**1Q15****Quarterly Management Report
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Topics in This Report

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- Financial Condition Review
- Cash Flow
- CapEx & Capacity
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Operating Results Review:*(Amounts are on consolidated basis and are in NT\$ billions unless otherwise noted)*

	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	3.05	3.08	1.85	-1.3%	65.0%
(US\$ per ADR unit)	0.48	0.50	0.31	-1.3%	65.0%
Net Revenue	222.03	222.52	148.22	-0.2%	49.8%
Gross Profit	109.43	110.56	70.40	-1.0%	55.4%
<i>Gross Margin</i>	<i>49.3%</i>	<i>49.7%</i>	<i>47.5%</i>		
Operating Expenses	(22.54)	(21.57)	(17.88)	4.5%	26.1%
Other Operating Income and Expenses	(0.26)	(0.77)	(0.00)		
Operating Income	86.63	88.22	52.52	-1.8%	64.9%
<i>Operating Margin</i>	<i>39.0%</i>	<i>39.6%</i>	<i>35.4%</i>		
Non-Operating Items	1.63	1.10	0.78		
Net Income Attributable to Shareholders of the Parent Company	78.99	79.99	47.87	-1.2%	65.0%
<i>Net Profit Margin</i>	<i>35.6%</i>	<i>35.9%</i>	<i>32.3%</i>		
Wafer Shipment (kpcs 12 inch-equiv.)	2,287	2,225	1,718	2.8%	33.1%

*Note: Diluted weighted average outstanding shares were 25,931 mn units in 1Q15***Financial Highlights:****First Quarter 2015**

- Net revenue was NT\$222.03 billion, representing a 0.2% decrease from NT\$222.52 billion in 4Q14 and a 49.8% increase from NT\$148.22 billion in 1Q14.
- Gross margin was 49.3%, 0.4 percentage point lower than 4Q14 and 1.8 percentage points higher than 1Q14.
- Operating margin was 39.0%, down 0.6 percentage point from 4Q14 and up 3.6 percentage points from 1Q14.
- Non-operating items were a gain of NT\$1.63 billion, compared to a gain of NT\$1.10 billion in 4Q14 and a gain of NT\$0.78 billion in 1Q14.
- Net income attributable to shareholders of the parent company was NT\$78.99 billion, decreased by 1.2% from 4Q14 and increased by 65.0% from 1Q14. Net profit margin was 35.6% and diluted EPS was NT\$3.05.

I. Revenue Analysis

I. Revenue Analysis

Wafer Rev. by Application	1Q15	4Q14	1Q14
Computer	8%	9%	13%
Communication	60%	65%	54%
Consumer	10%	7%	11%
Industrial/Standard	22%	19%	22%

Wafer Rev. by Technology	1Q15	4Q14	1Q14
20nm	16%	21%	0%
28nm	30%	30%	34%
40/45nm	15%	13%	21%
65nm	12%	11%	16%
90nm	7%	6%	7%
0.11/0.13um	2%	2%	3%
0.15/0.18um	13%	12%	14%
0.25/0.35um	4%	4%	4%
0.50um and above	1%	1%	1%

Wafer Rev. by Customer Type	1Q15	4Q14	1Q14
Fabless/System	83%	85%	87%
IDM	17%	15%	13%

Net Rev. by Geography	1Q15	4Q14	1Q14
North America	69%	74%	66%
Asia Pacific	12%	9%	16%
China	8%	6%	8%
EMEA	6%	6%	6%
Japan	5%	5%	4%

Revenue Analysis:

First quarter revenue slightly declined 0.2% sequentially. By application, Communication and Computer declined 9% and 10%, respectively, while Consumer and Industrial/Standard increased 32% and 19%, respectively.

By technology, 20nm process technology contributed 16% of total wafer revenue for the quarter. Advanced technologies (28nm and below) accounted for 46% of total wafer revenue.

Revenue from Fabless/System customers accounted for 83% of total wafer revenue in 1Q15.

