

## TSMC Reports Fourth Quarter EPS of NT\$1.08

Hsin-Chu, Taiwan, R.O.C., January 25, 2007 -- TSMC today announced consolidated revenue of NT\$74.96 billion, net income of NT\$27.91 billion, and diluted earnings per share of NT\$1.08 (US\$0.16 per ADS unit) for the fourth quarter ended December 31, 2006.

Year-over-year, fourth quarter revenue decreased 5.4% while net income and diluted EPS decreased 17.7% and 17.8%, respectively. On a sequential basis, fourth quarter results represent a 9.1% decrease in revenue, and a decrease of 14.1% both in net income and in diluted EPS. All figures were prepared in accordance with R.O.C. GAAP on a consolidated basis.

Fourth quarter business was affected by inventory correction, and revenue came to the mid point of the guidance. Advanced process technologies (0.13-micron and below) accounted for 48% of wafer revenues with 90-nanometer process technology accounting for 22% and 65-nanometer approaching 1% of total wafer sales. Gross margin of 46% reached the mid point of the guidance, while operating margin of 36.6% was close to the high end of guidance. Net margin decreased 2.2 percentage points to 37.2% from the previous quarter.

“The current inventory correction which started in the third quarter of last year is expected to continue through the first quarter of 2007, but we expect the overall demand of our business to begin to recover by the end of first quarter,” said Lora Ho, VP and Chief Financial Officer of TSMC. “Relative to the fourth quarter, the wireless communication segment appears to experience a more severe decline than the consumer and computer segments in the first quarter,” said Ho. “Based on our current business outlook, management’s expectations for first quarter 2007 performance are as follows”:

- Revenue to be between NT\$62 billion and NT\$64 billion;
- Gross profit margin to be between 37% and 39%;
- Operating profit margin to be between 26% and 28%.

Ho said management also expects that 2007 capital expenditure will be in the range of US\$2.6 billion to US\$2.8 billion.

### **Conference Call & Webcast Notice:**

TSMC’s quarterly review conference call will be held at 8 a.m. Eastern Time (9 p.m. Taiwan Time) on Thursday, January 25, 2007. The conference call will also be webcast live on the Internet. Investors wishing to access the live webcast should visit TSMC’s web site at <http://www.tsmc.com> at least 15 minutes prior to the broadcast. Instructions will be provided on the web site to facilitate the download and installation of necessary audio applications. Investors without Internet access may listen to the conference call, in listen-only mode, by dialing **1-617-213-8050** in the U.S., **852-3002-1672** in Hong Kong, **65-6823-2164** in Singapore, and **44-207-365-8426** in the U.K. (Password: TSMC). An archived version of the webcast will be available on TSMC’s web site for six months following the Company’s quarterly review conference call and webcast.

## Profile

TSMC (TAIEX: 2330, NYSE: TSM) is the world's largest dedicated semiconductor foundry, providing the industry's leading manufacturing capacity, process technology, and the foundry industry's largest portfolio of process-proven libraries, IP, design tools and reference flows. TSMC currently operates two twelve-inch wafer fabs, four eight-inch fabs and one six-inch fab. The Company also operates two eight-inch fabs at its wholly owned subsidiaries, WaferTech in the U.S. and TSMC (Shanghai) Company, Ltd. in China, and has substantial capacity commitments from a joint-venture fab, SSMC, in Singapore. Total managed capacity in 2006 exceeded seven million eight-inch equivalent wafers. TSMC is the first foundry to provide 65-nanometer production capabilities. TSMC's corporate headquarters are in Hsin-Chu, Taiwan. More information about TSMC is available at <http://www.tsmc.com>.

### (Management Report and Tables Follow)

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#### ***Safe Harbor Notice:***

The statements included in this press release that are not historical in nature are "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. TSMC cautions readers that forward-looking statements are subject to significant risks and uncertainties and are based on TSMC's current expectations. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including, among others, risks associated with cyclical and market conditions in the semiconductor industry; demand and supply for TSMC's foundry manufacturing capacity in particular and for foundry manufacturing capacity in general; intense competition; the failure of one or more significant customers to continue to place the same level of orders with us; TSMC's ability to remain a technological leader in the semiconductor industry; TSMC's ability to manage its capacity; TSMC's ability to obtain, preserve and defend its intellectual property rights; natural disasters and other unexpected events which may disrupt production; and exchange rate fluctuations. Additional information as to these and other risk factors that may cause TSMC's actual results to differ materially from TSMC's forward-looking statements may be found in TSMC's Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission (the "SEC") on April 20, 2006, and such other documents as TSMC may file with, or submit to, the SEC from time to time. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

