

1Q16

Quarterly Management Report
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Topics in This Report:

- Revenue Analysis
- Profit & Expense Analysis
- Financial Condition Review
- Cash Flow
- CapEx
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Operating Results Review:**Summary:***(Amounts are on consolidated basis and are in NT\$ billions unless otherwise noted)*

| | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> | <u>QoQ</u> | <u>YoY</u> |
|---|--------------|--------------|--------------|------------|------------|
| EPS (NT\$ per common share) | 2.50 | 2.81 | 3.05 | -11.1% | -18.0% |
| (US\$ per ADR unit) | 0.38 | 0.43 | 0.48 | -11.1% | -18.0% |
| Net Revenue | 203.50 | 203.52 | 222.03 | 0.0% | -8.3% |
| Gross Profit | 91.34 | 98.93 | 109.43 | -7.7% | -16.5% |
| <i>Gross Margin</i> | <i>44.9%</i> | <i>48.6%</i> | <i>49.3%</i> | | |
| Operating Expenses | (20.88) | (21.22) | (22.54) | -1.6% | -7.4% |
| Other Operating Income and Expenses | 0.01 | 0.25 | (0.26) | | |
| Operating Income | 70.47 | 77.96 | 86.63 | -9.6% | -18.7% |
| <i>Operating Margin</i> | <i>34.6%</i> | <i>38.3%</i> | <i>39.0%</i> | | |
| Non-Operating Items | 1.79 | 2.68 | 1.63 | | |
| Net Income Attributable to Shareholders of the Parent Company | 64.78 | 72.84 | 78.99 | -11.1% | -18.0% |
| <i>Net Profit Margin</i> | <i>31.8%</i> | <i>35.8%</i> | <i>35.6%</i> | | |
| Wafer Shipment (kpcs 12 inch-equiv.) | 2,056 | 2,020 | 2,287 | 1.8% | -10.1% |

*Note: Diluted weighted average outstanding shares were 25,930mn units in 1Q16***Financial Highlights:****First Quarter 2016**

- Net revenue was NT\$203.50 billion, essentially flat compared to NT\$203.52 billion in 4Q15 and an 8.3% decrease from NT\$222.03 billion in 1Q15.
- Gross margin was 44.9%, 3.7 percentage points lower than 4Q15 and 4.4 percentage points lower than 1Q15.
- Operating margin was 34.6%, down 3.7 percentage points from 4Q15 and down 4.4 percentage points from 1Q15.
- Non-operating items were a gain of NT\$1.79 billion, compared to a gain of NT\$2.68 billion in 4Q15 and a gain of NT\$1.63 billion in 1Q15.
- Net income attributable to shareholders of the parent company was NT\$64.78 billion, down 11.1% from 4Q15 and down 18.0% from 1Q15. Net profit margin was 31.8% and diluted EPS was NT\$2.50.

I. Revenue Analysis

| Wafer Revenue by Application | 1Q16 | 4Q15 | 1Q15 |
|------------------------------|------|------|------|
| Computer | 8% | 9% | 8% |
| Communication | 64% | 62% | 60% |
| Consumer | 7% | 6% | 10% |
| Industrial/Standard | 21% | 23% | 22% |

| Wafer Revenue by Technology | 1Q16 | 4Q15 | 1Q15 |
|-----------------------------|------|------|------|
| 16/20nm | 23% | 24% | 16% |
| 28nm | 30% | 25% | 30% |
| 40/45nm | 14% | 14% | 15% |
| 65nm | 10% | 11% | 12% |
| 90nm | 6% | 7% | 7% |
| 0.11/0.13um | 2% | 3% | 2% |
| 0.15/0.18um | 11% | 11% | 13% |
| 0.25um and above | 4% | 5% | 5% |

| Net Revenue by Geography | 1Q16 | 4Q15 | 1Q15 |
|--------------------------|------|------|------|
| North America | 62% | 69% | 69% |
| Asia Pacific | 16% | 10% | 12% |
| China | 12% | 9% | 8% |
| EMEA | 5% | 6% | 6% |
| Japan | 5% | 6% | 5% |

Revenue Analysis:

In the first quarter, revenue was essentially flat and only declined by NT\$23 million sequentially. The Feb 6 earthquake had a negative impact on revenue due to delayed wafer shipments, while business upside came from demand increases in the mid- and low-end smartphone segments and customer inventory restocking.

By application, Communication and Consumer increased 4% and 15% respectively, while Computer and Industrial/Standard decreased 7% and 9% respectively.

By technology, the combined 16/20nm contribution reached 23% of total wafer revenue in the first quarter. Advanced technologies (28nm and below) accounted for 53% of total wafer revenue, up from 49% in 4Q15.

From a geographic perspective, revenue from customers based in North America accounted for 62% of total wafer revenue, while revenue from Asia Pacific, China, EMEA (Europe, Middle East, and Africa) and Japan accounted for 16%, 12%, 5%, and 5% of total net revenue, respectively.

