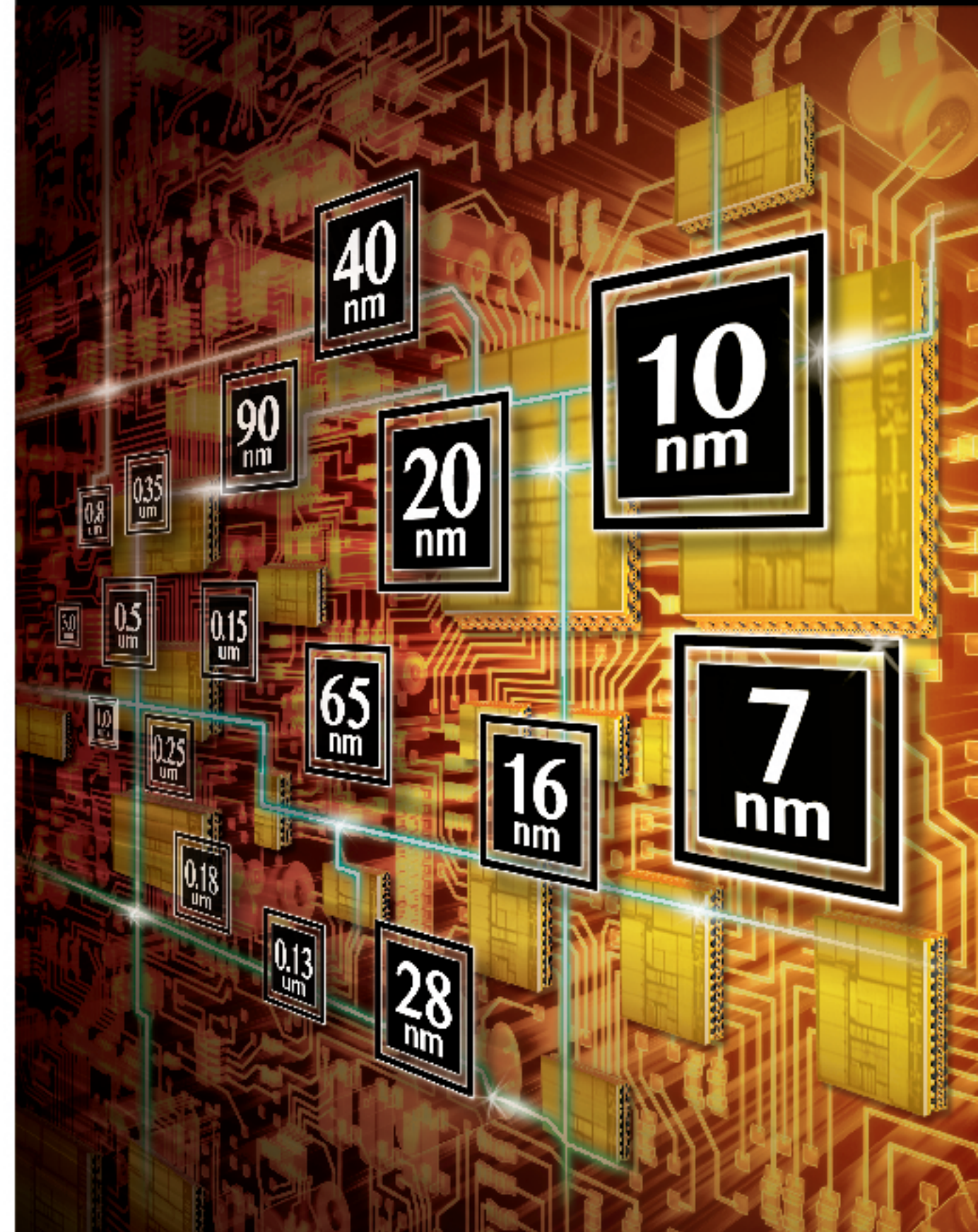


TSMC 2014 Business Overview



**Taiwan Semiconductor
Manufacturing Company, Ltd.**

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TSMC Vision, Mission & Core Values

TSMC's Vision

Our vision is to be the most advanced and largest technology and foundry services provider to fabless companies and IDMs, and in partnership with them, to forge a powerful competitive force in the semiconductor industry.

To realize our vision, we must have a trinity of strengths:

- (1) be a technology leader, competitive with the leading IDMs
- (2) be the manufacturing leader
- (3) be the most reputable, service-oriented and maximum-total-benefits silicon foundry

TSMC's Mission

Our mission is to be the trusted technology and capacity provider of the global logic IC industry for years to come.

TSMC's Core Values

Integrity

Integrity is our most basic and most important core value. We tell the truth. We believe the record of our accomplishments is the best proof of our merit. Hence, we do not brag. We do not make commitments lightly. Once we make a commitment, we devote ourselves completely to meeting that commitment. We compete to our fullest within the law, but we do not slander our competitors and we respect the intellectual property rights of others. With vendors, we maintain an objective, consistent, and impartial attitude. We do not tolerate any form of corrupt behavior or politicking. When selecting new employees, we place emphasis on the candidates' qualifications and character, not connections or access.

Commitment

TSMC is committed to the welfare of customers, suppliers, employees, shareholders, and society. These stakeholders all contribute to TSMC's success, and TSMC is dedicated to serving their best interests. In return, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

Innovation

Innovation is the wellspring of TSMC's growth, and is a part of all aspects of our business, from strategic planning, marketing and management, to technology and manufacturing. At TSMC, innovation means more than new ideas, it means putting ideas into practice.

Customer Trust

At TSMC, customers come first. Their success is our success, and we value their ability to compete as we value our own. We strive to build deep and enduring relationships with our customers, who trust and rely on us to be part of their success over the long term.

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1. Letter to Shareholders



A diamond requires meticulous cutting and polishing before it can dazzle radiantly in the light. Though competition grows more intense, TSMC works unceasingly to deliver brilliant results.

Dear Shareholders,

In 2014, we continued to reap the benefits of correct strategic choices made over the last several years. Our record high revenue and profitability led to significant growth in both net income and earnings per share. Our revenue growth was propelled largely by strong demand for our industry-leading 28-nanometer technologies and the rapid customer acceptance and ramp-up of our first-in-foundry-industry 20-nanometer System-on-Chip (SoC) production, which was the application processor of the world's best-selling smartphone models in 2014. We anticipate continued growth in 2015 and beyond as strong demand for leading-edge technologies continues with better performance, more efficient power consumption, and smaller device form factors.