**4Q06**Quarterly Management Report  
January 25, 2007**CONTACT**

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## Topics in This Report

- Revenue Analysis
- Capacity
- Profit & Expense Analysis
- Financial Condition Review
- Cash Flow & CapEx
- Recap of Recent Important Events & Announcements

**Operating Results Review:****Summary:**

(Amounts are on consolidated basis and are in NT\$ billion except noted otherwise)

	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per com. shr.)	1.08	1.26	1.31	(14.1%)	(17.8%)
(US\$ per ADR unit)	0.16	0.19	0.20		
Consolidated Net Sales	74.96	82.48	79.23	(9.1%)	(5.4%)
Gross Profit	34.45	41.13	41.31	(16.2%)	(16.6%)
Gross Margin	46.0%	49.9%	52.1%		
Operating Expense	(7.05)	(7.50)	(6.90)	(6.1%)	2.1%
Non-Operating Items	2.10	1.03	1.18	103.7%	78.2%
Net Income	27.91	32.49	33.90	(14.1%)	(17.7%)
Net Profit Margin	37.2%	39.4%	42.8%		
Wafer Shipment (kpcs 8 inch-equiv.)	1,718	1,890	1,707	(9.1%)	0.6%

**Remarks:**

The fourth quarter diluted earnings per share were NT\$1.08, representing a 17.8% decrease over the same period last year and a 14.1% sequential decline. The consolidated operating results of 4Q06 are summarized below:

Fourth quarter net sales were NT\$75 billion, down 5% from NT\$79.2 billion in fourth quarter 2005 and down 9% from NT\$82.5 billion in third quarter 2006.

Gross profit for 4Q06 was NT\$34.5 billion, representing a year-over-year decrease of 16.6% and a sequential decline of 16.2%. Gross margin was 46% in the fourth quarter, down from 49.9% in the previous quarter.

Operating expenses were NT\$7 billion or 9.4% of the net sales. The combined result from non-operating income and long-term investments was a gain of NT\$2.1 billion.

Consolidated net income attributable to shareholders of the parent company was NT\$27.9 billion, down 17.7% over the same period last year and down 14.1% sequentially. Net profit margin was 37.2%.

## I. Consolidated Revenue Analysis

### I. Wafer Sales Analysis

By Application	4Q06	3Q06	4Q05
Computer	32%	28%	32%
Communication	42%	45%	41%
Consumer	16%	20%	21%
Industrial/Others	7%	5%	5%
Memory	3%	2%	1%

By Technology	4Q06	3Q06	4Q05
N90-	23%	24%	17%
0.11/0.13um	25%	25%	32%
0.15/0.18um	33%	33%	32%
0.25/0.35um	14%	13%	14%
0.50um+	5%	5%	5%

By Customer Type	4Q06	3Q06	4Q05
Fabless/System	72%	71%	72%
IDM	28%	29%	28%

By Geography	4Q06	3Q06	4Q05
North America	78%	78%	77%
Asia Pacific	11%	10%	11%
Europe	7%	8%	8%
Japan	4%	4%	4%

### *Consolidated Revenue Analysis:*

Consolidated net sales were NT\$74.96 billion in the fourth quarter of 2006, down 9.1% from NT\$82.48 billion in the previous quarter. The decline in fourth quarter business was primarily due to weakness in consumer and communication sectors and to a lesser extent in the computer sector, as customers continued to digest inventories.

On a sequential basis, revenues from consumer, communication and computer applications declined by 31%, 17% and 2%, respectively.

Revenues from 65nm and 90nm accounted for 23% of total wafer sales, down one percentage point from third quarter 2006. Revenues from advanced technologies (0.13-micron and below) accounted for 48% of total wafer sales, down slightly from the previous quarter.

Revenues from IDM customers accounted for 28% of total wafer sales during the quarter, down slightly from 29% in the previous quarter.

Geographically, revenues from North America accounted for 78% of total wafer sales. Meanwhile, sales from Asia Pacific, Europe and Japan accounted for 11%, 7% and 4% of wafer sales, respectively.

