TSMC 2017
Business Overview

Taiwan Semiconductor Manufacturing Company, Ltd.
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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.
TSMC’s enduring business model, our ecosystem of partnerships across the industry, and our core values of integrity, commitment, innovation, and customer trust have well positioned us to serve as “everyone’s foundry” and enabled win-win partnership between TSMC and IC Innovators.
Dear Shareholders,

2017 was a solid year for TSMC as we delivered another year of record revenue, net income and earnings per share. TSMC’s technology leadership and manufacturing excellence, as well as our ongoing commitment to R&D and capacity investment, enabled us to capture opportunities in mobile devices, high-performance computing, the Internet of Things, and automotive semiconductors. Our continuing technological progress across the broad spectrum of advanced semiconductor process technologies lays a good foundation and builds a strong momentum for TSMC in the coming years.

“Being everyone’s foundry” is at the heart of TSMC strategy. Through the expansion of our technology and services, we build an open platform that welcomes all innovators in the semiconductor industry to realize their innovations and see their products brought to market in volume quickly. TSMC’s ability to address the increasing needs for specific technology requirements, through the most comprehensive range of technology offerings and our vast and flexible manufacturing capacity, enable us to cast a wide net to capture the varying waves of product innovations in the semiconductor industry.

In 2017, we saw computation expanding in the cloud and on the edge; major mobile products with enriched features adopted advanced processes; the need for safer, smarter and greener vehicles drove strong automotive semiconductor demand; and the readiness of ubiquitous connectivity provided exciting growth in the Internet of Things (IoT). AI (artificial intelligence) is expected to be embedded in all the above applications. As “everyone’s foundry”, we were able to participate in these growing segments of the industry and continued to expand our foundry market segment share.

We continued to make significant advances in leading-edge process technologies in 2017. 10-nanometer set a new record in terms of ramp-up speed, and represented 10% of our total wafer revenue in its first year. Our industry-first 7-nanometer was transferred from R&D to manufacturing in 2017, and will begin volume production in the second quarter of 2018. Our 7-nanometer+ will follow and enter risk production later in 2018. We broke ground for Fab 18 in January 2018 for 5-nanometer, which will see extensive use of EUV (extreme ultraviolet) lithography with volume production targeted to start in 2020. Our proprietary CoWoS® (Chip on Wafer on Substrate) and InFO (integrated fan-out) advanced packaging solutions also continue to see enthusiastic adoption by customers in HPC (high performance computing), mobile and other high speed applications.

We successfully introduced TSMC’s 7-nanometer technology in 2017. Customer adoption of 7-nanometer is very strong and we received more than ten product tape-outs in 2017. A total of more than 50 customer product tape-outs are expected by the end of 2018. TSMC’s 7-nanometer+ technology will be introduced in 2018. We have already demonstrated the same yield level of 256M bit SRAM as compared to 7-nanometer.

Furthermore, TSMC’s 5-nanometer technology development is well on track for risk production in the first quarter of 2019. Both device performance and SRAM development vehicle yield improvement are on our plan. Customer test chips are already running in our fab.

Highlights of TSMC’s accomplishments in 2017:
- Total wafer shipments increased 8.8 percent from 2016 to reach 10.5 million 12-inch equivalent wafers.
- Advanced technologies (28-nanometer and beyond) accounted for 58 percent of total wafer revenue, up from 54 percent in 2016.
- We deployed 258 distinct process technologies, and manufactured 9,920 products for 465 customers.
- TSMC’s market share in the total semiconductor foundry segment rose successively during the last eight years and reached 56 percent in 2017.

2017 Financial Performance

In 2017, our consolidated revenue totaled NT$977.45 billion, an increase of 3.1 percent over NT$947.94 billion in 2016, despite a significant appreciation in the NT dollar in this period. Net income was NT$343.11 billion and diluted earnings per share were NT$13.23. Both increased 3 percent from the 2016 level of NT$334.25 billion net income and NT$12.89 diluted EPS.

Gross profit margin was 50.6 percent compared with 50.1 percent in 2016, while operating profit margin was 39.4 percent compared with 39.9 percent a year earlier as R&D spending ratio increased. Net profit margin was 35.1 percent, a decrease of 0.2 percentage points from the prior year’s 35.3 percent.

