



4Q10

Quarterly Management Report
January 27, 2011**CONTACT****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>4Q10</u>	<u>3Q10</u>	<u>4Q09</u>	<u>2010</u>	<u>2009</u>
EPS (NT\$ per common share)	1.57	1.81	1.26	6.23	3.44
(US\$ per ADR unit)	0.26	0.28	0.19	0.99	0.52
Consolidated Net Sales	110.14	112.25	92.09	419.54	295.74
Gross Profit	54.82	56.13	44.70	207.05	129.33
<i>Gross Margin</i>	<i>49.8%</i>	<i>50.0%</i>	<i>48.5%</i>	<i>49.4%</i>	<i>43.7%</i>
Operating Expense	(13.31)	(13.06)	(11.05)	(47.88)	(37.37)
Operating Income	41.51	43.07	33.64	159.18	91.96
<i>Operating Margin</i>	<i>37.7%</i>	<i>38.4%</i>	<i>36.5%</i>	<i>37.9%</i>	<i>31.1%</i>
Non-Operating Items	1.37	6.61	1.73	11.10	3.50
Net Income	40.72	46.94	32.67	161.61	89.22
<i>Net Profit Margin</i>	<i>37.0%</i>	<i>41.8%</i>	<i>35.5%</i>	<i>38.5%</i>	<i>30.2%</i>
Wafer Shipment (kpcs 8 inch-equiv.)	3,195	3,191	2,430	11,860	7,737

*Note: Total outstanding shares were 25,910mn units on 12/31/10***Financial Highlights:****Fourth Quarter 2010**

- Consolidated net sales were NT\$110.14 billion, representing a 1.9% decrease from NT\$112.25 billion in 3Q10 and a 19.6% increase from NT\$92.09 billion in 4Q09.
- Gross margin was 49.8%, 0.2 percentage point lower than 3Q10 and 1.3 percentage points higher than 4Q09 level.
- Operating margin was 37.7%, down 0.7 percentage point from 3Q10, and up 1.2 percentage points from 4Q09.
- Non-operating income and long-term investment combined were a gain of NT\$1.37 billion, compared to a gain of NT\$6.61 billion in 3Q10 and NT\$1.73 billion in 4Q09.
- Consolidated net income attributable to shareholders of the parent company was NT\$40.72 billion, down 13.2% from 3Q10. Net profit margin was 37.0% and diluted EPS was NT\$1.57.

Full Year 2010

- Consolidated net sales were NT\$419.54 billion, representing a 41.9% increase from 2009. In US dollar terms, consolidated net sales increased 48.1% to US\$13.32 billion in 2010 from US\$9.00 billion in 2009.
- Gross margin was 49.4%, increased 5.7 percentage points from 43.7% in 2009. Operating margin was 37.9%, increased 6.8 percentage points from 2009.
- Earnings per share was NT\$6.23, with net profit margin of 38.5%.

I. Revenue Analysis

I. Wafer Sales Analysis			
By Application	4Q10	3Q10	4Q09
Computer	24%	25%	33%
Communication	47%	44%	39%
Consumer	11%	14%	13%
Industrial/Others	18%	17%	15%
By Technology	4Q10	3Q10	4Q09
40/45nm	21%	17%	9%
65nm	31%	29%	30%
90nm	11%	14%	16%
0.11/0.13um	10%	12%	15%
0.15/0.18um	17%	17%	18%
0.25/0.35um	7%	8%	9%
0.50um+	3%	3%	3%
By Customer Type	4Q10	3Q10	4Q09
Fabless/System	78%	78%	79%
IDM	22%	22%	21%
By Geography	4Q10	3Q10	4Q09
North America	70%	67%	71%
Asia Pacific	13%	15%	13%
China	3%	3%	3%
Europe	10%	11%	10%
Japan	4%	4%	3%

Revenue Analysis:

Demand for TSMC's wafers remained strong during the fourth quarter. Excluding the unfavorable impact from a 4.8% change in foreign exchange rate, fourth quarter revenue increased 3.1% in US dollar terms. Communication increased 3% sequentially, offsetting a 6% decrease in Computer and a 26% decrease in Consumer, while Industrial increased 4% from 3Q10.

