

APPENDIX

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our business, financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included in this report. This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. Our actual results may differ from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in our Annual Report for the year ended 29 December 2013. Our 52-53 week fiscal year ends on the Sunday nearest and prior to 31 December. Our fiscal quarters end on a Sunday and our 13-week second quarter of 2014 ended on 29 June 2014, while our 13-week second quarter of 2013, 13-week fourth quarter of 2013 and 13-week first quarter of 2014 ended on 31 March 2013, 29 December 2013 and 30 March 2014, respectively.

The financial statements included in this release have been prepared in accordance with the Singapore Financial Reporting Standards ("FRS").

Business Overview

We are a leading service provider of semiconductor packaging design, bump, probe, assembly, test and distribution solutions. We have the scale to provide a comprehensive range of semiconductor packaging and test solutions to a diversified global customer base servicing the computing, communications and consumer markets. Our services include:

- *Advanced packaging and wirebond packaging services:* providing advanced Integrated Circuit ("IC") packages technology such as wafer bump, redistribution layer design and fabrication, flip chip interconnect, fan-out wafer level package ("FOWLP") or embedded Wafer Level Ball Grid Array ("eWLB"), wafer level chip-scale package ("WLCSP"), Through Silicon Via ("TSV"), integrated passive devices ("IPD"), and wirebond IC packages such as leaded, laminate and memory card to customers for a wide variety of electronics applications. As part of our full turnkey packaging services, we offer package design; electrical, mechanical and thermal simulation; measurement and design of leadframes and laminate substrates; and wafer processing and bumping on 200mm and 300mm wafers with options for wafer repassivation, redistribution and IPD layers;
- *Test services:* including wafer probe and final testing on a diverse selection of test equipment covering the major test platforms in the industry. We have expertise in testing a broad variety of semiconductors, especially mixed-signal, radio frequency ("RF"), analog and high-performance digital devices. We also offer test-related services such as burn-in process support, reliability testing, thermal and electrical characterisation, dry pack, and tape and reel; and
- *Pre-production and post-production services:* such as package development, test software and related hardware development, warehousing and drop shipment services.

We are among the leaders in providing advanced package technology, such as flip chip, wafer level packaging and services (including TSV mid-end and back-end processes), die and package stacking, System-in-Package and 3D integration. We are also among the leaders in testing mixed-signal, RF semiconductors or semiconductors combining the use of analog and digital circuits in a chip. Mixed-signal and RF semiconductors are used extensively in fast-growing communications and consumer applications. We have strong expertise in testing a wide range of high-performance digital devices in System-on-Chip ("SoC").

We have been successful in attracting new customers with our packaging and test capabilities and then expanding our relationship with such customers to provide full turnkey solutions tailored to their individual needs.

We are headquartered in Singapore and have manufacturing facilities in South Korea, Singapore, China, Malaysia, and Taiwan (which includes the facilities of our 52%-owned Taiwan subsidiary, STATS ChipPAC Taiwan Semiconductor Corporation). We market our services through our direct sales force in the United States, South Korea, Japan, China, Singapore, Taiwan and Switzerland.

Temasek Holdings (Private) Limited ("Temasek"), through its wholly-owned subsidiary, Singapore Technologies Semiconductors Pte Ltd ("STSP"), beneficially owned approximately 83.8% of the Company as of 29 June 2014. Temasek, a private limited company incorporated in Singapore, is wholly-owned by the Singapore Government through the Minister for Finance.

Results of Operations and Selected Data

	Three Months Ended				Six Months Ended			
	29 June 2014		30 June 2013		29 June 2014		30 June 2013	
	(In US\$'000, except for ratio)				(In US\$'000, except for ratio)			
		% of net revenues		% of net revenues		% of net revenues		% of net revenues
Net revenues	409,912	100.0	396,366	100.0	775,388	100.0	802,727	100.0
Cost of revenues	(359,862)	(87.8)	(339,455)	(85.6)	(688,818)	(88.8)	(683,382)	(85.1)
Gross profit	50,050	12.2	56,911	14.4	86,570	11.2	119,345	14.9
Operating expenses:								
Selling, general and administrative	25,128	6.1	24,268	6.1	49,250	6.3	47,560	5.9
Research and development	10,751	2.6	12,700	3.2	20,683	2.7	25,075	3.1
Exchange offer and redemption expenses	—	0.0	14,129	3.6	—	0.0	15,701	2.0
Write-off of debt issuance costs	—	0.0	2,176	0.6	—	0.0	2,392	0.3
Operating expenses	35,879	8.7	53,273	13.5	69,933	9.0	90,728	11.3
Equipment impairment	—	0.0	—	0.0	2,261	0.3	—	0.0
Total operating expenses	35,879	8.7	53,273	13.5	72,194	9.3	90,728	11.3
Operating income before exceptional item	14,171	3.5	3,638	0.9	14,376	1.9	28,617	3.6
Plant closure costs	—	0.0	(36,530)	(9.2)	—	0.0	(36,530)	(4.6)
Operating income (loss) after exceptional item	14,171	3.5	(32,892)	(8.3)	14,376	1.9	(7,913)	(1.0)
Other income (expenses), net:								
Interest income	388	0.1	353	0.1	950	0.1	680	0.1
Interest expense	(12,676)	(3.1)	(13,536)	(3.4)	(25,051)	(3.2)	(28,794)	(3.6)
Foreign currency exchange loss	(347)	(0.1)	(8)	(0.0)	(557)	(0.1)	(324)	(0.0)
Other non-operating income, net	152	0.0	53	0.0	161	0.0	45	0.0
Total other expenses, net	(12,483)	(3.1)	(13,138)	(3.3)	(24,497)	(3.2)	(28,393)	(3.5)
Income (loss) before income taxes	1,688	0.4	(46,030)	(11.6)	(10,121)	(1.3)	(36,306)	(4.5)
Income tax expense	(3,273)	(0.8)	(3,850)	(1.0)	(6,211)	(0.8)	(8,521)	(1.1)
Net income (loss)	(1,585)	(0.4)	(49,880)	(12.6)	(16,332)	(2.1)	(44,827)	(5.6)
Less: Net income attributable to the non-controlling interest	(2,597)	(0.6)	(2,368)	(0.6)	(3,657)	(0.5)	(3,892)	(0.5)
Net income (loss) attributable to STATS ChipPAC Ltd.	(4,182)	(1.0)	(52,248)	(13.2)	(19,989)	(2.6)	(48,719)	(6.1)

