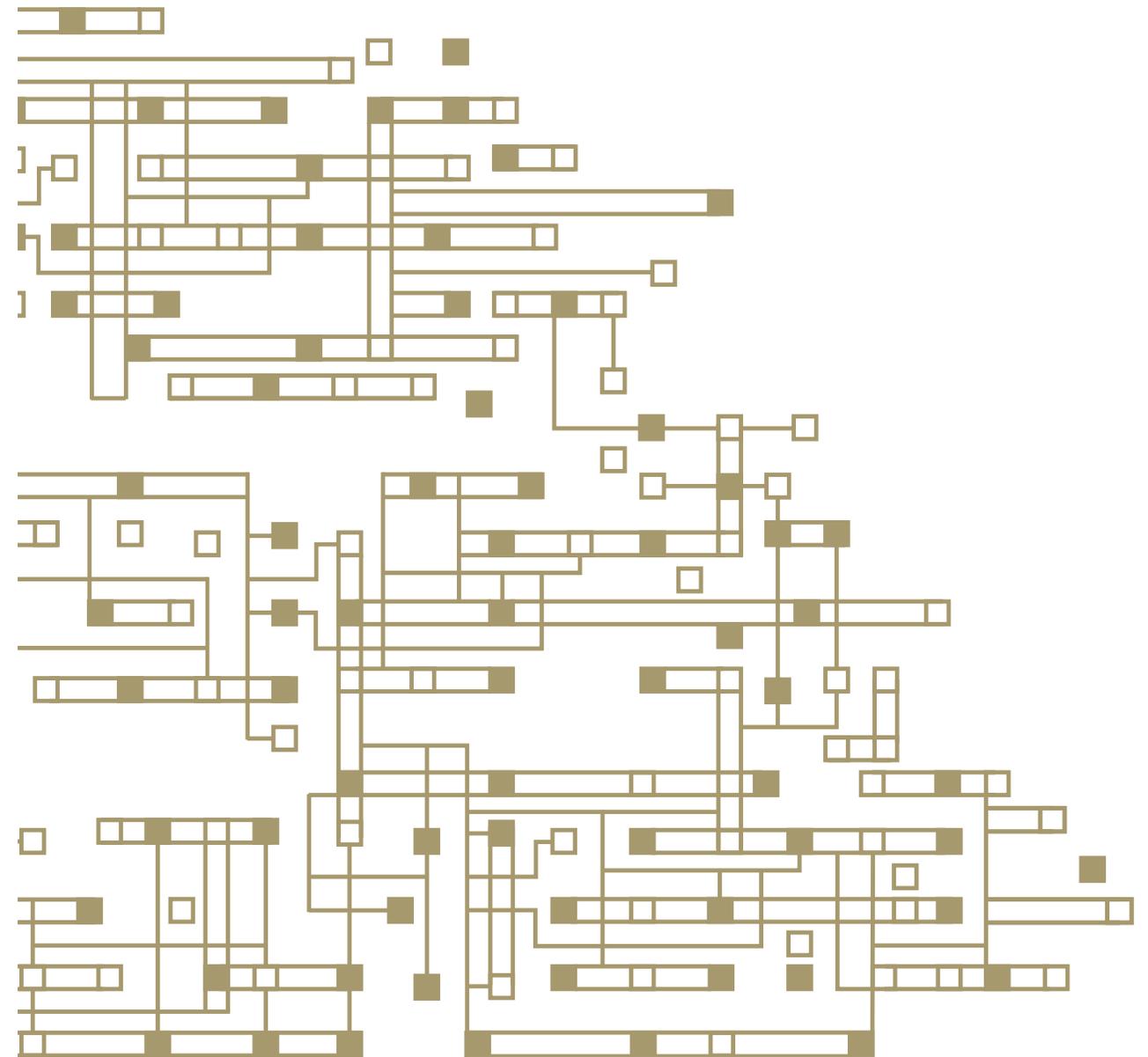


TSMC 2010 BUSINESS OVERVIEW



**Taiwan Semiconductor
Manufacturing Company, Ltd.**

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- TSMC's shares are listed on the Taiwan Stock Exchange (TSE) under the code 2330.
- Depositary receipts of the common shares are listed on the New York Stock Exchange (NYSE) under the symbol TSM.

TSMC VISION & 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 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 Partnership – 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.

Table of Contents

	1. Letter to Shareholders	2
	2. Introduction to TSMC and Market Overview	6
	3. Corporate Governance	10
	4. Operational Highlights	12
	5. Corporate Social Responsibility	16
	6. Financial Statements	20

【瞻 VISION】

WITH A BROAD VISION OF THE PAST AND FUTURE,
WE POSSESS THE STRENGTH AND CAPABILITY TO
OVERCOME OUR CHALLENGES.



1. Letter to Shareholders

Dear Shareholders,

2010 was a year of record high revenue and profit for TSMC. Amid gradual recovery of the global economy, semiconductor industry revenue grew 31% in 2010. Meanwhile, TSMC's revenue grew 48% in US dollars compared with 43% for the overall foundry segment. Our growth momentum was fueled by both timely addition and fast ramp-up of capacity, wide customer adoption of our advanced technologies, and a strong growth in specialty technology revenue.

TSMC's strong performance delivered in 2010 reflected our trinity of strengths: technology leadership, manufacturing excellence, and customer partnership. Significant achievements included:

- We operated at full production utilization rate averaged across all fabs throughout the year, and have installed 14 percent more capacity overall, with an increase of 37 percent in capacities at 12" wafer fabs.
- We deployed over 157 technologies, and manufactured more than 8,300 products for more than 450 customers over the course of 2010.
- In 2010, we fast ramped-up to full production of our 40/45-nanometer technology, which generated 17 percent of total wafer revenue, with considerable market share, and margins that approached the corporate average by year's end.
- Following on the success of our 65- and 40-nanometer process technology productions, development of our 28-nanometer products – three high-k metal gate processes and one conventional silicon oxynitride (SiON) process – proceeded as planned with record customer engagements.

Financial Performance

Consolidated revenue for 2010 totaled NT\$419.54 billion, an increase of 41.9 percent over NT\$295.74 billion in 2009. Net income was NT\$161.61 billion or 81.1 percent above NT\$89.22 billion the previous year. Diluted earnings per share were NT\$6.23, up 81.1 percent compared with NT\$3.44 in 2009.

In US dollars, TSMC generated net income of US\$5.13 billion on consolidated revenue of US\$13.32 billion, compared with net income of US\$2.71 billion on consolidated revenue of US\$9 billion for 2009.

Gross profit margin was 49.4 percent compared with 43.7 percent in 2009, with Operating Profit Margin of 37.9 percent compared with 31.1 percent a year earlier. Net profit margin reached 38.5 percent, an increase of 8.3 percentage points from the 2009's level. TSMC shipped 11.86 million eight-inch equivalent wafers compared with 7.74 million wafers a year ago.

Expanding Growth

In 2010, TSMC took important steps to further our development of advanced technologies and to accelerate capacity expansion.

In expanding our technology leadership we have spent considerable resources for R&D. 2010 R&D capital expenditure was US\$355 million, 85% higher than 2009, while regular R&D budget also increased by about 40% to US\$940 million. The major focus of these investments is further development of 28-, 20-, and 14-nanometer technologies and exploratory work on 10- and 7-nanometer technologies.

