

3Q15

Quarterly Management Report
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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)*

	3Q15	2Q15	3Q14	QoQ	YoY
EPS (NT\$ per common share)	2.91	3.06	2.94	-5.1%	-1.3%
(US\$ per ADR unit)	0.46	0.50	0.49	-5.1%	-1.3%
Net Revenue	212.51	205.44	209.05	3.4%	1.7%
Gross Profit	102.34	99.71	105.58	2.6%	-3.1%
<i>Gross Margin</i>	48.2%	48.5%	50.5%		
Operating Expenses	(22.16)	(22.56)	(21.14)	-1.8%	4.8%
Other Operating Income and Expenses	(1.79)	(0.08)	(0.01)		
Operating Income	78.39	77.07	84.43	1.7%	-7.2%
<i>Operating Margin</i>	36.9%	37.5%	40.4%		
Non-Operating Items	5.01	21.06	0.95		
Net Income Attributable to Shareholders of the Parent Company	75.33	79.42	76.33	-5.1%	-1.3%
<i>Net Profit Margin</i>	35.4%	38.7%	36.5%		
Wafer Shipment (kpcs 12 inch-equiv.)	2,216	2,240	2,267	-1.1%	-2.2%

*Note: Diluted weighted average outstanding shares were 25,930 mn units in 3Q15***Financial Highlights:****Third Quarter 2015**

- Net revenue was NT\$212.51 billion, representing a 3.4% increase from NT\$205.44 billion in 2Q15 and a 1.7% increase from NT\$209.05 billion in 3Q14.
- Gross margin was 48.2%, 0.3 percentage point lower than 2Q15 and 2.3 percentage points lower than 3Q14.
- Operating margin was 36.9%, down 0.6 percentage point from 2Q15 and down 3.5 percentage points from 3Q14.
- Non-operating items were a gain of NT\$5.01 billion, compared to a gain of NT\$21.06 billion in 2Q15 and a gain of NT\$0.95 billion in 3Q14.
- Net income attributable to shareholders of the parent company was NT\$75.33 billion, decreased by 5.1% from 2Q15 and decreased by 1.3% from 3Q14. Net profit margin was 35.4% and diluted EPS was NT\$2.91.

I. Revenue Analysis

I. Revenue Analysis			
Wafer Rev. by Application	3Q15	2Q15	3Q14
Computer	8%	7%	9%
Communication	59%	62%	59%
Consumer	8%	8%	10%
Industrial/Standard	25%	23%	22%
Wafer Rev. by Technology	3Q15	2Q15	3Q14
16/20nm	21%	20%	9%
28nm	27%	27%	34%
40/45nm	14%	14%	17%
65nm	11%	11%	13%
90nm	8%	7%	6%
0.11/0.13um	2%	3%	3%
0.15/0.18um	12%	13%	13%
0.25um and above	5%	5%	5%
Net Rev. by Geography	3Q15	2Q15	3Q14
North America	69%	66%	69%
Asia Pacific	12%	13%	13%
China	6%	8%	6%
EMEA	7%	7%	6%
Japan	6%	6%	6%

Revenue Analysis:

In the third quarter, TSMC's revenue grew modestly, primarily driven by a favorable exchange rate. By application, Communication, Computer, Consumer, and Industrial/Standard increased 1%, 15%, 3%, and 11%, respectively.

By technology, 16nm process technology made its debut and the combined 16/20nm contribution reached 21% of total wafer revenues in the third quarter. Advanced technologies (28nm and below) accounted for 48% of total wafer revenue, up from 47% in 2Q15.

From a geographic perspective, revenue from customers based in North America accounted for 69% of total wafer revenue, while revenue from Asia Pacific, China, EMEA (Europe, Middle East, and Africa) and Japan accounted for 12%, 6%, 7%, and 6% of total wafer revenue, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis			
(In NTS billions)	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
Cost of Revenue	110.17	105.73	103.47
Gross Profit	102.34	99.71	105.58
Gross Margin	48.2%	48.5%	50.5%

Gross Profit Analysis:

Gross margin was 48.2% in 3Q15, 0.3 percentage point lower than 2Q15, as the benefits from higher capacity utilization and a favorable foreign exchange rate were more than offset by unfavorable inventory valuation adjustments and margin dilution from 16nm ramp.

