



2Q10

Quarterly Management Report
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Topics in This Report

- Revenue Analysis
- Profit & Expense Analysis
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- Cash Flow
- CapEx & Capacity
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Operating Results Review:**Summary:**

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

	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.55	1.30	0.94	19.7%	65.0%
(US\$ per ADR unit)	0.24	0.20	0.14		
Consolidated Net Sales	104.96	92.19	74.21	13.9%	41.4%
Gross Profit	51.93	44.19	34.30	17.5%	51.4%
<i>Gross Margin</i>	<i>49.5%</i>	<i>47.9%</i>	<i>46.2%</i>		
Operating Expense	(11.46)	(10.06)	(9.17)	13.9%	25.0%
Operating Income	40.47	34.13	25.13	18.6%	61.1%
<i>Operating Margin</i>	<i>38.6%</i>	<i>37.0%</i>	<i>33.9%</i>		
Non-Operating Items	1.94	1.18	1.26		
Net Income	40.28	33.66	24.44	19.7%	64.8%
<i>Net Profit Margin</i>	<i>38.4%</i>	<i>36.5%</i>	<i>32.9%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	2,927	2,547	1,971	14.9%	48.5%

Note: Total outstanding shares were 25,905mn units on 6/30/10

Financial Highlights:**Second Quarter 2010**

- Consolidated net sales were NT\$104.96 billion, representing a 13.9% increase from NT\$92.19 billion in 1Q10 and a 41.4% increase from NT\$74.21 billion in 2Q09.
- Gross margin was 49.5%, up 1.6 percentage points from 1Q10, and up 3.3 percentage points from 2Q09.
- Operating margin was 38.6%, 1.6 percentage points higher than 1Q10 and 4.7 percentage points higher than 2Q09.
- Non-operating income and long-term investment combined were a gain of NT\$1.94 billion, compared to a gain of NT\$1.18 billion in 1Q10, and NT\$1.26 billion in 2Q09.
- Consolidated net income attributable to shareholders of the parent company was NT\$40.28 billion, up 19.7% from 1Q10. Net profit margin was 38.4% and diluted EPS was NT\$1.55.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	2Q10	1Q10	2Q09
Computer	29%	32%	26%
Communication	41%	39%	42%
Consumer	15%	14%	18%
Industrial/Others	15%	15%	14%

By Technology	2Q10	1Q10	2Q09
40/45nm	16%	14%	1%
65nm	27%	27%	28%
90nm	16%	17%	23%
0.11/0.13um	13%	13%	13%
0.15/0.18um	17%	18%	23%
0.25/0.35um	8%	8%	9%
0.50um+	3%	3%	3%

By Customer Type	2Q10	1Q10	2Q09
Fabless/System	79%	77%	82%
IDM	21%	23%	18%

By Geography	2Q10	1Q10	2Q09
North America	66%	68%	65%
Asia Pacific	15%	15%	18%
China	3%	2%	3%
Europe	11%	11%	11%
Japan	5%	4%	3%

Revenue Analysis:

2Q10 revenue was NT\$104.96 billion, representing a 14% increase from 1Q10. Consumer was the strongest with a 26% sequential growth. Communication and Industrial grew 22% and 14% from the prior quarter, respectively, while Computer related applications grew 1%.

In terms of technology, revenues from all geometries grew sequentially. 40/45nm continued ramping and reached 16% of total wafer sales in 2Q10, from 14% in 1Q10. The revenue mix of 65nm and 90nm remained stable at 27% and 16% of total wafer sales, respectively. Revenues from 0.13-micron and below represented 72% of total wafer sales.

Revenues from IDM customers grew 11% sequentially, representing 21% of total wafer sales in 2Q10, compared with 23% in 1Q10 and 18% in 2Q09.

Revenues from all geographic locations grew strongly from the last quarter. Customers based in North America accounted for 66% of total wafer sales, followed by Asia Pacific with 15%. Europe, Japan and China accounted for 11%, 5%, and 3% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	2Q10	1Q10	2Q09
COGS	53.03	48.00	39.91
Depreciation	19.26	19.22	18.54
Other MFG Cost	33.77	28.78	21.37
Gross Profit	51.93	44.19	34.30
Gross Margin	49.5%	47.9%	46.2%

Gross Profit Analysis:

2Q10 gross margin reached 49.5%, up 1.6 percentage points from 1Q10, primarily due to higher capacity utilization and cost improvement, partially offset by an adverse inventory valuation adjustment under ROC SFAS No.10 and an increase in raw material costs.

