



4Q09

Quarterly Management Report
January 28, 2010**CONTACT**

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- 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>4Q09</u>	<u>3Q09</u>	<u>4Q08</u>	<u>2009</u>	<u>2008</u>
EPS (NT\$ per common share)	1.26	1.18	0.48	3.44	3.81
(US\$ per ADR unit)	0.19	0.18	0.07	0.52	0.61
Consolidated Net Sales	92.09	89.94	64.56	295.74	333.16
Gross Profit	44.70	42.86	20.19	129.33	141.75
<i>Gross Margin</i>	<i>48.5%</i>	<i>47.7%</i>	<i>31.3%</i>	<i>43.7%</i>	<i>42.5%</i>
Operating Expense	(11.05)	(10.87)	(8.17)	(37.37)	(37.31)
Operating Income	33.64	31.99	12.02	91.96	104.44
<i>Operating Margin</i>	<i>36.5%</i>	<i>35.6%</i>	<i>18.6%</i>	<i>31.1%</i>	<i>31.4%</i>
Non-Operating Items	1.73	0.97	1.07	3.50	7.04
Net Income	32.67	30.55	12.45	89.22	99.93
<i>Net Profit Margin</i>	<i>35.5%</i>	<i>34.0%</i>	<i>19.3%</i>	<i>30.2%</i>	<i>30.0%</i>
Wafer Shipment (kpcs 8 inch-equiv.)	2,430	2,445	1,532	7,737	8,467

*Note: Total outstanding shares were 25,903mn units on 12/31/09***Financial Highlights:****Fourth Quarter 2009**

- Consolidated net sales were NT\$92.09 billion, increased 2.4% from NT\$89.94 billion in the prior quarter and 42.6% from NT\$64.56 billion in the year-ago quarter.
- Gross margin was 48.5%, showing 0.8 percentage point increase from 3Q09 and a 17.2 percentage point increase from 4Q08.
- Operating margin was 36.5%, 0.9 percentage point higher than 3Q09 and 17.9 percentage points higher than 4Q08.
- Consolidated net income attributable to shareholders of the parent company was NT\$32.67 billion, increased 6.9% from 3Q09. Net profit margin was 35.5% and diluted EPS was NT\$1.26.

Full Year 2009

- Consolidated net sales were NT\$295.74 billion, representing an 11.2% decline from 2008.
- In spite of lower net sales, gross margin was 43.7%, increased 1.2 percentage points from 42.5% in 2008. Operating margin was 31.1%, declined 0.3 percentage point from 2008.
- Earnings per share was NT\$3.44, with net profit margin of 30.2%.

I. Revenue Analysis

I. Wafer Sales Analysis			
By Application	4Q09	3Q09	4Q08
Computer	33%	28%	30%
Communication	39%	42%	39%
Consumer	13%	16%	16%
Industrial/Others	15%	14%	15%
By Technology	4Q09	3Q09	4Q08
40/45nm	9%	4%	0%
65nm	30%	31%	27%
90nm	16%	18%	21%
0.11/0.13um	15%	14%	17%
0.15/0.18um	18%	21%	22%
0.25/0.35um	9%	9%	10%
0.50um+	3%	3%	3%
By Customer Type	4Q09	3Q09	4Q08
Fabless/System	79%	80%	72%
IDM	21%	20%	28%
By Geography	4Q09	3Q09	4Q08
North America	71%	70%	72%
Asia Pacific	13%	13%	11%
China	3%	3%	2%
Europe	10%	11%	11%
Japan	3%	3%	4%

Revenue Analysis:

4Q09 marked the third consecutive growth quarter, mainly driven by strong demand from Computer related applications during the quarter. Revenues from Computer applications grew 22% sequentially, while Communication declined 8% after strong momentum in the prior two quarters and Consumer declined 15% following seasonal pattern.

As demand for 40/45nm technology remained strong and yield continued to improve, revenues from 40/45nm again more than doubled during the quarter and accounted for 9% of total wafer sales. Meanwhile, demand from 65nm and 90nm continued to be robust and accounted for 30% and 16%, respectively. Overall, revenues from 0.13-micron and below increased three percentage points sequentially and represented 70% of total wafer sales.

Revenues from IDM customers accounted for 21% of total wafer sales in 4Q09, up one percentage point from 3Q09.

