

1Q18

Quarterly Management Report
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Topics in This Report:

- Revenue Analysis
- Profit & Expense Analysis
- Financial Condition Review
- Cash Flow
- CapEx
- Recap of Recent Important Events & Announcements

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

	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	3.46	3.83	3.38	-9.6%	2.5%
(US\$ per ADR unit)	0.59	0.64	0.54	-9.6%	2.5%
Net Revenue (US\$ billions)	8.46	9.21	7.51	-8.2%	12.7%
Net Revenue	248.08	277.57	233.91	-10.6%	6.1%
Gross Profit	124.86	138.75	121.49	-10.0%	2.8%
Gross Margin	50.3%	50.0%	51.9%		
Operating Expenses	(26.73)	(28.84)	(26.16)	-7.3%	2.2%
Other Operating Income and Expenses	(1.30)	(1.01)	0.02		
Operating Income	96.83	108.90	95.35	-11.1%	1.5%
Operating Margin	39.0%	39.2%	40.8%		
Non-Operating Items	3.11	2.78	2.47		
Net Income Attributable to Shareholders of the Parent Company	89.79	99.29	87.63	-9.6%	2.5%
Net Profit Margin	36.2%	35.8%	37.5%		
Wafer Shipment (kpcs 12 inch-equiv.)	2,680	2,699	2,473	-0.7%	8.4%

*Note: Diluted weighted average outstanding shares were 25,930mn units in 1Q18***Financial Highlights:****First Quarter 2018**

- Net revenue was NT\$248.08 billion, representing a 10.6% decrease from NT\$277.57 billion in 4Q17 and a 6.1% increase from NT\$233.91 billion in 1Q17.
- Gross margin was 50.3%, 0.3 percentage point higher than 4Q17 and 1.6 percentage points lower than 1Q17.
- Operating margin was 39.0%, down 0.2 percentage point from 4Q17 and down 1.8 percentage points from 1Q17.
- Non-operating items were a gain of NT\$3.11 billion, compared to a gain of NT\$2.78 billion in 4Q17 and a gain of NT\$2.47 billion in 1Q17.
- Net income attributable to shareholders of the parent company was NT\$89.79 billion, down 9.6% from 4Q17 and up 2.5% from 1Q17. Net profit margin was 36.2% and diluted EPS was NT\$3.46.

I. Revenue Analysis

Wafer Revenue by Application	1Q18	4Q17	1Q17
Computer	15%	11%	9%
Communication	55%	62%	61%
Consumer	7%	5%	9%
Industrial/Standard	23%	22%	21%

Wafer Revenue by Technology	1Q18	4Q17	1Q17
10nm	19%	25%	0%
16/20nm	22%	20%	31%
28nm	20%	18%	25%
40/45nm	11%	10%	13%
65nm	9%	9%	11%
90nm	5%	4%	4%
0.11/0.13um	2%	2%	2%
0.15/0.18um	9%	9%	11%
0.25um and above	3%	3%	3%

Net Revenue by Geography	1Q18	4Q17	1Q17
North America	59%	67%	63%
Asia Pacific	8%	7%	13%
China	19%	13%	11%
EMEA	7%	7%	6%
Japan	7%	6%	7%

Revenue Analysis:

In the first quarter, revenue decreased 10.6% quarter-over-quarter, primarily attributable to mobile product seasonality and an unfavorable foreign exchange rate.

By application, Computer and Consumer increased 30% and 9% respectively, while Communication and Industrial/Standard decreased 19% and 4% respectively.

By technology, 10nm process technology contributed 19% of total wafer revenue in 1Q18. The combined 16/20nm contribution was 22% of total wafer revenue. Advanced technologies (28nm and below) accounted for 61% of total wafer revenue.

