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From left to right:
F.C. Tseng, Vice Chairman
Morris Chang, Chairman
Rick Tsai, President and CEO



LETTER TO SHAREHOLDERS

Dear Shareholders,

2008 was a year of rapid change. TSMC's business remained vibrant in the first three quarters of the year, but saw demand slowing by the middle of the third quarter. Fourth quarter revenue substantially declined and showed no sign of recovery by the year-end.

With the sharp decline in the demand for semiconductors in the last quarter of 2008, revenue of the worldwide semiconductor market for the full year is estimated to have declined by about 3 percent from its 2007 level. Pure-play foundry segment is estimated to have outperformed the semiconductor industry and registered an annual growth rate of approximately 2 percent. TSMC outperformed its peers, delivered 7.9 percent revenue growth in US dollars, and gained market share to reach 51 percent among pure-play foundries during 2008. The outperformance is particularly pronounced in the advanced process technologies where TSMC successfully ramped its 65-nanometer process technology from 10 percent of wafer revenue at the beginning of the year to 27 percent by year-end, taking a share of more than 80 percent for that technology among the logic foundries.

Financial Results

Total consolidated revenue for 2008 was NT\$333.16 billion, a 3.3 percent increase compared with NT\$322.63 billion in 2007. Mainly due to the implementation of a new accounting rule that requires expensing of employee profit sharing in the Company's financial statements starting in 2008, net income decreased 8.5 percent to NT\$99.93 billion, compared with 2007 net income of NT\$109.18 billion. Similarly, diluted earnings per share decreased 5.7 percent to NT\$3.83, compared with NT\$4.06 a year earlier. Had the accounting rules remained the same and employee profit sharing had not been expensed, net income in 2008 would have been NT\$112.42 billion and EPS NT\$4.31. In US dollars, TSMC's 2008 revenue was US\$10.61 billion and net income was US\$3.18 billion.

Among other highlights in 2008, TSMC achieved:

- Total average capacity utilization of 90 percent;
- Average gross profit margin of 42.5 percent; and
- Average operating profit margin of 31.4 percent.

During the year, TSMC shipped 8.47 million eight-inch equivalent wafers, representing about 8 percent of global IC wafer shipments, up from 7.5 percent a year ago.

Technology Innovation

As a technology leader, TSMC is committed to investing in long-term growth by delivering continual innovation. Despite a challenging economic environment, 2008 was characterized by significant technological progress. TSMC led the foundry segment with qualification and delivery of 40-nanometer high performance and low-power technologies, using advanced immersion lithography, performance enhancing silicon strains and extreme low-k inter-metal dielectric material. TSMC also demonstrated the foundry's first 32-nanometer technology which supported both analog and digital functionalities. TSMC is the first foundry to announce the 28-nanometer process as a full node technology that will include a choice of silicon oxynitride and high-k/metal gate transistor options. Our paper on high-k/metal gate published in the 2008 International Electron Device Meeting proceedings was featured as a conference highlight.

In order to enable efficient implementation of innovations among the semiconductor design community, and its ecosystem partners, along with TSMC's own IP, design services and process technologies, TSMC unveiled its Open Innovation Platform™ (OIP) in early 2008. Central to the platform is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that can more efficiently empower innovation throughout the supply chain and yield benefit to all participants.

Corporate Developments

Early in 2008 TSMC reorganized and established the Advanced Technology Business Organization and the Mainstream Technology Business Organization by merging operation with technology and service marketing. These two new organizations will respectively take responsibility for formulation, development, and execution of advanced technology and mainstream technology business objectives, with dedicated human resources and more flexibility.

In August 2008, Royal Philips Electronics NV completed a four-phased plan and exited from its TSMC shareholding. As part of the plan, and subsequently for the purpose of partially offsetting the dilution from employee profit sharing, the Company repurchased, in two separate programs, a total of 495,549 thousand common shares in the open market of the Taiwan Stock Exchange, accounting for approximately 1.92% of its total outstanding shares, at an average price of NT\$61.40 per share. The repurchased shares were cancelled subsequently.