## II. Capacity

II. Capacity							
Fab / (Wafer size)	1Q06 (A)	2Q06 (A)	3Q06 (A)	4Q06 (A)	2006 (A)	1Q07 (Est)	
Fab-2 (6") <sup>1</sup>	244	258	258	266	1,025	257	
Fab-3 (8")	246	252	265	258	1,021	259	
Fab-5 (8")	135	138	147	153	573	144	
Fab-6 (8")	215	222	233	248	918	235	
Fab-7 (8")	33	23	4	0	60	0	
Fab-8 (8")	231	233	234	248	946	239	
Fab-12 (12") <sup>2</sup>	142	150	157	166	616	169	
Fab-14 (12") <sup>2</sup>	61	66	86	105	318	103	
WaferTech (8")	99	100	101	104	404	104	
TSMC (Shanghai) (8")	48	52	73	90	262	90	
<b>TSMC total capacity (8" equiv. Kpcs)</b>	<b>1,602</b>	<b>1,650</b>	<b>1,748</b>	<b>1,860</b>	<b>6,860</b>	<b>1,826</b>	
SSMC (8")	49	50	51	52	202	54	
<b>Total managed capacity (8" equiv. Kpcs)</b>	<b>1,651</b>	<b>1,700</b>	<b>1,799</b>	<b>1,912</b>	<b>7,062</b>	<b>1,880</b>	

Note: 1. Figures represent number of 6" wafers. Conversion to 8"-equivalent wafers is by dividing this number by 1.78

2. Figures represent number of 12" wafers. Conversion to 8"-equivalent wafers is by multiplying this number by 2.25

### Capacity:

Total TSMC managed capacity was 1,912K 8-inch equivalent wafers in 4Q06, 6.3% higher than the 1,799K 8-inch equivalent wafers in 3Q06.

Total managed capacity for year 2006 was 7,062K 8-inch equivalent wafers, up 18.6% from 5,955K 8-inch equivalent wafers in year 2005.

TSMC managed capacity in 1Q07 will decrease by 1.7% sequentially to reach 1,880K 8-inch equivalent wafers.

## III. Consolidated Profit & Expense Analysis

III - 1. Consolidated Gross Profit Analysis				
(Amount: NT\$ billion)	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>	
<b>COGS</b>	<b>40.5</b>	<b>41.3</b>	<b>37.9</b>	
Depreciation	18.2	16.8	16.7	
Other MFG Cost	22.3	24.5	21.2	
<b>Gross Profit</b>	<b>34.5</b>	<b>41.1</b>	<b>41.3</b>	
<b>Gross Margin</b>	<b>46.0%</b>	<b>49.9%</b>	<b>52.1%</b>	

### Consolidated Gross Profit Analysis:

Consolidated gross profit for the fourth quarter 2006 was NT\$34.5 billion, or 46% of net sales, down from a gross profit of NT\$41.1 billion, or 49.9% of net sales, in the previous quarter. The gross margin declined by 3.9 percentage points largely due to lower capacity utilization and an increase in depreciation expenses, offset in part by productivity improvement and lower provisions for sales returns.

### III - 2. Consolidated Operating Expenses

(Amount: NT\$ billion)	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>
<b>Total Operating Exp.</b>	<b>7.05</b>	<b>7.50</b>	<b>6.90</b>
SG&A	3.04	3.27	3.33
Research & Development	4.01	4.23	3.57

### *Consolidated Operating Expenses:*

Total operating expenses for 4Q06 were NT\$7 billion, compared to NT\$7.5 billion in third quarter 2006. Total operating expenses represented 9.4% of net sales, compared to 9.1% for the previous quarter.

Research and development expenditures decreased by NT\$225 million sequentially, mainly due to a reduction in 65nm related expenditures as we entered into volume production for 65nm process node.

SG&A expenses decreased by NT\$229 million compared to 3Q06, primarily due to the reduction of fab opening expenses for Fab 14 Phase II, which commenced commercial production in 4Q06.

### III - 3. Consolidated Non-Operating Items

(Amount: NT\$ million)	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>
<b>Non-Operating Income/(Exp.)</b>	<b>1,713</b>	<b>322</b>	<b>640</b>
Net Interest Income/(Exp.)	1,030	923	525
Other Non-Operating	683	(601)	115
<b>L-T Investments</b>	<b>388</b>	<b>709</b>	<b>540</b>
SSMC	59	403	348
Others	329	306	193
<b>Total Non-Operating Items</b>	<b>2,101</b>	<b>1,031</b>	<b>1,180</b>

### *Consolidated Non-Operating Items:*

Combined result from non-operating income and long-term investments was a gain of NT\$2.1 billion for 4Q06.