We envision the race ahead as a relay in which our new technology development programs hand off the benefit of each node to the next, leveraging our knowledge and capacity to deliver optimal performance for our customers and the best returns to our shareholders. Our success in 20-nanometer has also laid the groundwork for our industry-leading FinFET solution at the 16-nanometer node. Our 16 FinFET Plus has completed technology qualification on schedule in December 2014 and begun risk production for customers. Our 10-nanometer technology development is progressing, and we remain on track to begin customer product tape-outs by the end of 2015.

We continue to increase our investments in R&D and capacity, as we firmly believe these will sow the seeds for further harvests to come. Our other achievements in 2014 include:

- Total wafer shipments grew 19 percent from 2013 to reach 8.26 million 12-inch equivalent wafers.
- Advanced technologies (28-nanometer and beyond) accounted for 42 percent of total wafer revenue.
- We deployed 210 process technologies, and manufactured 8,876 products for 453 customers.
- TSMC's market share in the total semiconductor foundry segment rose successively during the last five years and reached 54 percent in 2014.

2014 Financial Performance

Consolidated revenue totaled NT\$762.81 billion, an increase of 27.8 percent over NT\$597.02 billion in 2013. Net income was NT\$263.90 billion and diluted earnings per share were NT\$10.18. Both increased 40.3 percent from the 2013 level of NT\$188.15 billion net income and NT\$7.26 diluted EPS.

In US dollars, TSMC generated net income of US\$8.71 billion on consolidated revenue of US\$25.17 billion, compared with net income of US\$6.34 billion on consolidated revenue of US\$20.11 billion for 2013.

Gross profit margin was 49.5 percent compared with 47.1 percent in 2013, and operating profit margin was 38.8 percent compared with 35.1 percent a year earlier. Net profit margin was 34.6 percent, an increase of 3.1 percentage points from the previous year's 31.5 percent.

Technological Developments

TSMC's industry-leading 28-nanometer saw several significant process improvements in 2014. Enhancements and extensions of the 28-nanometer node help ensure continued strong market share, and the Company is building additional capacity to accommodate and support customers' increasing demand. A new offering, 28ULP for ultra-low power applications helps customers to expand into the Internet of Things (IoT) and wearable device area. Combined with the Company's 55- and 40-nanometer ULP, TSMC builds the foundry industry's most comprehensive ultra-low power platform that can serve a wide range of speed-power combinations.

In 20-nanometer, high volume production started in the middle of 2014 and quickly ramped up to account for 21 percent of fourth quarter revenue, registering a record as the fastest production ramp of any node in Company history. By introducing the double patterning technique, 20SoC provides better density and power value for both performance-driven products and mobile computing applications migration. In addition, 16-nanometer FinFET Plus (16FF+) has a comprehensive design ecosystem that supports a wide variety of design tools and more than 100 silicon-validated IPs. Nearly 60 customer designs are currently scheduled for tape out by the end of 2015. Volume ramp is expected to begin in the middle of 2015.

Meanwhile, we are at work providing the design ecosystem for our 10-nanometer technology. Not only have we started the IP validation process early, we have also completed certification of over 35 design tools.

In 2014, 7-nanometer technology entered advanced development stage. Development activities in 2015 will focus on selection of transistor architecture, baseline manufacturing process setup for both transistors and interconnects, and initial reliability evaluations.

In addition to silicon device scaling, we are working on system scaling through advanced packaging to increase system bandwidth and to decrease power consumption and device form factors. TSMC's Chip-on-Wafer-on-Substrate (CoWoS®) technology continues to expand its applications from FPGA to network and to high performance computing using 20SoC or 16FF+ for the top dies. In parallel, TSMC's Integrated Fan-Out (InFO) technology has been developed for such applications as mobile and consumer products. We are qualifying InFO 16-nanometer products for volume ramp-up in 2016. Meanwhile we are working on our second generation InFO to supplement the silicon scaling of the 10-nanometer generation.

Corporate Developments

In January 2015, TSMC's board of directors approved the sale of TSMC Solid State Lighting (TSMC SSL) to Epistar, which is the world's largest manufacturer of LED epitaxial wafers and dies, through an equity ownership transfer. The share transfer is valued at NT\$1.46 per share with a total of NT\$825 million proceeds to TSMC. An important part of the ownership change is that no employee of TSMC SSL will lose employment. After the transfer, TSMC will exit the LED industry.

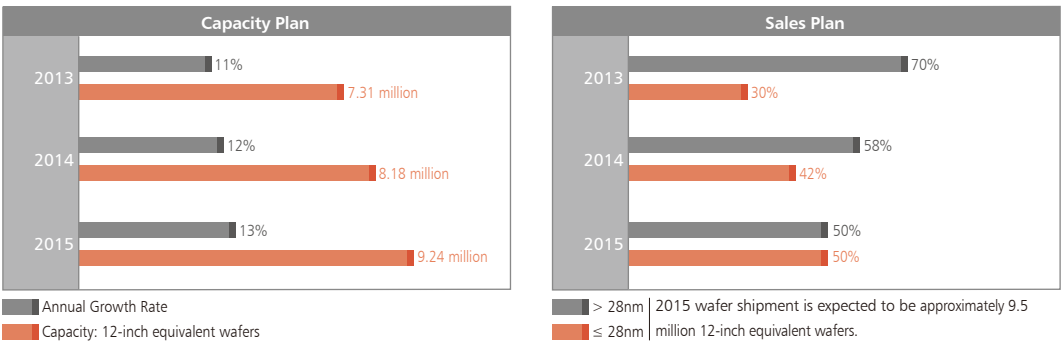
Honors and Awards

TSMC received recognitions for achievements in corporate governance and citizenship, economic contribution, financial reporting, innovation, investor relations, management, and sustainability in 2014 from organizations including *FinanceAsia*, *Fortune Magazine*, *Institutional Investor*, *IR Magazine*, *GlobalViews Magazine*, *CommonWealth Magazine*, *RobecoSAM*, and the *Financial Times* and Standard Chartered Bank.

In particular, TSMC was named the Leader of the Dow Jones Sustainability Index for the Semiconductors and Semiconductor Equipment Industry Group for the second year in a row. The honor affirms the Company's commitment to sustainability and corporate social responsibility.

Outlook

TSMC positioned itself with the right technology to capture maximum benefit from the growth in demand for mobile devices in the past five years. We continue to believe that these products will propel our growth for the next few years as consumers in emerging economies demand smartphones and tablets with both powerful functionality and accessible prices.



We are now utilizing the same strategy to ride the next wave of new evolutionary mobile devices—the Internet of Things. The Internet of Things not only drive a multitude of consumer devices connected to the network, it will also drive continuously increasing data processing power on various processors, in data centers, and in many mobile devices. For example, exciting applications such as wearables, smart cars, smart homes, and smart cities are the major IoT applications which promise to make semiconductors ubiquitous in our lives.