In terms of advanced technology, 40/45nm and 65nm continued to grow in 4Q10. Combined contribution from 40/45nm and 65nm represented 52% of total wafer sales, compared to 46% in 3Q10 and 39% in 4Q09. Meanwhile, revenues from 0.13-micron and below accounted for 73% of total wafer sales, compared with 72% in 3Q10.

IDM customers continued to increase outsourcing and accounted for 22% of total wafer sales during the quarter.

From a geographic perspective, revenues from customers based in North America accounted for 70% of total wafer sales, while sales from Asia Pacific, China, Europe and Japan accounted for 13%, 3%, 10%, and 4% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis					
(In NT billions)	4Q10	3Q10	4Q09	2010	2009
COGS	55.32	56.12	47.39	212.49	166.41
Depreciation	21.24	20.40	18.60	80.12	74.48
Other MFG Cost	34.08	35.72	28.79	132.37	91.93
Gross Profit	54.82	56.13	44.70	207.05	129.33
Gross Margin	49.8%	50.0%	48.5%	49.4%	43.7%

Gross Profit Analysis:

Gross margin was 49.8% in 4Q10, 0.2 percentage point lower than 3Q10, primarily due to an unfavorable foreign exchange rate, mostly offset by cost improvement.

On a full year basis, gross margin for 2010 was 49.4%, increased 5.7 percentage points from 2009, mainly due to higher capacity utilization, partially offset by an unfavorable foreign exchange rate.

II - 2. Operating Expenses

(In NT billions)	<u>4Q10</u>	<u>3Q10</u>	<u>4Q09</u>	<u>2010</u>	<u>2009</u>
Total Operating Exp.	13.31	13.06	11.05	47.88	37.37
SG&A	5.24	5.02	4.48	18.17	15.78
Research & Development	8.07	8.04	6.57	29.71	21.59
Total Operating Exp. as a % of Sales	12.1%	11.6%	12.0%	11.5%	12.6%

Operating Expenses:

Total operating expenses were NT\$13.31 billion in 4Q10, representing 12.1% of net sales.

SG&A expenses increased NT\$0.22 billion from 3Q10, primarily accounting for higher opening expenses for Fab 14 Phase 4 and Fab 12 Phase 5.

Research and development expenditures were at the similar level as those in the prior quarter.

For full year 2010, total operating expenses were NT\$47.88 billion, increased by 28.1% sequentially to support rapid expansions in business scale and a higher level of development activities for 28nm and 20nm technologies. With an even faster growth in net sales, total operating expenses accounted for 11.5% of net sales in 2010, compared with 12.6% in the prior year.

II - 3. Non-Operating Items

(In NT billions)	<u>4Q10</u>	<u>3Q10</u>	<u>4Q09</u>	<u>2010</u>	<u>2009</u>
Non-Operating Inc./(Exp.)	0.68	5.71	1.43	8.80	3.45
Net Interest Income/(Exp.)	0.30	0.30	0.35	1.24	2.21
Other Non-Operating	0.38	5.41	1.08	7.56	1.24
L-T Investments	0.69	0.90	0.30	2.30	0.05
SSMC	0.44	0.35	0.29	1.31	0.43
Others	0.25	0.55	0.01	0.99	(0.38)
Total Non-Operating Items	1.37	6.61	1.73	11.10	3.50

Non-Operating Items:

Total non-operating items were a gain of NT\$1.37 billion in 4Q10.

Non-operating income was NT\$0.68 billion, down NT\$5.03 billion from 3Q10. The decrease reflected the absence of receipt of SMIC shares valued at NT\$4.43 billion from the SMIC litigation settlement, and a net loss of NT\$0.80 billion from disposal of steel frame in a partially constructed fab acquired from Powerchip Technology Corporation.

