

**1Q10****Quarterly Management Report
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Topics in This Report

- Revenue Analysis
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Operating Results Review:**Summary:**

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

	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.30	1.26	0.06	3.1%	2059.8%
(US\$ per ADR unit)	0.20	0.19	0.01		
Consolidated Net Sales	92.19	92.09	39.50	0.1%	133.4%
Gross Profit	44.19	44.70	7.48	(1.1%)	490.7%
<i>Gross Margin</i>	<i>47.9%</i>	<i>48.5%</i>	<i>18.9%</i>		
Operating Expense	(10.06)	(11.05)	(6.27)	(9.0%)	60.4%
Operating Income	34.13	33.64	1.21	1.4%	2722.0%
<i>Operating Margin</i>	<i>37.0%</i>	<i>36.5%</i>	<i>3.1%</i>		
Non-Operating Items	1.18	1.73	(0.46)		
Net Income	33.66	32.67	1.56	3.1%	2059.5%
<i>Net Profit Margin</i>	<i>36.5%</i>	<i>35.5%</i>	<i>3.9%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	2,547	2,430	892	4.8%	185.5%

Note: Total outstanding shares were 25,904mn units on 3/31/10

Financial Highlights:**First Quarter 2010**

- Consolidated net sales were NT\$92.19 billion, up 0.1% from NT\$92.09 billion in 4Q09 and up 133.4% from NT\$39.50 billion in 1Q09.
- Gross margin was 47.9%, representing a 0.6 percentage point decrease compared with 4Q09, and a 29.0 percentage point increase compared with 1Q09.
- Operating margin was 37.0%, 0.5 percentage point higher than 4Q09 and 33.9 percentage points higher than 1Q09.
- The combined result from non-operating income and long-term investment was a gain of NT\$1.18 billion, compared to a gain of NT\$1.73 billion in 4Q09, and a loss of NT\$0.46 billion in 1Q09.
- Consolidated net income attributable to shareholders of the parent company was NT\$33.66 billion, increasing 3.1% from 4Q09. Net profit margin was 36.5% and diluted EPS was NT\$1.30.

I. Revenue Analysis

I. Wafer Sales Analysis			
By Application	1Q10	4Q09	1Q09
Computer	32%	33%	23%
Communication	39%	39%	41%
Consumer	14%	13%	19%
Industrial/Others	15%	15%	17%
By Technology	1Q10	4Q09	1Q09
40/45nm	14%	9%	1%
65nm	27%	30%	23%
90nm	17%	16%	25%
0.11/0.13um	13%	15%	16%
0.15/0.18um	18%	18%	21%
0.25/0.35um	8%	9%	11%
0.50um+	3%	3%	3%
By Customer Type	1Q10	4Q09	1Q09
Fabless/System	77%	79%	77%
IDM	23%	21%	23%
By Geography	1Q10	4Q09	1Q09
North America	68%	71%	68%
Asia Pacific	15%	13%	14%
China	2%	3%	3%
Europe	11%	10%	12%
Japan	4%	3%	3%

Revenue Analysis:

1Q10 revenue reached NT\$92.19 billion, up 0.1% from 4Q09, as demand was stronger than seasonal in all major applications. Consumer was the strongest with a 9% sequential growth. Communication and Industrial both grew 2% sequentially, while Computer related products declined 3% from the prior quarter.

By technology, revenue from 40/45nm grew strongly as a result of strong demand and continued yields improvement; 40/45nm reached 14% of total wafer sales in 1Q10, from 9% in the prior quarter. Meanwhile, revenues from 65nm and 90nm remained solid and accounted for 27% and 17% of total wafer sales, respectively. Revenues from 0.13-micron and below represented 71% of total wafer sales, up 1 percentage point from the last quarter.

Revenues from IDM customers accounted for 23% of total wafer sales in 1Q10, up 2 percentage points from 4Q09.

From a geographic perspective, revenues from customers based in North America accounted for 68% of total wafer sales, while sales from Asia Pacific, China, Europe and Japan accounted for 15%, 2%, 11%, and 4% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis			
(In NT billions)	1Q10	4Q09	1Q09
COGS	48.00	47.39	32.02
Depreciation	19.22	18.60	18.97
Other MFG Cost	28.78	28.79	13.05
Gross Profit	44.19	44.70	7.48
Gross Margin	47.9%	48.5%	18.9%

Gross Profit Analysis:

1Q10 gross margin was 47.9%, down by 0.6 percentage point from 48.5% in 4Q09. The increase in depreciation could have been more than offset by other manufacturing cost improvement. However, the effect from the March 4th earthquake resulted in additional cost from tool recovery and moves loss, which brought the gross margin down by 0.9 percentage point. The unfavorable exchange rate further reduced the gross margin by 0.4 percentage point.

