



3Q10

Quarterly Management Report  
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Elizabeth Sun

Corporate Communication Division

TSMC

invest@tsmc.com

886-3-568-2085

**Topics in This Report**

- Revenue Analysis
- Profit & Expense Analysis
- Financial Condition Review
- Cash Flow
- CapEx & Capacity
- Recap of Recent Important Events & Announcements

**Operating Results Review:****Summary:**

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

	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.81	1.55	1.18	16.5%	54.0%
(US\$ per ADR unit)	0.28	0.24	0.18		
Consolidated Net Sales	112.25	104.96	89.94	6.9%	24.8%
Gross Profit	56.13	51.93	42.86	8.1%	31.0%
<i>Gross Margin</i>	<i>50.0%</i>	<i>49.5%</i>	<i>47.7%</i>		
Operating Expense	(13.06)	(11.46)	(10.87)	14.0%	20.1%
Operating Income	43.07	40.47	31.99	6.4%	34.6%
<i>Operating Margin</i>	<i>38.4%</i>	<i>38.6%</i>	<i>35.6%</i>		
Non-Operating Items	6.61	1.94	0.97		
Net Income	46.94	40.28	30.55	16.5%	53.6%
<i>Net Profit Margin</i>	<i>41.8%</i>	<i>38.4%</i>	<i>34.0%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	3,191	2,927	2,445	9.0%	30.5%

Note: Total outstanding shares were 25,907mn units on 9/30/10

**Financial Highlights:****Third Quarter 2010**

- Consolidated net sales were NT\$112.25 billion, representing a 6.9% increase from NT\$104.96 billion in 2Q10 and a 24.8% increase from NT\$89.94 billion in 3Q09.
- Gross margin was 50.0%, 0.5 percentage point higher than 2Q10 and 2.3 percentage points higher than 3Q09 level.
- Operating margin was 38.4%, down 0.2 percentage point from 2Q10, and up 2.8 percentage points from 3Q09.
- Non-operating income and long-term investment combined were a gain of NT\$6.61 billion, compared to a gain of NT\$1.94 billion in 2Q10, and NT\$0.97 billion in 3Q09.
- Consolidated net income attributable to shareholders of the parent company was NT\$46.94 billion, up 16.5% from 2Q10. Net profit margin was 41.8% and diluted EPS was NT\$1.81.

## I. Revenue Analysis

### I. Wafer Sales Analysis

By Application	3Q10	2Q10	3Q09
Computer	25%	29%	28%
Communication	44%	41%	42%
Consumer	14%	15%	16%
Industrial/Others	17%	15%	14%

By Technology	3Q10	2Q10	3Q09
40/45nm	17%	16%	4%
65nm	29%	27%	31%
90nm	14%	16%	18%
0.11/0.13um	12%	13%	14%
0.15/0.18um	17%	17%	21%
0.25/0.35um	8%	8%	9%
0.50um+	3%	3%	3%

By Customer Type	3Q10	2Q10	3Q09
Fabless/System	78%	79%	80%
IDM	22%	21%	20%

By Geography	3Q10	2Q10	3Q09
North America	67%	66%	70%
Asia Pacific	15%	15%	13%
China	3%	3%	3%
Europe	11%	11%	11%
Japan	4%	5%	3%

### Revenue Analysis:

Third quarter revenue was NT\$112.25 billion, representing a 6.9% increase from the prior quarter. Communication continued its strong momentum with a 13% QoQ growth. Consumer and Industrial increased 4% and 19% from 2Q10, respectively, while Computer declined 7% due to weaker-than-seasonal demand.

In terms of technology, we continued to see strong demand from customers adopting TSMC's leading edge technologies. 40/45nm and 65nm continued to grow and represented 17% and 29% of total wafer sales, respectively. Revenues from 0.13-micron and below accounted for 72% of total wafer sales.