Net revenues by product line and by end user market were:

	Three Months Ended		Six Months Ended	
	29 June 2014	30 June 2013	29 June 2014	30 June 2013
	%	%	%	%
Net revenues by product line:				
Advanced packaging	49.2	45.6	49.1	47.3
Wirebond packaging	30.0	32.0	29.9	30.8
Test	20.8	22.4	21.0	21.9
	100.0	100.0	100.0	100.0
Net revenues by end user market:				
Communications	67.5	70.3	67.4	72.2
Personal Computers	8.5	8.5	8.5	7.6
Consumer, Multi-applications and Others	24.0	21.2	24.1	20.2
	100.0	100.0	100.0	100.0

Three and six months ended 29 June 2014 compared to three and six months ended 30 June 2013

Net Revenues

We derive revenues primarily from the provision of advanced packaging, wirebond packaging and test services. Net revenues in the three and six months ended 29 June 2014 were \$409.9 million and \$775.4 million, an increase of 3.4% compared to \$396.4 million in the three months ended 30 June 2013 and a decrease of 3.4% compared to \$802.7 million in the six months ended 30 June 2013, respectively. The increase in net revenues in the three months ended 29 June 2014 compared to the same period in 2013 was due to strong growth in our mobile communications business, driven by demand for the emerging market wireless chipsets and next-generation Long-Term Evolution (“LTE”) processors. The decrease in net revenues in the six months ended 29 June 2014 compared to the same period in 2013 was due to weaker demand during the three months ended 30 March 2014 in the wireless communications market targeted at the high-end smartphone segment that was partially offset by strength in the low-cost smartphone segment.

In the three and six months ended 29 June 2014, our advanced packaging revenues increased by 11.5% and 0.2% to \$201.5 million and \$380.8 million, compared to the same periods in 2013, respectively, due to higher demand in the wireless communications market. In the three and six months ended 29 June 2014, our wirebond packaging revenues decreased by 3.0% and 6.2% to \$123.2 million and \$232.0 million, compared to the same periods in 2013, respectively, due to the transition of technology from leaded wirebonding to advanced packaging. In the three and six months ended 29 June 2014, our test services revenue decreased by 3.9% and 7.4% to \$85.3 million and \$162.6 million, compared to the same periods in 2013, respectively, due to product mix change. Our revenue from copper wirebond packaging accounted for 37.3% and 36.9% of our total wirebond packaging revenue in the three and six months ended 29 June 2014 compared to 34.7% and 31.4% in the same periods in 2013, respectively.

Gross Profit

Gross profit in the three and six months ended 29 June 2014 was \$50.1 million and \$86.6 million compared to \$56.9 million and \$119.3 million in the three and six months ended 30 June 2013, respectively. Gross profit as a percentage of revenues was 12.2% and 11.2% in the three and six months ended 29 June 2014, compared to 14.4% and 14.9% in the three and six months ended 30 June 2013, respectively. Gross profit for the three and six months ended 29 June 2014 decreased mainly due to higher cost of revenues compared to the three and six months ended 30 June 2013. In the three months ended 29 June 2014, we incurred higher production ramp-up costs as we continued to expand our advanced flip chip, wafer level and turnkey test capacity to support anticipated demand from customers in the mobile communications segment. Our cost of revenues consist principally of fixed costs such as depreciation and leasing expenses and variable costs such as direct and indirect labour, materials and overhead expenses.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of payroll-related costs for administrative personnel, external fees such as consultancy, legal, administrative, profession and regulatory fees and depreciation of equipment used in selling, general and administrative activities. Selling, general and administrative expenses were \$25.1 million and \$49.3 million in the three and six months ended 29 June 2014 compared to \$24.3 million and \$47.6 million in the three and six months ended 30 June 2013, respectively. The increase was primarily due to higher payroll-related costs and higher headcount in the three and six months ended 29 June 2014. As a percentage of revenues, selling, general and administrative expenses were 6.1% and 6.3% in the three and six months ended 29 June 2014 compared to 6.1% and 5.9% in the three and six months ended 30 June 2013.

Research and Development

Research and development expenses consist primarily of payroll-related cost for research and development, external fees such as consultancy and legal, and depreciation of equipment and consumables used in research and development activities. Research and development expenses were \$10.8 million and \$20.7 million in the three and six months ended 29 June 2014 compared to \$12.7 million and \$25.1 million in the three and six months ended 30 June 2013, respectively. The decrease in research and development expenses in the three and six months ended 29 June 2014 was primarily due to lower payroll-related costs and lower headcount. As a percentage of revenues, research and development expenses were 2.6% and 2.7% in the three and six months ended 29 June 2014 compared with 3.2% and 3.1% in the three and six months ended 30 June 2013, respectively.

Exchange Offer Expenses and Write-Off of Debt Issuance Costs

In the three and six months ended 30 June 2013, we recorded \$14.1 million of redemption premium expenses related to redemption of the outstanding \$241.6 million of 7.5% Senior Notes due 2015 and \$1.6 million of exchange offer expenses related to the cash portion of our exchange offer of the 7.5% Senior Notes due 2015 for the 4.5% Senior Notes due 2018. In connection with the exchange offer and redemption of the 7.5% Senior Notes due 2015, we recorded \$2.2 million and \$2.4 million on write-off of debt issuance costs in the three and six months ended 30 June 2013, respectively. No exchange offer and redemption expenses or write-off of debt issuance costs were incurred in the three and six months ended 29 June 2014.