Innovators are already hard at work designing a myriad of ways to create a better life by linking objects all around us into an intelligent network. To turn their visions into reality, they need semiconductors with processing power, connectivity, ultra-low power, various types of sensors, and system-level integration, including advanced packaging. We have made much progress in developing all of those necessary technologies to make TSMC a critical part of the IoT ecosystem. At the same time, we are also investing in the capacity in both advanced and specialty technologies to supply the demand from this highly promising and still evolving market.

With our unwavering dedication to technology leadership, manufacturing excellence, and customer trust, we believe we can serve as a vital supplier of the fundamental building blocks of the semiconductor industry's "next big things". More importantly, we are preparing for many more years of profitable growth and good shareholder returns.



Morris Chang
Morris Chang
Chairman

2. Introduction

Company Profile

Founded on February 21, 1987, and headquartered in Hsinchu, Taiwan, TSMC pioneered the foundry business model by focusing solely on manufacturing customers’ semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers. Today, TSMC is the world’s largest pure-play semiconductor foundry, manufacturing 8,876 different products using 210 different technologies for 453 different customers in 2014.

With a diverse global customer base, TSMC-manufactured semiconductors are used in a wide variety of applications covering various segments of the computer, communications, consumer, industrial and standard semiconductor markets.

Annual capacity of the manufacturing facilities managed by TSMC and its subsidiaries totaled 8.18 million 12-inch equivalent wafers in 2014. TSMC’s managed manufacturing facilities include three 12-inch wafer GIGAFAB™ facilities, four 8-inch wafer fabs, and one 6-inch wafer fab in Taiwan, as well as two 8-inch wafer fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited.

TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, South Korea, and India. The Company employed more than 43,000 people worldwide at the end of 2014.

To better manage its long-term strategic growth, TSMC is investing in solar energy-related industries. With differentiated technology offerings and unique value propositions, TSMC will aggressively pursue new opportunities in these fields.

The Company is listed on the Taiwan Stock Exchange (TWSE) under ticker number 2330, and its American Depositary Shares trade on the New York Stock Exchange (NYSE) under the symbol “TSM”.

Technology Innovations in 2014

To meet our customer’s needs in today’s dynamic and fast-changing marketplace, TSMC is accelerating the pace of its innovation by offering leading-edge processes to suit their power and performance requirements. Many of our technology breakthroughs in materials, processing, and advanced lithography continuously make devices better, faster and smaller and carry the industry beyond Moore’s Law.

- By leveraging the successful mass production of 28nm, including 28HP, 28HPM, 28HPL and 28LP, TSMC continuously delivered a highly competitive performance/cost solution 28HPC (High Performance Compact) in 2014. This process is seamlessly applicable to the 28nm ecosystem, accelerating time-to-market for customers.
- 20nm System-on-Chip technology (20SoC) entered the production stage with smooth ramping and stable yield performance. By introducing the advanced patterning technique, this process provides better density and power value for migration of both performance-driven products and mobile computing applications.
- 16nm FinFET Plus (16FF+) process passed full reliability qualification on schedule in the fourth quarter of 2014, and nearly 60 customer designs are currently scheduled for tape-out by the end of 2015. Due to rapid progress in yield and performance, 16FF+ volume ramp is expected to begin around July in 2015. TSMC’s comprehensive 16FF+ design ecosystem supports a wide variety of EDA tools and hundreds of process design kits with more than 100 IPs, and all have been silicon validated.

- 10nm technology is under development and on track to start risk production in the fourth quarter of 2015. The Company anticipates customer tape-out in the fourth quarter of 2015 and volume production in 2016.
- In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, Mixed Signal/RF, high voltage, CMOS image sensor, MEMS, silicon germanium technologies and automotive service packages.

Corporate Recognition

Awards honoring TSMC in 2014 included:

- Dow Jones Sustainability Index (DJSI): Recognized as the DJSI Semiconductors and Semiconductor Equipment “Industry Group Leader” for a second consecutive year; RobecoSAM Sustainability Award “Gold Class”; Membership in the Dow Jones Sustainability World Index for a 14th consecutive year
- Fortune Magazine: World’s Most Admired Companies
- Financial Times/Standard Chartered Bank Taiwan Business Awards: First Prize, Economic Contribution Award for Large Companies; First Prize, Responsible Business Award for Large Companies
- CommonWealth Magazine: First place, Most Admired Company Award; First place, Corporate Social Responsibility Award
- IR Magazine Greater China Awards: Best Corporate Governance; Best Sustainability Practice; Best Overall Investor Relations (Large Cap); Best Financial Reporting
- FinanceAsia Best Companies Poll: Best Technology Company
- Institutional Investor: Best CFO in Asia, Best Investor Relations Team

Financial Highlights

Since becoming a publicly listed company in 1994, TSMC has consistently delivered value to shareholders, maintained a strong balance sheet, and keeps one of the highest credit ratings among global semiconductor companies and Taiwan companies.

TSMC achieved record high revenues and earnings in 2014, with revenue rising 27.8% to NT\$762.81 billion and net income increasing 40.3% to NT\$263.90 billion. In terms of profitability, our gross margin improved 2.4 percentage points to 49.5% and our operating margins increased 3.7 percentage points to 38.8%, demonstrating our ability to drive higher operating efficiency.

Overall, our return on equity increased by 3.9 percentage points from the previous year to reach 27.9% in 2014, and significantly exceeded our long-term financial goal of ROE equal or greater than 20%.

3. Market Overview

TSMC estimates that the worldwide semiconductor market in 2014 reached US\$354 billion in revenue, a 10% growth compared to 2013. The foundry sub-segment of the semiconductor industry generated total revenues of US\$42 billion in 2014, or 14% year-on-year growth. Foundry growth was mainly driven by fabless market share gains over integrated device manufacturers (IDMs) and by process technology advancement. TSMC's revenue growth in 2014 was nearly double that of the foundry segment at 27.8%

Industry Demand and Supply Outlook

TSMC forecasts the total semiconductor market to grow by a mid-single digit percentage in 2015. Due to increasing semiconductor content in electronics devices, fabless companies' continuing market share gains, and increasing business from system companies for in-house Application-Specific Integrated Circuits (ASICs), foundry segment revenue growth is expected to be much stronger than the projected 4% compound annual growth rate (CAGR) for the total semiconductor industry from 2014 through 2019. As an upstream supplier in the semiconductor supply chain, the condition of the foundry segment is strongly correlated with the market health of three major markets: communications, computer and consumer.

