

**4Q07**Quarterly Management Report  
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## Topics in This Report

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

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

(Amounts are on consolidated basis and are in NT billions except otherwise noted)

	<u>4Q07</u>	<u>3Q07</u>	<u>4Q06</u>	<u>2007</u>	<u>2006</u>
EPS (NT\$ per common share) (US\$ per ADR unit)	1.31 0.20	1.15 0.17	1.06 0.16	4.14 0.63	4.81 0.74
Consolidated Net Sales	93.86	88.96	74.96	322.63	317.41
Gross Profit	44.84	40.72	34.45	142.35	155.81
<i>Gross Margin</i>	<i>47.8%</i>	<i>45.8%</i>	<i>46.0%</i>	<i>44.1%</i>	<i>49.1%</i>
Operating Expense	(8.08)	(8.37)	(7.05)	(30.63)	(28.55)
Operating Income	36.76	32.35	27.41	111.72	127.26
<i>Operating Margin</i>	<i>39.2%</i>	<i>36.4%</i>	<i>36.6%</i>	<i>34.6%</i>	<i>40.1%</i>
Net Income	34.48	30.37	27.91	109.18	127.01
<i>Net Profit Margin</i>	<i>36.7%</i>	<i>34.1%</i>	<i>37.2%</i>	<i>33.8%</i>	<i>40.0%</i>
Wafer Shipment (kpcs 8 inch-equiv.)	2,357	2,226	1,718	8,005	7,215

*Financial Highlights:***Fourth Quarter 2007**

- Record revenue of NT\$93.9 billion, up 25.2% year-over-year and up 5.5% quarter-over-quarter;
- Gross margin of 47.8%, up 1.8 percentage points over the same period last year and up 2 percentage points sequentially;
- Operating margin of 39.2%, up 2.6 percentage points year-over-year and up 2.8 percentage points quarter-over-quarter;
- EPS of NT\$1.31, with net profit margin of 36.7%

**Full Year 2007**

- Record revenue of NT\$322.6 billion, up 1.6% year-over-year;
- Gross margin of 44.1%, down 5 percentage points from 2006;
- Operating margin of 34.6%, down 5.5 percentage points from the prior year;
- Earnings per share of NT\$4.14, net profit margin of 33.8%

## I. Revenue Analysis

### I. Wafer Sales Analysis

By Application	4Q07	3Q07	4Q06
Computer	35%	32%	32%
Communication	42%	42%	42%
Consumer	15%	17%	16%
Industrial/Others	5%	5%	7%
Memory	3%	4%	3%

By Technology	4Q07	3Q07	4Q06
65nm and below	10%	7%	-
90nm	29%	27%	23%
0.11/0.13um	20%	22%	25%
0.15/0.18um	27%	28%	33%
0.25/0.35um	10%	11%	14%
0.50um+	4%	5%	5%

By Customer Type	4Q07	3Q07	4Q06
Fabless/System	68%	66%	72%
IDM	32%	34%	28%

By Geography	4Q07	3Q07	4Q06
North America	79%	74%	78%
Asia Pacific	11%	13%	11%
Europe	8%	10%	7%
Japan	2%	3%	4%

### Revenue Analysis:

Fourth quarter 2007 revenue came in at the high end of our guidance to reach NT\$93.9 billion. Demand from computer related applications grew the strongest during the quarter, followed by communication applications. On a sequential basis, revenue from computer and communication applications increased by 15% and 5%, respectively. On the other hand, demand for consumer applications declined by 7% quarter-over-quarter, reflecting their seasonal pattern.

As a result of continued strong ramp for our 65nm technology, revenue from 65nm reached 10% of total wafer sales during the quarter, up from 7% in the previous quarter. Meanwhile, revenue from 90nm also increased during the quarter and accounted for 29% of total wafer sales. Overall, revenues from advanced technologies (0.13-micron and below) accounted for 59% of total wafer sales, up three percentage points from the third quarter of 2007.