II - 2. Operating Income Analysis

(In NT\$ billions)	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
Total Operating Expenses	(22.16)	(22.56)	(21.14)
Research & Development	(16.49)	(16.61)	(15.21)
SG&A	(5.67)	(5.95)	(5.93)
Other Operating Income and Expenses	(1.79)	(0.08)	(0.01)
Operating Income	78.39	77.07	84.43
Operating Margin	36.9%	37.5%	40.4%
Total Operating Expenses as % of Net Revenue	10.5%	11.0%	10.1%

Operating Income Analysis:

Total operating expenses represented 10.5% of net revenue in 3Q15, compared with 11.0% in the prior quarter.

Net other operating expenses were NT\$1.79 billion, mainly attributed to a loss of NT\$2.35 billion on cease of TSMC Solar operations.

II - 3. Non-Operating Items

(In NT\$ billions)	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
L-T Investments	0.93	0.82	1.04
SSMC	0.66	0.57	0.52
Others	0.27	0.25	0.52
Interest Expenses	(0.79)	(0.78)	(0.82)
Other Gains and Losses	4.87	21.02	0.73
Total Non-Operating Items	5.01	21.06	0.95

Non-Operating Items:

Total non-operating items were a gain of NT\$5.01 billion in 3Q15, mainly due to disposal gains of NT\$3.71 billion on ASML shares.

The sequential change mainly reflected the difference between disposal gains on ASML and Vanguard International Semiconductor Corp. shares in these two quarters.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT\$ billions)	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
Cash & Marketable Securities	524.88	550.35	290.34
Accounts Receivable	97.12	99.74	114.53
Inventories	65.07	66.28	65.34
Other Current Assets	6.59	15.00	6.02
Total Current Assets	693.66	731.37	476.23
Short-term Loans	33.56	5.59	35.88
Accounts Payable	53.52	64.71	50.40
Current Portion of Bonds Payable and Bank Loans	23.52	10.87	0.00
Dividends Payable	0.00	116.68	0.00
Accrued Liabilities and Others	91.09	111.53	85.97
Total Current Liabilities	201.69	309.38	172.25
Current Ratio (x)	3.4	2.4	2.8
Net Working Capital	491.97	421.99	303.98

Liquidity Analysis:

At the end of 3Q15, cash and marketable securities decreased by NT\$25.47 billion to NT\$524.88 billion, primarily due to the payment of NT\$116.68 billion cash dividends, partially offset by free cash flow of NT\$47.84 billion generated during the quarter (please refer to page 5), short-term borrowing of NT\$27.70 billion for currency hedging purpose, and proceeds of NT\$14.72 billion from disposal of ASML shares.

Total current liabilities decreased by NT\$107.69 billion, mainly attributed to the cash dividend payment during the quarter.

Net working capital was NT\$491.97 billion and current ratio was 3.4x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
Days of Receivable	42	44	44
Days of Inventory	59	62	56

Receivable and Inventory Days:

Days of receivable decreased by 2 days to 42 days.

Days of inventory decreased by 3 days to 59 days primarily attributed to lower days in work-in-process inventories and shipments out of finished goods inventories generated from 20nm wafer pre-build in 2Q15.

III - 3. Debt Service

(In NT\$ billions)

	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
Cash & Marketable Securities	524.88	550.35	290.34
Interest-Bearing Debts	(249.09)	(219.13)	(248.50)
Net Cash Reserves	275.79	331.22	41.84

Debt Service:

Net cash reserves decreased NT\$55.43 billion to NT\$275.79 billion in 3Q15, mainly due to the decrease in cash and marketable securities and increase in short-term loans for currency hedging purpose.

IV. Cash Flow

IV - 1. Quarterly Cash Flow Analysis

(In NT\$ billions)

