

1Q14

Quarterly Management Report
April 17, 2014**CONTACT****Elizabeth Sun**

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Topics in This Report

- Revenue Analysis
- 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)*

	1Q14	4Q13	1Q13	QoQ	YoY
EPS (NT\$ per common share)	1.85	1.73	1.53	6.8%	21.0%
(US\$ per ADR unit)	0.31	0.29	0.26		
Net Revenue	148.22	145.81	132.76	1.7%	11.6%
Gross Profit	70.40	64.86	60.77	8.5%	15.8%
<i>Gross Margin</i>	<i>47.5%</i>	<i>44.5%</i>	<i>45.8%</i>		
Operating Expenses	(17.88)	(17.13)	(16.38)	4.3%	9.2%
Other Operating Income and Expenses	(0.00)	0.02	0.04		
Operating Income	52.52	47.75	44.43	10.0%	18.2%
<i>Operating Margin</i>	<i>35.4%</i>	<i>32.8%</i>	<i>33.5%</i>		
Non-Operating Items	0.78	2.62	1.32		
Net Income Attributable to Shareholders of the Parent Company	47.87	44.81	39.58	6.8%	21.0%
<i>Net Profit Margin</i>	<i>32.3%</i>	<i>30.7%</i>	<i>29.8%</i>		
Wafer Shipment (kpcs 12 inch-equiv.)	1,718	1,719	1,587	(0.1%)	8.3%

*Note: Diluted weighted average outstanding shares were 25,930mn units in 1Q14***Financial Highlights:****First Quarter 2014**

- Net revenues were NT\$148.22 billion, representing a 1.7% increase from NT\$145.81 billion in 4Q13 and an 11.6% increase from NT\$132.76 billion in 1Q13.
- Gross margin was 47.5%, up 3.0 percentage points from 4Q13 and up 1.7 percentage points from 1Q13.
- Operating margin was 35.4%, up 2.6 percentage points from 4Q13 and up 1.9 percentage points from 1Q13.
- Non-operating items were a gain of NT\$0.78 billion, compared to a gain of NT\$2.62 billion in 4Q13 and a gain of NT\$1.32 billion in 1Q13.
- Net income attributable to shareholders of the parent company was NT\$47.87 billion, up 6.8% from 4Q13 and up 21.0% from 1Q13. Net profit margin was 32.3% and diluted EPS was NT\$1.85.

I. Revenue Analysis

I. Wafer Revenue Analysis

By Application	1Q14	4Q13	1Q13
Computer	13%	13%	16%
Communication	54%	51%	55%
Consumer	11%	13%	7%
Industrial/Standard	22%	23%	22%

By Technology	1Q14	4Q13	1Q13
28nm	34%	34%	24%
40/45nm	21%	17%	23%
65nm	16%	16%	17%
90nm	7%	7%	8%
0.11/0.13um	3%	4%	4%
0.15/0.18um	14%	16%	17%
0.25/0.35um	4%	5%	6%
0.50um and above	1%	1%	1%

By Customer Type	1Q14	4Q13	1Q13
Fabless/System	87%	87%	87%
IDM	13%	13%	13%

By Geography	1Q14	4Q13	1Q13
North America	66%	74%	69%
Asia Pacific	17%	11%	14%
China	8%	5%	7%
Europe	6%	7%	8%
Japan	3%	3%	2%

Revenue Analysis:

In the first quarter, we saw much stronger demand for our wafers than we had initially predicted in January. On a quarter-over-quarter basis, our revenue increased 1.7%, mainly due to favorable foreign exchange rate and higher blended ASP, partially offset by lower backend related revenues.

By application, Communication, Computer, and Industrial/Standard increased 8%, 2%, and 2%, respectively, while Consumer declined 14% sequentially.

28nm process technology contributed 34% of total wafer revenues for the quarter. Advanced technologies (40/45nm and below) accounted for 55% of total wafer revenues, up from 51% in 4Q13.

Revenues from Fabless/System customers accounted for 87% of total wafer revenues in 1Q14.

