

**3Q08**Quarterly Management Report
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Elizabeth Sun / Harrison Hsueh

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

Topics in This Report

- Revenue Analysis
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- CapEx & Capacity
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Operating Results Review:**Summary:***(Amounts are on consolidated basis and are in NT billions except otherwise noted)*

	3Q08	2Q08	3Q07	QoQ	YoY
EPS (NT\$ per common share)	1.18	1.10	1.13	7.5%	4.9%
(US\$ per ADR unit)	0.19	0.18	0.17		
Consolidated Net Sales	92.98	88.14	88.96	5.5%	4.5%
Gross Profit	43.09	40.22	40.72	7.1%	5.8%
<i>Gross Margin</i>	<i>46.3%</i>	<i>45.6%</i>	<i>45.8%</i>		
Operating Expense	(10.18)	(9.85)	(8.37)	3.3%	21.6%
Operating Income	32.92	30.37	32.35	8.4%	1.7%
<i>Operating Margin</i>	<i>35.4%</i>	<i>34.5%</i>	<i>36.4%</i>		
Non-Operating Items	1.51	2.00	1.87	(24.5%)	(18.9%)
Net Income	30.57	28.77	30.37	6.3%	0.7%
<i>Net Profit Margin</i>	<i>32.9%</i>	<i>32.6%</i>	<i>34.1%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	2,411	2,329	2,226	3.5%	8.3%

*Note: Total outstanding shares were 25,625mn units on 9/30/08***Remarks:**

The diluted earnings per share in 3Q08 were NT\$1.18, representing an increase of 4.9% over the same period last year and an increase of 7.5% from the previous quarter. The consolidated operating results of 3Q08 are summarized below:

Net sales in the third quarter were NT\$93.0 billion, up 4.5% from NT\$89.0 billion in 3Q07 and up 5.5% from NT\$88.1 billion in 2Q08.

Gross profit for the quarter was NT\$43.1 billion with gross margin of 46.3%, 0.7 percentage point higher than the 45.6% gross margin in 2Q08, mainly due to a favorable change of the exchange rate.

Operating expenses, including expenses accrued for employee profit sharing, were NT\$10.2 billion or 10.9% of net sales. The combined result from non-operating income and long-term investments was a gain of NT\$1.5 billion.

Consolidated net income attributable to shareholders of the parent company, including an accrual of employee profit sharing, was NT\$30.6 billion, slightly up 0.7% from a year ago level and up 6.3% from the previous quarter. Net profit margin was 32.9% for 3Q08.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	3Q08	2Q08	3Q07
Computer	33%	31%	32%
Communication	41%	41%	42%
Consumer	20%	21%	17%
Industrial/Others	6%	7%	9%

By Technology	3Q08	2Q08	3Q07
65nm and below	25%	18%	7%
90nm	26%	28%	27%
0.11/0.13um	15%	17%	22%
0.15/0.18um	22%	23%	28%
0.25/0.35um	9%	10%	11%
0.50um+	3%	4%	5%

By Customer Type	3Q08	2Q08	3Q07
Fabless/System	70%	71%	66%
IDM	30%	29%	34%

By Geography	3Q08	2Q08	3Q07
North America	74%	73%	74%
Asia Pacific	13%	13%	13%
Europe	10%	11%	10%
Japan	3%	3%	3%

Revenue Analysis:

In-line with our guidance, the third quarter 2008 revenue reached NT\$93.0 billion. 3Q08 business saw a continued improvement and revenue benefited from a 2.4% depreciation in the NT dollar against the US dollar. Demand grew across the board during the quarter. On a quarter-over-quarter basis, revenues from computer, communication, and consumer applications increased 9%, 7% and 1%, respectively.

As a result of continued strong ramp for our 65nm technology, revenue from 65nm reached 25% of total wafer sales during the quarter, up from 18% in the previous quarter. Meanwhile, revenue from 90nm declined slightly to 26% of total wafer sales. Overall, revenues from advanced technologies (0.13-micron and below) accounted for 66% of total wafer sales, up from 63% in 2Q08.

Revenues from IDM customers accounted for 30% of total wafer sales in 3Q08, slightly up from 2Q08.

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

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
COGS	49.89	47.92	48.23
Depreciation	19.06	18.23	18.20
Other MFG Cost	30.83	29.69	30.03
Gross Profit	43.09	40.22	40.72
Gross Margin	46.3%	45.6%	45.8%

Gross Profit Analysis:

Gross margin in 3Q08 was 46.3%, up 0.7 percentage point from the previous quarter, mainly reflecting a favorable change of the exchange rate.

II - 2. Operating Expenses

(In NT billions)	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
Total Operating Exp.	10.18	9.85	8.37
SG&A	4.20	4.45	3.68
Research & Development	5.98	5.40	4.69
Total Operating Exp. as a % of Sales	10.9%	11.1%	9.4%

Operating Expenses:

Total operating expenses for 3Q08 increased by 3.3% sequentially to reach NT\$10.2 billion, or 10.9% of net sales, compared with 11.1% of net sales in the previous quarter.