Communications

The communications sector, particularly the handset segment, posted a modest 4% growth in unit shipments for 2014. Smartphones, which had much stronger 25% growth and higher semiconductor content, have been leading the growth of the sector.

The continuing transition to 4G/LTE and LTE-Advanced handsets will bring double-digit growth to the market. Smartphones with increasing performance, lower power and more intelligent features continue to propel buying interest for new handsets in 2015. The growing popularity of mid- to low-end smartphones in emerging countries is also a new catalyst driving the growth of the sector.

Low power ICs are an essential requirement among handset manufacturers. The SoC design for more optimized cost, power and form-factor (i.e. device footprint), plus the appetite for higher performance to run complicated software, will continue to accelerate the migration to advanced process technologies in which TSMC is the leader.

Computer

The computer sector's unit shipments dropped 1% Year-on-year in 2014, after a 10% decline in 2013. Declining PC demand was mitigated by replacement cycles, Windows XP expiration, and the slowdown in tablet sales.

The personal computer (PC) market is expected to decline by a low to mid-single digit percentage in 2015, with increasing variety (e.g. Convertibles, Ultrabooks and Chromebooks), the introduction of new operating systems, and consumer replacement expected to stimulate PC demand.

Requirements of lower power, higher performance and integration for key computer components such as CPU, GPU, Chipset, etc., should drive product design demand for TSMC's leading process technologies.

Consumer

The consumer sector's unit shipments declined 3% in 2014, as growth from TV game consoles and set-top-boxes was offset by the decline on digital cameras, MP3 players, and handheld game consoles, as well as the result of smartphone cannibalization.

Consumer electronics will be flat to slightly lower in 2015. The 4K UHD TV market will also continue the high growth within the otherwise flattening TV market in 2015. TSMC will be able to capitalize on these trends with advanced technologies for 4K UHD TV market.

Here are TSMC's financials for the past five years at a glance.



4. TSMC's Trinity of Strengths

TSMC distinguishes itself with three defining strengths: Technology Leadership, Manufacturing Excellence, and Customer Trust. These are the competitive advantages that support TSMC as the company fulfills its mission: to be the trusted technology and capacity provider of the global logic IC industry for years to come.

This "Trinity of Strengths" is built on a foundation of financial robustness and manufacturing capacity, which ensure that TSMC has the resources to continue providing the innovative technology and effective, agile capacity that customers have come to trust and rely upon.

Technology Leadership

TSMC possesses a wide spectrum of robust process technologies, ranging from advanced logic processors to a large variety of specialty technologies. Hundreds of customers come to TSMC with their designs to realize innovations in their new products. In 2014 TSMC employed more than 4,700 engineers and scientists in R&D. Spending in R&D totaled US\$1.9 billion in 2014, or 8% of revenues, and TSMC plans to increase its R&D budget to more than US\$2.2 billion in 2015.

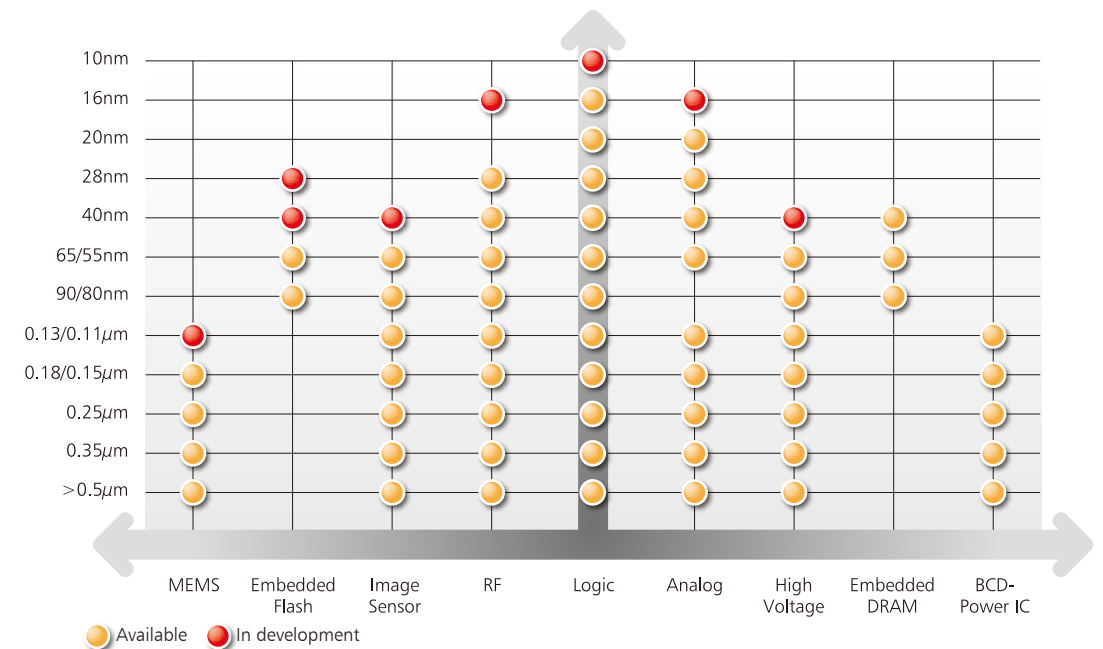
Many of our research efforts came to fruition in 2014. As 20nm technology entered volume production, we leveraged the knowledge gained from that highly successful node to put 16nm FinFet Plus (16FF+) technology through full qualification in the fourth quarter, ready to enter volume production by mid-2015. This enhanced version of TSMC's 16FF technology is 40% faster than 20nm technology, or consumes 50% less power at the same speed, and has demonstrated foundry-leading performance.

Looking ahead to the next technology node at 10nm, TSMC is on track to begin risk production in 2015, with volume production expected by the end of 2016. This third-generation FinFET technology will offer the foundry segment's most competitive logic density, more than 2.1 times that of TSMC's 16nm process.

TSMC also initiated 7nm technology development in 2014, and has begun design and technology collaboration activity with several of our major customers. By leveraging most of the tools used in 10nm, the Company is able to target risk production to begin in the first half of 2017.

In addition to pushing ahead with Moore's Law, TSMC also devotes its resources to developing specialty technologies – a variety of sensors, power management ICs, radio frequency ICs, embedded flash, high voltage, and others. These provide the functionality needed to serve innovative applications in mobile computing, data centers, and the emerging Internet of Things. TSMC began volume production of the world's smallest 3-axis and 6-axis motion sensors, and its 55nm high voltage process entered production with the industry's lowest noise and leakage.

Wide Technology Portfolio Enables the Next Wave of Growth Drivers



TSMC also possesses the foundry segment's first and most comprehensive ultra-low power technology platform to enable significant increases in battery life required by IoT applications. This platform ranges from 55nm down to a compact version of our 16nm process, 16FFC, which is set to be ready for customer tape-outs by the second half of 2016.