Equipment Impairment

In the three months ended 30 March 2014, we recorded \$2.3 million of charges related to the impairment of certain 200mm wafer level packaging equipment. No equipment impairment expense was incurred in the three months ended 29 June 2014 and the three and six months ended 30 June 2013.

Plant Closure Costs

In the three months ended 30 June 2013, we recorded plant closure costs of \$36.5 million related to our strategic plan to consolidate our leaded wirebond packaging and related test operations in Kuala Lumpur, Malaysia into our Qingpu, Shanghai, China operations and closure

of our Malaysia plant by the end of 2014. The plant closure costs included employee severance and benefit costs of \$17.8 million, non-cash asset impairment charges of \$17.7 million and other associated costs of \$1.0 million. No plant closure costs were incurred in the three and six months ended 29 June 2014.

Net Interest Income (Expense)

Net interest expense was \$12.3 million and \$24.1 million in the three and six months ended 29 June 2014 compared to \$13.2 million and \$28.1 million in the three and six months ended 30 June 2013, respectively. Interest income was \$0.4 million and \$1.0 million in the three and six months ended 29 June 2014 compared to \$0.4 million and \$0.7 million in the three and six months ended 30 June 2013, respectively.

Interest expense was \$12.7 million and \$25.1 million in the three and six months ended 29 June 2014, compared to \$13.5 million and \$28.8 million in the three and six months ended 30 June 2013, respectively. The decrease in interest expense in the three and six months ended 29 June 2014 was mainly due to lower interest rate on our long-term borrowings as we refinanced our \$600.0 million of 7.5% Senior Notes due 2015 with \$611.2 million of 4.5% Senior Notes due 2018 partially offset by higher borrowings. Total outstanding interest-bearing debt was \$1,064.6 million and \$874.7 million as of 29 June 2014 and 30 June 2013, respectively.

Foreign Currency Exchange Gain (Loss)

Net foreign currency exchange loss was \$0.3 million and \$0.6 million in the three and six months ended 29 June 2014 compared to \$0.01 million and \$0.3 million in the three and six months ended 30 June 2013, respectively. These non-cash losses were due primarily to the fluctuations during the three and six months ended 29 June 2014 compared to the same periods in 2013 between the exchange rate of the United States dollar and the New Taiwan Dollar, the Singapore dollar, the South Korean Won, the Chinese Renminbi and the Malaysian Ringgit.

Other Non-Operating Income (Expenses), Net

Net other non-operating income was \$0.2 million each in the three and six months ended 29 June 2014, compared to \$0.05 million each in the three and six months ended 30 June 2013, respectively.

Income Tax Expense

Our consolidated income tax expense was \$3.3 million and \$6.2 million in the three and six months ended 29 June 2014, compared to \$3.9 million and \$8.5 million in the three and six months ended 30 June 2013, respectively, based on the mix of tax rates and taxable income across the various jurisdictions in which we do business. Our primary tax jurisdictions are Singapore, South Korea, China, Malaysia, Taiwan, Thailand and the United States.

Balance Sheet

Total Group assets increased \$183.1 million to \$2,560.8 million as of 29 June 2014 compared to \$2,377.7 million as of 29 December 2013, mainly due to an increase in cash, cash equivalents and bank deposits by \$2.5 million, property, plant and equipment by \$155.7 million, other receivables by \$15.5 million, inventories by \$9.0 million, prepaid expenses and other current assets by \$3.4 million, partially offset by a decrease in and accounts receivable by \$2.5 million.

The Group had cash, cash equivalents and bank deposits of \$185.3 million as of 29 June 2014 compared to \$182.8 million as of 29 December 2013. The increase in cash, cash equivalents and bank deposits was mainly due to timing of cash collections and working capital management. The decrease in accounts receivable was mainly due to timing of cash collections and cash realisation program. The increase in property, plant and equipment was due to our capital expenditure of \$309.0 million, partially offset by depreciation of \$150.7 million and equipment impairment of \$2.3 million in the six months ended 29 June 2014. The increase in other receivables was mainly due to increase in input tax receivable. The increase in inventories was mainly to support anticipated customers demand. The increase in prepaid expenses and other current assets was mainly due to increase in advance payment to suppliers.

Total Group liabilities increased \$206.1 million to \$1,613.0 million as of 29 June 2014 compared to \$1,406.9 million as of 29 December 2013 mainly due to an increase in short and long-term borrowings by \$152.4 million, accounts and other payables by \$24.4 million, payables related to property, plant and equipment purchases by \$30.1 million, accrued operating expenses by \$5.2 million, partially offset by a decrease in income tax payable by \$6.4 million. The increase in short and long-term borrowings was mainly to fund capital expenditures and working capital. The increase in accounts and other payables was mainly due to timing of payment. The increase in payables related to property, plant and equipment purchases was mainly due to higher capital expenditures. The increase in accrued operating expenses was mainly due to increase in accrued staff cost. The decrease in income tax payable was mainly due to payment of income tax.

Total shareholders' equity attributable to STATS ChipPAC Ltd. decreased by \$21.2 million to \$896.3 million mainly due to our net loss of \$20.0 million in the six months ended 29 June 2014 and other comprehensive loss of \$1.2 million in the six months ended 29 June 2014.

