



TSMC 2016 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>

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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Letter to Shareholders



Dear Shareholders,

2016 was a good year for TSMC as we delivered another year of record revenue and earnings. Our revenue grew double-digit outpacing a relatively flat global semiconductor industry. We also achieved our highest gross and operating margin in the last twenty years, which is a direct result of our ongoing and unrelenting company-wide focus on driving productivity improvement, higher operating efficiency, and across-the-board cost reduction efforts.

TSMC's growth is propelled by our ability to earn a premium to the overall semiconductor industry's growth by being a trusted provider of technology and capacity to the world logic IC industry. This position allowed us to participate actively in the growth of the faster-growing segments, such as the strong demand from 4G+ smartphones in the China market, the replacement and upgrade of Gaming, and the emergence of AI (Artificial Intelligence) in 2016. These applications require the use of technologies over a wide spectrum, and TSMC holds a leading position over this spectrum. Our strong position in technology leadership and our commitment to invest in both R&D and in Capex are what enabled us to continually gain foundry market segment share.

We made significant advances in leading-edge process technologies in 2016. Revenue from 16-nanometer grew more than five-fold in 2016 and reached above 20% of total wafer revenue. Our 10-nanometer successfully began volume production for customers' products in 2016, while 7-nanometer is on schedule to complete technology qualification in early 2017. Our 5-nanometer development is also well-underway and will see use of EUV (extreme ultraviolet) lithography. Our proprietary InFO (integrated fan-out) advanced packaging solution was adopted by a major customer for a significant mobile product in 2016 while we were working on the next generation of InFO solution for 2017 volume production.

Highlights of TSMC's accomplishments in 2016:

- Total wafer shipments increased 9.6 percent from 2015 to reach 9.6 million 12-inch equivalent wafers.
- Advanced technologies (28-nanometer and beyond) accounted for 54 percent of total wafer revenue, up from 48 percent in 2015.
- We deployed 249 process technologies, and manufactured 9,275 products for 449 customers.
- TSMC's market share in the total semiconductor foundry segment rose successively during the last seven years and reached 56 percent in 2016.

2016 Financial Performance

Consolidated revenue totaled NT\$947.94 billion, an increase of 12.4 percent over NT\$843.50 billion in 2015. Net income was NT\$334.25 billion and diluted earnings per share were NT\$12.89. Both increased 9 percent from the 2015 level of NT\$306.57 billion net income and NT\$11.82 diluted EPS. Excluding major one-off items, namely share disposal gains and the closure of TSMC Solar operations in 2015 and the negative impact from the earthquake in 2016, our EPS would have grown 17.4 percent year-on-year in 2016.

In US dollars, TSMC generated net income of US\$10.38 billion on consolidated revenue of US\$29.43 billion, compared with net income of US\$9.67 billion on consolidated revenue of US\$26.61 billion in 2015.

Gross profit margin was 50.1 percent compared with 48.7 percent in 2015, and operating profit margin was 39.9 percent compared with 37.9 percent a year earlier. Net profit margin was 35.3 percent, a decrease of 1.0 percentage points from the prior year's 36.3 percent.

TSMC raised its cash dividend payment to NT\$6.0 per share for 2015 earnings distribution from NT\$4.5 a year ago to reflect continued rising free cash flow generation. We remain confident in our ability to maintain and steadily improve our free cash flow in the next few years, and will consider increasing the cash dividends when appropriate.

Technological Developments

Thanks to continuous innovation and improvement, TSMC's 28-nanometer technology remained robust with rising revenue in 2016, its sixth year of volume production. We will continue to roll out differentiated and cost-effective solutions and expect our strength in this significant node to persist for many more years.

We continued to reduce defect density and improve cycle time in our 16-nanometer FinFET technology. In addition to mobile processors, this node has gained strong acceptance for many other applications including cellular baseband, graphic processors for video games, augmented reality and virtual reality devices, and artificial intelligence systems. We further pushed the envelope of performance, die size and power consumption to roll out our 12-nanometer technology, which will enter volume production in the second half of 2017. Both 16-nanometer and 12-nanometer technologies can serve customers in mainstream and ultra-low power market segments, including low-to-mid-end mobile phones, consumer electronics, digital TV, automotive, and Internet of Things (IoT), as well as high-end applications, including high-end mobile and networking.

10-nanometer FinFET technology began production ramp in the fourth quarter of 2016 with shipments commencing in the first quarter of 2017. We expect a healthy ramp throughout 2017. With its aggressive geometric shrinkage, our 10-nanometer technology provides excellent density and is well positioned to serve the premium mobile market segment.

During the year, we collaborated with major customers and IP vendors to complete the IP design for our 7-nanometer technology and started silicon validation. We are on plan to start risk production in the spring of 2017. Meanwhile, development activities for our 5-nanometer node continued with risk production targeted for first half of 2019. We plan to use EUV lithography extensively at 5-nanometer to reduce process complexity. In addition, intensive early development efforts focusing on new transistors and technology definition were on-going for the technologies beyond 5-nanometer.