From a geographic perspective, revenues from customers based in North America accounted for 71% of total wafer sales, while sales from Asia Pacific, China, Europe and Japan accounted for 13%, 3%, 10%, and 3% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis					
(In NT billions)	4Q09	3Q09	4Q08	2009	2008
COGS	47.39	47.08	44.37	166.41	191.41
Depreciation	18.60	18.37	19.29	74.48	74.70
Other MFG Cost	28.79	28.71	25.08	91.93	116.71
Gross Profit	44.70	42.86	20.19	129.33	141.75
Gross Margin	48.5%	47.7%	31.3%	43.7%	42.5%

Gross Profit Analysis:

Gross margin for the quarter was 48.5%, increased by 0.8 percentage point from 47.7% in 3Q09, due to a higher level of capacity utilization and continued cost improvement, partially offset by the unfavorable exchange rate.

On a full year basis, gross margin for 2009 was 43.7%, increased 1.2 percentage points from 2008, mainly due to a favorable exchange rate and cost improvement, partially offset by an adverse inventory valuation adjustment under ROC SFAS No.10.

II - 2. Operating Expenses

(In NT billions)	<u>4Q09</u>	<u>3Q09</u>	<u>4Q08</u>	<u>2009</u>	<u>2008</u>
Total Operating Exp.	11.05	10.87	8.17	37.37	37.31
SG&A	4.48	4.67	3.34	15.78	15.83
Research & Development	6.57	6.20	4.83	21.59	21.48
Total Operating Exp. as a % of Sales	12.0%	12.1%	12.7%	12.6%	11.1%

Operating Expenses:

Total operating expenses for 4Q09 increased by NT\$0.18 billion to NT\$11.05 billion, representing 12.0% of net sales.

SG&A expenses decreased by NT\$0.19 billion from 3Q09, primarily due to lower legal fees.

Research and development expenditures increased by NT\$0.37 billion sequentially, mainly due to increased development activities in 28nm and 22nm technologies.

For full year 2009, total operating expenses were NT\$37.37 billion, similar to that in 2008. However, due to a lower net sales base, total operating expenses accounted for 12.6% of net sales in 2009, compared with 11.1% in the prior year.

II - 3. Non-Operating Items

(In NT billions)	<u>4Q09</u>	<u>3Q09</u>	<u>4Q08</u>	<u>2009</u>	<u>2008</u>
Non-Operating Inc./(Exp.)	1.43	0.52	1.41	3.45	6.34
Net Interest Income/(Exp.)	0.35	0.42	1.18	2.21	4.76
Other Non-Operating	1.08	0.10	0.23	1.24	1.58
L-T Investments	0.30	0.45	(0.34)	0.05	0.70
SSMC	0.29	0.26	(0.07)	0.43	0.76
Others	0.01	0.19	(0.27)	(0.38)	(0.06)
Total Non-Operating Items	1.73	0.97	1.07	3.50	7.04

Non-Operating Items:

Combined result from non-operating income and long-term investments was a gain of NT\$1.73 billion for 4Q09.

Non-operating income was NT\$1.43 billion for 4Q09, a NT\$0.91 billion increase from 3Q09, primarily due to the receipt of litigation compensation.

Net investment gain was NT\$0.30 billion, lower than NT\$0.45 billion in the prior quarter, mainly due to lower profits from certain invested companies.

On a full year basis, total non-operating items decreased by NT\$3.54 billion to NT\$3.50 billion in 2009, mostly due to less interest income and weaker business in certain invested companies.

III. Financial Condition Review

III - 1. Liquidity Analysis			
(Selected Balance Sheet Items)			
(In NT billions)	<u>4Q09</u>	<u>3Q09</u>	<u>4Q08</u>
Cash & Marketable Securities	195.80	180.32	211.45
Accounts Receivable - Trade	35.38	35.88	18.50
Inventory	20.91	19.18	14.88
Total Current Assets	259.80	244.24	252.62
Accounts Payable	40.61	26.30	14.04
Current Portion of Bonds Payable	0.00	0.00	8.00
Accrued Employee Profit Sharing / Bonus	13.43	8.62	15.37
Accrued Liabilities and Others	25.09	20.09	19.40
Total Current Liabilities	79.13	55.01	56.81
Current Ratio (x)	3.3	4.4	4.4
Net Working Capital	180.67	189.23	195.81

Liquidity Analysis:

At the end of 4Q09, cash and marketable securities totaled NT\$195.80 billion, increased by NT\$15.48 billion from 3Q09, primarily due to NT\$19.29 billion of free cash flow generated during this quarter.

Total current liabilities increased NT\$24.12 billion in this quarter, primarily due to increase in accounts payables to contractors and equipment suppliers and accruals for employee profit sharing/bonus during the quarter.

Net working capital was NT\$180.67 billion and current ratio decreased to 3.3x.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>4Q09</u>	<u>3Q09</u>	<u>4Q08</u>
Days of Receivable	36	36	46
Days of Inventory	42	41	40

Receivable and Inventory Days:

Days of receivable remained stable at 36 days in 4Q09.

