

FINAL TRANSCRIPT

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TSM - Q4 2008 TSMC Earnings Conference Call

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Jan. 22, 2009 / 1:00PM, TSM - Q4 2008 TSMC Earnings Conference Call

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Mehdi Hosseini

FBR - Analyst

PRESENTATION

Operator

Welcome to TSMC's fourth quarter '08 results webcast conference call. Today's event is chaired by Ms. Lora Ho, Chief Financial Officer and Vice President and Dr. Rick Tsai, Chief Executive Officer and President.

This conference call is being webcast live via the TSMC website at www.tsmc.com and only in audio mode. Your dial-in lines are also in listen only mode. At the conclusion of the management presentation we'll be opening the floor for questions. At that time further instructions will be provided as to the procedure to follow if you would like to ask any questions.

Please be advised for those participants who do not yet have a copy of the press release, you may download it from TSMC's website at www.tsmc.com. Please also download the summary slides in relation to today's quarterly review presentation. Once again the URL is www.tsmc.com.

I would now like to turn the conference over to Dr. Elizabeth Sun, TSMC's Head of Investor Relations for the cautionary statement before the main presentation by Ms. Ho and Dr. Tsai.

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Elizabeth Sun - TSMC - Head, IR

Thank you, Dan. Good morning and good evening to all participants. This is Elizabeth Sun, Head of Investor Relations for TSMC. Before we begin I would like to state that management's comments about TSMC's current expectations made during this conference call are forward-looking statements subject to significant risks and uncertainties and that actual results may differ materially from those contained in the forward-looking statements.

Information as to those factors that could cause 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 on April 15, 2008 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.

And now, I would like to turn the conference call over to Ms. Lora Ho, our Chief Financial Officer and Vice President.

Lora Ho - TSMC - CFO and VP

Thank you, Elizabeth. Good morning and good evening to everyone. Welcome to our fourth quarter 2008 earnings conference call. Before my start, since next Monday will be Chinese Lunar New Year, allow me to send you all the best wishes for a Happy Chinese Lunar New Year.

First, I will go over the highlights from our fourth quarter and 2008 full year results, then, I will give you the outlook for the first quarter 2009. Please refer to the quarterly financial summary slides on our website. All dollar figures are in NT dollars unless otherwise stated.

First, the highlights of the fourth quarter. Net sales were TWD64.6b with gross margin and operating margin at 31.3% and 18.6% respectively. EPS was TWD0.48, declining from last quarter's TWD1.18 though generating more free cash flow in this quarter. Our ROE and the wafer shipments both declined sequentially as a result of continued weakness in global economic conditions which impacts overall wafer demand.

Let's take a closer look at our income statement for sequential and year-over-year comparisons. Please let me remind you again that the accounting numbers reported for 2007 do not reflect the effect from the employee profit-sharing expensing. This is a major difference from 2008. That being said our fourth quarter revenue declined 30.6% sequentially and 31.2% year-over-year.

Compared with third quarter '08, both gross margin and operating margin were lower, which declined 15 percentage points and 16.8 percentage points as a result of sharp decline in production activities and partially offset by cost improvement and a favorable exchange rate. Non-operating income was TWD1.4b, however, we booked TWD0.3b investment loss in this quarter mainly Zhu to Vanguard and SSMC. For net margin it was 19.3% in this quarter representing a 13.6 percentage point decline over last quarter.

Now let's examine our revenue by applications. Across the board, wafer sales all declined sequentially. It was 32%, 34% and 39% quarter-over-quarter decline rate for the Communications, Computer and Consumer, respectively. Overall revenue from Communications, Computer and Consumer applications accounted for 43%, 32% and 19% of our wafer sales respectively in fourth quarter '08.

In terms of revenue by technology for 65 nanometer though absolute dollar revenue declined sequentially the percentage of wafer sales increased by two percentage points quarter-over-quarter and reached 27%. Total revenue from advanced technology accounted for 65% of wafer sales, slightly below 66% of last quarter.



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Now let's move to balance sheet and cash flow statement. We ended fourth quarter with TWD211b in cash and short term investments which was higher than both previous and year ago quarters. Sequentially the accounts receivables declined sharply while the turnover days increased by three. We observed no significant increase in collection period. For inventory as a result of a lower level of production activities both absolute dollar and turnover days declined sequentially. At the end of this quarter the inventory turnover days declined to 40 days, five days lower than previous quarter.