Non-operating income totaled NT\$1,713 million during the fourth quarter of 2006, compared to an income of NT\$322 million in the previous quarter. The increase in non-operating income was mainly due to the mark to market adjustment recorded as a result of the increase in the market value of certain marketable securities, a decrease in losses realized upon the settlement of certain hedging instruments, and the settlement payment from the lawsuit against SMIC, offset in part by an increase in foreign exchange losses.

Net investment income was NT\$388 million in fourth quarter 2006, compared to an income of NT\$709 million in 3Q06, mostly due to lower level of profits at SSMC.

#### IV. Financial Condition Review

<b>IV - 1. Liquidity Analysis *</b> (Selected Balance Sheet Items)			
(Amount: NT\$ billion)	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>
Cash & Marketable Securities	195.1	164.1	145.3
Accounts Receivable - Trade	31.6	37.7	38.5
Inventory	21.4	20.3	17.7
<b>Total Current Assets</b>	<b>260.3</b>	<b>228.3</b>	<b>212.3</b>
Accounts Payable	20.6	26.2	20.2
Current Portion of Bonds Payable	7.0	2.5	0.0
Accrued Liabilities and Others	19.3	16.9	14.9
<b>Total Current Liabilities</b>	<b>46.9</b>	<b>45.6</b>	<b>35.1</b>
Current Ratio (x)	5.6	5.0	6.0
<b>Net Working Capital</b>	<b>213.5</b>	<b>182.7</b>	<b>177.2</b>

\* Certain prior period amounts have been reclassified to conform with current period presentation.

#### *Liquidity Analysis:*

Total cash and marketable securities increased by NT\$31 billion in the fourth quarter 2006, mainly due to the free cash flows generated during the quarter. As a result, TSMC ended the quarter with NT\$260.3 billion in total current assets, compared to NT\$212.3 billion at the end of 2005 and NT\$228.3 billion at the end of the previous quarter.

Total current liabilities were NT\$46.9 billion at the end of the quarter, compared to NT\$45.6 billion at the end of the previous quarter. The increase was mainly due to a reclassification of NT\$4.5 billion in bonds payable from long-term liability to current liability, offset in part by a reduction in payables to contractors and equipment suppliers.

As a result, net working capital increased to NT\$213.5 billion and current ratio improved to 5.6.

<b>IV - 2. Consolidated Receivable/Inventory Days</b>			
	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>
Days of Receivable	43	43	46
Days of Inventory	50	48	44

#### *Consolidated Receivable/Inventory Days Trend:*

Days of receivable were 43 days in 4Q06, flat from the previous quarter.

Days of inventory increased to 50 days from 48 days in the third quarter of 2006.

<b>IV - 3. Consolidated Debt Service *</b>			
(Amount: NT\$ Billion)	<u>4Q06</u>	<u>3Q06</u>	<u>4Q05</u>
Cash & Marketable Securities	195.1	164.1	145.3
Interest-Bearing Debt	27.6	27.6	27.5
Net Cash Reserves	167.5	136.5	117.8

\* Certain prior period amounts have been reclassified to conform with current period presentation.

#### *Consolidated Debt Service:*

As a result of the free cash flows generated during the quarter, net cash reserves - defined as the excess of cash and short-term marketable securities over interest-bearing debt - increased by NT\$31 billion to reach NT\$167.5 billion in 4Q06.

## V. Cash Flow & CapEx

<b>V - 1. Consolidated Cash Flow Analysis *</b>			
(Amount: NT\$ billion)	<b>4Q06</b>	<b>3Q06</b>	<b>4Q05</b>
Net Income	27.9	32.5	33.9
Depreciation & Amortization	19.7	18.4	18.7
Other Op Sources/(Uses)	5.4	1.8	(2.5)
<b>Total Op Sources/(Uses)</b>	<b>53.0</b>	<b>52.7</b>	<b>50.1</b>
Capital Expenditure	(17.6)	(28.3)	(13.6)
Marketable Financial Instruments	(6.7)	(8.6)	1.0
Other Investing Sources/(Uses)	(4.1)	(0.1)	(0.7)
<b>Net Investing Sources/(Uses)</b>	<b>(28.4)</b>	<b>(37.0)</b>	<b>(13.3)</b>
Cash Dividends	0.0	(61.7)	0.0
Employee Profit Sharing	0.0	(3.2)	0.0
Other Financing Sources/(Uses)	0.8	0.2	(10.0)
<b>Net Financing Sources/(Uses)</b>	<b>0.8</b>	<b>(64.7)</b>	<b>(10.0)</b>
<b>Net Cash Position Changes</b>	<b>25.4</b>	<b>(49.0)</b>	<b>26.8</b>
<b>Exchange Rate Changes &amp; Others</b>	<b>(0.5)</b>	<b>0.5</b>	<b>0.1</b>
<b>Ending Cash Balance</b>	<b>117.8</b>	<b>92.9</b>	<b>96.5</b>

