Development, TSMC Technology and GUC would expire at various dates through 2024.

d. Integrated income tax information:

The balance of the imputation credit account of TSMC as of December 31, 2005 and 2004 was NT\$20,087 thousand and zero, respectively.

The expected and actual creditable ratio of TSMC for distribution of earnings of 2005 and 2004 was 0.02% and 0.11%, respectively.

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

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

f. As of December 31, 2005, investment tax credits of TSMC and GUC consisted of the following:

<b>Law</b>	<b>Item</b>	<b>Total Creditable Amounts</b>	<b>Remaining Creditable Amounts</b>	<b>Expiry Year</b>
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 134,467	\$	2005
		4,886,592	171	2006
		4,138,857	4,054,072	2007
		11,001,974	11,001,974	2008
		4,160,396	4,160,396	2009
		<b>\$ 24,322,286</b>	<b>\$ 19,216,613</b>	



Law	Item	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	\$ 3,145,894	\$	2005
		1,809,841	20,404	2006
		1,421,611	1,421,611	2007
		1,647,252	1,647,252	2008
		1,667,788	1,667,788	2009
		\$ 9,692,386	\$ 4,757,055	
Statute for Upgrading Industries	Personnel training	\$ 29,448	\$	2005
		20,427	46	2006
		26,962	26,962	2007
		37,250	37,250	2008
		19	19	2009
		\$ 114,106	\$ 64,277	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 38,036	\$	2005

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

	Tax-Exemption Period
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 2001.

#### 15. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSES

Year Ended December 31			
	2005 Classified as		2004 Classified as
Classified as	Operating	Classified as	Operating

	<b>Cost of Sales</b>	<b>Expenses</b>	<b>Total</b>	<b>Cost of Sales</b>	<b>Expenses</b>	<b>Total</b>
Labor cost						
Salary	\$ 11,031,464	\$ 6,703,584	\$ 17,735,048	\$ 10,719,632	\$ 5,886,769	\$ 16,606,401
Labor and health insurance	633,790	343,937	977,727	572,210	320,785	892,995
Pension	589,342	295,653	884,995	472,329	271,186	743,515
Other	770,906	551,924	1,322,830	430,777	531,876	962,653
	\$ 13,025,502	\$ 7,895,098	\$ 20,920,600	\$ 12,194,948	\$ 7,010,616	\$ 19,205,564
Depreciation	\$ 68,135,117	\$ 3,250,651	\$ 71,385,768	\$ 61,703,792	\$ 2,563,408	\$ 64,267,200
Amortization	\$ 1,766,702	\$ 2,574,566	\$ 4,341,268	\$ 2,496,827	\$ 3,052,160	\$ 5,548,987

**16. SHAREHOLDERS EQUITY**

TSMC has issued a total of 864,194 thousand ADSs which are traded on the NYSE as of December 31, 2005. The number of common shares represented by the ADSs is 4,320,969 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 issue 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 restricted to a certain percentage of the paid-in capital of TSMC.

As of December 31, 2005 and 2004, the capital surplus consisted of the following:

	<b>2005</b>	<b>2004</b>
From merger	\$ 24,003,546	\$ 24,003,546
Additional paid-in capital	23,254,234	23,051,675
From convertible bonds	9,360,424	9,360,424
From treasury stock transactions	306,868	205
From long-term investments	192,759	121,354
Donations	55	55
	<b>\$ 57,117,886</b>	<b>\$ 56,537,259</b>

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

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve has equaled TSMC's total 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 TSMC equal to 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.

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

Any appropriations of the net profits are recorded in the financial statement in the year of shareholder approval. The appropriation for legal capital reserve shall be made until the reserve equals TSMC's paid-in capital. The reserve can 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 the paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the 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 shareholder's equity (for example, unrealized loss on long-term investments and cumulative translation adjustments, but excluding treasury stock), shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special capital reserve appropriated may be reversed to the extent that the net debit balance reverses.

TSMC's appropriations of earnings for 2004 and 2003 had been approved in the shareholders' meetings held on May 10, 2005 and May 11, 2004, respectively. The appropriations and dividend per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividend Per Share (NT\$)</b>	
	<b>For Fiscal</b>	<b>For Fiscal</b>	<b>For</b>	<b>For</b>
	<b>Year 2004</b>	<b>Year 2003</b>	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2003</b>
Legal capital reserve	\$ 8,820,201	\$ 4,725,870		
Special capital reserve	2,226,427	(68,945)		
Employees' profit sharing in cash	3,086,215	681,628		
Employees' profit sharing in stock	3,086,215	2,726,514		
Cash dividends to preferred shareholders		184,493	\$	\$ 0.35
Cash dividends to common shareholders	46,504,097	12,159,971	2.00	0.60
Stock dividends to common shareholders	11,626,024	28,373,267	0.50	1.41
Bonus to directors and supervisors	231,466	127,805		
	\$ 75,580,645	\$ 48,910,603		

The amounts of the above appropriations of earnings for 2004 and 2003 are consistent with the resolutions of the meetings of the Board of Directors held on February 22, 2005 and February 17, 2004, respectively. However, the Company Law prescribes that TSMC, as a holder of treasury stock shall not participate in the appropriations of earnings. Therefore, the actual cash dividend per share and stock dividend per share are slightly more than those in the aforementioned resolutions. If the above bonus to employee, directors and supervisors had been paid entirely in cash and charged against earnings for 2004 and 2003, the after tax basic earnings per share for the years ended December 31, 2004 and 2003 would have decreased from NT\$3.97 to NT\$3.70 and NT\$2.33 to NT\$2.15, respectively. The shares distributed as a bonus to employees represented 1.33% and 1.35% of TSMC's total outstanding common shares as of December 31, 2004 and 2003, respectively.

