

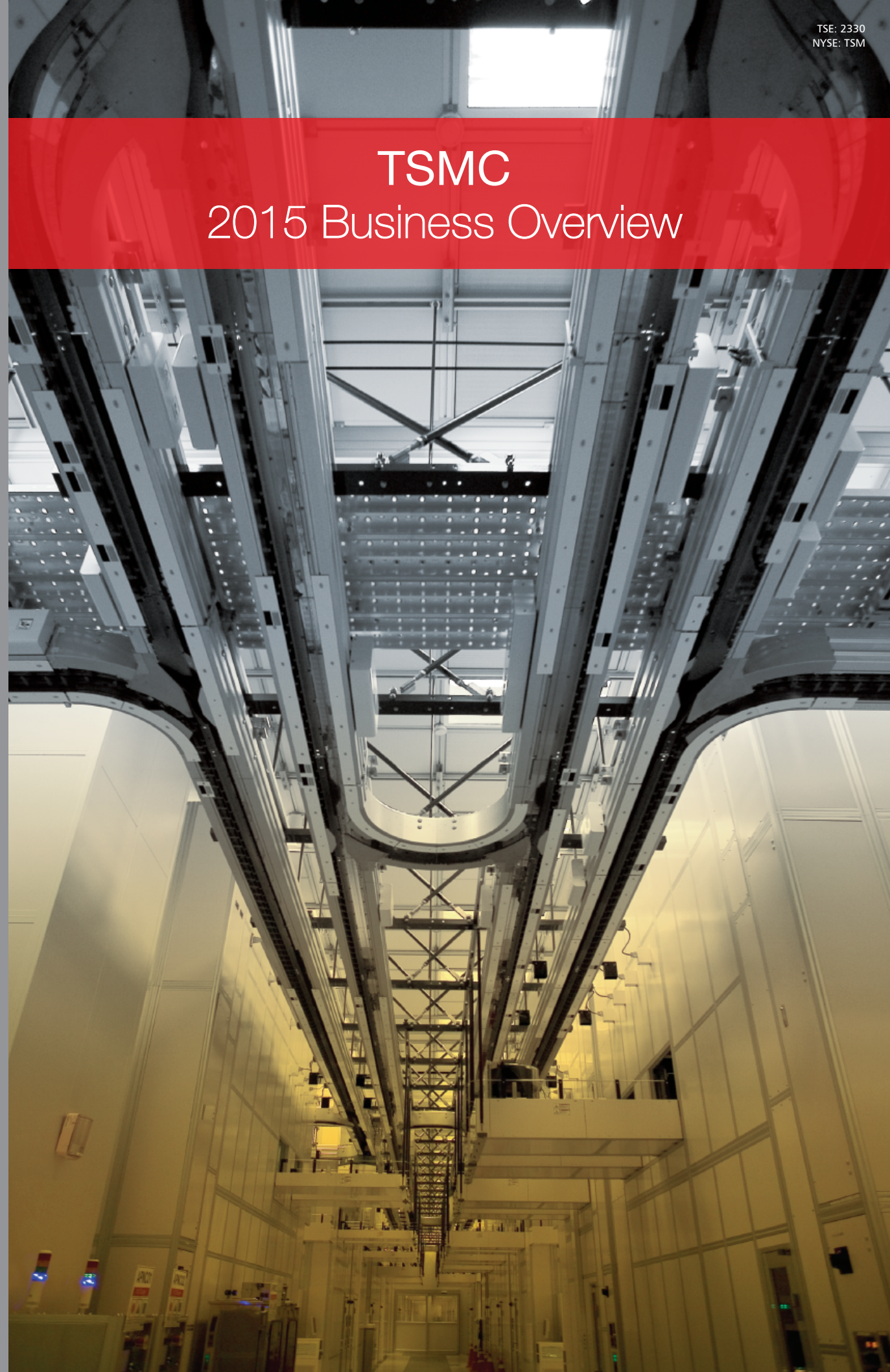
# TSMC

## 2015 Business Overview



**Taiwan Semiconductor  
Manufacturing Company, Ltd.**

8, Li-Hsin Rd. 6, Hsinchu Science Park, Hsinchu 30078, Taiwan, R. O. C.  
Tel: 886-3-5636688 Fax: 886-3-5637000  
<http://www.tsmc.com>



A photograph of a modern, multi-story glass and steel building, likely a TSMC facility, with a large circular plaza in front. The sky is blue with some clouds.

# 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

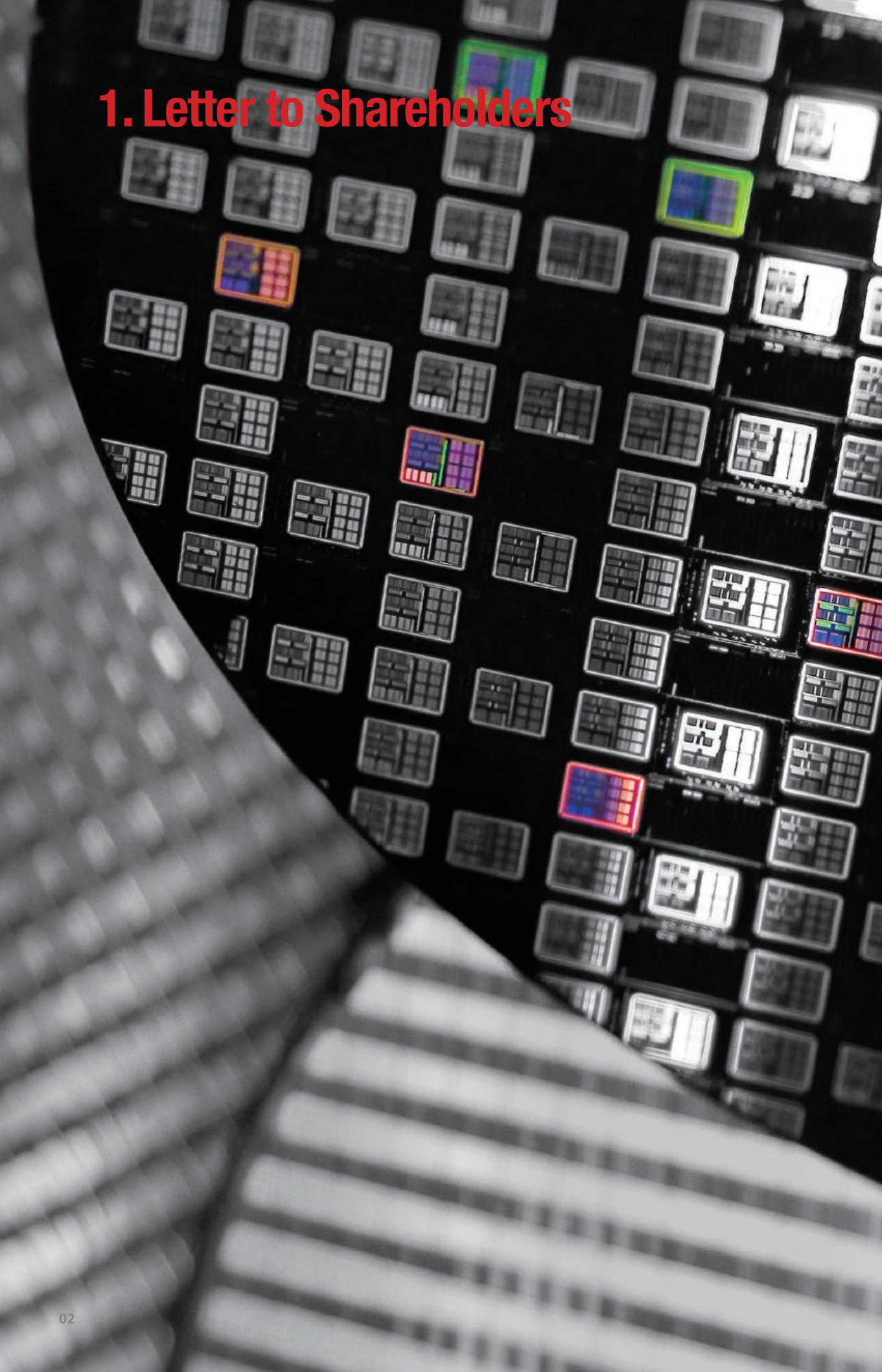
Innovation is the wellspring of TSMC’s growth, and is a part of all aspects of our business, from strategic planning, marketing and management, to technology and manufacturing. At TSMC, innovation means more than new ideas, it means putting ideas into practice.