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

From a geographic perspective, revenues from customers headquartered in North America accounted for 79% of total wafer sales, up 5 percentage points from the previous quarter. Meanwhile, as a percentage of wafer sales, sales from customers in Asia Pacific, Europe and Japan all declined during the quarter and accounted for 11%, 8% and 2% of wafer sales, respectively.

## II. Profit & Expense Analysis

### II - 1. Gross Profit Analysis

(In NT billions)	4Q07	3Q07	4Q06	2007	2006
COGS	49.0	48.2	40.5	180.3	161.6
Depreciation	18.5	18.2	18.2	73.1	67.7
Other MFG Cost	30.5	30.0	22.3	107.2	93.9
<b>Gross Profit</b>	<b>44.8</b>	<b>40.7</b>	<b>34.5</b>	<b>142.4</b>	<b>155.8</b>
<b>Gross Margin</b>	<b>47.8%</b>	<b>45.8%</b>	<b>46.0%</b>	<b>44.1%</b>	<b>49.1%</b>

### Gross Profit Analysis:

Gross margin for the fourth quarter 2007 was 47.8%, up 2 percentage points from the previous quarter, reflecting a higher level of capacity utilization and our continued efforts in cost improvements, offset in part by a depreciation in U.S. dollar.

Gross margin for full year 2007 was 44.1%, down 5 percentage points from the 2006 level, mostly due to lower overall utilization and price decline, offset partially by cost improvements.

## II - 2. Operating Expenses \*

(In NT billions)	<u>4Q07</u>	<u>3Q07</u>	<u>4Q06</u>	<u>2007</u>	<u>2006</u>
<b>Total Operating Exp.</b>	<b>8.08</b>	<b>8.37</b>	<b>7.05</b>	<b>30.63</b>	<b>28.55</b>
SG&A	3.07	3.68	3.22	12.68	12.47
Research & Development	5.01	4.69	3.83	17.95	16.08
<b>Total Operating Exp. as a % of Sales</b>	<b>8.6%</b>	<b>9.4%</b>	<b>9.4%</b>	<b>9.5%</b>	<b>9.0%</b>

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

## Operating Expenses:

Total operating expenses for the fourth quarter 2007 declined by 3.5% sequentially to reach NT\$8.1 billion, or 8.6% of net sales, compared with 9.4% of net sales in the previous quarter.

Research and development expenditures increased by NT\$321 million quarter-over-quarter, driven by increased R&D spending on 45nm and 32nm related projects.

SG&A expenses declined by NT\$614 million sequentially, mostly due to lower legal fees.

On a full year basis, total operating expenses accounted for 9.5% of net sales in 2007, compared with 9% of net sales in 2006, reflecting our continued investments in R&D.

## II - 3. Non-Operating Items

(In NT billions)	<u>4Q07</u>	<u>3Q07</u>	<u>4Q06</u>	<u>2007</u>	<u>2006</u>
<b>Non-Operating Inc./(Exp.)</b>	<b>1.7</b>	<b>1.1</b>	<b>1.7</b>	<b>7.4</b>	<b>3.8</b>
Net Interest Income/(Exp.)	1.2	1.1	1.0	4.8	3.7
Other Non-Operating	0.5	(0.0)	0.7	2.6	0.1
<b>L-T Investments</b>	<b>0.9</b>	<b>0.8</b>	<b>0.4</b>	<b>2.5</b>	<b>2.3</b>
SSMC	0.5	0.4	0.1	1.2	1.4
Others	0.4	0.4	0.3	1.3	0.9
<b>Total Non-Operating Items</b>	<b>2.6</b>	<b>1.9</b>	<b>2.1</b>	<b>9.9</b>	<b>6.1</b>

## Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$2.6 billion for fourth quarter 2007.

Non-operating income was NT\$1.7 billion, up from NT\$1.1 billion in the previous quarter, primarily due to an accrual of litigation contingency in the previous quarter, lawsuit settlement received from SMIC during the fourth quarter, offset in part by lower gains on disposal of investments and lower mark-to-market gains as a result of the decline in the market value of certain marketable securities held through TSMC venture capital funds.