Our balance sheet remains strong. The current ratio increased to 4.4 in this quarter. Total cash inflow generated by operating activities was TWD63.2b in this quarter. Free cash flow was TWD52b after TWD11b of capital expenditure. Both were higher than last quarter. This was mainly due to the decline of both accounts receivables and the inventory. In financing activity we disposed TWD30.2b of short term investments. In sum, the ending balance was TWD195b, TWD82b more than last year.

Now let's turn to capacity and CapEx. Total installed capacity for the fourth quarter was about 2.5m 8-inch equivalent wafers; about 3% more than third quarter '08. For 2008, overall capacity was about 9.4m 8-inch equivalent wafers, a 13% increase over 2007 with advanced technology capacity increased by 27% year-over-year. We spent \$342m in CapEx during the fourth quarter. Our 2008 CapEx came in at \$1.88b. This is a 26% decline over 2007.

Now let me go through our 2008 full year highlights. 2008 was a year of rapid change. After three consecutive good quarters, our fourth quarter was impacted by a deep economic recession which resulted in sharp decline in revenue and profitability. However, 2008 revenue still delivered a 3.3% year-over-year growth in NT dollars or a 7.9% in US dollars.

TSMC outperformed the worldwide semiconductor industry in 2008. This represented a seventh consecutive year of growth in our revenue and the fifth consecutive year that our ROE exceeded 20%. Our free cash flow increased significantly in 2008. With strong balance sheet and cash position we believe TSMC is well prepared to weather through the challenging economic environment ahead.

Also, in the past five years, we have substantially increased our cash dividend payout and also engaged share buyback. By end of 2008 TSMC had through cash dividends and share buybacks returned more than \$11b back to shareholders.

Now let me give you the outlook for the first quarter '09. As you are all aware the global economic recession continues to worsen. Fourth quarter end market sellthrough was much below the already conservative expectation. With that, based on current business expectation and a forecast exchange rate of 32.66, we expect our consolidated revenue in first quarter of '09 to come in between TWD32b to TWD35b.

In terms of margin we expect our first quarter gross margin to be between 1% and 5%. Operating margin to be between negative 19% and negative 15%. This concludes my remarks today. Now I will turn the call over to Dr. Rick Tsai, our CEO for his remarks.

Rick Tsai - TSMC - CEO and President

Hello, good evening and good morning. I would like to first comment on the business and the industry outlook. As Lora just said, 2008 was a year of rapid change. Our business remained vibrant in the first three quarters of the year but demand showed signs of slowing in the middle of the third quarter. Fourth quarter revenue substantially declined and it showed no signs of recovery by year end. Now our estimate of the semiconductor industry revenue for the fourth quarter would decline by 25% in fourth quarter compared to that of third quarter.

As a result for the whole year of 2008 the world semiconductor revenue will likely have registered a decline by about 4%. Despite the sharp downturn in the fourth quarter, TSMC on a full year basis has outperformed the semiconductor industry and delivered 7.9% growth in US dollars in 2008.



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Now as the global economic recession continues to worsen fourth quarter sellthrough was much below the already conservative expectations and overall demand for semiconductors remains weak. So the inventory measured in DOI, days of inventory, of our customers has increased we believe at the end of fourth quarter compared to that of the third quarter. In addition, our customers' visibility of their business is still very limited. These all resulted in very slow booking and a steep decline in our first quarter financials.

For the whole year of 2009 TSMC forecasts the global semiconductor industry revenue to decline sharply by about 30%. Zhu to supply chain's action in reducing inventories foundry sector will underperform the overall semiconductor industry in 2009. With the very high uncertainty of the end market in the months ahead we do not have a clear view of the second quarter. However, I do like to share what we are observing with you. That is we are seeing some indications that we may be bottoming out in the first quarter '09 but we will need more time and data to confirm that observation.

This is truly a difficult time for all of us. TSMC is seeing our first quarterly loss since 1990. All of us feel really bad about our first quarter numbers. I can assure you the whole Company and the management team are committed to do our utmost for our shareholders.

Now let me brief you on a few things that we are doing. First, we will continue to invest aggressively in our future. We will not reduce our R&D investment and we will continue to enhance our technologies and our capabilities. For example, in the area of leading edge technologies we are actively developing our capability so that we can provide embedded CPU to our customers. In the mainstream technology we are also developing technologies and capabilities so that we can increase our market share in the analog area, automotive area and so on.