In 2010, TSMC spent a record of US\$5.94 billion on capital expenditures to meet the capacity needs of our customers. Although we exerted our utmost efforts to accelerate capacity expansion, we still had sizeable unfilled requests for capacity from customers by the end of 2010.

Having already invested additional capital to expand capacity at our two existing 12-inch GIGAFAB™ facilities, Fab 12 in Hsinchu and Fab 14 in Tainan, we began construction last July on our third GIGAFAB™, Fab 15, in Taichung's Central Taiwan Science Park. Meanwhile, we also obtained a new site in the Hsinchu Science Park for sub-14- nanometer R&D.

TSMC also is actively pursuing new revenue opportunities that leverage our technological strengths, engineering capabilities, and experiences in large-scale manufacturing. During the year, construction was begun on TSMC's first solid-state lighting facility in Hsinchu to pursue opportunities in the lighting industry. We also began construction on our first Thin Film Solar R&D Center and Fab in Taichung, laying the foundation for TSMC's entry into the thin-film solar photovoltaic market serving the solar energy market. Each of these initiatives represents an opportunity for TSMC to establish a significant foothold in the emerging green energy industries.

Technological Developments

At this time, TSMC's 28-nanometer technology is industry leading and production ready. We have achieved, in the R&D phase, superior performance, reliability and density, which is 2 times over that of 40-nanometer, using our gate-last high-k metal-gate process. A few customer products have already taped out and are in prototyping. Meanwhile, our 28-nanometer lead-free bumping is eco-friendly and compatible with superior low-resistance ELK interconnect.

In addition to our efforts in pushing Moore's Law with advanced geometries, we have also spent considerable resources in developing specialty technologies to capture both the market trend of integrating more specialty features with CMOS logic, and the trend of continuing scaling down the geometries for cost and form factor advantages.

TSMC's technology leadership in these specialty technologies includes both feature improvement and the ability to further shrink the geometries. We have already achieved some industry leading results. For example: we plan to use 65- and 90-nanometer processes to deliver engine control processes for automotive ICs, and we use 65-nanometer and back-side illumination (BSI) technology to achieve the best quantum efficiency for CMOS image sensors. For embedded DRAM, we use 40-nanometer to deliver the fastest network processors; and for embedded Flash, we use 0.11-micron to enable ultra low leakage micro controller unit (MCU) of one pico amp per micron (1pA/μm). For MEMS, we use 0.18-micron to complete three-dimensional CMOS-MEMS integration; and for power IC, we use 0.18-micron to achieve the lowest turn-on resistance (Ron) in the industry.

Our efforts in both Moore's Law progression and specialty technologies have encouraged many customers to expand their engagements with TSMC.

Honors and Awards

In 2010, TSMC continued to garner recognition and awards from around the world as a corporate role model. Our commitment to creating shareholder value and to corporate social responsibilities have won top honors from *AsiaMoney*, *FinanceAsia*, *IR Magazine*, *Corporate Governance Asia*, *CommonWealth Magazine*, and *GlobalView Magazine* in the areas of corporate governance, management, investor relations and corporate social responsibilities. We received again the Corporate Social Responsibility (CSR) "Gold Award," the highest honor bestowed by the Taiwan Institute for Sustainable Energy, and were chosen the Semiconductor Sector Leader in Dow Jones Sustainability Index (DJSI) 2010 Survey. TSMC has been a DJSI component for 10 consecutive years.

Citing "outstanding leadership in the semiconductor industry", the Institute of Electrical and Electronics Engineers (IEEE) has named me the recipient of the 2011 IEEE Medal of Honor. I believe the honor belongs to all of TSMC.

Outlook

Recovery of the global economic condition is likely to continue into 2011. Global semiconductor revenue growth is forecast to be about 5 percent, while the foundry segment is forecast to outpace the overall semiconductor industry at a growth rate of about 15 percent in 2011. Because TSMC possesses the right technologies, effective capacity, and we continue to earn the trust of our customers, we are well positioned to capture greater share within the dedicated foundry segment and to continually deliver growth and profitability for our shareholders.




Morris Chang
Chairman and CEO

2. Introduction to TSMC and Market Overview

An Introduction to TSMC

TSMC is the world's largest pure-play semiconductor foundry. Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the business model of focusing solely on manufacturing customers' semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers.

With a diverse global customer base, TSMC-manufactured microchips are used in a broad variety of applications that cover various segments of the computer, communications and consumer electronics markets.

Total capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, totaled 11.33 million 8-inch equivalent wafers in 2010. In Taiwan, TSMC operates two advanced 12-inch wafer fabs, four 8-inch wafer fabs, and one 6-inch wafer fab. TSMC also manages two 8-inch fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited. In addition, TSMC obtains 8-inch wafer capacity from other companies in which the Company has an equity interest.

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 33,000 people worldwide as of the end of 2010.

TSMC continued to lead the foundry segment of the semiconductor industry in both advanced and "More-than-Moore" process technologies. Already the first foundry to provide 65nm and 40nm production capacity, TSMC also announced it will deliver 28nm as a full node technology, with the portfolio of 28HP & 28HPM for high performance and 28LP & 28HPL for low power to enrich its 28nm offering. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, Mixed Signal/RF, high voltage, CMOS image sensor, color filter, MEMS, silicon germanium technologies and automotive service packages.

During 2010 TSMC made investments in two new lines of business related to solid state lighting and solar business activities. Both of these business are still developing their technology base and are not expected to contribute significantly to revenue until after 2011.

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

TSMC Achievements

In 2010, TSMC maintained its leading position in the total foundry segment of the global semiconductor industry, with an estimated market segment share of 45.5%. TSMC achieved this result amid fierce competition from both established players and relatively new entrants to the business.

Leadership in advanced process technologies is a key factor in TSMC's strong market position. In 2010, 72% of TSMC's wafer revenue came from manufacturing processes with geometries of 0.13 μ m and below. A critical milestone was reached in November 2010, when TSMC shipped its half-millionth 45/40nm 12-inch wafer. TSMC also piloted the leading-edge 28nm process with its foundry customers. As of the fourth quarter of 2010, 52% of TSMC's wafer revenue came from 65nm processes and below.

In addition to advanced technologies, TSMC also offers innovative services in line with its unwavering focus on customer partnership. Among the many innovative services unveiled in 2010 was the foundry segment's first Analog/Mixed Signal Reference flow. TSMC also launched the Soft IP Alliance, bringing TSMC power, performance, and area metrics to the soft IP providers in TSMC's IP Alliance. The second revision of the radio frequency (RF) reference design kit was delivered, which enriched the Open Innovation Platform™ to facilitate timely innovation among the semiconductor design community. Lastly, after the debut of a series of interoperable data formats in iRCX, iDRC, iLVS and iPDK in 2009, TSMC demonstrated its strong commitment to industry users in 2010 with its industry-first iDRC & iLVS runsets, and iPDKs in many TSMC advanced process nodes from 0.13 μ m to 28nm.

TSMC continued to advance the semiconductor roadmap in 2010. Examples of technologies the Company developed or rolled out include:

- 28nm High Performance Mobile computing (28HPM) technology for tablet, smart phone, and high end System-on-Chip (SoC) applications.
- 28nm Low Power (28LP & 28HPL) technology for mainstream smart phone, tablet and digital consumer products.
- 40nm general purpose technology to support performance-driven markets like CPU, FPGA, 3D image, Gaming & Gigabit Ethernet applications.
- 40nm low power and RF technology for cellular phone, application processor, home entertainment, game and wireless connectivity solutions.
- 55nm low power RF technology for WLAN, Cellular BB, DTV, STB, Bluetooth, PMP, MID and handheld high-end applications.
- 65nm eFlash multi-time programmable non-volatile memory technology under joint development for high-end automotive application.
- 80nm high voltage process for smart phone display driver.
- 85nm low power technology for flash controller application.
- 90nm eFlash technology qualified for microcontroller application.
- 0.18 μ m and 0.25 μ m qualified OTP solution for automotive application.
- 0.18 μ m and 0.25 μ m high precision analog process.
- 0.18 μ m BCD for digital power management IC.