TSMC further raised its cash dividend payment to NT$7.0 per share for 2016 profit distribution from NT$6.0 a year ago.

Technological Developments

In 2017, we have increased our R&D expense by 13.5% over 2016, with a large number of new technology introduction, to meet our customer needs and to extend our technology leadership. TSMC’s 28/22-nanometer technology saw a record number of product tape-outs in 2017, thanks to its differentiated and diverse offerings. To further enhance the technology performance, we have also developed 22ULP (ultra-low power) and 22ULL (ultra-low leakage) technologies to address IoT and RF-related applications. We are confident that our continued performance enhancement, strong manufacturing capability, and flexible capacity can further strengthen our position in the 28/22-nanometer node for years to come.

TSMC’s 16-nanometer FinFET technology remains robust as it enters its fourth year of volume production in 2018. Strong tape-out activities covered a variety of mainstream smartphones, cryptocurrency, AI, GPU and RF products. We continued to expand the technology portfolio by developing 12FFC (FinFET Compact) in 2017, which drives die size and power efficiency to serve demand in mobile, consumer electronics, digital TV and IoT applications.

10-nanometer FinFET technology started high-volume shipments in early 2017 and successfully supported a major customer’s new mobile product launches. Thanks to its aggressive geometric shrinkage, this technology provides excellent density/cost benefits to support customer needs in performance-driven market segments, including application processors, cellular baseband and ASIC CPUs. As a result, we expect a continued growth of our 10-nanometer business in 2018.

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In advanced packaging, TSMC’s second generation InFO technology began volume production for advanced mobile products in 2017, while InFO_oS (Integrated Fan-Out on Substrate) technology is expected to complete qualification in 2018 for HPC (high performance computing) products. We also extended our interposer CoWos® technology to 12-nanometer and are actively developing 7-nanometer solutions to further support the requirements of HPC applications, such as AI, data server, and networking.

TSMC’s ecosystem, the Open Innovation Platform® (OIP), is an important factor in empowering customers to unleash their innovations with fast time-to-market. We continued to work with our ecosystem partners to expand our libraries and silicon IP portfolio in 2017 to more than 16,000 items. More than 9,000 technology files and over 300 process design kits were available to customers via TSMC-Online which saw more than 100,000 customer downloads in 2017.

**Corporate Developments**

In October 2017, I, as TSMC Chairman for the last thirty years, announced my plan to retire from the Company immediately after the Annual Shareholders’ Meeting in early June, 2018. All present directors of the board, except myself, have unanimously agreed to be nominated, and if elected, will serve as directors of the board during the next term. They all have agreed to have TSMC under the dual leadership of Dr. Mark Liu and Dr. C.C. Wei, who are TSMC’s presidents and Co-CEOs currently. Dr. Liu will be the Chairman of the Board, and Dr. Wei will be the Chief Executive Officer.

**Honors and Awards**

TSMC received recognition for achievements in innovation, business information disclosure, corporate governance, sustainability, investor relations and overall excellence in management from organizations including Forbes, Fortune Magazine, Newsweek, CommonWealth Magazine, The Nikkei, PricewaterhouseCoopers, RobecoSAM and the Taiwan Stock Exchange. TSMC continued to receive multiple awards from Institutional Investor Magazine and was ranked among the top global companies by IR Magazine. TSMC was chosen once again as a component of the Dow Jones Sustainability Indices, becoming the only semiconductor company to be selected for 17 consecutive years. Meanwhile, we remained a major component in both MSCI ESG and FTSE4Good Emerging Index, reflecting our ongoing commitment to sustainability and corporate social responsibility.