Liquidity and Total Borrowings

Our principal sources of liquidity consist of cash flows from operating activities, bank facilities and other debt financing, and our existing cash, cash equivalents and bank deposits. As of 29 June 2014, we had cash, cash equivalents and bank deposits of \$185.3 million. We also have available lines of credit and banking facilities consisting of loans, overdrafts, letters of credit and bank guarantees, including those

available to our consolidated subsidiaries, which amounted to an aggregate of \$534.2 million, of which \$209.3 million of credit facilities and \$37.4 million of other banking facilities were available as of 29 June 2014. Our liquidity needs arise primarily from servicing our outstanding debts, working capital needs and the funding of capital expenditures and investments. Our capital expenditures are largely driven by the demand for our services, primarily to increase our packaging and testing capacity, to replace packaging and testing equipment from time to time, and to expand our facilities and service offerings. Depending on business conditions, we expect our capital expenditure in the third quarter of 2014 to be approximately \$175 million to \$205 million, including \$75 million to \$95 million for progressive construction of our new factory in South Korea. Capital expenditures in the three and six months ended 29 June 2014, including \$42.4 million and \$58.1 million progressive capital spending for the new factory construction in South Korea, was \$195.3 million and \$309.0 million, compared to \$105.8 million and \$198.2 million in the three and six months ended 30 June 2013, respectively.

As of 29 June 2014, our total debt outstanding consisted of \$1,064.6 million of borrowings, which included \$611.2 million of our 4.5% Senior Notes due 2018, \$200.0 million of our 5.375% Senior Notes due 2016, and other short-term and long-term borrowings.

In February 2013, we commenced a private offer to exchange any and all of our outstanding \$600.0 million of 7.5% Senior Notes due 2015 for U.S. dollar-denominated fixed rate senior notes due 2018. On 15 March 2013, upon the expiry of the exchange offer, an aggregate principal amount of \$358.4 million of 7.5% Senior Notes due 2015, representing 59.7% of these notes were validly tendered. The notes that were validly tendered in the exchange offer were cancelled immediately upon exchange for the new 4.5% Senior Notes due 2018. On 20 March 2013, we issued a further \$255.0 million of 4.5% Senior Notes due 2018 to fund the redemption of the remaining outstanding \$241.6 million of 7.5% Senior Notes due 2015 for cash proceeds of \$247.6 million, after deducting debt issuance cost. On 19 April 2013, we redeemed our remaining outstanding \$246.1 million of 7.5% Senior Notes due 2015 for \$255.7 million pursuant to the redemption price terms of the indenture. We financed the redemption with the proceeds from the issuance of the 4.5% Senior Notes due 2018 and short-term borrowings. The notes were cancelled upon redemption. Redemption premium of \$15.7 million and debt issuance costs of \$2.4 million were expensed in the income statement in 2013.

The aggregate principal amount of 4.5% Senior Notes due 2018 issued pursuant to the exchange offer and private placement of these notes for cash amounted to \$611.2 million. These notes are our senior unsecured obligations and are listed on the SGX-ST. These notes are guaranteed, on an unsecured senior basis, by all of our existing subsidiaries (except STATS ChipPAC Shanghai Co., Ltd. and STATS ChipPAC Taiwan Semiconductor Corporation) (collectively “Non-Guarantor Subsidiaries”) and our future restricted subsidiaries (except where prohibited by local law). These notes will mature on 20 March 2018 bearing interest at the rate of 4.5% per annum payable semi-annually on 20 March and 20 September of each year, commencing 20 September 2013. Prior to 20 March 2016, we may redeem all or part of these notes at any time by paying a “make-whole” premium plus accrued and unpaid interest. We may redeem all, but not less than all, of these notes at any time in the event of certain changes affecting withholding taxes at 100% of their principal amount plus accrued and unpaid interest. On or after 20 March 2016, we may redeem all or a part of these notes at any time at the redemption prices specified under the terms and conditions of these notes plus accrued and unpaid interest. In addition, prior to 20 March 2016, we may redeem up to 35% of these notes with the net proceeds from certain equity offerings. Upon certain circumstances including a change of control as defined in the indenture related to these notes, we may be required to offer to purchase these notes at 101% of their principal amount plus accrued and unpaid interest. The STATS ChipPAC consolidated group, with the exception of STATS ChipPAC Taiwan Semiconductor Corporation, is subject to the covenant restrictions. Therefore the Non-Guarantor Subsidiaries and STATS ChipPAC Shanghai Co. Ltd. (the “China Non-Guarantor Subsidiary”) are also Restricted Subsidiaries as defined under these notes. The covenant restrictions include, among other things, limit their ability to incur additional indebtedness, prepay subordinated debts, make investments, declare or pay dividends, enter into transactions with related parties, sell assets, enter into sale and leaseback transactions, incur liens and encumbrances and enter into merger and consolidations.

On 29 August 2012, we obtained a \$50.0 million revolving credit facility from DBS Bank Ltd. On 26 September 2013, the revolving credit facility was extended until February 2015 and the facility amount was increased to \$75.0 million. In July 2014, the revolving credit facility was extended until February 2016. The purpose of the facility is for our general corporate funding. As of 29 June 2014, we have \$20.0 million outstanding under this facility. The principal and interest of the loan are payable on maturity in July 2014. The loan bears interest at the rate of 1% per annum.

On 31 July 2012, we obtained a \$50.0 million revolving credit facility from Oversea-Chinese Banking Corporation Limited. On 27 September 2013, the revolving credit facility was extended until October 2015 and the facility amount was increased to \$75.0 million. The purpose of the facility is for our general corporate funding. As of 29 June 2014, we have \$67.1 million outstanding under this facility. The principal and interest of the loan are payable on maturity in July 2014. The loan bears interest at the rate of 1% per annum.

On 26 September 2013, our subsidiary, STATS ChipPAC Korea Ltd. entered into a \$120.0 million five-year secured term loan with Hana Bank. The purpose of the loan is to finance capital expenditures. The facility is collateralised by equipment located at our South Korean subsidiary and upon completion of construction, our South Korean subsidiary’s new facility in the Incheon Free Economic Zone. As of 29 June 2014, we have \$67.3 million outstanding under this facility. The principal of the loan is payable on maturity in September 2018. The interest of the loan is payable on a monthly basis. The loan bears interest at the rate of 4% per annum.