In the area of advanced packaging technologies, TSMC's proprietary InFO began volume production in 2016 while we also successfully qualified the next generation InFO solution with volume production expected in 2017. We extended our interposer CoWoS® (chip-on-wafer-on substrate) technology to 16-nanometer and led the industry with volume production of super high-end accelerators that integrate multiple second generation high bandwidth memory chips (HBM2) and GPUs (Graphics Processing Unit) for the high performance computing market segment of artificial intelligence and deep learning.

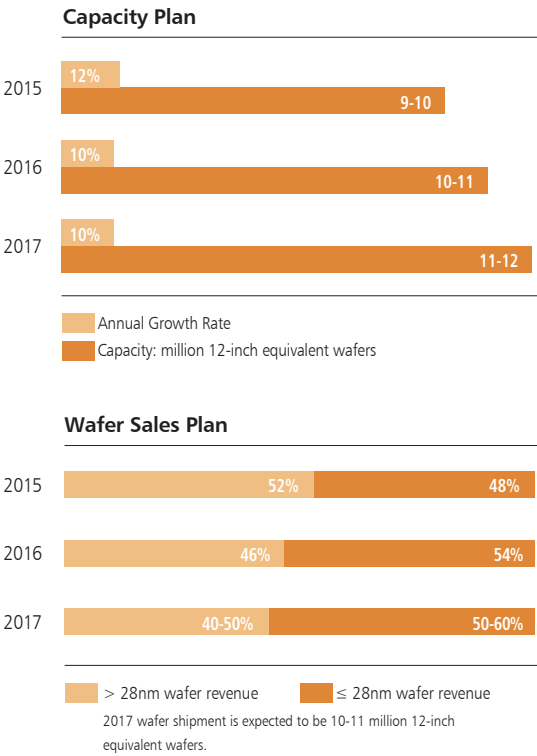
TSMC's ecosystem, the Open Innovation Platform® (OIP), continued to expand in 2016 with more than 12,000 items contained in our libraries and silicon IP portfolio. More than 8,200 technology files and over 270 process design kits were available to customers via TSMC-Online which saw more than 100,000 customer downloads in 2016.

Corporate Developments

In March 2016, TSMC and the municipal government of Nanjing, China signed an agreement affirming that TSMC will make an investment to establish TSMC Nanjing Co. Ltd., a wholly-owned subsidiary of TSMC that will own and operate a 12-inch wafer fab and a design service center. The purpose is to provide closer support to customers as we expand our business opportunities in China. The facility is scheduled to commence production of 16-nanometer process technology in the second half of 2018.

Honors and Awards

TSMC received recognitions for achievements in innovation, business information disclosure, corporate governance, sustainability, investor relations and overall excellence in management from organizations including *Newsweek*, *CommonWealth Magazine*, PricewaterhouseCoopers, *GlobalViews Magazine*, *Channel NewsAsia*, RobecoSAM and the Taiwan Stock Exchange. TSMC received multiple awards from *Institutional Investor Magazine* and was ranked number one in *IR Magazine's* Global Top Fifty Awards. TSMC was also selected as a component of the Dow Jones Sustainability Indices for a 16th consecutive year, reflecting our ongoing commitment to sustainability and corporate social responsibility. In 2016, TSMC was included as the largest component in the newly-launched FTSE4Good Emerging Index by the London Stock Exchange, and we remained a major component in MSCI Global Sustainability Indexes, an important global benchmark for CSR.



As silicon becomes pervasive and computing is ubiquitous, the intelligent future requires continued advancement and innovation in semiconductor process technologies. As our technology development collecting pace, we now can provide our customers the most competitive leading-edge technology to develop their product. Combined with their innovative algorithm, customized architecture and strength in designs, our customers are able to provide the most competitive products in the applications where they were not used to compete before. Through our customers, we are expanding our footprint into the global high performance computing market as well.

TSMC has evolved over the last three decades, but our core values of integrity, commitment, innovation, and customer trust remain unchanged. We remain committed to creating value and generating strong returns to shareholders who have placed their trust with us. As we carry our heritage of excellence forward into an exciting future, we look forward to prospering together with our shareholders.



Morris Chang
Morris Chang
Chairman

Outlook

Entering our fourth decade, TSMC has advanced into the forefront of semiconductor technology and has grown to become the world's largest wafer capacity provider for logic ICs. TSMC's innovative foundry business model has flourished and placed us at the center of a comprehensive ecosystem of IC designers, IP providers, and equipment suppliers with unmatched ability to unleash innovation. ICs manufactured by TSMC formed the backbone of information technology today.

Introduction

Company Profile

Established in 1987 and headquartered in Hsinchu Science Park, Taiwan, TSMC pioneered the pure-play 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 semiconductor foundry, with owned capacity expected to reach more than 11 million 12-inch equivalent wafers in 2017.

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 to smooth fluctuations in market demand, which, in turn, leads to higher levels of capacity utilization and profitability.

Annual capacity of the manufacturing facilities managed by TSMC and its subsidiaries reached above 10 million 12-inch equivalent wafers in 2016. 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.

