



TSMC Reports Third Quarter EPS of NT\$1.26

Hsin-Chu, Taiwan, R.O.C., October 26, 2006 -- TSMC today announced consolidated revenue of NT\$82.48 billion, net income of NT\$32.49 billion, and diluted earnings per share of NT\$1.26 (US\$0.19 per ADS unit) for the third quarter ended September 30, 2006.

Year-over-year, third quarter revenue increased 17% while net income and diluted EPS increased 32.7% and 32.5%, respectively. On a sequential basis, third quarter results represent a 0.4% increase in revenue, and a decrease of 4.4% both in net income and in diluted EPS. All figures were prepared in accordance with R.O.C. GAAP on a consolidated basis.

Although third quarter business was affected by inventory correction, better than expected demand in computer related applications led to third quarter revenue surpassing the guidance slightly. Advanced process technologies (0.13-micron and below) accounted for 49% of wafer revenues while revenues from 90-nanometer process technology alone was 24% of the total wafer sales. Both gross and operating margins reached the high end of guidance with gross margin being 49.9% and operating margin 40.8%. Net margin decreased 2 percentage points to 39.4% from the previous quarter.

“The current inventory correction which started in the third quarter is expected to continue during the fourth quarter,” said Lora Ho, VP and Chief Financial Officer of TSMC. “We expect the overall demand in all three major segments to decline sequentially,” said Ho. “Based on our current business outlook, management’s expectations for fourth quarter 2006 performance are as follows”:

- Revenue to be between NT\$74 billion and NT\$76 billion;
- Gross profit margin to be between 45% and 47%;
- Operating profit margin to be between 35% and 37%.

Conference Call & Webcast Notice:

TSMC’s quarterly review conference call will be held at 8 a.m. Eastern Time (8 p.m. Taiwan Time) on Thursday, October 26, 2006. 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 **1-617-213-8054** 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, library and IP options, and other leading-edge foundry services. TSMC currently operates two twelve-inch wafer fabs, five eight-inch wafer fabs and one six-inch fab. The Company also has substantial capacity commitments at two wholly owned subsidiaries, WaferTech in the U.S. and TSMC (Shanghai) Company, Ltd. in China, and at a joint-venture fab, SSMC, in Singapore. TSMC is the first foundry to run 65-nanometer customer design prototype wafers. TSMC's corporate headquarters are in Hsin-Chu, Taiwan. More information about TSMC is available through the World Wide Web 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.



3Q06

Quarterly Management Report
October 26, 2006**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>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per com. shr.)	1.26	1.32	0.95	(4.4%)	32.5%
(US\$ per ADR unit)	0.19	0.20	0.15		
Consolidated Net Sales	82.48	82.12	70.50	0.4%	17.0%
Gross Profit	41.13	42.50	30.96	(3.2%)	32.9%
Gross Margin	49.9%	51.8%	43.9%		
Operating Expense	(7.50)	(7.18)	(6.78)	4.5%	10.6%
Non-Operating Items	1.03	0.95	0.29	8.7%	254.9%
Consolidated Net Income	32.49	34.00	24.49	(4.4%)	32.7%
Net Profit Margin	39.4%	41.4%	34.7%		
Wafer Shipment (kpcs 8 inch-equiv.)	1,890	1,869	1,527	1.2%	23.8%

Remarks:

The third quarter consolidated EPS of NT\$1.26 represents a 32.5% increase over the same period last year and a 4.4% sequential decline. The consolidated operating results of 3Q06 are summarized below:

Third quarter net sales increased by 17% year-over-year to reach NT\$82.48 billion compared to NT\$70.5 billion reported in 3Q05. On a sequential basis, net sales increased by 0.4% compared to NT\$82.12 billion in the previous quarter. Third quarter net sales slightly surpassed our guidance due to better than expected demand in computer related applications.

Gross profit for 3Q06 was NT\$41.13 billion, representing a year-over-year increase of 32.9% and a sequential decline of 3.2%. Gross margin was 49.9% in the third quarter, down from 51.8% in the previous quarter.