In addition, TSMC further strengthened its comprehensive development of specialty technologies in 2010, including Back-side Illumination CMOS image sensor (BSI CIS), 90/65nm embedded flash and 0.13 μ m analog technologies. In 2010, TSMC began to offer 3D MEMS platform to selected fabless customers. These specialty technologies are key differentiators from our competitors and provide customers more value.

Market Overview

We estimate that the semiconductor market in 2010 reached US\$298 billion in revenue, a 32% increase compared to 2009. Total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US\$28 billion in 2010, or 10% of total semiconductor industry revenue and 43% YoY growth. In 2010, the largest geographic market (based on the location of customers' corporation headquarters) for foundry services was North America, accounting for 59% of overall foundry revenue. The second largest geographic market was Asia Pacific (excluding Japan), which accounted for 27% of foundry revenue. European-based customers accounted for 9%, and orders from companies based in Japan contributed 5%.

Industry Demand and Supply Outlook

After a challenging year in 2009, foundry sales recovered and grew strongly in 2010, increasing 43% compared to 2009, mainly driven by improved end-market demand and supply chain inventory replenishment.

We forecast total foundry sales to grow at 15% YoY in 2011. In the longer term, increasing semiconductor content in electronics devices and increasing IDM outsourcing, foundry sales are expected to display a 10% compound annual growth rate (CAGR) from 2010 through 2015, higher than the 4% CAGR for the total semiconductor industry.

As an upstream supplier in the semiconductor supply chain, the foundry segment is tightly correlated with the market health of the 3Cs: communications, computer and consumer.

Position

As the leader in the foundry segment of the semiconductor manufacturing industry, TSMC commanded a 45.5% share of this segment in 2010, with total consolidated revenue of US\$13.3 billion. In terms of geographic distribution of net sales, 67% came from companies headquartered in North America, 15% from the Asia Pacific region, excluding China and Japan, 11% from Europe, 3% from China and 4% from Japan. In terms of end product application, 27% of TSMC's wafer revenue came from the computer sector, 43% from communications, 13% from consumer products, and 17% from other categories, such as industrial products.

New Businesses

In May 6, 2009, TSMC established the New Businesses organization to explore non-foundry related business opportunities. During 2010 and early 2011, the New Businesses organization consists of two business divisions responsible for: (1) solid state lighting business activities, such as developing efficient Light Emitting Diode (LED) technologies that can be used in various lighting applications; and (2) solar business activities, such as producing and marketing photovoltaic modules.

In March 2010, construction began on phase one of our new LED production facility in the Hsinchu Science Park, which was made ready for tool move-in by September 2010. A pilot line had been installed at the end of 2010, to be initially used for development activities and subsequently extended to full production set-up in the future.

In June 2010, TSMC through its investment fund invested US\$50 million to acquire a 21% stake in Stion Corporation, a manufacturer of thin-film photovoltaic modules in the U.S. In addition, TSMC entered into several agreements with Stion Corporation on CIGSS technology licensing, supply and joint development. In the second half of 2010, a team of our engineers worked with Stion Corporation to prepare the transfer of CIGSS technology to us in 2011. In September 2010, construction began on phase one of our solar business production site in the Taichung's Central Taiwan Science Park, with tool move-in expected to start in the second quarter of 2011. In February 2010, we also acquired a 20% equity interest in Motech, a Taiwan solar cell manufacturer.

3. Corporate Governance

Board of Directors

TSMC's Board of Directors consists of seven distinguished members with a great breadth of experience as world-class business leaders or scholars. Three of the seven members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; former Acer Group Chairman, Mr. Stan Shih; and former Texas Instrument Inc. Chairman of the Board, Mr. Thomas J. Engibous. Under the leadership of Chairman Morris Chang, TSMC's Board of Directors takes a serious and forthright approach to its duties and is a serious, competent and independent Board.

In the spirit of Chairman Chang's approach to corporate governance, a board of directors' primary duty is to supervise. The Board should supervise the Company's: compliance with relevant laws and regulations; financial transparency; timely disclosure of material information, and maintaining of the highest integrity within the Company. TSMC's Board of Directors strives to perform through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, coordination with the Internal Audit department, and through the ombudsman reporting system.

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 TSMC Board on a variety of subjects. The management also reviews the Company's business strategies with the Board. Furthermore, the management often reviews with and updates TSMC's Board on the progress of the 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 TSMC Board of Directors, has been devoted in executing guidance of TSMC Board of Directors, and is dedicated in running the business operations, all to achieve the best interests for TSMC shareholders.

Audit Committee and Compensation Committee

The Audit Committee assists the Board in carrying out its financial oversight responsibilities and other duties as set forth in the Company Act, the Securities and Exchange Act, and other applicable laws and regulations. Matters required to be reviewed by the Audit Committee include the Company's: financial reports; auditing and accounting policies and procedures; internal control systems; material asset or derivatives transactions; offering or issuance of any equity-type securities; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers.

TSMC's Audit Committee is empowered by its Charter to conduct any study or investigation it deems appropriate to fulfill its responsibilities. It has direct access to TSMC's internal auditors, the Company's independent auditors, and all employees of the Company. The Committee is authorized to retain and oversee special legal, accounting, or other consultants as it deems appropriate to fulfill its mandate.

As of February 2011, the Audit Committee was comprised of all three independent directors and had engaged a financial expert consultant. The Audit Committee Charter is available on TSMC's corporate website.

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

As of February 2011, the Compensation Committee was comprised of four members. All three independent directors served as voting members of the Committee; the Chairman of the Board, Dr. Morris Chang, was a non-voting member. The Compensation Committee Charter is available on TSMC's corporate website.

【正 RECTITUDE】

WE INSIST ON TRANSPARENCY, AND OPERATE
IN AN HONEST AND FAIR MANNER.



【創 INNOVATION】

UNCEASING PURSUIT OF INNOVATION IN STRATEGY, SALES, MANAGEMENT, TECHNOLOGY, AND MANUFACTURING, IS THE WELLSPRING OF OUR GROWTH.

4. Operational Highlights

Technology Leadership

R&D Organization and Investment

TSMC expanded Research and Development in 2010 to further enhance one of its three strategic pillars: Technology Leadership. In 2010 the total R&D budget was 7% of total revenue. This level of R&D investment is equal to or more than that of many leading edge technology companies. Along with the budget increase, the R&D organization increased staffing by over 17%.

TSMC recognizes that the technology challenge required to extend Moore's Law, the business law behind CMOS scaling, is getting increasingly difficult. Dr. Shang-yi Chiang, TSMC Senior Vice President of R&D, brings his rich industry experience to lead the strengthening of the R&D team and to navigate through the technological and competitive challenges ahead.

In 2010, TSMC offered the foundry segment's first 28nm technology. After intense work on ramping this technology, customers started to experience its benefits of stable and improved yield.