In March 2016, TSMC and the municipal government of Nanjing, China signed an investment agreement affirming that TSMC will make an investment to establish TSMC Nanjing Company Limited, a wholly-owned subsidiary managing a 12-inch wafer fab and a design service center. Planned capacity is 20,000 12-inch wafers per month. The facility is scheduled to commence production of 16nm process technology in the second half of 2018. The purpose is to provide closer support to customers as well as expand TSMC's market share and business opportunities in China in step with the rapid growth of the Chinese semiconductor market over the last several years.

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 about 47,000 people at the end of 2016.

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

R&D Highlights in 2016

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:

• 10nm Technology

The 10nm process was transferred from R&D to operations for volume production in fourth quarter of 2016, with a fast production ramp scheduled for the second half of 2017. Yield learning is ahead of schedule and has been faster than previous nodes including 20nm and 16nm.

• 7nm Technology

TSMC's 7nm development was focused on manufacturing baseline process setup, yield learning, reliability evaluation, and transistor and interconnect R/C performance improvement in 2016. During the year, major customers and IP vendors completed IP design and started silicon validation. The 7nm process entered risk production in the first half of 2017 with volume production scheduled for 2018.

• 5nm Technology

Development activities for 5nm in 2016 focused on test vehicle design and implementation, mask making, and pilot run. EUV lithography will be used to reduce complex multiple-patterning process steps and risk production is scheduled for second quarter 2019 with volume ramp in 2020.

• Lithography Development

In 2016, the EUV lithography program improved light-source power and stability, enabling faster learning rate and process development for advanced nodes. Additional progress was made with resist process, pellicle, and related mask blanks, as EUV technology moves closer to full scale R&D and manufacturing readiness.

• 3D IC

Integrated Fan-Out Package on Package (InFO-PoP) technology integrating 16nm SoC and DRAM for advanced mobile products began volume production in the second quarter of 2016. It enables a thinner package, 10% less thermal resistance, more logic I/Os, and 5 to 10% higher maximum operating frequency for application processors.

Financial Highlights

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

Market Overview

TSMC estimates that the worldwide semiconductor market in 2016 was US\$357 billion in revenue, representing 1% year-over-year growth, continuing the flattish growth in 2015. In the foundry sub-segment of the semiconductor industry, total revenue was US\$47 billion in 2016, representing 8% YoY growth, accelerating from 4% in 2015 due to a healthier market and inventory replenishment.

TSMC maintained its leadership of the total foundry segment of the global semiconductor industry in 2016 with an estimated market share of 56%. Advanced technologies continued to be a key factor in TSMC's strong market position and 54% of TSMC's wafer revenue came from manufacturing processes with geometries of 28nm and below in 2016.

TSMC forecasts the total semiconductor market to grow 4% in 2017. Over the longer term, driven by increasing semiconductor content in electronic devices, continuing market share gains by fabless companies, gradual increase of IDM outsourcing, and expanding in-house Application-Specific Integrated Circuits (ASIC) from system companies, the Company expects foundry segment revenue growth to be much stronger than the 3% compound annual growth rate projected for the total semiconductor industry from 2015 through 2020.

Communications

The communications sector, particularly the Smartphone segment, posted a 6% growth in unit shipments for 2016. Although the growth is slowing down, continuing transition to 4G/LTE and LTE-Advanced will bring about mid-single digit growth to the Smartphone market in 2017. Smartphones with increasing performance, longer battery life, 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 and thickness), 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.