### Capacity Plan

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<th>Year</th>
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<th>11%</th>
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<tbody>
<tr>
<td>2016</td>
<td>10</td>
<td></td>
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<tr>
<td>2017</td>
<td>11</td>
<td></td>
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<tr>
<td>2018</td>
<td>12</td>
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### Annual Growth Rate

- Capacity: million 12-inch equivalent wafers

### Wafer Sales Plan

<table>
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<th>28nm</th>
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<tr>
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<td>40%</td>
<td>50%</td>
</tr>
<tr>
<td>2017</td>
<td>42%</td>
<td>52%</td>
</tr>
<tr>
<td>2018</td>
<td>50%</td>
<td>60%</td>
</tr>
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2018 wafer shipment is expected to be 11-12 million 12-inch equivalent wafers.

**Outlook**

TSMC’s enduring business model, our ecosystem of partnerships across the industry, and our core values of integrity, commitment, innovation, and customer trust have well positioned us to serve as “everyone’s foundry” and enabled win-win partnership between TSMC and IC innovators. TSMC will continue to advance our semiconductor process technologies and strengthen our manufacturing capabilities to meet the ever-increasing requirements of our customers and stay at the forefront to unleash innovation.

As technology and end applications undergo unprecedented change for the new digital age, our dedicated foundry business model will remain the foundation of our success. Our business model will continue to lead our way in creating value and generating strong returns to our shareholders. I would like to personally thank our shareholders for your long-term support to TSMC. While we have come a long way over the past thirty years, there is still much more ahead of us to achieve, and I am ever more confident that the best is yet to come.
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’ products. By choosing not to design, manufacture or market any semiconductor products under its own name, the Company ensures that it never competes directly with its customers. Today, TSMC is the world’s largest semiconductor foundry, manufacturing 9,920 different products using 258 distinct technologies for 465 different customers in 2017.

With a large and diverse global customer base, TSMC-manufactured semiconductors are used in a wide variety of applications covering many segments of the computer, communications, consumer, industrial and standard semiconductor markets. Strong diversification helps to smooth fluctuations in demand, which, in turn, helps TSMC maintain higher levels of capacity utilization and profitability.

Annual capacity of the manufacturing facilities managed by TSMC and its subsidiaries exceeded 11 million 12-inch equivalent wafers in 2017. These facilities include three 12-inch wafer GIGAFAB® fabs, four 8-inch wafer fabs, and one 6-inch wafer fab in Taiwan, as well as one 12-inch wafer fab at a wholly owned subsidiary: TSMC Nanjing Company Limited, and two 8-inch wafer fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited.

TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, and South Korea. At the end of 2017, the Company employed more than 48,000 people.

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 2017

To meet our customer’s needs in today’s dynamic marketplace, TSMC is accelerating the pace of its innovation by offering leading-edge processes to unleash their innovation. Many of our technological breakthroughs in materials, processing, and advanced lithography are not only enabling devices to be faster, smaller and more power efficient, but are also critical to driving Moore’s Law going forward:

● 7nm Technology
7nm technology offers significant performance, power and density improvement compared to previous technology generations. In 2017, TSMC successfully completed 7nm technology qualification for volume production, as major customers completed IP validation and started product tape-out. Ramp-up to volume production is expected in first half of 2018.

● 5nm Technology
5nm technology continues to follow Moore’s Law and delivers substantial density improvement with better performance at the same power or lower power consumption at comparable performance. Development activities of 5nm technology in 2017 were focused on test vehicle pilot run, baseline process development, yield ramp, and transistor performance enhancement. In 2018, TSMC will continue 5nm full development focusing on manufacturing baseline process setup, yield learning, transistor and interconnect R/C performance improvement and reliability evaluation, targeting risk production in 2019.

● Lithography Technology
TSMC’s extreme ultraviolet (EUV) technology continues to mature towards high volume production and improving source power towards the 250W goal. As EUV technology moves closer to full scale R&D and manufacturing readiness, TSMC continues to make progress in EUV infrastructure development, including photo resist, mask defect and yield, pellicle defects and transmission. We are confident that EUV can meet our goal of 2019 volume production for 7nm and 2020 volume production for 5nm.

● Advanced Fan-Out Packaging
In 2017, TSMC continued to lead in high-volume manufacturing of InFO-PoP Gen-2 packaging for mobile applications processors. During the year, the Company also successfully qualified InFO-PoP Gen-3 advanced packaging technology for mobile applications and started risk production in Integrated Fan-Out on Substrate (InFO-oS) for HPC die-partition application. The newly developed InFO-PoP can be stacked with versatile commercial DRAM with competitive performance, and will be ready by the end of 2018.

