

2Q13

Quarterly Management Report  
July 18, 2013**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)*

	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	2.00	1.53	1.61	30.9%	23.8%
(US\$ per ADR unit)	0.33	0.26	0.27		
Net Revenue	155.89	132.76	128.19	17.4%	21.6%
Gross Profit	76.42	60.77	62.39	25.8%	22.5%
Gross Margin	49.0%	45.8%	48.7%		
Operating Expenses	(18.79)	(16.38)	(15.54)	14.8%	20.9%
Other Operating Income and Expenses	0.00	0.04	0.02		
Operating Income	57.63	44.43	46.87	29.7%	22.9%
Operating Margin	37.0%	33.5%	36.6%		
Non-Operating Items	2.39	1.32	(0.92)		
Net Income	51.81	39.58	41.84	30.9%	23.8%
Net Profit Margin	33.2%	29.8%	32.6%		
Wafer Shipment (kpcs 8 inch-equiv.)	4,034	3,570	3,701	13.0%	9.0%

*Note: Diluted weighted average outstanding shares were 25,929mn units in 2Q13***Financial Highlights:****Second Quarter 2013**

- Net revenues were NT\$155.89 billion, representing a 17.4% increase from NT\$132.76 billion in 1Q13 and a 21.6% increase from NT\$128.19 billion in 2Q12.
- Gross margin was 49.0%, up 3.2 percentage points from 1Q13 and up 0.3 percentage point from 2Q12.
- Operating margin was 37.0%, up 3.5 percentage points from 1Q13 and up 0.4 percentage point from 2Q12.
- Non-operating items were a gain of NT\$2.39 billion, compared to a gain of NT\$1.32 billion in 1Q13 and a loss of NT\$0.92 billion in 2Q12.
- Net income attributable to shareholders of the parent company was NT\$51.81 billion, up 30.9% from 1Q13 and up 23.8% from 2Q12. Net profit margin was 33.2% and diluted EPS was NT\$2.00.

## I. Revenue Analysis

<b>I. Wafer Sales Analysis</b>			
By Application	2Q13	1Q13	2Q12
Computer	16%	16%	21%
Communication	57%	55%	48%
Consumer	7%	7%	9%
Industrial/Standard	20%	22%	22%
By Technology	2Q13	1Q13	2Q12
28nm	29%	24%	7%
40/45nm	21%	23%	28%
65nm	18%	17%	26%
90nm	8%	8%	10%
0.11/0.13um	4%	4%	6%
0.15/0.18um	15%	17%	15%
0.25/0.35um	4%	6%	6%
0.50um and above	1%	1%	2%
By Customer Type	2Q13	1Q13	2Q12
Fabless/System	87%	87%	85%
IDM	13%	13%	15%
By Geography	2Q13	1Q13	2Q12
North America	71%	69%	68%
Asia Pacific	13%	14%	15%
China	8%	7%	5%
Europe	6%	8%	9%
Japan	2%	2%	3%

### Revenue Analysis:

TSMC delivered stronger than seasonal growth in 2Q13 mainly due to the strong demand for TSMC's 28nm technology and our customers' needs in building inventory for the early launch of mobile products in the second half of 2013. By application, Communication, Computer, Consumer, and Industrial/Standard increased 22%, 18%, 9%, and 11% from 1Q13, respectively.

28nm process technology contributed 29% of total wafer revenues for the quarter. Advanced technologies (40/45nm and below) accounted for 50% of total wafer revenues, up from 47% in 1Q13.

Revenues from Fabless/System customers accounted for 87% of total wafer revenues in 2Q13.

From a geographic perspective, revenues from customers based in North America accounted for 71% of total wafer revenues, while revenues from Asia Pacific, China, Europe and Japan accounted for 13%, 8%, 6%, and 2% of total wafer revenues, respectively.