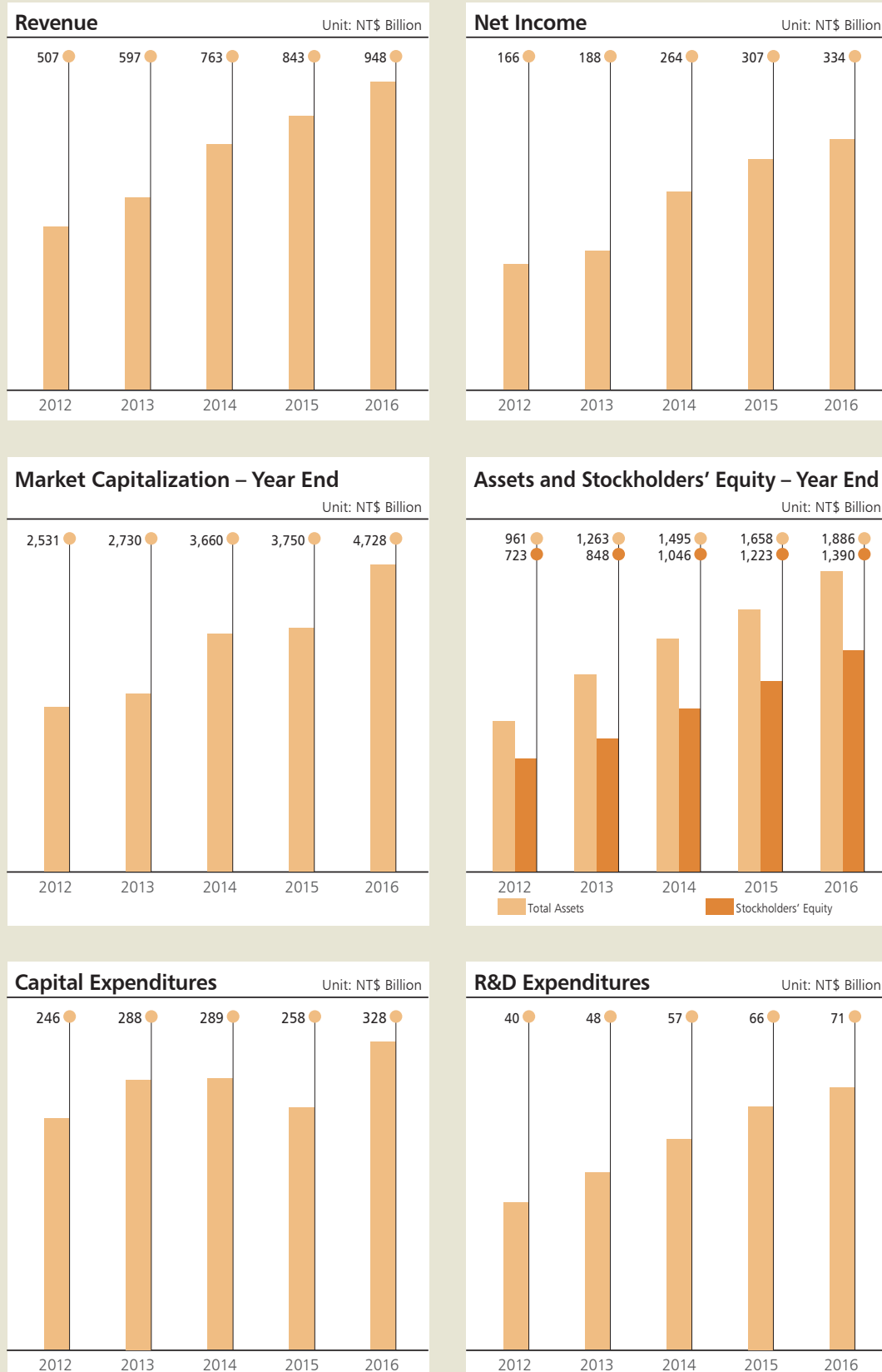
Computer

After an 8% decline in 2015, the computer sector's unit shipments dropped 6% YoY in 2016. The decline was due to prolonged replacement cycle and consumer usage moving towards mobile computing.

The personal computer market is expected to decline by a mid-single digit percentage in 2017. Increasing variety (e.g. Convertible, Ultrabook and Chromebook), the business adoption of Windows 10, and consumer replacements of aging PCs, however, are expected to help buoy PC demand.

In terms of process technologies used in computers, requirements of lower power, higher performance and the integration of key computer components such as CPU, GPU, Chipset, etc., should drive demand for product refresh towards leading process technologies.

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



Consumer

The consumer sector's unit shipments declined 5% in 2016 comparing to 2015. Set-top boxes and TV game consoles showed positive growth, while the rest of the sector – TVs, MP3 players, digital cameras and hand-held game consoles – continued to decline due to unsettled environment in Eurozone and foreign exchange issues, as well as functional cannibalization by smartphones.

Although consumer electronics will continue to decline in 2017, TV game consoles, 4K (UHD) TVs, and over-the-top (OTT) set-top boxes should achieve high growth within the sector. TSMC will be able to capture 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 always connected and always on. The IoT will 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, smart manufacturing, 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 lead the way for this future growth.

4.

TSMC's Trinity of Strengths

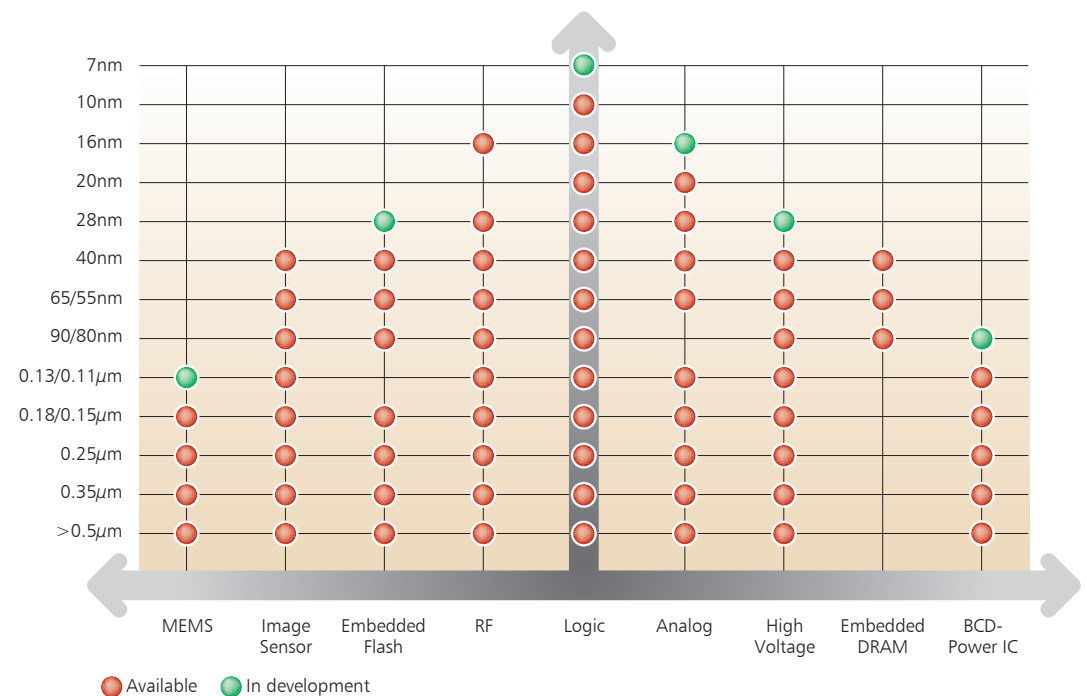
TSMC's growth has outperformed the overall semiconductor industry for 28 years out of the 30 years since the company's founding. We have been able to achieve this track record by serving as "everyone's foundry" – we do not compete with our customers, we support them as they grow, and participate in their 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 long-term success is possible if our customers do not succeed.

