

3Q12

Quarterly Management Report
October 25, 2012**CONTACT****Elizabeth Sun**

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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:*(Amounts are on consolidated basis and are in NT billions unless otherwise noted)*

	3Q12	2Q12	3Q11	QoQ	YoY
EPS (NT\$ per common share)	1.90	1.61	1.17	17.9%	62.2%
(US\$ per ADR unit)	0.32	0.27	0.20		
Consolidated Net Sales	141.38	128.06	106.48	10.4%	32.8%
Gross Profit	69.03	62.26	44.77	10.9%	54.2%
<i>Gross Margin</i>	<i>48.8%</i>	<i>48.6%</i>	<i>42.0%</i>		
Operating Expense	(16.38)	(15.54)	(13.17)	5.4%	24.3%
Operating Income	52.65	46.71	31.60	12.7%	66.6%
<i>Operating Margin</i>	<i>37.2%</i>	<i>36.5%</i>	<i>29.7%</i>		
Non-Operating Items	1.08	(0.79)	0.56		
Net Income	49.30	41.81	30.40	17.9%	62.2%
<i>Net Profit Margin</i>	<i>34.9%</i>	<i>32.7%</i>	<i>28.5%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	3,860	3,701	3,180	4.3%	21.4%

*Note: Total outstanding shares were 25,922mn units on 9/30/12***Financial Highlights:****Third Quarter 2012**

- Consolidated net sales were NT\$141.38 billion, representing a 10.4% increase from NT\$128.06 billion in 2Q12 and a 32.8% increase from NT\$106.48 billion in 3Q11.
- Gross margin was 48.8%, up 0.2 percentage point from 2Q12 and 6.8 percentage points from 3Q11.
- Operating margin was 37.2%, up 0.7 percentage point from 2Q12 and 7.5 percentage points from 3Q11.
- Non-operating income and long-term investment combined were a gain of NT\$1.08 billion, compared to a loss of NT\$0.79 billion in 2Q12 and a gain of NT\$0.56 billion in 3Q11.
- Consolidated net income attributable to shareholders of the parent company was NT\$49.30 billion, up 17.9% from 2Q12. Net profit margin was 34.9% and diluted EPS was NT\$1.90.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	3Q12	2Q12	3Q11
Computer	19%	21%	21%
Communication	49%	48%	48%
Consumer	8%	9%	10%
Industrial/Standard	24%	22%	21%

By Technology	3Q12	2Q12	3Q11
28nm	13%	7%	0%
40/45nm	27%	28%	27%
65nm	22%	26%	27%
90nm	9%	10%	9%
0.11/0.13um	6%	6%	9%
0.15/0.18um	14%	15%	18%
0.25/0.35um	7%	6%	8%
0.50um and above	2%	2%	2%

By Customer Type	3Q12	2Q12	3Q11
Fabless/System	84%	85%	81%
IDM	16%	15%	19%

By Geography	3Q12	2Q12	3Q11
North America	67%	68%	70%
Asia Pacific	14%	15%	14%
China	5%	5%	3%
Europe	10%	9%	9%
Japan	4%	3%	4%

Revenue Analysis:

Strong wafer demand for mobile computing related applications continued to drive our revenue growth in the third quarter, with Communication and Industrial/Standard showing solid growth of 11% and 17%, respectively.

By technology, revenues from 28nm process technology more than doubled during this quarter thanks to robust demand and reached 13% of total wafer revenues. 40/45nm and 65nm accounted for 27% and 22%, respectively. Overall, advanced technologies (65nm and below) represented 62% of total wafer revenues, up from 61% in 2Q12 and 54% in 3Q11.

Revenues from IDM customers accounted for 16% of total wafer revenues in 3Q12.

From a geographic perspective, revenues from customers based in North America accounted for 67% of total wafer revenues, while revenues from Asia Pacific, China, Europe and Japan accounted for 14%, 5%, 10%, and 4% of total wafer revenues, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	3Q12	2Q12	3Q11
COGS	72.35	65.80	61.71
Depreciation/Amortization	31.74	29.62	25.92
Other MFG Cost	40.61	36.18	35.79
Gross Profit	69.03	62.26	44.77
Gross Margin	48.8%	48.6%	42.0%

Gross Profit Analysis:

Gross margin was 48.8% in 3Q12, 0.2 percentage point higher than 2Q12, mainly reflecting lower costs from inventory valuation adjustments under ROC SFAS No.10, and a favorable foreign exchange rate, partially offset by lower capacity utilization.