II - 2. Operating Expenses

(In NT billions)	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>
Total Operating Exp.	11.46	10.06	9.17
SG&A	4.27	3.65	4.07
Research & Development	7.19	6.41	5.10
Total Operating Exp. as a % of Sales	10.9%	10.9%	12.3%

II - 3. Non-Operating Items

(In NT billions)	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>
Non-Operating Inc./(Exp.)	1.41	1.00	1.15
Net Interest Income/(Exp.)	0.33	0.32	0.56
Other Non-Operating	1.08	0.68	0.59
L-T Investments	0.53	0.18	0.11
SSMC	0.33	0.19	0.19
Others	0.20	(0.01)	(0.08)
Total Non-Operating Items	1.94	1.18	1.26

III. Financial Condition Review

III - 1. Liquidity Analysis (Selected Balance Sheet Items)

(In NT billions)	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>
Cash & Marketable Securities	206.54	192.01	246.77
Accounts Receivable - Trade	48.06	39.77	33.38
Inventory	24.80	22.69	18.97
Total Current Assets	286.62	265.62	309.42
Short-term Loans	18.08	0.32	0.00
Accounts Payable	38.79	40.41	25.96
Dividends Payable	77.89	0.00	77.17
Accrued Employee Profit Sharing / Bonus	14.57	11.39	11.49
Accrued Liabilities and Others	16.94	26.06	15.01
Total Current Liabilities	166.27	78.18	129.63
Current Ratio (x)	1.7	3.4	2.4
Net Working Capital	120.35	187.44	179.79

Operating Expenses:

Total operating expenses were NT\$11.46 billion, representing 10.9% of 2Q10 net sales.

SG&A expenses increased NT\$0.62 billion sequentially, in support of expanded business scale and activities.

Research and development expenditures were NT\$0.78 billion higher compared with the prior quarter, reflecting a faster pace for the development of the most advanced technologies.

Non-Operating Items:

Total non-operating items were a gain of NT\$1.94 billion for 2Q10.

Non-operating income was NT\$1.41 billion, up NT\$0.41 billion from 1Q10, primarily due to the absence of earthquake scrap loss in 1Q and higher disposal gain from financial assets.

Net investment gain was NT\$0.53 billion, or NT\$0.35 billion higher than the prior quarter, mostly due to business improvement among certain invested companies.

Liquidity Analysis:

At the end of 2Q10, cash and marketable securities totaled NT\$206.54 billion, up NT\$14.53 billion from 1Q10.

Accounts receivable increased NT\$8.29 billion, along with stronger business activities in 2Q10.

Inventory grew NT\$2.11 billion sequentially, in preparation for the higher demand level in 3Q10.

Total current liabilities increased NT\$88.09 billion, primarily attributed to the increase in cash dividends payable and an increase in short-term loans, partially offset by the reduction in accrued liabilities (tax payable).

Net working capital was NT\$120.35 billion and current ratio was 1.7x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>
Days of Receivable	39	38	30
Days of Inventory	45	45	42

Receivable and Inventory Days:

Days of receivable increased by one day to 39 days in 2Q10, while days of inventory stayed flat at 45 days.

III - 3. Debt Service

(In NT billions)

	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>
Cash & Marketable Securities	206.54	192.01	246.77
Interest-bearing Debt	31.96	14.18	15.57
Net Cash Reserves	174.58	177.83	231.20

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$3.25 billion to NT\$174.58 billion in 2Q10. The decrease is mainly due to an increase of NT\$17.76 billion in short-term loans, which more than offset the increase of NT\$14.53 billion in cash and marketable securities. The purpose of the short-term loans was to hedge a portion of the company's US dollar position.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis

(In NT billions)

	<u>2Q10</u>	<u>1Q10</u>	<u>2Q09</u>
Net Income	40.28	33.66	24.44
Depreciation & Amortization	21.13	21.00	20.05
Other Operating Sources/(Uses)	(12.48)	(8.63)	(19.97)
Total Operating Sources/(Uses)	<u>48.93</u>	<u>46.03</u>	<u>24.52</u>
Capital Expenditure	(52.72)	(46.14)	(7.42)
Marketable Financial Instruments	0.17	(3.64)	1.68
Long Term Investment	(1.62)	(6.23)	n.a
Other Investing Sources/(Uses)	(0.04)	(0.28)	(0.25)
Net Investing Sources/(Uses)	<u>(54.21)</u>	<u>(56.29)</u>	<u>(5.99)</u>
Proceeds from Short Term Loans	17.76	0.32	0.00
Other Financing Sources/(Uses)	(0.15)	(1.16)	(0.34)
Net Financing Sources/(Uses)	<u>17.61</u>	<u>(0.84)</u>	<u>(0.34)</u>
Net Cash Position Changes	12.33	(11.10)	18.19
Exchange Rate Changes & Others	0.36	(0.38)	(1.93)
Ending Cash Balance	172.49	159.80	239.52