Technology Leadership

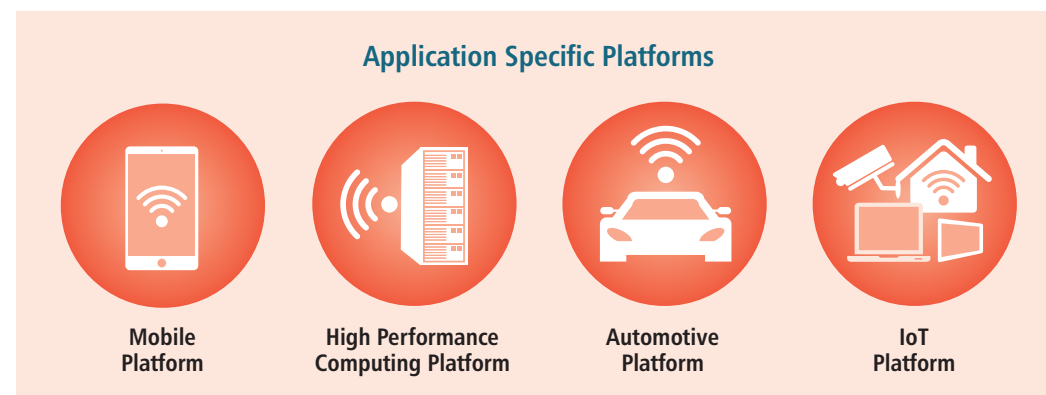
As a semiconductor industry leader, TSMC's technology offerings possess the breadth of specialty technologies to suit the needs of a broad array of customers, and our leading-edge technology development has the depth to give customers a head start in next wave of fast-growing product segments as Moore's Law continues to advance. We commit considerable resources to maintain this competitive advantage in technology: In 2016, TSMC employed more than 5,400 engineers and scientists in R&D, while spending in R&D totaled more than US\$2.2 billion, or 7.5% of revenues.

Comprehensive Technology Portfolio



TSMC's advanced technology is at the forefront of Moore's Law. We are on schedule to launch the industry's first 7nm technology, featuring the most competitive logic density in the foundry industry, following its qualification in second quarter of 2017. Compared to 10nm, 7nm offers a 15%-20% speed improvement at the same total power, or about 40% power reduction at the same speed. Logic density is improved by 60% as well. We also plan to launch an N7+ process just one year later in 2018, which will leverage EUV technology for a number of critical layers. In addition to process simplification, N7+ will offer 20% better logic density, about 10% better transistor performance at the same total power, or 15% less power at the same speed.

In 2016, TSMC unveiled four specific technology platforms that combine the latest offerings in both advanced and specialty technologies to address four key growth drivers in the coming years: Mobile Computing, Automotive, High-Performance Computing (HPC), and the Internet of Things. We believe these platforms will lead the market momentum in the next few years, drive product evolution, and attract innovation in both hardware and software.



In Mobile Computing, 5G connectivity, superior video resolution, and dual cameras will demand higher CPU and GPU performance. Increased performance and more silicon content will drive more intelligence, contextual awareness, natural interfaces and better security, while greater energy efficiency remains critical. TSMC's mobile platform extends from 28nm to 16/12nm to 10/7nm featuring fast speed, low power and high density to address the entire mobile market, from premium to high-end and mid-/low-end.

In High Performance Computing, TSMC is developing leading edge technologies such as 7nm and beyond that can provide high performance while controlling the power budget, as well as RF to support 5G infrastructure.

In Automotive, the demand for "smarter" features and multi-media entertainment calls for higher CPU, GPU and connectivity speeds. TSMC provides a comprehensive platform solution on 16nm and 7nm with tightened reliability and functional safety compliance to support infotainment, ADAS, and future autonomous driving while meeting the stringent automotive grade requirements.