### 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

## Dear Shareholders,

2015 was a record-breaking year for TSMC, in which we achieved record revenue and profits and made important technology breakthroughs in the face of a challenging business environment for the semiconductor industry worldwide. In 2015, lingering issues of a weakening global economy, stronger US Dollar and financial market volatility dampened the overall demand for semiconductors and lengthened the inventory adjustment cycle, but TSMC continued to reap the benefits of the progress we made in technology and manufacturing. TSMC's leadership in technology, coupled with our ability to provide the right capacity for customers at the right time, was a major factor in our ability to outperform our semiconductor industry peers in 2015.

In addition to doubling the 20-nanometer business from the 2014 level, TSMC also saw successful introduction and record ramp-up speed for our industry-leading 16-nanometer FinFET process. The 16-nanometer and the 20-nanometer nodes together contributed 20 percent of our 2015 wafer revenue, up from 9 percent in 2014. In addition, we continued making good progress toward achieving the next major industry milestone, 10-nanometer capability and the development of 7-nanometer technology. With improvements in yield learning and device performance, we now anticipate to start customer 10-nanometer product tape-outs in the first quarter of 2016.

Despite rising technological complexity and higher capital requirements, TSMC continues to follow the cadence and the economy of process technology advancement, known as "Moore's Law". Moore's Law has already put high-powered computing and globe-spanning communications into the pockets of ordinary people around the world and made ICs so powerful and affordable that they can connect mundane objects around us into intelligent networks. TSMC is dedicated to continued investment in the R&D and advanced capacity necessary to not only benefit from the march of Moore's Law, but also to keep driving it forward.

Highlights of TSMC's accomplishments in 2015:

- Total wafer shipments increased 6.1 percent from 2014 to reach 8,763 thousand 12-inch equivalent wafers.
- Advanced technologies (28-nanometer and beyond) accounted for 48 percent of total wafer revenue, up from 42 percent in 2014.
- We deployed 228 process technologies, and manufactured 8,941 products for 470 customers.
- TSMC's market share in the total semiconductor foundry segment rose successively during the last six years and reached 55 percent in 2015.

2015 Financial Performance

Consolidated revenue totaled NT\$843.50 billion, an increase of 10.6 percent over NT\$762.81 billion in 2014. Net income was NT\$306.57 billion and diluted earnings per share were NT\$11.82. Both increased 16 percent from the 2014 level of NT\$263.90 billion net income and NT\$10.18 diluted EPS.

In US dollars, TSMC generated net income of US\$9.67 billion on consolidated revenue of US\$26.61 billion, compared with net income of US\$8.71 billion on consolidated revenue of US\$25.17 billion in 2014.

Gross profit margin was 48.7 percent compared with 49.5 percent in 2014, and operating profit margin was 37.9 percent compared with 38.8 percent a year earlier. Net profit margin was 36.3 percent, an increase of 1.7 percentage points from the prior year’s 34.6 percent, aided by non-operating items, including NT\$22.1 billion gain from disposal of ASML shares.

TSMC increased its cash dividend payment to NT\$4.5 per share for 2014 profit distribution, up from NT\$3 over the last eight years, to reflect rising free cash flow generation. We are confident in our ability to maintain a sustainable level of cash dividend to our shareholders going forward and will consider increasing the dividends if and when it is appropriate.

Technological Developments

Five years into volume production of 28-nanometer technology, TSMC continued to make innovations and introduced 28HPC and 28HPC+ to its industry-leading 28-nanometer technology platform in 2015. These latest additions enable smaller die size circuit designs with higher performance and lower power consumption. Because TSMC’s 28-nanometer solutions are highly competitive in both technology and cost, we saw increasing number of customer product tape-outs in 2015 and believe we should be able to maintain our substantial (above 70 percent) market share in this significant node in the next few years.

Our 20nm process paved the way for the successful introduction and production ramp-up of our 16FF+ technology in 2015, with yield ramping ahead of plan. Customers have been active in engaging with TSMC and nearly 40 product tape-outs were scheduled before the end of 2015. Drawing on our experience in 16FF+, we completed the development of a highly competitive and cost-effective solution, 16FFC, which incorporates optical shrink and process simplification for further die cost scaling and is directly transferrable from 16FF+. Volume ramp of 16FFC is expected to begin in 2016. Both 16FF+ and 16FFC are positioned to drive future growth with high volume applications across mobile, networking, CPU, FPGA, consumer and GPUs.

In 2015, we completed technology qualification for 10-nanometer and it is on track to meet the goal of production start-up in 2016. TSMC’s 7-nanometer technology was in full development in 2015 and is on track for risk production in the first half of 2017. It shares more than 95 percent common tools with our 10-nanometer process and offers substantial density improvement and power reduction given the same chip performance. Our 5-nanometer node is undergoing definition with intensive advanced development efforts. Exploratory R&D work focusing on new transistors and technologies is on-going to establish a solid foundation to feed into future technology platforms.

Our advanced 3D IC packaging InFO technology that integrates 16-nanometer SoC and DRAM package for advanced mobile products was successfully qualified in 2015 and is expected to start volume production by mid-2016.

Meanwhile, we continued to expand TSMC’s Open Innovation Platform® (OIP), which is the most comprehensive design ecosystem in the semiconductor industry. In 2015, more than 10,000 items were contained in our libraries and silicon IP portfolio, an 18 percent increase from 2014. More than 7,500 technology files and over 200 process design kits were available to customers via TSMC-Online which saw more than 100,000 customer downloads in 2015.

Corporate Developments

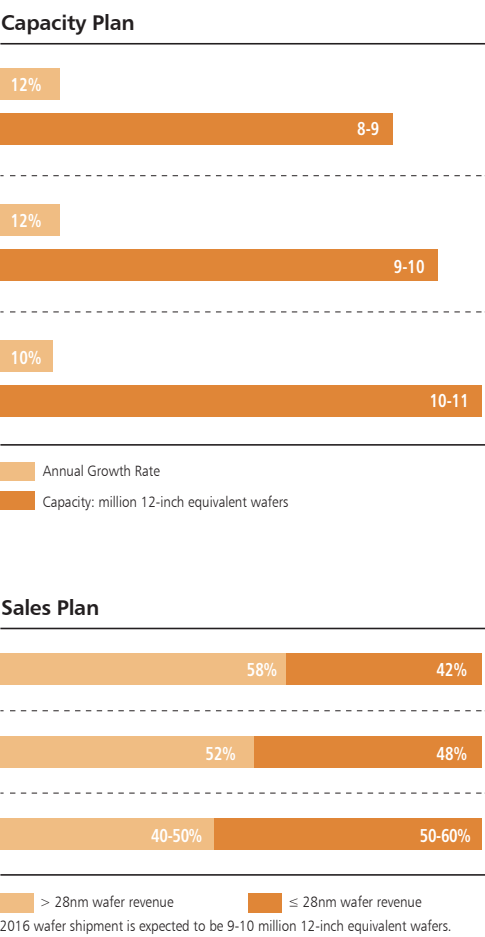
In January 2015, TSMC’s board of directors approved the sale of TSMC Solid State Lighting to Epistar. Upon the closing of the sale, TSMC completely exited the LED industry.