Net investment gain was NT\$0.69 billion, down NT\$0.21 billion from 3Q10, reflecting lower profits from certain invested companies.

On a full year basis, total non-operating items increased by NT\$7.60 billion to NT\$11.10 billion in 2010, primarily due to the increase of NT\$5.47 billion in compensation from the SMIC litigation settlement and the increase of NT\$2.25 billion in net investment gain.

III. Financial Condition Review

III - 1. Liquidity Analysis			
(Balance Sheet Items)			
(In NT billions)	4Q10	3Q10	4Q09
Cash & Marketable Securities	181.57	167.21	195.80
Accounts Receivable - Trade	42.98	47.38	35.38
Inventory	28.41	26.66	20.91
Other Current Assets	8.56	5.39	7.71
Total Current Assets	261.52	246.64	259.80
Short Term Loans	31.21	37.91	0.00
Accounts Payable	56.23	39.74	40.61
Accrued Employee Profit Sharing / Bonus	13.81	11.50	13.43
Accrued Liabilities and Others	21.94	20.09	25.09
Total Current Liabilities	123.19	109.24	79.13
Current Ratio (x)	2.1	2.3	3.3
Net Working Capital	138.33	137.40	180.67

Liquidity Analysis:

At the end of 4Q10, cash and marketable securities totaled NT\$181.57 billion, increased by NT\$14.36 billion from 3Q10, primarily due to NT\$24.62 billion free cash flow generated during the quarter (please refer to page 6), partially offset by a decrease in short-term loans of NT\$6.70 billion.

Accounts receivable decreased NT\$4.40 billion, while inventory grew NT\$1.75 billion.

Total current liabilities increased NT\$13.95 billion, primarily attributed to increase in accounts payable to contractors and equipment suppliers during the quarter, partially offset by a decrease in short-term loans.

Net working capital was NT\$138.33 billion and current ratio was 2.1x.

III - 2. Receivable/Inventory Days			
(In Number of Days)	4Q10	3Q10	4Q09
Days of Receivable	38	39	36
Days of Inventory	50	47	42

Receivable and Inventory Days:

Days of receivable decreased by one day to 38 days.

Days of inventory increased by 3 days to 50 days, mainly due to higher weight of products in leading technology nodes and some early orders from certain customers.

III - 3. Debt Service			
(In NT billions)	4Q10	3Q10	4Q09
Cash & Marketable Securities	181.57	167.21	195.80
Interest-Bearing Debt	44.06	51.59	15.09
Net Cash Reserves	137.51	115.62	180.71

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, increased NT\$21.89 billion to NT\$137.51 billion in 4Q10, reflecting a NT\$ 14.36 billion increase in cash and marketable securities and a repayment of NT\$7.36 billion in interest-bearing debts.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis			
(In NT billions)	<u>4Q10</u>	<u>3Q10</u>	<u>4Q09</u>
Net Income	40.72	46.94	32.67
Depreciation & Amortization	23.30	22.37	20.28
Other Operating Sources/(Uses)	6.54	(5.36)	9.05
Total Operating Sources/(Uses)	<u>70.56</u>	<u>63.95</u>	<u>62.00</u>
Capital Expenditure	(45.94)	(42.15)	(42.71)
Marketable Financial Instruments	0.41	4.37	(3.59)
Other Investing Sources/(Uses)	(1.03)	(7.25)	(0.80)
Net Investing Sources/(Uses)	<u>(46.56)</u>	<u>(45.03)</u>	<u>(47.10)</u>
Short Term Loans	(6.70)	19.83	0.00
Cash Dividends	0.00	(77.71)	0.00
Other Financing Sources/(Uses)	(0.60)	(0.23)	(0.28)
Net Financing Sources/(Uses)	<u>(7.30)</u>	<u>(58.11)</u>	<u>(0.28)</u>
Net Cash Position Changes	16.70	(39.19)	14.62
Exchange Rate Changes & Others	(1.08)	(1.03)	(0.28)
Ending Cash Balance	147.89	132.27	171.28

