



1Q08

Quarterly Management Report
April 29, 2008**CONTACT**

Elizabeth Sun / Harrison Hsueh

Investor Relations Division
TSMC
invest@tsmc.com
886-3-568-2085/ 2088**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)*

	1Q08	4Q07	1Q07	QoQ	YoY
EPS (NT\$ per common share) (US\$ per ADR unit)	1.10 0.17	1.31 0.20	0.71 0.11	(16.4%)	54.0%
Consolidated Net Sales	87.48	93.86	64.90	(6.8%)	34.8%
Gross Profit	38.24	44.84	24.61	(14.7%)	55.4%
<i>Gross Margin</i>	<i>43.7%</i>	<i>47.8%</i>	<i>37.9%</i>		
Operating Expense	(9.12)	(8.08)	(6.73)	12.9%	35.4%
Operating Income	29.12	36.76	17.88	(20.8%)	62.9%
<i>Operating Margin</i>	<i>33.3%</i>	<i>39.2%</i>	<i>27.5%</i>		
Non-Operating Items	2.45	2.57	2.19	(4.9%)	11.8%
Net Income	28.14	34.48	18.84	(18.4%)	49.4%
<i>Net Profit Margin</i>	<i>32.2%</i>	<i>36.7%</i>	<i>29.0%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	2,196	2,357	1,566	(6.8%)	40.3%

Remarks:

The first quarter diluted earnings per share were NT\$1.10, representing an increase of 54.0% over the same period last year and a decline of 16.4% from the previous quarter. The consolidated operating results of 1Q08 are summarized below:

Net sales in the first quarter were NT\$87.5 billion, up 34.8% from NT\$64.9 billion in 1Q07 and down 6.8% from NT\$93.9 billion in 4Q07.

Gross profit for the quarter was NT\$38.2 billion with gross margin of 43.7%, 4.1 percentage points lower than the 47.8% gross margin in 4Q07, mainly due to accrued expenses of employee profit sharing and negative impact of a higher than forecast appreciation of the NT dollar.

Operating expenses, including expenses accrued for employee profit sharing, were NT\$9.1 billion or 10.4% of net sales. The combined result from non-operating income and long-term investments was a gain of NT\$2.4 billion.

Consolidated net income attributable to shareholders of the parent company, including an accrual of employee profit sharing, was NT\$28.1 billion, up 49.4% from a year ago level and down 18.4% from the previous quarter. Net profit margin was 32.2% for 1Q08.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	1Q08	4Q07	1Q07
Computer	34%	35%	30%
Communication	42%	42%	42%
Consumer	17%	15%	17%
Industrial/Others	5%	5%	7%
Memory	2%	3%	4%

By Technology	1Q08	4Q07	1Q07
65nm and below	15%	10%	1%
90nm	28%	29%	22%
0.11/0.13um	20%	20%	26%
0.15/0.18um	23%	27%	30%
0.25/0.35um	10%	10%	15%
0.50um+	4%	4%	6%

By Customer Type	1Q08	4Q07	1Q07
Fabless/System	71%	68%	65%
IDM	29%	32%	35%

By Geography	1Q08	4Q07	1Q07
North America	76%	79%	77%
Asia Pacific	12%	11%	11%
Europe	9%	8%	7%
Japan	3%	2%	5%

Revenue Analysis:

In-line with our guidance, first quarter 2008 revenue reached NT\$87.5 billion. 1Q08 business followed a normal seasonal pattern but revenue was negatively impacted by a 2.6% appreciation in the NT dollar. Demand from consumer related applications grew but communication and computer applications declined during the quarter. On a sequential basis, revenue from consumer applications increased 3%, while revenues for communication and computer applications declined 9% and 12%, respectively.

As a result of continued strong ramp for our 65nm technology, revenue from 65nm reached 15% of total wafer sales during the quarter, up from 10% in the previous quarter. Meanwhile, revenue from 90nm remained strong and accounted for 28% of total wafer sales. Overall, revenues from advanced technologies (0.13-micron and below) accounted for 63% of total wafer sales, up four percentage points from the 4Q07.

Revenues from IDM customers accounted for 29% of total wafer sales in 1Q08, compared to 32% in 4Q07.

From a geographic perspective, revenues from customers based in North America accounted for 76% of total wafer sales. Meanwhile, sales from customers in Asia Pacific, Europe and Japan accounted for 12%, 9% and 3% of wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	1Q08	4Q07	1Q07
COGS	49.2	49.0	40.3
Depreciation	18.1	18.5	18.5
Other MFG Cost	31.1	30.5	21.8
Gross Profit	38.2	44.8	24.6
Gross Margin	43.7%	47.8%	37.9%

Gross Profit Analysis:

Gross margin in 1Q08 was 43.7%, down 4.1 percentage points from the previous quarter, reflecting the expensing of employee profit sharing (2.5 percentage points), an appreciation of NT dollar (1.0 percentage point), and a lower level of capacity utilization, partially offset by cost improvements.