Net investment income increased by NT\$95 million in the quarter to reach NT\$877 million.

For full year 2007, non-operating income increased by 98% to reach NT\$7.4 billion, mostly due to an increase in mark-to-market adjustment for unrealized gains on certain marketable securities, higher interest income, and lower hedging cost, offset partially by an accrual of litigation contingency in 2007. As a result, combined results from non-operating income and long-term investments were a gain of NT\$9.9 billion, compared with a gain of NT\$6.1 billion in 2006.

### III. Financial Condition Review

<b>III - 1. Liquidity Analysis</b>			
<b>(Selected Balance Sheet Items)</b>			
(In NT billions)	<u>4Q07</u>	<u>3Q07</u>	<u>4Q06</u>
Cash & Marketable Securities	174.8	176.4	195.1
Accounts Receivable - Trade	42.4	42.4	31.6
Inventory	23.9	24.5	21.4
<b>Total Current Assets</b>	<b>249.8</b>	<b>250.1</b>	<b>260.3</b>
Accounts Payable	19.3	24.2	20.6
Current Portion of Bonds Payable	0.0	4.5	7.0
Accrued Liabilities and Others	29.4	22.2	19.3
<b>Total Current Liabilities</b>	<b>48.7</b>	<b>50.9</b>	<b>46.9</b>
Current Ratio (x)	5.1	4.9	5.6
<b>Net Working Capital</b>	<b>201.1</b>	<b>199.2</b>	<b>213.5</b>

#### *Liquidity Analysis:*

At the end of fourth quarter 2007, total cash and marketable securities and total current assets were NT\$174.8 billion and NT\$249.8 billion, respectively, essentially flat from the previous quarter.

Total current liabilities declined by NT\$2.2 billion in fourth quarter 2007, primarily as a result of the repayment of corporate bonds, a decline in payables to contractors and equipment suppliers, offset partially by an increase in income tax payables and an accrual for treasury share purchases executed in 2007 but settled in 2008.

Net working capital stood at NT\$201.1 billion at the end of the quarter, current ratio improved slightly to reach 5.1.

<b>III - 2. Receivable/Inventory Days</b>			
(In Number of Days)	<u>4Q07</u>	<u>3Q07</u>	<u>4Q06</u>
Days of Receivable	42	42	43
Days of Inventory	48	48	50

#### *Receivable and Inventory Days:*

Both days of receivable and days of inventory were essentially unchanged from the levels in the previous quarter.

<b>III - 3. Debt Service</b>			
(In NT billions)	<u>4Q07</u>	<u>3Q07</u>	<u>4Q06</u>
Cash & Marketable Securities	174.8	176.4	195.1
Interest-Bearing Debt	23.1	26.7	27.6
Net Cash Reserves	151.7	149.7	167.5

#### *Debt Service:*

As a result of the repayment of corporate bonds during the quarter, net cash reserves - defined as the excess of cash and short-term marketable securities over interest-bearing debt - increased slightly to reach NT\$151.7 billion at the end of the fourth quarter.

