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PRESENTATION

Operator

Welcome to the TSMC's First Quarter 2011 Results Webcast Conference Call. 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.

I would now like to turn the conference over to Dr. Elizabeth Sun, TSMC's Head Investor of Relations, Head of Investor Relations. Please proceed.

Elizabeth Sun - *Taiwan Semiconductor Manufacturing Co. Ltd. - Head of IR*

Thanks you, Fiona. All right. Good morning, and good evening, everyone. Welcome to TSMC's first quarter 2011 conference call. Joining us today on the call are Dr. Morris Chang, our Chairman and Chief Executive Officer, and Ms. Lora Ho, our Senior Vice President and Chief Financial Officer.

The format for today's conference call will be as follows. First, Lora will summarize our operations in the first quarter and give you our guidance for the next quarter. Afterwards, TSMC's Chairman, Dr. Chang will provide his general remarks on the business outlook and a couple of key messages. Then we will open the floor to questions.

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

I would like to remind all listeners that following discussions may contain forward-looking statements that are subject to significant risks and uncertainties, which could cause actual results to 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, 2011, 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 statements whether as a result of new information, future events or otherwise.

And now, I would like to turn the call over to Lora.

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Thank you, Elizabeth. Good morning, and good evening to everyone. Welcome to our 2011 first quarter earnings conference call. During today's call I will start with the financial highlights in the first quarter. Then we will move to the outlook for the second quarter. You may also refer to the quarter financial summary slides on our website or download figures in NT dollars unless otherwise stated.

In the first quarter wafer demand was stronger than seasonal. Our revenue was only slightly down 0.7% in US dollar terms. However, an unfavorable impact from a 3.6% change in foreign exchange rate lead to a decline in NT dollar in noted sales which was at the lower end of our guidance. However, we managed to achieve or bid our guidance in profit margin.

First quarter wafer shipment was 3.2 million eight-inch equivalent wafers, down 1% from the prior quarter. Revenue was NT\$105 million, down 4.3% sequentially. Our gross margin was 49% and operating margin was 37.2%. Earnings per share in the first quarter was NT\$1.40. ROE was 24.6%.

Let me move into the income statement. Our gross margin was 49%, down 0.8 percentage points sequentially, mainly reflecting lower capacity utilization and the unfavorable foreign exchange rate, partially offset by a more favorable product mix in revenue and cost improvement.

Operating expense decreased NT\$800 million for the first quarter, primarily due to lower operating expense for Fab 14 and Fab 12. Our operating income decreased by NT\$15 million from the last quarter. Net investment gains declined by NT\$117 million sequentially, reflecting lower profit from certain invested companies.

Net margin was 34.4%, down 2.6 percentage points sequentially and declined 2.1 percentage points year-over-year, mainly reflecting a higher tax rate and lower tax credits for investment compared with last year.

Now, let's examine our revenue by applications. The first quarter wafer sales decreased sequentially in all major segments. Communications, Computer and Consumer-related applications declined 3%, 9% and 6%, respectively. Meanwhile, Industrial and Others declined 8% from the last quarter.

Revenue from Communications-related applications represented 48% of our total wafer revenue in the first quarter. Computer, Consumer and Industrial applications accounted for 23%, 11% and 18% of our wafer sales, respectively.



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Now, our revenue by technology. Demand for advanced technologies continued to grow in the first quarter. Combined contribution from 40 nanometer and 65 nanometer represented 54% of total wafer sales, up from 52% in the last quarter.

Now, let's move on to the balance sheet. We conclude the first quarter with NT\$163 billion in cash and short-term investments, representing a decrease of NT\$18 billion from the prior quarter, mainly due to a decrease in free cash flow resulting from higher capital expenditures.

Total current liabilities increased by NT\$4 billion, primarily due to a reclassification of corporate bonds from long-term liability and an increase in short-term loans to hedge our increased portion of US\$ position. In sum, current ratio in the first quarter was two times.

Accounts receivable days increased one day to 39 days. Inventory turnover days were 56 days, up six days sequentially, mainly due to some customers changing in delivery schedule, early order from certain customers, and increased safety stock and materials in response to the Japan earthquake. Net fixed asset turnover for the first quarter was one times.

