



4Q12

Quarterly Management Report
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Topics in This Report

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

	4Q12	3Q12	4Q11	2012	2011
EPS (NT\$ per common share)	1.61	1.90	1.22	6.41	5.18
(US\$ per ADR unit)	0.28	0.32	0.20	1.08	0.88
Consolidated Net Sales	131.31	141.38	104.71	506.25	427.08
Gross Profit	61.95	69.03	46.77	243.60	194.07
<i>Gross Margin</i>	<i>47.2%</i>	<i>48.8%</i>	<i>44.7%</i>	<i>48.1%</i>	<i>45.4%</i>
Operating Expense	(15.69)	(16.38)	(13.84)	(62.54)	(52.51)
Operating Income	46.26	52.65	32.93	181.06	141.56
<i>Operating Margin</i>	<i>35.2%</i>	<i>37.2%</i>	<i>31.4%</i>	<i>35.8%</i>	<i>33.1%</i>
Non-Operating Items	(0.01)	1.08	0.69	0.50	3.59
Net Income	41.57	49.30	31.58	166.16	134.20
<i>Net Profit Margin</i>	<i>31.7%</i>	<i>34.9%</i>	<i>30.2%</i>	<i>32.8%</i>	<i>31.4%</i>
Wafer Shipment (kpcs 8 inch-equiv.)	3,565	3,860	2,917	14,044	12,549

*Note: Diluted weighted average outstanding shares were 25,928mn units in 4Q12***Financial Highlights:****Fourth Quarter 2012**

- Consolidated net sales were NT\$131.31 billion, representing a 7.1% decrease from NT\$141.38 billion in 3Q12 and a 25.4% increase from NT\$104.71 billion in 4Q11.
- Gross margin was 47.2%, down 1.6 percentage points from 3Q12 and up 2.5 percentage points from 4Q11.
- Operating margin was 35.2%, down 2.0 percentage points from 3Q12 and up 3.8 percentage points from 4Q11.
- Non-operating income and long-term investment combined were a loss of NT\$0.01 billion, compared to a gain of NT\$1.08 billion in 3Q12 and a gain of NT\$0.69 billion in 4Q11.
- Consolidated net income attributable to shareholders of the parent company was NT\$41.57 billion, down 15.7% from 3Q12. Net profit margin was 31.7% and diluted EPS was NT\$1.61.

Full Year 2012

- Consolidated net sales were NT\$506.25 billion, representing an 18.5% increase from 2011. In US dollar terms, consolidated net sales increased 17.7% to US\$17.12 billion in 2012 from US\$14.54 billion in 2011.
- Gross margin was 48.1%, up 2.7 percentage points from 45.4% in 2011. Operating margin was 35.8%, up 2.7 percentage points from 2011.
- Diluted EPS was NT\$6.41, up 23.8% from NT\$5.18 in 2011. Net profit margin was 32.8%, up 1.4 percentage points from 2011.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	4Q12	3Q12	4Q11
Computer	16%	19%	20%
Communication	54%	49%	53%
Consumer	7%	8%	9%
Industrial/Standard	23%	24%	18%

By Technology	4Q12	3Q12	4Q11
28nm	22%	13%	2%
40/45nm	22%	27%	27%
65nm	19%	22%	30%
90nm	8%	9%	8%
0.11/0.13um	4%	6%	7%
0.15/0.18um	17%	14%	17%
0.25/0.35um	7%	7%	7%
0.50um and above	1%	2%	2%

By Customer Type	4Q12	3Q12	4Q11
Fabless/System	87%	84%	83%
IDM	13%	16%	17%

By Geography	4Q12	3Q12	4Q11
North America	69%	67%	70%
Asia Pacific	15%	14%	13%
China	5%	5%	4%
Europe	8%	10%	9%
Japan	3%	4%	4%

Revenue Analysis:

In the fourth quarter, demand for TSMC's wafers was affected by customers' inventory adjustments across the board. By application, Computer, Consumer, and Industrial declined 24%, 21%, and 14% from 3Q12, respectively, while Communication increased 2%, supported by the demand from mobile devices.

Thanks to strong wafer demand for TSMC's 28nm process technology, contribution from this technology reached 22% of total wafer revenues during the quarter. Overall, advanced technologies (65nm and below) accounted for 63% of total wafer revenues, up from 62% in 3Q12 and 59% in 4Q11.

Revenues from IDM customers accounted for 13% of total wafer revenues in 4Q12.