Next, we have been working on reducing the costs in a structured manner for quite some time. In this very difficult time we will accelerate these efforts. For example, in our 12-inch FABs we will further leverage our scale so that we can gain more cost advantage. In our 8-inch fabs we will invest in -- aggressively in information technology so that we can enhance our overall manufacturing productivity.

On the customer time during this difficult time it is particularly attractive for our customers to work with TSMC because of our strong financial position and our dedication to work with them as partners. We will continue to jump through the hoops for our customers.

Lastly, we are committed to a minimum payout of 80% distributable earnings as cash dividends. We will pay TWD3.0 cash dividend per share in 2009 and we have proposed to the Taiwan regulatory authorities to relax certain limitations such that TSMC can have more flexibility in paying cash dividends to our shareholders.

This concludes my remarks. Thank you.

Elizabeth Sun - TSMC - Head, IR

This concludes the management presentation and general remarks. Operator, please open the floor to questions.

QUESTIONS AND ANSWERS

Operator

At this time we will open the floor for questions. (Operator Instructions) Please limit your questions to two at a time to allow all participants an opportunity to ask questions to the management members. If you have additional questions, please re-enter the queue.



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Your first question comes from the line of Randy Abrams from Credit Suisse. Please proceed.

Randy Abrams - *Credit Suisse - Analyst*

Yes, good evening. I wanted to see if you can elaborate on your point about your starting to see some signs of bottoming. Maybe talk about the areas where you might be seeing some of those signals and if you could talk about the end markets are any further along in the correction process?

Rick Tsai - *TSMC - CEO and President*

The indicators -- we -- of course are many, some are internal data, some the exchanges with the customers. It seems a few of the important ones probably are booking trend, book-to-bill ratio; these are the important indicators for us at least from the second quarter point of view.

End market-wise, again, visibility is very limited. Short term we see cell phone area to perform relatively better compared to that of the PC segment.

Randy Abrams - *Credit Suisse - Analyst*

Okay and the second question, could you walk through a bit more of the options in 2010 on the dividend? If you track below TWD3.0 earnings what equity accounts can you draw from and what are you trying to do at least to protect some of that dividend?

Lora Ho - *TSMC - CFO and VP*

Randy, we are committed to pay TWD3.0 dividend as Rick just said in 2009. With the current economic condition which is quite severe recession it will be depending on how much we make, EPS we made in 2009, so we can distribute dividend in 2010. Current thinking is it's probably very difficult in 2010 if the dividend only comes from our retained earnings as the current regulation. Therefore, we have made a proposal to the government to relax the current regulation so that we can have some flexibility to issue cash dividend out of from capital surplus and the legal reserve in our book. So we will communicate with the government and continue talking to them in this regard.

Randy Abrams - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Mehdi Hosseini from FBR. Please proceed.

Mehdi Hosseini - *FBR - Analyst*

Yes, thank you. Two questions; first, I noticed your CapEx guidance could be down by more than 20%. If you could provide some more color? Does that mean that it could be down 30% or 100% because it helps us to better understand the impact on the balance sheet going forward.



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And then in your guidance or prepared commentary that Q1 could be a bottom. Does that reflect your expectation that customer inventory write-down is going to be over or are there any other signs that give you that incremental confidence?

Rick Tsai - TSMC - CEO and President

On the CapEx I don't think we can give you any further numbers. However, I would certainly say that your 100%, as you just mentioned, is too much, is too high.

Mehdi Hosseini - FBR - Analyst

Is down [50%] also too high?

Rick Tsai - TSMC - CEO and President

I think my comment on this question probably ends about here. We do need a little more time to work that out and once we know that we will share with you at our earliest possible time.

The next question is --?

Elizabeth Sun - TSMC - Head, IR

Inventory, customer inventory.

Rick Tsai - TSMC - CEO and President

As we said, the customer inventory at the end of fourth quarter probably has increased over that of third quarter but as we also calculate our wafer shipment into our customers and also with their revenue outlook in the first quarter we believe their inventory level is going to come down significantly in the first quarter. However the DOI will not stabilize, we believe, until at the end of second quarter at the earliest.

Mehdi Hosseini - FBR - Analyst

But to what extent does that depend on the sellthrough over the next two weeks during the holiday season?

Rick Tsai - TSMC - CEO and President

I think it is obvious the holiday season sellthrough contributes a great deal to the higher inventory, higher DOI at the end of fourth quarter compared to the third quarter. I think in addition we believe our customers' customers basically also were not giving out really any orders to them during the fourth quarter time unless they had to.

