

4Q14

Quarterly Management Report
January 15, 2015**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:*(Amounts are on consolidated basis and are in NT\$ billions unless otherwise noted)*

	4Q14	3Q14	4Q13	2014	2013
EPS (NT\$ per common share)	3.08	2.94	1.73	10.18	7.26
(US\$ per ADR unit)	0.50	0.49	0.29	1.68	1.22
Net Revenue	222.52	209.05	145.81	762.81	597.02
Gross Profit	110.56	105.58	64.86	377.73	280.95
<i>Gross Margin</i>	<i>49.7%</i>	<i>50.5%</i>	<i>44.5%</i>	<i>49.5%</i>	<i>47.1%</i>
Operating Expenses	(21.57)	(21.14)	(17.13)	(80.84)	(71.56)
Other Operating Income and Expenses	(0.77)	(0.01)	0.02	(1.00)	0.04
Operating Income	88.22	84.43	47.75	295.89	209.43
<i>Operating Margin</i>	<i>39.6%</i>	<i>40.4%</i>	<i>32.8%</i>	<i>38.8%</i>	<i>35.1%</i>
Non-Operating Items	1.10	0.95	2.62	6.21	6.06
Net Income Attributable to Shareholders of the Parent Company	79.99	76.34	44.81	263.90	188.15
<i>Net Profit Margin</i>	<i>35.9%</i>	<i>36.5%</i>	<i>30.7%</i>	<i>34.6%</i>	<i>31.5%</i>
Wafer Shipment (kpcs 12 inch-equiv.)	2,225	2,267	1,719	8,263	6,963

*Note: Diluted weighted average outstanding shares were 25,930mn units in 4Q14***Financial Highlights:****Fourth Quarter 2014**

- Net revenue was NT\$222.52 billion, increased by 6.4% from NT\$209.05 billion in 3Q14 and 52.6% from NT\$145.81 billion in 4Q13.
- Gross margin was 49.7%, 0.8 percentage point lower than 3Q14 and 5.2 percentage points higher than 4Q13.
- Operating margin was 39.6%, down 0.8 percentage point from 3Q14 and up 6.8 percentage points from 4Q13.
- Non-operating items were a gain of NT\$1.10 billion, compared to a gain of NT\$0.95 billion in 3Q14 and a gain of NT\$2.62 billion in 4Q13.
- Net income attributable to shareholders of the parent company was NT\$79.99 billion, increased by 4.8% from 3Q14 and 78.5% from 4Q13. Net profit margin was 35.9% and diluted EPS was NT\$3.08.

Full Year 2014

- Net revenue was NT\$762.81 billion, representing a 27.8% increase from 2013. In US dollar terms, net revenue increased 25.2% to US\$25.17 billion in 2014.
- Gross margin was 49.5%, up 2.4 percentage points from 47.1% in 2013. Operating margin was 38.8%, up 3.7 percentage points from 2013.
- Diluted EPS was NT\$10.18, up 40.3% from NT\$7.26 in 2013. Net profit margin was 34.6%, 3.1 percentage points higher than 2013.

I. Revenue Analysis

I. Revenue Analysis			
Wafer Rev. by Application	4Q14	3Q14	4Q13
Computer	9%	9%	13%
Communication	65%	59%	51%
Consumer	7%	10%	13%
Industrial/Standard	19%	22%	23%
Wafer Rev. by Technology	4Q14	3Q14	4Q13
20nm	21%	9%	0%
28nm	30%	34%	34%
40/45nm	13%	17%	17%
65nm	11%	13%	16%
90nm	6%	6%	7%
0.11/0.13um	2%	3%	4%
0.15/0.18um	12%	13%	16%
0.25/0.35um	4%	4%	5%
0.50um and above	1%	1%	1%
Wafer Rev. by Customer Type	4Q14	3Q14	4Q13
Fabless/System	85%	84%	87%
IDM	15%	16%	13%
Net Rev. by Geography	4Q14	3Q14	4Q13
North America	74%	69%	73%
Asia Pacific	9%	13%	12%
China	6%	6%	5%
EMEA	6%	6%	7%
Japan	5%	6%	3%

Revenue Analysis:

In the fourth quarter, TSMC's revenue continued to grow sequentially thanks to strong demand for 20nm wafers. By application, Communication and Computer increased 18% and 7%, while Consumer and Industrial/Standard declined 21% and 11%, respectively.

