



1Q09

Quarterly Management Report
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Elizabeth Sun / Harrison Hsueh

Investor Relations Division
TSMC
invest@tsmc.com
886-3-568-2085/ 2088**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)*

	1Q09	4Q08	1Q08	QoQ	YoY
EPS (NT\$ per common share)	0.06	0.48	1.08	(87.5%)	(94.4%)
(US\$ per ADR unit)	0.01	0.07	0.17		
Consolidated Net Sales	39.50	64.56	87.48	(38.8%)	(54.8%)
Gross Profit	7.48	20.19	38.24	(63.0%)	(80.4%)
<i>Gross Margin</i>	<i>18.9%</i>	<i>31.3%</i>	<i>43.7%</i>		
Operating Expense	(6.27)	(8.17)	(9.12)	(23.3%)	(31.2%)
Operating Income	1.21	12.02	29.12	(89.9%)	(95.8%)
<i>Operating Margin</i>	<i>3.1%</i>	<i>18.6%</i>	<i>33.3%</i>		
Non-Operating Items	(0.46)	1.07	2.45		
Net Income	1.56	12.45	28.14	(87.5%)	(94.5%)
<i>Net Profit Margin</i>	<i>3.9%</i>	<i>19.3%</i>	<i>32.2%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	892	1,532	2,196	(41.8%)	(59.4%)

*Note: Total outstanding shares were 25,626mn units on 3/31/09***Financial Highlights:****First Quarter 2009**

- Consolidated net sales were NT\$39.50 billion, representing a 38.8% sequential decline from 4Q08 and a 54.8% decline compared to 1Q08;
- Gross margin was 18.9%, 12.4 percentage points lower than 4Q08 and 24.8 percentage points lower than 1Q08.
- Operating margin was 3.1%, 15.5 percentage points lower than 4Q08 and 30.2 percentage points lower than 1Q08. Operating expenses were NT\$6.27 billion, NT\$1.90 billion lower than the previous quarter.
- The combined result from non-operating income and long-term investment losses was a loss of NT\$0.46 billion, compared to a gain of NT\$1.07 billion in 4Q08 and a gain of NT\$2.45 billion in 1Q08;
- Consolidated net income attributable to shareholders of the parent company was NT\$1.56 billion, with net profit margin of 3.9% and diluted EPS of NT\$0.06.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	1Q09	4Q08	1Q08
Computer	26%	32%	34%
Communication	46%	43%	42%
Consumer	21%	19%	17%
Industrial/Others	7%	6%	8%

By Technology	1Q09	4Q08	1Q08
45/40nm	1%	0%	0%
65nm	23%	27%	15%
90nm	25%	21%	28%
0.11/0.13um	16%	17%	20%
0.15/0.18um	21%	22%	23%
0.25/0.35um	11%	10%	10%
0.50um+	3%	3%	4%

By Customer Type	1Q09	4Q08	1Q08
Fabless/System	77%	72%	71%
IDM	23%	28%	29%

By Geography	1Q09	4Q08	1Q08
North America	68%	72%	76%
Asia Pacific	14%	11%	11%
China	3%	2%	1%
Europe	12%	11%	9%
Japan	3%	4%	3%

Revenue Analysis:

Application—First quarter revenue was NT\$39.50 billion, better than the revised guidance, primarily due to continued rush orders from customers especially from the mainland Chinese market. In 1Q09, demand continued to be weaker across all applications compared to 4Q08. On a sequential basis, revenues from computer, communication, and consumer applications decreased 53%, 36%, and 32%, respectively.

Technology—Revenue from 45/40nm reached 1% of total wafer sales in 1Q09. Meanwhile, revenue from 65nm and 90nm were 23% and 25% of total wafer sales, respectively. Overall, revenues from advanced technologies (0.13-micron and below) accounted for 65% of total wafer sales.

Customer—Revenues from IDM customers accounted for 23% of total wafer sales in 1Q09, lower than 28% in 4Q08, primarily due to increasing in-sourcing of those customers in the weak demand environment.

Geography—In 1Q09, revenues from customers based in North America accounted for 68% of total wafer sales, lower than 72% in 4Q08. Meanwhile, sales from customers in Asia Pacific, China, Europe, and Japan accounted for 14%, 3%, 12% and 3% of wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	1Q09	4Q08	1Q08
COGS	32.02	44.37	49.24
Depreciation	18.97	19.29	18.12
Other MFG Cost	13.05	25.08	31.12
Gross Profit	7.48	20.19	38.24
Gross Margin	18.9%	31.3%	43.7%

Gross Profit Analysis:

Gross margin in 1Q09 was 18.9%, down 12.4 percentage points from 4Q08, mainly driven by a sharp decline of production activities, partially balanced by cost improvement, a more favorable exchange rate, and less employee profit sharing expenses.