In August 2015, TSMC announced that TSMC Solar would cease manufacturing operations by end of that month, as we believed that our solar business was no longer economically sustainable. All outstanding warranties to existing customers will be honored, and all Taiwan employees were extended employment offers at TSMC.

In December 2015, TSMC submitted an application to the Investment Commission of Taiwan’s Ministry of Economic Affairs (MoEA) to build a wholly-owned 12-inch wafer manufacturing facility and to start a design service center in Nanjing, China. The purpose is to enhance our access to business opportunities in China market. Pending approval from the MoEA, the investment project will commence in 2016 with production targeted in second half of 2018.

Honors and Awards

TSMC received recognitions for achievements in innovation, business information disclosure, sustainability, investor relations and overall excellence in management from organizations including *Barron’s*, *FinanceAsia*, *Fortune Magazine*, *Institutional Investor*, *IR Magazine*, *GlobalViews Magazine*, *CommonWealth Magazine*, RobecoSAM and the Taiwan Stock Exchange. The IEEE *Spectrum Magazine* gave TSMC the highest score in its 2015 Patent Power Scorecard in the semiconductor manufacturing sector. For the third consecutive year, TSMC was named Semiconductor and Semiconductor Equipment Industry Group Leader by the Dow Jones Sustainability Indices, reflecting our commitment to sustainability and corporate social responsibility.



## Outlook

TSMC pioneered the dedicated foundry business model nearly 30 years ago by being committed to delivering technology leadership and manufacturing excellence with an unmatched focus on earning customers' trust. We forecast the recovery in the global economy will lead to growth for the semiconductor industry in 2016. More importantly, TSMC's firm dedication to our business model will enable us to outgrow considerably the semiconductor industry in both 2016 and beyond, just as we have consistently done throughout our history.

Despite product cycle ebbs and flows, semiconductors have been and will remain a basic and pervasive technology, defining how we live. Innovators have not stopped finding ways to create new applications and services that open up undiscovered opportunities. The rise of connected or "smart" devices in smart cars, drones, robots, virtual reality/augmented reality, artificial intelligence and wearables is creating a need for significant increases in processor speeds and capability. At TSMC, we are working with our customers to drive these emerging innovations to market over the coming years.

Being "everyone's foundry" has been a key part of our core strategy, and we will continue to commit resources to technology development and capacity build for both the "Moore's Law" and the "More than Moore" technologies. As we carry out our mission as the trusted technology and capacity provider for the global logic IC industry, we are well positioned to deliver strong returns to our shareholders for years to come.



  
Morris Chang  
Chairman

# 2. Introduction

## Company Profile

Established in 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the foundry business model by focusing solely on manufacturing customers' designs. The Company does not design, manufacture or market semiconductor products under its own brand name, ensuring that it does not compete directly with its customers. Today, TSMC is the world's largest pure-play in the semiconductor foundry business, manufacturing 8,941 different products using 228 different technologies for 470 different customers in 2015.

With such a large and 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. Such strong diversification helps smooth fluctuations in market demand, which leads to higher levels of capacity utilization and profitability.

Annual capacity of the manufacturing facilities managed by TSMC and its subsidiaries reached above 9 million 12-inch equivalent wafers in 2015. These 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 45,000 people worldwide at the end of 2015.

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

## Technology Innovations in 2015

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 technological breakthroughs in materials, processing, and advanced lithography are not only enabling devices to be faster, smaller and more power efficient, but are also critical to driving Moore's Law going forward:

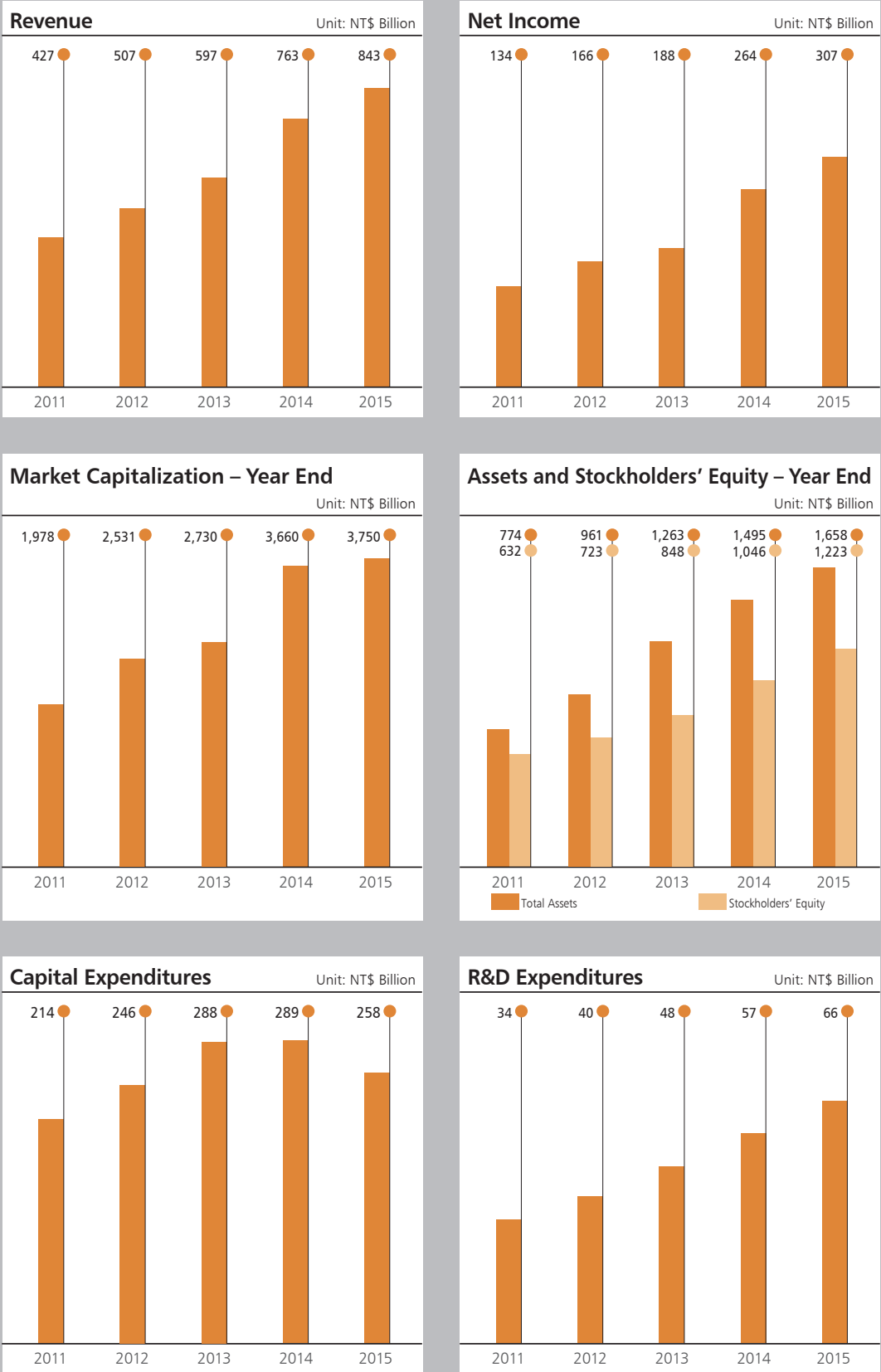
- 7nm FinFET technology made good developmental progress and risk production of this technology is expected to start in the first quarter of 2017. Compared to 10nm FinFET, 7nm FinFET features approximately 15~20% speed improvement or 35~40% power reduction.
- 10nm FinFET technology began customer product tape-out in the first quarter of 2016. Thanks to its aggressive geometric shrinkage, this technology offers 2.1X gate density improvement over 16nm, providing excellent density/cost benefits.
- 16nm FinFET Plus technology (16FF+) entered high-volume production in 2015 with yield ramping ahead of plan, and currently a total of approximately 50 product tape-outs were received. Leveraging our experience on 16FF+, we have also completed the development of a low-power, highly competitive and cost effective solution, 16FFC, which will begin volume ramp in 1Q16.