On 2 October 2013, we obtained a \$25.0 million revolving credit facility from Mizuho Bank Ltd. In August 2014, the revolving credit facility was extended until October 2015 and the facility amount was increased to \$40.0 million. The purpose of the facility is for our general corporate funding. As of 29 June 2014, we have \$25.0 million outstanding under this facility. The principal and interest of the loan are payable on maturity in July 2014. The loan bears interest at the rate of 1% per annum.

On 12 January 2011, we issued \$200.0 million of 5.375% Senior Notes due 2016 for proceeds of \$198.0 million after deducting debt issuance cost. These notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured senior basis, by all of our existing subsidiaries, except the Non-Guarantor Subsidiaries and our future restricted subsidiaries except where prohibited by local law. These notes are our senior unsecured obligations and are listed on the SGX-ST. On 18 January 2011, we repaid the \$234.5 million outstanding principal under the \$360.0 million senior credit facility with the net proceeds from the \$200.0 million of 5.375% Senior Notes due 2016 and cash on hand. These notes will mature on 31 March 2016, bearing interest at the rate of 5.375% per annum payable semi-annually on 31 March and 30 September of each year, commencing 31 March 2011. We may redeem all, but not less than all, of these notes at any time in the event of certain changes affecting withholding taxes at 100% of their principal amount plus accrued and unpaid interest. On or after 31 March 2014, we may redeem all or a part of these notes at any time at the redemption prices specified under the terms and conditions of these notes plus accrued and unpaid interest. Upon certain circumstances including a change of control as defined in the indenture related to these notes, we may be required to offer to purchase these notes at 101% of their principal amount plus accrued and unpaid interest. The STATS ChipPAC consolidated group, with the exception of STATS ChipPAC Taiwan Semiconductor Corporation, is subject to the covenant restrictions. Therefore the China Non-Guarantor Subsidiary is also a Restricted Subsidiary as defined under these notes. The covenant restrictions, among other things, limit their ability to incur additional indebtedness, prepay subordinated debts, make investments, declare or pay dividends, enter into transactions with related parties, sell assets, enter into sale and leaseback transactions, incur liens and encumbrances and enter into merger and consolidations.

Other unsecured revolving credit facilities comprised \$175.0 million, \$2.9 million, \$15.8 million of facilities issued to the Company and its subsidiaries in South Korea and Taiwan, respectively. The purpose of these facilities is for general corporate funding. As of 29 June 2014, we have outstanding loans of \$100.0 million under these facilities. The principal and interest of the loans are payable on maturity in July 2014. The loans bear interest at the rate of 1% per annum.

We believe that our cash on hand, existing credit facilities, anticipated cash flows from operations and working capital improvements will be sufficient to meet our currently anticipated capital expenditure requirements, investment requirements, as well as debt service repayment and liability obligations for the next 12 months. We regularly evaluate our current and future financing needs and may take advantage of favourable capital or credit market conditions to raise additional financing. We may also from time to time seek to refinance or otherwise restructure our outstanding debt, or retire or purchase our outstanding debt through cash purchases and/or exchanges for securities, in the open market purchases, privately negotiated transactions or otherwise for strategic reasons, or to further strengthen our financial position. From time to time, we may make acquisitions of, or investments in, other companies and businesses that we believe could expand our business, augment our market coverage, enhance our technical capabilities or otherwise offer growth opportunities. Such additional financing, refinancing, repurchases, exchanges, acquisitions or investments, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

There can be no assurance that our business activity would be maintained at the expected level to generate the anticipated cash flows from operations or that our credit facilities would be available or sufficient. If the market conditions deteriorate, there can be no assurance that demand for our services will not be adversely affected, resulting in our cash flows from operations being lower than anticipated. If our cash flows from operations is lower than anticipated, including as a result of a downturn in the market conditions generally or the semiconductor industry, or shortages in supply of key components and disruption in supply chain, or otherwise, or our capital requirements exceed our expectations as a result of higher than anticipated growth in the semiconductor industry, acquisition or investment opportunities, or the expansion of our business or otherwise, we may have to seek additional financing. In such events, there can be no assurance that additional financing will be available or, if available, that such financings can be obtained on terms favourable to us or that any additional financing will not be dilutive to our shareholders or detrimental to our creditors.

Guarantor Subsidiaries and Non-Guarantor Subsidiaries

In January 2011 and March 2013, the Company issued \$200.0 million of 5.375% Senior Notes due 2016 and \$611.2 million of 4.5% Senior Notes due 2018, respectively, which are fully and unconditionally guaranteed, jointly and severally, on a senior basis, by its subsidiaries, with the exception of the Non-Guarantor Subsidiaries. Of the Non-Guarantor Subsidiaries, the China Non-Guarantor Subsidiary is a Restricted Subsidiary as defined under these notes. STATS ChipPAC Taiwan Semiconductor Corporation, which is not a wholly-owned subsidiary, is not a Restricted Subsidiary.

For the three and six months ended 29 June 2014, the Non-Guarantor Subsidiaries, after eliminations of transactions and balances within these entities (but before taking into account any transactions and balances between the Non-Guarantor Subsidiaries, the guarantor subsidiaries and STATS ChipPAC Ltd.), generated \$110.3 million and \$200.9 million of net revenues (representing 26.9% and 25.9% of our consolidated net revenues) and \$1.8 million of operating income and \$0.4 million of operating loss (representing 12.4% and (3.0)% of our consolidated operating income of \$14.2 million and \$14.4 million), respectively. As of 29 June 2014 and 29 December 2013, the Non-Guarantor Subsidiaries held \$660.6 million and \$605.6 million of assets (representing 25.8% and 25.5% of our consolidated total assets), respectively.