From a geographic perspective, revenues from customers based in North America accounted for 66% of total wafer revenues, while revenues from Asia Pacific, China, Europe and Japan accounted for 17%, 8%, 6%, and 3% of total wafer revenues, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT\$ billions)	1Q14	4Q13	1Q13
Cost of Revenue	77.82	80.95	71.99
Depreciation/Amortization	37.79	37.33	33.34
Other MFG Cost	40.03	43.62	38.65
Gross Profit	70.40	64.86	60.77
Gross Margin	47.5%	44.5%	45.8%

Gross Profit Analysis:

Gross margin was 47.5% in 1Q14, 3.0 percentage points higher than 4Q13, mainly due to higher capacity utilization and a favorable foreign exchange rate, partially offset by unfavorable inventory valuation adjustments due to changes in utilization rates.

II - 2. Operating Income Analysis

(In NT\$ billions)	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
Total Operating Expenses	17.88	17.13	16.38
Research & Development	12.07	12.17	10.65
SG&A	5.81	4.96	5.73
Other Operating Income and Expenses	(0.00)	0.02	0.04
Operating Income	52.52	47.75	44.43
Operating Margin	35.4%	32.8%	33.5%

Operating Income Analysis:

Total operating expenses increased NT\$0.75 billion to NT\$17.88 billion in 1Q14, primarily reflecting higher opening expenses for capacity expansion.

Total operating expenses represented 12.1% of revenue in 1Q14.

II - 3. Non-Operating Items

(In NT\$ billions)	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
L-T Investments	0.96	1.15	0.65
SSMC	0.41	0.53	0.39
Others	0.55	0.62	0.26
Interest Expenses	(0.80)	(0.79)	(0.49)
Other Gains and Losses	0.62	2.26	1.16
Total Non-Operating Items	0.78	2.62	1.32

Non-Operating Items:

Total non-operating items were a gain of NT\$0.78 billion in 1Q14, compared to a gain of NT\$2.62 billion in 4Q13, mainly due to the absence of other gains in 4Q13, including: (1) the reversal of impairment losses of NT\$1.19 billion on an invested company, and (2) the receipt of NT\$0.45 billion from SMIC litigation settlement.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT\$ billions)	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
Cash & Marketable Securities	234.95	245.34	189.26
Accounts Receivable	74.33	71.94	65.91
Inventories	43.48	37.50	37.83
Other Current Assets	3.13	3.71	4.75
Total Current Assets	355.89	358.49	297.75
Short-term Loans	24.84	15.65	35.84
Accounts Payable	70.17	106.17	61.86
Accrued Liabilities and Others	79.39	67.96	60.51
Total Current Liabilities	174.40	189.78	158.21
Current Ratio (x)	2.0	1.9	1.9
Net Working Capital	181.49	168.71	139.54

Liquidity Analysis:

At the end of 1Q14, cash and marketable securities totaled NT\$234.95 billion, decreased by NT\$10.39 billion from 4Q13, primarily due to negative free cash flow of NT\$20.05 billion during the quarter (please refer to page 5), partially offset by the increase in short-term loans.

Total current liabilities decreased by NT\$15.38 billion, mainly attributed to the decrease in accounts payable to equipment suppliers, partially offset by increases in short-term loans and income tax payable.

Net working capital was NT\$181.49 billion and current ratio was 2.0x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
Days of Receivable	45	48	43
Days of Inventory	52	45	51

Receivable and Inventory Days:

Days of receivable decreased by 3 days to 45 days.

Days of inventory increased by 7 days to 52 days, mainly due to a higher level of work-in-process inventories, driven by stronger demand in the second quarter and 20nm ramping.

III - 3. Debt Service

(In NT\$ billions)

	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
Cash & Marketable Securities	234.95	245.34	189.26
Interest-Bearing Debts	<u>(237.47)</u>	<u>(227.24)</u>	<u>(163.92)</u>
Net Cash Reserves	(2.52)	18.10	25.34

Debt Service:

Net cash reserves decreased NT\$20.62 billion to negative NT\$2.52 billion in 1Q14, reflecting a decrease of NT\$10.39 billion in cash and marketable securities and an increase of NT\$10.23 billion in interest-bearing debts.

