



2Q12

Quarterly Management Report
July 19, 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)*

	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>	<u>QoQ</u>	<u>YoY</u>
EPS (NT\$ per common share)	1.61	1.29	1.39	24.9%	16.3%
(US\$ per ADR unit)	0.27	0.22	0.24		
Consolidated Net Sales	128.06	105.51	110.51	21.4%	15.9%
Gross Profit	62.26	50.36	50.86	23.6%	22.4%
<i>Gross Margin</i>	<i>48.6%</i>	<i>47.7%</i>	<i>46.0%</i>		
Operating Expense	(15.54)	(14.92)	(12.99)	4.2%	19.7%
Operating Income	46.71	35.44	37.87	31.8%	23.4%
<i>Operating Margin</i>	<i>36.5%</i>	<i>33.6%</i>	<i>34.3%</i>		
Non-Operating Items	(0.79)	0.22	1.19		
Net Income	41.81	33.47	35.95	24.9%	16.3%
<i>Net Profit Margin</i>	<i>32.7%</i>	<i>31.7%</i>	<i>32.5%</i>		
Wafer Shipment (kpcs 8 inch-equiv.)	3,701	2,919	3,291	26.8%	12.5%

*Note: Total outstanding shares were 25,921mn units on 6/30/12****Financial Highlights:*****Second Quarter 2012**

- Consolidated net sales were NT\$128.06 billion, representing a 21.4% increase from NT\$105.51 billion in 1Q12 and a 15.9% increase from NT\$110.51 billion in 2Q11.
- Gross margin was 48.6%, up 0.9 percentage point from 1Q12 and 2.6 percentage points from 2Q11.
- Operating margin was 36.5%, up 2.9 percentage points from 1Q12 and 2.2 percentage points from 2Q11.
- Non-operating income and long-term investment combined were a loss of NT\$0.79 billion, compared to a gain of NT\$0.22 billion in 1Q12 and NT\$1.19 billion in 2Q11.
- Consolidated net income attributable to shareholders of the parent company was NT\$41.81 billion, up 24.9% from 1Q12. Net profit margin was 32.7% and diluted EPS was NT\$1.61.

I. Revenue Analysis

I. Wafer Sales Analysis

By Application	2Q12	1Q12	2Q11
Computer	21%	22%	25%
Communication	48%	48%	45%
Consumer	9%	10%	11%
Industrial/Standard	22%	20%	19%

By Technology	2Q12	1Q12	2Q11
28nm	7%	5%	0%
40/45nm	28%	32%	26%
65nm	26%	26%	29%
90nm	10%	8%	9%
0.11/0.13um	6%	7%	8%
0.15/0.18um	15%	14%	18%
0.25/0.35um	6%	6%	8%
0.50um and above	2%	2%	2%

By Customer Type	2Q12	1Q12	2Q11
Fabless/System	85%	85%	82%
IDM	15%	15%	18%

By Geography	2Q12	1Q12	2Q11
North America	68%	70%	70%
Asia Pacific	15%	14%	14%
China	5%	4%	4%
Europe	9%	9%	8%
Japan	3%	3%	4%

Revenue Analysis:

TSMC continued to experience stronger than seasonal growth during the second quarter due to strong demand for mobile computing related applications and TSMC's leadership in technology. By application, Computer, Communication, Consumer, and Industrial/Standard increased 20%, 27%, 9%, and 39%, respectively.

Shipments for all process technologies increased sequentially during the second quarter. By technology, 28nm process technology marked the strongest growth, expanding its wafer sales contribution from 5% in 1Q12 to 7% in 2Q12 owing to robust demand and a fast ramp. Overall, advanced technologies (65nm and below) represented 61% of total wafer sales, down 2 percentage points from 1Q12 as mature technologies grew faster than advanced technologies during the second quarter.

Revenues from IDM customers accounted for 15% of total wafer sales in 2Q12.

From a geographic perspective, revenues from customers based in North America accounted for 68% of total wafer sales, while revenues from Asia Pacific, China, Europe and Japan accounted for 15%, 5%, 9%, and 3% of total wafer sales, respectively.

II. Profit & Expense Analysis

II - 1. Gross Profit Analysis

(In NT billions)	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
COGS	65.80	55.15	59.65
Depreciation/Amortization	29.62	25.17	25.18
Other MFG Cost	36.18	29.98	34.47
Gross Profit	62.26	50.36	50.86
Gross Margin	48.6%	47.7%	46.0%

Gross Profit Analysis:

Gross margin was 48.6% in 2Q12, 0.9 percentage point higher than 1Q12, primarily attributed to higher capacity utilization, partially offset by the negative effect from inventory valuation adjustments and 28nm ramp in Fab15.

