

2Q15

Quarterly Management Report
July 16, 2015**CONTACT****Elizabeth Sun**

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Topics in This Report

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- Profit & Expense Analysis
- 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)*

	2Q15	1Q15	2Q14	QoQ	YoY
EPS (NT\$ per common share)	3.06	3.05	2.30	0.5%	33.0%
(US\$ per ADR unit)	0.50	0.48	0.38	0.5%	33.0%
Net Revenue	205.44	222.03	183.02	-7.5%	12.2%
Gross Profit	99.71	109.43	91.19	-8.9%	9.3%
<i>Gross Margin</i>	<i>48.5%</i>	<i>49.3%</i>	<i>49.8%</i>		
Operating Expenses	(22.56)	(22.54)	(20.25)	0.1%	11.4%
Other Operating Income and Expenses	(0.08)	(0.26)	(0.23)		
Operating Income	77.07	86.63	70.71	-11.0%	9.0%
<i>Operating Margin</i>	<i>37.5%</i>	<i>39.0%</i>	<i>38.6%</i>		
Non-Operating Items	21.06	1.63	3.38		
Net Income Attributable to Shareholders of the Parent Company	79.42	78.99	59.70	0.5%	33.0%
<i>Net Profit Margin</i>	<i>38.7%</i>	<i>35.6%</i>	<i>32.6%</i>		
Wafer Shipment (kpcs 12 inch-equiv.)	2,240	2,287	2,053	-2.1%	9.1%

*Note: Diluted weighted average outstanding shares were 25,930 mn units in 2Q15***Financial Highlights:****Second Quarter 2015**

- Net revenue was NT\$205.44 billion, representing a 7.5% decrease from NT\$222.03 billion in 1Q15 and a 12.2% increase from NT\$183.02 billion in 2Q14.
- Gross margin was 48.5%, 0.8 percentage point lower than 1Q15 and 1.3 percentage points lower than 2Q14.
- Operating margin was 37.5%, down 1.5 percentage points from 1Q15 and down 1.1 percentage points from 2Q14.
- Non-operating items were a gain of NT\$21.06 billion, compared to a gain of NT\$1.63 billion in 1Q15 and a gain of NT\$3.38 billion in 2Q14.
- Net income attributable to shareholders of the parent company was NT\$79.42 billion, increased by 0.5% from 1Q15 and increased by 33.0% from 2Q14. Net profit margin was 38.7% and diluted EPS was NT\$3.06.

I. Revenue Analysis

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Wafer Rev. by Application	2Q15	1Q15	2Q14
Computer	7%	8%	11%
Communication	62%	60%	54%
Consumer	8%	10%	12%
Industrial/Standard	23%	22%	23%
Wafer Rev. by Technology	2Q15	1Q15	2Q14
20nm	20%	16%	0%
28nm	27%	30%	37%
40/45nm	14%	15%	19%
65nm	11%	12%	15%
90nm	7%	7%	7%
0.11/0.13um	3%	2%	3%
0.15/0.18um	13%	13%	14%
0.25um and above	5%	5%	5%
Net Rev. by Geography	2Q15	1Q15	2Q14
North America	66%	69%	67%
Asia Pacific	13%	12%	14%
China	8%	8%	8%
EMEA	7%	6%	6%
Japan	6%	5%	5%

Revenue Analysis:

In the second quarter, TSMC's business was negatively impacted by customers' cautious inventory management and a less favorable exchange rate.

By application, Communication, Computer, Consumer, and Industrial/Standard declined 3%, 24%, 21%, and 1%, respectively.

By technology, 20nm process technology contributed 20% of total wafer revenue for the quarter. Advanced technologies (28nm and below) accounted for 47% of total wafer revenue.

From a geographic perspective, revenue from customers based in North America accounted for 66% of total wafer revenue, while revenue from Asia Pacific, China, EMEA (Europe, Middle East, and Africa) and Japan accounted for 13%, 8%, 7%, and 6% of total wafer revenue, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis			
(In NT\$ billions)	2Q15	1Q15	2Q14
Cost of Revenue	105.73	112.60	91.83
Gross Profit	99.71	109.43	91.19
Gross Margin	48.5%	49.3%	49.8%

Gross Profit Analysis:

Gross margin was 48.5% in 2Q15, 0.8 percentage point lower than 1Q15, mainly reflecting lower capacity utilization, unfavorable inventory valuation adjustments, and an unfavorable foreign exchange rate, partially offset by cost improvement.