## IV. Cash Flow

<b>IV - 1. Cash Flow Analysis</b>			
(In NT billions)	<b>4Q07</b>	<b>3Q07</b>	<b>4Q06</b>
Net Income	34.5	30.4	27.9
Depreciation & Amortization	20.3	19.9	19.7
Other Operating Sources/(Uses)	5.0	0.8	5.4
<b>Total Operating Sources/(Uses)</b>	<b><u>59.8</u></b>	<b><u>51.1</u></b>	<b><u>53.0</u></b>
Capital Expenditure	(19.8)	(24.9)	(17.6)
Marketable Financial Instruments	8.2	(2.8)	(6.7)
Other Investing Sources/(Uses)	(1.1)	(6.8)	(4.1)
<b>Net Investing Sources/(Uses)</b>	<b><u>(12.7)</u></b>	<b><u>(34.5)</u></b>	<b><u>(28.4)</u></b>
Cash Dividends	0.0	(77.4)	0.0
Employee Profit Sharing	0.0	(4.6)	0.0
Repayment of Bonds Payable	(4.5)	0.0	0.0
Repurchase of Treasury Stock	(45.4)	0.0	0.0
Other Financing Sources/(Uses)	(0.2)	(0.0)	0.8
<b>Net Financing Sources/(Uses)</b>	<b><u>(50.1)</u></b>	<b><u>(82.0)</u></b>	<b><u>0.8</u></b>
<b>Net Cash Position Changes</b>	<b>(3.0)</b>	<b>(65.4)</b>	<b>25.4</b>
<b>Exchange Rate Changes &amp; Others</b>	<b>(0.3)</b>	<b>0.3</b>	<b>(0.5)</b>
<b>Ending Cash Balance</b>	<b>95.0</b>	<b>98.3</b>	<b>117.8</b>

<b>IV - 2. Cash Flow Analysis</b>		
(In NT billions)	<b>2007</b>	<b>2006</b>
Net Income	109.2	127.0
Depreciation & Amortization	80.0	73.7
Other Operating Sources/(Uses)	(5.4)	4.3
<b>Total Operating Sources/(Uses)</b>	<b><u>183.8</u></b>	<b><u>205.0</u></b>
Capital Expenditure	(84.0)	(78.7)
Marketable Financial Instruments	24.7	(35.8)
Other Investing Sources/(Uses)	(11.4)	(5.2)
<b>Net Investing Sources/(Uses)</b>	<b><u>(70.7)</u></b>	<b><u>(119.7)</u></b>
Cash Dividends	(77.4)	(61.7)
Employee Profit Sharing	(4.6)	(3.4)
Repayment of Bonds Payable	(7.0)	0.0
Repurchase of Treasury Stock	(45.4)	0.0
Other Financing Sources/(Uses)	(1.0)	1.3
<b>Net Financing Sources/(Uses)</b>	<b><u>(135.4)</u></b>	<b><u>(63.8)</u></b>
<b>Net Cash Position Changes</b>	<b>(22.3)</b>	<b>21.5</b>
<b>Exchange Rate Changes &amp; Others</b>	<b>(0.5)</b>	<b>(0.1)</b>
<b>Ending Cash Balance</b>	<b>95.0</b>	<b>117.8</b>

### *Summary of Cash Flow:*

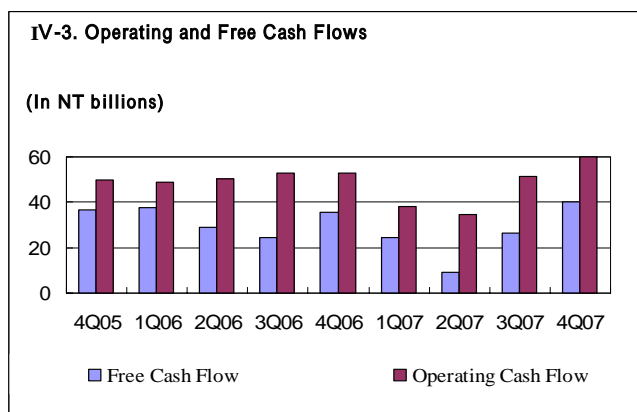
Cash generated from operating activities totaled NT\$59.8 billion during the quarter, up from NT\$51.1 billion in the third quarter 2007.

TSMC spent NT\$19.8 billion in capital expenditures in 4Q07, bringing 2007 total capital expenditures to NT\$84 billion or US\$2.6 billion.

Net cash used in financing activities was NT\$50.1 billion during the quarter, as we spent NT\$45.4 billion in share buybacks and NT\$4.5 billion in repayment of corporate bonds.

As a result, TSMC ended the quarter with a cash balance of NT\$95 billion.

