

3Q13

Quarterly Management Report  
October 17, 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:*

<i>(Amounts are on consolidated basis and are in NT billions unless otherwise noted)</i>	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	2.00	2.00	1.90	0.3%	5.2%
(US\$ per ADR unit)	0.34	0.33	0.32		
Net Revenue	162.58	155.89	141.50	4.3%	14.9%
Gross Profit	78.89	76.42	69.17	3.2%	14.1%
<i>Gross Margin</i>	<i>48.5%</i>	<i>49.0%</i>	<i>48.9%</i>		
Operating Expenses	(19.26)	(18.79)	(16.37)	2.5%	17.7%
Other Operating Income and Expenses	(0.01)	0.00	0.00		
Operating Income	59.62	57.63	52.80	3.5%	12.9%
<i>Operating Margin</i>	<i>36.7%</i>	<i>37.0%</i>	<i>37.3%</i>		
Non-Operating Items	(0.27)	2.39	0.96		
Net Income	51.95	51.81	49.38	0.3%	5.2%
<i>Net Profit Margin</i>	<i>32.0%</i>	<i>33.2%</i>	<i>34.9%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	4,194	4,034	3,860	4.0%	8.7%

*Note: Diluted weighted average outstanding shares were 25,929mn units in 3Q13*

***Financial Highlights:*****Third Quarter 2013**

- Net revenues were NT\$162.58 billion, representing a 4.3% increase from NT\$155.89 billion in 2Q13 and a 14.9% increase from NT\$141.50 billion in 3Q12.
- Gross margin was 48.5%, down 0.5 percentage point from 2Q13 and down 0.4 percentage point from 3Q12.
- Operating margin was 36.7%, down 0.3 percentage point from 2Q13 and down 0.6 percentage point from 3Q12.
- Non-operating items were a loss of NT\$0.27 billion, compared to a gain of NT\$2.39 billion in 2Q13 and a gain of NT\$0.96 billion in 3Q12.
- Net income attributable to shareholders of the parent company was NT\$51.95 billion, up 0.3% from 2Q13 and up 5.2% from 3Q12. Net profit margin was 32.0% and diluted EPS was NT\$2.00.

## I. Revenue Analysis

### I. Wafer Sales Analysis

By Application	3Q13	2Q13	3Q12
Computer	13%	16%	19%
Communication	53%	57%	49%
Consumer	14%	7%	8%
Industrial/Standard	20%	20%	24%

By Technology	3Q13	2Q13	3Q12
28nm	32%	29%	13%
40/45nm	20%	21%	27%
65nm	15%	18%	22%
90nm	8%	8%	9%
0.11/0.13um	4%	4%	6%
0.15/0.18um	15%	15%	14%
0.25/0.35um	5%	4%	7%
0.50um and above	1%	1%	2%

By Customer Type	3Q13	2Q13	3Q12
Fabless/System	87%	87%	84%
IDM	13%	13%	16%

By Geography	3Q13	2Q13	3Q12
North America	71%	71%	67%
Asia Pacific	15%	13%	14%
China	5%	8%	5%
Europe	6%	6%	10%
Japan	3%	2%	4%

### Revenue Analysis:

Third quarter revenue was NT\$162.58 billion, representing a 4.3% increase from the prior quarter.

By application, Consumer increased 132% from 2Q13 due to new product launch in Game Consoles. Industrial increased 5% sequentially, while Communication and Computer declined 3% and 18%, respectively.

28nm process technology contributed 32% of total wafer revenues for the quarter. Advanced technologies (40/45nm and below) accounted for 52% of total wafer revenues, up from 50% in 2Q13.

Revenues from Fabless/System customers accounted for 87% of total wafer revenues in 3Q13.

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 15%, 5%, 6%, and 3% of total wafer revenues, respectively.

## II. Profit & Expense Analysis

### II - 1. Gross Profit Analysis

(In NT billions)	3Q13	2Q13	3Q12
<b>Cost of Revenue</b>	<b>83.69</b>	<b>79.47</b>	<b>72.33</b>
Depreciation/Amortization	36.78	34.71	31.74
Other MFG Cost	46.91	44.76	40.59
<b>Gross Profit</b>	<b>78.89</b>	<b>76.42</b>	<b>69.17</b>
<b>Gross Margin</b>	<b>48.5%</b>	<b>49.0%</b>	<b>48.9%</b>

### Gross Profit Analysis:

Gross margin was 48.5% in 3Q13, 0.5 percentage point lower than 2Q13, mainly due to lower capacity utilization, partially balanced by favorable inventory valuation adjustments due to changes in utilization rates.

