

1. Letter to Shareholders

Dear Shareholders,

2015 was a record-breaking year for TSMC, in which we achieved record revenue and profits and made important technology breakthroughs in the face of a challenging business environment for the semiconductor industry worldwide. In 2015, lingering issues of a weakening global economy, stronger US Dollar and financial market volatility dampened the overall demand for semiconductors and lengthened the inventory adjustment cycle, but TSMC continued to reap the benefits of the progress we made in technology and manufacturing. TSMC's leadership in technology, coupled with our ability to provide the right capacity for customers at the right time, was a major factor in our ability to outperform our semiconductor industry peers in 2015.

In addition to doubling the 20-nanometer business from the 2014 level, TSMC also saw successful introduction and record ramp-up speed for our industry-leading 16-nanometer FinFET process. The 16-nanometer and the 20-nanometer nodes together contributed 20 percent of our 2015 wafer revenue, up from 9 percent in 2014. In addition, we continued making good progress toward achieving the next major industry milestone, 10-nanometer capability and the development of 7-nanometer technology. With improvements in yield learning and device performance, we now anticipate to start customer 10-nanometer product tape-outs in the first quarter of 2016.

Despite rising technological complexity and higher capital requirements, TSMC continues to follow the cadence and the economy of process technology advancement, known as "Moore's Law". Moore's Law has already put high-powered computing and globe-spanning communications into the pockets of ordinary people around the world and made ICs powerful and affordable that they can connect mundane objects around us into intelligent networks. TSMC is dedicated to continued investment in the R&D and advanced capacity necessary to not only benefit from the march of Moore's Law, but also to keep driving it forward.

Highlights of TSMC's accomplishments in 2015:

- Total wafer shipments increased 6.1 percent from 2014 to reach 8,763 thousand 12-inch equivalent wafers.
- Advanced technologies (28-nanometer and beyond) accounted for 48 percent of total wafer revenue, up from 42 percent in 2014.
- We deployed 228 process technologies, and manufactured 8,941 products for 470 customers.
- TSMC's market share in the total semiconductor foundry segment rose successively during the last six years and reached 55 percent in 2015.

2015 Financial Performance

Consolidated revenue totaled NT\$843.50 billion, an increase of 10.6 percent over NT\$762.81 billion in 2014. Net income was NT\$306.57 billion and diluted earnings per share were NT\$11.82. Both increased 16 percent from the 2014 level of NT\$263.90 billion net income and NT\$10.18 diluted EPS.

In US dollars, TSMC generated net income of US\$9.67 billion on consolidated revenue of US\$26.61 billion, compared with net income of US\$8.71 billion on consolidated revenue of US\$25.17 billion in 2014.

Gross profit margin was 48.7 percent compared with 49.5 percent in 2014, and operating profit margin was 37.9 percent compared with 38.8 percent a year earlier. Net profit margin was 36.3 percent, an increase of 1.7 percentage points from the prior year's 34.6 percent, aided by non-operating items, including NT\$22.1 billion gain from disposal of ASML shares.

TSMC increased its cash dividend payment to NT\$4.5 per share for 2014 profit distribution, up from NT\$3 over the last eight years, to reflect rising free cash flow generation. We are confident in our ability to maintain a sustainable level of cash dividend to our shareholders going forward and will consider increasing the dividends if and when it is appropriate.

Technological Developments

Five years into volume production of 28-nanometer technology, TSMC continued to make innovations and introduced 28HPC and 28HPC+ to its industry-leading 28-nanometer technology platform in 2015. These latest additions enable smaller die size circuit designs with higher performance and lower power consumption. Because TSMC's 28-nanometer solutions are highly competitive in both technology and cost, we saw increasing number of customer product tape-outs in 2015 and believe we should be able to maintain our substantial (above 70 percent) market share in this significant node in the next few years.

Our 20nm process paved the way for the successful introduction and production ramp-up of our 16FF+ technology in 2015, with yield ramping ahead of plan. Customers have been active in engaging with TSMC and nearly 40 product tape-outs were scheduled before the end of 2015. Drawing on our experience in 16FF+, we completed the development of a highly competitive and cost-effective solution, 16FFC, which incorporates optical shrink and process simplification for further die cost scaling and is directly transferrable from 16FF+. Volume ramp of 16FFC is expected to begin in 2016. Both 16FF+ and 16FFC are positioned to drive future growth with high volume applications across mobile, networking, CPU, FPGA, consumer and GPUs.

In 2015, we completed technology qualification for 10-nanometer and it is on track to meet the goal of production start-up in 2016. TSMC's 7-nanometer technology was in full development in 2015 and is on track for risk production in the first half of 2017. It shares more than 95 percent common tools with our 10-nanometer process and offers substantial density improvement and power reduction given the same chip performance. Our 5-nanometer node is undergoing definition with intensive advanced development efforts. Exploratory R&D work focusing on new transistors and technologies is on-going to establish a solid foundation to feed into future technology platforms.