TSMC has also developed Chip on Wafer on Substrate (CoWoS) since 2012 to support the requirements of high performance computing applications, particularly in the areas of artificial intelligence, data center, and networking. More customers continue to engage with us in this technology, with most of the products using our 16nm process. Active development of CoWoS for 7nm is ongoing.

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 is positioned in the industry as the worldwide semiconductor foundry leader for both advanced and specialty process technologies, commanding a 56% market share in 2017. Advanced technologies (28nm and below) accounted for 58% of total wafer revenue, up from 54% in 2016.

TSMC estimates that the worldwide semiconductor market in 2017 was US$434 billion in revenue, representing a strong 22% year-over-year growth, after a flat year in 2016. In the foundry segment of the semiconductor industry, total revenue was US$53 billion in 2017, up 7% year-over-year, close to the 8% growth in 2016.

Back-to-back years of growth in the foundry segment were driven mainly by healthy market demand. TSMC forecasts that the total semiconductor market excluding memory will grow 5% in 2018. Over the longer term, fueled by increasing semiconductor content in electronic devices, continuing market share gains by fabless companies, gradual increases in IDM outsourcing, and expanding in-house application specific integrated circuits (ASIC) from systems companies, the Company expects foundry segment revenue growth to be much stronger than the 4% compound annual growth rate projected for the overall semiconductor industry excluding memory from 2017 through 2022.

As an upstream supplier in the semiconductor supply chain, the foundry segment is tightly correlated with the market health of the three “C” sectors, communications, computers and consumer goods, as well as with the emerging IoT markets.

#### Communications

For the communications sector, smartphone unit shipments grew 3% in 2017. Although the growth has slowed in recent years, TSMC projects a steady low-single digit increase in the smartphone market in 2018 thanks to the continuing transition to 4G/LTE, LTE-Advanced and LTE-Advanced Pro. Improved performance, longer battery life, biosensors and more AI features will continue to propel smartphone sales; and the increasing popularity of low-end smartphones in emerging countries will also drive growth in this sector.

Low-power IC is an essential requirement among handset manufacturers. And SoC design, in which TSMC is already the leader, is the preferred solution due to its optimized cost, power and form factor (device footprint and thickness) potential. The migration to advanced process technologies will continue to accelerate, spurred by the appetite for higher performance to run AI applications, various complex software routines and higher resolution video.

#### Computer

After a 6% decline in 2016, the overall computer sector’s unit shipment dropped another 3% year-over-year in 2017. The decline was due to personal computer’s prolonged replacement cycle and consumer usage moving towards mobile computing, partially offset by positive growth in server units.
The computer sector is expected to continue its low-single digit unit decline in 2018. However, several factors are expected to help buoy computer sector demand, including increasing form varieties, the business adoption of new operating systems, and consumer replacements of aging PCs; as well as growing high performance applications, including machine learning, blockchain, and cryptocurrency mining.

All these require lower power and higher performance CPU, GPU, HDD Controller, and ASICs, which will drive the computer sector towards richer silicon content and more advanced process technologies.

**Consumer**

Compared to a 5% decline in 2016, consumer unit shipments fell 4% in 2017. TV game consoles showed positive growth, while the rest of the sector – TVs, set-top boxes, MP3 players, digital cameras and hand-held game consoles – decreased due to high LCD panel and memory cost, as well as functional cannibalization by smartphones.

Continued drop in consumer electronics is expected in 2018, while certain sub-segments such as TV game consoles and 4K (UHD) TVs should achieve positive growth within the sector. With its broad array of advanced technology offerings, TSMC expects to take advantage of the trend in this market toward more AI functions (e.g. voice recognition/control) to be incorporated in TVs and set-top boxes.

**Internet of Things**

The Internet of Things (IoT) is fast becoming the “next big thing,” as more and more devices are being connected to the internet. By 2025 it is estimated that the IoT’s installed unit base will be ten times greater than that of smartphones. 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.