From a geographic perspective, revenues from customers based in North America accounted for 69% of total wafer revenues, while revenues from Asia Pacific, China, Europe and Japan accounted for 15%, 5%, 8%, and 3% of total wafer revenues, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	4Q12	3Q12	4Q11	2012	2011
COGS	69.36	72.35	57.94	262.65	233.01
Depreciation/Amortization	33.13	31.74	25.47	119.66	99.53
Other MFG Cost	36.23	40.61	32.47	142.99	133.48
Gross Profit	61.95	69.03	46.77	243.60	194.07
Gross Margin	47.2%	48.8%	44.7%	48.1%	45.4%

Gross Profit Analysis:

Gross margin was 47.2% in 4Q12, 1.6 percentage points lower than 3Q12, mainly due to lower capacity utilization and an unfavorable foreign exchange rate, partially balanced by cost improvements and inventory valuation adjustments under ROC SFAS No.10.

On a full year basis, gross margin for 2012 was 48.1%, up 2.7 percentage points from 2011, mainly reflecting higher capacity utilization, partially offset by the lower-than-corporate-average 28nm margins at the initial production stage.

II - 2. Operating Income Analysis

(In NT billions)	<u>4Q12</u>	<u>3Q12</u>	<u>4Q11</u>	<u>2012</u>	<u>2011</u>
Total Operating Exp.	15.69	16.38	13.84	62.54	52.51
SG&A	5.19	5.72	5.09	22.14	18.68
Research & Development	10.50	10.66	8.75	40.40	33.83
Operating Income	46.26	52.65	32.93	181.06	141.56
Operating Margin	35.2%	37.2%	31.4%	35.8%	33.1%

Operating Income Analysis:

Total operating expenses were NT\$15.69 billion in 4Q12, representing 12.0% of net sales. Operating margin was 35.2%, down 2.0 percentage points from 3Q12, primarily reflecting lower gross margin.

For full year 2012, total operating expenses were NT\$62.54 billion, increased by NT\$10.03 billion, mainly due to a higher level of research activities for 20nm technologies and higher fab opening expenses for ramping up 28nm capacity. Operating margin was 35.8% in 2012.

II - 3. Non-Operating Items

(In NT billions)	<u>4Q12</u>	<u>3Q12</u>	<u>4Q11</u>	<u>2012</u>	<u>2011</u>
Non-Operating Inc./ (Exp.)	(0.73)	0.38	0.71	(1.53)	2.69
Net Interest Income/(Exp.)	0.02	0.08	0.26	0.62	0.85
Other Non-Operating	(0.75)	0.30	0.45	(2.15)	1.84
L-T Investments	0.72	0.70	(0.02)	2.03	0.90
SSMC	0.52	0.44	0.23	1.83	1.14
Others	0.20	0.26	(0.25)	0.20	(0.24)
Total Non-Operating Items	(0.01)	1.08	0.69	0.50	3.59

Non-Operating Items:

Total non-operating items were a loss of NT\$0.01 billion in 4Q12.

Non-operating loss was NT\$ 0.73 billion, mostly resulted from the impairment losses from certain invested companies, partially balanced by the compensation from SMIC litigation settlement.

Net investment gain was NT\$0.72 billion, similar to last quarter.

On a full year basis, total non-operating items decreased by NT\$3.09 billion to a gain of NT\$0.50 billion in 2012, primarily due to the impairment losses from certain invested companies, partially balanced by business improvement from other invested companies.

III. Financial Condition Review

III - 1. Liquidity Analysis			
(Balance Sheet Items)			
(In NT billions)	<u>4Q12</u>	<u>3Q12</u>	<u>4Q11</u>
Cash & Marketable Securities	150.92	147.75	150.62
Accounts Receivable - Trade	52.09	58.41	40.95
Inventory	37.83	33.25	24.84
Other Current Assets	11.45	5.92	8.85
Total Current Assets	252.29	245.33	225.26
Short-term Loans	34.72	29.75	25.93
Accounts Payable	60.07	47.34	47.40
Accrued Employee Profit Sharing / Bonus	14.07	12.08	11.26
Accrued Liabilities and Others	33.58	29.88	32.42
Total Current Liabilities	142.44	119.05	117.01
Current Ratio (x)	1.8	2.1	1.9
Net Working Capital	109.85	126.28	108.25

Liquidity Analysis:

At the end of 4Q12, cash and marketable securities totaled NT\$150.92 billion, increased by NT\$3.17 billion from 3Q12, primarily due to free cash flow of NT\$25.64 billion generated during the quarter (please refer to page 6), an increase of NT\$4.97 billion in short-term loan and proceeds of NT\$4.40 billion from the issuance of corporate bonds, partially offset by NT\$31.52 billion for acquiring ASML shares.

Total current liabilities increased by NT\$23.39 billion, mainly attributed to increases in accounts payable to contractors and equipment suppliers and short-term loans during the quarter.