II - 2. Operating Income Analysis

(In NT\$ billions)	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>
Total Operating Expenses	22.56	22.54	20.25
Research & Development	16.61	16.78	13.61
SG&A	5.95	5.76	6.64
Other Operating Income and Expenses	(0.08)	(0.26)	(0.23)
Operating Income	77.07	86.63	70.71
Operating Margin	37.5%	39.0%	38.6%
Total Operating Expense as % of Net Revenue	11.0%	10.2%	11.1%

Operating Income Analysis:

Total operating expenses were NT\$22.56 billion, largely flat from 1Q15.

II - 3. Non-Operating Items

(In NT\$ billions)	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>
L-T Investments	0.82	1.13	1.05
SSMC	0.57	0.70	0.58
Others	0.25	0.43	0.47
Interest Expenses	(0.78)	(0.79)	(0.80)
Other Gains and Losses	21.02	1.29	3.13
Total Non-Operating Items	21.06	1.63	3.38

Non-Operating Items:

Total non-operating items were a gain of NT\$21.06 billion in 2Q15, increased by NT\$19.43 billion from last quarter. The increase was mainly due to disposal gains of NT\$17.64 billion on ASML shares and NT\$2.26 billion on Vanguard International Semiconductor Corp. (VIS) shares.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT\$ billions)	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>
Cash & Marketable Securities	550.35	518.98	314.59
Accounts Receivable	99.74	99.12	86.89
Inventories	66.28	64.60	50.95
Other Current Assets	15.00	7.80	6.77
Total Current Assets	731.37	690.50	459.20
Short-term Loans	5.59	18.68	34.71
Accounts Payable	64.71	47.58	56.35
Current Portion of Bonds Payable and Bank Loans	10.87	0.00	0.00
Dividends Payable	116.68	0.00	77.79
Accrued Liabilities and Others	111.53	121.30	77.79
Total Current Liabilities	309.38	187.56	246.64
Current Ratio (x)	2.4	3.7	1.9
Net Working Capital	421.99	502.94	212.56

Liquidity Analysis:

At the end of 2Q15, cash and marketable securities increased by NT\$31.37 billion to NT\$550.35 billion, reflecting an increase of NT\$91.49 billion in cash and a decrease of NT\$60.12 billion in marketable securities mainly from disposal of ASML shares.

The increase of NT\$91.49 billion in cash was primarily attributed to: (1) free cash flow of NT\$57.26 billion generated during the quarter (please refer to page 5) and (2) proceeds of NT\$39.21 billion from disposal of ASML shares, NT\$8.30 billion from redemption of commercial paper, and NT\$3.87 billion from disposal of VIS shares, partially offset by (3) repayment of NT\$12.99 billion in short-term loans.

Total current liabilities increased by NT\$121.82 billion, mainly due to the accrual of NT\$116.68 billion cash dividend during the quarter.

Net working capital was NT\$421.99 billion and current ratio was 2.4x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>
Days of Receivable	44	44	40
Days of Inventory	62	57	51

Receivable and Inventory Days:

Days of receivable remained flat at 44 days.

Days of inventory increased by 5 days to 62 days mainly attributed to (1) wafer pre-build in preparation for 20/16nm capacity conversion and (2) higher raw material and longer production cycle time for leading nodes.

III - 3. Debt Service

(In NT\$ billions)

	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>
Cash & Marketable Securities	550.35	518.98	314.59
Interest-Bearing Debts	(219.13)	(232.74)	(246.37)
Net Cash Reserves	331.22	286.24	68.22

Debt Service:

Net cash reserves increased NT\$44.98 billion to NT\$331.22 billion in 2Q15, mainly due to the increase in cash and marketable securities and the repayment of short-term loans.