TSMC's technology innovations are backed up by the industry's most comprehensive ecosystem to reduce design barriers and enable first-time success for customers. In 2014, TSMC expanded its library and silicon IP portfolio to more than 8,500 macros, increasing more than 34% from 2013, and provided more than 7,500 technology files and over 200 process design kits. With nearly 100 partners providing intellectual property, design tools, and design services, TSMC's Open Innovation Platform ecosystem shortens customers' design time, minimizes time-to-volume and accelerates their time-to-market.

Manufacturing Excellence

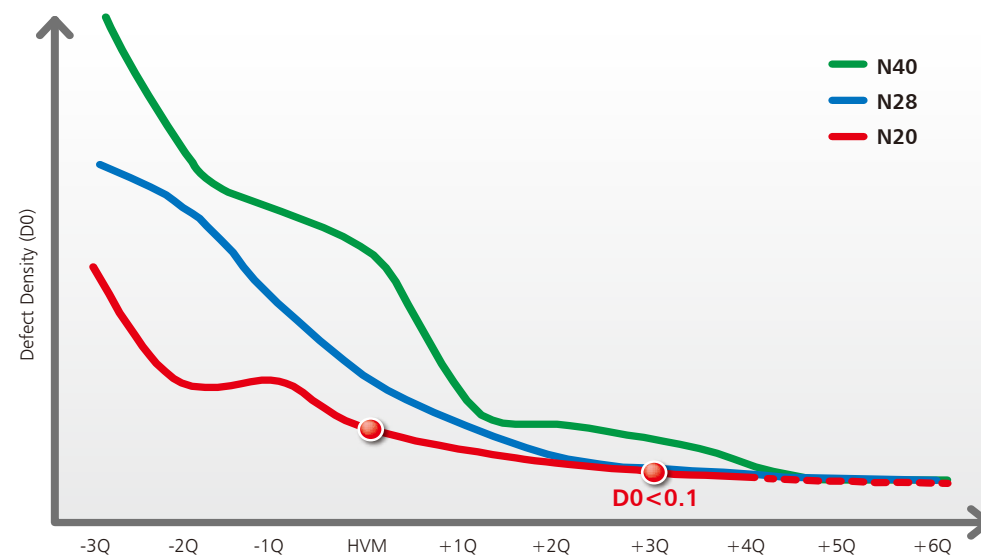
TSMC serves more than 450 active customers, and manufactured 8,800 different products using 210 technologies on 8.26 million 12-inch equivalent wafers in 2014, making it the world's largest provider of logic IC capacity.

TSMC has continuously expanded capacity to ensure that it is available for customers when they need it. In 2015, capacity is scheduled to grow 11% to 9.5 million 12-inch equivalent wafers annually, putting company on track for a CAGR of approximately 10% capacity growth from 2013 to 2017. Just as TSMC is committed to devoting the R&D resources needed to meet customers' technology demands, it invests heavily to meet their capacity demands as well. After spending US\$9.5 billion on capital expenditure in 2014, the Company expects its capital budget to be between US\$10.5 billion and US\$11 billion in 2015.

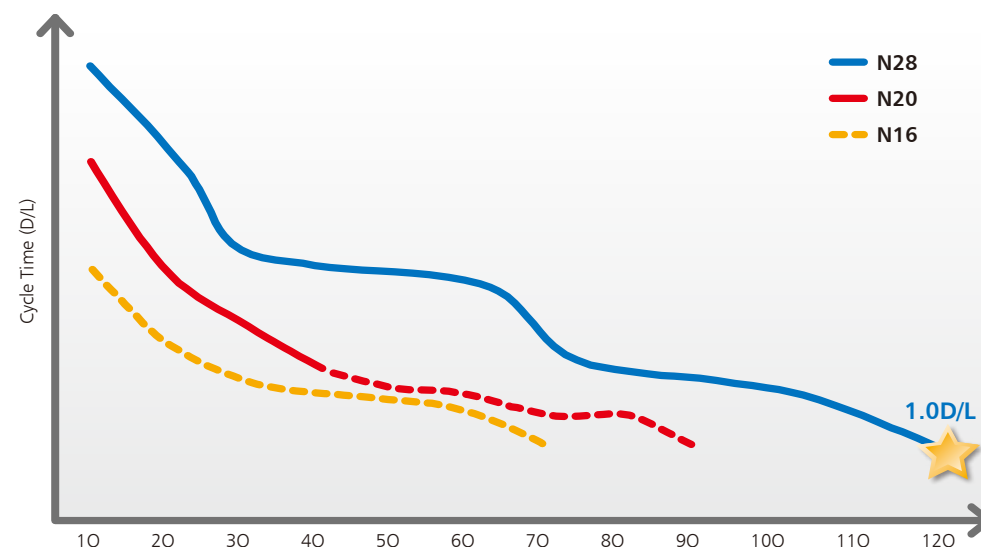
The rapid product cycles of the mobile device market means that TSMC needs to quickly convert capital spending into ready production lines. TSMC took three years to ramp 40nm capacity to 60,000 wafers per month, and 28nm took just two years to hit that milestone. At the 20nm node, TSMC reached the target of 60,000 wafers in monthly capacity in only three months, demonstrating the company's sophisticated planning and execution, as well as seamless collaboration with suppliers. The 16nm capacity ramp beginning in the second half of 2015 is expected to be rapid and steady as well.

TSMC's 20nm capacity ramp broke records not only in terms of speed, but also yield learning and cycle times. Compared to prior nodes such as 40nm and 28nm, the 20nm process achieved a lower defect density level when it began high-volume manufacturing. Standing on the shoulders of 20nm technology, yield learning for 16FF technology is improving even more quickly, and is now better than that of 20nm at the same stage. In cycle time per layer, TSMC expects its 20nm will reach one day per layer at a faster pace than its 28nm, while 16nm is expected to perform even better.

Faster Yield Learning as Technology Moves Forward



Cycle Times Improving as Technology Nodes Advance



TSMC's outstanding engineering teams and ability to manage the world's largest logic capacity so that it provides fast, precise, and flexible manufacturing to customers ensures that the Company will continue to maintain its competitive advantage in Manufacturing Excellence.

Customer Trust

Customer Trust is deeply engrained in TSMC as one of the company's four core values alongside Integrity, Commitment, and Innovation. In turn, each of these values reinforce customers' trust in TSMC. Customers rely on TSMC's Integrity to do business with each of them in a fair and honest fashion, and to protect their precious intellectual property as its own. They rely on TSMC's Commitment to do its utmost to ensure a timely and successful product launch. Finally, they trust TSMC's Innovation to develop the technologies that their next generation of products will require.