From a geographic perspective, revenue from customers based in North America accounted for 59% of total net revenue, while revenue from Asia Pacific, China, EMEA (Europe, Middle East, and Africa) and Japan accounted for 8%, 19%, 7%, and 7% of total net revenue respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis			
(In NT\$ billions)	1Q18	4Q17	1Q17
Cost of Revenue	123.22	138.82	112.42
Gross Profit	124.86	138.75	121.49
Gross Margin	50.3%	50.0%	51.9%

Gross Profit Analysis:

Gross margin was 50.3% in 1Q18, 0.3 percentage point higher than 4Q17, primarily attributable to cost improvement efforts and inventory valuation adjustment, partially offset by a lower level of capacity utilization and an unfavorable foreign exchange rate.

II - 2. Operating Income Analysis

(In NT\$ billions)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
Total Operating Expenses	(26.73)	(28.84)	(26.16)
Research & Development	(20.43)	(21.22)	(19.41)
SG&A	(6.30)	(7.62)	(6.75)
Other Operating Income and Expenses	(1.30)	(1.01)	0.02
Operating Income	96.83	108.90	95.35
Operating Margin	39.0%	39.2%	40.8%
Total Operating Expenses as % of Net Revenue	10.8%	10.4%	11.1%

Operating Income Analysis:

Total operating expenses decreased NT\$2.11 billion and represented 10.8% of net revenue in 1Q18. R&D expenses were 8.2% of net revenue in the first quarter, up from 7.6% in the prior quarter.

II - 3. Non-Operating Items

(In NT\$ billions)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
L-T Investments	0.68	0.95	0.67
SSMC	0.35	0.45	0.39
Others	0.33	0.50	0.28
Net Interest Income (Expenses)	2.34	1.92	1.29
Other Gains and Losses	0.09	(0.09)	0.51
Total Non-Operating Items	3.11	2.78	2.47

Non-Operating Items:

Total non-operating items were a gain of NT\$3.11 billion in 1Q18, compared to a gain of NT\$2.78 billion in 4Q17.

II - 4. Net Profit and EPS

(In NT\$ billions)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
Income before Income Tax	99.94	111.68	97.82
Income Tax Expenses	(10.15)	(12.37)	(10.20)
Effective Tax Rate	10.2%	11.2%	10.5%
Net Income Attributable to the Parent Company	89.79	99.29	87.63
Net Profit Margin	36.2%	35.8%	37.5%
EPS (NT\$ per common share)	3.46	3.83	3.38

Net Profit and EPS:

Net income attributable to shareholders of the parent company was NT\$89.79 billion, down 9.6% from 4Q17 and up 2.5% from 1Q17.

III. Financial Condition Review

III - 1. Liquidity Analysis			
(Balance Sheet Items)			
(In NT\$ billions)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
Cash & Marketable Securities	684.38	649.36	659.32
Accounts Receivable	107.78	122.32	109.03
Inventories	85.22	73.88	50.39
Other Current Assets	51.74	11.64	6.92
Total Current Assets	929.12	857.20	825.66
Short-term Loans	56.73	63.77	54.67
Accounts Payable	76.87	85.79	81.92
Current Portion of Bonds Payable and Bank Loans	49.36	58.40	44.91
Accrued Liabilities and Others	159.28	150.75	140.08
Total Current Liabilities	342.24	358.71	321.58
Current Ratio (x)	2.7	2.4	2.6
Net Working Capital	586.88	498.49	504.08

Liquidity Analysis:

At the end of 1Q18, cash and marketable securities increased by NT\$35.02 billion to NT\$684.38 billion, as cash increased by NT\$24.39 billion (please refer to page 5) and marketable securities increased by NT\$10.63 billion.

Total current liabilities decreased by NT\$16.47 billion, largely attributable to the decrease in short-term loans, decrease in payables to suppliers, and the repayment of corporate bonds, partially offset by the increase in accrued liabilities, including the accrual for income tax payable.

Net working capital was NT\$586.88 billion and current ratio was 2.7x.

III - 2. Receivable/Inventory Days			
(In Number of Days)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
Days of Receivable	42	40	47
Days of Inventory	63	52	44

Receivable and Inventory Days:

Days of receivable increased 2 days from 4Q17 to 42 days in 1Q18.

Days of inventory increased 11 days to 63 days due to an increase in raw wafers and 10nm wafer pre-build before the capacity is converted to 7nm.