Now, let's take a look of cash flow. Cash flow generated from operating activities totaled NT\$56 billion, representing a decrease of NT\$14 billion from the fourth quarter last year, mainly due to the change in accounts payable, accounts receivable, payment of 2010 annual bonus and change in inventory level.

Capital expenditure was NT\$81 billion in the first quarter. We also increased short-term loans, hedge the Company's increased US dollar position, resulting in a NT\$3 billion increase in cash.

In sum, the ending cash balance was NT\$129 billion, down NT\$18 billion sequentially. Free cash flow was a net outflow of NT\$25 billion during the first quarter, primarily due to an increase in capital expenditure. Nevertheless, we still anticipate a positive free cash flow for the whole year of 2011.

In terms of installed capacity, in the first quarter total installed capacity was sequentially flat from the prior quarter with approximately 3.1 million eight-inch equivalent wafers. An increase in 12-inch wafer capacity was offset by a decrease in six and eight-inch capacity due to annual maintenance and fewer working days.

For the second quarter 2011, we expect our overall capacity to increase by 8% sequentially. 12-inch wafer capacity will increase 10% while six and eight-inch capacity will increase 6% as we are expanding capacity at TSMC China. 2011 managed capacity is expected to increase 19% year-over-year with 12-inch capacity up 33% from 2010.

Regarding capital expenditure, in order to support the customer demand for advanced technologies we spent US\$2.77 billion in the first quarter, representing 36% of our total 2010 budget. We expect 70% of the budget to be spent in the first half of 2011.

Now, let's turn to the outlook for the second quarter. Based on the current business expectations and the forecasted exchange rate of 29.03, we expect our consolidated revenue in the second quarter to come in between NT\$109 billion and NT\$111 billion. In terms of margins, we expect our second quarter gross margin to be between 45.5% and 47.5%. Lastly, operating margin to be between 33.5% and 35.5%.

This concludes my remarks today. Now, I will like to turn the call to Dr. Morris Chang for his remarks.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Good morning, and good evening. I will like to make some comments on various topics of interest, Japan earthquake, world economy as it affects our market, exchange rate and also our advanced technology development. And then I will also talk about a -- the new killer app we have, smartphones and tablets.

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Then, I will also cover more than more technologies of which have really transformed our mainstream technology business. Then, I will talk about capital expenditures and capacity, and then a few words about our new businesses, namely solar and LED, and then lastly our strategic financial plan.

On Japan earthquake we have had no interruption in supplies to us. We have had no interruption in production line because of any shortage of supply to us, and we don't expect any in the future.

Now, I think the Japan earthquake probably has some effect on our second quarter demand because some of our customers and some of their customers perhaps have suffered some delay in their production. But that effect is probably rather modest and it's only in the second quarter. I don't expect any significant impact on the second half demand. The Japan earthquake does impact Japanese and world economies.

Now a few words about the world economy as it has affected our market, the outlook for world economy is a bit softer now than the outlook three or four months ago. The outlook in Japan, in Southern Europe and in UK is a bit softer. There is also inflation fighting in China, India and other emerging countries which has made the estimate of growth a bit less than a few months ago.

Now, how does that affect our market? Well, our market forecast model starts with world GDP and as the world GDP got a little softer this year our forecasting model uses a less, a smaller semiconductor market number. And that is indeed why a few weeks ago I adjusted the semiconductor ex memory market growth down to 4% from 7%.

Now, on the effect of the exchange rate on our business. As you know, all our revenue is in US dollars and 80% of our costs are in NT dollars. Therefore, the US\$ depreciation hits us two ways. First, it makes our revenue less, makes our NT revenue less. Secondly, it hurts our profitability, our profits of percent.

Basically, I have said before and I say it again we lose 40 basis points of profitability for every 100 basis points of US dollar depreciation. 40 basis points loss of profitability for every 100 basis points of US\$ depreciation.

Now at current exchange rate of NT 28.9 to a dollar, US depreciation -- US dollar depreciation is 8% from the 2010 average. And if the exchange rate had stayed the same as last year we would make NT\$26 billion more profit this year, which is equivalent to \$1 a share -- NT\$1 a share, and that's a pretty big number. That is if the exchange rate had stayed the same as last year.