II - 2. Operating Expenses

(In NT billions)	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Total Operating Exp.	15.54	14.92	12.99
SG&A	5.47	5.76	4.50
Research & Development	10.07	9.16	8.49
Total Operating Exp. as a % of Sales	12.1%	14.1%	11.7%

Operating Expenses:

Total operating expenses were NT\$15.54 billion in 2Q12, representing 12.1% of net sales.

SG&A expenses decreased NT\$0.29 billion from 1Q12, primarily due to lower opening expenses.

Research and development expenditures increased by NT\$0.91 billion, reflecting a higher level of development activities for 20nm technologies.

II - 3. Non-Operating Items

(In NT billions)	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Non-Operating Inc./(Exp.)	(1.38)	0.20	0.94
Net Interest Income/(Exp.)	0.24	0.28	0.28
Other Non-Operating	(1.62)	(0.08)	0.66
L-T Investments	0.59	0.02	0.25
SSMC	0.48	0.40	0.33
Others	0.11	(0.38)	(0.08)
Total Non-Operating Items	(0.79)	0.22	1.19

Non-Operating Items:

Total non-operating items were a loss of NT\$0.79 billion in 2Q12, compared to a gain of NT\$0.22 billion in 1Q12.

Net non-operating income was a loss of NT\$ 1.38 billion, primarily due to the impairment loss of NT\$2.68 billion on SMIC common shares, partially offset by the compensation of NT\$0.45 billion from SMIC litigation settlement and gain from certain venture capital assets.

Net investment gain was NT\$0.59 billion, up NT\$0.57 billion sequentially, owing to increased profit contribution from SSMC and other invested companies.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

(In NT billions)	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Cash & Marketable Securities	188.37	180.65	159.13
Accounts Receivable - Trade	54.94	48.02	46.19
Inventory	30.78	27.76	31.52
Other Current Assets	6.79	11.69	5.71
Total Current Assets	280.88	268.12	242.55
Short-term Loans	30.77	34.69	33.14
Accounts Payable	60.48	48.24	50.06
Dividends Payable	77.76	0.00	78.13
Accrued Employee Profit Sharing / Bonus	17.06	13.63	18.40
Accrued Liabilities and Others	25.78	29.64	25.76
Total Current Liabilities	211.85	126.20	205.49
Current Ratio (x)	1.3	2.1	1.2
Net Working Capital	69.03	141.92	37.06

Liquidity Analysis:

At the end of 2Q12, cash and marketable securities totaled NT\$188.37 billion, increased by NT\$7.72 billion from 1Q12, primarily due to free cash flow of NT\$10.50 billion generated during the quarter, (please refer to page 5), partially offset by the repayment of NT\$3.92 billion in short-term loans borrowed for currency hedging purpose.

Total current liabilities increased by NT\$85.65 billion, mainly attributed to the accrual of NT\$77.76 billion cash dividend approved by shareholders' meeting during the quarter.

Net working capital was NT\$69.03 billion and current ratio was 1.3x.

III - 2. Receivable/Inventory Days

(In Number of Days)

	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Days of Receivable	37	39	39
Days of Inventory	44	47	53

Receivable and Inventory Days:

Days of receivable decreased by two days to 37 days.

Days of inventory decreased by three days to 44 days.

III - 3. Debt Service

(In NT billions)

	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Cash & Marketable Securities	188.37	180.65	159.13
Interest-Bearing Debt	69.96	73.87	45.79
Net Cash Reserves	118.41	106.78	113.34

Debt Service:

Net cash reserves, defined as cash and short-term marketable securities minus interest-bearing debt, increased NT\$11.63 billion to NT\$118.41 billion in 2Q12, reflecting an increase of NT\$ 7.72 billion in cash and marketable securities and a decrease of NT\$3.91 billion in interest-bearing debts mainly due to the repayment in short-term loans.

IV. Cash Flow

IV - 1.1. Cash Flow Analysis

(In NT billions)

	<u>2Q12</u>	<u>1Q12</u>	<u>2Q11</u>
Net Income	41.81	33.47	35.95
Depreciation & Amortization	32.46	28.01	27.16
Other Operating Sources/(Uses)	(4.30)	(4.43)	(0.05)
Total Operating Sources/(Uses)	69.97	57.05	63.06
Capital Expenditure	(59.47)	(48.57)	(64.88)
Marketable Financial Instruments	0.39	0.68	26.86
Other Investing Sources/(Uses)	0.05	(0.36)	(0.43)
Net Investing Sources/(Uses)	(59.03)	(48.25)	(38.45)
Short-term Loans	(3.92)	8.76	(1.04)
Proceeds from Issuance of Bonds	0.00	17.00	0.00
Repayment of Bonds Payable	0.00	(4.50)	0.00
Other Financing Sources/(Uses)	(0.14)	(1.12)	(0.85)
Net Financing Sources/(Uses)	(4.06)	20.14	(1.89)
Net Cash Position Changes	6.88	28.94	22.72
Exchange Rate Changes	0.74	(1.59)	(1.19)
Ending Cash Balance	178.44	170.82	150.98