Summary of Cash Flow:

Cash generated from operating activities totaled NT\$70.56 billion during the quarter, an increase of NT\$6.61 billion from 3Q10, mainly due to a NT\$11.90 billion increase in cash flow from other operating sources, partially offset by the decrease in net income. The change in other operating sources primarily reflect the change in accrual for employee profit sharing due to the payment of 2009 employee profit sharing in 3Q10 and continuing accrual of employee profit sharing in 4Q10, absence of non-cash gain from SMIC shares as litigation compensation, and decrease in accounts receivable.

Net cash used in investing activities totaled NT\$46.56 billion in 4Q10, mostly accounting for capital expenditures of NT\$45.94 billion.

Net cash used in financing activities totaled NT\$7.30 billion during the quarter, primarily attributed to decrease in short-term loans.

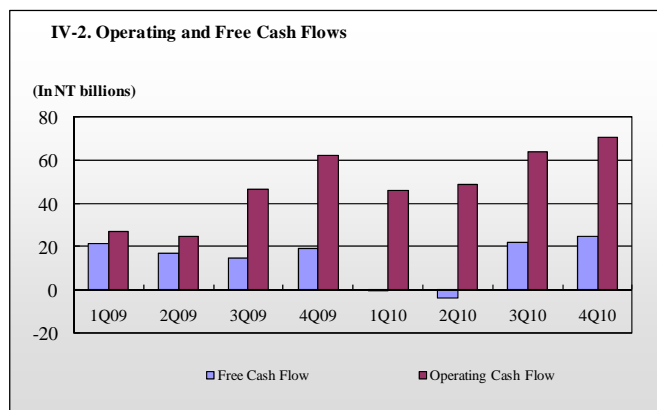
As a result, TSMC ended 4Q10 with a cash balance of NT\$147.89 billion.

IV - 1.2. Cash Flow Analysis			
(In NT billions)	<u>2010</u>	<u>2009</u>	<u>Diff.</u>
Net Income	161.61	89.22	72.39
Depreciation & Amortization	87.81	80.81	7.00
Other Operating Sources/(Uses)	(19.94)	(10.06)	(9.88)
Total Operating Sources/(Uses)	<u>229.48</u>	<u>159.97</u>	<u>69.51</u>
Capital Expenditure	(186.94)	(87.78)	(99.16)
Marketable Financial Instruments	1.32	(7.04)	8.36
Long Term Investment	(7.85)	0.00	(7.85)
Other Investing Sources/(Uses)	(8.62)	(1.65)	(6.97)
Net Investing Sources/(Uses)	<u>(202.09)</u>	<u>(96.47)</u>	<u>(105.62)</u>
Short Term Loans	31.21	0.00	31.21
Cash Dividends	(77.71)	(76.88)	(0.83)
Repayment of Bonds Payable	0.00	(8.00)	8.00
Other Financing Sources/(Uses)	(2.14)	(0.59)	(1.55)
Net Financing Sources/(Uses)	<u>(48.64)</u>	<u>(85.47)</u>	<u>36.83</u>
Net Cash Position Changes	(21.25)	(21.97)	0.72
Exchange Rate Changes & Others	(2.14)	(1.36)	(0.78)
Ending Cash Balance	147.89	171.28	(23.39)

On a full year basis, cash generated from operating activities increased NT\$69.51 billion to NT\$229.48 billion in 2010. The increase mainly reflected an increase of NT\$72.39 billion in net income and an increase of NT\$7.00 billion in depreciation and amortization for the year, partially offset by the increase in accrual for employee profit sharing and bonus and accrual for gain from SMIC shares as litigation compensation.