Now I -- let me talk about our advanced technologies. First, on 28 nanometers we completed a very important milestone. We completed the full technology reliability qualifications for both oxynitride, which is our 28 LP and high-k metal gate, which is our 28 HP. Now the significance of this milestone is that the way is now cleared to volume production on the 28 LP and 28 HP, both the oxynitride and the high-k metal gate versions.

And furthermore, we have 89 customer product tape-outs. We have won everyone that we competed for. That's the 28 nanometers.

On 20 nanometers development is on track for RISC production in second half of next year, so that's a little more than a year away yet, but development is on track. And we already have many early customer engagements on the 20 nanometer.

Now on the more advanced technologies, 14, 10 and beyond, we have significant efforts in thin set and non-silicon channel structure. We will evidently push Moore's Law to the furthestmost.

I would like to say a few words about smartphones and tablets, they are the new killer app for us. Just like PCs in the '80s and '90s and cell phones in the 2000s, smartphones and tablets will be the new killer app for us in the forthcoming decade.



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Smartphones and tablets are the fastest growth segment in communication and computer products. They need more -- they need most advanced technology for application processes because everybody wants a smartphone that's fast and the low power.

And the fact that they need the most advanced technology is a definite advantage for TSMC because we do lead in technology. Almost all the smartphones and tablet application processes utilize our architecture. As you know, fabless companies all use ARM, or mostly use ARM architecture and that is again a TSMC advantage because we are partners with practically all the fabless companies in the world.

And then, fabless companies will gain semiconductor market share in the small phone, smartphone and tablet sectors. That again turns out to be a TSMC advantage because, as I said, fabless companies are our customers, are our partners and as they gain market share we gain market share.

Now TSMC value-added is three or four times in smartphones and tablets as it is in feature phones, so we gain greater value-added as the smart phones and tablets markets expand very rapidly.

Now, I would like to say a few words about more than more. More and more our specialty technologies which we have developed and are applying in mainly the older technologies, technologies that are greater than 90 or 130 nanometers, and indeed we have been doing it for several years now, four or five years, and the cumulative result has really transformed our business in the older technologies.

The combined specialty technologies revenue we have been calling the specialty technologies, Mr. ABCD, MRABCD. M stands for MEMS, R for RFIC. A stands for automotive and analog. B stands for BCB. C stands for CMOS imager. D stands for display driver or Mr. ABCD. Those six kinds of specialty technologies combined yielded a revenue of US\$3.1 billion in 2011. And that's a pretty significant percentage of our total revenue.

And, in fact, it is greater than half of our revenue in the older technologies, so that's why I said that the practice of more than more or specialty technologies has already transformed our older technologies business.

And, as I said, the combined MRABCD specialty technologies yielded us US\$3.1 billion of revenue this year. Now just the CMOS imager alone is yielding US\$600 million to US\$700 million of revenue in 2011. In addition, we are leaders in embedded flash, BSI sensor and ultra high voltage IC.

Now a few words about capital expenditure and capacity, we in the last few months we have looked at this year's capital expenditures pretty carefully. Now we in fact have had upward adjustment, higher capital expenditure because of US dollar depreciation against the euro and the yen. Part of our capital expenditures is in euros and yens.

And as the US dollar has decreased EBITDA against those currencies we had to adjust our capital expenditure upwards.

Now we have also adjusted them downwards because of some conversions that we were able to make. We have converted some 65 nanometer capacity to 40 nanometer because there appears to be greater demand for 40, greater demand than we anticipated and there appears to be less demand than we anticipated for the 65. So, we have converted some 65 nanometer capacity to 40.

And we have also converted some 90 and 130 nanometer capacity to CMOS imagers. As a result of both upward and adjustments due to currency exchange and the downward adjustments because of capacity conversion actually we netted about zero, so our capital expenditure guidance remains unchanged at US\$7.8 billion.



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A few words on the solar and LED businesses. We took a very important step -- the Board took a very important step just yesterday in passing -- approving the formation two companies. One is TSMC Solar Limited, and the second is TSMC Solid State Lighting Limited.

We did those to encourage entrepreneurship and independence of those companies. We believe it's important. We believe that it is almost essential for a successful company like us to form new companies so that a successful company can spawn new businesses because the new businesses indeed must stand on their own and must be entrepreneurial. And you cannot keep them confined in the thinking, in the kind of thinking that has made the parent very successful.