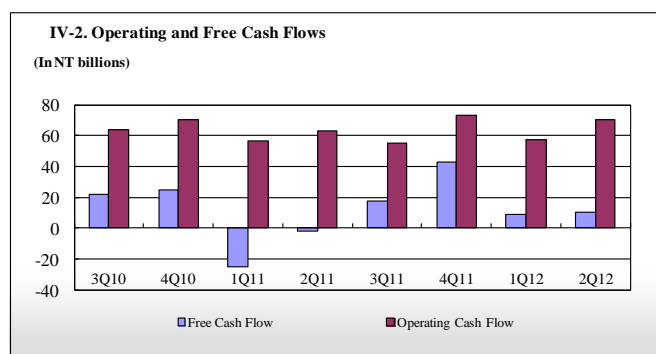
Summary of Cash Flow:

Cash generated from operating activities totaled NT\$69.97 billion during the quarter, an increase of NT\$12.92 billion from 1Q12, primarily attributed to higher net income and depreciation.

Net cash used in investing activities increased NT\$10.78 billion to NT\$59.03 billion in 2Q12, reflecting higher capital expenditures.

Net cash used in financing activities amounted to NT\$4.06 billion during the quarter, mainly resulted from the repayment of short-term loans.

At the end of 2Q12, TSMC's cash balance was NT\$178.44 billion.



Operating and Free Cash Flows:

Free cash flow, defined as the excess of operating cash flows over capital expenditures, was NT\$10.50 billion in 2Q12, increased by NT\$2.02 billion compared to 1Q12 as the increase in operating cash flows exceeded the increase in capital expenditures.

V. CapEx & Capacity

V - 1. Capital Expenditures
(In US millions)

	<u>2Q12</u>	<u>1Q12</u>	<u>YTD</u>
TSMC	1,979	1,587	3,566
TSMC China & WaferTech	15	27	42
Other TSMC Subsidiaries	15	21	36
Total TSMC	2,009	1,635	3,644

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$2.01 billion in 2Q12.

Total capital expenditures in the first half of 2012 were US\$3.64 billion.

V-2. Capacity

Fab / (Wafer size)	4Q11 (A)	2011 (A)	1Q12 (A)	2Q12 (A)	3Q12 (F)	4Q12 (F)	2012 (F)
Fab-2 (6") ⁽¹⁾	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") ⁽²⁾	337	1,334	373	367	378	382	1,500
Fab-14 (12") ⁽²⁾	504	1,927	549	546	563	552	2,210
Fab-15 (12") ⁽²⁾			0	18	69	135	222
WaferTech (8")	107	429	110	111	112	112	444
TSMC China (8")	230	772	222	230	232	236	921
TSMC total capacity (8" equiv. Kpcs)	3,352	12,963	3,553	3,579	3,776	3,915	14,823
SSMC (8")	65	258	64	64	65	65	258
Total managed capacity (8" equiv. Kpcs)	3,417	13,221	3,616	3,643	3,841	3,980	15,080

(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 0.7% to 3,643K 8-inch equivalent wafers in 2Q12, primarily due to capacity increase in 28nm process technology. TSMC managed capacity in 3Q12 is expected to increase 5.4% sequentially to 3,841K 8-inch equivalent wafers.

Total managed capacity is expected to increase 14.1% from 13,221K 8-inch equivalent wafers in 2011 to 15,080K in 2012, in which 12-inch wafer capacity is expected to increase 20.6% year-over-year.

VI. Recap of Recent Important Events & Announcements

- Analog Devices, Inc. and TSMC Announce a Collaboratively Developed Analog Process Technology Platform for Precision Analog ICs (2012/06/20)
- TSMC Sets July 4th as Ex-dividend Date and July 10th as Record Date for Common Share Dividends (2012/06/13)
- TSMC Board of Directors Unanimously Re-elects Dr. Morris Chang as Chairman and Dr. F.C. Tseng as Vice Chairman of TSMC (2012/06/13)
- TSMC Shareholders Approve NT\$3.0 Cash Dividend and Elect Board of Directors (2012/06/12)
- Renesas Electronics and TSMC Collaborate to Construct Ecosystem for Microcontrollers, Aiming to Expand MCU Market by Integrating the Companies' World-leading Technologies (2012/05/28)
- TSMC announced its 28nm high performance ARM® Cortex™-A9 dual-core processor test chip achieved 3.1GHz performance under typical conditions (2012/05/03)