Revenues from IDM customers grew 14% in 3Q10, much stronger than the overall growth. IDM customers accounted for 22% of total wafer sales during the quarter.

From a geographic perspective, revenues from customers based in North America accounted for 67% of total wafer sales, while sales from Asia Pacific, China, Europe and Japan accounted for 15%, 3%, 11%, and 4% of total wafer sales, respectively.

## II. Profit & Expense Analysis

### II - 1. Gross Profit Analysis

(In NT billions)	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
<b>COGS</b>	<b>56.12</b>	<b>53.03</b>	<b>47.08</b>
Depreciation	20.40	19.26	18.37
Other MFG Cost	35.72	33.77	28.71
<b>Gross Profit</b>	<b>56.13</b>	<b>51.93</b>	<b>42.86</b>
<b>Gross Margin</b>	<b>50.0%</b>	<b>49.5%</b>	<b>47.7%</b>

### Gross Profit Analysis:

Gross margin was 50.0% in 3Q10, up 0.5 percentage point from the prior quarter, primarily due to continued cost improvement and a favorable foreign exchange rate.

## II - 2. Operating Expenses

(In NT billions)	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
<b>Total Operating Exp.</b>	<b>13.06</b>	<b>11.46</b>	<b>10.87</b>
SG&A	5.02	4.27	4.67
Research & Development	8.04	7.19	6.20
<b>Total Operating Exp. as a % of Sales</b>	<b>11.6%</b>	<b>10.9%</b>	<b>12.1%</b>

### *Operating Expenses:*

Total operating expenses were NT\$13.06 billion, representing 11.6% of net sales.

SG&A expenses increased NT\$0.75 billion from 2Q10, primarily due to higher opening expenses for Fab 12 Phase 5.

Research and development expenditures increased NT\$0.85 billion sequentially, mainly reflecting a higher level of development activities for 28nm and 20nm technologies.

## II - 3. Non-Operating Items

(In NT billions)	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
<b>Non-Operating Inc./(Exp.)</b>	<b>5.71</b>	<b>1.41</b>	<b>0.52</b>
Net Interest Income/(Exp.)	0.30	0.33	0.42
Other Non-Operating	5.41	1.08	0.10
<b>L-T Investments</b>	<b>0.90</b>	<b>0.53</b>	<b>0.45</b>
SSMC	0.35	0.33	0.26
Others	0.55	0.20	0.19
<b>Total Non-Operating Items</b>	<b>6.61</b>	<b>1.94</b>	<b>0.97</b>

### *Non-Operating Items:*

Total non-operating items were a gain of NT\$6.61 billion for 3Q10.

Non-operating income was NT\$5.71 billion, up NT\$4.30 billion from 2Q10, primarily accounting for the receipt of SMIC shares valued at NT\$4.43 billion from the SMIC litigation settlement.

Net investment gain was NT\$0.90 billion, up NT\$0.37 billion from the prior quarter, reflecting business improvement among certain invested companies.

## III. Financial Condition Review

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

(In NT billions)	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
Cash & Marketable Securities	167.21	206.54	180.32
Accounts Receivable - Trade	47.38	48.06	35.88
Inventory	26.66	24.80	19.18
Other Current Assets	5.39	7.22	8.86
<b>Total Current Assets</b>	<b>246.64</b>	<b>286.62</b>	<b>244.24</b>
Short Term Loans	37.91	18.08	0.00
Accounts Payable	39.74	38.79	26.30
Dividends Payable	0.00	77.89	0.00
Accrued Employee Profit Sharing / Bonus	11.50	14.57	8.62
Accrued Liabilities and Others	20.09	16.94	20.09
<b>Total Current Liabilities</b>	<b>109.24</b>	<b>166.27</b>	<b>55.01</b>
Current Ratio (x)	2.3	1.7	4.4
<b>Net Working Capital</b>	<b>137.40</b>	<b>120.35</b>	<b>189.23</b>

### *Liquidity Analysis:*

At the end of 3Q10, total cash and marketable securities decreased by NT\$39.33 billion to NT\$167.21 billion, primarily due to cash dividends payment of NT\$77.71 billion during this quarter.