**TSMC’s Trinity of Strengths**

TSMC’s growth has outperformed the overall semiconductor industry for all but two 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 but 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 2017, TSMC employed more than 6,145 engineers and scientists in R&D, while spending in R&D totaled more than US$2.65 billion, or 8% of revenues.
TSMC’s advanced technology is at the forefront of Moore’s Law. In 2017 the R&D organization completed the transfer to manufacturing of the industry-leading 7nm technology, the fourth generation of technology platform to make use of 3D FinFET transistors. TSMC continues to fuel the pipeline of technological innovation needed to maintain industry leadership and its 7nm technology is on track to ramp up volume production in 2018. Our enhanced version of 7nm technology, N7+, will introduce extreme ultraviolet (EUV) lithography to the production process and is making good progress toward volume production in 2019. It also paves the way for our 5 nanometer process, which will fully adopt EUV and is scheduled for volume production in 2020.

In addition to logic technology, TSMC conducts R&D on a wide range of other semiconductor technologies that provide the functionality required by customers for mobile SoC and other applications. Highlights in 2017 included: the high-volume production of second generation Integrated Fan-Out Package on Package (InFO-PoP) for mobile application processor packaging as well as qualification of third generation InFO-PoP and 0.18μm third generation Bipolar-CMOS-DMOS (BC) technology resulting in the leading performance quick charger and wireless charger in 2017; successful production launch of 40nm embedded flash memory; NOR-based cell technologies and Split-Gate cell for consumer electronics applications such as IoT, smartcards and micro controller units; and 40nm high-voltage phase-2 technology readiness for both LCD and OLED drivers.

TSMC’s R&D team also provides customers with comprehensive design support to optimize their design productivity and reduce their cycle time, enabling their products to go from the designer’s desk to the marketplace as short a time as possible. Our design support includes design flows for electronic design automation (EDA); silicon-proven IP building blocks, process design kits (PDKs), and technology files. As of 2017, TSMC provides more than 9,000 technology files and more than 300 PDKs via TSMC-Online. Together with our third party IP partners, we offer more than 16,000 IP titles in our library.

Manufacturing Excellence

As “everyone’s foundry,” TSMC served 465 active customers in 2017, and manufactured over 9,920 different products using 258 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. In 2016 and 2017, we moved in more than 2,300 tools for our 10-nanometer production lines, and once again set a new record in achieving peak output in less than two months. Our agility in deploying capacity enabled 10-nanometer technology to account for approximately 10% of total revenues in 2017.

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

Board of Directors

In 2017, TSMC’s Board of Directors consisted of ten 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 ten members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter L. Bonfield; Co-Founder and Chairman Emeritus of the Acer Group, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; 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. The number of Independent Directors is 50% of the total number of Directors. Two of the members of the Board Directors are female.

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.

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 business operations, all to achieve the best interests for TSMC shareholders.

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

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.
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 shareholders, employees, customers, suppliers, and society in general to fulfill its responsibility as a corporate citizen and to 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 promotions 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 believes in doing sustainable business and practices green manufacturing and green supply chain management. The Company seeks the most efficient use of energy and resources and is committed to reducing waste and preventing pollution. TSMC actively shares its environmental experience and expertise and aims to collaborate with government, academia, and all of society to address the challenges of climate change.

TSMC has set long-term targets for water conservation, waste recycling, energy saving, and greenhouse gas emissions to minimize our environmental impact, and continues to make progress each year towards these goals.

Society

TSMC bears a mission of “uplifting society”, and diligently carries out the responsibilities of a good corporate citizen. In order to reinforce TSMC’s corporate social responsibilities and set a comprehensive mechanism for management, TSMC established the TSMC Charity Foundation in June 2017.
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 2017, we achieved a reduction of 24.7% versus 23.8% in 2016.

In waste reduction, our target is less than 0.30 kg of waste output per 8-inch equivalent layer by 2025. In 2017, we reached 0.36 kg.

In energy conservation, our plan is to reduce power consumption per 8-inch equivalent layer to 12% below 2010 levels by 2020, and in 2017 we reached a 10.4% reduction, progressing from an 8.5% reduction in 2016.