TSMC accelerated the development of advanced transistors, embedded memory, and copper (Cu)/low-K interconnect technologies. During 2010, the R&D organization once again proved its capabilities by offering a first-to-market 28nm high-K/metal gate (HKMG) foundry technology portfolio as well as establishing 20nm path-finding capability.

TSMC also expanded its external R&D partnerships and alliances with world-class research institutions. For example, TSMC is a core partner of IMEC, the respected European R&D consortium. TSMC also has a strategic agreement with IP providers to enable the development of physical IP through advanced technology nodes. In addition, TSMC strengthened its collaborations with key partners on design-process optimization. TSMC provides funding for nanotechnology research at major universities worldwide to promote innovation and the advancement of technology.

These research efforts enable the Company continuously to offer its customers the foundry-leading, first-to-market technology and design solutions that contribute to their product success in a complex and challenging market environment.

Future R&D Plans

Following the significant accomplishments of TSMC's advanced technologies in 2010, the Company plans to continue to grow its R&D investments. TSMC will further expand its 300mm R&D pilot line to speed up 28nm production ramp and 20nm development. The Company plans to reinforce its exploratory development work on new transistors and technologies, such as 3D structures, strained-layer CMOS, high mobility materials, novel 3D-IC devices with TSV, and interposer. These studies of the fundamental physics of nanometer CMOS transistors are core aspects of our efforts to improve the understanding and guide the design of transistors at advanced nodes. The findings of these studies are being applied to ensure our continued industry leadership at the 28nm and 20nm nodes. One of TSMC's goals is to extend Moore's Law through innovative in-house work, as well as by collaborating with industry leaders and academia to push the envelope in finding cost-effective technologies and manufacturing solutions.

TSMC will continue working closely with international consortia and photolithography equipment suppliers to ensure the timely development of 193nm high-NA scanner technology, EUV lithography, and massively parallel E-Beam direct-write technologies. These technologies are now fundamental to TSMC's process development efforts at the 20nm and 14nm nodes and beyond.

Manufacturing Excellence

GIGAFAB™ Facilities

TSMC's 12-inch fabs are a key part of its manufacturing strategy. TSMC currently operates two 12-inch GIGAFAB™ fabrication facilities – Fab 12 and Fab 14 – whose combined capacity reached 2,520,000 12-inch wafers in 2010. Production within these two facilities supports 0.13μm, 90nm, 65nm, 40nm, and 28nm process technologies, and their sub-nodes. Part of the capacity is reserved for research and development work and currently supports 20nm, 14nm and beyond technology development. A third GIGAFAB™ facility, Fab 15, located in Taichung's Central Taiwan Science Park, is on track for equipment move-in during the second quarter of 2011.

TSMC has developed a centralized fab manufacturing management system to provide customers with consistent quality and reliability performance, greater flexibility of demand fluctuations, faster yield learning and time-to-volume, and minimized costly product re-qualification.

Engineering Performance Optimization

Highly sophisticated information technology (IT) solutions, such as advanced equipment control and fault detection, are implemented to optimize TSMC equipment performance and improve production efficiency.

Precision and Lean Operations

TSMC's unique manufacturing infrastructure is tailored for a high product mix foundry environment. Following its commitment to manufacturing excellence, TSMC has equipped a sophisticated scheduling and dispatching system, implemented industry-leading automated materials handling systems, and employed Lean Manufacturing approaches to provide customers with on-time-delivery and best-in-class cycle time. Real-time equipment productivity monitoring, analysis, diagnosis, and control minimize production interruption and maximize cost effectiveness.

450mm Wafer Manufacturing Transition

The Company contributes to infrastructure development of 450mm wafer transition, which will enable the semiconductor industry to continue on the path of cost reduction. TSMC will continue to work with International SEMATECH, ISMI, material and equipment suppliers on the next wafer size transition, lithography strategy, efficient tool design, new material development and eco-friendly process development.

Recently, we made plans to set up a 450mm pilot line in 2013 to 2014, and a 450mm production line in 2015 to 2016.

Raw Materials and Supply Chain Risk Management

In 2010, TSMC continued running monthly Supply Chain Risk Management meetings to integrate Company resources from materials management, fab operations, risk management and quality management in lowering supply chain risk. TSMC worked with its suppliers to enhance quality, delivery, and risk management performance, and to support green procurement, environmental protection and safety.

Customer Partnership

Customers

TSMC's global customers have diverse product specialties and excellent performance records in various segments of the semiconductor industry. Fabless customers include: Altera Corporation, Advanced Micro Devices, Inc., Broadcom Corporation, Marvell Semiconductor Inc., NVIDIA Corporation, Qualcomm Inc. and MediaTek Inc. IDM customers include: Analog Devices Inc., Freescale Semiconductor Inc., NXP Semiconductors, and Texas Instruments Inc.

Customer Service

To facilitate customer interaction and information access on a real-time basis, TSMC has offered a suite of web-based applications that provide a more active role in design, engineering, and logistics, collectively branded as EFOUNDRY® service. The design collaboration focuses on content availability and accessibility, with attention to accurate and updated information at each level of the design lifecycle. The engineering collaboration includes online access to pilot lots, wafer yields, wafer acceptance test (WAT) analysis, and quality reliability data. Logistics collaboration provides access to data updated three times a day on the status of a given wafer lot during fabrication, assembly and testing, final testing, order and shipping.

Customer Satisfaction

TSMC conducts an annual customer satisfaction survey (ACSS) to assess customer satisfaction and to ensure that their needs and wants are adequately understood and addressed. In the survey, all active customers are invited to participate either by web or interview survey through an independent consultancy. Continual improvement plans based upon customer feedback are an integral part of this business process. TSMC has maintained a focus on customer survey data as a key indicator of corporate performance – not just of past performance, but also as a leading indicator of future performance. TSMC has acted on the belief that satisfaction leads to loyalty, and customer loyalty leads to higher levels of retention and expansion.

【諾 PROMISE】

CORPORATE SOCIAL RESPONSIBILITY IS OUR PROMISE TO SHAREHOLDERS, EMPLOYEES, AND SOCIETY.

5. Corporate Social Responsibility

Our 10 principles for practicing corporate social responsibility are important standards for continuing to support positive change in society:

1. We insist on honesty and integrity. We are honest to our shareholders, customers, employees, and to the public alike.
2. We respect the rule of law and always obey the law.
3. We abhor cronyism. We do not seek favoritism from the government or any government official, and we do not bribe.
4. We practice good corporate governance, and balance the interests of shareholders, employees, and all stakeholders in the company.
5. We do not engage in politics.
6. We provide good job opportunities with a safe, comfortable, and intellectually challenging environment to give our employees both physical comfort and mental stimulation.
7. We contribute our part in controlling climate change and place great importance on the protection of the environment.
8. We emphasize and reward innovation, and actively manage the risks that innovation may bring.
9. We invest in green businesses such as LED lighting and solar power to contribute to a greener world.
10. We support educational and cultural activities, and provide long-term care to communities.

Environmental, Safety and Health (ESH) Management

TSMC was honored to be included in the Dow Jones Sustainability Index for the tenth consecutive year, and recognized as DJSI's worldwide leader in the semiconductor sector in 2010. We received the best score in the Environmental dimension and a full score for the "Environmental Policy/Management system" section.