Operating expenses were NT\$7.5 billion or 9.1% of the net sales. The combined result from non-operating income and long-term investments was a gain of NT\$1.03 billion.

Consolidated net income attributable to shareholders of the parent company was NT\$32.49 billion, up 32.7% over the same period last year and down 4.4% sequentially. Net profit margin was 39.4%.

I. Consolidated Revenue Analysis

I. Wafer Sales Analysis

By Application	3Q06	2Q06	3Q05
Computer	28%	30%	30%
Communication	45%	44%	41%
Consumer	20%	20%	23%
Industrial/Others	5%	5%	5%
Memory	2%	1%	1%

By Technology	3Q06	2Q06	3Q05
N90-	24%	24%	10%
0.11/0.13um	25%	25%	33%
0.15/0.18um	33%	32%	35%
0.25/0.35um	13%	14%	16%
0.50um+	5%	5%	6%

By Customer Type	3Q06	2Q06	3Q05
Fabless/System	71%	72%	71%
IDM	29%	28%	29%

By Geography	3Q06	2Q06	3Q05
North America	78%	77%	75%
Asia Pacific	10%	10%	11%
Europe	8%	9%	9%
Japan	4%	4%	5%

Consolidated Revenue Analysis:

Consolidated net sales were NT\$82.48 billion in the third quarter of 2006, up 0.4% from NT\$82.12 billion in the previous quarter, mainly driven by increased demand in communication and consumer related applications.

On a sequential basis, revenues from consumer and communication applications both increased by 2%, while revenues from computer applications declined by 6%.

Revenues from advanced technologies (0.13-micron and below) and 90nm accounted for 49% and 24% of total wafer sales, respectively, flat from the previous quarter.

Revenues from IDM customers accounted for 29% of total wafer sales during the quarter, up slightly from 28% 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 10%, 8% and 4% of wafer sales, respectively.

II. Capacity

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

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 in 3Q06 was 1,799K 8-inch equivalent wafers, 5.8% higher than the 1,700K 8-inch equivalent wafers in 2Q06.

TSMC managed capacity in 4Q06 will increase by 6.3% sequentially to reach 1,912K 8-inch equivalent wafers.

Overall installed capacity for year 2006 is expected to be approximately 7,062K 8-inch equivalent wafers, unchanged from our previous forecast provided in July 2006.

III. Consolidated Profit & Expense Analysis

III - 1. Consolidated Gross Profit Analysis			
(Amount: NT\$ billion)	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
COGS	41.3	39.6	39.5
Depreciation	16.8	16.5	17.2
Other MFG Cost	24.5	23.1	22.3
Gross Profit	41.1	42.5	31.0
Gross Margin	49.9%	51.8%	43.9%

Consolidated Gross Profit Analysis:

Consolidated gross profit for the third quarter of 2006 was NT\$41.1 billion, representing a year-over-year increase of 32.9% and a sequential decline of 3.2%. Consolidated gross margin declined by 1.9 percentage points sequentially to 49.9%, largely due to lower capacity utilization.

III - 2. Consolidated Operating Expenses

(Amount: NT\$ billion)	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
Total Operating Exp.	7.50	7.18	6.78
SG&A	3.27	3.13	3.31
Research & Development	4.23	4.05	3.47

Consolidated Operating Expenses:

Consolidated operating expenses for 3Q06 were NT\$7.5 billion, slightly higher than the previous quarter. Higher R&D expenditures were mainly due to increased expenditures on 45nm and 65nm projects. The increase in SG&A expenditures was primarily the result of Fab 14 Phase II opening expenses. Total operating expenses represented 9.1% of net sales, compared to 8.8% for the previous quarter.

III - 3. Consolidated Non-Operating Items

(Amount: NT\$ million)	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
Non-Operating Income/(Exp.)	322	299	19
Net Interest Income/(Exp.)	923	924	280
Other Non-Operating	(601)	(625)	(261)
L-T Investments	709	650	271
SSMC	403	471	210
Others	306	179	61
Total Non-Operating Items	1,031	949	290

Consolidated Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$1 billion for 3Q06.