Finally, as IoT devices will be always-connected and always-on, ultra low power capabilities will become increasingly important as well. TSMC offers foundry's most comprehensive ultra-low power technology portfolio encompassing 55/40/28ULP, 16FFC, 22ULP and 12ULP technologies, along with various Specialty Technologies such as RF, CMOS image sensor, fingerprint, near-field communication, etc. to support a wide range of emerging applications.

Manufacturing Excellence

As "everyone's foundry", TSMC served 449 active customers in 2016, and manufactured over 9,275 different products while using 249 different technologies, making it the world's most diversified and largest provider of logic IC capacity.

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.

For each new technology node, TSMC has always been the first effective capacity provider in the foundry segment with the best yield and the fastest ramping speed, enabling customers' early time to market. Recently TSMC has focused on advancing our fab operations from "automated" to "intelligent." We are building an infrastructure with high-performance computing capability to collect the vast amounts and wide range of data generated by our fabs, from tool tuning, to process control, to device optimization. Combined with our foundry domain knowledge, big data analytics and proprietary machine learning algorithms, we forge an intelligent manufacturing environment that helps drive productivity improvement, efficiency gains and cost reductions that leads to better overall manufacturing efficiency and engineering quality.

TSMC's engineers are equally skilled at bringing new capacity on line. Our 16nm production lines were ramped to 60,000 wafers per month in only three months 2015, and the 10nm process is on track to ramp even faster in 2017. Despite the technology challenges, yield learning has outpaced the 20nm/16nm generation, and we expect 10nm to contribute 10% of total wafer revenue in 2017 after entering volume production only at the end of 2016.

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.

Corporate Governance

TSMC believes 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, and their Chairpersons regularly report to the Board on the committees' activities and actions. 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 professionals. 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, Chairman Emeritus of the Acer Group, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; former Chairman of National Performing Arts Center and former Advisor of Executive Yuan, R.O.C., Ms. Kok-Choo Chen; and former Chairman of Applied Materials, Inc., Mr. Michael R. Splinter. 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 February 2017, TSMC's Board of Directors determined the number of directors to be increased by two to ten and approved the election of two additional directors at TSMC's 2017 Annual Shareholders' Meeting. The Board also authorized the Chairman to nominate Dr. Mark Liu and Dr. C.C. Wei as candidates for directors to stand for election at TSMC's 2017 Annual Shareholders' Meeting.

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.

The second duty of the Board of Directors is to evaluate the management's performance and to appoint and 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 the business operations, all to achieve the best interests for TSMC shareholders.

The third duty of the Board of Directors is to resolve important, concrete matters, such as capital appropriations, investment activities, dividends, etc.

The fourth 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.

Corporate Social Responsibility

TSMC believes a company's corporate social responsibility is to uplift society. 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 mission to be 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 functional 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 was selected as a component of the Dow Jones Sustainability Indices for a 16th consecutive year, reflecting our ongoing commitment to sustainability and corporate social responsibility.

TSMC has set long-term targets for water conservation, waste recycling, energy saving, and greenhouse gas emissions to minimize our environmental impact, and has made clear 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. As of 2016, we achieved 47.7 liters per 8-inch equivalent layer versus 62.6 liters in 2010, a 23.8% reduction.

In waste reduction, our goal was to reach a waste recycling rate of 95% by 2020. We reached this target in 2015 and continued to maintain a 95% recycling rate in 2016.

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 2016, we have reached 9.7 kilowatt hours, versus 10.6 in 2010, for an 8.5% reduction.

In greenhouse gas emissions, our goal is to reduce emissions per per 8-inch equivalent layer to 18% below 2010 levels by 2020, and we achieved a 10% reduction in 2016.

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 2016, 21 TSMC buildings have been certified under the USGBC LEED standard; three have obtained Platinum ratings, and 18 have gained Gold ratings; 15 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 driver 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 focal points 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 skills 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 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. It provides a channel for TSMC employees to pitch potential projects, raise funds, share results, suggest new ideas and directly participate in philanthropic events. In 2016, the i-Charity platform attracted 6,826 participants and raised over NT\$12 million for projects including repair and constructions of two elementary schools in rural areas, as well as St. Mary's Hospital in Taitung county, caring for disadvantaged children in Hualien, and an early lung cancer detection program in west Taiwan.