Environmental Protection

Greenhouse Gas (GHG) Emission Reduction

TSMC is also taking measures to reduce its emission of GHGs. TSMC has endorsed a memorandum of understanding between the Taiwan Semiconductor Industry Association, the Taiwan EPA, and the WSC, whereby TSMC is committed to reducing PFC emissions to 10% below the average of 1997 and 1999 by 2010, a commitment that we are proud to successfully achieve. This emissions target remains fixed as TSMC continues to grow and expand its manufacturing facilities.

TSMC has not only adopted energy-conservative designs for both its manufacturing fabs and offices, but has also improved the energy efficiency of facilities during operation. In 2010, TSMC Fab 3 won the Ministry of Economic Affairs' "Energy Conservation Award" for the second time. The improvements at this 15-year-old Fab served as a good model of continuous energy efficiency improvement for the industry.

Air and Water Pollution Control

TSMC has installed effective air and water pollution control equipment in each wafer fab to meet regulatory emissions standards. In addition, TSMC maintains backup pollution control systems, including emergency power supplies, to lower the risk of pollutant emission in the event of equipment breakdown. TSMC centrally monitors the operations of air and water pollution control equipment around the clock and tracks system effectiveness to ensure the quality of emitted air and discharged water. We have also designed our new LED and solar factories to address specific ESH concerns, such as wastewater treatment, air abatement, and process equipment hazards.

Water Conservation

To make the most effective use of Taiwan's limited water resources, all TSMC fabs make an effort to increase water reclamation rates by adjusting the water usage of manufacturing equipment and improving wastewater reclamation systems. New fabs are able to reclaim more than 85% of process water, meeting or exceeding the standards of each Science Park Administration and outperforming most semiconductor fabs around the world. TSMC also strives to reduce non-manufacturing-related water consumption, including water used in air conditioning systems, sanitary facilities, cleaning, landscaping and kitchens. We use an intranet website to collect and measure water recycling and/or reuse volumes (e.g. process water recycling) company-wide.

Waste Management and Recycling

TSMC has established a designated unit responsible for waste recycling and disposal. To meet the goal of sustainable resource utilization, TSMC's first priority is to reduce process waste before considering recycling or disposal. TSMC carefully selects waste disposal and recycling contractors and performs annual audits of certification documents, site operations and transportation routes to ensure the legal and proper disposal of waste. TSMC achieved a 92% waste recycling rate in 2010, surpassing its goal of 90%. The Company's landfill rate has been reduced to less than 1%.

Other Environmental Protection Programs

TSMC has adopted both the Taiwan "Green Building" and the US Leadership in Energy and Environmental Design (LEED) standards for new fab and office building designs since 2006 to achieve better energy and resource efficiency than conventional designs. At the same time, TSMC plans to upgrade existing office buildings to comply with the LEED standard each year. In 2008 and 2009, respectively, TSMC's newly-constructed Fab 14 Phase 3 and Fab 12 Phase 4 achieved EEWB Diamond and LEED Gold certification. For these projects, TSMC invited Dr. Kath Williams, former vice president of the United States Green Building Council (USGBC) to serve as a consultant, and also consulted experts from leading Taiwan universities. TSMC believes that manufacturing companies should convert their facilities into green factories to effectively improve the environment and lower construction costs. Therefore, we freely share our practical experience with industry, government, and academia. Forty groups (more than 1,800 visitors) from industry, government, academia and the general community contacted TSMC to gain an understanding and discuss our green factory practices. TSMC believes if something is worth doing, it's worth doing well in order to protect the Earth.

Safety and Health Management

TSMC's safety and health management is built on the framework of the OHSAS 18001 system, and adheres to the management principle of "Plan, Do, Check, Act" to prevent accidents and protect employee safety and health as well as Company assets. TSMC fabs in Taiwan have also received TOSHMS (Taiwan Occupational Safety and Health Management System) certification.

Besides accident prevention, TSMC has established emergency response procedures to protect the lives of employees and contractors if disasters should occur, as well as to minimize the negative impact on society and the environment. TSMC continually communicates with its suppliers to ensure that potential risk in the operation of production equipment is minimized and rigorously follows safety control procedures when installing production equipment. The Company places stringent controls on high-risk operations and also evaluates the seismic tolerance of its facilities and equipment to reduce the risk of earthquake damage.

In health management, TSMC sponsors regular wellness activities and specific health examinations as well as ensuring the health of employees beyond regulatory requirements, such as the improvement of office ergonomics, the promotion of Good Health Practice (GHP) in food production areas, and the continual appraisal and control of the impact on the health of employees of heavy metals. TSMC also establishes Company-level prevention committees when infectious diseases such as H1N1 influenza, Severe Acute Respiratory Syndrome (SARS) or Avian Influenza pose a potential risk to the Company.

Environmental, Safety and Health-related Awards in 2010

- Chosen for membership in the Dow Jones Sustainability World Index for a 10th consecutive year; leader in the semiconductor sector in 2010
- Recognized by the Taiwan Institute of Sustainable Energy with the "Gold Award for Taiwan Corporate Sustainability Reports" for two consecutive years
- Recognized by the Atomic Energy Council for "Excellence in Radiation Protection"
- Fab 12 was recognized by the Environmental Protection Administration with the "The Annual Enterprise Environmental Protection Award"
- Fab 12 Phase 4 was recognized by the Ministry of Economic Affairs with the "Water Saving Award"
- Fab 12 Phase 4 was recognized by the Hsinchu Science Park Administration with the "Low Carbon Enterprise Award"
- Fab 12 Phase 4 was recognized by the Hsinchu Science Park Administration with the "Water Saving Award"
- Fab 14 was recognized by the Southern Taiwan Science Park Administration with the "Water Saving Award"
- Fab 3 was recognized by the Ministry of Economic Affairs with the "Energy Conservation Award"
- Fab 12 and Fab 3 were recognized by the Hsinchu Science Park Administration with the "Excellence in Labor Safety and Hygiene Award"

TSMC Education and Culture Foundation

Established in 1988, the TSMC Education and Culture Foundation continues to devote its resources towards education, community building, promotion of arts and culture events, and the employee volunteer program, as part of TSMC's efforts in corporate social responsibility.

In 2010, to promote the knowledge of science and strengthen the foundation of science education, the TSMC Foundation continued to infuse resources into the "Raising the Level of High School Physics Experiments Program" renovation of the "The World of the Integrated Circuits Exhibit," and launching the "TSMC Science Tour,". Aside from financial sponsorships, the TSMC Foundation supports TSMC Volunteer Society, organizing the employees to devote themselves to the caring of the underprivileged in the communities.

【信 TRUST】

WE TELL THE TRUTH, DO NOT EXAGGERATE, AND CAN STAND UP TO ANY SCRUTINY.

WE TIRELESSLY CREATE VALUE TO WIN THE TRUST OF OUR CUSTOMERS,

SUPPLIERS, SHAREHOLDERS, AND THE PUBLIC,

AND ARE A KEY PARTNER THAT CUSTOMERS RELY UPON FOR SUCCESS.