Contribution from 20nm process technology increased from 9% in 3Q14 to 21% in 4Q14. Advanced technologies (28nm and below) accounted for 51% of total wafer revenue, up from 43% in 3Q14.

Revenue from Fabless/System customers accounted for 85% of total wafer revenue in 4Q14.

From a geographic perspective, revenue from customers based in North America accounted for 74% of total wafer revenue, while revenue from Asia Pacific, China, EMEA (Europe, Middle East, and Africa) and Japan accounted for 9%, 6%, 6%, and 5% of total wafer revenue, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis					
(In NTS\$ billions)	4Q14	3Q14	4Q13	2014	2013
Cost of Revenue	111.96	103.47	80.95	385.08	316.07
Gross Profit	110.56	105.58	64.86	377.73	280.95
Gross Margin	49.7%	50.5%	44.5%	49.5%	47.1%

Gross Profit Analysis:

Gross margin was 49.7% in 4Q14, 0.8 percentage point lower than 3Q14, mainly reflecting 20nm margin dilution and lower capacity utilization, partially offset by cost improvement and a favorable foreign exchange rate.

On a full year basis, gross margin for 2014 was 49.5%, up 2.4 percentage points from 2013, mainly attributed to higher capacity utilization, partially offset by 20nm margin dilution.

II - 2. Operating Income Analysis

(In NT\$ billions)	<u>4Q14</u>	<u>3Q14</u>	<u>4Q13</u>	<u>2014</u>	<u>2013</u>
Total Operating Expenses	21.57	21.14	17.13	80.84	71.56
Research & Development	15.94	15.21	12.17	56.82	48.12
SG&A	5.63	5.93	4.96	24.02	23.44
Other Operating Income and Expenses	(0.77)	(0.01)	0.02	(1.00)	0.04
Operating Income	88.22	84.43	47.75	295.89	209.43
Operating Margin	39.6%	40.4%	32.8%	38.8%	35.1%
Total Operating Expense as % of Net Revenue	9.7%	10.1%	11.7%	10.6%	12.0%

Operating Income Analysis:

Total operating expenses represented 9.7% of net revenue in 4Q14, compared to 10.1% in the prior quarter.

For full year 2014, total operating expenses represented 10.6% of net revenue, decreased from 12.0% in 2013, thanks to improvement in operating efficiency.

II - 3. Non-Operating Items

(In NT\$ billions)	<u>4Q14</u>	<u>3Q14</u>	<u>4Q13</u>	<u>2014</u>	<u>2013</u>
L-T Investments	0.91	1.04	1.15	3.95	3.97
SSMC	0.38	0.52	0.53	1.89	1.96
Others	0.53	0.52	0.62	2.06	2.01
Interest Expenses	(0.82)	(0.82)	(0.79)	(3.24)	(2.65)
Other Gains and Losses	1.01	0.73	2.26	5.50	4.74
Total Non-Operating Items	1.10	0.95	2.62	6.21	6.06

Non-Operating Items:

Total non-operating items were a gain of NT\$1.10 billion in 4Q14, compared to a gain of NT\$0.95 billion in 3Q14.

On a full year basis, total non-operating items increased by NT\$0.15 billion to a gain of NT\$6.21 billion in 2014.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)			
(In NTS billions)	<u>4Q14</u>	<u>3Q14</u>	<u>4Q13</u>
Cash & Marketable Securities	436.92	290.34	245.34
Accounts Receivable	115.05	114.53	71.94
Inventories	66.34	65.34	37.50
Other Current Assets	8.26	6.02	3.71
Total Current Assets	626.57	476.23	358.49
Short-term Loans	36.16	35.88	15.65
Accounts Payable	50.35	50.40	106.17
Accrued Liabilities and Others	114.50	85.97	67.96
Total Current Liabilities	201.01	172.25	189.78
Current Ratio (x)	3.1	2.8	1.9
Net Working Capital	425.56	303.98	168.71

Liquidity Analysis:

At the end of 4Q14, cash and marketable securities totaled NT\$436.92 billion, increased by NT\$146.58 billion from 3Q14, primarily attributed to free cash flow of NT\$101.25 billion generated during the quarter (please refer to page 6) and the receipt of NT\$30.13 billion in guarantee deposit.