II. Profit & Expense Analysis

| II - 1. Gross Profit Analysis | | | |
|-------------------------------|---------------|---------------|---------------|
| (In NT\$ billions) | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
| Cost of Revenue | 112.16 | 104.59 | 112.60 |
| Gross Profit | 91.34 | 98.93 | 109.43 |
| Gross Margin | 44.9% | 48.6% | 49.3% |

Gross Profit Analysis:

Gross margin was 44.9% in 1Q16, 3.7 percentage points lower than 4Q15, mainly reflecting (1) negative impact from the Feb 6 earthquake and (2) lower capacity utilization.

II - 2. Operating Income Analysis

| (In NT\$ billions) | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
|---|----------------|----------------|----------------|
| Total Operating Expenses | (20.88) | (21.22) | (22.54) |
| Research & Development | (15.62) | (15.67) | (16.78) |
| SG&A | (5.26) | (5.55) | (5.76) |
| Other Operating Income and Expenses | 0.01 | 0.25 | (0.26) |
| Operating Income | 70.47 | 77.96 | 86.63 |
| Operating Margin | 34.6% | 38.3% | 39.0% |
| Total Operating Expenses as % of Net Revenue | 10.3% | 10.4% | 10.2% |

Operating Income Analysis:

Total operating expenses decreased NT\$0.34 billion to NT\$20.88 billion in 1Q16, which represented 10.3% of net revenue in 1Q16, compared with 10.4% in the prior quarter.

II - 3. Non-Operating Items

| (In NT\$ billions) | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
|----------------------------------|---------------|---------------|---------------|
| L-T Investments | 0.84 | 1.26 | 1.13 |
| SSMC | 0.35 | 0.55 | 0.70 |
| Others | 0.49 | 0.71 | 0.43 |
| Interest Expenses | (0.85) | (0.82) | (0.79) |
| Other Gains and Losses | 1.80 | 2.24 | 1.29 |
| Total Non-Operating Items | 1.79 | 2.68 | 1.63 |

Non-Operating Items:

Total non-operating items were a gain of NT\$1.79 billion in 1Q16, compared to NT\$2.68 billion in 4Q15, mainly as the Company recognized disposal gains from ASML shares in 4Q15 and recognized less income from invested companies in 1Q16.

III. Financial Condition Review

III - 1. Liquidity Analysis (Balance Sheet Items)

| (In NT\$ billions) | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
|---|---------------|---------------|---------------|
| Cash & Marketable Securities | 648.39 | 586.16 | 518.98 |
| Accounts Receivable | 96.96 | 85.57 | 99.12 |
| Inventories | 57.24 | 67.05 | 64.60 |
| Other Current Assets | 9.90 | 7.96 | 7.80 |
| Total Current Assets | 812.49 | 746.74 | 690.50 |
| Short-term Loans | 34.69 | 39.47 | 18.68 |
| Accounts Payable | 53.58 | 45.74 | 47.58 |
| Current Portion of Bonds Payable and Bank Loans | 33.27 | 23.52 | 0.00 |
| Accrued Liabilities and Others | 114.35 | 103.50 | 121.30 |
| Total Current Liabilities | 235.89 | 212.23 | 187.56 |
| Current Ratio (x) | 3.4 | 3.5 | 3.7 |
| Net Working Capital | 576.60 | 534.51 | 502.94 |

Liquidity Analysis:

At the end of 1Q16, cash and marketable securities increased by NT\$62.23 billion to NT\$648.39 billion as cash increased by NT\$55.29 billion (please refer to page 4) and marketable securities increased by NT\$6.94 billion.

Total current liabilities increased by NT\$23.66 billion, mainly reflecting an increase of NT\$9.75 billion in the current portion of bonds payable as well as a NT\$8.57 billion accrual for income tax payable under accrued liabilities.

Net working capital was NT\$576.60 billion and current ratio was 3.4x.

III - 2. Receivable/Inventory Days

(In Number of Days)

| | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
|--------------------|-------------|-------------|-------------|
| Days of Receivable | 41 | 41 | 44 |
| Days of Inventory | 54 | 62 | 57 |

Receivable and Inventory Days:

Days of receivable kept flat with 4Q15 at 41 days.

Days of inventory decreased by 8 days to 54 days in 1Q16, reflecting more shipments from finished wafers as well as the impact from the earthquake.

III - 3. Debt Service

(In NT\$ billions)

| | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
|------------------------------|-----------------|-----------------|-----------------|
| Cash & Marketable Securities | 648.39 | 586.16 | 518.98 |
| Interest-Bearing Debts | (249.14) | (254.99) | (232.74) |
| Net Cash Reserves | 399.25 | 331.17 | 286.24 |

Debt Service:

Net cash reserves increased NT\$68.08 billion to NT\$399.25 billion in 1Q16, as the Company continued to accumulate cash generated from operations.