Mehdi Hosseini - FBR - Analyst

How about the next two weeks, the Lunar New Year holiday?



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Rick Tsai - TSMC - CEO and President

You mean the sellthrough or --?

Mehdi Hosseini - FBR - Analyst

Yes or the expectation that customer inventories coming down in Q1, to what extent is that driven or dependent on the sellthrough over the next two weeks, the Chinese New Year holiday?

Rick Tsai - TSMC - CEO and President

Well, in our view we are not assuming a good Chinese New Year sellthrough. It is obviously difficult for us to predict the sellthrough in Chinese New Year although the -- well, the visibility there also is not clear. The only thing we can say is the Chinese government is having a program to stimulate the purchase of the electronics in their agriculture area.

Mehdi Hosseini - FBR - Analyst

Thank you.

Operator

Your next question comes from the line of Bhavin Shah from JPMorgan. Please proceed.

Bhavin Shah - JPMorgan - Analyst

(inaudible) First of all I wanted to (inaudible) you were (inaudible) shareholder commitment because the other companies are cutting their dividends --

Elizabeth Sun - TSMC - Head, IR

Bhavin, could you please speak louder? We are not able to hear you very well.

Bhavin Shah - JPMorgan - Analyst

Sorry, can you hear me well now?

Elizabeth Sun - TSMC - Head, IR

Yes, that's much better.

Bhavin Shah - JPMorgan - Analyst

Okay. Yes, I was just saying first of all I wanted to say you're just setting really new standards in shareholder value commitment because other companies are talking about cutting dividends and you are making effort to sustain it. So I have two questions. My first question is that assuming that you get the necessary rules change that you are hoping for, for how long can you commit



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to paying TWD3.0 assuming that your cash balance continues to decline over the next two or three years? In other words, is there a minimum cash that you want to hold and that is a higher priority over a TWD3.0 dividend?

Lora Ho - TSMC - CFO and VP

Bhavin, Okay, Bhavin, we do not think cash flow is a problem for us. It is the retained earnings constraint. If government would approve our proposal which allow the capital surplus plus the legal reserve to become a part of dividend stream that part together can support around TWD4.50. Also depending on how much profit we make in 2009, certainly that TWD4.50 can be quite significant to bridge us into the bad years.

Bhavin Shah - JPMorgan - Analyst

Okay, that's helpful. My second question is for Rick. Rick, you mentioned you were seeing some -- if not conforming but some signs of bottoming in first quarter. Do you feel those signs are apparent at the beginning of the quarter or it will be more apparent in a later part of the quarter?

Rick Tsai - TSMC - CEO and President

You mean beginning of second quarter or --?

Bhavin Shah - JPMorgan - Analyst

In other words what sort of linearity are you seeing in first quarter, January versus March, in terms of loading, etc?

Rick Tsai - TSMC - CEO and President

I think, Bhavin, basically it is probably more important to look at the booking profile rather than just the billing profile. I cannot give you much detail. What I can say is we believe we are seeing the bottom of the booking and the book to BB ratio. The numbers are still not good. I do not want to mislead any of you, the numbers are not good, but we believe we have seen the bottom of those what we would believe the short term indicators.

Bhavin Shah - JPMorgan - Analyst

Thank you.

Rick Tsai - TSMC - CEO and President

Thank you.

Operator

Your next question comes from the line of Shailesh Jaitly from Nomura Securities. Please proceed.

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Shailesh Jaitly - Nomura Securities - Analyst

Yes, hi. You earlier mentioned that second quarter you expect cell phone or the communications segment to do better than PC. Does that mean and I would assume you expect that probably inventory issues in the communications segment will get over first. What is your read on the PC segment? When do you think the inventories there will normalize?

Rick Tsai - TSMC - CEO and President

We need some more time. The visibility right now is not enough for me to give you a good answer. We need probably another couple of months.

Shailesh Jaitly - Nomura Securities - Analyst

Okay. And as far as the IDM are concerned like the whole business has fallen, IDM has fallen a bit more. That was expected but how far are we from what you can say the minimum contractual agreements of loadings with the IDMs?

Rick Tsai - TSMC - CEO and President

I believe when you say that the fall in the IDM, at least ratio wise is expected, I believe -- you believe they are moving their loading internal to their internal fab. I think that's certainly part of the reason.

