6.1.5 Long-term Investment Policy and Results

TSMC's long-term investments, accounted for under the equity method, were all made for strategic purposes; however, when the strategic value of an investment is no longer valid, it may be considered a financial investment. In 2012, the investment gain from these investments amounted to NT$8,127,748 thousands (NT$2,028,611 thousands on consolidated basis), increasing significantly compared to 2011 mainly due to the high growth of mobile computing products. For future investments, TSMC will continue to focus on strategic purposes through prudent assessments.

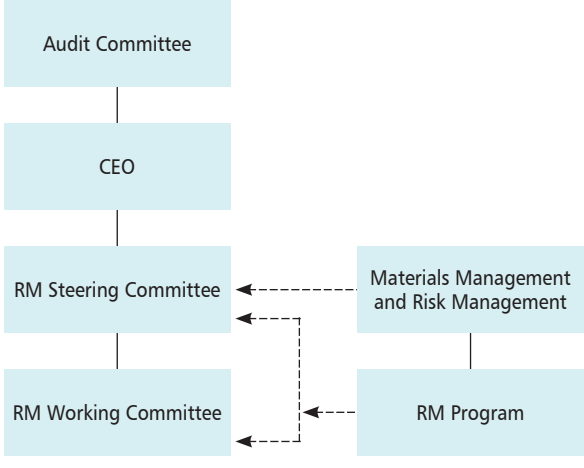
6.2 Risk Management

TSMC and its subsidiaries are committed to proactively and cost effectively integrating and managing strategic, operational, financial and hazardous risks together with potential consequences to operations and revenue. TSMC established its Enterprise Risk Management (ERM) program based on both its corporate vision and its long-term sustainability and responsibility to both industry and society. ERM seeks to provide for the appropriate management of risks by TSMC on behalf of all stakeholders.

To reduce TSMC's supply chain risks, a cross-function taskforce comprised of members from fab operations, material management, risk management and quality system management worked with TSMC's primary suppliers to develop business continuity plans, and effectively manage the risks faced by its suppliers. As a result of those efforts, there was no interruption in TSMC's supply lines in 2012.

As TSMC continued to expand production capacity in 2012, risk treatment practices and green factory projects were initiated and implemented, beginning in the design phase for all new fabs.

6.2.1 Risk Management (RM) Organization Chart



- RM Steering Committee

Reports to Audit Committee;
Is composed of functional heads;
Reviews risk control progress; and
Identifies and approves the prioritized risk lists.

- RM Working Committee

Is composed of representatives from each function;
Aligns functional ERM activities; and
Follows up the risk control action plan.

- RM Program

Coordinates the RM Working Committee activities;
Facilitates functional risk management activities; and
Consolidates ERM reports into the RM Steering Committee.

6.2.2 Strategic Risks

Industry Developments

The electronics industries and semiconductor market have historically been cyclical and subject to significant, and often rapid, increases and decreases in product demand. TSMC's semiconductor foundry business is affected by market conditions in such highly cyclical electronics and semiconductor industries, within which most of its customers operate. Variations in order levels from customers result in volatility in the Company's revenues and earnings.

From time to time, the electronics industries and semiconductor industries have experienced significant, and sometimes prolonged, periods of downturns and overcapacity. Because TSMC is, and will continue to be, dependent on the requirements of electronics and semiconductor companies for its services, periods of downturn and overcapacity in the general electronics and semiconductor industries could lead to reduced demand for overall semiconductor foundry services, including TSMC's services. If it cannot take appropriate actions such as reducing TSMC's costs to sufficiently offset declines in demand, the Company's revenues, margins and earnings will suffer during periods of downturn and overcapacity. Furthermore, due to the increasingly complex technological nature of its products and services and the ever uncertain global economic environment, TSMC may need to provide higher accounting provisions on potential sales returns and allowances by its customers that may adversely affect the results of its operations.

Changes in Technology

The semiconductor industry and its technologies are constantly changing. TSMC competes by developing process technologies using increasingly advanced nodes and on manufacturing products with more functions. TSMC also competes by developing new derivative technologies. If it does not anticipate these changes in