Total current liabilities increased by NT\$28.76 billion, mainly due to increase in tax payable, employee profit sharing accrual, and the current portion of guarantee deposit.

Net working capital was NT\$425.56 billion and current ratio was 3.1x.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>4Q14</u>	<u>3Q14</u>	<u>4Q13</u>
Days of Receivable	47	44	48
Days of Inventory	58	56	45

Receivable and Inventory Days:

Days of receivable increased by 3 days to 47 days, as average accounts receivable increased faster than revenue in 4Q14.

Days of inventory increased by 2 days to 58 days, mainly reflecting longer production cycle time for leading node.

III - 3. Debt Service			
(In NTS billions)	<u>4Q14</u>	<u>3Q14</u>	<u>4Q13</u>
Cash & Marketable Securities	436.92	290.34	245.34
Interest-Bearing Debts	(250.68)	(248.50)	(227.24)
Net Cash Reserves	186.24	41.84	18.10

Debt Service:

Net cash reserves increased NT\$144.40 billion to NT\$186.24 billion in 4Q14, mainly due to the increase in cash and marketable securities.

IV. Cash Flow

IV - 1.1 Quarterly Cash Flow Analysis			
(In NTS billions)	4Q14	3Q14	4Q13
Income before Income Tax	89.32	85.38	50.37
Depreciation & Amortization	56.42	56.23	41.15
Other Operating Sources/(Uses)	7.93	(50.36)	11.25
Total Operating Sources/(Uses)	<u>153.67</u>	<u>91.25</u>	<u>102.77</u>
Capital Expenditures	(52.42)	(47.88)	(73.96)
Marketable Financial Instruments	(4.46)	0.48	(1.05)
Other Investing Sources/(Uses)	1.44	2.77	(0.05)
Net Investing Sources/(Uses)	<u>(55.44)</u>	<u>(44.63)</u>	<u>(75.06)</u>
Increase (Decrease) in Short-term Loans	(2.04)	1.39	(2.32)
Cash Dividends	0.00	(77.79)	0.00
Other Financing Sources/(Uses)	29.68	(1.86)	(0.10)
Net Financing Sources/(Uses)	<u>27.64</u>	<u>(78.26)</u>	<u>(2.42)</u>
Exchange Rate Changes and Other	<u>6.70</u>	<u>2.47</u>	<u>0.81</u>
Net Cash Position Changes	132.57	(29.17)	26.10
Ending Cash Balance	358.45	225.88	242.70

Summary of Cash Flow:

During the fourth quarter, cash generated from operating activities totaled NT\$153.67 billion, including NT\$56.42 billion from depreciation & amortization and NT\$7.93 billion from other operating sources.

The Company invested NT\$52.42 billion in capital expenditures. Cash flow from other financing sources was NT\$29.68 billion, which included guarantee deposit of NT\$30.13 billion.

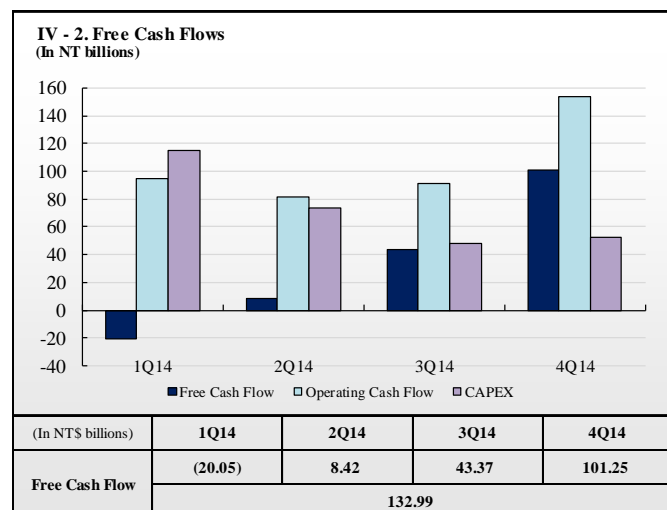
During 4Q14, cash position increased NT\$132.57 billion to NT\$358.45 billion.