As of January 12, 2006, the Board of Directors of TSMC has not resolved the appropriation for earnings of 2005. The above information about the appropriations of bonus to employees, directors and supervisors is available at Market Observation System website.

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

**17. STOCK-BASED COMPENSATION PLANS**

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

Options that had never been granted or had been granted and subsequently cancelled under the TSMC 2003 Plan and TSMC 2002 Plan were expired as of December 31, 2005.

Information about TSMC's outstanding stock options for the years ended December 31, 2005 and 2004 was as follows:

	<b>Number of Options (in Thousands)</b>	<b>Weighted- Average Exercise Prices (NT\$)</b>
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
Year ended December 31, 2004		
Balance, beginning of year	49,357	43.0
Options granted	20,400	47.3
Options exercised	(87)	41.8
Options cancelled	(5,303)	45.9
Balance, end of year	64,367	44.1

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



As of December 31, 2005, information about TSMC's 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\$)
\$29.9-\$42.1	45,787	7.10	\$ 38.73	27,143	\$ 38.59
\$47.0-\$54.5	21,971	8.82	49.20	327	54.50
	67,758			27,470	

GUC's Employee Stock Option Plans, consisting of GUC 2003 Plan and GUC 2002 Plan, were approved by its Board of Directors on January 23, 2003 and July 1, 2002, respectively. The maximum number of options authorized to be granted under the GUC 2003 Plan and GUC 2002 Plan was 7,535 and 5,000, respectively, with each option eligible to subscribe for one thousand common shares when exercisable. The options may be granted to qualified employees of GUC. The options of all the plans are valid for six years and exercisable in accordance with the plans subsequent to the second anniversary of the grant date. As of December 31, 2005, all of the options under the aforementioned plans had been granted or were expired.

Moreover, GUC 2004 Plan was approved by the SFB on August 16, 2004 to grant a maximum of 2,500 options, 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 GUC 2004 Plan are valid for six years and exercisable in accordance with the plan subsequent to the second anniversary of the grant date.

Information about GUC's outstanding stock options for the years ended December 31, 2005 and 2004 was as follows:

	Number of Options	Weighted- Average Exercise Prices (NT\$)
Year ended December 31, 2005		
Balance, beginning of year	7,889	\$ 10.50
Options granted	2,499	10.96
Options exercised	(2,641)	10.50
Options cancelled	(615)	10.57
Balance, end of year	7,132	10.66

Year ended December 31, 2004

Balance, beginning of year	7,058	10.50
Options granted	831	10.50
Balance, end of year	7,889	10.50

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As of December 31, 2005, information about GUC's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Number of Options	Options Outstanding		Options Exercisable	
		Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options	Weighted- average Exercise Price (NT\$)
\$10.50-\$10.96	7,132	2.58-5.75	\$10.66	3,890	\$10.50

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2005 and 2004 for TSMC and GUC. 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, 2005 and 2004 would have been as follows:

		2005	2004
Assumptions:			
TSMC	Expected dividend yield	1.00%-3.44%	1.00%
	Expected volatility	43.77%-46.15%	43.77%-46.15%
	Risk free interest rate	3.07%-3.85%	3.07%-3.85%
	Expected life	5 years	5 years
GUC	Expected dividend yield		
	Expected volatility	22.65%-28.02%	38.74%-41.74%
	Risk free interest rate	2.56%	2.56%
	Expected life	6 years	6 years
Net income attributable to shareholders of the parent:			
As reported		\$93,575,035	\$92,316,115
Pro forma		93,456,533	92,257,355
Consolidated earnings per share (EPS) after income tax (NT\$):			
Basic EPS as reported		\$ 3.79	\$ 3.73
Pro forma basic EPS		3.79	3.73
Diluted EPS as reported		3.79	3.73
Pro forma diluted EPS		3.78	3.73

The estimated weighted average fair value per unit of option granted during the years ended December 31, 2005 and 2004 under the TSMC plans was NT\$17.69 and NT\$19.73, respectively. The estimated weighted average fair value per unit of option (eligible to subscribe for one thousand common shares) granted during the years ended December 31, 2005 and 2004 under the GUC plans was NT\$3.32 thousand and NT\$3.86 thousand, respectively.

**18. TREASURY STOCK (COMMON STOCK)**

(Shares in Thousands)

	<b>Beginning Shares</b>	<b>Increase /Stock Dividend</b>	<b>Disposal</b>	<b>Ending Shares</b>
Year ended December 31, 2005				
Reclassification of parent company stock held by subsidiaries from long-term investments	45,521	2,242	14,825	32,938
Year ended December 31, 2004				
Reclassification of parent company stock held by subsidiaries from long-term investments	40,597	5,676	752	45,521
Repurchase under share buyback plan		124,720	124,720	
	40,597	130,396	125,472	45,521

Proceeds from disposal of treasury stock for the years ended December 31, 2005 and 2004 were NT\$899,489 thousand and NT\$39,906 thousand, respectively. As of December 31, 2005 and 2004, the book value of the treasury stock was NT\$918,075 thousand and NT\$1,595,186 thousand, respectively; the market value was NT\$2,047,126 thousand and NT\$2,241,009 thousand, respectively. TSMC's stocks held by its subsidiaries are treated as treasury stock and the holders are entitled to the rights of shareholders, except that starting from June 24, 2005, pursuant to the revised Company Law, the holders are no longer entitled to the right to vote.

