

4Q13

Quarterly Management Report  
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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)

	4Q13	3Q13	4Q12	2013	2012
EPS (NT\$ per common share)	1.73	2.00	1.61	7.26	6.41
(US\$ per ADR unit)	0.29	0.34	0.28	1.22	1.08
Net Revenue	145.81	162.58	131.45	597.02	506.75
Gross Profit	64.86	78.89	62.10	280.95	244.14
Gross Margin	44.5%	48.5%	47.2%	47.1%	48.2%
Operating Expenses	(17.13)	(19.26)	(15.69)	(71.56)	(62.51)
Other Operating Income and Expenses	0.02	(0.01)	(0.02)	0.04	(0.45)
Operating Income	47.75	59.62	46.39	209.43	181.18
Operating Margin	32.8%	36.7%	35.3%	35.1%	35.8%
Non-Operating Items	2.62	(0.27)	(0.11)	6.06	0.50
Net Income	44.81	51.95	41.60	188.15	166.32
Net Profit Margin	30.7%	32.0%	31.7%	31.5%	32.8%
Wafer Shipment (kpcs 8 inch-equiv.)	3,868	4,194	3,565	15,666	14,044

Note: Diluted weighted average outstanding shares were 25,930mn units in 4Q13

**Financial Highlights:****Fourth Quarter 2013**

- Net revenues were NT\$145.81 billion, representing a 10.3% decrease from NT\$162.58 billion in 3Q13 and a 10.9% increase from NT\$131.45 billion in 4Q12.
- Gross margin was 44.5%, down 4.0 percentage points from 3Q13 and down 2.7 percentage points from 4Q12.
- Operating margin was 32.8%, down 3.9 percentage points from 3Q13 and down 2.5 percentage points from 4Q12.
- Non-operating items were a gain of NT\$2.62 billion, compared to a loss of NT\$0.27 billion in 3Q13 and a loss of NT\$0.11 billion in 4Q12.
- Net income attributable to shareholders of the parent company was NT\$44.81 billion, down 13.7% from 3Q13 and up 7.7% from 4Q12. Net profit margin was 30.7% and diluted EPS was NT\$1.73.

**Full Year 2013**

- Net revenues were NT\$597.02 billion, representing a 17.8% increase from 2012. In US dollar terms, net revenues increased 17.4% to US\$20.11 billion in 2013 from US\$17.13 billion in 2012.
- Gross margin was 47.1%, down 1.1 percentage points from 48.2% in 2012. Operating margin was 35.1%, down 0.7 percentage point from 2012.
- Diluted EPS was NT\$7.26, up 13.1% from NT\$6.41 in 2012. Net profit margin was 31.5%, down 1.3 percentage points from 2012.

## I. Revenue Analysis

<b>I. Wafer Revenue Analysis</b>			
<b>By Application</b>	<b>4Q13</b>	<b>3Q13</b>	<b>4Q12</b>
Computer	13%	13%	16%
Communication	51%	53%	54%
Consumer	13%	14%	7%
Industrial/Standard	23%	20%	23%
<b>By Technology</b>	<b>4Q13</b>	<b>3Q13</b>	<b>4Q12</b>
28nm	34%	32%	22%
40/45nm	17%	20%	22%
65nm	16%	15%	19%
90nm	7%	8%	8%
0.11/0.13um	4%	4%	4%
0.15/0.18um	16%	15%	17%
0.25/0.35um	5%	5%	7%
0.50um and above	1%	1%	1%
<b>By Customer Type</b>	<b>4Q13</b>	<b>3Q13</b>	<b>4Q12</b>
Fabless/System	87%	87%	87%
IDM	13%	13%	13%
<b>By Geography</b>	<b>4Q13</b>	<b>3Q13</b>	<b>4Q12</b>
North America	74%	71%	69%
Asia Pacific	11%	15%	15%
China	5%	5%	5%
Europe	7%	6%	8%
Japan	3%	3%	3%

### **Revenue Analysis:**

In the fourth quarter, TSMC's business was impacted by semiconductor supply chain's inventory management.

By application, Communication, Computer and Consumer declined 13%, 7% and 20%, respectively, while Industrial/Standard remained flat sequentially.