And so, we formed these two companies and Rick Tsai is the Chairman and CEO for both those companies. And both those companies will plan to have IPO in a few years.

Now just a few words on our strategic financial plan, I announced some time ago that we had a five-year financial goal of 10% profit before tax compounded annual growth rate and greater or equal to 20% ROE for the five-years between this year and 2015. And that goal is unchanged. In fact I feel now even more bullish about achieving that goal in the next five years than I did a year ago when we formulated that goal.

We will have good years and bad years, but I'm talking about now a five-year compounded annual growth average -- growth rate of 10% of PBT. So in some of those years we will probably grow less, but in some of those years we will grow more than 10%, but overall I plan to achieve it.

And in looking at 2011 actually it's a good year, except for exchange rate. Exchange rate has kind of thrown a monkey wrench in the works here and -- but if you look at the original intent and assumptions I would say that 2011 is a good year.

Those are all the comments I have at this moment.

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

This concludes our prepared statements. Operator, please open the floor to questions.

QUESTIONS AND ANSWERS

Operator

At this time, we will open the floor for questions.

(Operator Instructions)

Operator

And our first question comes from the line of Randy Abrams with Credit Suisse. Please proceed.

Randy Abrams - *Credit Suisse - Analyst*

Hi. Good evening. I wanted to ask about the subsidiary creation for the solar and LED business. Now that you have made that move what would the next steps -- or what can the divisions do that they could not do as a division within TSMC? And will you

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now fund those groups still out of the parent, or will they need funding from external investors? And if you could give an update on milestones for solar and LED or upcoming milestones for the division?

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

There is no external investor. We are still -- TSMC is still the 100% owner of those two companies. Now, you ask what can they do in the future that they cannot do as internal divisions. Well, first of all, the employees of those two companies will be -- will subscribe to the shares -- will subscribe to shares. And, of course, the expectation is that the shares will be very valuable after the companies have gone public.

So, that's one big difference that we have created a powerful incentive for the employees in the solar and LED businesses. And also another difference is that, as I said, this is on the entrepreneurship side. I think that incentive needs to be there and the incentive is now the start of those affiliated companies.

Independence -- I said I wanted to encourage more independence. Well, up to now the new businesses do report to the Board almost every meeting -- every Board meeting. And actually, pretty large percentage of the Board meeting is taken up by a new companies' report, and that's going to be very much reduced from now on to encourage independence.

And, as I said, Rick Tsai will be the Chairman and CEO of both those companies and TSMC as the sole owner, so far. Of course, as the employees start to subscribe shares a part of the shares will be owned by the employees.

Now TSMC as the larger owner still, of course, will maintain a very firm connection with the companies. And that connection will primarily be maintained through the Board members that TSMC will appoint to the two companies, but there will actually be only two Board members aside from Rick Tsai himself.

Rick is the Chairman, and there will be only two Board members. In fact, one of them is F.C. Tseng, who is also the Vice Chairman of TSMC, and the other one is Dick Thurston, General Counsel of TSMC. And Lora, who is our CFO -- Lora Ho, who is our, who is TSMC's Chief Financial Officer will serve as the supervisor in both companies. This is a supervisor in the Taiwan definition, financial supervisor.

So I can see that the connection will be there and the synergy will be there, and but they will be more independent and they will be more entrepreneurial.

Randy Abrams - *Credit Suisse - Analyst*

Okay. No, thank you and appreciate the color. And just the one follow up on solar and LED is the next milestone for both groups. And the second question was a quick one just on the CapEx, if you know the amount of the puts and takes like in terms of the currency impact versus the 65 nanometer to 40 conversion and the CMOS conversion.

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

The puts and takes. Well, I will just give you the upward adjustment. The upward adjustment was going to be a little over NT\$250 million, I think.

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

NT\$200 million.

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Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

NT\$200 million. That was due to the exchange rate change. So, we had enough to make it to neutralize it.

Was that your question, Randy?

Operator

Yes. And our next question comes from Dan Heyler with Bank of America-Merrill Lynch. Please proceed.