In greenhouse gas emissions, our goal is to reduce emissions per 8-inch equivalent layer to 18% below 2010 levels by 2020, and we achieved a 13% reduction in 2017 versus 10% in 2016.

TSMC’s process technologies also 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. 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. Through the TSMC Charity Foundation, the TSMC Education and Culture Foundation, and the TSMC i-Charity platform, TSMC hopes to provide the disadvantaged in our society with opportunities, long-term support, material aid, and emergency relief.

The TSMC Charity Foundation was established in June 2017 to coordinate the company’s numerous volunteer programs and social engagement efforts, as well as expand the scope of charity projects, and is led by Chairperson Ms. Sophie Chang. The Foundation’s projects include supporting a network of hospitals around Taiwan providing care to elderly people living alone, working with the Ministry of Education to promote the traditional Chinese value of filial piety, and coordinating the diverse volunteer work of TSMC employees.

The TSMC Education and Culture Foundation, led by TSMC Vice Chairman F.C. Tseng, was founded in 1998 to aid the educationally disadvantaged as well as support public engagement with arts and culture. As part of its long-term efforts to address Taiwan’s urban/rural divide in education, the Foundation began to support the nonprofit Teach for Taiwan organization’s Teacher Training Program in 2017 to fulfill the need for qualified teachers in rural regions. This comes in addition to its existing scholarship programs, donations of education resources to schools in remote townships, and tours of Taiwan's National Palace Museum for rural schoolchildren.

"TSMC i-Charity" is an interactive online platform launched in 2014 for employees to proactively take part in philanthropic activities and give back to society. This intranet platform opens a channel for TSMC employees to propose projects, share results, suggest new ideas, and donate time and money.

Through the TSMC Charity Foundation, the TSMC Education and Culture Foundation, and the TSMC i-Charity platform, TSMC hopes to provide the disadvantaged in our society with opportunities, long-term support, material aid, and emergency relief.

Note: (1) 2013 financial statements were prepared in accordance with 2010 Taiwan-IFRS version, 2014-2017 financial statements were prepared in accordance with 2013 Taiwan-IFRS 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$29.659 as of December 31, 2017.
Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
Consolidated Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2013 - 2017
In Millions of New Taiwan Dollars (NTD) and U.S. Dollars (USD), Except for Earnings Per Share

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NTD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Revenue</strong></td>
<td>$32,105</td>
<td>$9,777,447</td>
<td>$8,472,908</td>
<td>$8,431,497</td>
<td>$7,626,806</td>
</tr>
<tr>
<td><strong>Cost of Revenue</strong></td>
<td>(15,852)</td>
<td>(482,621)</td>
<td>(473,108)</td>
<td>(483,150)</td>
<td>(385,064)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>16,253</td>
<td>549,826</td>
<td>349,800</td>
<td>358,347</td>
<td>381,742</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and Development Expenses</td>
<td>(2,452)</td>
<td>(80,731)</td>
<td>(71,208)</td>
<td>(65,540)</td>
<td>(55,826)</td>
</tr>
<tr>
<td>Sales, General and Administrative Expenses</td>
<td>(892)</td>
<td>(21,188)</td>
<td>(26,688)</td>
<td>(22,832)</td>
<td>(22,013)</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>(3,344)</td>
<td>(107,919)</td>
<td>(97,896)</td>
<td>(88,467)</td>
<td>(80,839)</td>
</tr>
<tr>
<td><strong>Other Operating Income and Expenses</strong></td>
<td>(48)</td>
<td>(1,360)</td>
<td>(1,880)</td>
<td>(1,052)</td>
<td>(47)</td>
</tr>
<tr>
<td><strong>Income from Operations</strong></td>
<td>12,664</td>
<td>385,959</td>
<td>377,950</td>
<td>320,048</td>
<td>295,975</td>
</tr>
<tr>
<td><strong>Non-operating Income and Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of Profits of Associates and Joint Ventures</td>
<td>98</td>
<td>2,986</td>
<td>3,495</td>
<td>4,132</td>
<td>3,951</td>
</tr>
<tr>
<td>Net Interest Income (Expenses)</td>
<td>201</td>
<td>6,154</td>
<td>3,011</td>
<td>939</td>
<td>506</td>
</tr>
<tr>
<td>Other Gains and Losses</td>
<td>48</td>
<td>1,484</td>
<td>1,495</td>
<td>2,631</td>
<td>2,764</td>
</tr>
<tr>
<td><strong>Total Non-operating Income and Expenses</strong></td>
<td>145</td>
<td>(1,365)</td>
<td>(1,880)</td>
<td>(1,052)</td>
<td>(47)</td>
</tr>
<tr>
<td><strong>Income before Income Tax</strong></td>
<td>12,811</td>
<td>396,123</td>
<td>385,959</td>
<td>350,420</td>
<td>302,079</td>
</tr>
<tr>
<td><strong>Income Tax Expenses</strong></td>
<td>(1,740)</td>
<td>(53,986)</td>
<td>(51,621)</td>
<td>(43,870)</td>
<td>(38,335)</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>11,071</td>
<td>343,137</td>
<td>334,338</td>
<td>306,556</td>
<td>263,744</td>
</tr>
<tr>
<td><strong>Other Comprehensive Income (Loss) (USD)</strong></td>
<td>(947)</td>
<td>(18,832)</td>
<td>(11,067)</td>
<td>(14,714)</td>
<td>(11,805)</td>
</tr>
<tr>
<td><strong>Comprehensive Income</strong></td>
<td>(10,324)</td>
<td>314,325</td>
<td>323,271</td>
<td>293,842</td>
<td>250,939</td>
</tr>
</tbody>
</table>