28nm process technology contributed 34% of total wafer revenues for the quarter. Advanced technologies (40/45nm and below) accounted for 51% of total wafer revenues.

Revenues from Fabless/System customers accounted for 87% of total wafer revenues in 4Q13.

From a geographic perspective, revenues from customers based in North America accounted for 74% of total wafer revenues, while revenues from Asia Pacific, China, Europe and Japan accounted for 11%, 5%, 7%, and 3% of total wafer revenues, respectively.

## II. Profit & Expense Analysis

<b>II - 1. Gross Profit Analysis</b>					
(In NTS billions)	<b>4Q13</b>	<b>3Q13</b>	<b>4Q12</b>	<b>2013</b>	<b>2012</b>
<b>Cost of Revenue</b>	<b>80.95</b>	<b>83.69</b>	<b>69.35</b>	<b>316.07</b>	<b>262.61</b>
Depreciation/Amortization	37.33	36.78	33.13	142.16	119.66
Other MFG Cost	43.62	46.91	36.22	173.91	142.95
<b>Gross Profit</b>	<b>64.86</b>	<b>78.89</b>	<b>62.10</b>	<b>280.95</b>	<b>244.14</b>
<b>Gross Margin</b>	<b>44.5%</b>	<b>48.5%</b>	<b>47.2%</b>	<b>47.1%</b>	<b>48.2%</b>

### **Gross Profit Analysis:**

Gross margin was 44.5% in 4Q13, 4.0 percentage points lower than 3Q13, mainly due to lower capacity utilization and an unfavorable foreign exchange rate.

On a full year basis, gross margin for 2013 was 47.1%, down 1.1 percentage points from 2012, mainly reflecting lower capacity utilization.

## II - 2. Operating Income Analysis

(In NT\$ billions)	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>	<u>2013</u>	<u>2012</u>
<b>Total Operating Expenses</b>	<b>17.13</b>	<b>19.26</b>	<b>15.69</b>	<b>71.56</b>	<b>62.51</b>
Research & Development	12.17	13.36	10.50	48.12	40.38
SG&A	4.96	5.90	5.19	23.44	22.13
<b>Other Operating Income and Expenses</b>	<b>0.02</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>0.04</b>	<b>(0.45)</b>
<b>Operating Income</b>	<b>47.75</b>	<b>59.62</b>	<b>46.39</b>	<b>209.43</b>	<b>181.18</b>
<b>Operating Margin</b>	<b>32.8%</b>	<b>36.7%</b>	<b>35.3%</b>	<b>35.1%</b>	<b>35.8%</b>

### *Operating Income Analysis:*

Total operating expenses decreased NT\$2.13 billion to NT\$17.13 billion in 4Q13, primarily due to expense saving.

For full year 2013, total operating expenses were NT\$71.56 billion, increased by NT\$9.05 billion, mainly due to a higher level of research activities for advanced technologies and higher fab opening expenses.

## II - 3. Non-Operating Items

(In NT\$ billions)	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>	<u>2013</u>	<u>2012</u>
<b>L-T Investments</b>	<b>1.15</b>	<b>1.11</b>	<b>0.74</b>	<b>3.97</b>	<b>2.07</b>
SSMC	0.53	0.52	0.52	1.96	1.83
Others	0.62	0.59	0.22	2.01	0.24
<b>Interest Expenses</b>	<b>(0.79)</b>	<b>(0.73)</b>	<b>(0.34)</b>	<b>(2.65)</b>	<b>(1.02)</b>
<b>Other Gains and Losses</b>	<b>2.26</b>	<b>(0.65)</b>	<b>(0.51)</b>	<b>4.74</b>	<b>(0.55)</b>
<b>Total Non-Operating Items</b>	<b>2.62</b>	<b>(0.27)</b>	<b>(0.11)</b>	<b>6.06</b>	<b>0.50</b>

### *Non-Operating Items:*

Total non-operating items were a gain of NT\$2.62 billion in 4Q13, compared to a loss of NT\$0.27 billion in 3Q13, mainly due to the change in other gains and losses, including: (1) the reversal of impairment losses of NT\$1.19 billion on an invested company, (2) the receipt of NT\$0.45 billion from SMIC litigation settlement, and (3) the absence of the impairment losses of NT\$1.35 billion on Stion investments in 3Q13.