II - 2. Operating Expenses

(In NT billions)	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Total Operating Exp.	16.38	15.54	13.17
SG&A	5.72	5.47	4.55
Research & Development	10.66	10.07	8.62
Total Operating Exp. as a % of Sales	11.6%	12.1%	12.3%

II - 3. Non-Operating Items

(In NT billions)	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Non-Operating Inc./(Exp.)	0.38	(1.38)	0.41
Net Interest Income/(Exp.)	0.08	0.24	0.05
Other Non-Operating	0.30	(1.62)	0.36
L-T Investments	0.70	0.59	0.15
SSMC	0.44	0.48	0.25
Others	0.26	0.11	(0.10)
Total Non-Operating Items	1.08	(0.79)	0.56

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT billions)	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Cash & Marketable Securities	147.75	188.37	120.26
Accounts Receivable - Trade	58.41	54.94	45.46
Inventory	33.25	30.78	25.69
Other Current Assets	5.92	6.79	5.53
Total Current Assets	245.33	280.88	196.94
Short-term Loans	29.75	30.77	36.02
Accounts Payable	47.34	60.48	31.71
Dividends Payable	0.00	77.76	0.00
Accrued Employee Profit Sharing / Bonus	12.08	17.06	9.01
Accrued Liabilities and Others	29.88	25.78	31.63
Total Current Liabilities	119.05	211.85	108.37
Current Ratio (x)	2.1	1.3	1.8
Net Working Capital	126.28	69.03	88.57

Operating Expenses:

Total operating expenses increased NT\$0.84 billion to NT\$16.38 billion in 3Q12, mainly reflecting a higher level of development activities for 20nm technologies. Total operating expenses represented 11.6% of net sales in 3Q12, a bit lower than in the previous quarter.

Non-Operating Items:

Total non-operating items were a gain of NT\$1.08 billion in 3Q12.

Non-operating income was NT\$ 0.38 billion, compared to a loss of NT\$1.38 billion in 2Q12. The change mainly reflected the absence of the impairment loss of NT\$2.68 billion on SMIC common shares and the compensation of NT\$0.45 billion from SMIC litigation settlement.

Net investment gain was NT\$0.70 billion, up NT\$0.11 billion sequentially, reflecting business improvement among certain invested companies.

Liquidity Analysis:

At the end of 3Q12, cash and marketable securities totaled NT\$147.75 billion, decreased by NT\$40.62 billion from 2Q12, primarily due to cash dividend payment of NT\$77.75 billion and negative free cash flow of NT\$1.70 billion during the quarter (please refer to page 5), while the issuance of corporate bonds contributed NT\$40.60 billion.

Total current liabilities decreased by NT\$92.80 billion, mainly attributed to the payment of cash dividends and decrease in accounts payable to contractors and equipment suppliers during the quarter.

Net working capital was NT\$126.28 billion and current ratio was 2.1x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Days of Receivable	37	37	39
Days of Inventory	44	44	45

Receivable and Inventory Days:

Days of receivable and days of inventory stayed flat at 37 days and 44 days, respectively.

III - 3. Debt Service

(In NT billions)

	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Cash & Marketable Securities	147.75	188.37	120.26
Interest-Bearing Debt	108.43	69.96	67.35
Net Cash Reserves	39.32	118.41	52.91

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$79.09 billion to NT\$39.32 billion in 3Q12, reflecting a decrease of NT\$ 40.62 billion in cash and marketable securities and an increase of NT\$38.47 billion in interest-bearing debts mainly due to the issuance of corporate bonds.

IV. Cash Flow

IV - 1. Cash Flow Analysis

(In NT billions)

	<u>3Q12</u>	<u>2Q12</u>	<u>3Q11</u>
Net Income	49.30	41.81	30.40
Depreciation & Amortization	34.68	32.46	27.97
Other Operating Sources/(Uses)	(7.35)	(4.30)	(3.16)
Total Operating Sources/(Uses)	76.63	69.97	55.21
Capital Expenditure	(78.33)	(59.47)	(38.05)
Marketable Financial Instruments	0.82	0.39	1.97
Other Investing Sources/(Uses)	1.74	0.05	(0.27)
Net Investing Sources/(Uses)	(75.77)	(59.03)	(36.35)
Short-term Loans	(1.02)	(3.92)	2.88
Cash Dividends	(77.75)	0.00	(77.73)
Proceeds from Issuance of Bonds	40.60	0.00	18.00
Acquisition of Treasury Stock	0.00	0.00	(0.07)
Other Financing Sources/(Uses)	(1.12)	(0.14)	0.03
Net Financing Sources/(Uses)	(39.29)	(4.06)	(56.89)
Net Cash Position Changes	(38.43)	6.88	(38.03)
Exchange Rate Changes	(1.27)	0.74	3.36
Ending Cash Balance	138.74	178.44	114.84