Financial Statements

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

Consolidated Condensed Balance Sheets

December 31, 2012 - 2016

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

	2016		2015	2014	2013	2012
	USD	NTD	NTD	NTD	NTD	NTD
ASSETS						
Current Assets						
Cash and Cash Equivalents	\$ 16,809	\$ 541,254	\$ 562,689	\$ 358,449	\$ 242,695	\$ 143,411
Investments in Marketable Financial Instruments	2,822	90,855	23,474	78,475	2,647	7,507
Accounts Receivable	4,016	129,305	85,565	115,048	71,942	58,131
Inventories	1,512	48,682	67,052	66,338	37,495	37,831
Other Current Assets	237	7,633	7,964	8,256	3,708	3,446
Total Current Assets	25,396	817,729	746,744	626,566	358,487	250,326
Non-current Assets						
Long-term Investments	1,433	46,154	34,994	30,056	89,184	65,717
Property, Plant and Equipment	30,988	997,778	853,470	818,199	792,666	617,562
Intangible and Other Non-current Assets	770	24,794	22,310	20,228	22,718	27,750
Total Non-current Assets	33,191	1,068,726	910,774	868,483	904,568	711,029
Total Assets	\$ 58,587	\$ 1,886,455	\$ 1,657,518	\$ 1,495,049	\$ 1,263,055	\$ 961,355
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current Liabilities						
Short-term Loans	\$ 1,800	\$ 57,958	\$ 39,474	\$ 36,159	\$ 15,645	\$ 34,715
Accounts Payable	849	27,325	19,725	23,370	16,359	15,239
Payables to Contractors and Equipment Suppliers	1,961	63,154	26,012	26,980	89,810	44,832
Accrued Expenses and Other Current Liabilities	4,090	131,692	103,500	114,505	67,964	53,560
Current Portion of Bonds Payable and Bank Loans	1,184	38,110	23,518	-	-	128
Total Current Liabilities	9,884	318,239	212,229	201,014	189,778	148,474
Non-current Liabilities						
Bonds Payable	4,754	153,094	191,965	213,674	210,768	80,000
Other Non-current Liabilities	779	25,071	30,690	34,033	14,734	9,787
Total Non-current Liabilities	5,533	178,165	222,655	247,707	225,502	89,787
Total Liabilities	15,417	496,404	434,884	448,721	415,280	238,261
Equity Attributable to Shareholders of the Parent						
Capital Stock at Par Value	8,053	259,304	259,304	259,297	259,286	259,245
Capital Surplus	1,747	56,272	56,300	55,990	55,859	55,675
Legal Capital Reserve	6,469	208,298	177,641	151,251	132,436	115,820
Special Capital Reserve	-	-	-	-	2,786	7,606
Unappropriated Earnings	26,824	863,710	716,653	553,914	382,971	284,985
Others	52	1,664	11,774	25,749	14,170	(2,780)
Equity Attributable to Shareholders of the Parent	43,145	1,389,248	1,221,672	1,046,201	847,508	720,551
Noncontrolling Interests	25	803	962	127	267	2,543
Total Shareholders' Equity	43,170	1,390,051	1,222,634	1,046,328	847,775	723,094
Total Liabilities & Shareholders' Equity	\$ 58,587	\$ 1,886,455	\$ 1,657,518	\$ 1,495,049	\$ 1,263,055	\$ 961,355

Note:

(1) 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP.

(2) Amounts in New Taiwan dollars have been translated into U.S. dollars at the rate of NT\$32.199 as of December 31, 2016.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

Consolidated Condensed Statements of Comprehensive Income

For the Years Ended December 31, 2012 - 2016

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

	2016		2015	2014	2013	2012
	USD	NTD	NTD	NTD	NTD	NTD
Net Revenue	\$ 29,434	\$ 947,938	\$ 843,497	\$ 762,806	\$ 597,024	\$ 506,745
Cost of Revenue	(14,690)	(473,106)	(433,102)	(385,084)	(316,079)	(262,608)
Gross Profit	14,744	474,832	410,395	377,722	280,945	244,137
Operating Expenses						
Research and Development Expenses	(2,211)	(71,208)	(65,545)	(56,829)	(48,118)	(40,383)
Sales, General and Administrative Expenses	(798)	(25,696)	(22,922)	(24,021)	(23,445)	(22,128)
Total Operating Expenses	(3,009)	(96,904)	(88,467)	(80,850)	(71,563)	(62,511)
Other Operating Income and Expenses	1	30	(1,880)	(1,002)	47	(449)
Income from Operations	11,736	377,958	320,048	295,870	209,429	181,177
Non-operating Income and Expenses						
Share of Profits of Associates and Joint Venture	108	3,495	4,132	3,951	3,972	2,073
Interest Expenses	(103)	(3,306)	(3,190)	(3,236)	(2,647)	(1,020)
Other Gains and Losses	243	7,812	29,439	5,494	4,733	(554)
Total Non-operating Income and Expenses	248	8,001	30,381	6,209	6,058	499
Income before Income Tax	11,984	385,959	350,429	302,079	215,487	181,676
Income Tax Expenses	(1,603)	(51,621)	(43,873)	(38,315)	(27,468)	(15,552)
Net Income	10,381	334,338	306,556	263,764	188,019	166,124
Other Comprehensive Income (Losses)	(343)	(11,067)	(14,714)	11,805	16,352	4,252
Comprehensive Income	\$ 10,038	\$ 323,271	\$ 291,842	\$ 275,569	\$ 204,371	\$ 170,376
Net Income (Losses) Attributable to:						
Shareholders of the Parent	\$ 10,378	\$ 334,247	\$ 306,574	\$ 263,882	\$ 188,147	\$ 166,318
Noncontrolling Interests	3	91	(18)	(118)	(128)	(194)
	\$ 10,381	\$ 334,338	\$ 306,556	\$ 263,764	\$ 188,019	\$ 166,124
Earnings per Share - Diluted (NT\$)	\$ 0.40	\$ 12.89	\$ 11.82	\$ 10.18	\$ 7.26	\$ 6.41
Earnings per ADR - Diluted (US\$)	\$ 2.00	\$ 64.45	\$ 59.10	\$ 50.88	\$ 36.30	\$ 32.05

Note:

(1) 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP.

