



## TSMC Reports Third Quarter EPS of NT\$1.15

Hsin-Chu, Taiwan, R.O.C., October 25, 2007 -- TSMC today announced consolidated revenue of NT\$88.96 billion, net income of NT\$30.37 billion, and diluted earnings per share of NT\$1.15 (US\$0.17 per ADS unit) for the third quarter ended September 30, 2007.

Year-over-year, third quarter revenue increased 7.9% while net income and diluted EPS decreased 6.5% and 6.6%, respectively. On a sequential basis, third quarter results represent an 18.7% increase in revenue, and an increase of 19.2% both in net income and in diluted EPS. All figures were prepared in accordance with R.O.C. GAAP on a consolidated basis.

Due to stronger than expected demand overall from our customers, third quarter results exceeded the guidance given on July 26. Advanced process technologies (0.13-micron and below) accounted for 56% of wafer revenues with 90-nanometer process technology accounting for 27% and 65-nanometer reaching 7% of total wafer sales. Gross margin was 45.8%, operating margin was 36.4%, and net margin was 34.1%.

“Third quarter set a record for our business in terms of revenues and wafer shipment, where all our three major market segments (communication, computer, and consumer) saw double-digit growth sequentially,” said Lora Ho, VP and Chief Financial Officer of TSMC. “For the fourth quarter, we expect the demand from computer related applications to grow the strongest, followed by communication related applications, whereas consumer applications will decline, following their seasonal pattern,” said Ho. “Based on our current business outlook, management’s expectations for fourth quarter 2007 performance are as follows”:

- Revenue is expected to be between NT\$92 billion and NT\$94 billion;
- Gross profit margin is expected to be between 46% and 48%;
- Operating profit margin is expected to be between 37% and 39%.

### **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 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 **1-617-614-3946** 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 2007 exceeds eight 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)

#### CONTACT

**Elizabeth Sun / Harrison Hsueh / Julie Wei**

Investor Relations Division

TSMC

[invest@tsmc.com](mailto:invest@tsmc.com)

886-3-568- 2085/ 2088/ 2086

#### ***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, 2007, TSMC's registration statement on Form F-3, filed with the SEC on May 8, 2007, 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.

**3Q07**Quarterly Management Report  
October 25, 2007**CONTACT**

Elizabeth Sun / Harrison Hsueh  
Julie Wei  
Investor Relations Division  
TSMC  
[invest@tsmc.com](mailto:invest@tsmc.com)  
886-3-568-2085/ 2088/ 2086

## 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 billions except noted otherwise)

	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.15	0.96	1.23	19.2%	(6.6%)
(US\$ per ADR unit)	0.17	0.15	0.19		
Consolidated Net Sales	88.96	74.92	82.48	18.7%	7.9%
Gross Profit	40.72	32.18	41.13	26.6%	(1.0%)
Gross Margin	45.8%	43.0%	49.9%		
Operating Expense	(8.37)	(7.45)	(7.50)	12.4%	11.6%
Operating Income	32.35	24.73	33.63	30.8%	(3.8%)
Non-Operating Items	1.87	3.29	1.03	(43.3%)	80.8%
Net Income	30.37	25.48	32.49	19.2%	(6.5%)
Net Profit Margin	34.1%	34.0%	39.4%		
Wafer Shipment (kpcs 8 inch-equiv.)	2,226	1,856	1,890	19.9%	17.8%

**Remarks:**

The third quarter diluted earnings per share were NT\$1.15, representing a decline of 6.6% over the same period last year and a 19.2% increase sequentially. The consolidated operating results of 3Q07 are summarized below:

Third quarter net sales exceeded our guidance provided on July 26 to reach NT\$89 billion, an increase of 7.9% over the year ago quarter and an increase of 18.7% sequentially.

Gross profit for the quarter was NT\$41 billion with gross margin of 45.8%, or 2.8 percentage points higher than the 43% gross margin reported in the prior quarter.

Operating expenses were NT\$8.4 billion or 9.4% of net sales. The combined result from non-operating income and long-term investments was a gain of NT\$1.9 billion.

Consolidated net income attributable to shareholders of the parent company was NT\$30.4 billion, down 6.5% from a year ago level and up 19.2% from the previous quarter. Net profit margin was 34.1% for 3Q07.