## II. Profit & Expense Analysis

<b>II - 1. Gross Profit Analysis</b>			
(In NT billions)	<b>2Q13</b>	<b>1Q13</b>	<b>2Q12</b>
<b>Cost of Revenue</b>	<b>79.47</b>	<b>71.99</b>	<b>65.80</b>
Depreciation/Amortization	34.71	33.34	29.62
Other MFG Cost	44.76	38.65	36.18
<b>Gross Profit</b>	<b>76.42</b>	<b>60.77</b>	<b>62.39</b>
<b>Gross Margin</b>	<b>49.0%</b>	<b>45.8%</b>	<b>48.7%</b>

### Gross Profit Analysis:

Gross margin was 49.0% in 2Q13, 3.2 percentage points higher than 1Q13, mainly due to higher capacity utilization, cost improvements, and a favorable foreign exchange rate.

## II - 2. Operating Income Analysis

(In NT billions)	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>
<b>Total Operating Expenses</b>	<b>18.79</b>	<b>16.38</b>	<b>15.54</b>
Research & Development	11.94	10.65	10.07
SG&A	6.85	5.73	5.47
<b>Other Operating Income and Expenses</b>	<b>0.00</b>	<b>0.04</b>	<b>0.02</b>
<b>Operating Income</b>	<b>57.63</b>	<b>44.43</b>	<b>46.87</b>
<b>Operating Margin</b>	<b>37.0%</b>	<b>33.5%</b>	<b>36.6%</b>

### *Operating Income Analysis:*

Total operating expenses were NT\$18.79 billion, representing 12.0% of revenue in 2Q13.

Research and development expenses were NT\$1.29 billion higher compared with the prior quarter, reflecting a faster pace for the development of 20nm and 16nm technologies.

SG&A expenses increased NT\$1.12 billion sequentially, primarily reflecting higher opening expenses for Fab14 capacity expansion.

## II - 3. Non-Operating Items

(In NT billions)	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>
<b>L-T Investments</b>	<b>1.06</b>	<b>0.65</b>	<b>0.60</b>
SSMC	0.52	0.39	0.48
Others	0.54	0.26	0.12
<b>Interest Expenses</b>	<b>(0.64)</b>	<b>(0.49)</b>	<b>(0.20)</b>
<b>Other Gains and Losses</b>	<b>1.97</b>	<b>1.16</b>	<b>(1.32)</b>
<b>Total Non-Operating Items</b>	<b>2.39</b>	<b>1.32</b>	<b>(0.92)</b>

### *Non-Operating Items:*

Total non-operating items were a gain of NT\$2.39 billion in 2Q13.

Net investment gain was NT\$1.06 billion, up NT\$0.41 billion sequentially, reflecting higher earnings from certain invested companies.

Interest expenses increased from NT\$0.49 billion to NT\$0.64 billion, mainly attributed to the issuance of corporate bonds in 2Q13.

Other gains and losses were NT\$1.97 billion, up NT\$0.81 billion sequentially, primarily resulted from the receipt of NT\$0.45 billion from SMIC litigation settlement and a one-time revaluation gain of NT\$0.29 billion from deconsolidation of Xintec.

## III. Financial Condition Review

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

(In NT billions)	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>
Cash & Marketable Securities	227.62	189.26	188.37
Accounts Receivable	80.34	65.91	61.44
Inventories	38.62	37.83	30.78
Other Current Assets	5.88	4.75	3.99
<b>Total Current Assets</b>	<b>352.46</b>	<b>297.75</b>	<b>284.58</b>
Short-term Loans	31.47	35.84	30.77
Accounts Payable	76.08	61.86	60.48
Dividends Payable	77.77	0.00	77.76
Accrued Liabilities and Others	58.31	60.51	49.34
<b>Total Current Liabilities</b>	<b>243.63</b>	<b>158.21</b>	<b>218.35</b>
Current Ratio (x)	1.4	1.9	1.3
<b>Net Working Capital</b>	<b>108.83</b>	<b>139.54</b>	<b>66.23</b>

### *Liquidity Analysis:*

At the end of 2Q13, cash and marketable securities totaled NT\$227.62 billion, increased by NT\$38.36 billion from 1Q13, primarily due to proceeds from the issuance of US\$1.50 billion (NT\$44.65 billion) overseas corporate bonds, partially offset by the repayment of NT\$4.32 billion in short-term loans.