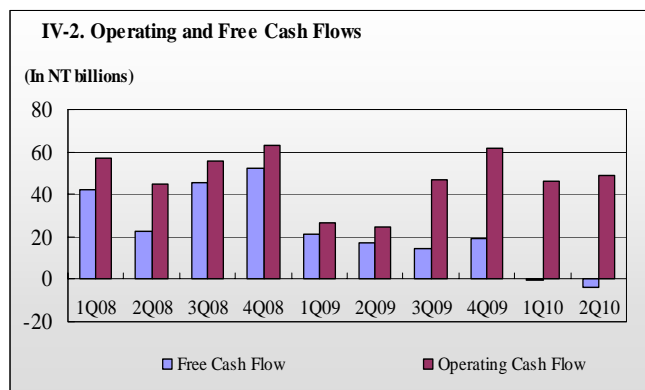
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$48.93 billion during the quarter, up NT\$2.90 billion from 1Q10, mainly due to an increase in net income, partially offset by an increase in net working capital.

Net cash used in investing activities totaled NT\$54.21 billion, which mainly represents capital expenditures of NT\$52.72 and a long-term investment of NT\$1.62 billion in Stion.

Net cash generated in financing activities totaled NT\$17.61 billion during the quarter, mainly due to the proceeds from the aforementioned short-term loans.

As a result, TSMC ended 2Q10 with a cash balance of NT\$172.49 billion.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was negative NT\$3.79 billion in 2Q10.

V. CapEx & Capacity

V - 1. Capital Expenditures

(In US millions)

	<u>1Q10</u>	<u>2Q10</u>	<u>YTD</u>
TSMC	1,433	1,645	3,078
XinTec and GUC	2	4	6
TSMC China & WaferTech	8	7	15
Other TSMC Subsidiaries	1	1	2
Total TSMC	1,444	1,657	3,101

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.66 billion in 2Q10.

Total capital expenditures in the first half of 2010 were US\$3.10 billion.

V-2. Capacity

Fab / (Wafer size)	2009 (A)	1Q10 (A)	2Q10 (A)	3Q10 (F)	4Q10 (F)	2010 (F)
Fab-2 (6") ⁽¹⁾	1,121	254	236	255	255	1,000
Fab-3 (8")	1,150	267	282	300	300	1,149
Fab-5 (8")	599	139	144	141	141	564
Fab-6 (8")	1,154	269	280	282	282	1,113
Fab-8 (8")	1,066	247	253	254	255	1,009
Fab-12 (12") ⁽²⁾	879	269	300	309	315	1,194
Fab-14 (12") ⁽²⁾	958	261	299	357	395	1,313
WaferTech (8")	431	106	107	108	108	429
TSMC China (8")	531	132	134	145	147	557
TSMC total capacity (8" equiv. Kpcs)	9,695	2,497	2,680	2,872	2,974	11,023
SSMC (8")	259	69	69	69	69	276
Total managed capacity (8" equiv. Kpcs)	9,955	2,566	2,749	2,941	3,043	11,299

(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:

Due to continuing strong demand for TSMC's advanced technologies, TSMC has accelerated its capacity expansion plan for 2010. Current capacity plan calls for an overall increase by 14% to 11,299 8-inch equivalent wafers, compared with 11,247 8-inch equivalent wafers planned in the last quarter. 12-inch wafer capacity will increase 36% in 2010 under the current plan.

Total managed capacity was 2,749K 8-inch equivalent wafers in 2Q10, increased by 7% from 2,566K in 1Q10.

VI. Recap of Recent Important Events & Announcements

- TSMC Announces Automotive Qualified 0.25-Micron One-Time-Programmable IP (2010/06/30)
- TSMC Sets July 6th as Common Share Ex-dividend Date (2010/06/21)
- TSMC and Stion Sign Technology and Supply Agreement (2010/06/16)
- TSMC Shareholders Approve NT\$3.0 Cash Dividend and Sets July 12 as Record Date for Common Share Dividends (2010/06/15)
- TSMC New Standard Cell Slim Library Reduces Logic Area 15% (2010/06/15)
- TSMC Extends Open Innovation Platform™ and Unveils Three Immediate Design Enablement Initiatives (2010/06/07)
- TSMC Announces 0.18-Micron Automotive Grade Embedded Flash IP (2010/05/27)
- TSMC Board of Directors Approved Capital Appropriations to Expand Capacity and the Full Conversion of TSMC's Common Shares into Paperless Form (2010/05/11)
- TSMC Ships 600,000 0.25-Micron Automotive-Qualified Embedded Flash Wafers (2010/04/21)
- TSMC Announces Move to 20nm Process (2010/04/14)
- TSMC Delivers Interoperable EDA Formats for Advanced Process Technologies (2010/04/07)