On the other hand, we have also looked at the inventory level and the revenue situation with our IDM customers and our fabless customers. If you look at the numbers I think you will see the revenue decline with the IDM customers is somewhat more severe compared to, at least, the large fabless customers. And the inventory level at the IDM customer level is also quite high. I think these also contributed to the much lower booking and the billings from IDM customers.

As to the contracts we have contracted some customers, and now with others. They all vary. And again, I think they play partially a role but not necessarily a major role.

Shailesh Jaitly - Nomura Securities - Analyst

Thanks, Rick. Let me just rephrase what I was asking. Because looking at some of your IDM customers' internal utilizations, some of them have seen internal utilizations dipping to about mid 40's range in 1Q. So I would assume that whatever they had to cut from foundries they should have. Am I wrong in thinking, or do they have a lot more room to cut?

Rick Tsai - TSMC - CEO and President

It all depends. The products they own they are working with us. With many of our IDM customers the product they work with us are only done in our wafer fabs. Of course, there are some -- I am sure when they can make in their own fabs they would have moved in-house already. But we have many I think, especially this year, more advanced technology. Many of the products are only sourced in TSMC fabs.

Shailesh Jaitly - Nomura Securities - Analyst

Okay, thanks.

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Operator

Your next question comes from the line of Dan Heyler from Banc of America securities. Please proceed.

Dan Heyler - *Banc of America Securities - Analyst*

Good evening, guys, good evening, Rick. I had one quick question on -- I wanted to focus on capacity. Assuming that we have a fairly modest recovery, I guess, to what extent do you think this industry will see some consolidation either amongst the logic IDMs or the other foundries.

Clearly a sharp downturn brings hope of consolidation. On the other hand, it seems to be that there are plenty of governments willing to support the semiconductor industry, even supporting the DRAM industry. So I am wondering to what extent do you think there will be rationalization in the logic IT business?

Rick Tsai - *TSMC - CEO and President*

Well, I think, Dan, I think you would agree that the semiconductor industry is slowing down and for a while, as we have reported numerous times, and this severe downturn will only make that worse.

I believe that the -- some amount of consolidation will happen in the semiconductor industry, and not necessarily only in the -- with the companies with fabs. But I guess your question is more on the capacity.

Dan Heyler - *Banc of America Securities - Analyst*

Yes.

Rick Tsai - *TSMC - CEO and President*

I -- logic IDMs, I only can say that I believe probably more capacity will be shut down. But, however, in the foundry sector I am not as sure because of what you just mentioned, the government, some government's action, to keep them open. So the capacity I think there will be capacity there for some time.

Dan Heyler - *Banc of America Securities - Analyst*

Okay. And then the second question on -- just (inaudible) specific guidance on the capacity question. In the last downturn there was some shutdowns internally on 6 inch. I am just wondering do you anticipate a need to close some facilities eventually. Obviously you are investing in R&D and are investing in 8 inch capabilities. But at what point will you just effectively say look we have way too much capacity for the next two years? What's the thought process there internally at TSMC?

Rick Tsai - *TSMC - CEO and President*

Process is going on. We review every aspect of our operations and with the certain assumptions, of course, on our outlook in the next several years. We, of course, have not completed that work.

We certainly right now, what we are doing as you know, is shutting down equipment in different fabs as we see demand in the short term. But more importantly we are looking at this in a structured approach. So this is being reviewed. We do not have any definitive plan, but we are certainly working on that.

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Dan Heyler - Banc of America Securities - Analyst

Okay, one short follow up and then I'll get back in line. On 45 nanometer, to what extent do you feel the need to build out a new 45 nanometer fab now? I guess from the standpoint of, obviously demand is uncertain, but from a competitive landscape it seems as though Samsung is getting a little more aggressive, certainly very aggressive at 45.

To what extent to have the power just to wait as long as you want on the 45, or do you really need to go forward with that this year as planned?

Rick Tsai - TSMC - CEO and President

We already, of course, have a certain production capacity in 40 nanometer already. We will build up that capacity to, I would say, a significant level by -- in second quarter and on until, of course, the end of the year.

You mentioned second fab?

Dan Heyler - Banc of America Securities - Analyst

Yes, you are doing that internally within your R&D line. But my understanding is you want to go for a full immersion fab to be more efficient right?

Rick Tsai - TSMC - CEO and President

Yes. We are definitely -- right now there, already there is no such thing as a R&D line for 40 nanometer already. They are already converted into a production line. We have a production line with capacity -- what I would say significant capacity.