Net working capital was NT\$109.85 billion and current ratio was 1.8x.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>4Q12</u>	<u>3Q12</u>	<u>4Q11</u>
Days of Receivable	39	37	38
Days of Inventory	50	44	43

Receivable and Inventory Days:

Days of receivable increased by 2 days to 39 days.

Days of inventory increased by 6 days to 50 days, mainly due to higher level of work-in-process for 28nm ramping and increased stocks in raw materials.

III - 3. Debt Service			
(In NT billions)	<u>4Q12</u>	<u>3Q12</u>	<u>4Q11</u>
Cash & Marketable Securities	150.92	147.75	150.62
Interest-Bearing Debt	117.78	108.43	54.35
Net Cash Reserves	33.14	39.32	96.27

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$6.18 billion to NT\$33.14 billion in 4Q12, reflecting an increase of NT\$4.97 billion in short-term loan and proceeds of NT\$4.40 billion from the issuance of corporate bonds, offset by an increase of NT\$ 3.17 billion in cash and marketable securities.

IV. Cash Flow

IV - 1.1. Quarterly Cash Flow Analysis

(In NT billions)	<u>4Q12</u>	<u>3Q12</u>	<u>4Q11</u>
Net Income	41.57	49.30	31.58
Depreciation & Amortization	36.20	34.68	27.74
Other Operating Sources/(Uses)	7.64	(7.35)	13.52
Total Operating Sources/(Uses)	<u>85.41</u>	<u>76.63</u>	<u>72.84</u>
Capital Expenditure	(59.77)	(78.33)	(29.77)
Marketable Financial Instruments	(29.74)	0.82	0.01
Other Investing Sources/(Uses)	(0.64)	1.74	(0.39)
Net Investing Sources/(Uses)	<u>(90.15)</u>	<u>(75.77)</u>	<u>(30.15)</u>
Short-term Loans	4.97	(1.02)	(10.09)
Cash Dividends	0.00	(77.75)	0.00
Proceeds from Issuance of Bonds	4.40	40.60	0.00
Other Financing Sources/(Uses)	0.03	(1.12)	(2.76)
Net Financing Sources/(Uses)	<u>9.40</u>	<u>(39.29)</u>	<u>(12.85)</u>
Net Cash Position Changes	4.66	(38.43)	29.84
Exchange Rate Changes	0.01	(1.27)	(1.21)
Ending Cash Balance	143.41	138.74	143.47

IV - 1.2. Annual Cash Flow Analysis

(In NT billions)	<u>2012</u>	<u>2011</u>	<u>Diff.</u>
Net Income	166.16	134.20	31.96
Depreciation & Amortization	131.35	107.68	23.67
Other Operating Sources/(Uses)	(8.44)	5.71	(14.15)
Total Operating Sources/(Uses)	<u>289.07</u>	<u>247.59</u>	<u>41.48</u>
Capital Expenditure	(246.14)	(213.96)	(32.18)
Marketable Financial Instruments	(27.85)	28.42	(56.27)
Other Investing Sources/(Uses)	0.79	3.02	(2.23)
Net Investing Sources/(Uses)	<u>(273.20)</u>	<u>(182.52)</u>	<u>(90.68)</u>
Short-term Loans	8.79	(5.28)	14.07
Cash Dividends	(77.75)	(77.73)	(0.02)
Proceeds from Issuance of Bonds	62.00	18.00	44.00
Repayment of Bonds Payable	(4.50)	0.00	(4.50)
Other Financing Sources/(Uses)	(2.35)	(2.85)	0.50
Net Financing Sources/(Uses)	<u>(13.81)</u>	<u>(67.86)</u>	<u>54.05</u>
Net Cash Position Changes	2.06	(2.79)	4.85
Exchange Rate Changes & Others	(2.12)	(1.63)	(0.49)
Ending Cash Balance	143.41	143.47	(0.06)

Summary of Cash Flow:

Cash generated from operating activities totaled NT\$85.41 billion during the quarter, an increase of NT\$8.78 billion from 3Q12, primarily attributed to higher other operating sources, partially offset by lower net income. The higher other operating sources mainly reflected the absence of 2011 employee profit sharing payment of NT\$8.72 billion and the change in working capital of NT\$4.83 billion.

Net cash used in investing activities increased NT\$14.38 billion to NT\$90.15 billion in 4Q12, reflecting the acquisition of ASML shares, partially offset by lower capital expenditures.