Dan Heyler - *Bank of America-Merrill Lynch - Analyst*

Oh, great. Thanks for taking my question. Dr. Chang, I had a question on the forecast revision which you talked about I think a couple weeks ago going from a 7% growth for the non-memory semiconductor industry globally to 4% now for 2011. As you look at that number your target for TSMC is still shooting for about 20%.

That's a pretty wide disparity between your customer growth and TSM and I wonder if you could help me reconcile that, given that the fabless portion of that non-memory sector is by far the largest. And that would be an unprecedented variance between your growth and the underlying growth of non-memory.

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Between what -- between? Yes, I know that, but he said it was a big between --

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Customers growth.

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Well look, I think that the fabless companies growth will be greater than -- in fact, much greater than 4%. And I think that foundries growth will perhaps be even a little greater than the fabless companies' growth.

And then I think TSMC's growth will even be greater than the foundries growth. That explains the difference between the 4% and the 20% goal that I have set. Now, all right, maybe it doesn't explain it to you yet, Dan, but certainly I have looked over the numbers and that's the explanation in my mind you know. As I said, --

Dan Heyler - *Bank of America-Merrill Lynch - Analyst*

Okay.

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

-- 4% is for the digital logic IC industry, but the fabless companies will have a considerably higher growth than 4%. And then, foundries will have even a bit higher than the fabless companies and because foundries still get IBM outsourcing. And then TSMC because of our leadership position will have even greater growth than the foundries -- than the total foundries, so.



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Dan Heyler - Bank of America-Merrill Lynch - Analyst

Okay. Just that I think is that presumes some outsourcing, as well as some share gains since fabless is well over 60% of the digital logic market.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Yes. I think perhaps part of the key is what I already mentioned when I talked about the mobile products, the smartphones and tablets. I said that fabless companies would have an advantage in gaining more market share, so.

Dan Heyler - Bank of America-Merrill Lynch - Analyst

Understood, understood. Thank you. And then my second question was relatively a smaller one, but is it looks at the strength that Lora talked about today in the computer sector being the strength in the second quarter. I wonder if, Lora, you could provide more color on the trends in technology notes, how this softer 2Q will play out.

Will we continue to see strength in 40 and 65? Do those actually still grow in the second quarter or do we see some softness more on the leading edge due to some of the short-term wireless supply chain related issues?

Elizabeth Sun - Taiwan Semiconductor Manufacturing Co. Ltd. - Head of IR

Dan, this is Elizabeth.

Dan Heyler - Bank of America-Merrill Lynch - Analyst

Hi, Elizabeth.

Elizabeth Sun - Taiwan Semiconductor Manufacturing Co. Ltd. - Head of IR

We do -- yes, hi. We do expect that our advanced technologies such as 40 nanometer will continue to account for an increasing percent of our total wafer revenue.

Dan Heyler - Bank of America-Merrill Lynch - Analyst

And what about 65 -- because you did allude to 65 capacity being pulled forward to 40. So, would 65 still be able to grow?

Elizabeth Sun - Taiwan Semiconductor Manufacturing Co. Ltd. - Head of IR

I think dollar amount 65 definitely is continuing to grow. As a percentage, I think we are anticipating second quarter probably slightly less than last quarter.

Dan Heyler - Bank of America-Merrill Lynch - Analyst

Great. Thank you.

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Operator

And our next question comes from Steven Pelayo with HSBC. Please proceed.

Steven Pelayo - HSBC - Analyst

Yes. One bigger question and one kind of housekeeping question. On the bigger picture you talked about these killer applications, the PCs and '80s, '90s and the mobile phones. I'm curious if today's industry environment is in fact, I don't know, even more killer, if you will.

And can you help me think about this from the standpoint of have we ever had such a big market, billions of units if you will, moving from feature phones to smartphones where you are seeing three times plus the dollar increase in silicon.

I just can't think of a time where we have ever had such a big increase in any other types of devices for this large of a market. Am I right, or is this kind of a similar playbook and it's the same kind of killer app?

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Three times value -- three times our value. Our value increases three to four times, Steven. I wasn't talking about general silicon increase. I was talking about our, the value that we capture -- TSMC captures is three or four times in a smartphone than in a feature phone.

Steven Pelayo - HSBC - Analyst

So, have you ever seen anything like that in the past where you had that significant an increase in your value capture as it goes through the --?