A critical foundation stone for customer trust is a commitment TSMC made when it first opened for business: to never compete with customers. As a result, TSMC does not design IC products, but chooses to focus all of its resources on serving as the trusted foundry partner for its customers.

The dedicated foundry business model gives TSMC a distinct advantage over IDM foundries which give priority to manufacturing its own IC products over those of its customers. Customers that work with TSMC will not need to be concerned that their products will compete with their foundry's products in the marketplace. Nor will they need to worry that their capacity needs will take a back seat to the capacity needs of the foundry's products.

TSMC's engagement with customers begins at the earliest stages of R&D to understand their technology needs, and continues through to design support, mask making, manufacturing, and packaging and testing. Along the way, customers can not only call on the support of a dedicated customer service team, they have 24-hour a day, seven-day-a-week access to real-time information through TSMC-Online, a suite of web-based applications that facilitates design, engineering, and logistics collaboration. From the fundamental tenets of TSMC's business model to the fine-grained details of doing business together, customers can be assured that TSMC is committed to winning together with them.

5. Corporate Governance



In Chinese culture, a seal represents a person's credibility and commitment. At TSMC, we are committed to integrity and succeeding together with customers.

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, the TSMC Board delegates various responsibilities and authority to two Board Committees, the Audit Committee and the Compensation Committee. Each Committee has a written charter approved by the Board. Each Committee's chairperson regularly reports to the Board on the activities and actions of the relevant committee. The Audit Committee and Compensation Committee consist solely of independent directors.

Board of Directors

TSMC's Board of Directors consists of eight distinguished members with a great breadth of experience as world-class business leaders or scholars. We rely on them for their diverse knowledge, personal perspectives, and solid business judgment. Five of the eight members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Co-Founder and Chairman Emeritus of the Acer Group, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; Chairman of Applied Materials Inc., Michael R. Splinter; and Chairman of National Performing Arts Center and advisor to the Taiwan Executive Yuan, Ms. Kok-Choo Chen. One of the members of the Board Directors is female. The number of Independent Directors is more than 50% of the total number of Directors.

In the spirit of Chairman Chang's approach to corporate governance, a board of directors' primary duty is to supervise. The Board should supervise the Company's: compliance with relevant laws and regulations, financial transparency, timely disclosure of material information, and maintaining of the highest integrity within the Company.

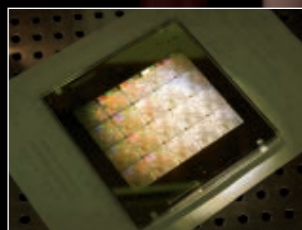
Audit Committee and Compensation Committee

The Audit Committee assists the Board in fulfilling its oversight of the quality and integrity of the accounting, auditing, reporting, and financial control practices of the Company. The Audit Committee is responsible for reviewing the following major matters:

Financial reports; Auditing and accounting policies and procedures; Internal control systems; Material asset or derivatives transactions; Material lending funds, endorsements or guarantees; Offering or issuance of any equity-type securities; Legal compliance; Related-party transactions and potential conflicts of interests involving executive officers and directors; Ombudsman reports; Potential fraud investigation reports; Corporate risk management; Hiring or dismissal of an attesting CPA, or the compensation given thereto; and Appointment or discharge of financial, accounting, or internal auditing officers, etc.

The Compensation Committee assists the Board in discharging its responsibilities related to TSMC's compensation and benefits policies, plans and programs, and in the evaluation and compensation of TSMC's directors of the Board and executives.

Both the Audit Committee and Compensation Committee are comprised of all five independent directors. The Chairman of the Board, Dr. Morris Chang, is invited by the Compensation Committee to attend all meetings and is excused from the Committee's discussion of his own compensation.



6. Corporate Social Responsibility

As the world's largest dedicated IC foundry, TSMC is keenly aware that as a company grows bigger, it also exerts a greater influence on industry and society. TSMC places great importance upon integrity, respects the rule of law, and hopes that the way the Company does business serves as a benchmark for sustainability and is a positive force in society.

The goal of TSMC's corporate social responsibility is to make society better. Over the past 27 years, the Company has striven for the highest achievements to maximize economic value-added with effective strategy and quality management. At the same time, TSMC holds fast to business ethics in everyday operations, insists on integrity, obeys the law, opposes corruption, and abhors cronyism. TSMC serves as an example and sets the tone for society, seeking to raise the standards of ethics, business, and rule of law.

Focus on Corporate Governance and Balancing the Interests of Stakeholders

TSMC greatly values corporate governance, and endeavors to balance the interests of shareholders, employees, society, and all stakeholders. In the semiconductor industry's ever-changing competitive environment, TSMC works together with customers and suppliers to stimulate unceasing innovation and create more products that help the public enjoy better quality of life and work more efficiently. The Company shares success with partners in its value chain, and maintains good relationships with shareholders, employees, society, customers, suppliers, and other stakeholders to ensure that all of their interests are balanced.

Living a Happy, Balanced Life, and Commitment to Charity

TSMC's vision for society is one that works together towards sustainable development, equality and justice, and a harmonious environment to live and work, and we create employment opportunities by providing good jobs.

In 2014, the Company recruited 5,500 new employees worldwide through fair, open, and impartial processes. TSMC is committed to offering total compensation that is above the industry average, and creating a challenging, safe, and comfortable work environment with opportunities for continuous learning. At the same time, the Company wholeheartedly promotes work/life balance so employees can enjoy a happy and fulfilling life.

Apart from work, TSMC also encourages employees to participate in society. The TSMC Education and Culture Foundation provides long-term support to educational and cultural activities, while the TSMC Volunteer Association provides long-term care to communities to serve society in a meaningful way. The TSMC Volunteer Society has expanded quickly over the past several years, growing 68% in 2014 to reach 3,200 people.

When the Kaohsiung City Gas Explosion occurred in August 2014, TSMC responded immediately to society's needs, and invited its supplier partners to join the reconstruction effort. Once reconstruction came to a close, the Company was honored to have received many accolades from the public, a testament to how it has made society better.

Caring for the Earth and Generations to Come

TSMC responds to global climate change by actively conserve energy and reducing carbon emissions. Currently, TSMC has earned international green building certification for 16 of our 300mm fabs, and also helped two suppliers gain certification in 2014.