(2) Amounts in New Taiwan dollars have been translated into U.S. dollars at the weighted average rate of NT\$32.206 for the year ended December 31, 2016.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

Consolidated Condensed Cash Flow Statements

For the Years Ended December 31, 2012 - 2016

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

	2016		2015	2014 (1)	2013	2012
	USD	NTD	NTD	NTD	NTD	NTD
Cash Flows from Operating Activities:						
Income Before Income Tax	\$ 11,984	\$ 385,959	\$ 350,429	\$ 302,079	\$ 215,487	\$ 181,676
Depreciation & Amortization	6,950	223,828	222,506	200,252	156,182	131,349
Share of Profits of Associates and Joint Venture	(108)	(3,495)	(4,132)	(3,951)	(3,972)	(2,073)
Income Taxes Paid	(1,427)	(45,943)	(40,943)	(29,918)	(14,463)	(11,312)
Changes in Working Capital & Others	(637)	(20,514)	2,019	(46,938)	(5,851)	(14,677)
Net Cash Generated by Operating Activities	16,762	539,835	529,879	421,524	347,383	284,963
Cash Flows from Investing Activities:						
Interest Received	197	6,353	3,642	2,579	1,791	1,719
Cash Dividend Received	174	5,616	4,024	3,869	2,648	2,159
Acquisitions of:						
Property, Plant and Equipment	(10,186)	(328,045)	(257,517)	(288,540)	(287,595)	(246,137)
Marketable Financial Instruments	(3,630)	(116,901)	(41,574)	(5,974)	(1,817)	(31,526)
Financial Assets Carried at Cost	(16)	(534)	(2,586)	(23)	(27)	(57)
Proceeds from Disposal or Redemption of:						
Property, Plant and Equipment	3	98	817	200	174	157
Marketable Financial Instruments	1,258	40,518	74,293	3,889	7,564	3,676
Financial Assets Carried at Cost	5	160	369	88	68	354
Investments Accounted for Using Equity Method	-	-	5,172	3,472	-	-
Others	(84)	(2,705)	(3,886)	(1,981)	(3,860)	337
Net Cash Used In Investing Activities	(12,279)	(395,440)	(217,246)	(282,421)	(281,054)	(269,318)
Cash Flows from Financing Activities:						
Increase (Decrease) in Short-term Loans	589	18,969	3,139	18,564	(19,636)	9,747
Proceeds from Issuance of Bonds	-	-	-	-	130,845	62,000
Repayment of Bonds	(729)	(23,472)	-	-	-	(4,500)
Issuance of Long-term Bank Loans	-	-	-	-	690	50
Repayment of Long-term Bank Loans	-	(9)	-	-	(63)	(212)
Interest Paid	(103)	(3,302)	(3,156)	(3,193)	(1,331)	(736)
Cash Dividends Paid for Common Stock	(4,831)	(155,582)	(116,683)	(77,786)	(77,773)	(77,749)
Proceeds from Exercise of Stock Options	-	-	34	47	125	242
Others	174	5,596	(68)	30,040	(752)	(2,430)
Net Cash Generated by (Used in) Financing Activities	(4,900)	(157,800)	(116,734)	(32,328)	32,105	(13,588)
Effect of Exchange Rate Changes on Cash and Cash Equivalents and Others	(249)	(8,030)	8,341	8,979	850	(2,118)
Net Increase (Decrease) in Cash and Cash Equivalents	(666)	(21,435)	204,240	115,754	99,284	(61)
Cash and Cash Equivalents at Beginning of Period	17,472	562,689	358,449	242,695	143,411	143,472
Cash and Cash Equivalents at End of Period	\$ 16,806	\$ 541,254	\$ 562,689	\$ 358,449	\$ 242,695	\$ 143,411

Note:

(1) 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP.

(2) Amounts in New Taiwan dollars have been translated into U.S. dollars at the weighted average rate of NT\$32.206 for the year ended December 31, 2016.

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 15A

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

Fab 15B

1, Xinke Rd., Central Taiwan Science Park, Taichung 40763
Taiwan R.O.C.
Tel: +886-4-27026688 Fax: +886-4-24630372

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, 220-6221, Japan
Tel: +81-45-6820470 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 Nanjing Company Limited

16, Zifeng Road, Pukou Economic Development Zone, Nanjing
Jiangsu Province, China
Postcode: 211806
Tel: +86-25-57668000 Fax: +86-25-57712395

TSMC Korea Limited

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

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: Yih-Hsin Kao , Yu-Feng 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 CTBC 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

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

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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, 2017, 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.

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