TSMC held a special meeting of the Board of Directors and approved a share buyback plan to repurchase its common shares listed on the TSE during the period from March 24, 2004 to May 23, 2004. TSMC repurchased 124,720 thousand common shares for a total cost of NT\$7,059,798 thousand. All the treasury stock repurchased under the buyback plan was retired on August 16, 2004.

**19. CONSOLIDATED EARNINGS PER SHARE**

Consolidated EPS is computed as follows:

	<b>Amounts (Numerator)</b>		<b>Number of Shares (Denominator) (in Thousands)</b>	<b>Consolidated EPS (NT\$)</b>	
	<b>Before Tax</b>	<b>After Tax</b>		<b>Before Tax</b>	<b>After Tax</b>
Year ended December 31, 2005					
Consolidated basic EPS					
Income available to shareholders of the parent	\$ 94,205,614	\$ 93,575,035	24,679,947	\$ 3.82	\$ 3.79

Effect of dilutive potential common stock    stock options						13,165
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Consolidated diluted EPS Income available to shareholders of the parent (including the effect of dilutive potential common stock)	\$ 94,205,614	\$ 93,575,035	24,693,112	\$ 3.82	\$ 3.79
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(Continued)



	Amounts (Numerator)		Number of Shares	Consolidated EPS (NT\$)	
	Before Tax	After Tax	(Denominator)	Before Tax	After Tax
			(in Thousands)		
Year ended December 31, 2004					
Consolidated basic EPS Income available to shareholders of the parent	\$ 91,952,689	\$ 92,316,115	24,717,531	\$ 3.72	\$ 3.73
Effect of dilutive potential common stock stock options			6,484		
Consolidated diluted EPS Income available to shareholders of the parent (including the effect of dilutive potential common stock)	\$ 91,952,689	\$ 92,316,115	24,724,015	\$ 3.72	\$ 3.73

## 20. RELATED PARTY TRANSACTIONS

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

- Industrial Technology Research Institute (ITRI), the chairman of TSMC is one of its directors
- Philips, a major shareholder of TSMC
- Investees of the TSMC

VIS (accounted for using equity method)

SSMC (accounted for using equity method)

GUC (with controlling financial interest and was consolidated with significant transactions eliminated in 2005)

- Indirect investee

VisEra, originally an investee over which TSMC had control; starting from November 2005, VisEra became an indirect investee accounted for using the equity method due to the changes in investment structure.

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

	2005		2004	
	Amount	%	Amount	%
For the year				
Sales				
Philips	\$ 3,298,770	1	\$ 5,463,565	2
GUC			371,546	

Others	492,683		440,736	
	\$ 3,791,453	1	\$ 6,275,847	2

(Continued)

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	2005		2004	
	Amount	%	Amount	%
Purchases				
SSMC	\$ 5,729,672	4	\$ 5,869,123	4
VIS	4,142,457	3	9,169,602	7
	\$ 9,872,129	7	\$ 15,038,725	11
Manufacturing expenses technical assistance fee (Note 23a)				
Philips	\$ 581,059		\$ 907,047	1
General and administrative expenses rental expenses				
GUC	\$		\$ 13,186	
Research and development expenses				
GUC	\$		\$ 11,688	
Proceeds from disposal of property, plant and equipment				
VisEra	\$ 534,279	60	\$	
VIS			33,974	2
	\$ 534,279	60	\$ 33,974	2
Non-operating income and gains				
SSMC (primarily for technical service income, see Note 23e)	\$ 316,243	4	\$ 364,505	6
VisEra	308,071	4	28,917	
VIS (primarily for technical service income, see Note 23j)	210,720	3	117,760	2
	\$ 835,034	11	\$ 511,182	8
At end of year				
Receivables				
Philips	\$ 573,565	83	\$ 581,487	89

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VisEra	99,401	14		
ITRI	20,300	3	16,453	2
GUC			56,437	9
	\$ 693,266	100	\$ 654,377	100

Other receivables

VisEra	\$ 374,202	63	\$ 30,278	21
SSMC	149,251	25	63,701	45
VIS	74,457	12	47,599	34
	\$ 597,910	100	\$ 141,578	100

(Continued)

	2005		2004	
	Amount	%	Amount	%
Payables				
Philips	\$ 693,956	40	\$ 469,494	21
VIS	563,240	32	1,533,938	69
SSMC	485,873	28	207,794	10
GUC			6,589	
	\$ 1,743,069	100	\$ 2,217,815	100
Other long-term payables				
Philips	\$ 1,100,475	100	\$ 2,317,972	100
Deferred credits				
VisEra	\$ 186,525	14	\$	

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

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

## 21. SIGNIFICANT LONG-TERM LEASES

TSMC and GUC lease 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.