IV. Cash Flow

IV - 1.1 Quarterly Cash Flow Analysis

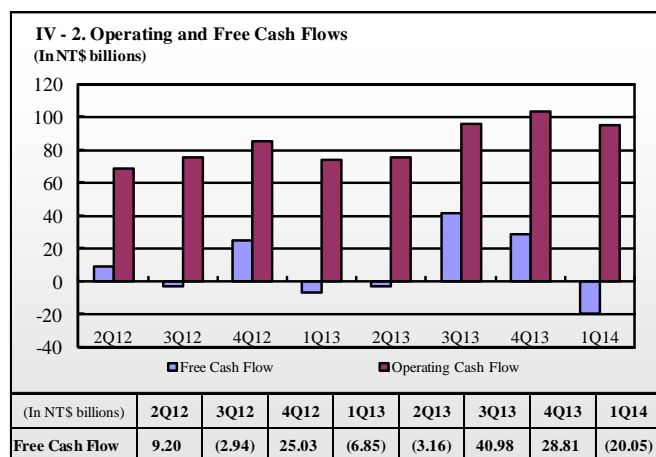
(In NT\$ billions)

	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>
Income before Income Tax	53.30	50.37	45.75
Depreciation & Amortization	41.62	41.15	36.50
Other Operating Sources/(Uses)	(0.06)	11.25	(8.68)
Total Operating Sources/(Uses)	<u>94.86</u>	<u>102.77</u>	<u>73.57</u>
Capital Expenditures	(114.91)	(73.96)	(80.42)
Marketable Financial Instruments	(0.54)	(1.05)	4.00
Other Investing Sources/(Uses)	(0.41)	(0.05)	(0.61)
Net Investing Sources/(Uses)	<u>(115.86)</u>	<u>(75.06)</u>	<u>(77.03)</u>
Increase (Decrease) in Short-term Loans	8.82	(2.32)	0.23
Proceeds from Issuance of Bonds	0.00	0.00	45.00
Other Financing Sources/(Uses)	(0.87)	(0.10)	(0.29)
Net Financing Sources/(Uses)	<u>7.95</u>	<u>(2.42)</u>	<u>44.94</u>
Exchange Rate Changes	<u>2.05</u>	<u>0.81</u>	<u>1.14</u>
Net Cash Position Changes	(11.00)	26.10	42.62
Ending Cash Balance	231.70	242.70	186.03

Summary of Cash Flow:

During the first quarter, cash generated from operating activities totaled NT\$94.86 billion. The Company spent NT\$114.91 billion for capital expenditures, and borrowed NT\$8.82 billion in short-term loans for hedging purpose.

As a result, our cash position decreased NT\$11.00 billion to NT\$231.70 billion at the end of 1Q14.



Operating and Free Cash Flows:

Free cash flow was negative NT\$20.05 billion in 1Q14, reflecting large capital expenditures of NT\$114.91 billion during the first quarter.

V. CapEx & Capacity

V. Capital Expenditures and Capacity		
	<u>1Q14</u>	<u>4Q13</u>
Capital Expenditures (In US\$ millions)	3,799	2,503
Capacity (kpcs 12 inch-equiv.)	1,870	1,914

Capital Expenditures and Capacity:

Capital expenditures for TSMC on a consolidated basis totaled US\$3.80 billion in 1Q14.

Total capacity decreased 2.3% to 1,870K 12-inch equivalent wafers in 1Q14, primarily due to fewer working days.

On a full year basis, total capacity is expected to increase 10% year-over-year to reach 8,044K 12-inch equivalent wafers in 2014.

VI. Recap of Recent Important Events & Announcements

- TSMC to Sell 5% of Vanguard International Semiconductor (2014/04/11)
- TSMC Updates 1Q14 Guidance. First Quarter Revenue is Expected to be About NT\$147 billion. Gross Profit Margin is Expected to be About 47% and the Operating Profit Margin is Expected to be About 35% (2014/03/12)
- TSMC Board of Directors Proposes NT\$3.0 Cash Dividend per Share and Approves 2014 Annual Shareholders' Meeting to be Held on June 24 (2014/02/18)
- TSMC Approved the Appointments of TSMC North America President Rick Cassidy and TSMC Vice President of R&D Dr. Wei-Jen Lo as Senior Vice Presidents of TSMC (2014/02/18)