For the three and six months ended 29 June 2014, STATS ChipPAC Korea Ltd. generated \$137.7 million and \$264.9 million of net revenues (representing 33.6% and 34.2% of our consolidated net revenues) and \$8.0 million and \$21.4 million of operating income (representing 56.3% and 149.1% of our consolidated operating income of \$14.2 million and \$14.4 million), respectively. As of 29 June 2014 and 29 December 2013, STATS ChipPAC Korea Ltd. held \$865.8 million and \$723.1 million of assets (representing 33.8% and 30.4% of our consolidated total assets), respectively.

For the three and six months ended 29 June 2014, the China Non-Guarantor Subsidiary generated \$95.7 million and \$175.6 million of net revenues (representing 23.4% and 22.6% of our consolidated net revenues) and \$3.9 million and \$8.6 million of operating loss (representing (27.3)% and (60.1)% of our consolidated operating income of \$14.2 million and \$14.4 million), respectively. As of 29 June 2014 and 29 December 2013, the China Non-Guarantor Subsidiary held \$533.7 million and \$485.2 million of assets (representing 20.8% and 20.4% of our consolidated total assets), respectively.

As of 29 June 2014 and 29 December 2013, STATS ChipPAC Korea Ltd. had indebtedness outstanding of \$67.3 million and \$25.1 million and approximately \$200.1 million and \$113.1 million of trade payables and other liabilities outstanding, respectively.

As of 29 June 2014 and 29 December 2013, the China Non-Guarantor Subsidiary had no indebtedness outstanding and \$204.6 million and \$153.4 million of trade payables and other liabilities outstanding, respectively, and STATS ChipPAC Taiwan Semiconductor Corporation had no indebtedness outstanding and \$22.6 million and \$8.8 million of trade payables and other liabilities outstanding, respectively.

Off-Balance Sheet Arrangements

We have no significant investment in any unconsolidated entities. Our off-balance sheet commitments are limited to operating leases, royalty/license agreements and purchase obligations. Our total off-balance sheet obligations were approximately \$555.1 million as of 29 June 2014.

Contractual Obligations

Our total commitments on our loans, operating leases, other obligations and agreements as of 29 June 2014 were as follows:

	Payments Due (in US\$'000)				Total
	Within 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
On balance sheet commitments:					
4.5% Senior Notes due 2018 (1)	—	—	611,152	—	611,152
5.375% Senior Notes due 2016 (1)	—	200,000	—	—	200,000
Short-term bank borrowings (1)	100,000	—	—	—	100,000
Long-term bank borrowings (1)	—	112,100	67,256	—	179,356
Other non-current liabilities (2)	—	—	—	—	—
Total on balance sheet commitments	100,000	312,100	678,408	—	1,090,508
Off balance sheet commitments:					
Operating leases	36,744	19,285	12,644	94,547	163,220
Royalty/ licensing agreements	4,349	8,698	7,634	—	20,681
Purchase obligations:					
- Capital commitments (3)	246,943	—	—	—	246,943
- Inventory purchase commitments	124,211	—	—	—	124,211
Total off balance sheet commitments	412,247	27,983	20,278	94,547	555,055
Total commitments	512,247	340,083	698,686	94,547	1,645,563

Notes:

(1) Our senior notes, short-term and long-term bank borrowings agreements contain provisions for the payment of interest either on a monthly, quarterly, semi-annual or annual basis at a stated rate of interest over the term of the debt. These payment obligations are not reflected in the table above. The interest payments due within one year, 1-3 years and 3-5 years amount to \$40.1 million, \$69.4 million and \$29.8 million, respectively.

(2) Our other non-current liabilities as of 29 June 2014 were \$21.8 million, including \$1.2 million related to severance benefits for our employees in South Korea which were not included in the table due to lack of contractual certainty as to the timing of payments. The table does not include non-current liabilities related to the litigation settlement charges included in our selling, general and administrative expenses for the fourth quarter of 2012.

(3) On 19 November 2012, we announced our expansion plans in South Korea for the investment of a new integrated facility in the Incheon Free Economic Zone. The construction of the new facility began in the third quarter of 2013 and the new facility is expected to be operational in the first quarter of 2015. Included in operating leases as of 29 June 2014 were minimum lease payments for the land and outsourced facility infrastructures within one year, 1-3 years, 3-5 years and more than 5 years of \$4.3 million, \$10.3 million, \$10.3 million and \$89.6 million, respectively. Included in capital commitments as of 29 June 2014 were purchase obligations within one year of \$117.6 million. We expect to incur additional capital commitment and facilitation costs of approximately \$16.0 million related to the expansion as of 29 June 2014. These figures are based on the prevailing South Korean Won exchange rate at the end of second quarter of 2014.

Contingencies

We are subject to claims and litigations that arise in the normal course of business. These claims may include allegations of infringement of intellectual property rights of others as well as other claims of liability. We accrue liability associated with these claims and litigations when they are probable and reasonably estimable.

We also, from time to time, receive from customers request for indemnification against pending or threatened infringement claims brought against such customers, such as the Tessera cases described in our financial statement for the year ended 30 December 2012. The resolution of any future allegation or request for indemnification could have a material adverse effect on our business, financial condition and results of operations.

In addition, we are subject to various taxes in the different jurisdictions in which we operate. These include taxes on income, property, goods and services, and other taxes. We submit tax returns and claims with the appropriate government taxing authorities, which are subject to examination and agreement by those taxing authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine adequacy of provision for taxes.