- 20nm System-on-Chip technology (20SoC) entered volume production with stable yield performance. It provides better density and power value than 28nm thanks to its advanced patterning technique for both performance-driven products and mobile computing applications migration.
- 28nm High Performance Compact (28HPC) and 28nm High Performance Compact Plus (28HPC+) technologies enable smaller die size with higher performance and lower power consumption and are suited for smartphones, DTVs, audio, networking processors and consumer products, among others.
- InFO PoP technology that integrates 16nm SoC and DRAM for advanced mobile products was successfully qualified in the fourth quarter of 2015 and is expected to start volume production in the first half of 2016.

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.

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



# 3. Market Overview

TSMC estimates that the worldwide semiconductor market in 2015 was US\$354 billion in revenue, little changed from 2014. However, the foundry segment outperformed the overall semiconductor industry with total revenues of US\$44 billion in 2015, representing 4% growth from a year earlier.

TSMC maintained its leading position in the total foundry segment of the global semiconductor industry in 2015 with an estimated market share of 55%. Leadership in advanced process technologies continued to be a key factor in TSMC's strong market position. In 2015, 48% of TSMC's wafer revenue came from manufacturing processes with geometries of 28nm and below.

Looking to 2016, TSMC expects the recovery in the global economy will lead to growth for the semiconductor industry in 2016. Despite product cycle ebbs and flows, semiconductors have been and will remain a basic and pervasive technology, defining how we live. At TSMC, we are working with our customers to drive emerging innovations to market over the coming years, and believe our firm dedication to our business model will enable us to outgrow considerably the semiconductor industry in both 2016 and beyond, just as we have consistently done throughout our history.

## Communications

The communications sector, particularly the smartphone segment, posted 10% growth in unit shipments for 2015. Although the growth is slowing down, continuing transition to 4G/LTE and LTE-Advanced will bring mid- to high-single digit growth to the smartphone market in 2016. Smartphones with increasing performance, lower power usage and more intelligent features will continue to propel buying interests. The increasing popularity of low-end smartphones in emerging countries will also drive the growth of the sector.

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

## Computer

After a 1% decline in 2014, the computer sector's unit shipments dropped 8% YoY in 2015. The decline was driven by prolonged replacement cycle, inventory correction, the end of Windows XP migration, and the new Windows 10 free upgrade. The personal computer market is expected to decline by mid-single digit percentage in 2016. However, requirements of lower power, higher performance and the integration of key computer components such as CPU, GPU, Chipset, etc., should drive demand for product redesign towards leading process technologies.

## Consumer

The consumer sector's unit shipments declined 6% in 2015. While new-generation TV game consoles and set-top boxes still showed positive growth, the rest of the sector – TVs, MP3 players, digital cameras and hand-held game consoles – continued to decline due to economic softness and foreign exchange issues, as well as functional cannibalization by smartphones.

Although consumer electronics will continue to decline in 2016, 4K (UHD) TVs and 4K set-top boxes should achieve high growth within the sector. TSMC will be able to capitalize on these trends with advanced technology offerings.

## IoT

The Internet of Things (IoT) is taking shape as the "next big thing," since more and more devices are being connected to the Internet. The IoT is forecast to have 10X greater installed unit potential than the smartphone will have in 2025. Applications and products benefiting from IoT related technologies include smart wearables, home robots, smart meters, self-driving cars, and so on.

These applications and products will require much longer battery life, diversified sensors and low-power wireless connections, which will challenge technology development in new ways. TSMC's ultra-low-power logic and RF solutions, and diversified sensing technologies will help customers lead the way for this future growth.



## 4. TSMC's Trinity of Strengths

TSMC's growth has outperformed the overall semiconductor industry for 27 years out of the 29 years since the company's founding. We have been able to achieve this track record by serving as "everyone's foundry" – we do not compete with our customers, we support them as they grow, and participate in their success as they flourish. Our ability to serve as everyone's foundry is rooted in our trinity of strengths: Technology Leadership, Manufacturing Excellence, and Customer Trust.

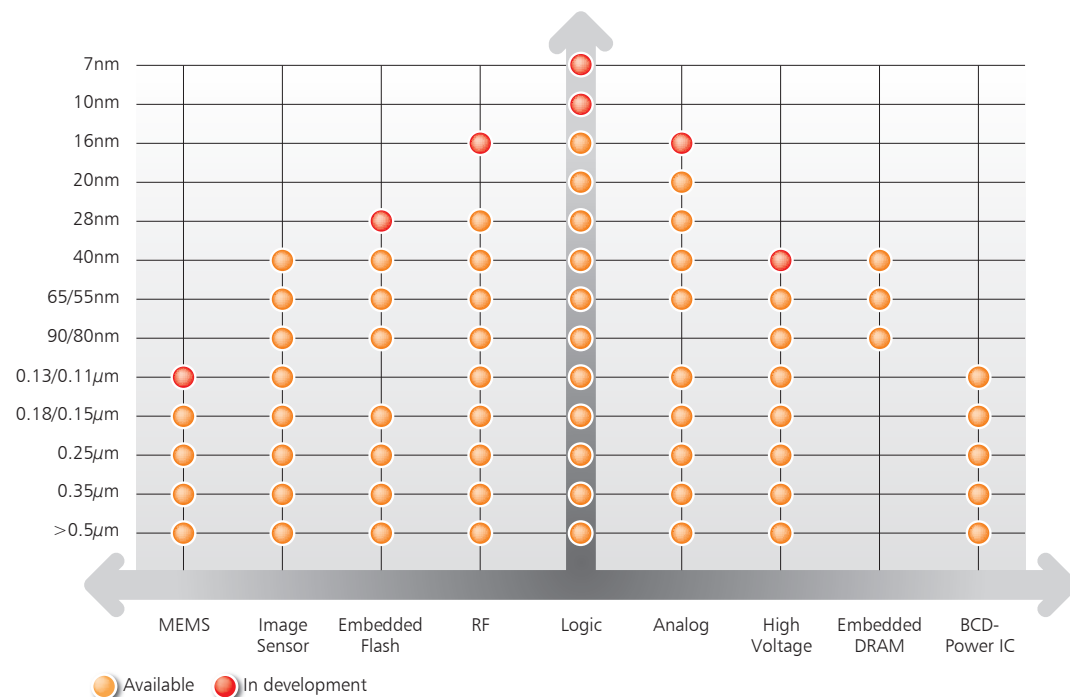
Each component of the trinity plays a critical part. Our Technology Leadership allows us to provide leading-edge technologies to serve the most advanced product designs, and also enables a broad portfolio of specialty processes offerings for a diverse spectrum of IC designers. Our Manufacturing Excellence offers customers the fastest time-to-volume for their products and gives us the flexible capacity to not only manufacture for the foundry segment's largest customer base, but also to provide more capacity when their products succeed and begin to generate high demand. Finally, Customer Trust keeps the goals of TSMC and its customers aligned, because we do not believe that we can achieve long-term success if our customers do not succeed.

### Technology Leadership

As a semiconductor industry leader, TSMC's technology offerings possess the breadth to suit the needs of a broad array of customers, and our leading-edge technology development has the depth to give customers a head start in next wave of fast-growing product segments as Moore's Law continues to advance. We commit considerable resources to maintain this competitive advantage in technology: In 2015, TSMC employed more than 5,000 engineers and scientists in R&D, while Spending in R&D totaled more than US\$2 billion in 2015, or 8% of revenues.