Research and development expenditures increased by NT\$577 million quarter-over-quarter, mainly due to 32nm technology development and 45nm technology transfer.

SG&A expenses decreased by NT\$248 million from the previous quarter, primarily due to less spending in this quarter for the ramp-up of Fab 14 Phase 3 and for the promotion of world-wide technology marketing activities.

II - 3. Non-Operating Items

(In NT billions)	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
Non-Operating Inc./(Exp.)	1.33	1.72	1.09
Net Interest Income/(Exp.)	1.15	1.24	1.10
Other Non-Operating	0.18	0.48	(0.01)
L-T Investments	0.18	0.28	0.78
SSMC	0.15	0.30	0.41
Others	0.03	(0.02)	0.37
Total Non-Operating Items	1.51	2.00	1.87

Non-Operating Items:

Combined result from non-operating income and long-term investments income was a gain of NT\$1.5 billion for the third quarter 2008.

Non-operating income was NT\$1.3 billion, down from NT\$1.7 billion in 2Q08, primarily due to an increase of valuation losses on financial instruments, less gains from disposal of financial assets, and recognition of losses from idle tools, but partially offset by less impairment losses of financial assets.

Net investment income decreased by NT\$94 million in the quarter to NT\$185 million.

II - 4. PSE Impact

	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
Gross Margin w/ PSE	46.3%	45.6%	41.3%
Gross Margin w/o PSE	48.9%	48.2%	45.8%
PSE Impact	-2.6%	-2.6%	-4.5%
Operating Margin w/ PSE	35.4%	34.5%	27.7%
Operating Margin w/o PSE	40.3%	39.4%	36.4%
PSE Impact	-4.9%	-4.9%	-8.7%

* PSE: Profit Sharing Expenses

** 2007 PSE impact is estimated using the 6/12/2008 closing share price adjusted for dividends

The Impact of Employee Profit Sharing:

Total impact from employee profit sharing expensing (PSE) on gross margin in 3Q08 was 2.6 percentage points, flat comparing to the previous quarter.

Similarly, total PSE impact on operating margin was 4.9 percentage points in 3Q08.

III. Financial Condition Review

III - 1. Liquidity Analysis			
(Selected Balance Sheet Items)			
(In NT billions)	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
Cash & Marketable Securities	158.17	223.99	176.39
Accounts Receivable - Trade	45.33	41.86	42.36
Inventory	21.82	23.36	24.53
Total Current Assets	232.35	299.76	250.06
Accounts Payable	17.75	21.14	24.24
Current Portion of Bonds Payable	8.00	8.00	4.50
Dividends Payable	0.00	77.04	0.00
Accrued Bonus to Employees, Directors and Supervisors	13.46	12.96	0.00
Accrued Liabilities and Others	22.92	27.84	22.15
Total Current Liabilities	62.13	146.98	50.89
Current Ratio (x)	3.7	2.0	4.9
Net Working Capital	170.22	152.78	199.17

Liquidity Analysis:

At the end of 3Q08, total current assets decreased by NT\$ 67.4 billion to NT\$232.3 billion, mainly due to the decrease of NT\$65.8 billion in cash and marketable securities as we paid cash dividend of NT\$76.8 billion in this quarter.

Total current liabilities decreased by NT\$84.8 billion in this quarter, primarily due to the payment of cash dividends accrued in the previous quarter.

Net working capital was NT\$170.2 billion and current ratio increased to 3.7 at the end of this quarter.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
Days of Receivable	43	42	42
Days of Inventory	45	47	48

Receivable and Inventory Days:

Sequentially, days of receivable increased by one day to 43 days in 3Q08 while days of inventory decreased by two days to 45 days.

III - 3. Debt Service			
(In NT billions)	<u>3Q08</u>	<u>2Q08</u>	<u>3Q07</u>
Cash & Marketable Securities	158.17	223.99	176.39
Interest-Bearing Debt	23.41	22.90	26.66
Net Cash Reserves	134.76	201.09	149.73

Debt Service:

Net cash reserves - defined as the excess of cash and short-term marketable securities over interest-bearing debt - decreased by NT\$66.3 billion to NT\$134.8 billion at the end of 3Q08, primarily due to the payment of cash dividends.

IV. Cash Flow

IV - 1. Cash Flow Analysis			
(In NT billions)	3Q08	2Q08	3Q07
Net Income	30.57	28.77	30.37
Depreciation & Amortization	20.69	20.03	19.86
Other Operating Sources/(Uses)	4.64	(3.75)	0.98
Total Operating Sources/(Uses)	<u>55.90</u>	<u>45.05</u>	<u>51.21</u>
Capital Expenditure	(10.38)	(22.27)	(24.92)
Marketable Financial Instruments	(18.07)	27.20	(2.76)
Other Investing Sources/(Uses)	1.93	(1.33)	(6.78)
Net Investing Sources/(Uses)	<u>(26.52)</u>	<u>3.60</u>	<u>(34.46)</u>
Cash Dividends	(76.78)	0.00	(77.39)
Employee Profit Sharing	(3.94)	0.00	(4.57)
Purchase of Treasury Stock	(23.81)	(6.62)	0.00
Other Financing Sources/(Uses)	(0.43)	(0.23)	(0.02)
Net Financing Sources/(Uses)	<u>(104.96)</u>	<u>(6.85)</u>	<u>(81.98)</u>
Net Cash Position Changes	(75.58)	41.80	(65.23)
Exchange Rate Changes & Others	2.68	(0.73)	0.17
Ending Cash Balance	112.45	185.35	98.33