Note:
(1) 2013 financial statements were prepared in accordance with 2010 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$30.445 for the year ended December 31, 2017.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
Consolidated Condensed Cash Flow Statements
For the Years Ended December 31, 2013 - 2017
In Millions of New Taiwan Dollars (NTD) and U.S. Dollars (USD)

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
<th>2014 (1)</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NTD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash Flows from Operating Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Before Income Tax</td>
<td>$13,011</td>
<td>$396,133</td>
<td>$385,955</td>
<td>$350,429</td>
<td>$302,079</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>8,955</td>
<td>260,143</td>
<td>222,506</td>
<td>200,252</td>
<td>156,182</td>
</tr>
<tr>
<td>Share of Profits of Associates and Joint Ventures</td>
<td>98</td>
<td>2,986</td>
<td>3,495</td>
<td>4,132</td>
<td>3,951</td>
</tr>
<tr>
<td>Income Tax Paid</td>
<td>(2,089)</td>
<td>(63,620)</td>
<td>(45,943)</td>
<td>(40,943)</td>
<td>(29,918)</td>
</tr>
<tr>
<td>Changes in Working Capital &amp; Others</td>
<td>(140)</td>
<td>(4,352)</td>
<td>(20,514)</td>
<td>2,019</td>
<td>(464,033)</td>
</tr>
<tr>
<td><strong>Net Cash Generated by Operating Activities</strong></td>
<td>19,222</td>
<td>985,310</td>
<td>799,815</td>
<td>529,879</td>
<td>421,524</td>
</tr>
<tr>
<td><strong>Cash Flows from Investing Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Received</td>
<td>313</td>
<td>9,526</td>
<td>6,235</td>
<td>3,642</td>
<td>2,579</td>
</tr>
<tr>
<td>Cash Dividend Received</td>
<td>444</td>
<td>4,891</td>
<td>5,616</td>
<td>4,024</td>
<td>3,642</td>
</tr>
<tr>
<td>Acquisitions of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>(10,850)</td>
<td>(330,688)</td>
<td>(328,045)</td>
<td>(257,517)</td>
<td>(288,545)</td>
</tr>
<tr>
<td>Marketable Financial Instruments</td>
<td>(3,927)</td>
<td>(122,500)</td>
<td>(116,961)</td>
<td>(41,574)</td>
<td>(1,317)</td>
</tr>
<tr>
<td><strong>Financial Assets Carried at Cost</strong></td>
<td>(43)</td>
<td>(1,313)</td>
<td>(2,586)</td>
<td>(23)</td>
<td>(27)</td>
</tr>
<tr>
<td>Proceeds from Disposal or Redemption of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, Plant and Equipment</td>
<td>11</td>
<td>324</td>
<td>98</td>
<td>817</td>
<td>200</td>
</tr>
<tr>
<td>Marketable Financial Instruments</td>
<td>2,870</td>
<td>87,461</td>
<td>40,518</td>
<td>74,293</td>
<td>3,889</td>
</tr>
<tr>
<td>Financial Assets Carried at Cost</td>
<td>2</td>
<td>58</td>
<td>160</td>
<td>369</td>
<td>88</td>
</tr>
<tr>
<td>Investments Accounted for Using Equity Method</td>
<td>5</td>
<td>772</td>
<td>3,472</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>(114)</td>
<td>(3,519)</td>
<td>(2,705)</td>
<td>(3,886)</td>
<td>(1,081)</td>
</tr>
<tr>
<td><strong>Net Cash Used in Investing Activities</strong></td>
<td>(11,042)</td>