IV. Cash Flow

IV - 1.1 Quarterly Cash Flow Analysis

(In NT\$ billions)

	<u>2Q15</u>	<u>1Q15</u>	<u>2Q14</u>
Income before Income Tax	98.13	88.26	74.09 *
Depreciation & Amortization	54.62	55.48	45.98
Other Operating Sources/(Uses)	(41.68)	12.26	(38.32)*
Total Operating Sources/(Uses)	111.07	156.00	81.75
Capital Expenditures	(53.81)	(48.88)	(73.33)
Marketable Financial Instruments	45.14	(8.54)	2.42
Other Investing Sources/(Uses)	4.56	0.25	4.41
Net Investing Sources/(Uses)	(4.11)	(57.17)	(66.50)
Increase (Decrease) in Short-term Loans	(12.99)	(17.34)	10.40
Other Financing Sources/(Uses)	(0.41)	(0.83)	(0.05)
Net Financing Sources/(Uses)	(13.40)	(18.17)	10.35
Exchange Rate Changes and Other	(2.07)	(1.70)	(2.25)
Net Cash Position Changes	91.49	78.96	23.35
Ending Cash Balance	528.90	437.41	255.05

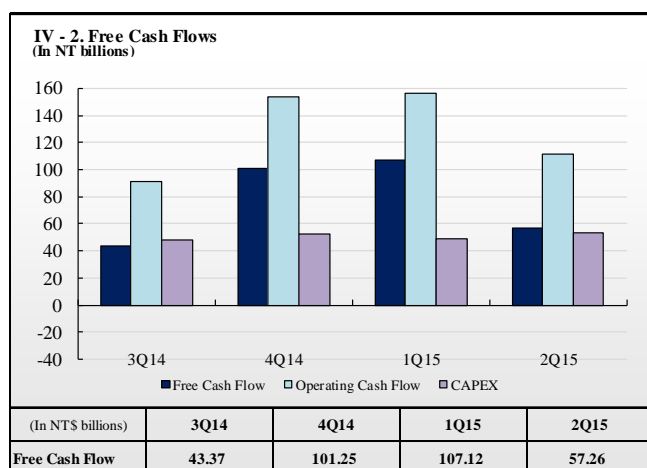
Summary of Cash Flow:

During the second quarter, cash generated from operating activities totaled NT\$111.07 billion, including (1) NT\$54.62 billion from depreciation & amortization expenses and (2) NT\$41.68 billion for other operating uses, which included income tax payment of NT\$26.40 billion and adjustment for the gain of NT\$19.90 billion on disposal of ASML and VIS shares.

The Company invested NT\$53.81 billion in capital expenditures, received NT\$43.08 billion proceeds from disposal of ASML and VIS shares, and repaid NT\$12.99 billion of short-term loans.

As a result, cash position increased NT\$91.49 billion to NT\$528.90 billion during 2Q15.

* 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\$4 million and NT\$4 million for 2Q14, and -NT\$19 million and NT\$19 million for 2Q14, respectively.



Operating and Free Cash Flows:

Free cash flow decreased NT\$49.86 billion to NT\$57.26 billion in 2Q15, reflecting lower operating cash flow and higher capital expenditures.

V. CapEx & Capacity

V. Capital Expenditures

(in US\$ millions)

	<u>2015</u>	<u>1Q15</u>	<u>YTD</u>
Capital Expenditures	1,742	1,550	3,292

Capital Expenditures and Capacity:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.74 billion in 2Q15.

Total capacity, on a full year basis, 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

- TSMC Pledges to Buy 100 million kWh of Green Power (2015/06/16)
- TSMC Board of Directors Unanimously Re-elects Dr. Morris Chang as Chairman and Sets June 29 as Ex-dividend Date and July 5 as Record Date for Common Share Dividends (2015/06/10)
- TSMC to Sell 5% of Vanguard International Semiconductor (2015/06/09)
- TSMC Shareholders Approve NT\$4.5 Cash Dividend and Elect Board of Directors (2015/06/09)
- TSMC Announces Taichung Expansion Site Reforestation Plans (2015/05/21)
- TSMC Announces Candidates for Board of Directors (2015/04/24)