Honors and Awards

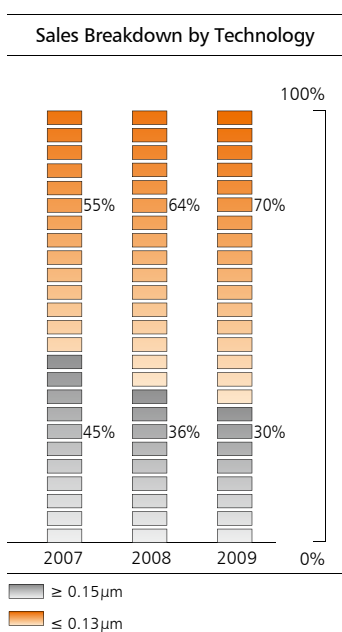
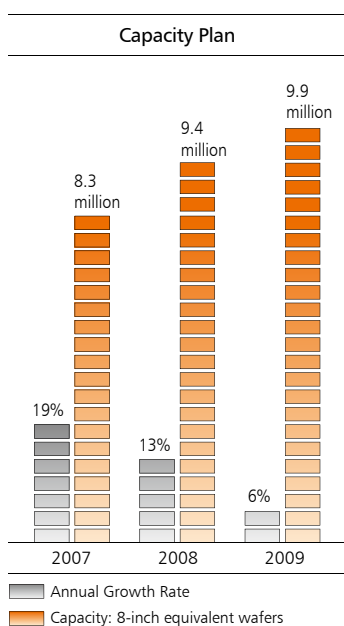
In recognition of his distinguished career and significant contributions to the U.S. semiconductor industry, the Semiconductor Industry Association (SIA), in November, honored TSMC's Chairman Dr. Morris Chang as the 2008 recipient of the Robert N. Noyce Memorial Award, the Association's highest honor.

TSMC, in 2008, continued to receive recognition and awards from around the world as a corporate role model. TSMC's disclosure and transparency and its focus on shareholder value have won top honors from *AsiaMoney Magazine*, *The Asset Magazine*, *Corporate Governance Asia*, *FinanceAsia*, and *Institutional Investors* in the areas of Corporate Governance, Management, and Investor Relations. *IR Magazine* announced TSMC as the winner of Grand Prix for Best Overall Investor Relations 6 years in a row, while *CommonWealth Magazine* voted TSMC the Most Admired Company in Taiwan for the 12th consecutive year, and also awarded us with "Excellence in Corporate Social Responsibility". As a leader in good corporate citizenship, TSMC was included in the Dow Jones Sustainability Index for the 8th consecutive year, and is the only company from Taiwan included in the Carbon Disclosure Leadership Index. TSMC has received certificate of National Industrial Safety and Health Award given by the Taiwan Executive Yuan, and its Fab 14 Phase III has been certified by the US Green Building Council as a Leader in Energy and Environmental Design (LEED).

Outlook

As we enter 2009, the global economy is in the midst of a deep recession and the timing of a recovery is uncertain. TSMC's Management understands that the strong headwinds brought by the global recession will likely result in a long period of slower business recovery. However, TSMC's solid balance sheet and strong cash position should enable us to weather the storm well. We will continue to invest wisely in our future to enhance our technologies and capabilities. TSMC's trinity of strengths: technology leadership, manufacturing excellence and customer partnership, will continue to enable us to become the most advanced, innovative, and largest provider of foundry services.

Historically, TSMC has leveraged periodic challenges to become stronger. The challenges of 2009 are clear, and all TSMC employees are committed to do our utmost to emerge from this global economic crisis stronger than ever.



2009 wafer shipment is expected to be approximately 4.6 million 8-inch equivalent wafers.

Morris Chang
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 Chairman

Rick Tsai
 Rick Tsai
 President and CEO