II - 2. Operating Expenses

(In NT billions)	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Total Operating Exp.	9.12	8.08	6.73
SG&A	3.85	3.07	2.79
Research & Development	5.27	5.01	3.94
Total Operating Exp. as a % of Sales	10.4%	8.6%	10.4%

II - 3. Non-Operating Items

(In NT billions)	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Non-Operating Inc./(Exp.)	1.8	1.7	1.8
Net Interest Income/(Exp.)	1.2	1.2	1.2
Other Non-Operating	0.6	0.5	0.6
L-T Investments	0.6	0.9	0.4
SSMC	0.4	0.5	0.1
Others	0.2	0.4	0.3
Total Non-Operating Items	2.4	2.6	2.2

II - 4. PSE Impact

	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Gross Margin w/ PSE	43.7%	43.2%	34.3%
Gross Margin w/o PSE	46.2%	47.8%	37.9%
PSE Impact	-2.5%	-4.6%	-3.6%
Operating Margin w/ PSE	33.3%	30.2%	20.4%
Operating Margin w/o PSE	38.1%	39.2%	27.5%
PSE Impact	-4.8%	-9.0%	-7.1%

* PSE: Profit Sharing Expenses

** 2007 PSE impact is estimated using the 12/31/2007 closing share price adjusted for dividends

Operating Expenses:

Total operating expenses for 1Q08, including the accrued expenses of employee profit sharing (2.3 percentage points), increased by 12.9% sequentially to reach NT\$9.1 billion, or 10.4% of net sales, compared with 8.6% of net sales in the previous quarter.

Research and development expenditures increased by NT\$258 million quarter-over-quarter, mainly due to expensing of employee profit sharing, offset partially by cost improvement due to the maturity of 65nm technologies.

SG&A expenses increased by NT\$780 million from the previous quarter, mostly due to expensing of employee profit sharing.

Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$2.4 billion for first quarter 2008.

Non-operating income was NT\$1.8 billion, up from NT\$1.7 billion in the previous quarter, primarily due to lower hedging costs.

Net investment income decreased by NT\$300 million in the quarter to NT\$577 million.

The Impact of Employee Profit Sharing:

Total impact from employee profit sharing expensing (PSE) on gross margin in 1Q08 was 2.5 percentage points. If we use 12/31/2007 market price, adjusted for dividends, to reflect PSE's impact in 2007, gross margin in 1Q08 would represent an improvement of 50 basis points from 4Q07.

Similarly, total PSE impact on operating margin was 4.8 percentage points in 1Q08, which was 4.2 percentage points less than that of 4Q07.

III. Financial Condition Review

III - 1. Liquidity Analysis			
(Selected Balance Sheet Items)			
(In NT billions)	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Cash & Marketable Securities	210.3	174.8	217.4
Accounts Receivable - Trade	38.0	42.4	33.1
Inventory	21.9	23.9	22.3
Total Current Assets	281.5	249.8	286.1
Accounts Payable	22.6	19.3	19.2
Current Portion of Bonds Payable	8.0	0.0	4.5
Accrued Liabilities and Others	31.4	29.4	21.4
Total Current Liabilities	62.0	48.7	45.1
Current Ratio (x)	4.5	5.1	6.3
Net Working Capital	219.4	201.1	241.0

Liquidity Analysis:

At the end of 1Q08, total cash and marketable securities increased by NT\$35.5 billion, as we generated \$42.0 billion free cash flow during the quarter. TSMC ended the quarter with total current assets of NT\$281.5 billion.

Total current liabilities increased by NT\$13.3 billion in 1Q08, primarily due to increases in payables to equipment suppliers, accrual of employee profit sharing, and reclassification of corporate bonds.

Net working capital was NT\$219.4 billion at the end of the quarter, current ratio declined slightly to 4.5.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Days of Receivable	43	42	47
Days of Inventory	46	48	52

Receivable and Inventory Days:

Sequentially, days of receivable increased by one day to 43 days in 1Q08 while days of inventory declined by two days to 46 days.

III - 3. Debt Service			
(In NT billions)	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Cash & Marketable Securities	210.3	174.8	217.4
Interest-Bearing Debt	22.9	23.1	26.2
Net Cash Reserves	187.4	151.7	191.2

Debt Service:

Net cash reserves - defined as the excess of cash and short-term marketable securities over interest-bearing debt - increased by NT\$35.7 billion to NT\$187.4 billion at the end of 1Q08. Interest-bearing debt declined slightly due to the appreciation of NT dollar.