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Well, yes. I think so. When the cell phone first came about we had I guess almost an infinite increase because before the cell phone the --

Steven Pelayo - HSBC - Analyst

Okay.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

-- so and --

Steven Pelayo - HSBC - Analyst

Okay, fair enough. And then just --

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Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Yes. Tablets of course is a -- is almost a new market. It doesn't really cannibalize -- it may cannibalize a bit of the notebook -- netbook, but I really don't think even that will happen. I think it will just be a new market. It's a new product. And a lot of people will keep their net phones and, I'm sorry --

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Netbooks.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

-- netbooks and notebooks and will buy tablets, as I have.

Steven Pelayo - HSBC - Analyst

No, no. I certainly understand. The new products are definitely ramping up. It's just a surprise to me that such a big market, billions of units as opposed to kind of 300 million to 400 million PCs, billions of mobile phones.

The question that I -- the other housekeeping question that I had was really your capital spending plans you talked about maybe about, what -- about three quarters of it in the first half of the year. So, could you remind us what that does to your depreciation for the full year, as well as how it rolls in into your cost of goods sold on a quarterly basis?

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Steven, we see NT\$7.8 billion capital expenditure. We expect the depreciation for 2011 will be 30% higher than 2010. The total dollar amount depreciation we estimate is going to be about [NT\$114 billion], this compared to our [NT\$88 billion] last year, the -- 30% increase.

In terms of the profile on quarterly basis I think more than half will be on the second half. About 53% of depreciation will be in second half and 47% will be first half.

Steven Pelayo - HSBC - Analyst

Okay, excellent. Thank you.

Operator

Our next question comes from Bernard Sarvah with Daiwa Capital Markets. Please proceed.

Bernard Sarvah - Daiwa - Analyst

All right. Thank you for taking my question. My first one is on your customers' inventory side. Could you make some comments like how you are looking at your customer inventory and of at the end of second, first quarter?



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Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Bernard, the surprise in inventory were largely rebuilt in 2010 from an overly depleted level in late 2009. So we estimated aggregate DOI was higher than the seasonal in first quarter 2011. And we expect IC companies will manage the inventories down to close to seasonal in second quarter this year.

Bernard Sarvah - Daiwa - Analyst

So, there will be some inventory adjustment second quarter.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Some adjustment in the second quarter, I think that is what Lora is saying.

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Yes.

Bernard Sarvah - Daiwa - Analyst

Yes. Okay, got it. And second one is on solar and LED business. What will be the milestone so that your companies can grow to public? It has to be at least year of profitability, or you would like to look at some amount of market capitalization of those companies so that you want to make it public?

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Bernard, the criteria for companies listing in Taiwan is you have to achieve a certain percentage of ROI for a consecutive two years. Then you can --

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

We really haven't decided where we will go public yet.

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Yes.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

It could be a NASDAQ for instance when I understand there is really no profit --

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Yes, no criteria.

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Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

-- criteria at all. And now but whatever the -- whatever -- whether there is criteria or no criteria obviously we need to think about the value addition that we will achieve when we public. So I think that -- basically I think that the companies will go public either when if or they have, either when they have already achieved some profitability or when profit is certainly is within reach.

Bernard Sarvah - Daiwa - Analyst

Okay, got it. And can you remind us your revenue or profit level targets from these two divisions by 2012? I think you indicated some number earlier, any change to that number?

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

No. I don't think -- it's still pretty early in the game. Of course, we have had the new businesses for about two years now, a little less than two years and the last two years a lot of the last two years was spending, formulating our strategies. And the strategy was formulated, oh, about a year to a year and half ago and basically it's a strategy that will differentiate us by technology.

We are going to be -- those two companies are going to be technology companies. And then, of course, we signed up with --

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Stryon.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

--Stryon and I think that we -- I think that it has been a pretty good experience for us. And things are still very much developing and I think it's premature to predict revenue level or anything like that, particularly in the near future. Obviously, in the more distant future like ten years we expect them to be NT\$1 billion size, both of them -- each of them -- billions of dollars.

Operator

Our next question comes from Mehdi Hosseini with TSMC. Please proceed.