From a geographic perspective, revenue from customers based in North America accounted for 69% of total wafer revenue, while revenue from Asia Pacific, China, EMEA (Europe, Middle East, and Africa) and Japan accounted for 12%, 8%, 6%, and 5% of total wafer revenue, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT\$ billions)	1Q15	4Q14	1Q14
Cost of Revenue	112.60	111.96	77.82
Gross Profit	109.43	110.56	70.40
Gross Margin	49.3%	49.7%	47.5%

Gross Profit Analysis:

Gross margin was 49.3% in 1Q15, 0.4 percentage point lower than 4Q14, mainly reflecting lower capacity utilization, partially offset by cost improvement, favorable inventory valuation adjustments, and a favorable foreign exchange rate.

II - 2. Operating Income Analysis

(In NT\$ billions)	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>
Total Operating Expenses	22.54	21.57	17.88
Research & Development	16.78	15.94	12.07
SG&A	5.76	5.63	5.81
Other Operating Income and Expenses	(0.26)	(0.77)	(0.00)
Operating Income	86.63	88.22	52.52
Operating Margin	39.0%	39.6%	35.4%
Total Operating Expense as % of Net Revenue	10.2%	9.7%	12.1%

Operating Income Analysis:

Total operating expenses increased NT\$0.97 billion to NT\$22.54 billion in 1Q15, mainly due to a higher level of development activities for 10nm technologies.

Total operating expenses represented 10.2% of revenue in 1Q15.

II - 3. Non-Operating Items

(In NT\$ billions)	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>
L-T Investments	1.13	0.91	0.96
SSMC	0.70	0.38	0.41
Others	0.43	0.53	0.55
Interest Expenses	(0.79)	(0.82)	(0.80)
Other Gains and Losses	1.29	1.01	0.62
Total Non-Operating Items	1.63	1.10	0.78

Non-Operating Items:

Total non-operating items were a gain of NT\$1.63 billion in 1Q15, increased by NT\$0.53 billion from last quarter. The increase was mainly attributed to higher long-term investment income and lower hedging cost.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT\$ billions)	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>
Cash & Marketable Securities	518.98	436.92	234.95
Accounts Receivable	99.12	115.05	74.33
Inventories	64.60	66.34	43.48
Other Current Assets	7.80	8.26	3.13
Total Current Assets	690.50	626.57	355.89
Short-term Loans	18.68	36.16	24.84
Accounts Payable	47.58	50.35	70.17
Accrued Liabilities and Others	121.30	114.50	79.39
Total Current Liabilities	187.56	201.01	174.40
Current Ratio (x)	3.7	3.1	2.0
Net Working Capital	502.94	425.56	181.49

Liquidity Analysis:

At the end of 1Q15, cash and marketable securities totaled NT\$518.98 billion, increased by NT\$82.06 billion from 4Q14, primarily attributed to free cash flow of NT\$107.12 billion generated during the quarter (please refer to page 5), partially offset by the repayment of NT\$17.34 billion in short-term loans.

Total current liabilities decreased by NT\$13.45 billion, mainly due to the decrease in short-term loans and accounts payable to suppliers, partially offset by the increase in income tax payable.

Net working capital was NT\$502.94 billion and current ratio was 3.7x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>
Days of Receivable	44	47	45
Days of Inventory	57	58	52

Receivable and Inventory Days:

Days of receivable decreased by 3 days to 44 days, mainly reflecting lower average accounts receivable in 1Q15.

Days of inventory slightly decreased by 1 day to 57 days.

III - 3. Debt Service

(In NT\$ billions)

	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>
Cash & Marketable Securities	518.98	436.92	234.95
Interest-Bearing Debts	(232.74)	(250.68)	(237.47)
Net Cash Reserves	286.24	186.24	(2.52)

Debt Service:

Net cash reserves increased NT\$100.00 billion to NT\$286.24 billion in 1Q15, mainly due to the increase in cash and marketable securities.