II - 2. Operating Expenses

(In NT billions)	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>
Total Operating Exp.	6.27	8.17	9.12
SG&A	2.54	3.34	3.85
Research & Development	3.73	4.83	5.27
Total Operating Exp. as a % of Sales	15.9%	12.7%	10.4%

Operating Expenses:

Total operating expenses for 1Q09 decreased to NT\$6.27 billion, representing 15.9% of net sales, higher than 12.7% of net sales in 4Q08.

Research and development expenditures decreased by NT\$1.10 billion sequentially, mainly due to lower level of employee profit sharing and less development expenses related to 40nm technologies.

SG&A expenses decreased by NT\$0.80 billion from 4Q08 level. The decrease was mainly due to lower level of employee profit sharing and more stringent expense control.

II - 3. Non-Operating Items

(In NT billions)	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>
Non-Operating Inc./(Exp.)	0.35	1.41	1.87
Net Interest Income/(Exp.)	0.88	1.18	1.19
Other Non-Operating	(0.53)	0.23	0.68
L-T Investments	(0.81)	(0.34)	0.58
SSMC	(0.32)	(0.07)	0.38
Others	(0.49)	(0.27)	0.20
Total Non-Operating Items	(0.46)	1.07	2.45

Non-Operating Items:

For 1Q09, combined result from non-operating income and long-term investment losses was a net loss of NT\$0.46 billion.

Non-operating income was NT\$0.35 billion, lower than NT\$1.41 billion in 4Q08, primarily due to less interest income, disposal and impairment losses of financial assets, and the absence of litigation compensation.

Net investment losses increased by NT\$0.47 billion to NT\$0.81 billion, mainly due to weaker business in VIS and SSMC.

III. Financial Condition Review

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

(In NT billions)	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>
Cash & Marketable Securities	229.79	211.45	210.31
Accounts Receivable - Trade	13.82	18.50	37.95
Inventory	14.78	14.88	21.89
Total Current Assets	268.56	252.62	281.46
Accounts Payable	10.97	14.04	22.59
Current Portion of Bonds Payable	0.00	8.00	8.00
Accrued Bonus to Employees, Directors and Supervisors	15.64	15.37	4.37
Accrued Liabilities and Others	18.76	19.40	27.08
Total Current Liabilities	45.37	56.81	62.04
Current Ratio (x)	5.9	4.4	4.5
Net Working Capital	223.19	195.81	219.42

Liquidity Analysis:

At the end of 1Q09, total current assets increased by NT\$ 15.94 billion to NT\$268.56 billion, mainly contributed by the free cash flow of NT\$21.17 billion (please refer to page 5) generated during this quarter.

Total current liabilities decreased by NT\$11.44 billion in 1Q09, primarily resulting from the repayment of corporate bond and a decline in payables to contractors and equipment suppliers.

Net working capital was NT\$223.19 billion and current ratio increased to 5.9x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>
Days of Receivable	38	46	43
Days of Inventory	44	40	46

Receivable and Inventory Days:

Sequentially, days of receivable decreased by eight days to 38 days in 1Q09, mainly due to a lower level of business activities.

Days of inventory increased by four days to 44 days, reflecting an improving business outlook for 2Q09.

III - 3. Debt Service

(In NT billions)

	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>
Cash & Marketable Securities	229.79	211.45	210.31
Interest-Bearing Debt	16.00	23.44	22.88
Net Cash Reserves	213.79	188.01	187.43

Debt Service:

Net cash reserves - defined as the excess of cash and short-term marketable securities over interest-bearing debt – increased by NT\$25.78 billion to NT\$213.79 billion at the end of 1Q09, primarily due to free cash flow of NT\$21.17 billion generated during this quarter.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis

(In NT billions)

