

1Q12

Quarterly Management Report  
April 26, 2012**CONTACT****Elizabeth Sun**

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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)*

	<b>1Q12</b>	<b>4Q11</b>	<b>1Q11</b>	<b>QoQ</b>	<b>YoY</b>
EPS (NT\$ per common share)	1.29	1.22	1.40	6.0%	(7.7%)
(US\$ per ADR unit)	0.22	0.20	0.24		
Consolidated Net Sales	105.51	104.71	105.38	0.8%	0.1%
Gross Profit	50.36	46.77	51.67	7.7%	(2.5%)
<i>Gross Margin</i>	<i>47.7%</i>	<i>44.7%</i>	<i>49.0%</i>		
Operating Expense	(14.92)	(13.84)	(12.51)	7.8%	19.3%
Operating Income	35.44	32.93	39.16	7.6%	(9.5%)
<i>Operating Margin</i>	<i>33.6%</i>	<i>31.4%</i>	<i>37.2%</i>		
Non-Operating Items	0.22	0.69	1.15		
Net Income	33.47	31.58	36.28	6.0%	(7.7%)
<i>Net Profit Margin</i>	<i>31.7%</i>	<i>30.2%</i>	<i>34.4%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	2,919	2,917	3,161	0.1%	(7.7%)

*Note: Total outstanding shares were 25,921mn units on 3/31/12***Financial Highlights:****First Quarter 2012**

- Consolidated net sales were NT\$105.51 billion, representing a 0.8% increase from NT\$104.71 billion in 4Q11 and a 0.1% increase from NT\$105.38 billion in 1Q11.
- Gross margin was 47.7%, up 3.0 percentage points from 4Q11 and down 1.3 percentage points from 1Q11.
- Operating margin was 33.6%, up 2.2 percentage points from 4Q11 and down 3.6 percentage points from 1Q11.
- Non-operating income and long-term investment combined were a gain of NT\$0.22 billion, compared to a gain of NT\$0.69 billion in 4Q11 and NT\$1.15 billion in 1Q11.
- Consolidated net income attributable to shareholders of the parent company was NT\$33.47 billion, up 6.0% from 4Q11. Net profit margin was 31.7% and diluted EPS was NT\$1.29.

## I. Revenue Analysis

### I. Wafer Sales Analysis

By Application	1Q12	4Q11	1Q11
Computer	22%	20%	23%
Communication	48%	53%	48%
Consumer	10%	9%	11%
Industrial/Standard	20%	18%	18%

By Technology	1Q12	4Q11	1Q11
28nm	5%	2%	0%
40/45nm	32%	27%	22%
65nm	26%	30%	32%
90nm	8%	8%	10%
0.11/0.13um	7%	7%	9%
0.15/0.18um	14%	17%	17%
0.25/0.35um	6%	7%	7%
0.50um and above	2%	2%	3%

By Customer Type	1Q12	4Q11	1Q11
Fabless/System	85%	83%	78%
IDM	15%	17%	22%

By Geography	1Q12	4Q11	1Q11
North America	70%	70%	69%
Asia Pacific	14%	13%	14%
China	4%	4%	3%
Europe	9%	9%	10%
Japan	3%	4%	4%

### Revenue Analysis:

Demand for TSMC's wafers was stronger than seasonal during the first quarter, mainly driven by customers' inventory replenishment. By application, Computer, Consumer, and Industrial/Standard increased 11%, 17%, and 11%, respectively, while Communication declined 9% sequentially, due to product transitions in emerging markets.

By technology, revenues from 28nm process technology more than doubled during the quarter and accounted for 5% of total wafer sales owing to robust demand and a fast ramp. Meanwhile, demand for 40/45nm remained solid and contributed 32% of total wafer sales, compared to 27% in 4Q11. Overall, advanced technologies (65nm and below) represented 63% of total wafer sales, up from 59% in 4Q11 and 54% in 1Q11.

Revenues from IDM customers accounted for 15% of total wafer sales in 1Q12.

From a geographic perspective, revenues from customers based in North America accounted for 70% of total wafer sales, while revenues from Asia Pacific, China, Europe and Japan accounted for 14%, 4%, 9%, and 3% of total wafer sales, respectively.

