



3Q09

Quarterly Management Report
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Topics in This Report

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- Cash Flow
- CapEx & Capacity
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Operating Results Review:**Summary:***(Amounts are on consolidated basis and are in NT billions except otherwise noted)*

	3Q09	2Q09	3Q08	QoQ	YoY
EPS (NT\$ per common share)	1.18	0.94	1.17	24.8%	0.3%
(US\$ per ADR unit)	0.18	0.14	0.19		
Consolidated Net Sales	89.94	74.21	92.98	21.2%	(3.3%)
Gross Profit	42.86	34.30	43.09	25.0%	(0.5%)
<i>Gross Margin</i>	<i>47.7%</i>	<i>46.2%</i>	<i>46.3%</i>		
Operating Expense	(10.87)	(9.17)	(10.18)	18.6%	6.9%
Operating Income	31.99	25.13	32.91	27.3%	(2.8%)
<i>Operating Margin</i>	<i>35.6%</i>	<i>33.9%</i>	<i>35.4%</i>		
Non-Operating Items	0.97	1.26	1.51		
Net Income	30.55	24.44	30.57	25.0%	(0.1%)
<i>Net Profit Margin</i>	<i>34.0%</i>	<i>32.9%</i>	<i>32.9%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	2,445	1,971	2,411	24.0%	1.4%

*Note: Total outstanding shares were 25,901mn units on 9/30/09***Financial Highlights:****Third Quarter 2009**

- Consolidated net sales were NT\$89.94 billion, representing a 21.2% growth from NT\$74.21 billion in 2Q09 and a 3.3% decline from NT\$92.98 billion in 3Q08.
- Gross margin was 47.7%, 1.5 percentage points higher than 2Q09 and 1.4 percentage points higher than 3Q08.
- Operating margin was 35.6%, 1.7 percentage points higher than 2Q09 and 0.2 percentage point higher than 3Q08. Operating expenses were NT\$10.87 billion, NT\$1.7 billion and NT\$0.69 billion higher than prior and year-ago quarter, respectively.
- The combined result from non-operating income and long-term investments was a gain of NT\$0.97 billion, comparing with a gain of NT\$1.26 billion in 2Q09 and a gain of NT\$1.51 billion in 3Q08.
- Consolidated net income attributable to shareholders of the parent company was NT\$30.55 billion, 25.0% increase from prior quarter. Net profit margin was 34.0% and diluted EPS was NT\$1.18.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	3Q09	2Q09	3Q08
Computer	30%	28%	33%
Communication	46%	45%	41%
Consumer	18%	21%	20%
Industrial/Others	6%	6%	6%

By Technology	3Q09	2Q09	3Q08
40/45nm	4%	1%	0%
65nm	31%	28%	25%
90nm	18%	23%	26%
0.11/0.13um	14%	13%	15%
0.15/0.18um	21%	23%	22%
0.25/0.35um	9%	9%	9%
0.50um+	3%	3%	3%

By Customer Type	3Q09	2Q09	3Q08
Fabless/System	80%	82%	70%
IDM	20%	18%	30%

By Geography	3Q09	2Q09	3Q08
North America	70%	65%	74%
Asia Pacific	13%	18%	11%
China	3%	3%	1%
Europe	11%	11%	11%
Japan	3%	3%	3%

Revenue Analysis:

3Q09 business saw a continued improvement with demand growing across the board. Sequentially, revenues from computer applications grew the most with 29% quarter-over-quarter growth rate, followed by communication's 25% and consumer's 11%, respectively.

As a result of continued ramp-up of our 40/45nm technology, revenues from 40/45nm were more than quadrupled during the quarter and accounted for 4% of total wafer sales. Meanwhile, revenues from 65nm and 90nm each accounted for 31% and 18% of total wafer sales. Overall, revenues from advanced technologies (0.13-micron and below) represented 67% of total wafer sales, two percentage points up from prior quarter.

Revenues from IDM customers accounted for 20% of total wafer sales in 3Q09, two percentage points increase from 2Q09.

From a geographic perspective, revenues from customers based in North America accounted for 70% of total wafer sales, five percentage points up from prior quarter. Meanwhile, sales from Asia Pacific, China, Europe and Japan accounted for 13%, 3%, 11%, and 3% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	3Q09	2Q09	3Q08
COGS	47.08	39.91	49.89
Depreciation	18.37	18.54	19.06
Other MFG Cost	28.71	21.37	30.83
Gross Profit	42.86	34.30	43.09
Gross Margin	47.7%	46.2%	46.3%

Gross Profit Analysis:

Gross margin for the third quarter 2009 was 47.7%, up from 46.2% of prior quarter. The 1.5 percentage points improvement in gross margin was primarily due to a higher level of capacity utilization and continued cost improvement, partially offset by a decline in pure price and unfavorable exchange rate.