IV. Cash Flow

IV - 1.1 Quarterly Cash Flow Analysis

(In NT\$ billions)

	<u>1Q15</u>	<u>4Q14</u>	<u>1Q14</u>
Income before Income Tax	88.26	89.31*	53.30
Depreciation & Amortization	55.48	56.42	41.62
Other Operating Sources/(Uses)	12.26	7.94*	(0.06)
Total Operating Sources/(Uses)	<u>156.00</u>	<u>153.67</u>	<u>94.86</u>
Capital Expenditures	(48.88)	(52.42)	(114.91)
Marketable Financial Instruments	(8.54)	(4.46)	(0.54)
Other Investing Sources/(Uses)	0.25	1.44	(0.41)
Net Investing Sources/(Uses)	<u>(57.17)</u>	<u>(55.44)</u>	<u>(115.86)</u>
Increase (Decrease) in Short-term Loans	(17.34)	(2.04)	8.82
Other Financing Sources/(Uses)	(0.83)	29.68	(0.87)
Net Financing Sources/(Uses)	<u>(18.17)</u>	<u>27.64</u>	<u>7.95</u>
Exchange Rate Changes and Other	<u>(1.70)</u>	<u>6.70</u>	<u>2.05</u>
Net Cash Position Changes	78.96	132.57	(11.00)
Ending Cash Balance	437.41	358.45	231.70

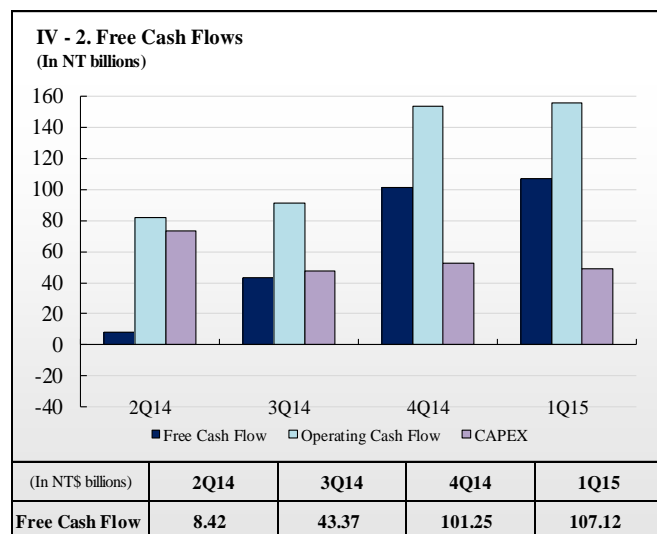
Summary of Cash Flow:

During the first quarter, cash generated from operating activities totaled NT\$156.00 billion, including NT\$55.48 billion from depreciation & amortization and NT\$12.26 billion from other operating sources. Other operating sources included a decrease of NT\$15.93 billion in accounts receivable, offset by a decrease of NT\$3.16 billion in accounts payable.

The Company invested NT\$48.88 billion in capital expenditures, acquired NT\$8.57 billion of commercial paper, and repaid NT\$17.34 billion of short-term loans.

As a result, cash position increased NT\$78.96 billion to NT\$437.41 billion during 1Q15.

* Starting in 2015, TSMC prepares financial statements in accordance with 2013 IFRSs version endorsed by Taiwan. Under IFRS, the impact of newly effected GAAP shall be retroactively applied. We have adjusted Income before Income Tax and Other Operating Sources by -NT\$5 million and NT\$5 million for 4Q14, and -NT\$19 million and NT\$19 million for 2014, respectively.



Operating and Free Cash Flows:

Free cash flow increased NT\$5.87 billion to NT\$107.12 billion in 1Q15, reflecting higher operating cash flow and slightly lower capital expenditures.

V. CapEx & Capacity

V. Capital Expenditures and Capacity			
	<u>1Q15</u>	<u>4Q14</u>	
Capital Expenditures (in US\$ millions)	1,550	1,680	
Capacity (kpcs 12 inch-equiv.)	2,201	2,182	
Depreciation / Amortization (in NT\$ billions)	51.45	52.65	

Capital Expenditures and Capacity:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.55 billion in 1Q15.

Total capacity slightly increased from 2,182K to 2,201K 12-inch equivalent wafers in 1Q15.

On a full year basis, total capacity is expected to increase 12% year-over-year to be above 9 million 12-inch equivalent wafers in 2015.

VI. Recap of Recent Important Events & Announcements

- Altera and TSMC Innovate Industry-first, UBM-free WLCSP Packaging Technology Platform for MAX® 10 FPGA Products (2015/04/07)
- TSMC Board of Directors Proposes NT\$4.5 Cash Dividend per Share and Approves the Election for its Eight-Member Board of Directors at the 2015 Annual Shareholders' Meeting to be Held on June 9 (2015/02/10)