【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.

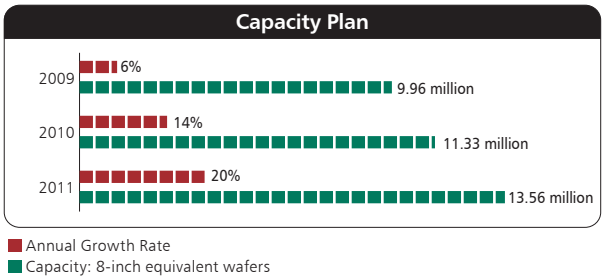
Technological Developments

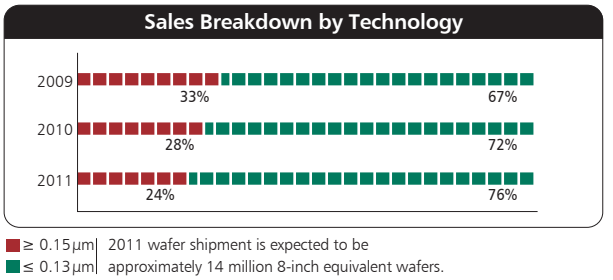
At this time, TSMC's 28-nanometer technology is industry leading and production ready. We have achieved, in the R&D phase, superior performance, reliability and density, which is 2 times over that of 40-nanometer, using our gate-last high-k metal-gate process. A few customer products have already taped 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", 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 the entire 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

February 15, 2011