	<u>3Q15</u>	<u>2Q15</u>	<u>3Q14</u>
Income before Income Tax	83.39	98.13	85.38
Depreciation & Amortization	56.15	54.62	56.23
Other Operating Sources/(Uses)	(21.40)	(41.68)	(50.36)
Total Operating Sources/(Uses)	<u>118.14</u>	<u>111.07</u>	<u>91.25</u>
Capital Expenditures	(70.30)	(53.81)	(47.88)
Marketable Financial Instruments	11.98	45.14	0.48
Other Investing Sources/(Uses)	3.53	4.56	2.77
Net Investing Sources/(Uses)	<u>(54.79)</u>	<u>(4.11)</u>	<u>(44.63)</u>
Increase (Decrease) in Short-term Loans	27.70	(12.99)	1.39
Cash Dividends	(116.68)	0.00	(77.79)
Other Financing Sources/(Uses)	(1.50)	(0.41)	(1.86)
Net Financing Sources/(Uses)	<u>(90.48)</u>	<u>(13.40)</u>	<u>(78.26)</u>
Exchange Rate Changes and Other	<u>13.96</u>	<u>(2.07)</u>	<u>2.47</u>
Net Cash Position Changes	(13.17)	91.49	(29.17)
Ending Cash Balance	515.73	528.90	225.88

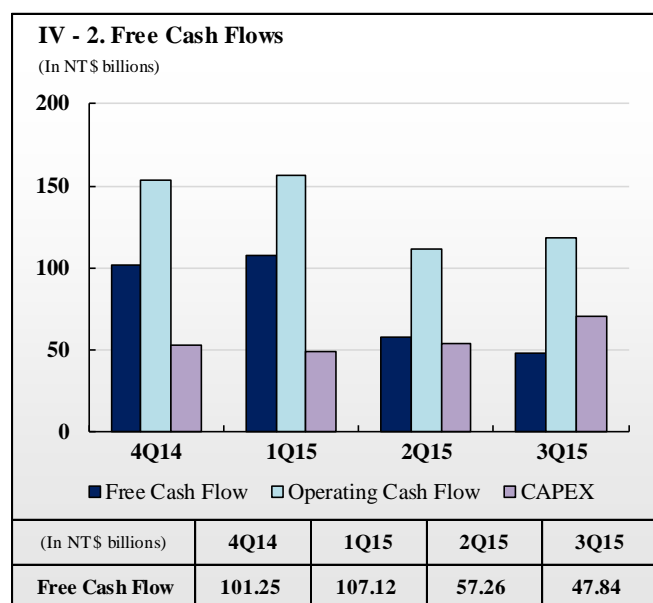
Summary of Cash Flow:

During the third quarter, cash generated from operating activities totaled NT\$118.14 billion, including (1) NT\$56.15 billion from depreciation & amortization expenses and (2) NT\$21.40 billion for other operating uses, which mainly reflected the payment of 2014 employee profit sharing of NT\$17.46 billion.

Net cash used in investing activities were NT\$54.79 billion in 3Q15, primarily including capital expenditures of NT\$70.30 billion and proceeds of NT\$14.72 billion from disposal of ASML shares.

Net cash used in financing activities totaled NT\$90.48 billion during the quarter, mainly reflecting the payment of NT\$116.68 billion cash dividends and short-term borrowing of NT\$27.70 billion.

As a result, cash position decreased NT\$13.17 billion to NT\$515.73 billion during 3Q15.



Operating and Free Cash Flows:

Free cash flow decreased NT\$9.42 billion to NT\$47.84 billion in 3Q15, reflecting higher capital expenditures, partially offset by higher operating cash flow.

V. CapEx & Capacity

V. Capital Expenditures
(in US\$ millions)

	<u>3Q15</u>	<u>2Q15</u>	<u>1Q15</u>	<u>YTD</u>
Capital Expenditures	2,214	1,742	1,550	5,506

Capital Expenditures and Capacity:

Capital expenditures for TSMC on a consolidated basis totaled US\$2.21 billion in 3Q15.

Total capacity, on a full year basis, is expected to increase 12% year-over-year to be above 9 million 12-inch equivalent wafers in 2015.

VI. Recap of Recent Important Events & Announcements

- TSMC Announced Fourth Quarter and Full Year 2015 Revenue Outlook (2015/09/23)
- TSMC Named DJSI Industry Group Leader for Third Consecutive Year (2015/09/14)
- TSMC to Cease Solar Manufacturing Operations (2015/08/25)
- TSMC Board of Directors Approved TSMC's acquisition of OmniVision's 49.1% ownership in VisEra Holding Cayman, Ltd., and 100% ownership in Taiwan OmniVision Investment Holding Co. Inc., at an amount not more than US\$126 million (2015/08/11)
- TSMC Announced Full Adoption of EICC Code of Conduct (2015/07/29)