## I. Revenue Analysis

### I. Wafer Sales Analysis

By Application	3Q07	2Q07	3Q06
Computer	32%	29%	28%
Communication	42%	44%	45%
Consumer	17%	18%	20%
Industrial/Others	5%	6%	5%
Memory	4%	3%	2%

By Technology	3Q07	2Q07	3Q06
65nm and below	7%	3%	-
90nm	27%	26%	24%
0.11/0.13um	22%	24%	25%
0.15/0.18um	28%	30%	33%
0.25/0.35um	11%	12%	13%
0.50um+	5%	5%	5%

By Customer Type	3Q07	2Q07	3Q06
Fabless/System	66%	68%	71%
IDM	34%	32%	29%

By Geography	3Q07	2Q07	3Q06
North America	74%	74%	78%
Asia Pacific	13%	13%	10%
Europe	10%	9%	8%
Japan	3%	4%	4%

### *Revenue Analysis:*

Due to stronger than expected demand across our three major market segments (communication, computer, and consumer), third quarter revenue exceeded our guidance provided on July 26 to reach NT\$89 billion.

Businesses from all three major market segments had double-digit quarter-over-quarter growth in the third quarter. On a sequential basis, revenues from computer, consumer and communication applications increased by 29%, 15% and 12%, respectively.

Revenue from 65nm more than doubled during the quarter to account for 7% of total wafer sales, while revenue from 90nm accounted for 27% of total wafer sales. Revenues from advanced technologies (0.13-micron and below) accounted for 56% of total wafer sales, up three percentage points from the second quarter of 2007.

Revenues from IDM customers accounted for 34% of total wafer sales during the quarter, compared to 32% in the previous quarter.

From a geographic perspective, revenues from North America accounted for 74% of total wafer sales, flat from the previous quarter. Meanwhile, sales from Asia Pacific, Europe and Japan accounted for 13%, 10% and 3% of wafer sales, respectively.

## II. Capacity

II. Capacity					
Fab / (Wafer size)	1Q07 (A)	2Q07 (A)	3Q07 (A)	4Q07 (F)	2007 (F)
Fab-2 (6") <sup>1</sup>	257	257	273	273	1,060
Fab-3 (8")	259	262	267	269	1,057
Fab-5 (8")	144	155	163	166	627
Fab-6 (8")	245	255	274	279	1,053
Fab-8 (8")	239	239	260	265	1,004
Fab-12 (12") <sup>2</sup>	169	180	198	212	759
Fab-14 (12") <sup>2</sup>	103	113	154	176	546
WaferTech (8")	104	105	106	106	419
TSMC (Shanghai) (8")	90	94	99	92	375
<b>TSMC total capacity (8" equiv. Kpcs)</b>	<b>1,836</b>	<b>1,913</b>	<b>2,113</b>	<b>2,202</b>	<b>8,064</b>
SSMC (8")	53	55	56	61	226
<b>Total managed capacity (8" equiv. Kpcs)</b>	<b>1,890</b>	<b>1,967</b>	<b>2,169</b>	<b>2,263</b>	<b>8,290</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 2,169K 8-inch equivalent wafers in 3Q07, 10% higher than 2Q07. TSMC managed capacity in 4Q07 is expected to increase by 4% sequentially to reach 2,263K 8-inch equivalent wafers.

Total managed capacity for 2007 is expected to reach 8,290K 8-inch equivalent wafers, down slightly from the forecast provided in the previous quarter. On a full year basis, 2007 capacity is expected to increase by 17% from 7,062K 8-inch equivalent wafers in 2006.

## III. Profit & Expense Analysis

III - 1. Gross Profit Analysis			
(In NT billions)	3Q07	2Q07	3Q06
<b>COGS</b>	<b>48.2</b>	<b>42.7</b>	<b>41.3</b>
Depreciation	18.2	17.9	16.8
Other MFG Cost	30.0	24.8	24.5
<b>Gross Profit</b>	<b>40.7</b>	<b>32.2</b>	<b>41.1</b>
<b>Gross Margin</b>	<b>45.8%</b>	<b>43.0%</b>	<b>49.9%</b>

### Gross Profit Analysis:

Gross margin for the third quarter 2007 was 45.8%, up from 43% in the previous quarter. Third quarter gross margin improved by 2.8 percentage points primarily due to increased wafer shipment and a higher level of capacity utilization, offset in part by a decline in pure price.