II - 2. Operating Expenses

(In NT billions)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Total Operating Exp.	10.06	11.05	6.27
SG&A	3.65	4.48	2.54
Research & Development	6.41	6.57	3.73
Total Operating Exp. as a % of Sales	10.9%	12.0%	15.9%

Operating Expenses:

Total operating expenses was NT\$10.06 billion, representing 10.9% of 1Q10 net sales and a NT\$0.99 billion improvement from 4Q09.

SG&A expenses decreased by NT\$0.83 billion sequentially, primarily due to lowered legal fees.

Research and development expenditures slightly decreased by NT\$0.16 billion.

II - 3. Non-Operating Items

(In NT billions)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Non-Operating Inc./(Exp.)	1.00	1.43	0.35
Net Interest Income/(Exp.)	0.32	0.35	0.88
Other Non-Operating	0.68	1.08	(0.53)
L-T Investments	0.18	0.30	(0.81)
SSMC	0.19	0.29	(0.32)
Others	(0.01)	0.01	(0.49)
Total Non-Operating Items	1.18	1.73	(0.46)

Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$1.18 billion for 1Q10.

Non-operating income was NT\$1.00 billion, down NT\$0.43 billion from 4Q09, primarily due to NT\$0.33 billion less litigation compensation, and, to a lesser extent, wafer scrap loss of NT\$0.19 billion resulting from the March 4th earthquake.

Net investment gain was NT\$0.18 billion, lower than NT\$0.30 billion in the prior quarter, as SSMC's earnings was reduced by an inventory revaluation loss and less government subsidies.

III. Financial Condition Review

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

(In NT billions)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Cash & Marketable Securities	192.01	195.80	229.79
Accounts Receivable - Trade	39.77	35.38	13.82
Inventory	22.69	20.91	14.78
Total Current Assets	265.62	259.80	268.56
Accounts Payable	40.41	40.61	10.97
Accrued Employee Profit Sharing / Bonus	11.39	13.43	15.45
Accrued Liabilities and Others	26.38	25.09	18.95
Total Current Liabilities	78.18	79.13	45.37
Current Ratio (x)	3.4	3.3	5.9
Net Working Capital	187.44	180.67	223.19

Liquidity Analysis:

At the end of 1Q10, cash and marketable securities totaled NT\$192.01 billion, decreased by NT\$3.79 billion from 4Q09, primarily due to the acquisition of Motech shares of NT\$6.23 billion, balanced by net proceeds from disposal of long-term financial instruments.

Account receivables increased by NT\$4.39 billion from the lower base in 4Q09.

Inventory went up by NT\$1.78 billion, mainly due to increased volume of work-in-progress to support stronger demand in 2Q10.

Total current liabilities decreased NT\$0.95 billion, primarily due to the decrease in accrued employee profit sharing/bonus during the quarter (please refer to page 4).

Net working capital was NT\$187.44 billion and current ratio was 3.4x.

III - 1.1 Accrued Employee Profit Sharing / Bonus			
(In NT billions)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Beginning Balance	13.43	8.62	15.20
Accrual for current quarter	4.62	4.81	0.25
Payment of 2009 Employee Bonus	(6.66)	-	-
Ending Balance	11.39	13.43	15.45

Accrued Employee Profit Sharing /Bonus:

In the past, TSMC distributed employee profit sharing/bonus once a year after the Annual General Shareholders' Meeting and upon shareholders' approval. Due to change in compensation scheme, half of 2009's profit sharing/bonus was distributed as employee bonus in the first quarter. Starting this year, half of the quarterly accrued employee profit sharing/bonus will be distributed in the following quarter as employee bonus. The remaining half will be distributed as employee profit sharing after the AGM, subject to shareholders' approval.

Therefore, NT\$6.66 billion, which was half of 2009's accrued employee profit sharing/bonus, was distributed during 1Q10. Meanwhile, 1Q10 accrued employee profit sharing/bonus was NT\$4.62 billion.

In sum, the ending balance was NT\$11.39 billion.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Days of Receivable	38	36	38
Days of Inventory	45	42	44

Receivable and Inventory Days:

Days of receivable increased by two days to 38 days in 1Q10.

Days of inventory increased by three days to 45 days, in anticipation of the strong demand in 2Q10.

III - 3. Debt Service			
(In NT billions)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Cash & Marketable Securities	192.01	195.80	229.79
Interest-Bearing Debt	14.18	15.09	16.00
Net Cash Reserves	177.83	180.71	213.79

Debt Service:

Net cash reserves, defined as the excess of cash and short-term marketable securities over interest-bearing debt, decreased by NT\$2.88 billion to NT\$177.83 billion at the end of 1Q10.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis			
(In NT billions)	<u>1Q10</u>	<u>4Q09</u>	<u>1Q09</u>
Net Income	33.66	32.67	1.56
Depreciation & Amortization	21.00	20.28	20.48
Employee Bonus Payment	(6.66)	n.a	n.a
Other Operating Sources/(Uses)	(1.97)	9.05	4.75
Total Operating Sources/(Uses)	<u>46.03</u>	<u>62.00</u>	<u>26.79</u>
Capital Expenditure	(46.14)	(42.71)	(5.62)
Marketable Financial Instruments	(3.64)	(3.59)	13.80
Long Term Investment	(6.23)	n.a	n.a
Other Investing Sources/(Uses)	(0.28)	(0.80)	(0.04)
Net Investing Sources/(Uses)	<u>(56.29)</u>	<u>(47.10)</u>	<u>8.14</u>
Repayment of Bonds Payable	0.00	0.00	(8.00)
Other Financing Sources/(Uses)	(0.84)	(0.28)	0.12
Net Financing Sources/(Uses)	<u>(0.84)</u>	<u>(0.28)</u>	<u>(7.88)</u>
Net Cash Position Changes	(11.10)	14.62	27.05
Exchange Rate Changes & Others	(0.38)	(0.28)	1.60
Ending Cash Balance	159.80	171.28	223.26

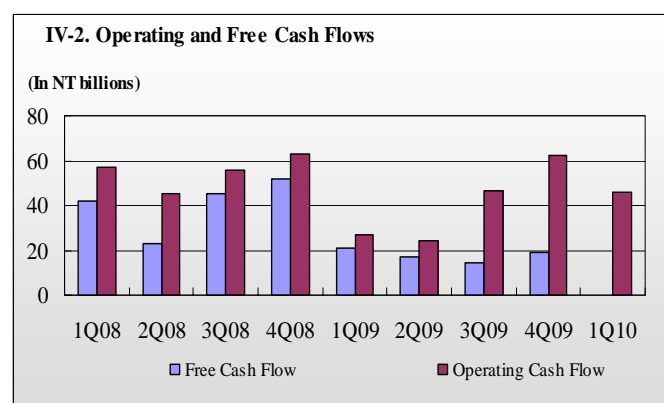
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$46.03 billion during the quarter, a decrease of NT\$15.97 billion from 4Q09, primarily due to the payment of employee bonus of NT\$6.66 billion and the increase in accounts receivable of NT\$4.89 billion.

Net cash used in investing activities increased NT\$9.19 billion to NT\$56.29 billion in 1Q10, mainly due to the acquisition of Motech shares and higher capital expenditures.

Net cash used in financing activities was NT\$0.84 billion during the quarter.

As a result, TSMC ended 1Q10 with a cash balance of NT\$159.80 billion.



Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$46.03 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, decreased by NT\$19.40 billion compared to 4Q09, mainly due to the decrease in operating cash flow of NT\$15.97 billion as discussed in previous paragraphs, and to a lesser extent, higher capital expenditures with a NT\$3.43 billion increase compared with 4Q09.

V. CapEx & Capacity

V - 1. Capital Expenditures		
(In US millions)	<u>1Q10</u>	<u>4Q09</u>
TSMC	1,433	1,304
XinTec and GUC	2	1
TSMC China & WaferTech	8	4
Other TSMC Subsidiaries	1	1
Total TSMC	1,444	1,310

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.44 billion in 1Q10.

V-2. Capacity

Fab / (Wafer size)	2009 (A)	1Q10 (A)	2Q10 (F)	3Q10 (F)	4Q10 (F)	2010 (F)
Fab-2 (6") ⁽¹⁾	1,121	254	242	264	264	1,025
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	311	1,189
Fab-14 (12") ⁽²⁾	958	261	299	345	383	1,288
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	2,683	2,850	2,941	10,971
SSMC (8")	259	69	69	69	69	276
Total managed capacity (8" equiv. Kpcs)	9,955	2,566	2,752	2,919	3,010	11,247

(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 was 2,566K 8-inch equivalent wafers in 1Q10, increased by 1% from 2,532K in 4Q09. Total managed capacity in 2Q10 is expected to increase by 7% to reach 2,752K 8-inch equivalent wafers, in which 12" wafer capacity will increase by 13% sequentially. Meanwhile, legacy fabs capacity will increase by 2% in the second quarter of 2010.

Total managed capacity in 2010 is expected to reach 11,247K 8-inch equivalent wafers, representing a 13% increase from 9,955K 8-inch equivalent wafers in 2009, while capacity for 12-inch wafer fabs is expected to increase 35% year-over-year.

VI. Recap of Recent Important Events & Announcements

- TSMC Breaks Ground on Fab for LED Lighting Business (2010/03/25)
- TSMC to Take Delivery of an ASML EUV Lithography System (2010/02/22)
- TSMC and MAPPER Reached Joint Development Milestone (2010/02/19)
- TSMC Board of Directors Proposes NT\$3.0 Cash Dividend Per Share (2010/02/09)
- TSMC Holds Topping Ceremony For Fab 12, Phase 5 (2010/01/19)
- Qualcomm and TSMC Collaborating on 28nm Process Technology (2010/01/08)