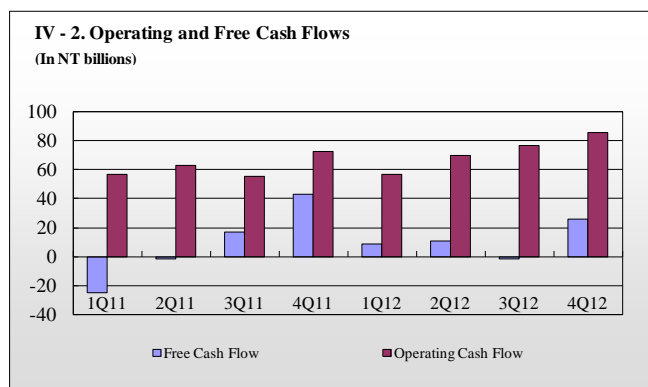
Net cash generated from financing activities amounted to NT\$9.40 billion during the quarter, mostly resulted from the increase in short-term loans and proceeds from the issuance of corporate bonds.

At the end of 4Q12, TSMC's cash balance was NT\$143.41 billion.

On a full year basis, cash generated from operating activities increased by NT\$41.48 billion to NT\$289.07 billion in 2012, mainly attributed to higher net income and higher depreciation and amortization, partially offset by higher other operating uses. The higher operating uses mainly accounted for the change in working capital of NT\$22.47 billion, partially offset by the change in accrual for employee profit sharing of NT\$4.12 billion.

Net cash used in investing activities was NT\$273.20 billion, NT\$90.68 billion higher than that in 2011, primarily attributed to higher capital expenditures and the investment in ASML during the year.

Net cash used in financing activities decreased NT\$54.05 billion to NT\$13.81 billion, mainly due to more short-term borrowing and proceeds from the issuance of corporate bonds.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$25.64 billion in 4Q12, increased by NT\$27.34 billion compared to 3Q12, as a result of higher operating cash flow and lower capital expenditures.

Total free cash flow generated in 2012 was NT\$42.93 billion, an increase of NT\$9.30 billion from NT\$33.63 billion in 2011, as higher operating cash flow outweighed higher capital expenditures.

V. CapEx & Capacity

V - 1. Capital Expenditures
(In US millions)

	<u>1Q12</u>	<u>2Q12</u>	<u>3Q12</u>	<u>4Q12</u>	<u>2012</u>
TSMC	1,587	1,979	2,588	2,023	8,177
TSMC China & WaferTech	27	15	20	13	75
Other TSMC Subsidiaries	21	15	17	17	70
Total TSMC	1,635	2,009	2,625	2,053	8,322

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$2.05 billion in 4Q12 and US\$8.32 billion for the year.

V - 2. Capacity

Fab / (Wafer size)	2011 (A)	1Q12 (A)	2Q12 (A)	3Q12 (A)	4Q12 (A)	2012 (A)	1Q13 (F)
Fab-2 (6") ⁽¹⁾	1,000	253	247	256	256	1,012	251
Fab-3 (8")	1,184	298	300	304	306	1,208	281
Fab-5 (8")	547	145	146	148	148	587	147
Fab-6 (8")	1,128	298	296	298	298	1,191	299
Fab-8 (8")	1,003	262	263	266	266	1,057	260
Fab-12 (12") ⁽²⁾	1,334	373	367	378	382	1,500	366
Fab-14 (12") ⁽²⁾	1,927	549	546	563	552	2,210	546
Fab-15 (12") ⁽²⁾			18	69	139	226	164
WaferTech (8")	429	110	111	112	112	444	109
TSMC China (8")	772	222	230	232	236	921	226
TSMC total capacity (8" equiv. Kpcs)	12,963	3,553	3,579	3,776	3,925	14,833	3,883
SSMC (8")	258	64	64	65	65	258	61
Total managed capacity (8" equiv. Kpcs)	13,221	3,616	3,643	3,841	3,990	15,091	3,944

(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 3.9% to 3,990K 8-inch equivalent wafers in 4Q12, primarily due to capacity increase in 28nm process technology. Total managed capacity in 1Q13 is expected to decrease by 1.2% sequentially to 3,944K 8-inch equivalent wafers due to fewer working days and scheduled annual maintenance.

Total managed capacity increased 14.1% sequentially from 13,221K 8-inch equivalent wafers in 2011 to 15,091K 8-inch equivalent wafers in 2012, in which 12-inch wafer capacity increased 20.7%.

VI. Recap of Recent Important Events & Announcements

- TSMC Recognizes Outstanding Suppliers at Supply Chain Management Forum (2012/12/14)
- TSMC Shares Power Conservation Experience with Free Classes (2012/12/07)
- TSMC Board of Directors Approved the Issuance of No More Than NT\$45 Billion (Approximately US\$1.53 Billion) in Unsecured Corporate Bonds in Taiwan (2012/11/13)
- TSMC Opens Discussion on Corporate Social Responsibility with Volunteer Sharing Day (2012/11/02)