Accounts receivable decreased slightly, while inventory increased NT\$1.86 billion.

Total current liabilities decreased NT\$57.03 billion in this quarter, primarily due to payment of cash dividends, partially offset by an increase of short-term loans.

Net working capital was NT\$137.4 billion and current ratio was 2.3x.

### III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
Days of Receivable	39	39	36
Days of Inventory	47	45	41

### *Receivable and Inventory Days:*

Days of receivable remained flat at 39 days in this quarter, while days of inventory increased by 2 days to 47 days.

### III - 3. Debt Service

(In NT billions)

	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
Cash & Marketable Securities	167.21	206.54	180.32
Interest-Bearing Debt	51.59	31.96	15.33
<b>Net Cash Reserves</b>	<b>115.62</b>	<b>174.58</b>	<b>164.99</b>

### *Debt Service:*

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$58.96 billion to NT\$115.62 billion in 3Q10. The decrease was mainly due to a decrease of NT\$ 39.33 billion in cash and marketable securities and an increase of NT\$19.83 billion in short-term loans for the purpose of hedging an increased portion of the company's US dollar position.

## IV. Cash Flow

### IV - 1.1. Cash Flow Analysis

(In NT billions)

	<u>3Q10</u>	<u>2Q10</u>	<u>3Q09</u>
Net Income	46.94	40.28	30.55
Depreciation & Amortization	22.37	21.13	20.00
Employee Profit Sharing Payment	n.a	n.a	(7.49)
Other Operating Sources/(Uses)	(5.36)	(12.48)	3.60
<b>Total Operating Sources/(Uses)</b>	<b><u>63.95</u></b>	<b><u>48.93</u></b>	<b><u>46.66</u></b>
Capital Expenditure	(42.15)	(52.72)	(32.04)
Marketable Financial Instruments	4.37	0.17	(18.94)
Long Term Investment	0.00	(1.62)	n.a
Other Investing Sources/(Uses)	(7.25)	(0.04)	(0.53)
<b>Net Investing Sources/(Uses)</b>	<b><u>(45.03)</u></b>	<b><u>(54.21)</u></b>	<b><u>(51.51)</u></b>
Proceeds from Short Term Loans	19.83	17.76	0.00
Cash Dividends	(77.71)	0.00	(76.88)
Other Financing Sources/(Uses)	(0.23)	(0.15)	(0.11)
<b>Net Financing Sources/(Uses)</b>	<b><u>(58.11)</u></b>	<b><u>17.61</u></b>	<b><u>(76.99)</u></b>
<b>Net Cash Position Changes</b>	<b>(39.19)</b>	<b>12.33</b>	<b>(81.84)</b>
<b>Exchange Rate Changes &amp; Others</b>	<b>(1.03)</b>	<b>0.36</b>	<b>(0.74)</b>
<b>Ending Cash Balance</b>	<b>132.27</b>	<b>172.49</b>	<b>156.94</b>

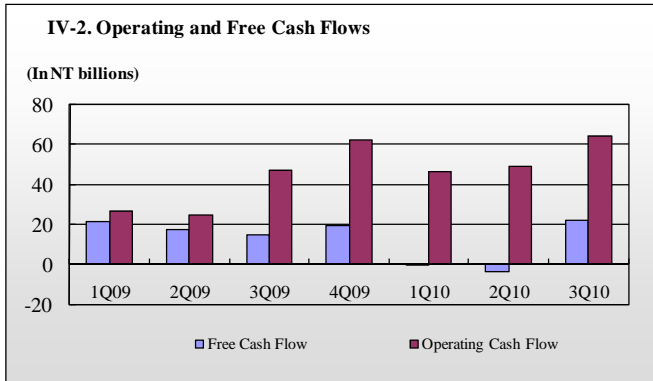
### *Summary of Cash Flow:*

Cash generated from operating activities totaled NT\$63.95 billion during the quarter, up NT\$15.02 billion from 2Q10, mainly due to the increase in net income and decreased uses in non-cash net working capital.