TSMC's advanced technology is at the forefront of Moore's law. Our 16nm FinFET Plus technology (16FF+) entered volume production in 2015 with strong yield performance, and we have followed up our market success in that node with 16nm FinFET Compact technology (16FFC), a low-cost, low-power version that entered volume production in the first quarter of 2016.

### Wide Technology Portfolio Enables the Next Wave of Growth Drivers



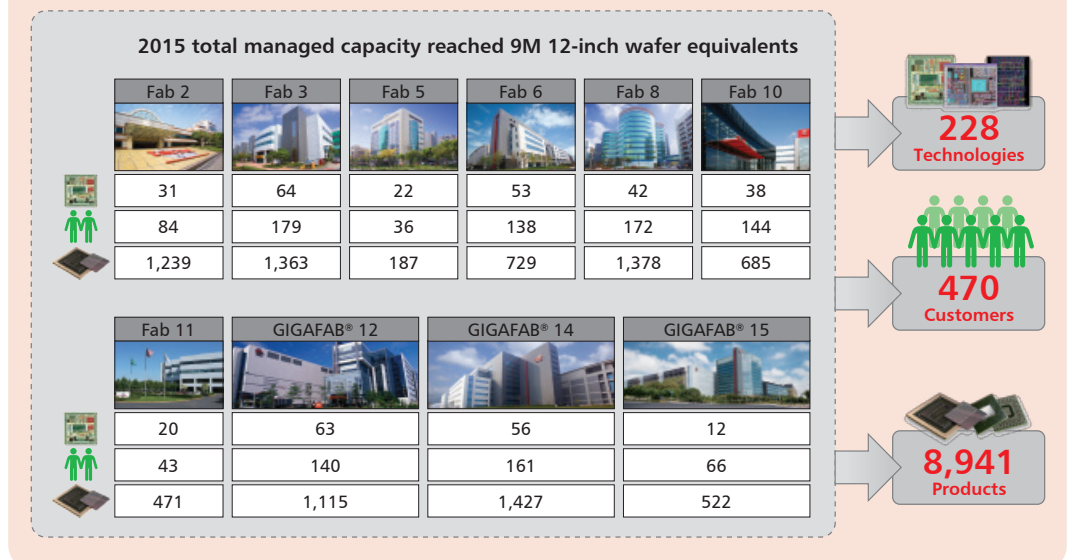
Our 10nm FinFET technology also began customer product tape-outs in the first quarter of 2016 with volume production to start by the end of the year. Its aggressive geometric shrinking offers approximately 20% speed improvement or 40% power reduction from our 16nm process. We have also made solid progress in 7nm FinFET technology and risk production is scheduled for the first quarter of 2017.

In specialty technology, TSMC is well-positioned to provide the technologies needed for the emerging IoT market, including sensors, wireless connectivity, and low-power transistors. In 2015, 55nm Ultra-Low Power (ULP) embedded flash memory entered production for battery-powered applications such as wireless microcontrollers and wearable devices. A 40nm version is scheduled to begin production in 2016, adding further to our portfolio of ultra-low power processes. A 40nm high-voltage process technology was qualified in 2015 for top-end smartphone display drivers, enabling improved display quality and significant reductions in power consumption. In addition, our R&D team has successfully demonstrated the world's smallest CMOS-MEMS monolithic air pressure sensor with accuracy down to 10cm change in elevation. We have also demonstrated a CMOS-based Backside Sensing (BSS) technology for bio-chemical analysis, with 5-10 times sensitivity improvement over traditional techniques, providing high accuracy and high throughput analysis for Point-of-Care applications.

### Manufacturing Excellence

As "everyone's foundry", TSMC served more than 470 active customers in 2015, manufacturing over 8,900 different products while using 228 different technologies, making it the world's most diversified and largest provider of logic IC capacity.

### TSMC Delivers Unrivalled Manufacturing Flexibility



TSMC's unique manufacturing system is tailored to manage the diverse manufacturing requirements of each customer, product, and technology without compromising speed, precision, and flexibility to adapt to changing circumstances. At the same time, our people and systems deliver these results in the leanest and most efficient way possible to support TSMC's profitability.

To satisfy advanced and accurate process control and ensure stable, efficient, and effective production, TSMC employs engineering big data mining and analysis, intelligent tool tuning, and equipment chamber matching. Our engineering analysis platform for decision making, integrated with intelligent operating systems, has reduced the burden for operators and engineers and produced remarkable results in yield enhancement, workflow improvement, fault detection, cost reduction and shortened the R&D cycle. These innovations have transformed out facilities from “automated fabs” to “intelligent fabs”.

TSMC’s engineers are equally skilled at bringing new capacity on line. After a record-breaking ramp that brought 20nm production lines to capacity of 60,000 wafers per month in only three months, we repeated the performance once again in 2015 with our 16nm production lines, while at the same time reducing cycle times for pilot runs to a record low. We expect this brisk pace of production will raise our foundry market segment share in the 16/14nm node to more than 70% in 2016 from 50% in 2015.

### Customer Trust

Customer Trust is deeply ingrained as one of TSMC’s four core values and is our keystone to serving as “everyone’s foundry”. It ensures that we win together with our customers in long-term relationships that last from one generation of technology to another. 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

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 the National Performing Arts Center and Advisor to the Taiwan Executive Yuan, Ms. Kok-Choo Chen; and former Chairman of Applied Materials, Inc., Mr. Michael R. Splinter. The number of Independent Directors is more than 50% of the total number of Directors.

In the spirit of Chairman Morris 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.

TSMC’s Board of Directors strives to perform these responsibilities through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, and coordination with the Internal Audit department.

The second duty of the Board of Directors is to provide guidance to the management team of the Company. Quarterly, TSMC’s management reports to the Board on a variety of subjects. The management also reviews the Company’s business strategies with the Board and updates TSMC’s Board on the progress of those strategies, obtaining Board guidance as appropriate.

The third duty of the Board of Directors is to evaluate the management’s performance and to dismiss officers of the Company when necessary. TSMC’s management has maintained a healthy and functional communication with the Board of Directors, has been devoted in executing guidance of the Board, and is dedicated in running business operations, all to achieve the best interests for TSMC shareholders.

## 6. Corporate Social Responsibility



TSMC believes a company's corporate social responsibility is to uplift society. To focus TSMC's CSR efforts, Chairman Dr. Morris Chang and the management team, after extensive discussions held in 2015, declared "Uplifting Society" as the Company vision and identified three primary missions: "Acting with Integrity," "Strengthening Environmental Protection", and "Caring for the Disadvantaged". In November 2015, Chairman Chang approved the "TSMC Corporate Social Responsibility Policy" as an official Company document to serve as a guide in developing a CSR procedure, which was completed in December 2015. The "TSMC Corporate Social Responsibility Procedure" defines TSMC's CSR scope, the roles and responsibilities of CSR Committee members and management to fulfill the vision and carry out the missions as a good corporate citizen.

### TSMC Corporate Social Responsibility Policy

Since its establishment, TSMC has not only strived for the highest achievements in its core business of dedicated IC foundry services but has also actively developed positive relationships with all stakeholders including employees, shareholders, customers, suppliers, and society to fulfill its responsibility as a corporate citizen and pursue a sustainable future.

#### Vision

- To Uplift Society

#### Mission

- Acting with Integrity
- Strengthening Environmental Protection
- Caring for the Disadvantaged

#### Guiding Principles

**Acting with Integrity:** TSMC believes in acting ethically, following the law, and balancing the interests of all stakeholders. The Company endeavors to use the experience of developing a sustainable business to drive the industry and supply chain into a positive cycle and to act together with them as an uplifting force in society.