<td>(338,190)</td>
<td>(395,440)</td>
<td>(271,246)</td>
<td>(282,525)</td>
</tr>
<tr>
<td><strong>Cash Flows from Financing Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from Financing Activities</td>
<td>Increase (Decrease) in Short-term Loans</td>
<td>341</td>
<td>10,394</td>
<td>18,969</td>
<td>5,129</td>
</tr>
<tr>
<td>Proceeds from Issuance of Bonds</td>
<td>(1,252)</td>
<td>(28,100)</td>
<td>(23,472)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of Long-term Bank Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment of Long-term Bank Loans</td>
<td>(7)</td>
<td>(31)</td>
<td>(9)</td>
<td>-</td>
<td>(63)</td>
</tr>
<tr>
<td>Interest Paid</td>
<td>(114)</td>
<td>(3,483)</td>
<td>(3,202)</td>
<td>(3,159)</td>
<td>(3,193)</td>
</tr>
<tr>
<td>Cash Dividends Paid for Common Stock</td>
<td>(5,962)</td>
<td>(391,513)</td>
<td>(156,882)</td>
<td>(116,683)</td>
<td>(77,786)</td>
</tr>
<tr>
<td>Proceeds from Exercise of Stock Options</td>
<td>34</td>
<td>47</td>
<td>125</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>(97)</td>
<td>(2,964)</td>
<td>(5,596)</td>
<td>(188)</td>
<td>(30,040)</td>
</tr>
<tr>
<td><strong>Net Cash Generated by (Used in) Financing Activities</strong></td>
<td>(17,088)</td>
<td>(215,695)</td>
<td>(157,800)</td>
<td>(116,754)</td>
<td>(32,328)</td>
</tr>
<tr>
<td><strong>Effect of Exchange Rate Changes on Cash and Cash Equivalents and Others</strong></td>
<td>(700)</td>
<td>(21,318)</td>
<td>(8,002)</td>
<td>(8,341)</td>
<td>(8,979)</td>
</tr>
<tr>
<td><strong>Net Increase (Decrease) in Cash and Cash Equivalents</strong></td>
<td>399</td>
<td>12,138</td>
<td>(2,435)</td>
<td>204,240</td>
<td>115,754</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents at Beginning of Period</strong></td>
<td>17,773</td>
<td>541,254</td>
<td>562,689</td>
<td>358,449</td>
<td>242,695</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents at End of Period</strong></td>
<td>$18,172</td>
<td>$553,392</td>
<td>$564,249</td>
<td>$562,689</td>
<td>$368,649</td>
</tr>
</tbody>
</table>

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TSMC Deputy Spokesperson/Corporate
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Title: Senior Director, Corporate Communications
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Email: elizabeth_sun@tsmc.com

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Website: http://www.deloitte.com.tw

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Tel: +886-2-66365566 Fax: +86-2-23167723
Website: http://www.ctbcbank.com

ADR Depositary Bank
Company: Citibank, N.A.
Depositary Receipts Services
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Website: http://www.citi.com/dr
Tel: +1-877-2484237 (toll free)
Tel: +1-212-3243384
Email: 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

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 19, 2018, 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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