We believe we have a strong product tape-out portfolio from our key customers. We believe we will be the first to ramp. We will also have a strong share of the market.

Dan Heyler - Banc of America Securities - Analyst

Okay, so you won't need to deploy phase four fab 12 to fully scale 45?

Rick Tsai - TSMC - CEO and President

Oh I think we will, we will. The first phases will be full very soon. So, we will at least set up a partial part of the fab phase four.

Dan Heyler - Banc of America Securities - Analyst

That's okay, thanks. I'll get back in line.

Rick Tsai - TSMC - CEO and President

Thank you.

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Operator

Your next question comes from the line of Michael McConnell from Pacific Crest Securities.

Michael McConnell - *Pacific Crest Securities - Analyst*

Thank you. A lot of my questions have been answered. Lora, could you just talk about the outlook this year for capacity in terms of what we should be thinking about year-over-year for the increase in capacity?

Lora Ho - *TSMC - CFO and VP*

Okay. We are still working on the capacity expansion plan. The number has not been finalized. But in terms of -- from what we can see right now even there is an increase in 45 -- there will be 45 nanometer increase. I would say at this moment the year-over-year capacity increase will be in the single digit level, if you take our fourth quarter capacity times four that gives you about a single digit level of increase year-over-year.

Michael McConnell - *Pacific Crest Securities - Analyst*

And what are you thinking about for depreciation year over year?

Lora Ho - *TSMC - CFO and VP*

It still needs to work out. But maybe I can share with you with the conservative view on the capital expenditure. We think the depreciation for 2009 will be very similar to 2008.

Michael McConnell - *Pacific Crest Securities - Analyst*

And looking at your operating margin guidance, that would imply, based on my math, about an 18% decline roughly in OpEx to kind of get to where you are going to be relative to gross margin and revenue.

So obviously you are shortening the amount of weeks you are working right now, when we get -- how can we kind of think about a normalized OpEx here when things do recover? You've done a lot of nice work there on the OpEx, but how should we think about those two lines as we move forward?

Lora Ho - *TSMC - CFO and VP*

Michael, we are doing some cost savings in the factory and also saving on the operating expenses, it's across the board at [TSMC]. In the normal times you can see in 2008 that the operating expenses accounts around 11% of our revenue. That's for whole year. Of course, that includes employee profit sharing.

With the profit going to be less and that employee profit sharing can be considered variable cost. The cost saving part of any expenses, Rick just said, we will not cut any R&D expense.

Michael McConnell - *Pacific Crest Securities - Analyst*

Sure.

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Lora Ho - TSMC - CFO and VP

So I think in general the operating expense will roughly account for 15% of our revenue.

Michael McConnell - Pacific Crest Securities - Analyst

Okay. And if we kind of get into a recovery mode whenever that is, should we be thinking more about returning to that 11% threshold or could we even be lower based on some of the efficiencies you are putting in place right now?

Lora Ho - TSMC - CFO and VP

Yes, I think you can assume that. Of course, we can hope it can be lower than that.

Michael McConnell - Pacific Crest Securities - Analyst

Okay. And last one from me. How should we think about the net non-operating line for Q1?

Lora Ho - TSMC - CFO and VP

That number usually is relatively small for TSMC. But as interest rate goes down so our interest income will be less than we have seen in '08. And also the investment losses with SSMC and Vanguard with the low utilization, so investment losses will be bigger than fourth quarter that's for sure. I hope that gives you some idea.

Michael McConnell - Pacific Crest Securities - Analyst

Any idea how big, or it's roughly double kind of?

Lora Ho - TSMC - CFO and VP

I cannot tell you how big it will be.

Michael McConnell - Pacific Crest Securities - Analyst

Okay, thanks a lot.

Operator

Your next question comes from the line of Pranab Sarmah from Daiwa Securities please proceed.

Pranab Sarmah - Daiwa Securities - Analyst

Thank you. Can you give us a little bit of an idea on the first quarter of '09 whether you are seeing utilization rate at 12 inch something higher than the 8 inch or it was quite similar in both fabs?

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Lora Ho - TSMC - CFO and VP

Are you asking whether utilization rate is about the same across all fabs?

Pranab Sarmah - Daiwa Securities - Analyst

All fabs or advanced technology has a higher utilization rate than the mature technology.

Lora Ho - TSMC - CFO and VP

Okay, all right. First quarter of advanced technology they are both very low. First -- 8 inch is lower than 12 inch.