TSMC-NA leases its office premises and certain equipment under non-cancelable operating leases. TSMC-Japan has also entered into lease agreements for its office premises. These operating leases expire between 2010 and 2011 and can be renewed upon expiration.

As of December 31, 2005, future lease payments were as follows:

Year	Amount
2006	\$ 371,165
2007	361,511
2008	338,995
2009	333,727
2010	267,089
2011 and thereafter	1,129,301
	\$ 2,801,788

## 22. SETTLEMENT INCOME

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

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### 23. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Company as of December 31, 2005 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 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, TSMC shall reserve and allocate up to 35% of certain of its production capacity for use by the Ministry of Economic Affairs (MOEA) or any other party designated by the MOEA. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. The agreement was automatically renewed in 1992 and 1997 and on January 1, 2002.
- c. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2005, TSMC had a total of US\$87,660 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, for the purpose of constructing an integrated circuit foundry in Singapore. TSMC's equity interest in SSMC was 32%. TSMC and Philips committed to buy specific percentages of the production capacity of SSMC. TSMC and Philips are required, in the aggregate, to purchase up to 70% of SSMC's full capacity, but TSMC alone is not required to purchase more than 28% of the annual installed capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its total capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- e. TSMC provides technical services to SSMC under a Technology 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 notice for early termination under certain conditions. In January 2003, TSMC and National entered into a Termination Agreement whereby the TTA was terminated for convenience. 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. Beginning in 2001, TSMC entered into several licensing arrangements for certain semiconductor patents. The terms of the contracts vary with payments to be made in the form of royalties. TSMC has recorded the related

amounts as a liability with the corresponding amounts recorded as deferred charges which are amortized and charged to cost of sales on a straight-line basis over the estimated life of the technology or the term of the contract, whichever is shorter.

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- h. In November 2002, TSMC entered into an Amended and Restated Joint Technology Cooperation Agreement with Philips, Freescale Semiconductor, Inc. and STMicroelectronics to jointly develop 90-nm to 65-nm advanced CMOS Logic and e-DRAM technologies. TSMC also agreed to align 0.12 micron CMOS Logic technology to enhance its foundry business opportunities. TSMC will contribute process technologies and share a portion of the costs associated with this joint development project. This agreement expired on December 31, 2005.
- i. 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.
- j. 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.
- 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 counterparty.
- l. Amounts available under unused letters of credit as of December 31, 2005 were NT\$6,480 thousand.

#### **24. 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 real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: None;
- f. Disposal of 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 5 attached;
- h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Please see Table 7 attached;



- j. Financial instrument transactions:  
 1) Derivative financial instruments

The Company entered into derivative financial instrument transactions in the years ended December 31, 2005 and 2004 to manage exposures related to foreign exchange rate and interest rate fluctuations. Certain information on these contracts was as follows:

- a) Outstanding forward exchange contracts as of December 31, 2005 and 2004:

<b>Financial Instruments</b>	<b>Currency</b>	<b>Maturity</b>	<b>Contract Amount (in Thousands)</b>
December 31, 2005			
Sell	US\$/NT\$	Jan. 2006	US\$ 60,000
December 31, 2004			
Sell	US\$/NT\$	Jan. 2005 to Mar. 2005	US\$ 733,000
Sell	US\$/EUR	Jan. 2005	US\$ 159,081

As of December 31, 2005 and 2004, receivables resulted from forward exchange contracts (classified under current assets) aggregated NT\$26,720 thousand and NT\$392,534 thousand, respectively. As of December 31, 2004, payables resulted from forward exchange contracts (classified under current liabilities) aggregated NT\$559 thousand.

- b) Cross currency swap contracts

Outstanding cross currency swap contracts as of December 31, 2005 and 2004 were as follows:

<b>Maturity Date</b>	<b>Contract Amount (in Thousands)</b>	<b>Range of Interest Rate Paid</b>	<b>Range of Interest Rate Received</b>
December 31, 2005			
Jan. 2006 to Mar. 2006	US\$ 2,089,000	4.15%-4.54%	0.02%-2.12%
December 31, 2004			
January 2005 to June 2005	US\$ 1,420,000	1.28%-2.72%	0.49%-1.17%

As of December 31, 2005 and 2004, receivables resulted from cross currency swap contracts (classified under current assets) were NT\$1,119,905 thousand and NT\$761,030 thousand, respectively.

- c) Option contracts

As of December 31, 2005, the Company did not have any outstanding foreign currency option contract. The Company did not enter into any foreign currency option contract in the year ended December 31, 2004.

During the years ended December 31, 2005 and 2004, the net exchange gain or loss arising from forward exchange contracts, cross currency swap contracts and foreign currency option contracts was recognized in the foreign exchange gain/loss, net account and the difference in interest was recorded in interest income/expense.

d) Interest rate swap contracts

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 was recognized in the interest expense account. There was no outstanding contract as of December 31, 2005.