IV - 1.2. Annual Cash Flow Analysis			
(In NTS billions)	2014	2013	Diff.
Income before Income Tax	302.10	215.49	86.61
Depreciation & Amortization	200.25	156.18	44.07
Other Operating Sources/(Uses)	(80.82)	(24.29)	(56.53)
Total Operating Sources/(Uses)	<u>421.53</u>	<u>347.38</u>	<u>74.15</u>
Capital Expenditure	(288.54)	(287.60)	(0.94)
Marketable Financial Instruments	(2.09)	5.75	(7.84)
Other Investing Sources/(Uses)	8.21	0.80	7.41
Net Investing Sources/(Uses)	<u>(282.42)</u>	<u>(281.05)</u>	<u>(1.37)</u>
Short-term Loans	18.57	(19.64)	38.21
Cash Dividends	(77.79)	(77.77)	(0.02)
Proceeds from Issuance of Bonds	0.00	130.85	(130.85)
Other Financing Sources/(Uses)	26.89	(1.33)	28.22
Net Financing Sources/(Uses)	<u>(32.33)</u>	<u>32.11</u>	<u>(64.44)</u>
Exchange Rate Changes and Other	<u>8.97</u>	<u>0.85</u>	<u>8.12</u>
Net Cash Position Changes	115.75	99.29	16.46
Ending Cash Balance	358.45	242.70	115.75

On a full year basis, cash generated from operating activities totaled NT\$421.53 billion, including (1) NT\$200.25 billion from depreciation & amortization, and (2) NT\$80.82 billion for other operating uses. Other operating uses included an increase of NT\$43.12 billion in accounts receivable, income tax payment of NT\$29.92 billion, and an increase of NT\$28.87 billion in inventory.

TSMC invested NT\$288.54 billion in capital expenditures, paid NT\$77.79 billion in cash dividends, borrowed NT\$18.57 billion in short-term loans for hedging purpose, and received guarantee deposit of NT\$30.13 billion.

At the end of 2014, cash position reached NT\$358.45 billion, an increase of NT\$115.75 billion from 2013.



Operating and Free Cash Flows:

Free cash flow was NT\$101.25 billion in 4Q14, compared to NT\$43.37 billion in 3Q14, mainly reflecting higher operating cash flow during the quarter.

Total free cash flow generated in 2014 was NT\$132.99 billion, an increase of NT\$73.21 billion from NT\$59.78 billion in 2013, mainly due to higher operating cash flow.

V. CapEx & Capacity

V. Capital Expenditures and Capacity

	4Q14	3Q14	2Q14	1Q14	YTD
Capital Expenditures (in US\$ millions)	1,680	1,605	2,438	3,799	9,522
Capacity (kpcs 12 inch-equiv.)	2,182	2,175	1,949	1,870	8,176
Depreciation / Amortization (in NTS billions)	52.65	52.54	42.13	37.79	185.1

Capital Expenditures and Capacity:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.68 billion in 4Q14 and US\$9.52 billion for the year.

Total capacity slightly increased from 2,175K to 2,182K 12-inch equivalent wafers in 4Q14.

On a full year basis, total capacity increased 11.8% year-over-year to reach 8,176K 12-inch equivalent wafers in 2014.

VI. Recap of Recent Important Events & Announcements

- Epistar to Buy 94% of TSMC SSL from TSMC and Subsidiary (2015/01/09)
- TSMC Joins Electronic Industry Citizenship Coalition (2015/01/07)
- TSMC Recognizes Outstanding Suppliers at Supply Chain Management Forum (2014/12/04)
- TSMC 16FinFET Plus Process Achieves Risk Production Milestone (2014/11/12)