Even as wafer production grew 2.5 times in the past 10 years, TSMC achieved a 6% reduction in power consumption and 30% reduction in water consumption per unit of wafer area, and also met an extremely challenging target for reducing perfluorinated compounds (PFCs). The Company has already set new medium- to long-range environmental goals: For each unit of production, TSMC will cut PFC emissions by 30%, greenhouse gas emissions by 18%, power consumption by 12%, and water consumption by 30% from 2010 levels by 2020. It also aims to maintain a waste recycling rate of more than 95%.

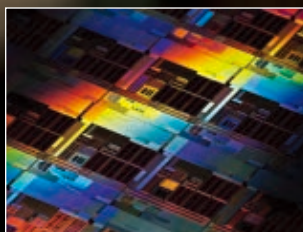
As a leader in green manufacturing, TSMC actively promotes a green supply chain, and took the initiative to join the Electronic Industry Citizenship Coalition (EICC) in 2014. TSMC is systematically applying the EICC code of conduct to management and compliance in environmental protection, health, safety, risk management, labor rights, and ethics. The Company is also extending these principles through its supply chain by guiding key suppliers to adopt EICC tools and standards. In addition, we conducted due diligence measures on relevant suppliers to ensure TSMC's commitment to procure materials from conflict-free sources.

Looking forward, TSMC will continue to pursue a fair and good society, commit to the sustainable development of the Company and society, create win-win outcomes for all of our stakeholders, and continue to serve as an uplifting force in society.



7. Financial Statements

An embroiderer patiently creates an exquisite picture one step at a time, just as TSMC's prudent financial planning and fastidious risk management is the best foundation for the Company's growth.



Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Consolidated Balance Sheets

December 31, 2013 and 2014

(In Thousands of New Taiwan Dollars)

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 358,449,029	\$ 242,695,447
Financial assets at fair value through profit or loss	192,045	90,353
Available-for-sale financial assets	73,797,476	760,793
Held-to-maturity financial assets	4,485,593	1,795,949
Notes and accounts receivable, net	114,734,743	71,649,926
Receivables from related parties	312,955	291,708
Other receivables from related parties	178,625	221,576
Inventories	66,337,971	37,494,893
Noncurrent assets held for sale	945,356	-
Other financial assets	3,476,884	501,785
Other current assets	3,656,110	2,984,224
Total current assets	626,566,787	358,486,654
NONCURRENT ASSETS		
Available-for-sale financial assets	-	58,721,959
Financial assets carried at cost	1,800,542	2,145,591
Investments accounted for using equity method	28,251,002	28,316,260
Property, plant and equipment	818,198,801	792,665,913
Intangible assets	13,531,510	11,490,383
Deferred income tax assets	5,227,128	7,239,609
Refundable deposits	356,069	2,519,031
Other noncurrent assets	1,202,006	1,469,577
Total noncurrent assets	868,567,058	904,568,323
TOTAL	\$ 1,495,133,845	\$ 1,263,054,977
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short-term loans	\$ 36,158,520	\$ 15,645,000
Financial liabilities at fair value through profit or loss	486,214	33,750
Hedging derivative financial liabilities	16,364,241	-
Accounts payable	21,878,934	14,670,260
Payables to related parties	1,491,490	1,688,456
Salary and bonus payable	10,573,922	8,330,956
Accrued profit sharing to employees and bonus to directors and supervisors	18,052,820	12,738,801
Payables to contractors and equipment suppliers	26,980,408	89,810,160
Income tax payable	28,616,574	22,563,286
Provisions	10,445,452	7,603,781
Liabilities directly associated with noncurrent assets held for sale	220,191	-
Accrued expenses and other current liabilities	29,746,011	16,693,484
Total current liabilities	201,014,777	189,777,934
NONCURRENT LIABILITIES		
Hedging derivative financial liabilities	-	5,481,616
Bonds payable	213,673,818	210,767,625
Long-term bank loans	40,000	40,000
Deferred income tax liabilities	199,750	-
Obligations under finance leases	802,108	776,230
Accrued pension cost	7,303,978	7,589,926
Guarantee deposits	25,538,475	151,660
Others	885,192	694,901
Total noncurrent liabilities	248,443,321	225,501,958
Total liabilities	449,458,098	415,279,892

(Continued)

	2014	2013
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		
Capital stock	\$ 259,296,624	\$ 259,286,171
Capital surplus	55,989,922	55,858,626
Retained earnings		
Appropriated as legal capital reserve	151,250,682	132,436,003
Appropriated as special capital reserve	-	2,785,741
Unappropriated earnings	553,261,982	382,971,408
	704,512,664	518,193,152
Others	25,749,291	14,170,306
Equity attributable to shareholders of the parent	1,045,548,501	847,508,255
NONCONTROLLING INTERESTS	127,246	266,830
Total equity	1,045,675,747	847,775,085
TOTAL	\$ 1,495,133,845	\$ 1,263,054,977

(Concluded)

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2013 and 2014

(In Thousands of New Taiwan Dollars, Except for Earnings Per Share)

	2014	2013
NET REVENUE	\$ 762,806,465	\$ 597,024,197
COST OF REVENUE	385,100,646	316,057,820
GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	377,705,819	280,966,377
REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	28,556	(20,870)
GROSS PROFIT	377,734,375	280,945,507
OPERATING EXPENSES		
Research and development	56,823,732	48,118,165
General and administrative	18,932,100	18,928,544
Marketing	5,087,112	4,516,525
Total operating expenses	80,842,944	71,563,234
OTHER OPERATING INCOME AND EXPENSES, NET	(1,001,138)	47,090
INCOME FROM OPERATIONS	295,890,293	209,429,363
NON-OPERATING INCOME AND EXPENSES		
Share of profits of associates and joint venture	3,949,674	3,972,031
Other income	3,380,407	2,342,123
Foreign exchange gain, net	2,111,310	285,460
Finance costs	(3,236,345)	(2,646,776)
Other gains and losses	2,207	2,104,921
Total non-operating income and expenses	6,207,253	6,057,759
INCOME BEFORE INCOME TAX	302,097,546	215,487,122
INCOME TAX EXPENSE	38,316,677	27,468,185
NET INCOME	263,780,869	188,018,937
OTHER COMPREHENSIVE INCOME (LOSS)		
Exchange differences arising on translation of foreign operations	11,771,129	3,668,509
Changes in fair value of available-for-sale financial assets	(36,559)	13,290,385
Share of other comprehensive loss of associates and joint venture	(149,907)	(59,740)
Actuarial gain (loss) from defined benefit plans	290,416	(662,074)
Income tax benefit (expense) related to components of other comprehensive income	(40,915)	115,168
Other comprehensive income for the year, net of income tax	11,834,164	16,352,248
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 275,615,033	\$ 204,371,185
NET INCOME (LOSS) ATTRIBUTABLE TO:		
Shareholders of the parent	\$ 263,898,794	\$ 188,146,790
Noncontrolling interests	(117,925)	(127,853)
	\$ 263,780,869	\$ 188,018,937
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Shareholders of the parent	\$ 275,717,141	\$ 204,505,782
Noncontrolling interests	(102,108)	(134,597)
	\$ 275,615,033	\$ 204,371,185
EARNINGS PER SHARE		
Basic earnings per share	\$ 10.18	\$ 7.26
Diluted earnings per share	\$ 10.18	\$ 7.26