Integrity is the foremost of TSMC's four core values. Our culture of integrity is encapsulated in TSMC's Code of Ethics and Business Conduct, which applies to the Company and its subsidiaries. The Code requires that each employee bear a heavy personal responsibility to preserve and to protect TSMC's ethical values and reputation and to comply with various applicable laws and regulations. Not only do we provide training on the Code to incoming employees, we perform regular promotion, and offer advanced training in subjects including corruption, proprietary information protection, and insider trading. Adherence to the code is enforced through annual self-assessments, internal auditing, and a number of whistleblowing channels including the function head of Human Resources, the corporate Vice President overseeing the Ombudsmen system, or directly to the Chairman of the Board of Directors' Audit Committee. Externally, we require all of our suppliers, vendors, and contractors to declare in writing that they will not engage in any fraud or any unethical conduct when dealing with us, our officers, or employees.

**Strengthening Environmental Protection:** TSMC strives to achieve environmental sustainability and continues to promote green fabs, green manufacturing, and a green supply chain. The Company seeks the most efficient use of energy and resources and is committed to reducing waste and preventing pollution. TSMC is eager to share its environmental experience and expertise and aims to collaborate with government, academia, and all of society to address the challenges of climate change.

TSMC set long-term targets for water conservation, waste recycling, and energy-saving in 2014 to minimize our environmental impact, and have made progress in reaching these goals.

In water conservation, we have set a goal of reducing water consumption per 8-inch equivalent layer to 30% below 2010 levels by 2020, or 43.82 liters. As of 2015, we achieved 44.4 liters per 8-inch equivalent layer versus 62.6 liters in 2010. In process water recycling, we set a goal of recycling 90% by 2020, and reached 87.3 percent in 2015.

In waste reduction, our goal was to reach a waste recycling rate of 95% by 2020. In 2015, our waste recycling rate increased 2.5 percentage points to reach 95%, and we will strive to maintain or exceed this level going forward.

In energy conservation, our goal is to reduce power consumption per 8-inch equivalent layer to 12% below 2010 levels by 2020, or 9.33 kilowatt hours. As of 2015, we have reached 9.9 kilowatt hours, versus 10.6 in 2010.

In addition to these targets, TSMC began a Green Building Project in 2006, in which all new properties follow the standards of the USGBC Leadership in Energy and Environment Design (LEED) Rating System, and Taiwan Ecology, Energy Saving, Waste Reduction, and Health (EEWH) rating system. As of 2015, 18 TSMC buildings have been certified under the USGBC LEED standard; two have obtained Platinum ratings, and 16 have gained Gold ratings; 10 buildings have been certified with Taiwan EEWH Diamond ratings.

Finally, TSMC's process technologies contribute significantly to the development of green electronics products. We support our IC design customers in providing advanced, power efficient and ecologically sound products, such as lower-power-consumption chips for mobile devices, high-efficiency LED drivers chips for Flat Panel Display Backlighting and indoor/outdoor Solid State LED lighting, and "Energy Star" certified low standby AC-DC adaptors chips, etc. By leveraging TSMC's superior energy-efficient technologies, these chips are used for supporting sustainable city infrastructure, greener vehicles, smart grids, and more.

**Caring for the Disadvantaged:** TSMC believes in equality, justice, and a safe and prosperous society. The Company combines its resources with employee volunteer service to commit money, material and labor to the two main areas of "education" and "living". TSMC hopes to provide underprivileged students in rural regions with diverse learning opportunities and give disadvantaged groups necessary aid and emergency relief for the common good of society.

The TSMC Volunteer Program is dedicated to promoting education and culture, providing aid for the underprivileged, advocating energy savings, and caring for the community. The program aims to provide a host of channels, encouraging employees to utilize personal professions and capabilities to give back to the society.

Employees and their families can take part in a variety of programs including:

- The TSMC Volunteer Docent Program, which guides visitors at the National Museum of Natural Science.
- The TSMC Book Reading Volunteer Program, which donates books and reads to students in underdeveloped rural areas.
- The TSMC Energy-Savings Volunteer Program, which leverages specialist employees' professional skills to improve safety and reduce energy and water consumption for local schools.
- The TSMC Community Volunteer Program, which regularly serves the elderly of the Hsinchu Veterans' Home and disadvantaged children at the St. Teresa Children's Center.
- The TSMC Ecology Volunteer Program, which performs environmental education projects in the areas where TSMC fabs are located.
- The TSMC Fab/Division Volunteer Program, which gives TSMC employees to an opportunity to mobilize colleagues for special projects in environmental protection, education, and supporting the disadvantaged.

In 2015, volunteer projects included repairing and refurbishing houses for seniors living alone, providing cameras and photography classes to children living in remote underdeveloped areas, donating free school lunches to children of the Kuskus aborigine tribe, and helping low-income farmers process water bamboo shoots and harvest oysters, in addition to continued long-term programs with the Hsinchu Veteran's Home and St. Teresa Children's Center.

In addition, the TSMC i-Charity platform pools resources for projects proposed by employees. This interactive online platform was launched in 2014 for employees to proactively take part in philanthropic activities and give back to society. The intranet opens a channel for TSMC employees to pitch potential projects, raise funds, share results, suggest new ideas and directly participate in philanthropic events. In 2015, i-Charity projects included refurbishment of the library of a rural elementary school, pressure garments for victims of the Formosa Fun Coast explosion, assisting in construction of the Shan-Hu branch of Po-Shan Elementary School, and working with three hearing-impaired preschool children.

# 7. Financial Statements

## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries Consolidated Condensed Balance Sheets

December 31, 2012 - 2015

In Millions of New Taiwan Dollars (NTD) and U.S. Dollars (USD)

|                                                                 | 2015      |              | 2014         | 2013         | 2012       |
|-----------------------------------------------------------------|-----------|--------------|--------------|--------------|------------|
|                                                                 | USD       | NTD          | NTD          | NTD          | NTD        |
| <b>ASSETS</b>                                                   |           |              |              |              |            |
| Current Assets                                                  |           |              |              |              |            |
| Cash and Cash Equivalents                                       | \$ 17,106 | \$ 562,689   | \$ 358,449   | \$ 242,695   | \$ 143,411 |
| Investments in Marketable Financial Instruments                 | 714       | 23,474       | 78,475       | 2,647        | 7,507      |
| Accounts Receivable                                             | 2,601     | 85,565       | 115,048      | 71,942       | 58,131     |
| Inventories                                                     | 2,038     | 67,052       | 66,338       | 37,495       | 37,831     |
| Other Current Assets                                            | 242       | 7,964        | 8,256        | 3,708        | 3,446      |
| Total Current Assets                                            | 22,701    | 746,744      | 626,566      | 358,487      | 250,326    |
| Non-current Assets                                              |           |              |              |              |            |
| Long-term Investments                                           | 1,064     | 34,994       | 30,056       | 89,184       | 65,717     |
| Property, Plant and Equipment                                   | 25,945    | 853,470      | 818,199      | 792,666      | 617,562    |
| Intangible and Other Non-current Assets                         | 678       | 22,310       | 20,228       | 22,718       | 27,750     |
| Total Non-current Assets                                        | 27,687    | 910,774      | 868,483      | 904,568      | 711,029    |
| Total Assets                                                    | \$ 50,388 | \$ 1,657,518 | \$ 1,495,049 | \$ 1,263,055 | \$ 961,355 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                     |           |              |              |              |            |
| Current Liabilities                                             |           |              |              |              |            |
| Short-term Loans                                                | \$ 1,200  | \$ 39,474    | \$ 36,159    | \$ 15,645    | \$ 34,715  |
| Accounts Payable                                                | 600       | 19,725       | 23,370       | 16,359       | 15,239     |
| Payables to Contractors and Equipment Suppliers                 | 791       | 26,012       | 26,980       | 89,810       | 44,832     |
| Accrued Expenses and Other Current Liabilities                  | 3,146     | 103,500      | 114,505      | 67,964       | 53,560     |
| Current Portion of Bonds Payable and Bank Loans                 | 715       | 23,518       | -            | -            | 128        |
| Total Current Liabilities                                       | 6,452     | 212,229      | 201,014      | 189,778      | 148,474    |
| Non-current Liabilities                                         |           |              |              |              |            |
| Bonds Payable                                                   | 5,835     | 191,965      | 213,674      | 210,768      | 80,000     |
| Other Non-current Liabilities                                   | 933       | 30,690       | 34,033       | 14,734       | 9,787      |
| Total Non-current Liabilities                                   | 6,768     | 222,655      | 247,707      | 225,502      | 89,787     |
| Total Liabilities                                               | 13,220    | 434,884      | 448,721      | 415,280      | 238,261    |
| Shareholders' Equity Attributable to Shareholders of the Parent |           |              |              |              |            |
| Capital Stock at Par Value                                      | 7,883     | 259,304      | 259,297      | 259,286      | 259,245    |
| Capital Surplus                                                 | 1,712     | 56,300       | 55,990       | 55,859       | 55,675     |
| Legal Capital Reserve                                           | 5,400     | 177,641      | 151,251      | 132,436      | 115,820    |
| Special Capital Reserve                                         | -         | -            | -            | 2,786        | 7,606      |
| Unappropriated Earnings                                         | 21,786    | 716,653      | 553,914      | 382,971      | 284,985    |
| Others                                                          | 358       | 11,774       | 25,749       | 14,170       | (2,780)    |
| Equity Attributable to Shareholders of the Parent               | 37,139    | 1,221,672    | 1,046,201    | 847,508      | 720,551    |
| Noncontrolling Interests                                        | 29        | 962          | 127          | 267          | 2,543      |
| Total Shareholders' Equity                                      | 37,168    | 1,222,634    | 1,046,328    | 847,775      | 723,094    |
| Total Liabilities & Shareholders' Equity                        | \$ 50,388 | \$ 1,657,518 | \$ 1,495,049 | \$ 1,263,055 | \$ 961,355 |

