



1Q11

Quarterly Management Report
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Topics in This Report

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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)*

	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.40	1.57	1.30	(10.9%)	7.7%
(US\$ per ADR unit)	0.24	0.26	0.20		
Consolidated Net Sales	105.38	110.14	92.19	(4.3%)	14.3%
Gross Profit	51.67	54.82	44.19	(5.7%)	16.9%
<i>Gross Margin</i>	<i>49.0%</i>	<i>49.8%</i>	<i>47.9%</i>		
Operating Expense	(12.51)	(13.31)	(10.06)	(6.0%)	24.4%
Operating Income	39.16	41.51	34.13	(5.7%)	14.8%
<i>Operating Margin</i>	<i>37.2%</i>	<i>37.7%</i>	<i>37.0%</i>		
Non-Operating Items	1.15	1.37	1.18		
Net Income	36.28	40.72	33.66	(10.9%)	7.8%
<i>Net Profit Margin</i>	<i>34.4%</i>	<i>37.0%</i>	<i>36.5%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	3,161	3,195	2,547	(1.1%)	24.1%

*Note: Total outstanding shares were 25,914mn units on 3/31/11***Financial Highlights:****First Quarter 2011**

- Consolidated net sales were NT\$105.38 billion, representing a 4.3% decrease from NT\$110.14 billion in 4Q10 and a 14.3% increase from NT\$92.19 billion in 1Q10.
- Gross margin was 49.0%, down 0.8 percentage point from 4Q10 and up 1.1 percentage points from 1Q10.
- Operating margin was 37.2%, 0.5 percentage point lower than 4Q10 and 0.2 percentage point higher than 1Q10 level.
- Non-operating income and long-term investment combined were a gain of NT\$1.15 billion, compared to a gain of NT\$1.37 billion in 4Q10 and NT\$1.18 billion in 1Q10.
- Consolidated net income attributable to shareholders of the parent company was NT\$36.28 billion, down 10.9% from 4Q10. Net profit margin was 34.4% and diluted EPS was NT\$1.40.

I. Revenue Analysis

I. Wafer Sales Analysis			
By Application	1Q11	4Q10	1Q10
Computer	23%	24%	32%
Communication	48%	47%	39%
Consumer	11%	11%	14%
Industrial/Others	18%	18%	15%
By Technology	1Q11	4Q10	1Q10
40/45nm	22%	21%	14%
65nm	32%	31%	27%
90nm	10%	11%	17%
0.11/0.13um	9%	10%	13%
0.15/0.18um	17%	17%	18%
0.25/0.35um	7%	7%	8%
0.50um+	3%	3%	3%
By Customer Type	1Q11	4Q10	1Q10
Fabless/System	78%	78%	77%
IDM	22%	22%	23%
By Geography	1Q11	4Q10	1Q10
North America	69%	70%	68%
Asia Pacific	14%	13%	15%
China	3%	3%	2%
Europe	10%	10%	11%
Japan	4%	4%	4%

Revenue Analysis:

Demand for TSMC's wafers was stronger than seasonal during the first quarter, with revenue slightly down 0.7% in US dollar terms. However, including the unfavorable impact from a 3.6% change in foreign exchange rate, wafer sales decreased sequentially in all major applications. Communication, Computer, Consumer, and Industrial decreased 3%, 9%, 6%, and 8%, respectively, from 4Q10.

In terms of advanced technology, demand for 40/45nm and 65nm wafers continued to grow in 1Q11. Combined contribution from 40/45nm and 65nm represented 54% of total wafer sales, compared to 52% in 4Q10 and 41% in 1Q10.

Revenues from IDM customers accounted for 22% of total wafer sales in 1Q11, flat from 4Q10.

From a geographic perspective, revenues from customers based in North America accounted for 69% of total wafer sales, while sales from Asia Pacific, China, Europe and Japan accounted for 14%, 3%, 10%, and 4% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis			
(In NT billions)	1Q11	4Q10	1Q10
COGS	53.71	55.32	48.00
Depreciation	22.62	21.24	19.22
Other MFG Cost	31.09	34.08	28.78
Gross Profit	51.67	54.82	44.19
Gross Margin	49.0%	49.8%	47.9%

Gross Profit Analysis:

Gross margin was 49.0% in 1Q11, 0.8 percentage point lower than 4Q10, mainly reflecting lower capacity utilization and an unfavorable foreign exchange rate, partially offset by a favorable inventory valuation adjustment under ROC SFAS No.10, a more favorable mix in revenue, and cost improvements.

II - 2. Operating Expenses

(In NT billions)	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>
Total Operating Exp.	12.51	13.31	10.06
SG&A	4.55	5.24	3.65
Research & Development	7.96	8.07	6.41
Total Operating Exp. as a % of Sales	11.8%	12.1%	10.9%

Operating Expenses:

Total operating expenses were NT\$12.51 billion in 1Q11, representing 11.8% of net sales.