Days of inventory increased by one day from prior quarter to 42 days.

III - 3. Debt Service			
(In NT billions)	<u>4Q09</u>	<u>3Q09</u>	<u>4Q08</u>
Cash & Marketable Securities	195.80	180.32	211.45
Interest-Bearing Debt	15.09	15.33	23.44
Net Cash Reserves	180.71	164.99	188.01

Debt Service:

Net cash reserves, defined as the excess of cash and short-term marketable securities over interest-bearing debt, increased by NT\$15.72 billion to NT\$180.71 billion at the end of 4Q09, primarily due to NT\$19.29 billion of free cash flow generated during this quarter.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis			
(In NT billions)	4Q09	3Q09	4Q08
Net Income	32.67	30.55	12.45
Depreciation & Amortization	20.28	20.00	20.96
Employee Profit Sharing Payment*	n.a	(7.49)	n.a
Other Operating Sources/(Uses)	9.05	3.60	29.83
Total Operating Sources/(Uses)	<u>62.00</u>	<u>46.66</u>	<u>63.24</u>
Capital Expenditure	(42.71)	(32.04)	(11.26)
Marketable Financial Instruments	(3.59)	(18.94)	30.31
Other Investing Sources/(Uses)	(0.80)	(0.53)	(1.04)
Net Investing Sources/(Uses)	<u>(47.10)</u>	<u>(51.51)</u>	<u>18.01</u>
Cash Dividends	0.00	(76.88)	0.00
Other Financing Sources/(Uses)	(0.28)	(0.11)	(0.30)
Net Financing Sources/(Uses)	<u>(0.28)</u>	<u>(76.99)</u>	<u>(0.30)</u>
Net Cash Position Changes	14.62	(81.84)	80.95
Exchange Rate Changes & Others	(0.28)	(0.74)	1.21
Ending Cash Balance	171.28	156.94	194.61
*Starting 2008, Taiwan accounting rule requires company to expense employee profit sharing			

Summary of Cash Flow:

Cash generated from operating activities totaled NT\$62.00 billion during the quarter, an increase of NT\$15.34 billion from 3Q09, mainly due to the increase in net income, the absence of the cash payment of employee profit sharing, and a decrease in net working capital.

Net cash used in investing activities decreased NT\$4.41 billion to NT\$47.10 billion in 4Q09, primarily reflecting less purchases of marketable financial instruments, partially offset by an increase in capital expenditures.

Net cash used in financing activities was NT\$0.28 billion during the quarter.

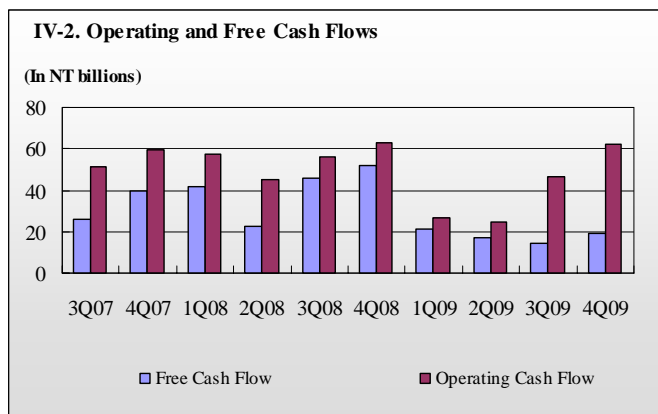
As a result, TSMC ended 4Q09 with a cash balance of NT\$171.28 billion.

IV - 1.2. Cash Flow Analysis			
(In NT billions)	2009	2008	Diff.
Net Income	89.22	99.93	(10.71)
Depreciation & Amortization	80.81	81.51	(0.70)
Employee Profit Sharing Payment*	(7.49)	0.00	(7.49)
Other Operating Sources/(Uses)	(2.57)	40.05	(42.62)
Total Operating Sources/(Uses)	<u>159.97</u>	<u>221.49</u>	<u>(61.52)</u>
Capital Expenditure	(87.78)	(59.22)	(28.56)
Marketable Financial Instruments	(7.04)	52.35	(59.39)
Other Investing Sources/(Uses)	(1.65)	(1.17)	(0.48)
Net Investing Sources/(Uses)	<u>(96.47)</u>	<u>(8.04)</u>	<u>(88.43)</u>
Cash Dividends	(76.88)	(76.78)	(0.10)
Employee Profit Sharing*	0.00	(3.94)	3.94
Repayment of Bonds Payable	(8.00)	0.00	(8.00)
Repurchase of Treasury Stock	0.00	(33.48)	33.48
Other Financing Sources/(Uses)	(0.59)	(1.19)	0.60
Net Financing Sources/(Uses)	<u>(85.47)</u>	<u>(115.39)</u>	<u>29.92</u>
Net Cash Position Changes	(21.97)	98.06	(120.03)
Exchange Rate Changes & Others	(1.36)	1.56	(2.92)
Ending Cash Balance	171.28	194.61	(23.33)
*Starting 2008, Taiwan accounting rule requires company to expense employee profit sharing			