II - 2. Operating Expenses

(In NT billions)	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Total Operating Exp.	10.87	9.17	10.18
SG&A	4.67	4.07	4.20
Research & Development	6.20	5.10	5.98
Total Operating Exp. as a % of Sales	12.1%	12.3%	10.9%

II - 3. Non-Operating Items

(In NT billions)	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Non-Operating Inc./(Exp.)	0.52	1.15	1.33
Net Interest Income/(Exp.)	0.42	0.56	1.15
Other Non-Operating	0.10	0.59	0.18
L-T Investments	0.45	0.11	0.18
SSMC	0.26	0.19	0.15
Others	0.19	(0.08)	0.03
Total Non-Operating Items	0.97	1.26	1.51

III. Financial Condition Review

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

(In NT billions)	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Cash & Marketable Securities	180.32	246.77	158.17
Accounts Receivable - Trade	35.88	33.38	45.33
Inventory	19.18	18.97	21.82
Total Current Assets	244.24	309.42	232.35
Accounts Payable	26.30	25.96	17.75
Current Portion of Bonds Payable	0.00	0.00	8.00
Dividends Payable	0.00	77.17	0.00
Accrued Employee Profit Sharing	8.62	11.49	13.28
Accrued Liabilities and Others	20.09	15.01	23.10
Total Current Liabilities	55.01	129.63	62.13
Current Ratio (x)	4.4	2.4	3.7
Net Working Capital	189.23	179.79	170.22

Operating Expenses:

Total operating expenses for 3Q09 increased by NT\$1.70 billion to NT\$10.87 billion, representing 12.1% of net sales, better than 12.3% of net sales in 2Q09.

SG&A expenses increased by NT\$0.60 billion from 2Q09. The increase was mainly due to higher legal fee and a one-time donation.

Research and development expenditures increased by NT\$1.1 billion sequentially, primarily due to increased activities in 28nm and 22nm technology development.

Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$0.97 billion for third quarter 2009.

Non-operating income was NT\$0.52 billion, lower than NT\$1.15 billion in 2Q09. The sequential decline was primarily due to the absence of litigation compensation and less interest income.

Net investment gain was NT\$0.45 billion, higher than NT\$0.11 billion of prior quarter, mainly due to continued business improvement among invested companies.

Liquidity Analysis:

At the end of 3Q09, total cash and marketable securities decreased by NT\$66.45 billion to NT\$180.32 billion. We paid NT\$76.88 billion for cash dividends and generated NT\$14.62 billion of free cash flow during this quarter.

Total current liabilities decreased by NT\$74.62 billion in this quarter, primarily due to payment of cash dividends.

Net working capital was NT\$189.23 billion and current ratio increased to 4.4x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Days of Receivable	36	30	43
Days of Inventory	41	42	45

Receivable and Inventory Days:

Sequentially, days of receivable increased by six days to 36 days in 3Q09, mainly due to average accounts receivable growing faster than sales. The quality of collection remains the same.

Days of inventory decreased by one day to 41 days.

III - 3. Debt Service

(In NT billions)

	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Cash & Marketable Securities	180.32	246.77	158.17
Interest-Bearing Debt	15.33	15.57	23.41
Net Cash Reserves	164.99	231.20	134.76

Debt Service:

Net cash reserves, defined as the excess of cash and short-term marketable securities over interest-bearing debt, decreased by NT\$66.21 billion to NT\$164.99 billion at the end of 3Q09, primarily due to cash dividend payment, net off by free cash flow generated during this quarter.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis

(In NT billions)

	<u>3Q09</u>	<u>2Q09</u>	<u>3Q08</u>
Net Income	30.55	24.44	30.57
Depreciation & Amortization	20.00	20.05	20.69
Employee Profit Sharing Payment*	(7.49)	n.a	n.a
Other Operating Sources/(Uses)	3.60	(19.97)	4.64
Total Operating Sources/(Uses)	<u>46.66</u>	<u>24.52</u>	<u>55.90</u>
Capital Expenditure	(32.04)	(7.42)	(10.38)
Marketable Financial Instruments	(18.94)	1.68	(18.07)
Other Investing Sources/(Uses)	(0.53)	(0.25)	1.93
Net Investing Sources/(Uses)	<u>(51.51)</u>	<u>(5.99)</u>	<u>(26.52)</u>
Cash Dividends	(76.88)	0.00	(76.78)
Employee Profit Sharing Payment*	n.a	n.a	(3.94)
Purchase of Treasury Stock	0.00	0.00	(23.81)
Other Financing Sources/(Uses)	(0.11)	(0.34)	(0.43)
Net Financing Sources/(Uses)	<u>(76.99)</u>	<u>(0.34)</u>	<u>(104.96)</u>
Net Cash Position Changes	(81.84)	18.19	(75.58)
Exchange Rate Changes & Others	(0.74)	(1.93)	2.68
Ending Cash Balance	156.94	239.52	112.45