SG&A expenses decreased NT\$0.69 billion from 4Q10, primarily due to lower opening expenses for Fab 14 Phase 4 and Fab 12 Phase 5.

Research and development expenditures slightly decreased by NT\$0.11 billion.

II - 3. Non-Operating Items

(In NT billions)	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>
Non-Operating Inc./(Exp.)	0.63	0.68	1.00
Net Interest Income/(Exp.)	0.25	0.30	0.32
Other Non-Operating	0.38	0.38	0.68
L-T Investments	0.52	0.69	0.18
SSMC	0.33	0.44	0.19
Others	0.19	0.25	(0.01)
Total Non-Operating Items	1.15	1.37	1.18

Non-Operating Items:

Total non-operating items were a gain of NT\$1.15 billion in 1Q11.

Non-operating income was NT\$0.63 billion, down NT\$50 million sequentially, reflecting lower net interest income and flattish other non-operating items, as a result of the absence of compensation from the SMIC litigation settlement and lower disposal gains from financial assets, mostly offset by the absence of a net loss from disposal of steel frame in a partially constructed fab acquired from Powerchip Technology Corporation.

Net investment gain was NT\$0.52 billion, down NT\$0.17 billion from 4Q10, reflecting lower profits from certain invested companies.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT billions)	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>
Cash & Marketable Securities	163.41	181.57	192.01
Accounts Receivable - Trade	46.83	42.98	39.77
Inventory	31.79	28.41	22.69
Other Current Assets	8.50	8.56	11.15
Total Current Assets	250.53	261.52	265.62
Short-term Loans	34.18	31.21	0.32
Accounts Payable	47.26	56.23	40.41
Accrued Employee Profit Sharing / Bonus	15.98	13.81	11.39
Accrued Liabilities and Others	29.84	21.94	26.06
Total Current Liabilities	127.26	123.19	78.18
Current Ratio (x)	2.0	2.1	3.4
Net Working Capital	123.27	138.33	187.44

Liquidity Analysis:

At the end of 1Q11, cash and marketable securities totaled NT\$163.41 billion, decreased by NT\$18.16 billion from 4Q10, primarily due to a negative free cash flow of NT\$24.78 billion resulting from higher capital expenditures during the quarter (please refer to page 5).

Accounts receivable and inventory increased NT\$3.85 billion and NT\$3.38 billion, respectively.

Total current liabilities increased NT\$4.07 billion, primarily attributed to the reclassification of corporate bonds from long-term liabilities and an increase in short-term loans, partially offset by a decrease in accounts payable to contractors and equipment suppliers during the quarter.

Net working capital was NT\$123.27 billion and current ratio was 2.0x.

III - 2. Receivable/Inventory Days			
(In Number of Days)			
	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>
Days of Receivable	39	38	38
Days of Inventory	56	50	45

Receivable and Inventory Days:

Days of receivable increased by one day to 39 days.

Days of inventory increased by 6 days to 56 days mainly due to changes in delivery schedule, some early orders from certain customers, and increased safety stock in materials in response to the Japan earthquake.

III - 3. Debt Service			
(In NT billions)			
	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>
Cash & Marketable Securities	163.41	181.57	192.01
Interest-Bearing Debt	47.58	44.06	14.18
Net Cash Reserves	115.83	137.51	177.83

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$21.68 billion to NT\$115.83 billion in 1Q11, reflecting a decrease of NT\$ 18.16 billion in cash and marketable securities, partially offset by an increase of NT\$2.97 billion in short-term loans for the purpose of hedging primarily an increased portion of the company's US dollar position.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis			
(In NT billions)			
	<u>1Q11</u>	<u>4Q10</u>	<u>1Q10</u>
Net Income	36.28	40.72	33.66
Depreciation & Amortization	24.82	23.30	21.00
Other Operating Sources/(Uses)	(4.62)	6.54	(8.63)
Total Operating Sources/(Uses)	<u>56.48</u>	<u>70.56</u>	<u>46.03</u>
Capital Expenditure	(81.26)	(45.94)	(46.14)
Marketable Financial Instruments	(0.41)	0.41	(3.64)
Long-term Investment	0.00	0.00	(6.23)
Other Investing Sources/(Uses)	4.10	(1.03)	(0.28)
Net Investing Sources/(Uses)	<u>(77.57)</u>	<u>(46.56)</u>	<u>(56.29)</u>
Short-term Loans	2.97	(6.70)	0.32
Other Financing Sources/(Uses)	0.80	(0.60)	(1.16)
Net Financing Sources/(Uses)	<u>3.77</u>	<u>(7.30)</u>	<u>(0.84)</u>
Net Cash Position Changes	(17.32)	16.70	(11.10)
Exchange Rate Changes & Others	(1.12)	(1.08)	(0.38)
Ending Cash Balance	129.45	147.89	159.80