Consolidated non-operating income totaled NT\$322 million during the third quarter of 2006, compared to an income of NT\$299 million in the previous quarter.

Consolidated net investment income was NT\$709 million in this quarter, compared to an income of NT\$650 million in 2Q06. The increase was primarily due to improved operating performance at certain affiliated companies.

IV. Financial Condition Review

IV - 1. Liquidity Analysis *			
(Amount: NT\$ Billion)	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
Cash & Marketable Securities	164.1	211.6	119.0
Accounts Receivable - Trade	37.7	38.0	39.1
Inventory	20.3	20.1	16.2
Total Current Assets	228.3	279.7	179.1
Accounts Payable	26.2	27.5	21.1
Accrued Liabilities and Others	19.4	82.8	25.5
Total Current Liabilities	45.6	110.3	46.6
Current Ratio (x)	5.0	2.5	3.8
Net Working Capital	182.7	169.4	132.6

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

Liquidity Analysis:

Consolidated cash & marketable securities decreased by NT\$47.5 billion in this quarter, mainly due to an NT\$61.7B payment of cash dividends and an NT\$3.2B payment of annual employee profit sharing, offset in part by the free cash flow generated during the quarter. As a result, TSMC ended the quarter with total current assets of NT\$228.3 billion, compared to NT\$279.7 billion in the previous quarter.

Consolidated current liabilities were NT\$45.6 billion at the end of the quarter, NT\$64.7 billion lower than the previous quarter, mainly due to the payment of cash dividends and annual employee profit sharing accrued in the previous quarter.

As a result, net consolidated working capital increased to NT\$182.7 billion and current ratio improved to 5.0x.

IV - 2. Consolidated Receivable/Inventory Days			
	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
Days of Receivable	43	44	47
Days of Inventory	48	47	38

Consolidated Receivable/Inventory Days Trend:

Consolidated days of receivable decreased to 43 days in 3Q06, compared to 44 days in the previous quarter.

Consolidated days of inventory increased to 48 days from 47 days in the second quarter of 2006.

IV - 3. Consolidated Debt Service *			
(Amount: NT\$ Billion)	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
Cash & Marketable Securities	164.1	211.6	119.0
Interest-Bearing Debt	27.6	27.2	39.0
Net Cash Reserves	136.5	184.4	80.0

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

Consolidated Debt Service:

As a result of the payment of cash dividends and annual employee profit sharing, consolidated net cash reserves - defined as the excess of cash and short-term marketable securities over interest-bearing debt - decreased by NT\$47.9 billion to NT\$136.5 billion in 3Q06.

Consolidated interest-bearing debt increased slightly to NT\$27.6 billion as of September 30, 2006.

V. Cash Flow & CapEx

V - 1. Consolidated Cash Flow Analysis *			
(Amount: NT\$ billion)	<u>3Q06</u>	<u>2Q06</u>	<u>3Q05</u>
Net Income	32.5	34.0	24.5
Depreciation & Amortization	18.4	17.9	19.1
Other Op Sources/(Uses)	1.8	(1.5)	(3.7)
Total Op Sources/(Uses)	<u>52.7</u>	<u>50.4</u>	<u>39.9</u>
Capital Expenditure	(28.3)	(21.4)	(10.5)
Marketable Financial Instruments	(8.6)	(7.8)	(0.2)
Other Investing Sources/(Uses)	(0.1)	(1.1)	(0.1)
Net Investing Sources/(Uses)	<u>(37.0)</u>	<u>(30.3)</u>	<u>(10.8)</u>
Cash Dividends	(61.7)	0.0	(46.4)
Employee Profit Sharing	(3.2)	(0.3)	(3.1)
Other Financing Sources/(Uses)	0.2	0.4	1.5
Net Financing Sources/(Uses)	<u>(64.7)</u>	<u>0.1</u>	<u>(48.0)</u>
Net Cash Position Changes	<u>(49.0)</u>	<u>20.2</u>	<u>(18.9)</u>
Exchange Rate Changes & Others	<u>0.5</u>	<u>(0.0)</u>	<u>0.1</u>
Ending Cash Balance	<u>92.9</u>	<u>141.5</u>	<u>69.6</u>