## II - 2. Operating Income Analysis

(In NT billions)	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>
<b>Total Operating Expenses</b>	<b>19.26</b>	<b>18.79</b>	<b>16.37</b>
Research & Development	13.36	11.94	10.66
SG&A	5.90	6.85	5.71
<b>Other Operating Income and Expenses</b>	<b>(0.01)</b>	<b>0.00</b>	<b>0.00</b>
<b>Operating Income</b>	<b>59.62</b>	<b>57.63</b>	<b>52.80</b>
<b>Operating Margin</b>	<b>36.7%</b>	<b>37.0%</b>	<b>37.3%</b>

### *Operating Income Analysis:*

Total operating expenses were NT\$19.26 billion, representing 11.8% of revenue in 3Q13.

Research and development expenses increased NT\$1.42 billion sequentially, mainly reflecting a higher level of development activities for 20nm and 16nm technologies.

SG&A expenses decreased NT\$0.95 billion from 2Q13 due to lower opening expenses.

## II - 3. Non-Operating Items

(In NT billions)	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>
<b>L-T Investments</b>	<b>1.11</b>	<b>1.06</b>	<b>0.71</b>
SSMC	0.52	0.52	0.44
Others	0.59	0.54	0.27
<b>Interest Expenses</b>	<b>(0.73)</b>	<b>(0.64)</b>	<b>(0.27)</b>
<b>Other Gains and Losses</b>	<b>(0.65)</b>	<b>1.97</b>	<b>0.52</b>
<b>Total Non-Operating Items</b>	<b>(0.27)</b>	<b>2.39</b>	<b>0.96</b>

### *Non-Operating Items:*

Total non-operating items were a loss of NT\$0.27 billion in 3Q13, compared to a gain of NT\$2.39 billion in 2Q13, mainly due to the change in other gains and losses.

The change in other gains and losses mainly reflected: (1) the impairment losses of NT\$1.35 billion on Stion investments in 3Q13; (2) the absence of several other gains in 2Q13, including the receipt of NT\$0.45 billion from SMIC litigation settlement, revaluation gain of NT\$0.29 billion from deconsolidation of Xintec, and dividend income of NT\$0.35 billion from certain invested companies.

## III. Financial Condition Review

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

(In NT billions)	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>
Cash & Marketable Securities	218.16	227.62	147.75
Accounts Receivable	79.67	80.34	65.31
Inventories	36.92	38.62	33.25
Other Current Assets	3.46	5.88	3.27
<b>Total Current Assets</b>	<b>338.21</b>	<b>352.46</b>	<b>249.58</b>
Short-term Loans	18.05	31.47	29.75
Accounts Payable	73.45	76.08	47.34
Dividends Payable	0.00	77.77	0.00
Accrued Liabilities and Others	56.78	58.31	48.86
<b>Total Current Liabilities</b>	<b>148.28</b>	<b>243.63</b>	<b>125.95</b>
Current Ratio (x)	2.3	1.4	2.0
<b>Net Working Capital</b>	<b>189.93</b>	<b>108.83</b>	<b>123.63</b>

### *Liquidity Analysis:*

At the end of 3Q13, cash and marketable securities totaled NT\$218.16 billion, decreased by NT\$9.46 billion from 2Q13, primarily due to the payment of NT\$77.77 billion cash dividends and the repayment of NT\$13.23 billion short-term loans, partially offset by proceeds from the issuance of NT\$41.20 billion corporate bonds and free cash flow of NT\$40.98 billion generated during the quarter (please refer to page 5).

Total current liabilities decreased by NT\$95.35 billion, primarily due to the payment of cash dividends and the repayment of short-term loans.

Net working capital was NT\$189.93 billion and current ratio was 2.3x.

### III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>
Days of Receivable	45	43	41
Days of Inventory	45	47	44

### *Receivable and Inventory Days:*

Days of receivable increased by two days to 45 days, mainly due to higher average accounts receivable in 3Q13.

Days of inventory decreased by two days to 45 days, mainly attributed to lower work-in-process inventories in anticipation of a slower demand.

### III - 3. Debt Service

(In NT billions)

	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>
Cash & Marketable Securities	218.16	227.62	147.75
Interest-Bearing Debts	229.28	202.90	108.43
<b>Net Cash Reserves</b>	<b>(11.12)</b>	<b>24.72</b>	<b>39.32</b>

### *Debt Service:*

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, decreased NT\$35.84 billion to a negative NT\$11.12 billion in 3Q13, mainly due to an increase in net borrowing.