\* Certain prior period amounts have been reclassified to conform with the current period presentation.

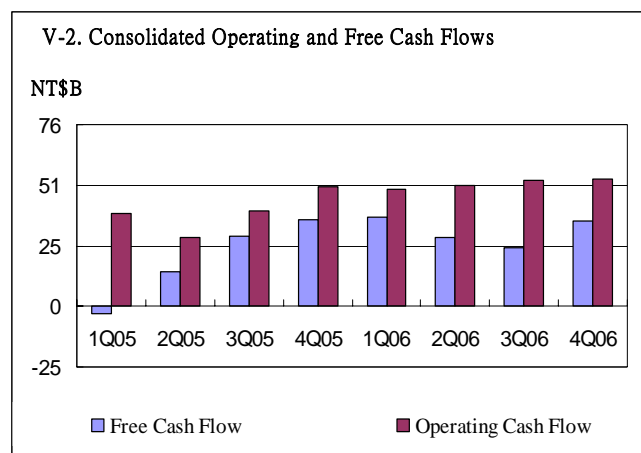
### *Summary of Consolidated Cash Flow:*

During fourth quarter 2006, TSMC generated NT\$53 billion in cash from operating activities, mainly from net income of NT\$27.9 billion and depreciation & amortization of NT\$19.7 billion.

Net cash used in investment activities totaled NT\$28.4 billion, mainly as a result of an NT\$17.6 billion in capital expenditures and an NT\$6.7 billion net increase in marketable financial instruments.

Net cash provided by financing activities was NT\$0.8 billion during the quarter.

As a result, TSMC ended the quarter with a cash balance of NT\$117.8 billion, NT\$24.9 billion higher than in 3Q06.



### *Consolidated Operating and Free Cash Flows:*

TSMC continues to generate strong operating cash flows and free cash flows. Cash flows generated from operating activities were NT\$53 billion, NT\$0.3 billion higher than 3Q06. Free cash flows, defined as the excess of operating cash flows over capital expenditures, totaled NT\$35.4 billion in 4Q06, NT\$11 billion higher than the NT\$24.4 billion generated in the previous quarter, mainly due to lower level of capital expenditures in 4Q06.

<b>V - 3. Capital Expenditures</b>					
(In US\$ Million)	<b>1Q06</b>	<b>2Q06</b>	<b>3Q06</b>	<b>4Q06</b>	<b>YTD</b>
TSMC	344	653	852	561	2,410
TSMC (Shanghai) & WaferTech	12	11	14	10	47
<b>Total TSMC</b>	<b>356</b>	<b>664</b>	<b>866</b>	<b>571</b>	<b>2,457</b>

### *Capital Expenditures:*

Capital expenditures for TSMC consolidated group totaled US\$571 million during the quarter. Most of the spending was for the purchase of 12-inch production equipment.

For year 2006, total capital expenditures for TSMC consolidated group were US\$2.5 billion.



## VI. Recap of Recent Important Events & Announcements

- NXP Semiconductors and TSMC Strengthen R&D Cooperation and Manufacturing Partnership (2007/01/16)
- TSMC Welcomes Government Approval for 0.18 Micron Generation Technology Transfer to China (2006/12/29)
- TSMC won 6 awards at the IR Magazine Hong Kong and Taiwan Awards, including Grand Prix for Best Overall Investor Relations - Large Cap (Taiwan region) and Best Corporate Governance (Hong Kong and Taiwan regions) (2006/12/11)
- TSMC R&D Team Won 2006 IEEE Taipei Section Best Impact Award (2006/12/08)
- TSMC Board Approves Capital Appropriation for 65nm and 90nm Capacity (2006/11/07)

\* Please visit TSMC's Web site (<http://www.tsmc.com>) for details about these and other announcements.