Outstanding contracts as of December 31, 2004 were as follows:

<b>Contract Date</b>	<b>Period</b>	<b>Notional Amount (in Thousands)</b>
Sep. 2003	Sep. 2003 to Dec. 2005	NT\$500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Oct. 2003	Oct. 2003 to Dec. 2005	500,000
Nov. 2003	Nov. 2003 to Dec. 2005	500,000

e) Transaction risk

i) Credit risk. Credit risk represents the positive net settlement amount of those contracts with positive fair values at the balance sheet date. The positive net settlement amount represents the loss to be incurred by the Company if the counter-parties breached the contracts. The banks, which are the counter-parties to the foregoing derivative financial instruments, are reputable financial institutions. Management believes its exposure related to the potential default by those counter-parties is low.

ii) Market price risk. All derivative financial instruments are intended as hedges for fluctuations in foreign exchange rates and interest rates. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items. Thus, market price risk is believed to be low.

iii) Cash flow risk and the amount and period of future cash needs.

As of December 31, 2005, the Company's future cash needs for outstanding forward exchange contracts and cross currency swap contracts were as follows:

<b>Term</b>	<b>Inflow (In Thousands)</b>	<b>Outflow (In Thousands)</b>
Within one year	NT\$71,820,892	US\$2,149,000

The Company has sufficient operating capital to meet the above cash needs. In addition, there will be corresponding cash inflow for the cash outflow. Therefore, the cash flow risk is low.

2) Fair values of financial instruments were as follows:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Short-term investments, net	\$47,399,308	\$49,137,413	\$54,107,951	\$54,990,545
Long-term investments (securities with market price)	34,273,328	39,678,791	31,165,721	34,265,072
Liabilities				
Bonds payable (including current portion)	19,500,000	19,924,923	30,000,000	30,607,341
Derivative financial instruments				
Assets (liabilities)				
Forward exchange contracts (sell)	26,720	28,474	391,975	317,090
Cross currency swap contracts	1,119,905	789,903	761,030	760,012
Interest rate swap contracts			4,361	(22,714)

The above financial instruments do not include cash and cash equivalents, receivables, other financial assets, short-term bank loans, payables, and payable to contractors and equipment suppliers. The carrying amounts of the aforementioned financial instruments reported in the balance sheet approximate their fair values.

The above financial instruments also exclude refundable deposits, guarantee deposits, long-term investments that do not have quoted market prices, long-term bank loans as well as other long-term payables. The future cash inflow and outflow of the deposits approximate their fair values. Some of the long-term investments do not have quoted market prices; therefore, fair values for those long-term investments are not shown above. The fair value of long-term bank loans with floating interest rates is their carrying amount. The fair value of long-term bank loans with fixed interest rates is the present value of expected cash flows discounted using the interest rate the Company may obtain for similar long-term bank loans. The fair value of other long-term payables is determined using the discounted value of expected cash flows, which approximates their carrying amount.

Fair values of financial instruments were determined as follows:

- a) Fair value of short-term and publicly traded long-term investments is based on quoted market prices.
- b) Fair value of bonds payable is based on their quoted market price.
- c) Fair value of derivative financial instruments is the amount receivable from or payable to the counter-party if the contracts were terminated on the balance sheet date.

The fair values of some financial and non-financial instruments were not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not represent the fair value of the Company as a whole.

k. Information on investment in Mainland China

- 1) The name of the investee company in Mainland China, main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net earnings or loss, ending balance, earnings distributed by the investee,

and the limitation on investment: Please see Table 8 attached.

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2) Significant direct or indirect transactions with the investee company, their 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 statements: Please see Table 9 attached.

1. Intercompany relationships and significant intercompany transactions: Please see Table 9 attached.

## 25. 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:

	<b>North America and Others</b>	<b>Taiwan</b>	<b>Adjustments and Elimination</b>	<b>Consolidated</b>
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				7,067,497
Non-operating expenses and losses				(3,772,809)
Income before income tax				\$ 94,263,247
Net income attributable to minority interest				\$ 57,633
Identifiable assets	\$ 92,904,411	\$ 430,038,385	\$ (45,861,280)	\$ 477,081,516
Long-term investments				42,428,073
Total assets				\$ 519,509,589
2004				

Sales to other than consolidated entities	\$ 143,801,130	\$ 113,411,488	\$	\$ 257,212,618
Sales among consolidated entities	15,657,797	142,580,939	(158,238,736)	
Total sales	\$ 159,458,927	\$ 255,992,427	\$ (158,238,736)	\$ 257,212,618

(Continued)

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	<b>North America and Others</b>	<b>Taiwan</b>	<b>Adjustments and Elimination</b>	<b>Consolidated</b>
Gross profit	\$ 6,173,780	\$ 110,160,584	\$ (515,181)	\$ 115,819,183
Operating expenses				(27,337,509)
Non-operating income and gains				6,015,558
Non-operating expenses and losses				(2,531,645)
Income before income tax				\$ 91,965,587
Net income attributable to minority interest				\$ 12,898
Identifiable assets	\$ 89,000,906	\$ 416,076,665	\$ (43,725,329)	\$ 461,352,242
Long-term investments				38,101,849
Total assets				\$ 499,454,091

c. Export sales

The export sales for the years ended December 31, 2005 and 2004 were as follows:

<b>Area</b>	<b>2005</b>	<b>2004</b>
Asia	\$ 64,942,647	\$ 57,321,557
Europe and others	15,932,575	26,067,317
	\$ 80,875,222	\$ 83,388,874

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

d. Major customer

The Company only had one customer to which the net sales accounts for at least 10% of its total net sales in the year ended December 31, 2005 and 2004. The net sales to such customer amounted to NT\$29,258,338 thousand and NT\$25,299,856 thousand in the years ended December 31, 2005 and 2004, representing 11% and 10% of its total net sales, respectively.