## II. Profit & Expense Analysis

### II - 1. Gross Profit Analysis

(In NT billions)	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
<b>COGS</b>	<b>55.15</b>	<b>57.94</b>	<b>53.71</b>
Depreciation/Amortization	25.17	25.47	22.96
Other MFG Cost	29.98	32.47	30.75
<b>Gross Profit</b>	<b>50.36</b>	<b>46.77</b>	<b>51.67</b>
<b>Gross Margin</b>	<b>47.7%</b>	<b>44.7%</b>	<b>49.0%</b>

### Gross Profit Analysis:

Gross margin was 47.7% in 1Q12, 3.0 percentage points higher than 4Q11, primarily attributed to higher capacity utilization, partially offset by the lower-than-corporate-average 28nm margins at the initial production stage and an unfavorable exchange rate.

## II - 2. Operating Expenses

(In NT billions)	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
<b>Total Operating Exp.</b>	<b>14.92</b>	<b>13.84</b>	<b>12.51</b>
SG&A	5.76	5.09	4.55
Research & Development	9.16	8.75	7.96
<b>Total Operating Exp. as a % of Sales</b>	<b>14.1%</b>	<b>13.3%</b>	<b>11.8%</b>

### *Operating Expenses:*

Total operating expenses were NT\$14.92 billion in 1Q12, representing 14.1% of net sales.

SG&A expenses increased NT\$0.67 billion from 4Q11, primarily due to higher opening expenses for Fab 15 Phase 1 and 2.

Research and development expenditures increased by NT\$0.41 billion, reflecting a higher level of research activities for 20nm technologies.

## II - 3. Non-Operating Items

(In NT billions)	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
<b>Non-Operating Inc./(Exp.)</b>	<b>0.20</b>	<b>0.71</b>	<b>0.63</b>
Net Interest Income/(Exp.)	0.28	0.26	0.25
Other Non-Operating	(0.08)	0.45	0.38
<b>L-T Investments</b>	<b>0.02</b>	<b>(0.02)</b>	<b>0.52</b>
SSMC	0.40	0.23	0.33
Others	(0.38)	(0.25)	0.19
<b>Total Non-Operating Items</b>	<b>0.22</b>	<b>0.69</b>	<b>1.15</b>

### *Non-Operating Items:*

Total non-operating items were a gain of NT\$0.22 billion in 1Q12.

Non-operating income was NT\$0.20 billion, down NT\$0.51 billion from 4Q11, primarily due to the absence of compensation from SMIC litigation settlement.

Net investment gain was NT\$21 million, up NT\$40 million sequentially, as increased profit contribution from SSMC was partially offset by lower profits from certain invested companies.

## III. Financial Condition Review

### III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT billions)	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
Cash & Marketable Securities	180.65	150.62	163.41
Accounts Receivable - Trade	48.02	40.95	46.83
Inventory	27.76	24.84	31.79
Other Current Assets	11.69	8.85	8.50
<b>Total Current Assets</b>	<b>268.12</b>	<b>225.26</b>	<b>250.53</b>
Short-term Loans	34.69	25.93	34.18
Accounts Payable	48.24	47.40	47.26
Accrued Employee Profit Sharing / Bonus	13.63	11.26	15.98
Accrued Liabilities and Others	29.64	32.42	29.84
<b>Total Current Liabilities</b>	<b>126.20</b>	<b>117.01</b>	<b>127.26</b>
Current Ratio (x)	2.1	1.9	2.0
<b>Net Working Capital</b>	<b>141.92</b>	<b>108.25</b>	<b>123.27</b>

### *Liquidity Analysis:*

At the end of 1Q12, cash and marketable securities totaled NT\$180.65 billion, increased by NT\$30.03 billion from 4Q11, primarily due to proceeds of NT\$17.00 billion from the issuance of corporate bonds, an increase of NT\$8.76 billion in short-term loans and NT\$8.48 billion of free cash flow generated during the quarter, partially offset by the repayment of NT\$4.50 billion in bonds payable (please refer to page 4 and 5).