On a full year basis, total non-operating items increased by NT\$5.56 billion to a gain of NT\$6.06 billion in 2013, primarily due to lower impairment losses and higher investment income from certain invested companies, partially offset by higher interest expenses due to the issuance of corporate bonds.

### III. Financial Condition Review

<b>III - 1. Liquidity Analysis</b>			
<b>(Balance Sheet Items)</b>			
(In NT\$ billions)	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>
Cash & Marketable Securities	245.34	218.16	150.92
Accounts Receivable	71.94	79.67	58.13
Inventories	37.50	36.92	37.83
Other Current Assets	3.71	3.46	3.45
<b>Total Current Assets</b>	<b>358.49</b>	<b>338.21</b>	<b>250.33</b>
Short-term Loans	15.65	18.05	34.72
Accounts Payable	106.17	73.45	60.07
Accrued Liabilities and Others	67.96	56.78	53.69
<b>Total Current Liabilities</b>	<b>189.78</b>	<b>148.28</b>	<b>148.48</b>
Current Ratio (x)	1.9	2.3	1.7
<b>Net Working Capital</b>	<b>168.71</b>	<b>189.93</b>	<b>101.85</b>

#### *Liquidity Analysis:*

At the end of 4Q13, cash and marketable securities totaled NT\$245.34 billion, increased by NT\$27.18 billion from 3Q13, primarily due to free cash flow of NT\$28.81 billion generated during the quarter (please refer to page 6).

Total current liabilities increased by NT\$41.5 billion, mainly attributed to increase in accounts payable to equipment suppliers.

Net working capital was NT\$168.71 billion and current ratio was 1.9x.

<b>III - 2. Receivable/Inventory Days</b>			
(In Number of Days)	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>
Days of Receivable	48	45	43
Days of Inventory	45	45	50

#### *Receivable and Inventory Days:*

Days of receivable increased by 3 days to 48 days, due to a smaller decline in the average accounts receivable compared to the decline in revenue in 4Q13.

Days of inventory remained at 45 days.

<b>III - 3. Debt Service</b>			
(In NT\$ billions)	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>
Cash & Marketable Securities	245.34	218.16	150.92
Interest-Bearing Debts	227.24	229.28	117.78
<b>Net Cash Reserves</b>	<b>18.10</b>	<b>(11.12)</b>	<b>33.14</b>

#### *Debt Service:*

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, increased NT\$29.22 billion to NT\$18.10 billion in 4Q13, reflecting an increase of NT\$27.18 billion in cash and marketable securities and a decrease of NT\$2.04 billion in interest-bearing debts mainly due to repayment of short-term bank loans.

## IV. Cash Flow

### IV - 1.1 Quarterly Cash Flow Analysis

(In NT\$ billions)	<u>4Q13</u>	<u>3Q13</u>	<u>4Q12</u>
Income before Income Tax	50.37	59.35	46.28
Depreciation & Amortization	41.15	40.44	36.21
Other Operating Sources/(Uses)	11.25	(3.99)	2.31
<b>Total Operating Sources/(Uses)</b>	<b><u>102.77</u></b>	<b><u>95.80</u></b>	<b><u>84.80</u></b>
Capital Expenditure	(73.96)	(54.82)	(59.77)
Marketable Financial Instruments	(1.05)	0.33	(29.74)
Other Investing Sources/(Uses)	(0.05)	2.17	(0.26)
<b>Net Investing Sources/(Uses)</b>	<b><u>(75.06)</u></b>	<b><u>(52.32)</u></b>	<b><u>(89.77)</u></b>
Increase (Decrease) in Short-term Loans	(2.32)	(13.23)	5.25
Cash Dividends	0.00	(77.77)	0.00
Proceeds from Issuance of Bonds	0.00	41.20	4.40
Other Financing Sources/(Uses)	(0.10)	(1.70)	(0.02)
<b>Net Financing Sources/(Uses)</b>	<b><u>(2.42)</u></b>	<b><u>(51.50)</u></b>	<b><u>9.63</u></b>
<b>Exchange Rate Changes</b>	<b><u>0.81</u></b>	<b><u>(1.21)</u></b>	<b><u>0.01</u></b>
<b>Net Cash Position Changes</b>	<b><u>26.10</u></b>	<b><u>(9.23)</u></b>	<b><u>4.67</u></b>
<b>Ending Cash Balance</b>	<b><u>242.70</u></b>	<b><u>216.60</u></b>	<b><u>143.41</u></b>