IV. Cash Flow

IV - 1. Cash Flow Analysis

(In NT billions)	<u>1Q08</u>	<u>4Q07</u>	<u>1Q07</u>
Net Income	28.1	34.5	18.8
Depreciation & Amortization	19.8	20.3	20.3
Other Operating Sources/(Uses)	9.4	5.0	(1.0)
Total Operating Sources/(Uses)	<u>57.3</u>	<u>59.8</u>	<u>38.1</u>
Capital Expenditure	(15.3)	(19.8)	(14.0)
Marketable Financial Instruments	12.9	8.2	3.5
Other Investing Sources/(Uses)	(0.7)	(1.1)	(2.9)
Net Investing Sources/(Uses)	<u>(3.1)</u>	<u>(12.7)</u>	<u>(13.4)</u>
Repayment of Bonds Payable	0.0	(4.5)	(2.5)
Repurchase of Treasury Stock	(3.1)	(45.4)	0.0
Other Financing Sources/(Uses)	(0.2)	(0.2)	(0.3)
Net Financing Sources/(Uses)	<u>(3.3)</u>	<u>(50.1)</u>	<u>(2.8)</u>
Net Cash Position Changes	50.9	(3.0)	21.9
Exchange Rate Changes & Others	(1.6)	(0.3)	0.6
Ending Cash Balance	144.3	95.0	140.3

Summary of Cash Flow:

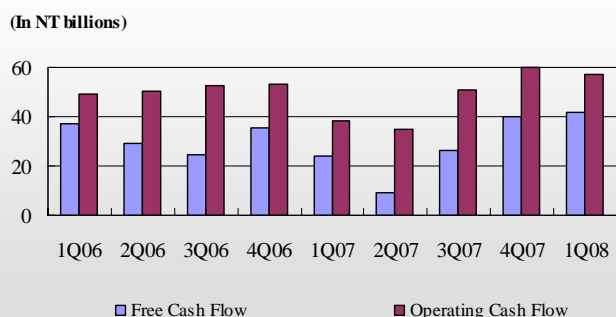
Cash generated from operating activities totaled NT\$57.3 billion during the quarter, down from NT\$59.8 billion in 4Q07.

Net cash used in investing activities was NT\$3.1 billion in 1Q08, reflecting capital expenditure of NT\$15.3 billion and a net decrease of NT\$12.9 billion in marketable financial instruments.

Net cash used in financing activities was NT\$3.3 billion during the quarter, as we spent NT\$3.1 billion in share buybacks.

As a result, TSMC ended the quarter with a cash balance of NT\$144.3 billion.

IV-2. Operating and Free Cash Flows



Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$57.3 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$42.0 billion in 1Q08, compared to NT\$40.0 billion in 4Q07.

V. CapEx & Capacity

V - 1. Capital Expenditures		
(In US millions)	1Q08	4Q07
TSMC	452	577
XinTec and GUC	13	16
TSMC Shanghai & WaferTech	18	17
Other TSMC Subsidiaries	<u>1</u>	<u>1</u>
Total TSMC	484	611

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$484 million during the quarter.

For year 2008, total capital expenditures for TSMC is expected to be around US\$1.8 billion, compared with US\$2.6 billion spent in 2007.

V-2. Capacity					
Fab / (Wafer size)	1Q08 (A)	2Q08 (F)	3Q08 (F)	4Q08 (F)	2008 (F)
Fab-2 (6") ¹	248	267	269	272	1,056
Fab-3 (8")	277	283	274	274	1,109
Fab-5 (8")	163	165	167	167	662
Fab-6 (8")	265	272	280	277	1,094
Fab-8 (8")	262	275	278	278	1,094
Fab-12 (12") ²	197	206	210	214	828
Fab-14 (12") ²	167	185	225	229	806
WaferTech (8")	105	105	106	106	420
TSMC (Shanghai) (8")	88	110	128	128	453
TSMC total capacity (8" equiv. Kpcs)	2,117	2,241	2,363	2,380	9,101
SSMC (8")	63	67	69	73	272
Total managed capacity (8" equiv. Kpcs)	2,180	2,308	2,433	2,454	9,374

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:

Total TSMC managed capacity was 2,180K 8-inch equivalent wafers in the first quarter, 4% lower than 4Q07, mostly due to scheduled fab maintenance and less working days.

TSMC managed capacity in 2Q08 will increase by 6% to reach 2,308K 8-inch equivalent wafers.

Total managed capacity for 2008 is expected to reach 9,374K 8-inch equivalent wafers, representing an increase of 13% from 8,290K 8-inch equivalent wafers in 2007, while capacity for 12-inch wafer fabs will increase by 25%.

VI. Recap of Recent Important Events & Announcements

- TSMC First to Deliver 40nm Process Technology, including Embedded DRAM, Mixed Signal & RF and Regular MPW Prototyping Service (2008/03/24)
- TSMC Announces Reorganization of Advanced and Mainstream Business Units to Improve Structural Profitability and Strengthen Customer Partnership (2008/02/29)
- TSMC Board Proposes Dividend of NT\$3.0 Cash and 0.5% Stock Per Share (2008/02/19)
- TSMC Board Approves The Cancellation of 800 million Treasury Shares Purchased from The Open Market and Reduction of Capital Stock by NT\$8,000 million. (2008/02/19)
- Sun Selects TSMC to Fab 45-nanometer and Future Generation Processors (2008/02/19)

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