**TABLE 1****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES  
FINANCING PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Counter-party	Financial Statement Account	Maximum Balance for the	Ending Balance (US\$ in Thousands)	Interest Rate	Type of Financing (Note 1)	Reasons for Short-term Financing Amounts	Allowance for Collateral Bad Debt
		Period (US\$ in Thousands)					
TSMC Development	Other receivables	\$1,971,000 (US\$ 60,000)	\$1,149,750 (US\$ 35,000)	1.50%	2	\$ Operating capital	\$
TSMC Development	Other receivables	2,628,000 (US\$ 80,000)		1.50%	2	Operating capital	

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

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

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

**TABLE 2**

**TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES**  
**ENDORSEMENT/GUARANTEE PROVIDED**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Endorser/Provider	Counter-party Name	Relationship (Note 2)	Nature of Limits on Each Counter-party's Endorsement/Guarantee Amounts	Maximum Balance for the Period (US\$ in Thousands)	Ending Balance (US\$ in Thousands)	Ratio of Accumulated Amount of Collateral Value to Net of Equity Collateral of the Collateral Property, Plant and Equipment
						Latest Financial Statement
Company	TSMC-North America	2	Not exceed 10% of the net worth of the Company, and be also limited to the paid-in capital of the endorsement/guarantee company, unless otherwise approved by Board of Directors.	\$1,314,000 (US\$ 40,000)	\$1,314,000 (US\$ 40,000)	\$ 0.29% \$
	TSMC Development	3		1,971,000 (US\$ 60,000)		

Note 1: 25% of the net worth of the Company as of December 31, 2005.

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

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

**TABLE 3****TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES  
MARKETABLE SECURITIES HELD****DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

				<b>December 31, 2005</b>	
				<b>Carrying Value</b>	<b>Ne</b>
				<b>(US\$ in</b>	<b>Percentage</b>
				<b>Thousands)</b>	<b>of</b>
				<b>(in</b>	<b>Ownership</b>
				<b>Thousands)</b>	<b>Ownership</b>
<b>Marketable Securities Type and Name</b>	<b>Relationship with the Company</b>	<b>Financial Statement Account</b>	<b>Shares/Units (in Thousands)</b>	<b>(US\$ in Thousands)</b>	<b>Percentage of Ownership</b>
<b>Government bonds</b>					
United States Treas Nts		Short-term investment		US\$ 47,516	N/A
Kreditanstal Fur Wiederaufbau		Short-term investment		US\$ 6,881	N/A
2004 Government Bond Series E		Short-term investment		\$ 300,472	N/A
2002 Government Bond Series B		Long-term investment		355,936	N/A
2002 Government Bond Series F		Long-term investment		149,441	N/A
2004 Government Bond Series A		Long-term investment		2,349,973	N/A
2004 Government Bond Series E		Long-term investment		3,898,610	N/A
2004 Kaohsiung Municipal Bond Series A		Long-term investment		620,000	N/A
2005 Government Bond Series A		Long-term investment		2,548,977	N/A
<b>Bond funds</b>					
JF Taiwan First Bond Fund		Short-term investment	63,131	856,359	N/A
ABN AMRO Bond Fund		Short-term investment	134,906	1,956,175	N/A
JF Taiwan Bond Fund		Short-term investment	62,009	908,656	N/A
Dresdner Bond DAM Fund		Short-term investment	69,303	771,617	N/A
Shinkong Chi Shin Bond Fund		Short-term investment	55,063	762,771	N/A
NITC Bond Fund		Short-term investment	3,764	600,000	N/A
ABN AMRO Select Bond Fund		Short-term investment	18,235	200,000	N/A
<b>Stock</b>					
Taiwan Mask Corp.		Short-term investment	1,439	5,257	
TSMC International	Subsidiary	Long-term investment	987,968	23,912,812	100
VIS	Investee accounted for using equity method	Long-term investment	437,891	5,419,747	27
SSMC	Investee accounted for using equity method	Long-term investment	382	4,215,200	32
TSMC Partners	Subsidiary	Long-term investment	300	4,091,166	100
TSMC-North America	Subsidiary	Long-term investment	11,000	1,790,186	100
GUC	Investee with controlling financial interest	Long-term investment	40,147	442,233	46
TSMC-Japan	Subsidiary	Long-term investment	6	94,949	100

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TSMC-Europe	Subsidiary	Long-term investment		23,087	100
United Industrial Gases Co., Ltd.		Long-term investment	16,783	193,584	10
Shin-Etsu Handotai Taiwan Co., Ltd.		Long-term investment	10,500	105,000	7
				(Continued)	