On a full year basis, cash generated from operating activities declined by NT\$21.2 billion in 2007, meanwhile, capital expenditures increased by NT\$5.3 billion. Cash dividends per share was raised from NT\$2.5 in 2006 to NT\$3 in 2007, as a result, total cash dividends paid during 2007 increased by NT\$15.6 billion. TSMC also spent NT\$45.4 billion in share buybacks.



**Operating and Free Cash Flows:**

Cash flows generated from operating activities were NT\$59.8 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$40 billion in 4Q07, bringing total free cash flow generated in 2007 to NT\$99.8 billion.

**V. CapEx & Capacity**

**V - 1. Capital Expenditures**

(In US millions)

	1Q07	2Q07	3Q07	4Q07	2007	2006
TSMC	419	747	732	577	2,475	2,410
XinTec and GUC	3	13	15	16	47	3
TSMC Shanghai & WaferTec	2	4	8	17	31	42
Other TSMC Subsidiaries	0	2	1	1	4	2
<b>Total TSMC</b>	<b>424</b>	<b>766</b>	<b>756</b>	<b>611</b>	<b>2,557</b>	<b>2,457</b>

**Capital Expenditures:**

Capital expenditures for TSMC consolidated group totaled US\$611 million during the quarter.

For year 2007, total capital expenditures for TSMC consolidated group came in at US\$2.6 billion, compared with US\$2.5 billion spent in 2006.

**V-2. Capacity**

Fab / (Wafer size)	1Q07 (A)	2Q07 (A)	3Q07 (A)	4Q07 (A)	2007 (A)	1Q08 (F)
Fab-2 (6") <sup>1</sup>	257	257	273	273	1,060	248
Fab-3 (8")	259	262	267	269	1,057	277
Fab-5 (8")	144	155	163	166	627	165
Fab-6 (8")	245	255	274	279	1,053	265
Fab-8 (8")	239	239	260	265	1,004	262
Fab-12 (12") <sup>2</sup>	169	180	198	212	759	197
Fab-14 (12") <sup>2</sup>	103	113	154	176	546	167
WaferTech (8")	104	105	106	106	419	105
TSMC (Shanghai) (8")	90	94	99	92	375	88
<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>	<b>2,120</b>
SSMC (8")	53	55	56	61	226	63
<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>	<b>2,182</b>

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

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

**Capacity:**

In line with our guidance, total TSMC managed capacity was 2,263K 8-inch equivalent wafers in the fourth quarter, 4% higher than 3Q07. TSMC managed capacity in 1Q08 is expected to decrease by 4% sequentially to reach 2,182K 8-inch equivalent wafers, mostly due to scheduled maintenance and certain adjustment of capacity due to change in technology mix.

Total managed capacity for 2007 reached 8,290K 8-inch equivalent wafers, representing an increase of 17% from 7,062K 8-inch equivalent wafers in 2006.

## VI. Recap of Recent Important Events & Announcements

- TSMC Completes Share Buyback Plan (2007/12/31)
- TSMC Announces Multi-layer Mask Service (2007/12/27)
- TSMC Ships One-Millionth 12-Inch 90NM Wafer (2007/12/03)
- TSMC Unveils New 65-Nanometer Mixed-Signal and RF Tool Qualification Program (2007/12/13)
- TSMC and NXP Unveil Seven Innovations at IEDM Conference (2007/12/12)
- TSMC Reports Foundry's First 32-Nanometer Technology with Functional SRAM (2007/12/11)
- NetLogic Microsystems and TSMC Collaborate on Industry-Leading 55nm Technology for Advanced Low-Power Knowledge-based Processors (2007/11/27)
- TSMC Appoints Maria Marced President of TSMC Europe (2007/11/16)
- Qualcomm Makes First Call with Chips Using TSMC's 45nm Technology (2007/11/14)
- TSMC Board of Directors Approves Plan to Buy Back Shares from Open Market (2007/11/13)
- TSMC Recognizes Outstanding Suppliers at Supply Chain Management Forum (2007/11/02)

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