**Taiwan Semiconductor Manufacturing Company,
Limited and Subsidiaries**

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2014

(In Thousands of New Taiwan Dollars)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 302,097,546	\$ 215,487,122
Adjustments for:		
Depreciation expense	197,645,186	153,979,847
Amortization expense	2,606,349	2,202,022
Stock option compensation cost of subsidiary	-	5,312
Finance costs	3,236,345	2,646,776
Share of profits of associates and joint venture	(3,949,674)	(3,972,031)
Interest income	(2,730,674)	(1,835,980)
Gain on disposal of property, plant and equipment and intangible assets, net	(14,518)	(48,848)
Impairment loss of noncurrent assets held for sale	734,467	-
Impairment loss of property, plant and equipment	239,864	-
Impairment loss of financial assets	211,477	352,214
Gain on disposal of available-for-sale financial assets, net	(280,956)	(1,267,086)
Gain on disposal of financial assets carried at cost, net	(81,449)	(44,721)
Loss (gain) on disposal of investments accounted for using equity method	(2,028,643)	733
Loss from liquidation of subsidiary	90	-
Gain on deconsolidation of subsidiary	-	(293,578)
Unrealized (realized) gross profit on sales to associates	(28,556)	20,870
Loss on foreign exchange, net	3,615,493	317,547
Dividend income	(649,733)	(506,143)
Income from receipt of equity securities in settlement of trade receivables	(1,211)	(9,977)
Loss from hedging instruments	10,577,714	5,602,779
Gain arising from changes in fair value of available-for-sale financial assets in hedge effective portion	(10,088,628)	(5,071,118)
Changes in operating assets and liabilities:		
Derivative financial instruments	342,853	(32,189)
Notes and accounts receivable, net	(43,090,068)	(14,131,066)
Receivables from related parties	(26,405)	(204,278)
Other receivables from related parties	(11,766)	50,589
Inventories	(28,871,597)	122,472
Other financial assets	(2,612,158)	18,578
Other current assets	(744,868)	(312,251)
Accounts payable	6,634,198	346,401
Payables to related parties	(194,866)	850,094
Salary and bonus payable	2,281,117	883,925
Accrued profit sharing to employees and bonus to directors and supervisors	5,314,019	1,552,210
Accrued expenses and other current liabilities	8,432,511	3,531,017
Provisions	2,836,910	1,595,810
Accrued pension cost	41,461	9,554
Cash generated from operations	451,441,830	361,846,606
Income taxes paid	(29,918,099)	(14,463,069)
Net cash generated by operating activities	421,523,731	347,383,537
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	(91,909)	(21,303)
Financial assets carried at cost	(23,151)	(27,165)
Held-to-maturity financial assets	(5,882,316)	(1,795,949)
Property, plant and equipment	(288,540,028)	(287,594,773)
Intangible assets	(3,859,486)	(2,750,361)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	689,420	2,418,578
Held-to-maturity financial assets	3,200,000	5,145,850
Financial assets carried at cost	87,501	67,986
Investments accounted for using equity method	3,471,883	-
Property, plant and equipment	200,263	173,554

(Continued)

	2014	2013
Cash received from other long-term receivables	\$ 161,900	\$ -
Costs from entering into hedging transactions	(520,856)	(143,982)
Interest received	2,578,663	1,790,725
Other dividends received	645,585	506,143
Dividends received from investments accounted for using equity method	3,223,090	2,141,881
Refundable deposits paid	(57,988)	(98,888)
Refundable deposits refunded	2,296,872	113,399
Net cash outflow from deconsolidation of subsidiary	-	(979,910)
Net cash used in investing activities	(282,420,557)	(281,054,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	18,563,525	(19,636,240)
Proceeds from issuance of bonds	-	130,844,821
Increase in long-term bank loans	-	690,000
Repayment of long-term bank loans	-	(62,500)
Repayment of other long-term payables	-	(853,788)
Interest paid	(3,192,971)	(1,330,886)
Guarantee deposits received	30,142,823	41,519
Guarantee deposits refunded	(7,704)	(113,087)
Decrease in obligations under finance leases	(28,426)	(27,796)
Proceeds from exercise of employee stock options	47,055	124,570
Cash dividends	(77,785,851)	(77,773,307)
Increase (decrease) in noncontrolling interests	(66,735)	202,619
Net cash generated by (used in) financing activities	(32,328,284)	32,105,925
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	9,060,170	849,612
NET INCREASE IN CASH AND CASH EQUIVALENTS	115,835,060	99,284,859
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	242,695,447	143,410,588
CASH AND CASH EQUIVALENTS, END OF YEAR	358,530,507	242,695,447
CASH AND CASH EQUIVALENTS INCLUDED IN NONCURRENT ASSETS HELD FOR SALE	(81,478)	-
CASH AND CASH EQUIVALENT ON CONSOLIDATED BALANCE SHEET	<u>\$ 358,449,029</u>	<u>\$ 242,695,447</u>

(Concluded)

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TSMC's depositary receipts of the common shares are listed
on New York Stock Exchange (NYSE) under the symbol TSM.
The information relating to TSM is available at <http://www.nyse.com> and <http://mops.twse.com.tw>

Safe Harbor Notice:

The statements included in this business overview that are not historical in nature are “forward-looking statements” within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. TSMC cautions readers that forward-looking statements are subject to significant risks and uncertainties and are based on TSMC’s current expectations. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including, among others, risks associated with cyclical and market conditions in the semiconductor industry; demand and supply for TSMC’s foundry manufacturing capacity in particular and for foundry manufacturing capacity in general; intense competition; the failure of one or more significant customers to continue to place the same level of orders with us; TSMC’s ability to remain a technological leader in the semiconductor industry; TSMC’s ability to manage its capacity; TSMC’s ability to obtain, preserve and defend its intellectual property rights; natural disasters and other unexpected events which may disrupt production; and exchange rate fluctuations. Additional information as to these and other risk factors that may cause TSMC’s actual results to differ materially from TSMC’s forward-looking statements may be found in TSMC’s Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission (the “SEC”) on April 13, 2015, and such other documents as TSMC may file with, or submit to, the SEC from time to time. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.