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

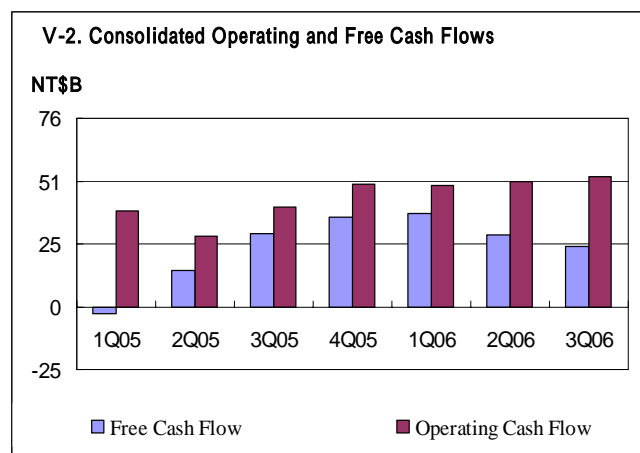
Summary of Consolidated Cash Flow:

During this quarter, TSMC generated NT\$52.7 billion from operating activities, mainly from net income of NT\$32.5 billion and depreciation & amortization of NT\$18.4 billion.

Net cash used in investment activities totaled NT\$37 billion, mainly as a result of an NT\$28.3 billion in capital spending and an NT\$8.6 billion net increase in marketable financial instruments.

Net cash used in financing activities was NT\$64.7 billion during this quarter, as we paid NT\$61.7 billion in cash dividends and NT\$3.2 billion in annual employee profit sharing.

As a result, TSMC ended the quarter with a cash balance of NT\$92.9 billion, NT\$48.5 billion lower than in 2Q06.



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\$52.7 billion, NT\$2.3 billion higher than 2Q06. Consolidated free cash flows totaled NT\$24.4 billion in 3Q06, NT\$4.6 billion lower than the NT\$29 billion generated in the previous quarter, mainly due to higher level of capital expenditures in 3Q06.

V - 3. Capital Spending				
(Amount: US\$ Million)	<u>1Q06</u>	<u>2Q06</u>	<u>3Q06</u>	<u>YTD</u>
TSMC	344	653	852	1,849
TSMC (Shanghai) & WaferTech	<u>12</u>	<u>11</u>	<u>14</u>	<u>37</u>
Total TSMC	<u>356</u>	<u>664</u>	<u>866</u>	<u>1,886</u>

Capital Spending:

Capital spending for TSMC consolidated group totaled US\$866 million during the quarter. Most of the spending was for the purchase of 12-inch production equipment.

For year 2006, total capital expenditure for TSMC consolidated group is expected to be about US\$2.6 billion.

VI. Recap of Recent Important Events & Announcements

- TSMC and Nvidia Celebrate New Milestone: 500 Million Processors (2006/10/24)
- TSMC is Voted by the CommonWealth Magazine as the Most Admired Company in Taiwan for the Tenth Consecutive Time (2006/10/16)
- TSMC is Ranked the Highest in Taiwan Among Asia Top 200 by The Wall Street Journal Asia (2006/10/16)
- TSMC Holds 2006 Supply Chain Management Forum and Recognizes Outstanding Suppliers (2006/09/14)
- TSMC Receives Outstanding Corporate Innovation Award from the Ministry of Economic Affairs (2006/09/07)
- TSMC Files Lawsuit Against SMIC for Breach of the 2005 Settlement Agreement with TSMC and Misappropriation of TSMC's Trade Secrets (2006/08/25)
- TSMC Announces Winners of First TSMC Outstanding Student Research Award (2006/08/03)
- TSMC Reaffirms Strong Foundry Partnership with ATI (2006/07/24)

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