



2.1 Customer Service

TSMC is committed to providing the best services to our customers and believes that customer service is critical to enhancing customer loyalty. In turn, customer loyalty leads to higher levels of customer retention and to expansion of business relationships. TSMC's goal is to maintain its position as the most advanced and largest provider of semiconductor manufacturing technology and foundry services. TSMC believes that achieving this goal will help retain existing customers, attract new customers, and strengthen existing partnership relationships.

To facilitate customer interaction and information access on a real-time basis, TSMC has established a wide range of web-based services covering applications in design, engineering, and logistic collaborations. They are collectively branded as *eFoundry*sm.

2.2 Customer Satisfaction

TSMC conducts regular surveys and reviews to ensure that customers' needs and wants are being adequately addressed. Continual improvement plans supplemented by customer feedback are an integral part of this business process.

2.3 Market Expansion/Penetration

TSMC continues to diversify its customer base while supporting the growth of our existing customers. TSMC engaged more than 50 new customers in 2005. TSMC's customers also gained market share, notably in a number of end applications in computers, wired communications, wireless communications and consumer electronics.

3. Raw Material Supply

Major Materials	Major Suppliers	Market Status	Procurement Strategy
Raw Wafers	F.K.S. MEMC S.E.H. Siltronic SUMCO	These five suppliers provide over 85% of the world's wafer supply on a combined basis. Each supplier has multiple manufacturing sites in order to meet customer demands, including plants in the North America, Asia, and Europe.	TSMC's suppliers of silicon wafers are required to pass stringent quality certification procedures. TSMC procures wafers from multiple sources to ensure adequate supplies for volume manufacturing and to appropriately manage supply risk. TSMC maintains competitive price and service agreements with its wafer suppliers, and when necessary enters into strategic and collaborative agreements with key suppliers. TSMC regularly reviews the quality, delivery, cost and service performance of its wafer suppliers. The results of these reviews are incorporated in TSMC's subsequent purchasing decisions. A periodic audit of each wafer supplier's quality assurance systems ensures that TSMC can maintain the highest quality for its own products.
Chemicals	BASF Tai-Young High Tech (TYS)	These two companies are the major suppliers for bulk chemical.	Both suppliers have relocated many of their operations closer to TSMC's major manufacturing facilities, therefore improving the procurement logistics significantly. The suppliers' products are reviewed regularly to ensure that TSMC's specifications are met and product quality is satisfactory.

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Major Materials	Major Suppliers	Market Status	Procurement Strategy
Photoresist	AZ Shin-Etsu Chemical Sumitomo T.O.K.	These four companies are the major suppliers for photoresist.	TSMC works closely with its suppliers to ensure that they have adequate production lead-time to supply the required products to TSMC. TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.
Gases	Air Liquide Air Products BOC Taiyo Toyo Sanso	These four companies are the major suppliers for specialty gas. The products of these four suppliers are interchangeable.	Majority of the four suppliers are located in different geographic locations therefore minimizing the supply risk to TSMC. TSMC has long-term contracts with these suppliers to ensure supply stability and service quality. In addition, the availability of other domestic suppliers also enables TSMC to secure better purchase terms for the gases. TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.

4. Employees

Attracting and retaining the right talent is one of the key objectives of TSMC's human resources strategy. TSMC's workforce totaled 19,642 at the end of 2005, representing an increase of 5.6% versus the end of 2004. TSMC recruited 92 managers, 1,250 professionals and 1,771 technicians during the year. By the end of February 2006, TSMC's total workforce reached 19,810.

At the end of 2005, the Company employed a total of 2,012 managers and 7,145 professionals. Of the 2,012 managers, 12.3% were female. Non-Taiwanese nationals made up 3.0% of TSMC's workforce at the managerial and professional levels. By the end of February 2006, there were 2,042 managers and 7,336 professionals.

Among TSMC's staff, 2.4% hold PhD's degrees, 27.8% hold Master's degrees, 18.3% hold university Bachelor's degrees, 23.0% hold other college degrees, and 28.4% have high school diplomas.

The following tables summarize TSMC's workforce structure.

TSMC Workforce Structure by Job Title

	12/31/2004	12/31/2005	02/28/2006
Manager	1,853	2,012	2,042
Professional	6,671	7,145	7,336
Assistant Engineer/ Clerical	754	684	678
Technician	9,319	9,801	9,754
Total	18,597	19,642	19,810

TSMC Workforce Structure by Gender, Age and Years Served

		12/31/2004	12/31/2005	02/28/2006
Gender	Male	45.4%	45.7%	46.2%
	Female	54.6%	54.3%	53.8%
Average Age		30.3	31.0	31.1
Average Years of Service		4.6	5.1	5.1

4.1 Human Capital

TSMC strives to create an environment that provides employees with favorable workplace conditions, personal challenges, and career development support. TSMC believes a positive work environment promotes innovation. TSMC also encourages the development of professional know-how, a positive attitude, affirmative values, honest and ethical behavior and a genuine commitment on the part of employees to succeed as a member of the TSMC team. Between January 1, 2005 and February 28, 2006, there were no labor disputes that resulted in financial losses to the Company.

4.2 People Development

Continuous learning is the cornerstone of TSMC's employee development strategy. TSMC provides employees with a wide range of technical, professional and management training programs, and promotes "On-the-Job Training" (OJT) initiatives for new employees. The Performance Management and Development (PMD) system and the Individual Development Plan (IDP) program are effective platforms to enhance organizational learning in the area of employees' personal development as well as serving the Company's business needs. In 2005, TSMC's achievement in people development was once again recognized by the Council of Labor Affairs, ROC, which awarded the Company the Prize for Innovation in Human Resource Development.

4.3 Employee Satisfaction

TSMC is committed to fostering a dynamic and fun work environment. In line with this commitment, a number of ongoing programs have been launched to enhance employee motivation, promote employee welfare, and facilitate communication between the Company and its employees. These programs include:

- Employee Welfare: TSMC offers employees a number of welfare-enhancing programs and benefits, such as flexible work hours, paid holidays, and activities, including TSMC Sports Day, Family Day, the Engineer Festival, and TSMC Social Club activities.
- Talent Development: TSMC has designed and implemented a number of people development initiatives. These initiatives include Manager Training Roadmap (including New Manager Program, Experienced Management Program, and Senior Manager Program), Talent Management Program, Engineer Training Roadmap, and Personal Effectiveness Training.