III - 3. Debt Service			
(In NT\$ billions)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
Cash & Marketable Securities	684.38	649.36	659.32
Interest-Bearing Debts	(189.49)	(213.97)	(233.79)
Net Cash Reserves	494.89	435.39	425.53

Debt Service:

Net cash reserves increased NT\$59.50 billion to NT\$494.89 billion in 1Q18, mainly due to the increase of NT\$35.02 billion in cash and marketable securities, NT\$16.80 billion repayment of corporate bonds, and NT\$7.04 billion decrease in short-term loans.

IV. Cash Flow

IV - 1. Quarterly Cash Flow Analysis

(In NT\$ billions)	<u>1Q18</u>	<u>4Q17</u>	<u>1Q17</u>
Income before Income Tax	99.94	111.68	97.82
Depreciation & Amortization	71.50	70.81	60.17
Other Operating Sources/(Uses)	(10.71)	21.64	3.02
Total Operating Sources/(Uses)	160.73	204.13	161.01
Capital Expenditures	(71.85)	(61.18)	(102.51)
Marketable Financial Instruments	(3.89)	(5.15)	(7.53)
Other Investing Sources/(Uses)	2.28	3.28	0.81
Net Investing Sources/(Uses)	(73.46)	(63.05)	(109.23)
Increase (Decrease) in Short-term Loans	(5.78)	10.68	(0.25)
Other Financing Sources/(Uses)	(51.85)	(1.04)	(11.66)
Net Financing Sources/(Uses)	(57.63)	9.64	(11.91)
Exchange Rate Changes	(5.25)	(5.41)	(16.39)
Net Cash Position Changes	24.39	145.31	23.48
Ending Cash Balance	577.78	553.39	564.73

Summary of Cash Flow:

During the first quarter, cash generated from operating activities totaled NT\$160.73 billion, including (1) NT\$99.94 billion from income before income tax, (2) NT\$71.50 billion from depreciation & amortization expenses, and (3) NT\$10.71 billion for other operating uses.

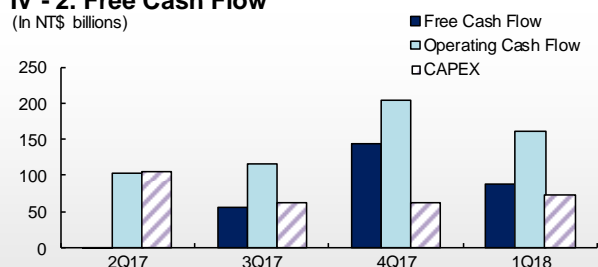
Net cash used in investing activities was NT\$73.46 billion in 1Q18, primarily including capital expenditures of NT\$71.85 billion.

Net cash used in financing activities was NT\$57.63 billion, largely attributable to NT\$16.80 billion repayment of corporate bonds and NT\$34.00 billion prepayment of corporate bonds and interest.

As a result, net cash position increased NT\$24.39 billion to NT\$577.78 billion at the end of 1Q18.

IV - 2. Free Cash Flow

(In NT\$ billions)



(In NT\$ billions)	2Q17	3Q17	4Q17	1Q18
Free Cash Flow	(1.79)	55.07	142.95	88.88

Operating and Free Cash Flow:

Free cash flow was NT\$88.88 billion in 1Q18, a decrease of NT\$54.07 billion from last quarter, due to lower operating cash flow and higher capital expenditures.

V. CapEx

V. Capital Expenditures

(in US\$ billions)	<u>1Q18</u>	<u>4Q17</u>
Capital Expenditures	2.45	2.05

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$2.45 billion in 1Q18.

VI. Recap of Recent Important Events & Announcements

- TSMC Board of Directors Proposes NT\$8 Cash Dividend per Share and Approves the Convening of the 2017 Annual Shareholders' Meeting on June 5, 2018, at Which an Election for its Nine-Member Board of Directors Will Be Held (2018/02/13)
- TSMC Breaks Ground on Fab 18 in Southern Taiwan Science Park (2018/01/26)