Net cash used in investing activities was NT\$202.09 billion in 2010, NT\$105.62 billion higher than that in 2009, primarily reflecting higher capital expenditures during 2010.

Meanwhile, net cash used in financing activities during 2010 decreased NT\$36.83 billion to NT\$48.64 billion, as a result of the increase of NT\$31.21 billion in short-term loans for currency hedging purpose and the absence of repayment of bonds of NT\$8.00 billion.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$24.62 billion in 4Q10.

Total free cash flow generated in 2010 was NT\$42.54 billion, declined by NT\$29.65 billion from NT\$72.19 billion in 2009. The year-over-year decline was primarily due to higher capital expenditures in 2010.

V. CapEx & Capacity

V-1. Capital Expenditures

(In US millions)

	1Q10	2Q10	3Q10	4Q10	2010
TSMC	1,433	1,645	1,275	1,435	5,788
XirTee and GUC	2	4	10	10	26
TSMC China & WaferTech	8	7	34	69	118
Other TSMC Subsidiaries	1	1	0	2	4
Total TSMC	1,444	1,657	1,319	1,516	5,936

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.52 billion in 4Q10 and US\$5.94 billion for the year.

V-2. Capacity

Fab / (Wafer size)	1Q10 (A)	2Q10 (A)	3Q10 (A)	4Q10 (A)	2010 (A)	1Q11 (F)
Fab-2 (6") ⁽¹⁾	254	236	255	255	1,000	238
Fab-3 (8")	267	282	300	300	1,149	275
Fab-5 (8")	139	144	141	141	564	137
Fab-6 (8")	269	280	282	282	1,113	274
Fab-8 (8")	247	253	254	255	1,009	241
Fab-12 (12") ⁽²⁾	269	300	309	315	1,194	322
Fab-14 (12") ⁽²⁾	261	299	360	406	1,326	423
WaferTech (8")	106	107	108	108	429	106
TSMC China (8")	132	134	145	147	557	148
TSMC total capacity (8" equiv. Kpcs)	2,497	2,680	2,879	2,997	11,053	2,993
SSMC (8")	69	69	69	69	276	64
Total managed capacity (8" equiv. Kpcs)	2,566	2,749	2,948	3,066	11,329	3,057

(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 3,066K 8-inch equivalent wafers in 4Q10, increased by 4% from 2,948K in 3Q10. TSMC managed capacity in 1Q11 is expected to remain relatively flat at 3,057K 8-inch equivalent wafers. 12" wafer capacity will increase by 25K (12"), while 6" and 8" fabs capacity will decrease by 65K (8"), due to scheduled annual maintenance.

Total managed capacity in 2010 increased 14% sequentially to 11,329K 8-inch equivalent wafers, compared with 9,955K 8-inch equivalent wafers in 2009. 12-inch wafer capacity increased 37% in 2010.

VI. Recap of Recent Important Events & Announcements

- NVIDIA and TSMC Ship One-Billionth GeForce Graphics Processor (2011/01/13)
- TSMC Board of Directors approved to acquire from Powerchip Technology Corporation the substructure of the building under construction (2011/01/12)
- TSMC and CENTROSOLAR Sign Solar Module Manufacturing Agreement (2011/01/11)
- Beijing Tsinghua University and TSMC join hands to reach 65nm R&D Milestone (2010/12/16)
- TSMC Awards Outstanding Suppliers at Supply Chain Management Forum (2010/12/03)
- TSMC Wins Taiwan CSR Awards' "Gold Award" for manufacturing, the highest honor granted by the Taiwan Institute for Sustainable Energy (2010/11/19)
- TSMC Obtains Termination of ITC Investigation into 37nm and Smaller Products (2010/11/16)
- TSMC Announces Mixed Signal/RF University Design Award (2010/10/20)
- TSMC Expands IP Alliance to Include Soft IP (2010/10/05)