6. Financial Statements

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Statements of Income (Consolidated)

For the Years Ended December 31, 2010 ~ 2006

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

	2010	2009	2008	2007 (1)	2006 (1)
GROSS SALES	\$ 431,630,858	\$ 309,655,614	\$ 341,983,355	\$ 328,336,172	\$ 322,883,499
SALES RETURNS AND ALLOWANCES	12,092,947	13,913,375	8,825,695	5,705,576	5,476,328
NET SALES	419,537,911	295,742,239	333,157,660	322,630,596	317,407,171
COST OF SALES	212,484,320	166,413,628	191,408,099	180,280,385	161,597,081
GROSS PROFIT	207,053,591	129,328,611	141,749,561	142,350,211	155,810,090
OPERATING EXPENSES					
Research and development	29,706,662	21,593,398	21,480,937	17,946,322	16,076,432
General and administrative	12,803,997	11,285,478	11,096,599	8,963,836	8,716,653
Marketing	5,367,597	4,487,849	4,736,657	3,718,146	3,752,311
Total operating expenses	47,878,256	37,366,725	37,314,193	30,628,304	28,545,396
INCOME FROM OPERATIONS	159,175,335	91,961,886	104,435,368	111,721,907	127,264,694
NON-OPERATING INCOME AND GAINS					
Settlement income	6,939,764	1,464,915	951,180	985,114	979,214
Equity in earnings of equity method investees, net	2,298,159	45,994	701,533	2,507,869	2,347,153
Interest income	1,665,193	2,600,925	5,373,823	5,651,700	4,542,149
Gain on settlement and disposal of financial assets, net	736,843	15,999	721,050	874,670	133,489
Technical service income	450,503	367,013	1,181,966	590,391	571,500
Valuation gain on financial instruments, net	320,730	594,660	-	63,017	-
Gain on disposal of property, plant and equipment and other assets	216,199	113,963	100,874	91,210	421,051
Rental income	156,939	153,919	166,317	378,643	224,290
Foreign exchange gain, net	-	-	1,227,653	80,922	-
Subsidy income	-	-	8,029	364,321	334,478
Others	351,742	296,160	389,024	345,946	285,757
Total non-operating income and gains	13,136,072	5,653,548	10,821,449	11,933,803	9,839,081
NON-OPERATING EXPENSES AND LOSSES					
Loss on disposal of property, plant and equipment	849,254	68,486	589	6,190	241,397
Interest expense	425,356	391,479	614,988	842,242	890,602
Casualty loss	190,992	-	-	-	-
Impairment of financial assets	159,798	913,230	1,560,055	54,208	279,690
Foreign exchange loss, net	99,130	626,971	-	-	400,863
Valuation loss on financial instruments, net	-	-	1,081,019	-	1,745,036
Loss on idle assets	-	-	210,477	-	44,072
Provision for litigation loss	-	-	99,126	1,008,635	-
Others	316,482	152,621	218,317	102,409	139,907
Total non-operating expenses and losses	2,041,012	2,152,787	3,784,571	2,013,684	3,741,567
INCOME BEFORE INCOME TAX	170,270,395	95,462,647	111,472,246	121,642,026	133,362,208
INCOME TAX EXPENSE	7,988,465	5,996,424	10,949,009	11,709,626	7,773,711
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	162,281,930	89,466,223	100,523,237	109,932,400	125,588,497
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$82,062 THOUSAND	-	-	-	-	1,606,749
NET INCOME	\$ 162,281,930	\$ 89,466,223	\$ 100,523,237	\$ 109,932,400	\$ 127,195,246
ATTRIBUTABLE TO:					
Shareholders of the parent	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168	\$ 109,177,093	\$ 127,009,731
Minority interest	676,921	248,387	590,069	755,307	185,515
	\$ 162,281,930	\$ 89,466,223	\$ 100,523,237	\$ 109,932,400	\$ 127,195,246
EARNINGS PER SHARE (2)					
Basic earnings per share	\$ 6.24	\$ 3.45	\$ 3.84	\$ 4.04	\$ 4.70
Diluted earnings per share	\$ 6.23	\$ 3.44	\$ 3.81	\$ 4.04	\$ 4.69

Note 1: Certain accounts have been reclassified to conform to 2008 classifications.

Note 2: Retroactively adjusted for stock dividends for earning year 2006 to earning year 2008 and profit sharing to employees in stock for earning year 2006 to earning year 2007.

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Balance Sheets (Consolidated)

December 31, 2010 ~ 2006

(In Thousands of New Taiwan Dollars)

	2010	2009	2008	2007	2006
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 147,886,955	\$ 171,276,341	\$ 194,613,752	\$ 94,986,488	\$ 117,837,192
Financial assets at fair value through profit or loss	6,886	186,081	55,730	1,632,387	1,206,854
Available-for-sales financial assets	28,883,728	14,389,946	10,898,715	66,688,368	67,523,858
Held-to-maturity financial assets	4,796,589	9,944,843	5,881,999	11,526,946	8,510,823
Receivable from related parties	2,722	12,524	407	10,885	252,339
Notes and accounts receivable	51,029,885	44,637,642	25,023,321	47,204,126	34,957,650
Allowance for doubtful receivables	(504,029)	(543,325)	(455,751)	(701,807)	(749,888)
Allowance for sales returns and others	(7,546,264)	(8,724,481)	(6,071,026)	(4,089,035)	(2,870,802)
Other receivables from related parties	124,586	121,292	99,918	243,620	256,863
Other financial assets	1,021,552	1,849,987	1,911,699	1,515,527	2,356,542
Inventories	28,405,984	20,913,751	14,876,645	23,862,260	21,430,728
Deferred income tax assets	5,373,076	4,370,309	3,969,330	5,572,334	8,013,992
Prepaid expenses and other current assets	2,037,647	1,368,838	1,813,692	1,370,230	1,591,017
Total current assets	261,519,317	259,803,748	252,618,431	249,822,329	260,317,168
LONG-TERM INVESTMENTS					
Investment accounted for using equity method	25,815,385	17,871,208	18,907,158	22,517,289	15,000,891
Available-for-sale financial assets	1,033,049	1,358,049	2,032,658	1,400,691	6,648,485
Held-to-maturity financial assets	8,502,887	15,553,242	15,426,252	8,697,726	28,973,495
Financial assets carried at cost	4,424,207	3,063,004	3,615,447	3,845,619	3,272,280
Total long-term investments	39,775,528	37,845,503	39,981,515	36,461,325	53,895,151
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Land and land improvements	891,197	934,090	953,857	942,197	844,644
Buildings	145,966,024	142,294,558	132,249,996	118,640,027	112,595,124
Machinery and equipment	913,155,252	775,653,489	697,498,743	646,419,427	579,825,289
Office equipment	14,856,582	13,667,747	12,430,800	11,829,640	10,646,725
Leased assets	701,552	714,424	722,339	652,296	612,941
	1,075,570,607	933,264,308	843,855,735	778,483,587	704,524,723
Accumulated depreciation	(773,278,157)	(693,743,886)	(618,816,267)	(540,099,567)	(463,038,084)
Advance payments and construction in progress	86,151,573	34,154,365	18,605,882	21,868,167	12,607,551
Net property, plant and equipment	388,444,023	273,674,787	243,645,350	260,252,187	254,094,190
INTANGIBLE ASSETS					
Goodwill	5,704,897	5,931,318	6,044,392	5,987,582	5,984,993
Deferred charges, net	6,027,085	6,458,554	7,125,828	7,923,601	5,936,915
Total intangible assets	11,731,982	12,389,872	13,170,220	13,911,183	11,921,908
OTHER ASSETS					
Deferred income tax assets	7,362,784	7,988,303	6,636,873	7,313,283	5,802,142
Refundable deposits	8,677,970	2,733,143	2,767,199	2,777,769	1,331,245
Others	1,417,300	260,864	97,001	327,150	123,355
Total other assets	17,458,054	10,982,310	9,501,073	10,418,202	7,256,742
TOTAL	\$ 718,928,904	\$ 594,696,220	\$ 558,916,589	\$ 570,865,226	\$ 587,485,159