Mehdi Hosseini - Susquehanna International - Analyst

Thank you. I'm actually with Susquehanna International, not TSMC. Thanks for taking my question. I want to go back to the Q2 guidance and please help us understand with the sequential revenue growth, is that primarily the utilization rate that is causing a decline in margin profile?

Or, is that a mix of utilization rate at a higher cost of material? And how will the utilization rate would trend into the second half? And I have a follow-up question.

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

Okay. The second quarter guidance shows midpoint of the profit margin about 46.5%, which is a little lower than 3% lower than first quarter. The main reason is we are -- we have added capacity in second quarter for a total quantity of about 8% second

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quarter with short-term some corrections on inventory and also the -- some disruption because of Japanese earthquake. So, our second quarter will not grow as much as we would like to see, so mainly (inaudible) costs some decrease in the profit margin.

Mehdi Hosseini - *Susquehanna International - Analyst*

Should it rebound in the second half with second half, assuming seasonality will be healthy with the wafer shipment growth?

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Yes. We believe the second half utilization will be higher than the second quarter.

Mehdi Hosseini - *Susquehanna International - Analyst*

Okay. Thank you. And, Dr. Chang, I want to ask you about the overall industry trend, given the recent quarterly earnings report on conference call from the big microprocessor company here in California.

It seems to me that maybe they could also be considered as the up and coming foundry competitor, especially their commentary sub-20 nanometer, which also bodes well with your commentary that the smartphone and tablets are going to be the growth driver.

So, I want to hear your views without mentioning any specific company. Is this a right way of thinking how the competitive nature of the industry is changing? And if so, what are you doing that would keep advantages that TSMC offers to fabless companies?

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

We offer I believe three main things. We offer technology leadership. And I don't mean technology in -- technology leadership in every kind of technology, but we offer technology leadership in the kind of technologies that the fabless companies need.

We offer manufacturing leadership, which means not just lower cost to ourselves, but it means faster cycle time, means shorter time to market for our customers. Also, it means more reliable commitment, let's say. And also, it means -- let's see, I was thinking about, yes, capacity -- capacity. We have, I believe, much more capacity available to our customers.

And then, of course, lastly but certainly importantly, we have always worked with customers as partners. And I think that this partnership spirit and the business model, in fact, I may even call it -- I would even call it a part of our business model. Partnership is a part of our business model, I think is very important.

So, we offer those three things. We are aware of some of the things that you have at least implied, but look, we think that -- we are watching our radar screen, and we are not overly concerned.

Operator

Our next question comes from [Saho Ing] with [BNT]. Please proceed.

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Saho Ing - *BNT - Analyst*

Hi. Good evening. Just want to talk about 28 nano. Could you get us some idea about what percentage of your 28 nano tape out right now is decided on high-k metal gate and what percentage on poly gate?

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

I don't know whether we have that number. Do we?

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

At this point we have already shipped 28 nanometers to our customers, and our customers have already started shipping and both are in high-k metal gate. But we also have other (inaudible) that are in poly gate.

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

We have that number in Hsinchu, but we don't have that number here tonight.

Saho Ing - *BNT - Analyst*

Okay. Actually, not exact number, but maybe some idea. Is it poly gate still over 50% of the total [count]?

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

I would say, just take a guess. I would say the greater majority is in high-k metal gate, yes.

Saho Ing - *BNT - Analyst*

Oh, okay. I see --

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Not an exact number, but I would say --

Saho Ing - *BNT - Analyst*

And is it possible to talk about the production yield differential between the two products?

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Okay.

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Production yield.

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Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Production yield of 28 nanometer? No. No, I don't think I want to comment on that. I think it's premature to talk about those. We are just ramping up. We are just working out the tape-outs. We are just getting the tape-outs and exercise every one of them. And I think it's premature to talk about.

Certainly, we would not be taking the tape-outs if the [D zero] projection was not good. And I'm saying is the D zero projection at this point looks pretty good, right at to what we experienced in the past with the 40 nanometers and 65 nanometer.

Operator

Our next --

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Well, operator, in the interest of time I think we will just accommodate two more callers' questions. Thank you.

Operator

Our next question comes from Satya Kumar with Credit Suisse. Please proceed.

Satya Kumar - *Credit Suisse - Analyst*

Yes. Hi, thanks for taking my questions, just was curious if you are able to disclose the equipment supplier payable balance at the end of Q1.