### III - 2. Operating Expenses \*

(In NT billions)	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>
<b>Total Operating Exp.</b>	<b>8.37</b>	<b>7.45</b>	<b>7.50</b>
SG&A	3.68	3.15	3.19
Research & Development	4.69	4.30	4.31

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

### *Operating Expenses:*

Total operating expenses for 3Q07 were NT\$8.4 billion, compared to NT\$7.4 billion in the prior quarter. Total operating expenses represented 9.4% of net sales, down slightly from 10% in the second quarter of 2007.

Research and development expenditures increased by NT\$390 million quarter-over-quarter, largely due to increased R&D spending on 65nm and 55nm related projects.

SG&A expenses were NT\$3.7 billion for the quarter, an increase of NT\$535 million quarter-over-quarter, mainly due to higher legal fees.

### III - 3. Non-Operating Items

(In NT millions)	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>
<b>Non-Operating Income/(Exp.)</b>	<b>1,083</b>	<b>2,802</b>	<b>322</b>
Net Interest Income/(Exp.)	1,097	1,338	923
Other Non-Operating	(14)	1,464	(601)
<b>L-T Investments</b>	<b>782</b>	<b>488</b>	<b>709</b>
SSMC	405	233	403
Others	377	255	306
<b>Total Non-Operating Items</b>	<b>1,865</b>	<b>3,290</b>	<b>1,031</b>

### *Non-Operating Items:*

Combined result from non-operating income and long-term investments was a gain of NT\$1.9 billion for third quarter of 2007.

Non operating income was NT\$1.1 billion, down from NT\$2.8 billion in the previous quarter, primarily due to an accrual of litigation loss related to the TSMC-UniRAM case, lawsuit settlement received from SMIC in the previous quarter, and a reduction in mark-to-market adjustment on certain marketable securities.

Net investment income increased by NT\$294 million in the quarter, reflecting improved operating performance at SSMC and increased ownership percentage in Vanguard.

#### IV. Financial Condition Review

<b>IV - 1. Liquidity Analysis</b>			
<b>(Selected Balance Sheet Items)</b>			
(In NT billions)	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>
Cash & Marketable Securities	176.4	233.1	164.1
Accounts Receivable - Trade	42.4	37.1	37.7
Inventory	24.5	24.0	20.3
<b>Total Current Assets</b>	<b>250.1</b>	<b>304.6</b>	<b>228.3</b>
Accounts Payable	24.2	28.2	26.2
Current Portion of Bonds Payable	4.5	4.5	2.5
Accrued Cash Dividend & Profit Sharing	0.0	82.1	0.0
Accrued Liabilities and Others	22.2	17.6	16.9
<b>Total Current Liabilities</b>	<b>50.9</b>	<b>132.4</b>	<b>45.6</b>
Current Ratio (x)	4.9	2.3	5.0
<b>Net Working Capital</b>	<b>199.2</b>	<b>172.2</b>	<b>182.7</b>

#### *Liquidity Analysis:*

Total cash and marketable securities decreased by NT\$57 billion in the third quarter of 2007, as we paid NT\$77 billion in cash dividends during the quarter. As a result, TSMC ended the quarter with NT\$250 billion in total current assets, compared to NT\$305 billion at the end of the previous quarter.

Mainly due to the payment of cash dividends accrued in the previous quarter, total current liabilities decreased by NT\$82 billion in third quarter 2007.

Net working capital stood at NT\$199 billion at the end of the quarter, with a current ratio of 4.9.

<b>IV - 2. Receivable/Inventory Days</b>			
	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>
Days of Receivable	42	44	43
Days of Inventory	48	52	48

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

Days of receivable were 42 days in 3Q07, down from 44 days in the previous quarter.

Days of inventory declined by 4 days to reach 48 days.

<b>IV - 3. Debt Service</b>			
(In NT billions)	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>
Cash & Marketable Securities	176.4	233.1	164.1
Interest-Bearing Debt	26.7	26.3	27.6
Net Cash Reserves	149.7	206.8	136.5

#### *Debt Service:*

As a result of the cash dividends paid and 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 - decreased by NT\$57 billion to reach NT\$150 billion in 3Q07.