### Summary of Cash Flow:

Cash generated from operating activities totaled NT\$102.77 billion during the quarter, an increase of NT\$6.97 billion from 3Q13, primarily attributed to higher other operating sources, partially offset by lower net income. The higher other operating sources mainly reflected the absence of 2012 employee profit sharing of NT\$10.86 billion in 3Q13 and the change in accounts receivable of NT\$7.06 billion.

Net cash used in investing activities increased NT\$22.74 billion to NT\$75.06 billion in 4Q13, primarily reflecting an increase of NT\$19.14 billion in capital expenditures.

Net cash used in financing activities decreased NT\$49.08 billion to NT\$2.42 billion in 4Q13, mainly due to the absence of cash dividend payment in 3Q13, the absence of issuing additional corporate bonds, and lower repayment of short-term loans.

### IV - 1.2. Annual Cash Flow Analysis

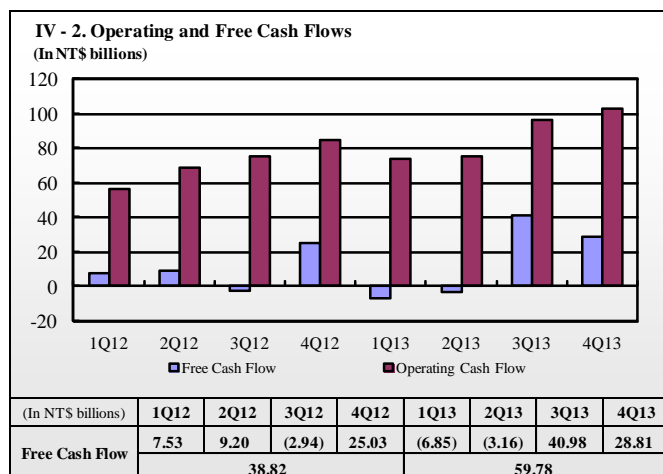
(In NT\$ billions)	<u>2013</u>	<u>2012</u>	<u>Diff.</u>
Income before Income Tax	215.49	181.68	33.81
Depreciation & Amortization	156.18	131.35	24.83
Other Operating Sources/(Uses)	(24.29)	(28.07)	3.78
<b>Total Operating Sources/(Uses)</b>	<b><u>347.38</u></b>	<b><u>284.96</u></b>	<b><u>62.42</u></b>
Capital Expenditure	(287.60)	(246.14)	(41.46)
Marketable Financial Instruments	5.75	(27.85)	33.60
Other Investing Sources/(Uses)	0.80	4.68	(3.88)
<b>Net Investing Sources/(Uses)</b>	<b><u>(281.05)</u></b>	<b><u>(269.31)</u></b>	<b><u>(11.74)</u></b>
Short-term Loans	(19.64)	9.74	(29.38)
Cash Dividends	(77.77)	(77.75)	(0.02)
Proceeds from Issuance of Bonds	130.85	62.00	68.85
Repayment of Bonds Payable	0.00	(4.50)	4.50
Other Financing Sources/(Uses)	(1.33)	(3.08)	1.75
<b>Net Financing Sources/(Uses)</b>	<b><u>32.11</u></b>	<b><u>(13.59)</u></b>	<b><u>45.70</u></b>
<b>Exchange Rate Changes</b>	<b><u>0.85</u></b>	<b><u>(2.12)</u></b>	<b><u>2.97</u></b>
<b>Net Cash Position Changes</b>	<b><u>99.29</u></b>	<b><u>(0.06)</u></b>	<b><u>99.35</u></b>
<b>Ending Cash Balance</b>	<b><u>242.70</u></b>	<b><u>143.41</u></b>	<b><u>99.29</u></b>

On a full year basis, cash generated from operating activities increased by NT\$62.42 billion to NT\$347.38 billion in 2013, mainly attributed to higher net income, higher depreciation and amortization, and lower other operating uses.