Cash Flow Information

	Three Months Ended		Six Months Ended	
	29 June 2014	30 June 2013	29 June 2014	30 June 2013
	(In US\$'000)		(In US\$'000)	
Net cash provided by operating activities	89,145	122,690	152,318	201,211
Net cash used in investing activities	(124,323)	(96,633)	(284,098)	(204,320)
Net cash provided by (used in) financing activities	45,437	(178,519)	129,544	(22,651)

Cash Flows from Operating Activities

In the three and six months ended 29 June 2014, cash provided by operations was \$89.1 million and \$152.3 million compared to \$122.7 million and \$201.2 million in the three and six months ended 30 June 2013. Cash provided by operations is calculated by adjusting our net income (loss) by non-cash related items such as income tax expense, depreciation and amortisation, loss or gain from sale of assets, goodwill impairment, equipment impairment, exchange offer expenses, write-off of debt issuance costs, foreign currency exchange loss or gain, interest income, interest expense and by changes in assets and liabilities. In the three and six months ended 29 June 2014, non-cash related items included \$3.3 million and \$6.2 million of income tax expense, respectively, \$76.7 million and \$153.9 million related to depreciation and amortisation, respectively, nil and \$2.3 million related to equipment impairment, respectively, \$1.1 million and \$1.2 million gain from the sale of equipment, respectively, \$0.3 million and \$(0.1) million of foreign currency exchange gain (loss), respectively, \$0.4 million and \$1.0 million of interest income and \$12.7 million and \$25.1 million of interest expense, respectively.

In the three and six months ended 30 June 2013, non-cash related items included \$3.9 million and \$8.5 million of income tax expense, respectively, \$74.8 million and \$146.4 million related to depreciation and amortisation, respectively, \$2.2 million and \$2.4 million of debt issuance costs written off, respectively, \$14.1 million and \$15.7 million of exchange offer and redemption expenses, respectively, \$17.7 million each on asset impairment, \$0.1 million and \$0.5 million gain from the sale of equipment, respectively, \$0.1 million and \$(0.6) million of foreign currency exchange (gain) loss, respectively, \$0.4 million and \$0.7 million of interest income, respectively, and \$13.5 million and \$28.8 million of interest expense, respectively.

Working capital uses of cash in the three months ended 29 June 2014 included increases in accounts receivable, inventories, other receivables, prepaid expenses and other assets. Working capital sources of cash in the three months ended 29 June 2014 included increases in accounts payable, accrued operating expenses and other payables, and amounts due to related parties.

Working capital uses of cash in the six months ended 29 June 2014 included increases in inventories, other receivables, prepaid expenses and other assets. Working capital sources of cash in the six months ended 29 June 2014 included decreases in accounts receivable and increases in accounts payable, accrued operating expenses and other payables, and amount due to related parties.

Accounts receivables as of 29 June 2014 were lower compared to 29 December 2013 mainly due to timing of receipt and cash realisation program. Accounts payable increased as of 29 June 2014 as compared to 29 December 2013 primarily due to timing of purchases and working capital management. Payables related to property, plant and equipment purchases increased due to higher capital expenditures. Additionally, accrued operating expenses and other payables increased mainly due to increase in staff related costs.

Cash Flows from Investing Activities

In the three and six months ended 29 June 2014, cash used in investing activities was \$124.3 million and \$284.1 million compared to \$96.6 million and \$204.3 million in the same periods in 2013, respectively. The primary usage of cash in investing activities was related to the acquisition of property and equipment, net of changes in payables related to property, plant and equipment purchases of \$128.1 million and \$278.8 million in the three and six months ended 29 June 2014, compared to \$100.9 million and \$203.1 million in the same periods in 2013, respectively. In the three and six months ended 29 June 2014, we invested \$1.3 million and \$3.0 million in the acquisition of software, licenses and other intangible assets compared to \$1.2 million and \$2.3 million in the same periods in 2013, respectively. In the three and six months ended 29 June 2014, we purchased \$19.9 million and \$42.7 million of bank deposits compared to \$16.8 million and \$40.0 million in the same periods in 2013, respectively. In the three and six months ended 29 June 2014, we received proceeds from the maturity of our bank deposits of \$23.2 million and \$38.5 million compared to \$21.8 million and \$38.8 million in the same periods in 2013, respectively. We received \$0.3 million and \$0.6 million of interest income in the three and six months ended 29 June 2014, compared to \$0.2 million and \$0.4 million in the same periods in 2013, respectively.

Cash Flows from Financing Activities

In the three and six months ended 29 June 2014, cash provided by (used in) financing activities was \$45.4 million and \$129.5 million, compared to \$(178.5) million and \$(22.7) million in the same periods in 2013, respectively. In the three and six months ended 29 June 2014, \$96.1 million and \$194.1 million of bank borrowings were incurred and \$45.0 million each were repaid. In the three and six months ended 29 June 2014, we paid \$6.1 million and \$20.3 million of interest expense, respectively. In the three and six months ended 29 June 2014, we received \$0.4 million and \$0.7 million of government grant, respectively. In the three and six months ended 30 June 2013, \$110.1 million and \$195.6 million of bank borrowings were incurred and \$30.0 million and \$151.5 million of our borrowings were repaid. In the six months ended 30 June 2013, \$247.6 million of proceeds, after deducting debt issuance cost of \$7.4 million were received from the issuance of our \$255.0 million 4.5% Senior Notes due 2018. In February 2013, we commenced a private exchange offer for our \$600.0 million 7.5% Senior Notes due 2015. In connection with our refinancing of our \$600.0 million of 7.5% Senior Notes due 2015 with \$611.2 million of 4.5% Senior Notes due 2018, we made cash payment of \$255.7 million comprising redemption premium of \$14.1 million and redemption of \$241.6 million principal of our 7.5% Senior Notes due 2015 on 19 April 2013, and cash payment of \$24.9 million related to our exchange offer of the 7.5% Senior Notes due 2015. In the three and six months ended 30 June 2013, we paid \$3.4 million and \$34.3 million of interest expense. In the three and six months ended 30 June 2013, we received \$0.5 million and \$0.6 million of government grants, respectively.