Net cash used in investing activities totaled NT\$45.03 billion, mostly for capital expenditures of NT\$42.15 billion and other investing uses of NT\$7.25 billion, which mainly reflect the deposits paid to equipment vendors.

Net cash used in financing activities totaled NT\$58.11 billion during the quarter, mainly due to the payment of cash dividends, partially offset by proceeds from short-term loans.

As a result, TSMC ended 3Q10 with a cash balance of NT\$132.27 billion.



**Operating and Free Cash Flows:**

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$21.80 billion in 3Q10, compared to negative NT\$3.79 billion in 2Q10 and NT\$14.62 billion in 3Q09.

**V. CapEx & Capacity**

**V - 1. Capital Expenditures**

(In US millions)

	<u>1Q10</u>	<u>2Q10</u>	<u>3Q10</u>	<u>YTD</u>
TSMC	1,433	1,645	1,275	4,353
XinTec and GUC	2	4	10	16
TSMC China & WaferTech	8	7	34	49
Other TSMC Subsidiaries	1	1	0	2
<b>Total TSMC</b>	<b>1,444</b>	<b>1,657</b>	<b>1,319</b>	<b>4,420</b>

**Capital Expenditures:**

Capital expenditures for TSMC on a consolidated basis were US\$1.32 billion in 3Q10.

Total capital expenditures in the first three quarters of 2010 reached US\$4.42 billion.

**V-2. Capacity**

Fab / (Wafer size)	2009 (A)	1Q10 (A)	2Q10 (A)	3Q10 (A)	4Q10 (F)	2010 (F)
Fab-2 (6") <sup>(1)</sup>	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") <sup>(2)</sup>	879	269	300	309	315	1,194
Fab-14 (12") <sup>(2)</sup>	958	261	299	360	406	1,326
WaferTech (8")	431	106	107	108	108	429
TSMC China (8")	531	132	134	145	147	557
<b>TSMC total capacity (8" equiv. Kpcs)</b>	<b>9,695</b>	<b>2,497</b>	<b>2,680</b>	<b>2,879</b>	<b>2,997</b>	<b>11,053</b>
SSMC (8")	259	69	69	69	69	276
<b>Total managed capacity (8" equiv. Kpcs)</b>	<b>9,955</b>	<b>2,566</b>	<b>2,749</b>	<b>2,948</b>	<b>3,066</b>	<b>11,329</b>

(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:**

During the third quarter, Fab 14 successfully accelerated productivity improvement on certain advanced technology ahead of our original schedule, which led to an upward revision of our annual capacity plan.

Total managed capacity in 2010 is now expected to increase 14% sequentially to 11,329K 8-inch equivalent wafers, compared with 11,299K 8-inch equivalent wafers planned in the prior quarter. 12-inch wafer capacity is expected to increase 37% in 2010.

Total managed capacity was 2,948K 8-inch equivalent wafers in 3Q10, increased by 7% from 2,749K in 2Q10.

## **VI. Recap of Recent Important Events & Announcements**

- TSMC Begins Building Solar R&D Center and Fab in Central Taiwan ( 2010/09/16 )
- TSMC Was Named the Semiconductor Sector Leader in 2010 Dow Jones Sustainability Index (DJSI) Survey and Included as Index Component for the 10th Consecutive Year ( 2010/09/09 )
- ARM and TSMC Sign Long-Term Strategic Agreement That Enables Broad Processor and Physical IP Optimization on TSMC's Most Advanced Technology Nodes ( 2010/07/20 )
- TSMC Begins Construction on Gigafab<sup>TM</sup> In Central Taiwan ( 2010/07/16 )