Total current liabilities increased by NT\$85.42 billion, mainly attributed to the accrual of NT\$77.77 billion in cash dividends and an increase of NT\$12.28 billion in payables to contractors and equipment suppliers.

Net working capital was NT\$108.83 billion and current ratio was 1.4x.

### III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>
Days of Receivable	43	43	41
Days of Inventory	47	51	44

### *Receivable and Inventory Days:*

Days of receivable remained at 43 days.

Days of inventory decreased by 4 days to 47 days, mainly due to shipments out of finished goods inventories and lower work-in-process inventory days.

### III - 3. Debt Service

(In NT billions)

	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>
Cash & Marketable Securities	227.62	189.26	188.37
Interest-Bearing Debts	<u>202.90</u>	<u>163.92</u>	<u>69.96</u>
<b>Net Cash Reserves</b>	<b>24.72</b>	<b>25.34</b>	<b>118.41</b>

### *Debt Service:*

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$0.62 billion to NT\$24.72 billion in 2Q13.

## IV. Cash Flow

### IV - 1. Cash Flow Analysis

(In NT billions)

	<u>2Q13</u>	<u>1Q13</u>	<u>2Q12</u>
Income before Income Tax	60.02	45.75	45.96
Depreciation & Amortization	38.10	36.50	32.46
Other Operating Sources/(Uses)	(22.88)	(8.68)	(9.75)
<b>Total Operating Sources/(Uses)</b>	<b><u>75.24</u></b>	<b><u>73.57</u></b>	<b><u>68.67</u></b>
Capital Expenditure	(78.40)	(80.42)	(59.47)
Marketable Financial Instruments	2.46	4.00	0.39
Other Investing Sources/(Uses)	(0.69)	(0.61)	1.80
<b>Net Investing Sources/(Uses)</b>	<b><u>(76.63)</u></b>	<b><u>(77.03)</u></b>	<b><u>(57.28)</u></b>
Increase (Decrease) in Short-term Loans	(4.32)	0.23	(4.30)
Proceeds from Issuance of Bonds	44.65	45.00	0.00
Other Financing Sources/(Uses)	0.76	(0.29)	(0.21)
<b>Net Financing Sources/(Uses)</b>	<b><u>41.09</u></b>	<b><u>44.94</u></b>	<b><u>(4.51)</u></b>
<b>Exchange Rate Changes</b>	<b><u>0.10</u></b>	<b><u>1.14</u></b>	<b><u>0.74</u></b>
<b>Net Cash Position Changes</b>	<b>39.80</b>	<b>42.62</b>	<b>7.62</b>
<b>Ending Cash Balance</b>	<b>225.83</b>	<b>186.03</b>	<b>178.44</b>

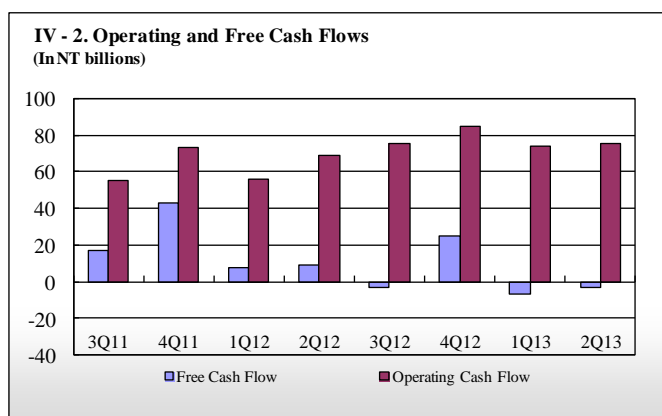
### *Summary of Cash Flow:*

Cash generated from operating activities totaled NT\$75.24 billion during the quarter, an increase of NT\$1.67 billion from 1Q13, primarily attributed to higher net income and depreciation, partially offset by higher other operating uses. The higher other operating uses mainly reflected the payment of income tax of NT\$14.26 billion and higher accounts receivable of NT\$7.18 billion, offset by an increase of NT\$4.03 billion in accounts payable.