Total current liabilities increased by NT\$9.19 billion, mainly attributed to an increase in short-term loans during the quarter.

Net working capital was NT\$141.92 billion and current ratio was 2.1x.

### III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
Days of Receivable	39	38	39
Days of Inventory	47	43	56

### *Receivable and Inventory Days:*

Days of receivable increased by one day to 39 days.

Days of inventory increased by four days to 47 days, mainly attributed to higher work-in-process inventory levels in response to strong demand in 2Q12.

### III - 3. Debt Service

(In NT billions)

	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
Cash & Marketable Securities	180.65	150.62	163.41
Interest-Bearing Debt	73.87	54.35	47.58
<b>Net Cash Reserves</b>	<b>106.78</b>	<b>96.27</b>	<b>115.83</b>

### *Debt Service:*

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, increased NT\$10.51 billion to NT\$106.78 billion in 1Q12 as the increase of NT\$ 30.03 billion in cash and marketable securities was partially offset by the increase of NT\$19.52 billion in interest-bearing debts.

## IV. Cash Flow

### IV - 1.1. Cash Flow Analysis

(In NT billions)

	<u>1Q12</u>	<u>4Q11</u>	<u>1Q11</u>
Net Income	33.47	31.58	36.28
Depreciation & Amortization	28.01	27.74	24.82
Other Operating Sources/(Uses)	(4.43)	13.52	(4.62)
<b>Total Operating Sources/(Uses)</b>	<b><u>57.05</u></b>	<b><u>72.84</u></b>	<b><u>56.48</u></b>
Capital Expenditure	(48.57)	(29.77)	(81.26)
Marketable Financial Instruments	0.68	0.01	(0.41)
Other Investing Sources/(Uses)	(0.36)	(0.39)	4.10
<b>Net Investing Sources/(Uses)</b>	<b><u>(48.25)</u></b>	<b><u>(30.15)</u></b>	<b><u>(77.57)</u></b>
Short-term Loans	8.76	(10.09)	2.97
Proceeds from Issuance of Bonds	17.00	0.00	0.00
Repayment of Bonds Payable	(4.50)	0.00	0.00
Other Financing Sources/(Uses)	(1.12)	(2.76)	0.80
<b>Net Financing Sources/(Uses)</b>	<b><u>20.14</u></b>	<b><u>(12.85)</u></b>	<b><u>3.77</u></b>
<b>Net Cash Position Changes</b>	<b>28.94</b>	<b>29.84</b>	<b>(17.32)</b>
<b>Exchange Rate Changes</b>	<b>(1.59)</b>	<b>(1.21)</b>	<b>(1.12)</b>
<b>Ending Cash Balance</b>	<b>170.82</b>	<b>143.47</b>	<b>129.45</b>

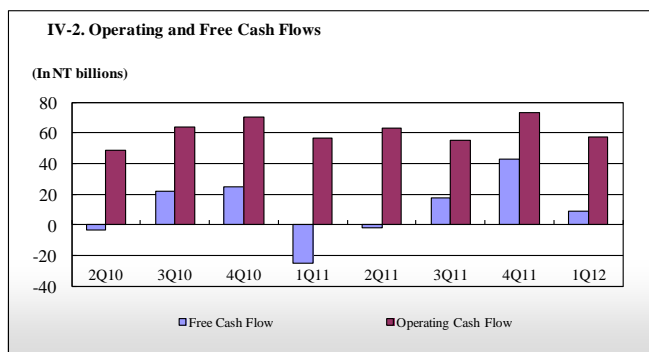
### *Summary of Cash Flow:*

Cash generated from operating activities totaled NT\$57.05 billion during the quarter, a decrease of NT\$15.79 billion from 4Q11, primarily attributed to the decrease in other operating sources. The decrease in other operating sources mainly reflected the changes in accounts receivable and inventory.

Net cash used in investing activities increased NT\$18.10 billion to NT\$48.25 billion in 1Q12, primarily reflecting higher capital expenditures.

Net cash generated from financing activities totaled NT\$20.14 billion during the quarter, mainly resulted from the issuance of corporate bonds and the increase in short-term loans, partially offset by the repayment of previously issued corporate bonds.