Note: 2012-2013 financial statements are prepared in accordance with 2010 Taiwan-IFRSs version. Starting in 2015, financial statements are prepared in accordance with 2013 Taiwan-IFRSs version; financial statements are adjusted to retrospectively apply newly effected GAAP.

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**Consolidated Condensed Statements of Comprehensive Income**

For the Years Ended December 31, 2012 - 2015

In Millions of New Taiwan Dollars (NTD) and U.S. Dollars (USD), Except for Earnings Per Share

|                                                  | 2015      |            | 2014       | 2013       | 2012       |
|--------------------------------------------------|-----------|------------|------------|------------|------------|
|                                                  | USD       | NTD        | NTD        | NTD        | NTD        |
| Net Revenue                                      | \$ 26,606 | \$ 843,497 | \$ 762,806 | \$ 597,024 | \$ 506,745 |
| Cost of Revenue                                  | (13,661)  | (433,102)  | (385,084)  | (316,079)  | (262,608)  |
| Gross Profit                                     | 12,945    | 410,395    | 377,722    | 280,945    | 244,137    |
| Operating Expenses                               |           |            |            |            |            |
| Research and Development Expenses                | (2,067)   | (65,545)   | (56,829)   | (48,118)   | (40,383)   |
| Sales, General and Administrative Expenses       | (723)     | (22,922)   | (24,021)   | (23,445)   | (22,128)   |
| Total Operating Expenses                         | (2,790)   | (88,467)   | (80,850)   | (71,563)   | (62,511)   |
| Other Income and Expenses                        | (60)      | (1,880)    | (1,002)    | 47         | (449)      |
| Income from Operations                           | 10,095    | 320,048    | 295,870    | 209,429    | 181,177    |
| Non-operating Income and Expenses                |           |            |            |            |            |
| Share of Profits of Associates and Joint Venture | 130       | 4,132      | 3,951      | 3,972      | 2,073      |
| Interest Expenses                                | (100)     | (3,190)    | (3,236)    | (2,647)    | (1,020)    |
| Other Gains and Losses                           | 929       | 29,439     | 5,494      | 4,733      | (554)      |
| Total Non-operating Income and Expenses          | 959       | 30,381     | 6,209      | 6,058      | 499        |
| Income Before Income Tax                         | 11,054    | 350,429    | 302,079    | 215,487    | 181,676    |
| Income Tax Expenses                              | (1,384)   | (43,873)   | (38,315)   | (27,468)   | (15,552)   |
| Net Income                                       | 9,670     | 306,556    | 263,764    | 188,019    | 166,124    |
| Other Comprehensive Income                       | (464)     | (14,714)   | 11,805     | 16,352     | 4,252      |
| Comprehensive Income                             | \$ 9,206  | \$ 291,842 | \$ 275,569 | \$ 204,371 | \$ 170,376 |
| Net Income (Losses) Attributable to:             |           |            |            |            |            |
| Shareholders of the Parent                       | \$ 9,670  | \$ 306,574 | \$ 263,882 | \$ 188,147 | \$ 166,318 |
| Noncontrolling Interests                         | -         | (18)       | (118)      | (128)      | (194)      |
|                                                  | \$ 9,670  | \$ 306,556 | \$ 263,764 | \$ 188,019 | \$ 166,124 |
| Earnings per Share - Diluted (NT\$)              | \$ 0.37   | \$ 11.82   | \$ 10.18   | \$ 7.26    | \$ 6.41    |
| Earnings per ADR - Diluted (US\$)                | \$ 1.86   | \$ 1.86    | \$ 1.68    | \$ 1.22    | \$ 1.08    |

Note: 2012-2013 financial statements are prepared in accordance with 2010 Taiwan-IFRSs version. Starting in 2015, financial statements are prepared in accordance with 2013 Taiwan-IFRSs version; financial statements are adjusted to retrospectively apply newly effected GAAP.

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**  
**Consolidated Condensed Cash Flow Statements**

For the Years Ended December 31, 2012 - 2015

In Millions of New Taiwan Dollars (NTD) and U.S. Dollars (USD)