Pranab Sarmah - Daiwa Securities - Analyst

And, Lora, breakeven utilization rate currently what percentage point is going on, and what is your effort? How much you can really lower it down over the next one or two quarters given all these cost cutting measures.

Lora Ho - TSMC - CFO and VP

We have watching the breakeven point, at this point of time, our breakeven point at operating income level is roughly about 40% utilization, slight or slightly below 40%.

Pranab Sarmah - Daiwa Securities - Analyst

And is there any way to cut it down further to high 30s or mid 30s?

Lora Ho - TSMC - CFO and VP

I think there is a way but we have been doing that since fourth quarter in terms of cutting costs. For example, I can share with you the total cost savings in the fourth quarter was roughly TWD1b. And for the first quarter we are going to do more. So estimate cost savings will be roughly TWD4b, including the cost in OP of any expenses also the cost of sales. Also it helps --

Pranab Sarmah - Daiwa Securities - Analyst

The last question is -- sorry.

Lora Ho - TSMC - CFO and VP

I am just trying to say that helps a little bit to lower down the breakeven point.

Pranab Sarmah - Daiwa Securities - Analyst

And last question is the tax rate guidance for 2009, how should we should take it for our model?

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Lora Ho - TSMC - CFO and VP

The tax -- since the profit would be low in 2009 and we also enjoy some tax credit, so the net tax expenses and tax credit will be very low.

Pranab Sarmah - Daiwa Securities - Analyst

It will be around say 12%, 13% tax rate or it will be lower below 10% net rate?

Lora Ho - TSMC - CFO and VP

Much lower than 10%, actually tax expenses probably very close to tax credit.

Pranab Sarmah - Daiwa Securities - Analyst

Okay so it's almost zero. Okay, thank you very much.

Operator

Your next question comes from the line of Donald Lu from Goldman Sachs. Please proceed, sir.

Donald Lu - Goldman Sachs - Analyst

Yes, hi. Lora, I just want to follow up the last question, for Q -- what is the tax rate for Q1, because you are losing money and we never model your tax because you never -- now you are losing money before.

Lora Ho - TSMC - CFO and VP

First quarter we will have a loss so there is no income tax.

Donald Lu - Goldman Sachs - Analyst

You also have tax credits, can you get tax credits.

Lora Ho - TSMC - CFO and VP

Yes, we can get tax credit so the net tax will be positive in first quarter.

Donald Lu - Goldman Sachs - Analyst

How much should we model?

Lora Ho - TSMC - CFO and VP

It's probably difficult to tell you. And I think it will be in the TWD1b range.

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Donald Lu - *Goldman Sachs - Analyst*

TWD1b?

Lora Ho - *TSMC - CFO and VP*

Right.

Donald Lu - *Goldman Sachs - Analyst*

And you just said for the whole year that effective tax rate should be almost zero.

Lora Ho - *TSMC - CFO and VP*

Yes.

Donald Lu - *Goldman Sachs - Analyst*

Okay, thank you very much. My second question is on the breakeven utilization. You mentioned it is slightly below 40% right now?

Lora Ho - *TSMC - CFO and VP*

Yes, I did.

Donald Lu - *Goldman Sachs - Analyst*

I remember back in 2001 your breakeven utilization was also about 40%.

Lora Ho - *TSMC - CFO and VP*

No.

Donald Lu - *Goldman Sachs - Analyst*

And over the years so many fabs are depreciated, etc, why it has not improved?

Lora Ho - *TSMC - CFO and VP*

Donald, actually our utilization back to 2001 was 45%. So over the years we have improved 5%.

Donald Lu - *Goldman Sachs - Analyst*

Oh, but if I remember correctly, I think in the second quarter of 2001 the utilization was around 40% or 41% and you're operating barely breakeven.

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Lora Ho - TSMC - CFO and VP

At that time there was no employee profit sharing.

Donald Lu - Goldman Sachs - Analyst

Got it.

Lora Ho - TSMC - CFO and VP

Yes.

Operator

Your next question comes from the line of Daniel Zhu from Lusight Research. Please proceed.

Daniel Zhu - Lusight Research - Analyst

Hi. My first question is how many percent of your guided revenues is based on actual orders already placed by customers? And to what extent have you experienced large scale order cancellations or postponements in the last three months?

Rick Tsai - TSMC - CEO and President

For the first quarter revenue I would say the booking -- 85% and more, higher is already in. We have seen holds, wafer holds or finished goods holds from our customers during the last three months. We have not seen much cancellation.