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

[Some] in supplier.

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Can you repeat -- what at end of Q1?

Satya Kumar - *Credit Suisse - Analyst*

On your 20-F you disclosed the payable balance equivalent suppliers. Do you have the balance information at the end of Q1?

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Yes. Because, as we said last time the CapEx will be very much front ended loaded this year. So last year end we were -- have a lot order which for the equivalent to be delivered in the first half of this year. So that explained why its accounts payable to equipment vendor was high in the fourth quarter last year. A lot of that has been paid out.

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Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

At the end of last year.

Lora Ho - Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson

For last year, right -- just looking at 20-F.

Satya Kumar - Credit Suisse - Analyst

Okay, okay. And you mentioned that there was a lot of conversions from 65 nanometer to 40 nanometer that affected your -- that was -- lowered your CapEx because of that.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Not a lot. Not a lot. I said the conversions -- I will say it wasn't a lot. It was a not a big percentage of the total 65 nanometer capacity.

Satya Kumar - Credit Suisse - Analyst

Okay. Do you see more conversions happening in the second half of the year for further reducing the CapEx?

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

No. I'm not anticipating any.

Satya Kumar - Credit Suisse - Analyst

All right. Thank you.

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

Because --

Operator

Our --

Morris Chang - Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO

I'm not anticipating any more because I think that the 65 nanometer capacity will be quite fully utilized in the second half.

Operator

And our last question comes from CJ Muse with Barclays Capital. Please proceed.

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CJ Muse - *Barclays Capital - Analyst*

Yes. Good evening. Thank you for taking my question. I guess first question expected demand for leading edge capacity, I'm curious where you see that trending into 2012. 54% of your business was 65 nanometer and below and I think as you add on gate last 28 and migration to 40 from 65, what do you think that percentage could be looking at 2012?

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

It's probably too early to give you a number about this leading edge technology's contribution to revenue, but just look at the -- our 40 nanometer will continue to grow from the current level. We are also start to ramp up 28 nanometer, and we will have 1% by third quarter and 2% to 3% fourth quarter. And that number will continue to go up for the whole year 2012. That's a very fast ramping year.

CJ Muse - *Barclays Capital - Analyst*

That's helpful. And --

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

If you are still talking about 65, 45, 40 and 28 -- if you are talking about those three loads then the combined between those I think also will probably increase this percentage. Of those three combined loads will -- I will almost say they will definitely increase.

CJ Muse - *Barclays Capital - Analyst*

And as you think about 28 nanometer and your leadership there on the gate-last side, what are the implications in terms of the mix growing there and CapEx requirements beyond your budget here in 2011?

Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Well, in our future budget, that is our budget in the financial strategic plan which I alluded to earlier, we have taken the greater capital intensity into consideration. And I think it does mean the whole issue does result in a great capital intensity for us, but then of course we need to try to still maintain the returns above 20% ROE.

And so, all these I -- are coordinated in the plan. And we are now executing the plan -- we have been executing the plan, and we think that it's coming along.

CJ Muse - *Barclays Capital - Analyst*

That's very helpful. And one last question for me, you commented that 70% of your budget would be spent in the first half of '11. And I'm just curious, if you talk to some of your equipment suppliers they have referenced push outs by foundries at the 65 nanometer node.

So, I guess if that's truly the case will you spend the 70% in the first half, or might some of that bleed into the second half?



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Morris Chang - *Taiwan Semiconductor Manufacturing Co. Ltd. - Chairman and CEO*

Well, if you are just talking about the 65 nanometer then that may well be true, but I think we said earlier that most -- well, in fact, almost all this year's capital expenditures are not, are in 40 and in 28. In fact, there is some 20, I think.

Did I explain it?

CJ Muse - *Barclays Capital - Analyst*

Thank you.

Elizabeth Sun - *Taiwan Semiconductor Manufacturing Co. Ltd. - Head of IR*

All right. So, that's good. This concludes our Q&A session.

Lora Ho - *Taiwan Semiconductor Manufacturing Co. Ltd. - SVP, CFO and Spokesperson*

Thank you for your participation. We will look forward to talk to you the next quarter. Bye-bye.

Operator

Before we conclude TSMC's first quarter 2011 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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