Outlook for the Third Quarter of 2014

In terms of outlook, based on current visibility, STATS ChipPAC expects net revenues in the third quarter of 2014 to increase by 2% to 8% compared to the three months ended 29 June 2014, with adjusted EBITDA⁽¹⁾ in the range of 20% to 25% as a percentage of revenue. STATS ChipPAC expects capital expenditure⁽²⁾ in the third quarter of 2014 to be approximately \$175 million to \$205 million, and includes \$75 million to \$95 million for progressive construction of the new factory in South Korea.

Notes:

⁽¹⁾ Adjusted EBITDA is not required by, or presented in accordance with, FRS. We define adjusted EBITDA as net income attributable to STATS ChipPAC Ltd. plus income tax expense, interest expense, net, depreciation and amortisation, restructuring charges, share-based compensation, goodwill and equipment impairment, tender offer, debt exchange or debt redemption expenses and write-off of debt issuance costs. Adjusted EBITDA excludes the plant closure costs related to our Malaysia plant and our restructuring actions. We present adjusted EBITDA as a supplemental measure of our performance. Management believes the non-FRS financial measure is useful to investors in enabling them to perform additional analysis.

⁽²⁾ Capital expenditure refers to acquisitions of production equipment, asset upgrades and infrastructure investments.

The outlook for the third quarter of 2014 is subject to a number of risks and uncertainties that could cause actual events or results to differ materially from those disclosed in the outlook statements. These statements are based on our management's beliefs and assumptions, which involve judgments about future trends, events and conditions, all of which are subject to change and many of which are beyond our control.

Investors should consider these assumptions and make their own assessment of the future performance of STATS ChipPAC and note that there may not be direct correlation between the net income of the Group with adjusted EBITDA as a percentage of revenue.

Outlook Assumptions

The outlook for the third quarter of 2014 ("Outlook") has been prepared based on certain major assumptions. The major assumptions made in preparing the Outlook for the third quarter of 2014 are set out below. These assumptions are considered to be reasonable as at the date of this three months ended 29 June 2014 results. Investors should consider these assumptions and make their own assessment of the future performance of STATS ChipPAC.

1. Net Revenues

We derive revenue primarily from advanced packaging, wirebond packaging and test services. We prepared the Outlook for net revenues based on current visibility on our estimated sales volume and product mix for the third quarter of 2014. This estimate is based on purchase orders that we have received or expect to receive from our customers in the third quarter of 2014, taking into account periodic forecast guidance provided by our customers to us.

2. Cost of Revenues

Cost of revenues consist principally of fixed costs such as depreciation and leasing expenses and variable costs such as direct and indirect labour, materials and overhead expenses. Our cost of revenues has been estimated based on our expected sales volume, product mix and expected purchase cost for the third quarter of 2014.

Cost of materials relates to the cost of lead-frames or laminate substrates, gold and copper wire, molding compound, epoxy, tubes and trays. The estimated purchase cost of materials is largely based on the estimated revenue in the third quarter of 2014. Estimated depreciation expense includes depreciation on existing property, plant and equipment, and depreciation on property, plant and equipment that we expect to capitalise during the third quarter of 2014. Labour cost, as well as overheads such as utilities and insurance, have been estimated largely based on our expected sales volume and expected production activities for the third quarter of 2014.

3. Selling, General and Administrative

Selling, general and administrative expenses consist primarily of payroll-related costs for administrative personnel, external fees such as consultancy, legal, administrative, profession and regulatory fees, depreciation of equipment used in selling, general and administrative activities. We estimate selling, general and administrative expenses for the third quarter of 2014 largely based on our expected headcount and related expenses for the third quarter of 2014.

4. Research and Development

Research and development expenses consists primarily of payroll-related cost for research and development expenses, external fees such as consultancy and legal, depreciation of equipment and consumables used in research and development activities. A large proportion of our research and development expenses are fixed in nature. We estimate our expenses for research and development for the third quarter of 2014 largely based on our estimated expenses and headcount to reflect research and development initiatives in the third quarter of 2014.

5. Capital Expenditure

Capital expenditure is estimated using the revenue estimate against the internal capacity, availability and prioritisation to support these customers forecast by each factory and budgeted infrastructure investments. The capital expenditure for the third quarter of 2014 is continuously reviewed during the quarter to respond to our strategic customers' forecast and demand.

Other Assumptions

Other assumptions underlying the Outlook are set out below:

1. Accounting standards

We have assumed that there will be no change in applicable accounting standards or other financial reporting requirements under FRS that may have a material effect on the Outlook. Significant accounting policies adopted in the preparation of the Outlook are consistent with those used to prepare our consolidated financial statements for the year ended 29 December 2013 as set forth in our 2013 Annual Report and as disclosed in item 5 of the SGX Appendix 7.2 on our second quarter of 2014 results announcement.

2. Other assumptions

The following additional assumptions were made in preparing the Outlook:

- (i) No material adverse effect from any changes in the economic and financial positions of our Company, our suppliers or our customers;
- (ii) No material decline in value of investments which requires material impairment to the carrying values of investments of our Company;
- (iii) No material decline in value of goodwill or property, plant and equipment that requires material impairment to the carrying values of goodwill or property, plant and equipment of our Company;
- (iv) No material changes in estimated useful lives, obsolescence, adverse change in physical condition or residual values of property, plant and equipment;

- (v) No material changes in obsolescence and impairment of inventory;
- (vi) No significant disruptions arising from shortages in supply of key components and disruption in supply chain, industrial disputes or the supply of labour or other causes that will affect the operations of our Company;
- (vii) No material changes in inflation rates;
- (viii) No material changes in the principal activities of our Company;
- (ix) No material changes in the management and organisation structure of our Company; and
- (x) No material changes in the existing economic, political, legal or regulatory, social and weather conditions affecting the activities of our Company or the industry, countries or the markets in which we operate.