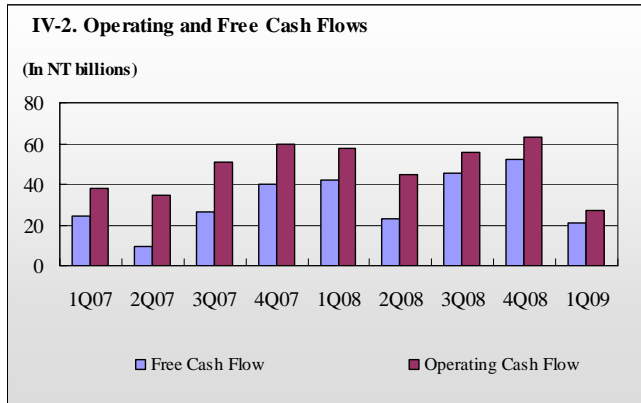
	<u>1Q09</u>	<u>4Q08</u>	<u>1Q08</u>
Net Income	1.56	12.45	28.14
Depreciation & Amortization	20.48	20.96	19.83
Other Operating Sources/(Uses)	4.75	29.83	9.33
Total Operating Sources/(Uses)	<u>26.79</u>	<u>63.24</u>	<u>57.30</u>
Capital Expenditure	(5.62)	(11.26)	(15.31)
Marketable Financial Instruments	13.80	30.31	12.91
Other Investing Sources/(Uses)	(0.04)	(1.04)	(0.73)
Net Investing Sources/(Uses)	<u>8.14</u>	<u>18.01</u>	<u>(3.13)</u>
Repayment of Bonds Payable	(8.00)	0.00	0.00
Purchase of Treasury Stock	0.00	0.00	(3.05)
Other Financing Sources/(Uses)	0.12	(0.30)	(0.24)
Net Financing Sources/(Uses)	<u>(7.88)</u>	<u>(0.30)</u>	<u>(3.29)</u>
Net Cash Position Changes	27.05	80.95	50.88
Exchange Rate Changes & Others	1.60	1.21	(1.59)
Ending Cash Balance	223.26	194.61	144.28

Summary of Cash Flow:

Cash generated from operating activities totaled NT\$26.79 billion during 1Q09, down from NT\$63.24 billion in 4Q08, mainly due to lower level of business activities.

Net cash generated from investing activities was NT\$8.14 billion in 1Q09, reflecting capital expenditure of NT\$5.62 billion and a net decrease of NT\$13.80 billion in marketable financial instruments.

As a result, TSMC ended 1Q09 with a cash balance of NT\$223.26 billion.



Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$26.79 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$21.17 billion in 1Q09, compared to NT\$51.98 billion in 4Q08.

V. CapEx & Capacity

V - 1. Capital Expenditures
(In US millions)

	<u>1Q09</u>	<u>4Q08</u>
TSMC	161	326
XinTec and GUC	2	2
TSMC China & WaferTech	3	12
Other TSMC Subsidiaries	0	2
Total TSMC	166	342

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$166 million in 1Q09.

For year 2009, total capital expenditures for TSMC is expected to be around US\$1.5 billion, compared with US\$1.9 billion spent in 2008.

V-2. Capacity

Fab / (Wafer size)	4Q08 (A)	1Q09 (A)	2Q09 (F)	3Q09 (F)	4Q09 (F)	2009 (F)
Fab-2 (6") ⁽¹⁾	272	274	280	283	283	1,121
Fab-3 (8")	274	286	289	292	283	1,150
Fab-5 (8")	161	162	149	144	144	599
Fab-6 (8")	282	295	284	287	287	1,154
Fab-8 (8")	272	275	271	265	255	1,066
Fab-12 (12") ⁽²⁾	221	218	219	218	254	909
Fab-14 (12") ⁽²⁾	236	238	236	228	227	928
WaferTech (8")	106	106	107	109	109	431
TSMC China (8")	128	128	134	135	135	531
TSMC total capacity (8" equiv. Kpcs)	2,405	2,431	2,414	2,394	2,455	9,695
SSMC (8")	73	64	65	65	65	259
Total managed capacity (8" equiv. Kpcs)	2,478	2,495	2,479	2,460	2,520	9,954

(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 2,495K 8-inch equivalent wafers in the first quarter, increased by 0.7% from 2,478K in 4Q08.

Total managed capacity in 2009 is expected to reach 9,954K 8-inch equivalent wafers, representing an increase of 6% from 9,377K 8-inch equivalent wafers in 2008, while capacity for 12-inch wafer fabs is expected to increase by 11%, reaching 41.5% of total capacity.

VI. Recap of Recent Important Events & Announcements

- TSMC Qualifies New 0.18-Micron Embedded Flash Family (2009/03/31)
- Ciranova and TSMC Announce Strategic Partnership on Advanced PDK Technology (2009/03/24)
- Barron's Names Dr. Rick Tsai to its Most Respected CEO List (2009/03/23)
- Intel, TSMC Reach Agreement to Collaborate on Technology Platform, IP Infrastructure, SoC Solutions (2009/03/02)
- TSMC and Tela Innovations Announce Strategic Partnership to Enhance Design and Process Co-Optimization (2009/02/24)
- TSMC Board Proposes Dividend of NT\$3.0 Cash and 0.5% Stock Per Share (2009/02/10)

* Please visit TSMC's Web site (<http://www.tsmc.com>) for details about these and other announcements.