## V. Cash Flow & CapEx

<b>V - 1. Cash Flow Analysis</b>			
(In NT billions)	<u>3Q07</u>	<u>2Q07</u>	<u>3Q06</u>
Net Income	30.4	25.5	32.5
Depreciation & Amortization	19.9	19.6	18.4
Other Op Sources/(Uses)	0.8	(10.4)	1.8
<b>Total Op Sources/(Uses)</b>	<b><u>51.1</u></b>	<b><u>34.7</u></b>	<b><u>52.7</u></b>
Capital Expenditure	(24.9)	(25.3)	(28.3)
Marketable Financial Instruments	(2.8)	15.8	(8.6)
Other Investing Sources/(Uses)	(6.8)	(0.7)	(0.1)
<b>Net Investing Sources/(Uses)</b>	<b><u>(34.5)</u></b>	<b><u>(10.2)</u></b>	<b><u>(37.0)</u></b>
Cash Dividends	(77.4)	0.0	(61.7)
Employee Profit Sharing	(4.6)	0.0	(3.2)
Other Financing Sources/(Uses)	(0.0)	(0.5)	0.2
<b>Net Financing Sources/(Uses)</b>	<b><u>(82.0)</u></b>	<b><u>(0.5)</u></b>	<b><u>(64.7)</u></b>
<b>Net Cash Position Changes</b>	<b>(65.4)</b>	<b>24.0</b>	<b>(49.0)</b>
<b>Exchange Rate Changes &amp; Others</b>	<b>0.3</b>	<b>(0.9)</b>	<b>0.5</b>
<b>Ending Cash Balance</b>	<b>98.3</b>	<b>163.4</b>	<b>92.9</b>

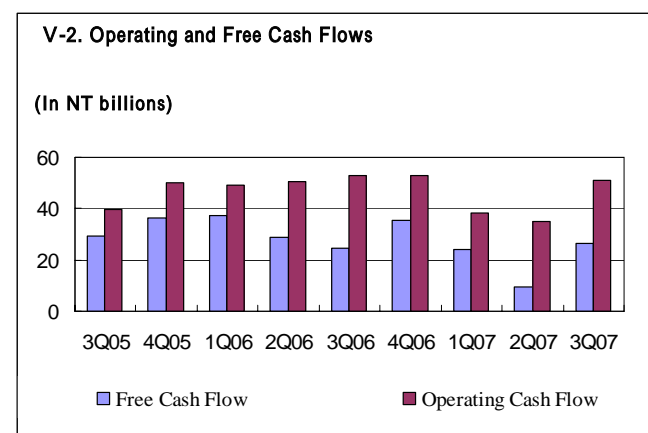
### Summary of Cash Flow:

Cash generated from operating activities totaled NT\$51 billion during the quarter, up from NT\$35 billion in the second quarter 2007.

TSMC spent NT\$25 billion in capital expenditures in 3Q07, bringing total capital expenditures to US\$1.9 billion on a year-to-date basis. TSMC also invested an additional NT\$5 billion in Vanguard International Semiconductor Corporation during the quarter.

Net cash used in financing activities was NT\$82 billion during the quarter, as we paid NT\$77 billion in cash dividends and NT\$5 billion in cash bonuses to employees.

As a result, TSMC ended the quarter with a cash balance of NT\$98 billion.



### Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$51 billion. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$26 billion in 3Q07.

<b>V - 3. Capital Expenditures</b>				
(In US millions)	<u>3Q07</u>	<u>2Q07</u>	<u>1Q07</u>	<u>YTD</u>
TSMC	732	747	419	1,898
XinTec and GUC	15	13	3	31
TSMC Shanghai & WaferTech	8	4	2	14
Other TSMC Subsidiaries	<u>1</u>	<u>2</u>	<u>0</u>	<u>3</u>
<b>Total TSMC</b>	<b>756</b>	<b>766</b>	<b>424</b>	<b>1,946</b>

### Capital Expenditures:

Capital expenditures for TSMC consolidated group totaled US\$756 million during the quarter.

For year 2007, total capital expenditures for TSMC consolidated group will be at the low end of our previous guidance to be around US\$2.6 billion, which includes the US\$82 million acquisition of eight-inch equipment that we announced recently.



## **VI. Recap of Recent Important Events & Announcements**

- TSMC Signs Contract with Atmel to Purchase Eight-inch Wafer Fabrication Equipment (2007/10/09)
- TSMC Joins SOI Industry Consortium (2007/10/08)
- U.S. District Court Issues Verdict on TSMC-UniRAM Case (2007/09/26)
- California Court Issues Order on TSMC Motion for Preliminary Injunction Against SMIC (2007/09/14)
- TSMC Increases Stake in Vanguard (2007/08/27)
- TSMC Starts Production of 0.13-micron Embedded Flash Process (2007/08/21)
- Microsoft Embraces TSMC 90nm Embedded DRAM Process for Xbox 360 (2007/08/15)

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