## IV. Cash Flow

### IV - 1. Cash Flow Analysis

(In NT billions)

	<u>3Q13</u>	<u>2Q13</u>	<u>3Q12</u>
Income before Income Tax	59.35	60.02	53.76
Depreciation & Amortization	40.44	38.10	34.68
Other Operating Sources/(Uses)	(3.99)	(22.88)	(13.04)
<b>Total Operating Sources/(Uses)</b>	<b><u>95.80</u></b>	<b><u>75.24</u></b>	<b><u>75.40</u></b>
Capital Expenditure	(54.82)	(78.40)	(78.33)
Marketable Financial Instruments	0.33	2.46	0.82
Other Investing Sources/(Uses)	2.17	(0.69)	3.00
<b>Net Investing Sources/(Uses)</b>	<b><u>(52.32)</u></b>	<b><u>(76.63)</u></b>	<b><u>(74.51)</u></b>
Increase (Decrease) in Short-term Loans	(13.23)	(4.32)	(0.66)
Cash Dividends	(77.77)	0.00	(77.75)
Proceeds from Issuance of Bonds	41.20	44.65	40.60
Issuance of Long-term Bank Loans	0.04	0.00	0.05
Other Financing Sources/(Uses)	(1.74)	0.76	(1.55)
<b>Net Financing Sources/(Uses)</b>	<b><u>(51.50)</u></b>	<b><u>41.09</u></b>	<b><u>(39.31)</u></b>
<b>Exchange Rate Changes</b>	<b><u>(1.21)</u></b>	<b><u>0.10</u></b>	<b><u>(1.28)</u></b>
<b>Net Cash Position Changes</b>	<b>(9.23)</b>	<b>39.80</b>	<b>(39.70)</b>
<b>Ending Cash Balance</b>	<b>216.60</b>	<b>225.83</b>	<b>138.74</b>

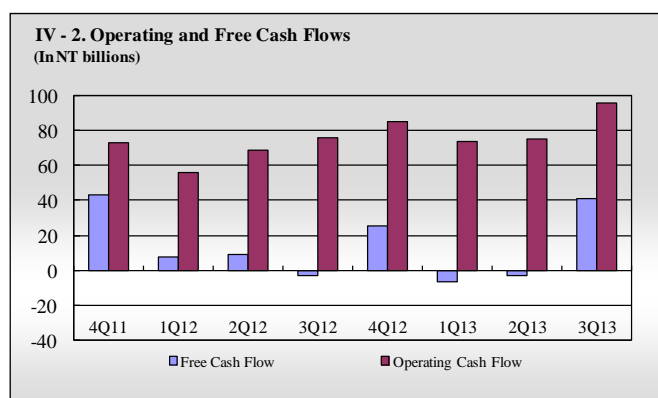
### *Summary of Cash Flow:*

Cash generated from operating activities totaled NT\$95.80 billion during the quarter, an increase of NT\$20.56 billion from 2Q13, primarily attributed to lower other operating uses. The lower operating uses mainly reflected the changes in accounts receivable of NT\$15.63 billion and the absence of income tax payment of NT\$14.26 billion in 2Q13, partially offset by the payment of 2012 employee profit sharing of NT\$10.86 billion.

Net cash used in investing activities decreased NT\$24.31 billion to NT\$52.32 billion in 3Q13, primarily reflecting the lower capital expenditures.

Net cash used in financing activities totaled NT\$51.50 billion during the quarter, mainly reflecting the payment of cash dividends and the repayment of short-term loans, offset by proceeds from issuance of corporate bonds.

At the end of 3Q13, TSMC's cash balance was NT\$216.60 billion.



**Operating and Free Cash Flows:**

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$40.98 billion in 3Q13, increased by NT\$44.14 billion compared to 2Q13, due to higher operating cash flow and lower capital expenditures.

**V. CapEx & Capacity**

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

	<u>3Q13</u>	<u>2Q13</u>	<u>1Q13</u>	<u>YTD</u>
Foundry	1,827	2,611	2,721	7,159
Non-foundry	2	14	10	26
<b>Total TSMC</b>	<b>1,829</b>	<b>2,625</b>	<b>2,731</b>	<b>7,185</b>

**Capital Expenditures:**

Capital expenditures for TSMC on a consolidated basis totaled US\$1.83 billion in 3Q13.

Total Capital expenditures in the first three quarters of 2013 were US\$7.19 billion.

**V - 2. Capacity**

Fab / (Wafer size)	2012 (A)	1Q13 (A)	2Q13 (A)	3Q13 (A)	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 6.5% to 4,258K 8-inch equivalent wafers in 3Q13 mainly reflecting the increase in 28nm capacity. Total capacity in 4Q13 is expected to increase 1.2% sequentially to 4,307K 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 Co-COO Dr. Shang-Yi Chiang to Retire ( 2013/09/27 )
- TSMC First Taiwan Company to be Named Dow Jones Sustainability Indexes (DJSI) Industry Group Leader ( 2013/09/18 )
- TSMC and OIP Ecosystem Partners Deliver 16FinFET and 3D IC Reference Flows ( 2013/09/17 )
- TSMC and NTU College of Public Health Hold Third Labor Health Forum ( 2013/09/06 )