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Marketable Securities Type and Name	Company	Relationship with the Financial Statements	Account	Shares/Units (in Thousands)	December 31, 2005		Market or Net A Val (US\$)
					Carrying Value (US\$ in Thousands)	Percentage of Ownership	
Hontung Venture Capital Co., Ltd.			Long-term investment	8,392	\$ 83,916	10	\$ 4
Gobaltop Partner I Venture Capital Corp.			Long-term investment	5,000	50,000	1	4
W.K. Technology Fund IV			Long-term investment	4,000	40,000	2	4
Capital							
TSMC-Shanghai	Subsidiary		Long-term investment		9,438,856	100	9,438,856
Emerging Alliance	Subsidiary		Long-term investment		850,534	99	850,534
VTAF II	Subsidiary		Long-term investment		642,479	98	642,479
Chi Cherng	Subsidiary		Long-term investment		78,139	36	53,000
Hsin Ruey	Subsidiary		Long-term investment		77,415	36	53,000
Corporate bonds							
Abbott Labs			Short-term investment		US\$ 1,581	N/A	US\$ 1,581
Abbott Labs			Short-term investment		US\$ 2,732	N/A	US\$ 2,732
Ace Ltd.			Short-term investment		US\$ 1,046	N/A	US\$ 1,046
AIG Sunamerica Global Fing Ix			Short-term investment		US\$ 1,032	N/A	US\$ 1,032
Allstate Life Global Fdg Secd			Short-term investment		US\$ 2,998	N/A	US\$ 2,998
Alltel Corp.			Short-term investment		US\$ 609	N/A	US\$ 609
American Express Co.			Short-term investment		US\$ 3,550	N/A	US\$ 3,550
American Gen Fin Corp.			Short-term investment		US\$ 1,768	N/A	US\$ 1,768
American Gen Fin Corp. Mtn			Short-term investment		US\$ 1,058	N/A	US\$ 1,058
American Gen Fin Corp. Mtn			Short-term investment		US\$ 3,130	N/A	US\$ 3,130
American Honda Fin Corp. Mtn			Short-term investment		US\$ 3,800	N/A	US\$ 3,800
Ameritech Capital Funding Co.			Short-term investment		US\$ 510	N/A	US\$ 510

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Amgen Inc.	Short-term investment	US\$	3,005	N/A	US\$
Amsouth Bk Birmingham Ala	Short-term investment	US\$	1,972	N/A	US\$
Anz Cap Tr I	Short-term investment	US\$	1,012	N/A	US\$
Associates Corp. North Amer	Short-term investment	US\$	2,700	N/A	US\$
Bank New York Inc.	Short-term investment	US\$	1,972	N/A	US\$
Bank New York Inc.	Short-term investment	US\$	1,525	N/A	US\$
Bank Scotland Treas Svcs Plc	Short-term investment	US\$	2,715	N/A	US\$
Bank Utd Houston Tx Mtn	Short-term investment	US\$	580	N/A	US\$
Bear Stearns Cos Inc.	Short-term investment	US\$	3,329	N/A	US\$
Bear Stearns Cos Inc.	Short-term investment	US\$	3,757	N/A	US\$
Beneficial Corp. Mtn Bk Entry	Short-term investment	US\$	2,434	N/A	US\$
Berkshire Hathaway Fin Corp.	Short-term investment	US\$	1,498	N/A	US\$
Cargill Inc.	Short-term investment	US\$	2,120	N/A	US\$
Caterpillar Finl Svcs Mtn	Short-term investment	US\$	5,721	N/A	US\$
Chase Manhattan Corp. New	Short-term investment	US\$	1,628	N/A	US\$
Chase Manhattan Corp. New	Short-term investment	US\$	2,246	N/A	US\$
Chubb Corp.	Short-term investment	US\$	2,138	N/A	US\$

(Continued)

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December 31, 2005

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	Carrying Value	Percentage of Ownership
				(US\$ in Thousands)	
at Group Hldgs Inc.		Short-term investment		US\$3,203	N/A
ticorp		Short-term investment		US\$1,473	N/A
ogentrix Energy Inc.		Short-term investment		US\$2,885	N/A
olonial Pipeline Co.		Short-term investment		US\$1,625	N/A
orestates Cap Corp.		Short-term investment		US\$1,062	N/A
ountrywide Fdg Corp. Mtn		Short-term investment		US\$2,100	N/A
ountrywide Home Lns Inc.		Short-term investment		US\$5,210	N/A
redit Suisse Fb USA Inc.		Short-term investment		US\$4,141	N/A
redit Suisse Fincl Products		Short-term investment		US\$1,507	N/A
redit Suisse First Boston		Short-term investment		US\$ 786	N/A
redit Suisse First Boston USA		Short-term investment		US\$2,249	N/A
aimlerchrysler North Amer		Short-term investment		US\$ 997	N/A
aimlerchrysler North Amer Hld		Short-term investment		US\$ 749	N/A
ayton Hudson Corp.		Short-term investment		US\$2,104	N/A
eeere John Cap Corp.		Short-term investment		US\$5,079	N/A
ell Computer Corp.		Short-term investment		US\$3,054	N/A
en Danske Bk Aktieselskab		Short-term investment		US\$2,192	N/A
iageo Plc		Short-term investment		US\$3,459	N/A
ow Chem Co.		Short-term investment		US\$ 921	N/A
uropean Invt Bk		Short-term investment		US\$3,918	N/A
uropean Invt Bk		Short-term investment		US\$8,315	N/A
ifth Third Bk Cincinnati OH		Short-term investment		US\$2,419	N/A
rst Data Corp.		Short-term investment		US\$3,013	N/A
reet Boston Corp.		Short-term investment		US\$2,850	N/A
reet Finl Group Inc. New		Short-term investment		US\$ 975	N/A
reet Finl Group Inc. New		Short-term investment		US\$ 494	N/A
ol Group Cap Inc.		Short-term investment		US\$1,001	N/A
ol Group Cap Inc.		Short-term investment		US\$ 860	N/A
annett Co Inc.		Short-term investment		US\$2,999	N/A
eneral Elec Cap Corp. Mtn		Short-term investment		US\$3,989	N/A
eneral Elec Cap Corp. Mtn		Short-term investment		US\$8,862	N/A
eneral Re Corp.		Short-term investment		US\$3,500	N/A
enworth Finl Inc.		Short-term investment		US\$3,412	N/A
oldman Sachs Group Inc.		Short-term investment		US\$4,981	N/A
oldman Sachs Group Inc.		Short-term investment		US\$3,477	N/A
oldman Sachs Group LP		Short-term investment		US\$1,637	N/A
reenpoint Finl Corp.		Short-term investment		US\$ 974	N/A
te Corp.		Short-term investment		US\$2,134	N/A
ancock John Global Fdg II Mtn		Short-term investment		US\$3,566	N/A
ancock John Global Fdg Mtn		Short-term investment		US\$1,003	N/A
artford Finl Svcs Group Inc.		Short-term investment		US\$ 296	N/A
artford Finl Svcs Group Inc.		Short-term investment		US\$1,435	N/A