At the end of 1Q12, TSMC's cash balance was NT\$170.82 billion.



**Operating and Free Cash Flows:**

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$8.48 billion in 1Q12, declined by NT\$34.59 billion compared to 4Q11, as a result of lower operating cash flow and higher capital expenditures.

**V. CapEx & Capacity**

**V - 1. Capital Expenditures**

(In US millions)

	<u>1Q12</u>	<u>4Q11</u>
TSMC	1,587	882
TSMC China & WaferTech	27	47
Other TSMC Subsidiaries	21	24
<b>Total TSMC</b>	<b>1,635</b>	<b>953</b>

**Capital Expenditures:**

Capital expenditures for TSMC on a consolidated basis totaled US\$1.64 billion in 1Q12.

**V-2. Capacity**

Fab / (Wafer size)	4Q11 (A)	2011 (A)	1Q12 (A)	2Q12 (F)	3Q12 (F)	4Q12 (F)	2012 (F)
Fab-2 (6") <sup>(1)</sup>	255	1,000	253	247	256	256	1,012
Fab-3 (8")	304	1,184	298	300	304	306	1,208
Fab-5 (8")	136	547	145	146	148	148	587
Fab-6 (8")	286	1,128	298	296	298	298	1,191
Fab-8 (8")	255	1,003	262	263	266	266	1,057
Fab-12 (12") <sup>(2)</sup>	337	1,334	373	367	377	373	1,490
Fab-14 (12") <sup>(2)</sup>	504	1,927	549	512	519	534	2,114
Fab-15 (12") <sup>(2)</sup>				18	68	134	220
WaferTech (8")	107	429	110	111	112	112	444
TSMC China (8")	230	772	222	230	232	232	917
<b>TSMC total capacity (8" equiv. Kpcs)</b>	<b>3,352</b>	<b>12,963</b>	<b>3,553</b>	<b>3,504</b>	<b>3,672</b>	<b>3,847</b>	<b>14,576</b>
SSMC (8")	65	258	64	64	65	65	258
<b>Total managed capacity (8" equiv. Kpcs)</b>	<b>3,417</b>	<b>13,221</b>	<b>3,616</b>	<b>3,568</b>	<b>3,737</b>	<b>3,913</b>	<b>14,834</b>

(1) Figures represent number of 6" wafers. Conversion to 8"-equivalent wafers is obtained by dividing this number by 1.78

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

**Capacity:**

Total managed capacity increased 5.8% to 3,616K 8-inch equivalent wafers in 1Q12, mostly attributed to a 9.6% increase in 12" wafer capacity. TSMC managed capacity in 2Q12 is expected to decline slightly by 1.3% to 3,568K 8-inch equivalent wafers as a result of migration to 28nm capacity.

Total managed capacity is expected to increase 12% from 13,221K 8-inch equivalent wafers in 2011 to 14,834K in 2012, in which 12-inch wafer capacity is expected to increase 17% year-over-year.

## VI. Recap of Recent Important Events & Announcements

- TSMC Holds a Groundbreaking Ceremony for Phase 5 of its Fab 14 GigaFab, One of the Key Production Centers for TSMC's advanced 20nm technology. ( 2012/04/09 )
- Dialog Semiconductor and TSMC Create a Process Platform to Advance BCD Power Management Leadership ( 2012/03/29 )
- Altera and TSMC Jointly Develop World's First Heterogeneous 3D IC Test Vehicle Using CoWoS Process ( 2012/03/22 )
- TSMC Board of Directors Approves the Appointment of Senior Vice President of R&D Dr. Shang-yi Chiang, Senior Vice President of Operations Dr. Mark Liu, and Senior Vice President of Business Development Dr. C.C. Wei as Executive Vice Presidents and Co-Chief Operating Officers of TSMC. (2012/03/02)
- TSMC Board of Directors Proposes NT\$3.0 Cash Dividend per Share and Approves the Election for its Nine-Member Board of Directors at the 2012 Annual Shareholders' Meeting on June 12. ( 2012/02/14 )
- TSMC Receives LEED Gold Certification for Two Green Buildings ( 2012/02/03 )