|                                                                        | 2015      |            | 2014       | 2013       | 2012       |
|------------------------------------------------------------------------|-----------|------------|------------|------------|------------|
|                                                                        | USD       | NTD        | NTD        | NTD        | NTD        |
| Cash Flows from Operating Activities:                                  |           |            |            |            |            |
| Income Before Income Tax                                               | \$ 11,053 | \$ 350,429 | \$ 302,079 | \$ 215,487 | \$ 181,676 |
| Depreciation & Amortization                                            | 7,018     | 222,506    | 200,252    | 156,182    | 131,349    |
| Share of Profits of Associates and Joint Venture                       | (130)     | (4,132)    | (3,951)    | (3,972)    | (2,073)    |
| Income Tax Paid                                                        | (1,291)   | (40,943)   | (29,918)   | (14,463)   | (11,312)   |
| Changes in Working Capital & Others                                    | 64        | 2,019      | (46,938)   | (5,851)    | (14,677)   |
| Net Cash Generated by Operating Activities                             | 16,714    | 529,879    | 421,524    | 347,383    | 284,963    |
| Cash Flows from Investing Activities:                                  |           |            |            |            |            |
| Interest Received                                                      | 115       | 3,642      | 2,579      | 1,791      | 1,719      |
| Cash Dividend Received                                                 | 127       | 4,024      | 3,869      | 2,648      | 2,159      |
| Acquisitions of:                                                       |           |            |            |            |            |
| Property, Plant and Equipment                                          | (8,123)   | (257,517)  | (288,540)  | (287,595)  | (246,137)  |
| Marketable Financial Instruments                                       | (1,311)   | (41,574)   | (5,974)    | (1,817)    | (31,526)   |
| Financial Assets Carried at Cost                                       | (82)      | (2,586)    | (23)       | (27)       | (57)       |
| Proceeds from Disposal or Redemption of:                               |           |            |            |            |            |
| Property, Plant and Equipment                                          | 26        | 817        | 200        | 174        | 157        |
| Marketable Financial Instruments                                       | 2,343     | 74,293     | 3,889      | 7,564      | 3,676      |
| Financial Assets Carried at Cost                                       | 12        | 369        | 88         | 68         | 354        |
| Investments Accounted for Using Equity Method                          | 163       | 5,172      | 3,472      | -          | -          |
| Others                                                                 | (122)     | (3,886)    | (1,981)    | (3,860)    | 337        |
| Net Cash Used In Investing Activities                                  | (6,852)   | (217,246)  | (282,421)  | (281,054)  | (269,318)  |
| Cash Flows from Financing Activities:                                  |           |            |            |            |            |
| Increase (Decrease) in Short-term Loans                                | 99        | 3,139      | 18,564     | (19,636)   | 9,747      |
| Proceeds from Issuance of Bonds                                        | -         | -          | -          | 130,845    | 62,000     |
| Repayment of Bonds                                                     | -         | -          | -          | -          | (4,500)    |
| Issuance of Long-term Bank Loans                                       | -         | -          | -          | 690        | 50         |
| Repayment of Long-term Bank Loans                                      | -         | -          | -          | (63)       | (212)      |
| Interest Paid                                                          | (100)     | (3,156)    | (3,193)    | (1,331)    | (736)      |
| Cash Dividends Paid for Common Stock                                   | (3,680)   | (116,683)  | (77,786)   | (77,773)   | (77,749)   |
| Proceeds from Exercise of Stock Options                                | 1         | 34         | 47         | 125        | 242        |
| Others                                                                 | (2)       | (68)       | 30,040     | (752)      | (2,430)    |
| Net Cash Generated by (Used in) Financing Activities                   | (3,682)   | (116,734)  | (32,328)   | 32,105     | (13,588)   |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents and Other | 263       | 8,341      | 8,979      | 850        | (2,118)    |
| Net Increase (Decrease) in Cash and Cash Equivalents                   | 6,443     | 204,240    | 115,754    | 99,284     | (61)       |
| Cash and Cash Equivalents at Beginning of Period                       | 11,306    | 358,449    | 242,695    | 143,411    | 143,472    |
| Cash and Cash Equivalents at End of Period                             | \$ 17,749 | \$ 562,689 | \$ 358,449 | \$ 242,695 | \$ 143,411 |

Note: 2012-2013 financial statements are prepared in accordance with 2010 Taiwan-IFRSs version. Starting in 2015, financial statements are prepared in accordance with 2013 Taiwan-IFRSs version; financial statements are adjusted to retrospectively apply newly effected GAAP.

# Contact Information

**Corporate Headquarters & Fab 12A**

8, Li-Hsin Rd. 6, Hsinchu Science Park, Hsinchu 30078  
Taiwan, R.O.C.  
Tel: +886-3-5636688 Fax: +886-3-5637000

**R&D Center & Fab 12B**

168, Park Ave. II, Hsinchu Science Park, Hsinchu 30075  
Taiwan, R.O.C.  
Tel: +886-3-5636688 FAX: +886-3-6687827

**Fab 2, Fab 5**

121, Park Ave. 3, Hsinchu Science Park, Hsinchu 30077  
Taiwan, R.O.C.  
Tel: +886-3-5636688 Fax: +886-3-5781546

**Fab 3**

9, Creation Rd. 1, Hsinchu Science Park, Hsinchu 30077  
Taiwan, R.O.C.  
Tel: +886-3-5636688 Fax: +886-3-5781548

**Fab 6**

1, Nan-Ke North Rd., Tainan Science Park, Tainan 74144  
Taiwan, R.O.C.  
Tel: +886-6-5056688 Fax: +886-6-5052057

**Fab 8**

25, Li-Hsin Rd., Hsinchu Science Park, Hsinchu 30078  
Taiwan, R.O.C.  
Tel: +886-3-5636688 Fax: +886-3-5662051

**Fab 14A**

1-1, Nan-Ke North Rd., Tainan Science Park, Tainan 74144  
Taiwan R.O.C.  
Tel: +886-6-5056688 Fax: +886-6-5051262

**Fab 14B**

17, Nan-Ke 9th Rd., Tainan Science Park, Tainan 74144  
Taiwan, R.O.C.  
Tel: +886-6-5056688 Fax: +886-6-5055217

**Fab 15**

1, Keya Rd.6, Cental Taiwan Science Park, Taichung 42882  
Taiwan, R.O.C.  
Tel: +886-4-27026688 Fax: +886-4-25607548

**TSMC North America**

2851 Junction Avenue, San Jose, CA 95134, U.S.A.  
Tel: +1-408-3828000 Fax: +1-408-3828008

**TSMC Europe B.V.**

World Trade Center, Zuidplein 60, 1077 XV Amsterdam  
The Netherlands  
Tel: +31-20-3059900 Fax: +31-20-3059911

**TSMC Japan Limited**

21F, Queen's Tower C, 2-3-5, Minatomirai, Nishi-ku  
Yokohama Kanagawa, 2206221, Japan  
Tel: +81-45-6820670 Fax: +81-45-6820673

**TSMC China Company Limited**

4000, Wen Xiang Road, Songjiang, Shanghai, China  
Postcode: 201616  
Tel: +86-21-57768000 Fax: +86-21-57762525

**TSMC Korea Limited**

15F, AnnJay Tower, 208, Teheran-ro, Gangnam-gu  
Seoul 06220, Korea  
Tel: +82-2-20511688 Fax: +82-2-20511669

**TSMC Liaison Office in India**

1st Floor, Pine Valley, Embassy Golf-Links Business Park  
Bangalore-560071, India  
Tel: +1-408-3827960  
Fax: +1-408-3828008

**TSMC Design Technology Canada Inc.**

535 Legget Dr., Suite 600, Kanata, ON K2K 3B8, Canada  
Tel: +613-576-1990  
Fax: +613-576-1999

**TSMC Spokesperson**

Name: Lora Ho  
Title: Senior Vice President & CFO  
Tel: +886-3-5054602 Fax: +886-3-5637000  
Email: cyhsu@tsmc.com

**TSMC Deputy Spokesperson/Corporate Communications**

Name: Elizabeth Sun  
Title: Senior Director, TSMC Corporate Communications Division  
Tel: +886-3-5682085 Fax: +886-3-5637000  
Email: elizabeth\_sun@tsmc.com

**Auditors**

Company: Deloitte & Touche  
Auditors: Yi-Hsin Kao, Hung-Wen Huang  
Address: 12F, 156, Sec. 3, Min-Sheng E. Rd., Taipei 10596  
Taiwan, R.O.C.  
Tel: +886-2-25459988 Fax: +886-2-25459966  
Website: <http://www.deloitte.com.tw>

**Common Share Transfer Agent and Registrar**

Company: The Transfer Agency Department of Chinatrust  
Commercial Bank  
Address: 5F, 83, Sec. 1, Chung-Ching S. Rd., Taipei 10008  
Taiwan, R.O.C.  
Tel: +886-2-66365566 Fax: +886-2-23116723  
Website: <http://www.ctbcbank.com>

**ADR Depositary Bank**

Company: Citibank, N.A.  
Depositary Receipts Services  
Address: 388 Greenwich Street, New York, NY 10013  
U.S.A.  
Website: <http://www.citi.com/dr>  
Tel: +1-877-2484237 (toll free)  
Tel: +1-781-5754555 (out of US)  
Fax: +1-201-3243284  
E-mail: [citibank@shareholders-online.com](mailto:citibank@shareholders-online.com)  
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 cyclicalities 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 11, 2016, 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.