Net cash used in investing activities decreased NT\$0.40 billion to NT\$76.63 billion in 2Q13, primarily reflecting the lower capital expenditures and lower proceeds from disposal of certain marketable securities.

Net cash generated from financing activities totaled NT\$41.09 billion during the quarter, mainly reflecting proceeds from the issuance of US dollar corporate bonds.

At the end of 2Q13, TSMC's cash balance was NT\$225.83 billion.



**Operating and Free Cash Flows:**

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was negative NT\$3.16 billion in 2Q13, higher than 1Q13 by NT\$3.69 billion, due to higher operating cash flow and lower capital expenditures.

**V. CapEx & Capacity**

**V - 1. Capital Expenditures**  
(In US millions)

	<u>2Q13</u>	<u>1Q13</u>	<u>YTD</u>
Foundry	2,611	2,721	5,332
Non-foundry	14	10	24
<b>Total TSMC</b>	<b>2,625</b>	<b>2,731</b>	<b>5,356</b>

**Capital Expenditures:**

Capital expenditures for TSMC on a consolidated basis totaled US\$2.63 billion in 2Q13.

Total capital expenditures in the first half of 2013 were US\$5.36 billion.

**V - 2. Capacity**

Fab / (Wafer size)	2012 (A)	1Q13 (A)	2Q13 (A)	3Q13 (F)	4Q13 (F)	2013 (F)
Fab-2 (6") <sup>(1)</sup>	1,012	251	254	257	257	1,018
Fab-3 (8")	1,208	281	287	293	289	1,150
Fab-5 (8")	587	147	151	99	99	497
Fab-6 (8")	1,191	299	307	428	428	1,461
Fab-8 (8")	1,057	260	271	216	216	962
Fab-12 (12") <sup>(2)</sup>	1,500	366	356	365	371	1,458
Fab-14 (12") <sup>(2)</sup>	2,210	546	558	564	564	2,232
Fab-15 (12") <sup>(2)</sup>	226	164	193	277	296	930
WaferTech (8")	444	109	112	113	113	447
TSMC China (8")	921	226	240	248	248	963
<b>TSMC total capacity (8" equiv. Kpcs)</b>	<b>14,833</b>	<b>3,883</b>	<b>3,999</b>	<b>4,258</b>	<b>4,307</b>	<b>16,447</b>

(1) Figures represent number of 6" wafers. Conversion to 8"-equivalent wafers is obtained by multiplying this number by 0.5625  
(2) Figures represent number of 12" wafers. Conversion to 8"-equivalent wafers is obtained by multiplying this number by 2.25

**Capacity:**

Total capacity increased 3.0% to 3,999K 8-inch equivalent wafers in 2Q13. Total capacity in 3Q13 is expected to increase 6.5% sequentially to 4,258K 8-inch equivalent wafers.

On a full year basis, total capacity is expected to increase 11% from 14,833K 8-inch equivalent wafers in 2012 to 16,447K in 2013, in which 12-inch wafer capacity is expected to increase 17% year-over-year.

## **VI. Recap of Recent Important Events & Announcements**

- TSMC Sets July 3rd as Ex-dividend Date and July 9th as Record Date for Common Share Dividends ( 2013/06/18 )
- TSMC Shareholders Approve NT\$3.0 Cash Dividend ( 2013/06/11 )
- Xilinx and TSMC Team to Enable Fastest Time-to-Market and Highest Performance FPGAs on TSMC's 16-nanometer FinFET ( 2013/05/29 )
- TSMC Board of Directors Approved the Issuance of Unsecured Straight Corporate Bonds in Taiwan for an Amount of Not Exceeding NT\$45 Billion to Raise Capital for Capacity Expansion ( 2013/05/14 )