

3Q11

Quarterly Management Report
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Topics in This Report

- Revenue Analysis
- Profit & Expense Analysis
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- 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>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.17	1.39	1.81	(15.5%)	(35.3%)
(US\$ per ADR unit)	0.20	0.24	0.28		
Consolidated Net Sales	106.48	110.51	112.25	(3.6%)	(5.1%)
Gross Profit	44.77	50.86	56.13	(12.0%)	(20.2%)
<i>Gross Margin</i>	<i>42.0%</i>	<i>46.0%</i>	<i>50.0%</i>		
Operating Expense	(13.17)	(12.99)	(13.06)	1.4%	0.9%
Operating Income	31.60	37.87	43.07	(16.6%)	(26.6%)
<i>Operating Margin</i>	<i>29.7%</i>	<i>34.3%</i>	<i>38.4%</i>		
Non-Operating Items	0.56	1.19	6.61		
Net Income	30.40	35.95	46.94	(15.5%)	(35.2%)
<i>Net Profit Margin</i>	<i>28.5%</i>	<i>32.5%</i>	<i>41.8%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	3,180	3,291	3,191	(3.4%)	(0.3%)

Note: Total outstanding shares were 25,915mn units on 9/30/11

Financial Highlights:**Third Quarter 2011**

- Consolidated net sales were NT\$106.48 billion, representing a 3.6% decrease from NT\$110.51 billion in 2Q11 and a 5.1% decrease from NT\$112.25 billion in 3Q10.
- Gross margin was 42.0%, down 4.0 percentage points from 2Q11 and down 8.0 percentage points from 3Q10.
- Operating margin was 29.7%, 4.6 percentage points lower than 2Q11 and 8.7 percentage points lower than 3Q10 level.
- Non-operating income and long-term investment combined were a gain of NT\$0.56 billion, compared to a gain of NT\$1.19 billion in 2Q11 and NT\$6.61 billion in 3Q10.
- Consolidated net income attributable to shareholders of the parent company was NT\$30.40 billion, down 15.5% from 2Q11. Net profit margin was 28.5% and diluted EPS was NT\$1.17.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	3Q11	2Q11	3Q10
Computer	21%	25%	25%
Communication	48%	45%	44%
Consumer	10%	11%	14%
Industrial/Standard	21%	19%	17%

By Technology	3Q11	2Q11	3Q10
40/45nm and below	27%	26%	17%
65nm	27%	29%	29%
90nm	9%	9%	14%
0.11/0.13um	9%	8%	12%
0.15/0.18um	18%	18%	17%
0.25/0.35um	8%	8%	8%
0.50um and above	2%	2%	3%

By Customer Type	3Q11	2Q11	3Q10
Fabless/System	81%	82%	78%
IDM	19%	18%	22%

By Geography	3Q11	2Q11	3Q10
North America	70%	70%	67%
Asia Pacific	14%	14%	15%
China	3%	4%	3%
Europe	9%	8%	11%
Japan	4%	4%	4%

Revenue Analysis:

In the third quarter, demand for TSMC's wafers was affected by customers' inventory adjustments in the face of multiple macroeconomic uncertainties. By application, Communication and Industrial were less affected and increased by 3% and 9% from 2Q11, respectively, while Computer and Consumer declined 16% and 18%, respectively.

By technology, demand for 40/45nm and below reached 27%, including 0.5% from 28nm. Advanced technologies (65nm and below) represented 54% of total wafer sales, compared to 55% in 2Q11 and 46% in 3Q10.

Revenues from IDM customers accounted for 19% of total wafer sales in 3Q11.

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 14%, 3%, 9%, and 4% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	3Q11	2Q11	3Q10
COGS	61.71	59.65	56.12
Depreciation/Amortization	25.92	25.18	20.73
Other MFG Cost	35.79	34.47	35.39
Gross Profit	44.77	50.86	56.13
Gross Margin	42.0%	46.0%	50.0%

Gross Profit Analysis:

Gross margin was 42.0% in 3Q11, 4.0 percentage points lower than 2Q11, mainly attributed to lower capacity utilization.

II - 2. Operating Expenses

(In NT billions)	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Total Operating Exp.	13.17	12.99	13.06
SG&A	4.55	4.50	5.02
Research & Development	8.62	8.49	8.04
Total Operating Exp. as a % of Sales	12.3%	11.7%	11.6%

Operating Expenses:

Total operating expenses were NT\$13.17 billion in 3Q11, representing 12.3% of net sales.

SG&A expenses increased slightly by NT\$56 million, mainly accounting for higher patent filing fees.

Research and development expenditures increased by NT\$126 million, reflecting a higher level of 20nm technology activities.