Daniel Zhu - Lusight Research - Analyst

How about postponement?

Rick Tsai - TSMC - CEO and President

That's wafer holds, that's what I mean, postponement.

Daniel Zhu - Lusight Research - Analyst

Okay. Thank you. And my second question is you mentioned earlier to expand more to analog products such as automotive products. Do you have a target how many percent of your total revenue is going to be derived from analog products in the next two years?

Rick Tsai - TSMC - CEO and President

We do. I do not have them at the top of my head unfortunately.

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Daniel Zhu - *Lusight Research - Analyst*

But around 6%, 10% or something like that.

Rick Tsai - *TSMC - CEO and President*

Probably not 10%, it probably will be in the single digit area for a while. But I think we'd like that to go from a mid-single digit to a high single digit.

Daniel Zhu - *Lusight Research - Analyst*

Okay, thank you. My last question if I may ask is have you ever thought of going to solar PV industry in the next three years or five years?

Rick Tsai - *TSMC - CEO and President*

We do look at opportunities which are in our view adjacent to our industry and where our core competency can be -- can add value. I think solar area, PV area is one of those that we are looking at. However, there is no decision being made.

Daniel Zhu - *Lusight Research - Analyst*

Okay, thank you very much. This is all the questions I have.

Lora Ho - *TSMC - CFO and VP*

Operator, in the interests of time we will open for questions for two more callers.

Operator

The following question comes from the line of Bhavin Shah from JP Morgan. Please proceed.

Bhavin Shah - *JPMorgan - Analyst*

Rick I understand the environment is very uncertain, but would it be possible for you to say in which quarter you might expect to reach, I don't know, say 5,000 a wafer a month for 45 nanometer in terms of output, or say \$100m in revenues on a quarterly basis? Or any sort of -- in terms of a benchmark that you think you are hoping to achieve for 45 nanometer?

Rick Tsai - *TSMC - CEO and President*

I would strive to achieve for instance the \$100m sometime in the third quarter.

Bhavin Shah - *JPMorgan - Analyst*

Okay, thank you.

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Rick Tsai - TSMC - CEO and President

Thank you.

Operator

Your next question is a follow up from the line of Randy Abrams from Credit Suisse. Please proceed, sir.

Randy Abrams - Credit Suisse - Analyst

Yes, could you elaborate on your first quarter with the effect of the Chinese New Year, maybe talk about the linearity of monthly sales through the quarter?

Rick Tsai - TSMC - CEO and President

You will see month of February being very short, so you'll see a dip. But otherwise you will see a fairly flat profile.

Randy Abrams - Credit Suisse - Analyst

Okay, thanks. And could you talk about in fourth quarter the non-wafer revenue. It's been about 9% of revenue. Did that go up in fourth quarter because the wafer shipments fell so much? I am just trying to reconcile the ASPs for wafer shipments because it would imply ASPs actually went up a bit in fourth quarter.

Lora Ho - TSMC - CFO and VP

Yes, the non-wafer revenue did -- went up in fourth quarter and it will be even higher in first quarter.

Randy Abrams - Credit Suisse - Analyst

Okay. Do you have an approximate magnitude of percent of sales?

Lora Ho - TSMC - CFO and VP

We did not disclose that kind of magnitude in the past and I do not think we should make an exception this time.

Randy Abrams - Credit Suisse - Analyst

Okay. And just one final question, I was curious as to your expectation for pricing normally as business starts to come back and utilization low, there is a bit more aggressive pricing. Are you starting to get conversations from customers on the pricing side?

Rick Tsai - TSMC - CEO and President

We are seeing some, more in the mainstream technology area. I think our efforts in working toward a better structured profitability has worked reasonably well. We have worked with many customers over the last six months also. I think the price decline rate in 2008 has improved over that of 2007.



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We would strive again to achieve that in 2009. So far, I think, of course, this is only January, but so far we do not see a major problem ahead.

Randy Abrams - *Credit Suisse - Analyst*

Thank you.

Rick Tsai - *TSMC - CEO and President*

Thank you.

Lora Ho - *TSMC - CFO and VP*

Operator, I think this concludes our conference call.

Operator

Before we conclude TSMC's fourth quarter '08 results webcast conference call today, please be advised that the replay of the conference call will only be accessible through TSMC's website at www.tsmc.com. Thank you all.

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