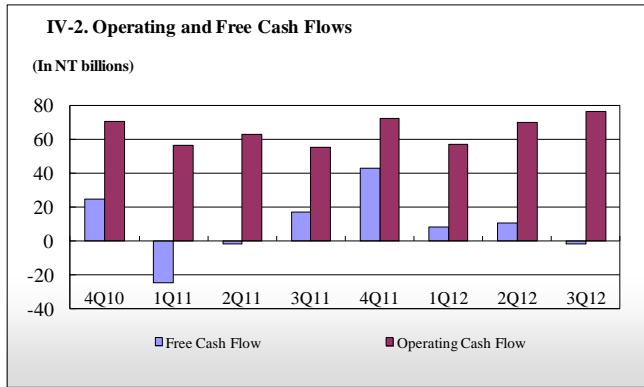
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$76.63 billion during the quarter, an increase of NT\$6.66 billion from 2Q12, primarily attributed to higher net income and depreciation, partially offset by higher other operating uses. The higher other operating uses mainly reflected the payment of 2011 employee profit sharing of NT\$8.72 billion in 3Q12 and the decrease of accounts payable and other accrued expense of NT\$5.45 billion, offset by 2011 tax payment of NT\$10.25 billion in 2Q12.

Net cash used in investing activities increased NT\$16.74 billion to NT\$75.77 billion in 3Q12, reflecting higher capital expenditures.

Net cash used in financing activities amounted to NT\$39.29 billion during the quarter, primarily resulted from the payment of cash dividends, partially offset by proceeds from the issuance of corporate bonds.

At the end of 3Q12, TSMC's cash balance was NT\$138.74 billion.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was negative NT\$1.70 billion in 3Q12.

V. CapEx & Capacity

V - 1. Capital Expenditures
(In US millions)

	<u>3Q12</u>	<u>2Q12</u>	<u>1Q12</u>	<u>YTD</u>
TSMC	2,588	1,979	1,587	6,154
TSMC China & WaferTech	20	15	27	62
Other TSMC Subsidiaries	17	15	21	53
Total TSMC	2,625	2,009	1,635	6,269

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$2.63 billion in 3Q12.

Total capital expenditures in the first three quarters of 2012 reached US\$6.27 billion.

V-2. Capacity

Fab / (Wafer size)	4Q11 (A)	2011 (A)	1Q12 (A)	2Q12 (A)	3Q12 (A)	4Q12 (F)	2012 (F)
Fab-2 (6") ⁽¹⁾	255	1,000	253	247	256	256	1,012
Fab-3 (8")	304	1,184	298	300	304	306	1,208
Fab-5 (8")	136	547	145	146	148	148	587
Fab-6 (8")	286	1,128	298	296	298	298	1,191
Fab-8 (8")	255	1,003	262	263	266	266	1,057
Fab-12 (12") ⁽²⁾	337	1,334	373	367	378	382	1,500
Fab-14 (12") ⁽²⁾	504	1,927	549	546	563	552	2,210
Fab-15 (12") ⁽²⁾				18	69	135	222
WaferTech (8")	107	429	110	111	112	112	444
TSMC China (8")	230	772	222	230	232	236	921
TSMC total capacity (8" equiv. Kpcs)	3,352	12,963	3,553	3,579	3,776	3,915	14,823
SSMC (8")	65	258	64	64	65	65	258
Total managed capacity (8" equiv. Kpcs)	3,417	13,221	3,616	3,643	3,841	3,980	15,080

(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 5.4% to 3,841K 8-inch equivalent wafers in 3Q12, mainly reflecting the increase in 28nm capacity. TSMC managed capacity in 4Q12 is expected to increase 3.6% sequentially to 3,980K 8-inch equivalent wafers.

Total managed capacity is expected to increase 14.1% from 13,221K 8-inch equivalent wafers in 2011 to 15,080K in 2012, in which 12-inch wafer capacity is expected to increase 20.6% year-over-year.

VI. Recap of Recent Important Events & Announcements

- TSMC Sets Green Building Milestones (2012/10/16)
- TSMC Tapes Out Foundry's First CoWoS™ Test Vehicle Integrating with JEDEC Wide I/O Mobile DRAM Interface (2012/10/12)
- TSMC 20nm and CoWoS™ Design Infrastructure Ready (2012/10/09)
- TSMC Named Dow Jones Sustainability Indexes Semiconductor Sector Leader (2012/09/20)
- TSMC Earns Taiwan's First "Green Factory Label" (2012/08/28)
- TSMC Unveils Foundry's First 100MHz Access Speed Embedded Flash IP Targeting A Wide Range of Automotive, Communications and Industrial Microcontroller (MCU) Products (2012/08/16)
- TSMC Fab 12 Phases 4 and 5, and Fab 14 Phases 3 and 4 Receive ISO 50001 Certification (2012/08/09)
- TSMC and ASML Reach Agreement to Develop Next Generation Lithography Technologies as an Extension of Long-Term Partnership (2012/08/05)
- ARM and TSMC Collaborate to Optimize Next-Generation 64-bit ARM Processors for FinFET Process Technology (2012/07/23)