Net cash used in investing activities was NT\$281.05 billion, NT\$11.74 billion higher than that in 2012, primarily attributed to higher capital expenditures of NT\$41.46 billion, partially offset by the investment in ASML of NT\$31.52 billion in 2012.

Net cash generated from financing activities increased NT\$45.70 billion to NT\$32.11 billion, mainly due to more proceeds from the issuance of corporate bonds in 2013, partially offset by repayment of short-term loans.

At the end of 2013, TSMC's cash balance was NT\$242.70 billion, NT\$99.29 billion higher than that of 2012.



**Operating and Free Cash Flows:**

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$28.81 billion in 4Q13, decreased by NT\$12.17 billion compared to 3Q13, as higher capital expenditures outweighed higher operating cash flow.

Total free cash flow generated in 2013 was NT\$59.78 billion, an increase of NT\$20.96 billion from NT\$38.82 billion in 2012, mainly due to higher operating cash flow.

**V. CapEx & Capacity**

**V - 1. Capital Expenditures**  
(In US\$ millions)

	4Q13	3Q13	2Q13	1Q13	2013
Capital Expenditures	2,503	1,829	2,625	2,731	9,688

**Capital Expenditures:**

Capital expenditures for TSMC on a consolidated basis totaled US\$2.50 billion in 4Q13 and US\$9.69 billion for the year.

**V - 2. Capacity**

Fab / (Wafer size)	2012 (A)	1Q13 (A)	2Q13 (A)	3Q13 (A)	4Q13 (A)	2013 (A)
Fab-2 (6") <sup>(1)</sup>	1,012	251	254	257	257	1,018
Fab-3 (8")	1,208	281	287	293	289	1,150
Fab-5 (8")	587	147	151	99	99	497
Fab-6 (8")	1,191	299	307	428	428	1,461
Fab-8 (8")	1,057	260	271	216	216	962
Fab-12 (12") <sup>(2)</sup>	1,500	366	356	365	371	1,458
Fab-14 (12") <sup>(2)</sup>	2,210	546	558	564	564	2,232
Fab-15 (12") <sup>(2)</sup>	226	164	193	277	296	930
WaferTech (8")	444	109	112	113	113	447
TSMC China (8")	921	226	240	248	248	963
<b>TSMC total capacity (8" equiv. Kpcs)</b>	<b>14,833</b>	<b>3,883</b>	<b>3,999</b>	<b>4,258</b>	<b>4,307</b>	<b>16,447</b>

(1) Figures represent number of 6" wafers. Conversion to 8"-equivalent wafers is obtained by multiplying this number by 0.5625  
(2) Figures represent number of 12" wafers. Conversion to 8"-equivalent wafers is obtained by multiplying this number by 2.25

**Capacity:**

Total capacity increased 1.2% to 4,307K 8-inch equivalent wafers in 4Q13.

Total capacity increased 11% sequentially from 14,833K 8-inch equivalent wafers in 2012 to 16,447K 8-inch equivalent wafers in 2013, in which 12-inch wafer capacity increased 17%.

## VI. Recap of Recent Important Events & Announcements

- TSMC Recognizes Outstanding Suppliers at Supply Chain Management Forum ( 2013/12/12 )
- TSMC Approved the Appointment of Drs. Mark Liu and C. C. Wei as President and Co-Chief Executive Officer of TSMC ( 2013/11/12 )
- TSMC Approved the Promotion of Dr. Been-Jon Woo as Vice President of Business Development Organization ( 2013/11/12 )
- TSMC Approved the revision of TSMC's "Procedure of Retirement" and set the mandatory retirement age to 67 ( 2013/11/12 )
- Xilinx and TSMC Reach Volume Production on all 28nm CoWoS™-based All Programmable 3D IC Families ( 2013/10/21 )