*Starting 2008, Taiwan accounting rule requires company to expense employee profit sharing

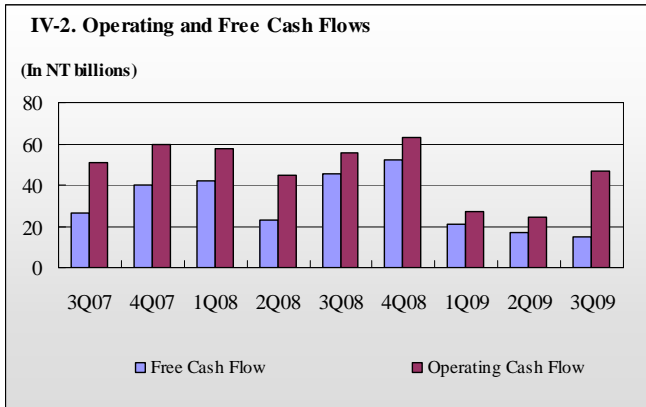
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$46.66 billion during the quarter, up from NT\$24.52 billion in 2Q09 as a result of higher level of business activities, partially offset by NT\$7.49 billion for 2008 employee profit sharing payment.

Net cash used in investing activities was NT\$51.51 billion in 3Q09, reflecting the capital expenditures of NT\$32.04 billion and investments in fixed income instruments of NT\$14.83 billion.

Net cash used in financing activities was NT\$76.99 billion during the quarter, as we paid NT\$76.88 billion for cash dividends.

As a result, TSMC ended 3Q09 with a cash balance of NT\$156.94 billion.



Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$46.66 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$14.62 billion in 3Q09, compared to NT\$17.10 billion in 2Q09.

V. CapEx & Capacity

V - 1. Capital Expenditures
(In US millions)

	1Q09	2Q09	3Q09	YTD
TSMC	161	218	963	1,342
XinTec and GUC	2	3	6	11
TSMC China & WaferTech	3	3	0	6
Other TSMC Subsidiaries	0	0	2	2
Total TSMC	166	224	971	1,361

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$971 million in 3Q09.

First quarter through third quarter 2009, total capital expenditures reached US\$1.36 billion. Due to stronger demand for 40nm and 65nm technologies, TSMC 2009 capital expenditures are further raised and expected to be around US\$2.7 billion.

V-2. Capacity

Fab / (Wafer size)	2008 (A)	1Q09 (A)	2Q09 (A)	3Q09 (A)	4Q09 (F)	2009 (F)
Fab-2 (6") ⁽¹⁾	1,056	274	280	283	283	1,121
Fab-3 (8")	1,100	286	289	292	283	1,150
Fab-5 (8")	650	162	149	144	144	599
Fab-6 (8")	1,082	295	284	287	287	1,154
Fab-8 (8")	1,076	275	271	265	255	1,066
Fab-12 (12") ⁽²⁾	840	218	219	199	243	879
Fab-14 (12") ⁽²⁾	818	238	238	239	243	958
WaferTech (8")	420	106	107	109	109	431
TSMC China (8")	453	128	134	135	135	531
TSMC total capacity (8" equiv. Kpcs)	9,104	2,431	2,419	2,379	2,467	9,695
SSMC (8")	272	64	65	65	65	259
Total managed capacity (8" equiv. Kpcs)	9,377	2,495	2,483	2,444	2,532	9,955

(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 2,444K 8-inch equivalent wafers in the third quarter, decreased by 1.6% from 2,483K in 2Q09, mainly due to capacity migration to advanced nodes.

TSMC managed capacity in 4Q09 is expected to increase by 3.6% to reach 2,532K 8-inch equivalent wafers.

Total managed capacity in 2009 is expected to reach 9,955K 8-inch equivalent wafers, representing an increase of 6.2% from 9,377K 8-inch equivalent wafers in 2008, while capacity for 12-inch wafer fabs is expected to increase by 11% year-over-year, reaching 42% of total capacity.

VI. Recap of Recent Important Events & Announcements

- TSMC Collaborates With Suppliers To Complete Taiwan's First Supply Chain Carbon Inventory. (2009/09/21)
- Fujitsu Microelectronics and TSMC To Collaborate On 28nm Process Technology. (2009/08/27)
- TSMC Has Become the First Foundry Not Only To Achieve 28nm Functional 64Mb SRAM Yield, But Also To Achieve It Across All Three 28nm Nodes. (2009/8/24)
- TSMC Adds High-K Metal Gate Low Power Process To 28nm Road Map. Risk Production Is Expected In Q3 2010. (2009/08/24)
- IDT And TSMC Enter Product Fabrication Agreement. (2009/08/06)
- TSMC Extends Design Methodology Leadership To 28nm With Reference Flow 10.0. (2009/07/22)