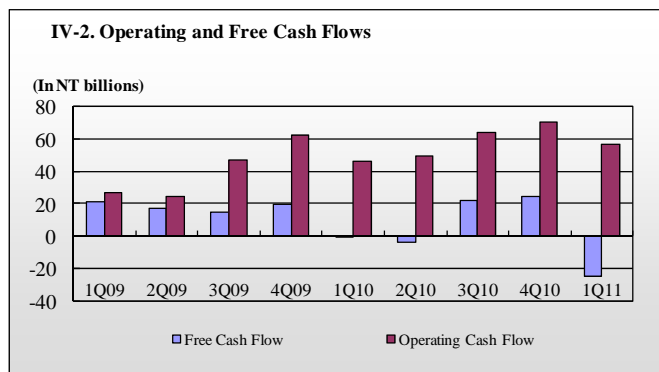
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$56.48 billion during the quarter, a decrease of NT\$14.08 billion from 4Q10, primarily attributed to a NT\$11.16 billion decrease in cash flow from other operating sources. The decrease in other operating sources mainly reflects the change in accounts receivable, payment of 2010 annual bonus, and change in inventory.

Net cash used in investing activities totaled NT\$77.57 billion in 1Q11, mostly due to capital expenditures of NT\$81.26 billion.

Net cash generated in financing activities totaled NT\$3.77 billion during the quarter, primarily attributed to the increase in short-term loans.

As a result, TSMC ended 1Q11 with a cash balance of NT\$129.45 billion.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was negative NT\$24.78 billion in 1Q11.

V. CapEx & Capacity

V - 1. Capital Expenditures

(In US millions)

	<u>1Q11</u>	<u>4Q10</u>
TSMC	2,635	1,435
TSMC China & WaferTech	95	69
Other TSMC Subsidiaries	44	12
Total TSMC	2,774	1,516

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$2.77 billion in 1Q11, which accounted for 36% of total expected capital expenditures in 2011.

V-2. Capacity

Fab / (Wafer size)	4Q10 (A)	2010 (A)	1Q11 (A)	2Q11 (F)	3Q11 (F)	4Q11 (F)	2011 (F)
Fab-2 (6") ⁽¹⁾	255	1,000	238	252	255	255	1,000
Fab-3 (8")	300	1,149	275	301	304	303	1,184
Fab-5 (8")	141	564	137	133	141	141	552
Fab-6 (8")	282	1,113	274	283	286	286	1,128
Fab-8 (8")	255	1,009	240	254	254	255	1,003
Fab-12 (12") ⁽²⁾	315	1,194	322	338	351	366	1,377
Fab-14 (12") ⁽²⁾	406	1,326	427	488	534	537	1,986
WaferTech (8")	108	429	106	108	109	109	431
TSMC China (8")	147	557	148	179	216	250	793
TSMC total capacity (8" equiv. Kpcs)	2,997	11,053	3,000	3,256	3,444	3,519	13,218
SSMC (8")	69	276	64	64	65	65	258
Total managed capacity (8" equiv. Kpcs)	3,066	11,329	3,063	3,320	3,509	3,584	13,476

(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 managed capacity remained flat at 3,063K 8-inch equivalent wafers in 1Q11, as an increase of 28K (12") in 12" wafer capacity was offset by a decrease of 66K (8") 6" and 8" fabs capacity, due to annual maintenance. TSMC managed capacity in 2Q11 is expected to increase by 8.4% to reach 3,320K 8-inch equivalent wafers. 12" wafer capacity will increase 10.2% from 1Q11, while 6" and 8" fabs capacity will increase 6% sequentially.

Total managed capacity is expected to increase 19% from 11,329K 8-inch equivalent wafers in 2010 to 13,476K in 2011, in which 12-inch wafer capacity is expected to increase 33% sequentially.

VI. Recap of Recent Important Events & Announcements

- TSMC Leads Supplier Partners to Complete Taiwan's First "Semiconductor Supply Chain Carbon Footprint" Verification (2011/03/24)
- TSMC Collaborates with National Taiwan University to Develop First 40nm 3D TV Chip (2011/02/16)
- TSMC Board of Directors Proposes NT\$3.0 Cash Dividend Per Share and Approves the Election of Two Additional Independent Directors at TSMC's 2011 Annual Shareholders' Meeting on June 9 (2011/02/15)
- CSR and TSMC Extend Collaboration to 90-nm Embedded Flash Process Technology and IP (2011/02/10)