II - 3. Non-Operating Items

(In NT billions)	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Non-Operating Inc./(Exp.)	0.41	0.94	5.71
Net Interest Income/(Exp.)	0.05	0.28	0.30
Other Non-Operating	0.36	0.66	5.41
L-T Investments	0.15	0.25	0.90
SSMC	0.25	0.33	0.35
Others	(0.10)	(0.08)	0.55
Total Non-Operating Items	0.56	1.19	6.61

Non-Operating Items:

Total non-operating items were a gain of NT\$0.56 billion in 3Q11.

Non-operating income was NT\$0.41 billion, down NT\$0.53 billion from 2Q11, primarily due to the absence of compensation from SMIC litigation settlement and lower net interest income.

Net investment gain was NT\$0.15 billion, down NT\$0.10 billion sequentially, reflecting lower profits from certain invested companies.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT billions)	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Cash & Marketable Securities	120.26	159.13	167.21
Accounts Receivable - Trade	45.46	46.19	47.38
Inventory	25.69	31.52	26.66
Other Current Assets	5.53	5.71	5.39
Total Current Assets	196.94	242.55	246.64
Short-term Loans	36.02	33.14	37.91
Accounts Payable	31.71	50.06	39.74
Dividends Payable	0.00	78.13	0.00
Accrued Employee Profit Sharing / Bonus	9.01	18.40	11.50
Accrued Liabilities and Others	31.63	25.76	20.09
Total Current Liabilities	108.37	205.49	109.24
Current Ratio (x)	1.8	1.2	2.3
Net Working Capital	88.57	37.06	137.40

Liquidity Analysis:

At the end of 3Q11, cash and marketable securities totaled NT\$120.26 billion, decreased by NT\$38.87 billion from 2Q11, primarily due to cash dividend payment of NT\$77.73 billion, partially offset by free cash flow of NT\$17.16 billion generated during the quarter (please refer to page 5) and the proceeds of NT\$18.00 billion from issuance of corporate bonds.

Total current liabilities decreased by NT\$97.12 billion, mainly attributed to the payment of cash dividends, decrease in accounts payable to contractors and equipment suppliers, and payment of 2010 employee profit sharing during the quarter.

Net working capital was NT\$88.57 billion and current ratio was 1.8x.

III - 2. Receivable/Inventory Days			
(In Number of Days)			
	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Days of Receivable	39	39	39
Days of Inventory	45	53	47

Receivable and Inventory Days:

Days of receivable stayed flat at 39 days.

Days of inventory decreased substantially by 8 days to 45 days, mainly due to shipments out of finished goods inventories during the quarter and lower work-in-process inventories in view of weakened demand outlook.

III - 3. Debt Service			
(In NT billions)			
	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Cash & Marketable Securities	120.26	159.13	167.21
Interest-Bearing Debt	<u>67.35</u>	<u>45.79</u>	<u>51.59</u>
Net Cash Reserves	52.91	113.34	115.62

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$60.43 billion to NT\$52.91 billion in 3Q11, reflecting the decrease of NT\$ 38.87 billion in cash and marketable securities and an increase of NT\$21.56 billion in interest-bearing debts mainly consisting of corporate bonds issued during the quarter.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis			
(In NT billions)			
	<u>3Q11</u>	<u>2Q11</u>	<u>3Q10</u>
Net Income	30.40	35.95	46.94
Depreciation & Amortization	27.97	27.16	22.37
Other Operating Sources/(Uses)	(3.16)	(0.05)	(5.36)
Total Operating Sources/(Uses)	55.21	63.06	63.95
Capital Expenditure	(38.05)	(64.88)	(42.15)
Marketable Financial Instruments	1.97	26.86	4.37
Other Investing Sources/(Uses)	(0.27)	0.43	(7.25)
Net Investing Sources/(Uses)	(36.35)	(38.45)	(45.03)
Short-term Loans	2.88	(1.04)	19.83
Cash Dividends	(77.73)	0.00	(77.71)
Proceeds from Issuance of Bonds	18.00	0.00	0.00
Acquisition of Treasury Stock	(0.07)	0.00	0.00
Other Financing Sources/(Uses)	0.03	(0.85)	(0.23)
Net Financing Sources/(Uses)	(56.89)	(1.89)	(58.11)
Net Cash Position Changes	(38.03)	22.72	(39.19)
Exchange Rate Changes	3.36	(1.19)	(1.03)
Others	(1.47)	0.00	0.00
Ending Cash Balance	114.84	150.98	132.27

Summary of Cash Flow:

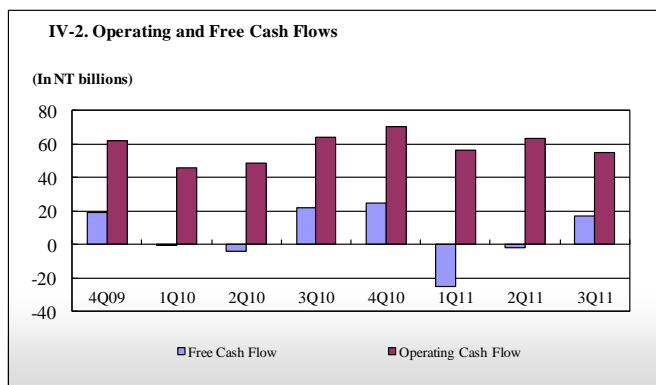
Cash generated from operating activities totaled NT\$55.21 billion during the quarter, a decrease of NT\$7.85 billion from 2Q11, primarily attributed to lower net income and higher other operating uses. The higher operating uses mainly reflected the payment of 2010 employee profit sharing, partially offset by lower inventory and additional accrual in taxes payable during the quarter.

Net cash used in investing activities decreased NT\$2.10 billion to NT\$36.35 billion in 3Q11, primarily reflecting lower capital expenditure, offset by lower proceeds from net disposal of marketable financial instruments.

Net cash used in financing activities totaled NT\$56.89 billion during the quarter, primarily resulted from payment of cash dividends, partially offset by proceeds from issuance of corporate bonds.

The one time effect from deconsolidation of GUC was NT\$1.47 billion.

At the end of 3Q11, TSMC's cash balance was NT\$114.84 billion.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$17.16 billion in 3Q11, increased by NT\$18.98 billion compared to 2Q11, as the decrease in capital expenditures was partially offset by a decrease in operating cash flow.

V. CapEx & Capacity

V-1. Capital Expenditures
(In US millions)

	<u>3Q11</u>	<u>2Q11</u>	<u>1Q11</u>	<u>YTD</u>
TSMC	1,236	2,149	2,635	6,020
TSMC China & WaferTech	47	92	95	234
Other TSMC Subsidiaries	23	12	44	79
Total TSMC	1,306	2,253	2,774	6,333

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.31 billion in 3Q11.

Total capital expenditures in the first three quarters of 2011 reached US\$6.33 billion.

V-2. Capacity

Fab / (Wafer size)	2010 (A)	1Q11 (A)	2Q11 (A)	3Q11 (A)	4Q11 (F)	2011 (F)
Fab-2 (6") ⁽¹⁾	1,000	238	252	255	255	1,000
Fab-3 (8")	1,149	275	301	304	304	1,184
Fab-5 (8")	564	137	133	141	141	552
Fab-6 (8")	1,113	274	283	286	286	1,128
Fab-8 (8")	1,009	240	254	254	255	1,003
Fab-12 (12") ⁽²⁾	1,194	322	337	338	337	1,334
Fab-14 (12") ⁽²⁾	1,326	427	488	509	504	1,927
WaferTech (8")	429	106	108	109	109	431
TSMC China (8")	557	148	179	216	230	772
TSMC total capacity (8" equiv. Kpcs)	11,053	2,999	3,254	3,358	3,358	12,969
SSMC (8")	276	64	64	65	65	258
Total managed capacity (8" equiv. Kpcs)	11,329	3,063	3,318	3,423	3,423	13,227

(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 increased 3.2% to 3,423K 8-inch equivalent wafers in 3Q11. TSMC managed capacity in 4Q11 is now expected to remain flat sequentially, as the increase in 8" fabs capacity will be offset by a slight reduction in 12" fabs capacity resulting from capacity optimization plan.

Total managed capacity is expected to increase 17% from 11,329K 8-inch equivalent wafers in 2010 to 13,227K in 2011, in which 12-inch wafer capacity is expected to increase 29% year-over-year.

VI. Recap of Recent Important Events & Announcements

- TSMC 28nm Technology in Volume Production (2011/10/24)
- TSMC Wins Ministry of Economic Affairs Bureau of Foreign Trade's First "Taiwan Green Classic Award" (2011/10/19)
- ARM and TSMC Tape Out First 20nm ARM Cortex-A15 Multicore Processor (2011/10/18)
- TSMC Held 2011 Sports Day (2011/10/15)
- TSMC Works with Government and Academia to Jointly Hold "Workplace Health Improvement Forum" (2011/09/22)
- TSMC Announced August 2011 Sales and Expected TSMC's Third Quarter Revenue likely to Exceed the Third Quarter Guidance (2011/09/09)
- Chairman Dr. Morris Chang Receives SEMI Akira Inoue Award for Contributions to Semiconductor Environment, Health, and Safety Management (2011/09/07)
- TSMC Board of Directors Approved the Issuance of an Unsecured Straight Corporate Bond in the Domestic Market for an Amount Not Exceeding NT\$35 billion to Secure Long-Term, Low Fixed-Cost Funding. (2011/08/09)