Our advanced 3D IC packaging InFO technology that integrates 16-nanometer SoC and DRAM package for advanced mobile products was successfully qualified in 2015 and is expected to start volume production by mid-2016.

Meanwhile, we continued to expand TSMC's Open Innovation Platform (OIP), which is the most comprehensive design ecosystem in the semiconductor industry. In 2015, more than 10,000 items were contained in our libraries and silicon IP portfolio, an 18 percent increase from 2014. More than 7,500 technology files and over 200 process design kits were available to customers via TSMC-Online which saw more than 100,000 customer downloads in 2015.

Corporate Developments

In January 2015, TSMC's board of directors approved the sale of TSMC Solid State Lighting to Epistar. Upon the closing of the sale, TSMC completely exited the LED industry.

In August 2015, TSMC announced that TSMC Solar would cease manufacturing operations by end of that month, as we believed that our solar business was no longer economically sustainable. All outstanding warranties to existing customers will be honored, and all Taiwan employees were extended employment offers at TSMC.

In December 2015, TSMC submitted an application to the Investment Commission of Taiwan's Ministry of Economic Affairs (MoEA) to build a wholly-owned 12-inch wafer manufacturing facility and to start a design service center in Nanjing, China. The purpose is to enhance our access to business opportunities in China market. Pending approval from the MoEA, the investment project will commence in 2016 with production targeted in second half of 2018.

Honors and Awards

TSMC received recognitions for achievements in innovation, business information disclosure, sustainability, investor relations and overall excellence in management from organizations including *Barron's*, *FinanceAsia*, *Fortune Magazine*, *Institutional Investor*, *IR Magazine*, *GlobalViews Magazine*, *CommonWealth Magazine*, RobecoSAM and the Taiwan Stock Exchange. The IEEE Spectrum Magazine gave TSMC the highest score in its 2015 Patent Power Scorecard in the semiconductor manufacturing sector. For the

third consecutive year, TSMC was named Semiconductor and Semiconductor Equipment Industry Group Leader by the Dow Jones Sustainability Indices, reflecting our commitment to sustainability and corporate social responsibility.

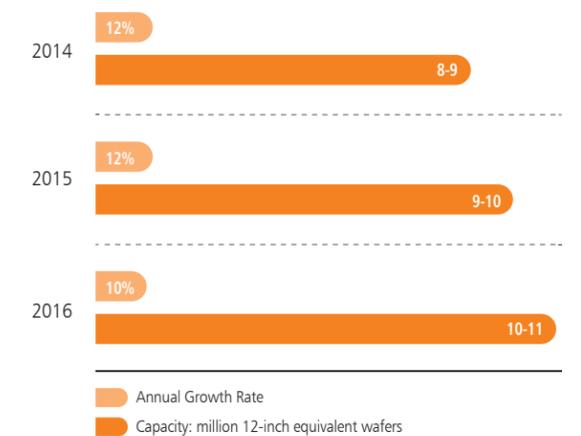
Outlook

TSMC pioneered the dedicated foundry business model nearly 30 years ago by being committed to delivering technology leadership and manufacturing excellence with an unmatched focus on earning customers' trust. We forecast the recovery in the global economy will lead to growth for the semiconductor industry in 2016. More importantly, TSMC's firm dedication to our business model will enable us to outgrow considerably the semiconductor industry in both 2016 and beyond, just as we have consistently done throughout our history.

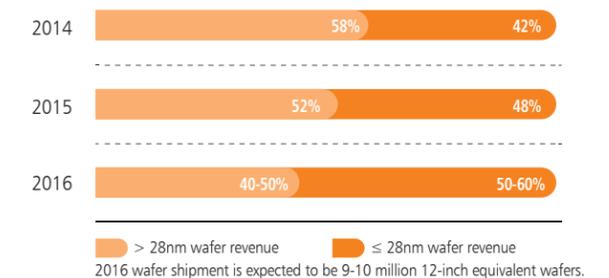
Despite product cycle ebbs and flows, semiconductors have been and will remain a basic and pervasive technology, defining how we live. Innovators have not stopped finding ways to create new applications and services that open up undiscovered opportunities. The rise of connected or smart devices in smart cars, drones, robots, virtual reality/augmented reality, artificial intelligence and wearables is creating a need for significant increases in processor speeds and capability. At TSMC, we are working with our customers to drive these emerging innovations to market over the coming years.



Capacity Plan



Sales Plan



Being everyone's foundry has been a key part of our core strategy, and we will continue to commit resources to technology development and capacity build for both the Moore's Law and the More than Moore technologies. As we carry out our mission as the trusted technology and capacity provider for the global logic IC industry, we are well positioned to deliver strong returns to our shareholders for years to come.

Morris Chang
Morris Chang
Chairman