	2010	2009	2008	2007	2006
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	\$ 31,213,944	\$ -	\$ -	\$ -	\$ -
Financial liabilities at fair value through profit or loss	19,002	25	85,187	249,313	10,864
Hedging derivative financial liabilities	814	-	-	-	-
Notes and accounts payable	12,104,173	10,905,884	5,553,151	11,574,882	7,934,388
Payables to related parties	867,085	783,007	489,857	1,503,376	1,867,728
Income tax payable	7,184,697	8,800,249	9,331,825	11,126,128	7,946,473
Salary and bonus payable	6,424,064	9,317,035	2,215,780	2,233,450	2,117,045
Accrued profit sharing to employees and bonus to directors and supervisors	11,096,147	6,818,343	15,369,730	-	-
Payables to contractors and equipment suppliers	43,259,857	28,924,265	7,998,773	6,256,732	10,768,591
Accrued expenses and other current liabilities	10,779,923	12,635,182	7,540,055	15,481,313	9,211,305
Current portion of bonds payable and long-term liabilities	241,407	949,298	8,222,398	280,813	7,004,137
Total current liabilities	123,191,113	79,133,288	56,806,756	48,706,007	46,860,531
LONG-TERM LIABILITIES					
Bonds payable	4,500,000	4,500,000	4,500,000	12,500,000	12,500,000
Long-term bank loans	301,561	578,560	1,420,476	1,722,196	653,959
Other long-term payables	6,554,208	5,602,420	9,548,226	9,409,978	8,703,267
Other payables to related parties	-	-	-	-	403,375
Obligations under capital leases	694,986	707,499	722,339	652,296	612,941
Total long-term liabilities	12,050,755	11,388,479	16,191,041	24,284,470	22,873,542
OTHER LIABILITIES					
Accrued pension cost	3,812,351	3,797,032	3,701,584	3,665,522	3,540,060
Guarantee deposits	789,098	1,006,023	1,484,495	2,243,009	3,817,132
Deferred credits	126,539	185,689	316,537	1,236,873	1,177,138
Others	254,643	137,161	43,709	43,774	78,640
Total other liabilities	4,982,631	5,125,905	5,546,325	7,189,178	8,612,970
Total Liabilities	140,224,499	95,647,672	78,544,122	80,179,655	78,347,043
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF PARENT					
Capital stock - \$10 par value					
Common stock	259,100,787	259,027,066	256,254,373	264,271,037	258,296,879
Capital surplus	55,698,434	55,486,010	49,875,255	53,732,682	54,107,498
Retained earnings					
Appropriated as legal capital reserve	86,239,494	77,317,710	67,324,393	56,406,684	43,705,711
Appropriated as special capital reserve	1,313,047	-	391,857	629,550	640,742
Unappropriated earnings	178,227,030	104,564,972	102,337,417	161,828,337	152,778,079
	265,779,571	181,882,682	170,053,667	218,864,571	197,124,532
Others					
Cumulative translation adjustments	(6,543,163)	(1,766,667)	481,158	(1,072,853)	(1,191,165)
Unrealized gain/loss on financial instruments	109,289	453,621	(287,342)	680,997	561,615
Treasury stock	-	-	-	(49,385,032)	(918,075)
	(6,433,874)	(1,313,046)	193,816	(49,776,888)	(1,547,625)
Equity attributable to shareholders of the parent	574,144,918	495,082,712	476,377,111	487,091,402	507,981,284
MINORITY INTERESTS	4,559,487	3,965,836	3,995,356	3,594,169	1,156,832
Total shareholders' equity	578,704,405	499,048,548	480,372,467	490,685,571	509,138,116
TOTAL	\$ 718,928,904	\$ 594,696,220	\$ 558,916,589	\$ 570,865,226	\$ 587,485,159

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Statements of Cash Flows (Consolidated)

For the Years Ended December 31, 2006 ~ 2010

(In Thousands of New Taiwan Dollars)

	2010	2009	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income attributable to shareholders of the parent	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168	\$ 109,177,093	\$ 127,009,731
Net income attributable to minority interests	676,921	248,387	590,069	755,307	185,515
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	87,810,103	80,814,748	81,512,191	80,005,395	73,715,242
Amortization of premium/discount of financial assets	34,142	21,483	(93,393)	(117,159)	2,399
Impairment of financial assets	159,798	913,230	1,560,055	54,208	279,690
Loss (gain) on disposal of available-for-sale financial assets, net	(603,368)	20,337	(637,219)	(610,167)	(90,826)
Gain on held-to-maturity financial assets redeemed by the issuer	-	(16,091)	-	-	-
Gain on disposal of financial assets carried at cost, net	(133,475)	(20,245)	(83,831)	(264,503)	(16,210)
Equity in earnings of equity method investees, net	(2,298,159)	(45,994)	(701,533)	(2,507,869)	(2,347,153)
Dividends received from equity method investees	320,002	1,239,490	1,661,134	625,130	614,567
Loss (gain) on disposal of property, plant and equipment and other assets, net	633,230	(45,475)	(100,285)	(85,020)	(179,654)
Settlement income from receiving equity securities	(4,434,364)	-	-	-	-
Loss on idle assets	319	-	210,477	-	44,072
Deferred income taxes	(377,248)	(1,752,409)	2,279,414	943,797	121,590
Changes in operating assets and liabilities:					
Decrease (increase) in:					
Financial assets and liabilities at fair value through profit or loss	198,172	(215,513)	1,412,531	(187,084)	340,176
Receivable from related parties	9,802	(12,117)	10,478	629,467	440,927
Notes and accounts receivable	(6,392,243)	(19,614,321)	22,180,805	(12,134,176)	8,124,625
Allowance for doubtful receivables	(39,296)	87,574	(246,056)	(48,126)	(230,706)
Allowance for sales returns and others	(1,178,217)	2,653,455	1,981,991	1,205,277	(1,446,611)
Other receivables from related parties	(3,294)	(21,374)	143,702	13,243	341,047
Other financial assets	740,959	7,834	(425,937)	842,136	(738,745)
Inventories	(7,492,233)	(6,037,106)	8,985,615	(2,226,106)	(3,702,425)
Prepaid expenses and other current assets	(752,408)	585,430	(443,462)	290,434	(170,576)
Increase (decrease) in:					
Notes and accounts payables	933,894	4,916,885	(6,021,731)	3,218,255	(1,487,064)
Payable to related parties	84,078	293,150	(1,013,519)	(375,731)	(572,441)
Income tax payable	(1,615,552)	(531,576)	(1,794,303)	3,179,655	3,931,022
Salary and bonus payable	(2,892,971)	7,101,255	(17,670)	116,405	665
Accrued profit sharing to employees and bonus to directors and supervisors	4,277,804	(1,056,399)	15,369,730	-	-
Accrued expenses and other current liabilities	248,192	1,356,269	(3,936,757)	797,467	861,763
Accrued pension cost	15,319	95,448	36,062	125,462	65,676
Deferred credits	(59,150)	(237,726)	(858,161)	343,878	(99,310)
Net Cash Provided by Operating Activities	<u>229,475,766</u>	<u>159,966,465</u>	<u>221,493,565</u>	<u>183,766,668</u>	<u>204,996,986</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of:					
Property, plant and equipment	(186,944,203)	(87,784,906)	(59,222,654)	(84,000,985)	(78,737,265)
Available-for-sale financial assets	(48,340,334)	(38,800,577)	(85,273,867)	(87,550,197)	(119,291,685)
Held-to-maturity financial assets	(4,101,501)	(12,224,353)	(16,523,275)	-	(18,554,027)
Investments accounted for using equity method	(6,242,350)	(42,947)	(55,871)	(5,803,826)	(2,613,009)
Financial assets carried at cost	(1,812,928)	(321,195)	(463,211)	(911,323)	(511,632)
Proceeds from disposal or redemption of:					
Available-for-sale financial assets	37,816,288	36,039,978	138,515,023	94,908,666	91,620,367
Held-to-maturity financial assets	15,943,000	7,944,800	15,634,620	17,325,120	10,410,000
Financial assets carried at cost	242,335	131,075	199,424	410,465	126,465
Property, plant and equipment and other assets	115,524	24,241	194,940	60,535	518,705
Proceeds from return of capital by investees	-	-	2,345,867	-	-
Increase in deferred charges	(1,801,728)	(1,469,831)	(3,395,287)	(3,059,155)	(1,414,742)
Decrease (increase) in refundable deposits	(5,944,827)	34,056	10,570	(1,434,895)	(1,224,443)
Net cash paid for acquisition of subsidiaries	-	-	-	(404,445)	-
Decrease (increase) in other assets	(1,015,458)	1,176	(8,163)	(228,747)	(52,086)
Net Cash Used in Investing Activities	<u>(202,086,182)</u>	<u>(96,468,483)</u>	<u>(8,041,884)</u>	<u>(70,688,787)</u>	<u>(119,723,352)</u>