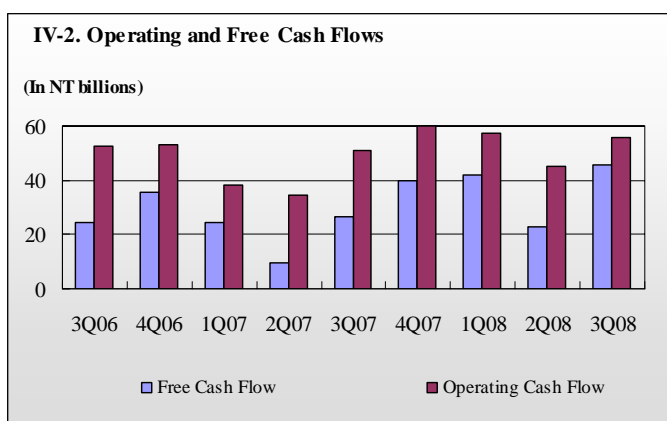
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$55.9 billion during the quarter, up from NT\$45.1 billion in 2Q08.

Net cash used in investing activities was NT\$26.5 billion in 3Q08, reflecting the capital expenditure of NT\$10.4 billion and a net increase of NT\$18.1 billion in marketable financial instruments.

Net cash used in financing activities was NT\$105.0 billion during the quarter, as we paid NT\$80.7 billion for cash dividends and employee profit sharing as well as NT\$23.8 billion in share buyback.

As a result, TSMC ended the quarter with a cash balance of NT\$112.4 billion.



Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$55.9 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$45.5 billion in 3Q08, compared to NT\$22.8 billion in 2Q08.

V. CapEx & Capacity

V - 1. Capital Expenditures				
(In US millions)	<u>1Q08</u>	<u>2Q08</u>	<u>3Q08</u>	<u>YTD</u>
TSMC	452	712	317	1,481
XinTec and GUC	13	5	3	21
TSMC Shanghai & WaferTech	18	11	11	40
Other TSMC Subsidiaries	<u>1</u>	<u>0</u>	<u>1</u>	<u>2</u>
Total TSMC	484	728	332	1,544

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$332 million during the quarter.

First quarter through third quarter 2008, total capital expenditure reached US\$1.5 billion.

V-2. Capacity					
Fab / (Wafer size)	1Q08 (A)	2Q08 (A)	3Q08 (A)	4Q08 (F)	2008 (F)
Fab-2 (6") ¹	248	267	270	272	1,056
Fab-3 (8")	277	281	268	274	1,100
Fab-5 (8")	163	165	161	161	650
Fab-6 (8")	265	267	268	282	1,082
Fab-8 (8")	262	275	267	272	1,076
Fab-12 (12") ²	197	207	214	221	840
Fab-14 (12") ²	167	185	229	236	818
WaferTech (8")	105	105	106	106	420
TSMC (Shanghai) (8")	88	110	128	128	453
TSMC total capacity (8" equiv. Kpcs)	2,117	2,236	2,346	2,405	9,104
SSMC (8")	63	67	69	73	272
Total managed capacity (8" equiv. Kpcs)	2,180	2,303	2,416	2,478	9,377

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 2,416K 8-inch equivalent wafers in the third quarter, 5% more than 2Q08. TSMC managed capacity in 4Q08 will increase by 3% to reach 2,478K 8-inch equivalent wafers.

Total managed capacity for 2008 is expected to reach 9,377K 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 27%.

VI. Recap of Recent Important Events & Announcements

- TSMC Wins Asia's Best Companies Poll 2008 Held by FinanceAsia to Be Taiwan's Best Managed Companies, Best Corporate Governance, Best Investor Relations, And Most Committed to a Strong Dividend Policy (2008/09/30)
- TSMC's 28nm Will Be a Full Node Process to Provide First Comprehensive Manufacturing Platform Featuring Both High-K Metal Gate And Silicon Oxynitride (2008/09/29)
- TSMC Was Selected As DJSI Member For Eighth Straight Year and Joins Carbon Disclosure Leadership Index For First Time (2008/09/26)
- Philips Completes Exit of TSMC Shareholding (2008/08/14)
- TSMC Board Approves Plan to Buy Back Shares Up to NT\$16.5 Billion (Approximately US\$542 Million), or No More Than 283 Million Shares, of The Company's Common Shares from The Open Market (2008/08/12)
- TSMC Fab 14, Phase 3 Wins LEED Green Building Certification With "Gold Class" Score (2008/08/07)
- TSMC Announces Material Information About Clarification of TSMC's Business Outlook for The Second And Third Quarters 2008 (2008/07/03)
- TSMC Announces Common Share Ex-dividend Date at July 16th, 2008 (2008/07/01)

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