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bos Plc Medium Term Sr Nts	Short-term investment	US\$3,201	N/A
bos Plc Meduim Term Sr Nts	Short-term investment	US\$2,977	N/A
eller Finl Inc.	Short-term investment	US\$2,071	N/A

(Continued)

December 31, 2005

Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (in Thousands)	Carrying Value (US\$ in Thousands)	Percentage of Ownership
Hershey Foods Corp.		Short-term investment		US\$1,627	N/A
Hewlett Packard Co.		Short-term investment		US\$3,373	N/A
Honeywell Inc.		Short-term investment		US\$3,284	N/A
Household Fin Corp.		Short-term investment		US\$2,993	N/A
Household Fin Corp.		Short-term investment		US\$ 532	N/A
Household Intl Inc.		Short-term investment		US\$2,878	N/A
HSBC Fin Corp Mtn		Short-term investment		US\$5,097	N/A
HSBC USA Inc. New		Short-term investment		US\$1,154	N/A
Huntington Natl Bk Columbus OH		Short-term investment		US\$2,954	N/A
ING Bank		Short-term investment		US\$2,114	N/A
ING Sec Life Instl Fdg		Short-term investment		US\$2,544	N/A
International Business Machs		Short-term investment		US\$2,249	N/A
International Lease Fin Corp.		Short-term investment		US\$2,031	N/A
Intl Lease Fin Corp. Mtn		Short-term investment		US\$3,028	N/A
Intl Lease Fin Corp. Mtn		Short-term investment		US\$2,471	N/A
JP Morgan Chase + Co.		Short-term investment		US\$3,406	N/A
Jackson Natl Life Global Fdg		Short-term investment		US\$1,036	N/A
Jackson Natl Life Global Fdg S		Short-term investment		US\$1,999	N/A
JP Morgan Chase + Co.		Short-term investment		US\$3,663	N/A
Key Bk Na Med Term Nts Bk Entr		Short-term investment		US\$4,450	N/A
Keycorp Mtn Book Entry		Short-term investment		US\$3,500	N/A
Kraft Foods Inc.		Short-term investment		US\$ 773	N/A
Kraft Foods Inc.		Short-term investment		US\$1,037	N/A
Lehman Brothers Hldgs Inc.		Short-term investment		US\$1,668	N/A
Lehman Brothers Hldgs Inc.		Short-term investment		US\$ 499	N/A
Lehman Brothers Hldgs Inc.		Short-term investment		US\$1,163	N/A
Lincoln Natl Corp. In		Short-term investment		US\$ 519	N/A
Merita Bk Ltd. Ny Brh		Short-term investment		US\$ 538	N/A
Merrill Lynch + Co. Inc.		Short-term investment		US\$3,486	N/A
Merrill Lynch + Co. Inc.		Short-term investment		US\$1,992	N/A
Merrill Lynch + Co. Inc.		Short-term investment		US\$4,900	N/A
Metropolitan Life Global Mtn		Short-term investment		US\$1,907	N/A
Monumental Global Fdg II		Short-term investment		US\$1,534	N/A
Monumental Global Fdg II 2002A		Short-term investment		US\$1,045	N/A
Morgan Stanley		Short-term investment		US\$2,144	N/A
Morgan Stanley Group Inc.		Short-term investment		US\$4,507	N/A
National City Corp.		Short-term investment		US\$3,426	N/A
National Westminster Bk Plc		Short-term investment		US\$1,433	N/A
Nationwide Bldg Soc		Short-term investment		US\$3,457	N/A
Nationwide Bldg Soc Mtn		Short-term investment		US\$3,000	N/A

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Nationwide Life Global Mtn	Short-term investment	US\$1,463	N/A
Pepsico Inc. Mtn Book Entry	Short-term investment	US\$3,818	N/A
Pnc Fdg Corp.	Short-term investment	US\$1,080	N/A
Popular North Amer Inc. Mtn	Short-term investment	US\$3,042	N/A
Premark Intl Inc.	Short-term investment	US\$2,954	N/A