	2010	2009	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in short-term bank loans	\$ 31,213,944	\$ -	\$ -	\$ (89,720)	\$ (328,500)
Increase in long-term bank loans	-	286,574	98,400	653,000	-
Repayments of:					
Bonds payable	-	(8,000,000)	-	(7,000,000)	-
Long-term bank loans	(967,034)	(378,673)	(468,313)	(196,173)	(5,489)
Decrease in other long-term payables	(1,107,333)	-	-	-	-
Increase (decrease) in guarantee deposits	(232,925)	(478,472)	(758,514)	(1,574,131)	920,702
Cash dividends	(77,708,120)	(76,876,312)	(76,779,032)	(77,387,302)	(61,742,741)
Cash bonus paid to employees	-	-	(3,939,883)	(4,572,798)	(3,432,129)
Bonus to directors and supervisors	-	-	(176,890)	(285,800)	(257,410)
Proceeds from donation	49,021	-	-	-	-
Proceeds from exercise of employee stock options	244,824	260,533	227,150	436,827	575,197
Repurchase of treasury stock	-	-	(33,480,997)	(45,413,373)	-
Increase (decrease) in minority interests	(130,083)	(284,774)	(114,742)	19,004	487,017
Net Cash Used in Financing Activities	<u>(48,637,706)</u>	<u>(85,471,124)</u>	<u>(115,392,821)</u>	<u>(135,410,466)</u>	<u>(63,783,353)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(21,248,122)</u>	<u>(21,973,142)</u>	<u>98,058,860</u>	<u>(22,332,585)</u>	<u>21,490,281</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(2,141,264)</u>	<u>(1,364,269)</u>	<u>1,568,404</u>	<u>(518,119)</u>	<u>(136,796)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>171,276,341</u>	<u>194,613,752</u>	<u>94,986,488</u>	<u>117,837,192</u>	<u>96,483,707</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 147,886,955</u>	<u>\$ 171,276,341</u>	<u>\$ 194,613,752</u>	<u>\$ 94,986,488</u>	<u>\$ 117,837,192</u>
SUPPLEMENTAL INFORMATION					
Interest paid	\$ 392,805	\$ 580,376	\$ 676,318	\$ 922,079	\$ 951,450
Income tax paid	\$ 9,818,418	\$ 8,088,124	\$ 10,477,018	\$ 7,585,727	\$ 3,630,029
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS					
Acquisition of property, plant and equipment	\$ 201,696,476	\$ 109,151,226	\$ 60,978,527	\$ 78,889,954	\$ 80,675,310
Decrease (increase) in payables to contractors and equipment suppliers	(14,599,987)	(21,361,340)	(1,742,041)	5,111,031	(1,702,555)
Nonmonetary exchange trade-out price	(124,746)	(809)	-	-	-
Increase in other long-term payables	-	-	-	-	(235,490)
Increase in other liabilities	(27,540)	-	-	-	-
Increase in obligations under capital leases	-	(4,171)	(13,832)	-	-
Cash paid	<u>\$ 186,944,203</u>	<u>\$ 87,784,906</u>	<u>\$ 59,222,654</u>	<u>\$ 84,000,985</u>	<u>\$ 78,737,265</u>
Acquisition of available-for-sale financial assets	\$ 48,405,875	\$ -	\$ -	\$ -	\$ -
Increase in accrued expenses and other current liabilities	(65,541)	-	-	-	-
Cash paid	<u>\$ 48,340,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of property, plant and equipment and other assets	\$ 458,561	\$ 25,050	\$ 194,940	\$ -	\$ -
Increase in other financial assets	(218,291)	-	-	-	-
Nonmonetary exchange trade-out price	(124,746)	(809)	-	-	-
Cash received	<u>\$ 115,524</u>	<u>\$ 24,241</u>	<u>\$ 194,940</u>	<u>\$ -</u>	<u>\$ -</u>
Repurchase of treasury stock	\$ -	\$ -	\$ 30,427,413	\$ 48,466,957	\$ -
Decrease (increase) in accrued expenses and other current liabilities	-	-	3,053,584	(3,053,584)	-
Cash paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,480,997</u>	<u>\$ 45,413,373</u>	<u>\$ -</u>
NONCASH FINANCING ACTIVITIES					
Current portion of long-term liabilities	\$ 241,407	\$ 949,298	\$ 8,222,398	\$ 280,813	\$ 7,004,137
Current portion of other payables to related parties (under payables to related parties)	\$ -	\$ -	\$ -	\$ -	\$ 688,591
Current portion of other long-term payables and other liabilities (under accrued expenses and other current liabilities)	\$ 1,406,601	\$ 4,005,307	\$ 1,126,546	\$ 3,735,875	\$ 617,892

【承 RESPONSIBILITY】

TSMC PLEDGES TO ACTIVELY AND COST-EFFECTIVELY CONSOLIDATE AND MANAGE ALL RISKS THAT COULD AFFECT OPERATIONS AND PROFITABILITY.

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TSMC's depository 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://newmops.tse.com.tw>

Safe Harbor Notice:

The statements included in this business overview that are not historical in nature are “forward-looking statements” within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. TSMC cautions readers that forward-looking statements are subject to significant risks and uncertainties and are based on TSMC’s current expectations. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including, among others, risks associated with cyclical and market conditions in the semiconductor industry; demand and supply for TSMC’s foundry manufacturing capacity in particular and for foundry manufacturing capacity in general; intense competition; the failure of one or more significant customers to continue to place the same level of orders with us; TSMC’s ability to remain a technological leader in the semiconductor industry; TSMC’s ability to manage its capacity; TSMC’s ability to obtain, preserve and defend its intellectual property rights; natural disasters and other unexpected events which may disrupt production; and exchange rate fluctuations. Additional information as to these and other risk factors that may cause TSMC’s actual results to differ materially from TSMC’s forward-looking statements may be found in TSMC’s Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission (the “SEC”) on April 15, 2011, 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.