IV. Cash Flow

IV - 1. Quarterly Cash Flow Analysis

(In NT\$ billions)

| | <u>1Q16</u> | <u>4Q15</u> | <u>1Q15</u> |
|---|----------------|-----------------|----------------|
| Income before Income Tax | 72.26 | 80.64 | 88.26 |
| Depreciation & Amortization | 55.85 | 56.26 | 55.48 |
| Other Operating Sources/(Uses) | (6.58) | 7.77 | 12.26 |
| Total Operating Sources/(Uses) | 121.53 | 144.67 | 156.00 |
| Capital Expenditures | (38.14) | (84.52) | (48.88) |
| Marketable Financial Instruments | (17.67) | (15.87) | (8.54) |
| Other Investing Sources/(Uses) | 0.46 | (0.79) | 0.25 |
| Net Investing Sources/(Uses) | (55.35) | (101.18) | (57.17) |
| Increase (Decrease) in Short-term Loans | (4.12) | 5.77 | (17.34) |
| Other Financing Sources/(Uses) | (0.69) | (0.45) | (0.83) |
| Net Financing Sources/(Uses) | (4.81) | 5.32 | (18.17) |
| Exchange Rate Changes and Other | (6.08) | (1.85) | (1.70) |
| Net Cash Position Changes | 55.29 | 46.96 | 78.96 |
| Ending Cash Balance | 617.98 | 562.69 | 437.41 |

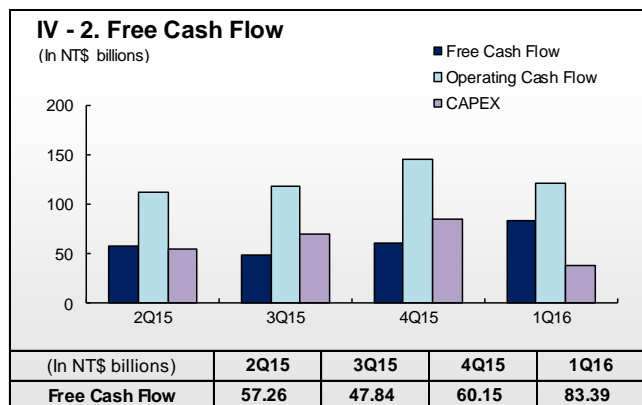
Summary of Cash Flow:

During the first quarter, cash generated from operating activities totaled NT\$121.53 billion, including (1) NT\$55.85 billion from depreciation & amortization expenses and (2) NT\$6.58 billion for other operating uses.

Net cash used in investing activities was NT\$55.35 billion in 1Q16, primarily including capital expenditures of NT\$38.14 billion and net purchases of NT\$17.67 billion in fixed income securities.

Net cash used in financing activities was NT\$4.81 billion, mainly reflecting a net repayment of NT\$4.12 billion in short-term loans due to reduced hedging needs.

As a result, net cash position increased NT\$55.29 billion to NT\$617.98 billion at the end of 1Q16.



Operating and Free Cash Flow:

Free cash flow increased NT\$23.24 billion to NT\$83.39 billion in 1Q16, reflecting healthy operating cash flow and lower capital expenditures.

V. CapEx

V. Capital Expenditures
(in US\$ millions)

| | <u>1Q16</u> | <u>4Q15</u> |
|-----------------------------|--------------|--------------|
| Capital Expenditures | 1,151 | 2,617 |

Capital Expenditures:

Capital expenditures for TSMC on a consolidated basis totaled US\$1.15 billion in 1Q16. The Company maintains its full year capital budget to be between US\$9 billion and US\$10 billion.

VI. Recap of Recent Important Events & Announcements

- TSMC to Sell 5.1% of Xintec Inc. (2016/04/08)
- TSMC and Nanjing Sign 12-inch Fab Investment Agreement (2016/03/28)
- ARM and TSMC Announce Multi-Year Agreement to Collaborate on 7nm FinFET Process Technology for High-Performance Compute (2016/03/15)
- TSMC and MediaTek Extend Collaboration on Ultra-Low Power Technology to Capture the Emerging IoT Market (2016/03/15)
- TSMC Details Earthquake Impact, Updates 1Q'16 Guidance. First Quarter Revenue is Expected to be Between NT\$201 billion to NT\$203 billion, Gross Profit Margin to be Between 44% and 46%, and Operating Profit Margin to be Between 33.5% and 35.5% (2016/02/17)
- TSMC Assessing February 6 Earthquakes and Planning Recovery (2016/02/06)
- TSMC Board of Directors Proposes NT\$6 Cash Dividend per Common Share and Approves 2015 Annual General Meeting to be Held on June 7, 2016 (2016/02/02)