On a full year basis, cash generated from operating activities decreased NT\$61.52 billion to NT\$159.97 billion in 2009. The decrease mainly reflected the decrease in net income, the cash payment of 2008 employee profit sharing made in 2009, and increases in net working capital due to acceleration of business momentum.

Net cash used in investing activities was NT\$96.47 billion in 2009, NT\$88.43 billion higher than that in 2008, primarily reflecting redemptions of marketable financial instruments in 2008 and the increase in capital expenditures during 2009.

Meanwhile, net cash used in financing activities decreased by NT\$29.92 billion to NT\$85.47 billion during 2009, mainly due to the absence of repurchase of treasury stock and the reclassification of employee profit sharing from financing activities to operating activities starting 2009, partially offset by the repayment of corporate bonds in the first quarter.



Operating and Free Cash Flows:

Cash flows generated from operating activities were NT\$62.00 billion during the quarter. Free cash flow, defined as the excess of operating cash flows over capital expenditures, totaled NT\$19.29 billion in 4Q09, compared to NT\$14.62 billion in 3Q09.

Total free cash flow generated in 2009 was NT\$72.19 billion, declined NT\$90.08 billion from NT\$162.27 billion in 2008. The year-over-year decline was primarily due to lower business activities resulting from the economic downturn and the increased capital expenditures.

V. CapEx & Capacity

V - 1. Capital Expenditures
(In US millions)

	1Q09	2Q09	3Q09	4Q09	2009	2008
TSMC	161	218	963	1,304	2,646	1,807
XirTec and GUC	2	3	6	1	12	23
TSMC China & WaferTech	3	3	0	4	10	52
Other TSMC Subsidiaries	0	0	2	1	3	4
Total TSMC	166	224	971	1,310	2,671	1,886

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$1,310 million in 4Q09.

For year 2009, total capital expenditures for TSMC consolidated group totaled US\$2.67 billion, compared with US\$1.89 billion spent in 2008.

V-2. Capacity

Fab / (Wafer size)	1Q09 (A)	2Q09 (A)	3Q09 (A)	4Q09 (A)	2009 (A)	1Q10 (F)
Fab-2 (6") ⁽¹⁾	274	280	283	283	1,121	263
Fab-3 (8")	286	289	292	283	1,150	268
Fab-5 (8")	162	149	144	144	599	139
Fab-6 (8")	295	284	287	287	1,154	269
Fab-8 (8")	275	271	265	255	1,066	247
Fab-12 (12") ⁽²⁾	218	219	199	243	879	269
Fab-14 (12") ⁽²⁾	238	238	239	243	958	255
WaferTech (8")	106	107	109	109	431	106
TSMC China (8")	128	134	135	135	531	132
TSMC total capacity (8" equiv. Kpcs)	2,431	2,419	2,379	2,467	9,695	2,488
SSMC (8")	64	65	65	65	259	69
Total managed capacity (8" equiv. Kpcs)	2,495	2,483	2,444	2,532	9,955	2,557

(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 2,532K 8-inch equivalent wafers in 4Q09, increased by 3.6% from 2,444K in 3Q09. TSMC managed capacity in 1Q10 is expected to increase by 1% to reach 2,557K 8-inch equivalent wafers. 12" wafer capacity will increase by 38K (12"). However, due to scheduled annual maintenance and capacity migration to higher nodes, total legacy fabs capacity will decrease by 60K (8") in the first quarter of 2010.

Total managed capacity in 2009 reached 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 increased by 10.8% year-over-year, reaching 41.5% of total 2009 capacity.

VI. Recap of Recent Important Events & Announcements

- TSMC Announces Process Technologies For Integrated LED Drivers (2009/12/15)
- TSMC and Motech Announce Strategic Partnership (2009/12/09)
- TSMC Recognizes Supplier Excellence at Supply Chain Management Forum (2009/12/04)
- TSMC Launches Automotive Process Qualification Specification and Service Package in China Market (2009/11/27)
- TSMC Announces Settlement of SMIC Trade Secret Litigation (2009/11/10)
- Infineon and TSMC Extend Technology And Production Partnership Agreement; Will Jointly Develop 65nm Embedded Flash Process Technology For Automotive and Chip Card Applications (2009/11/05)