



# Our Business

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# About TSMC

## Headquarters

Hsinchu Science Park, Taiwan

## Founded in

1987

## Number of Employees

48,752



# 7 years

The 7<sup>th</sup> consecutive year of record high revenue, net income, and earnings per share

# 56%

The 9<sup>th</sup> consecutive year of market share growth, reaching 56% in global market share

In the face of a dramatically changing global political and economic environment, TSMC has always strived to be the most reliable collaborative partner for its customers, and is unwavering in its commitment to strengthening technology leadership and being an outstanding manufacturer. TSMC's consolidated sales reached NT\$1,031.47 billion in 2018, and global market share reached a record high of 56% after 9 years of continuous growth. With its leading and diverse portfolio of manufacturing technologies, TSMC provides the most advanced and comprehensive semiconductor application solutions to maintain its leading position in the industry. In addition, TSMC upholds a responsible business philosophy, collaborates with both upstream and downstream partners to foster sustainable development, and works to make progress in the dimensions of economy, environment, and society. TSMC aspires to be an uplifting force for the common good of society.

# 1

The world's largest wafer capacity provider for logic ICs

# 1

The world's first semiconductor foundry to reach volume production of 7nm process technology, leading industry by one year

# 1

The world's first semiconductor foundry to reach volume production of 5G wireless network chips

TSMC operates in regions including Taiwan, North America, Europe, Japan, China, and South Korea with wafer fabs, subsidiaries, and offices. TSMC Nanjing Co. Ltd. began to provide additional 12-inch wafer capacity in 2018.

# 481 customers

TSMC produced 10,436 different products for 481 customers through 261 process technologies.

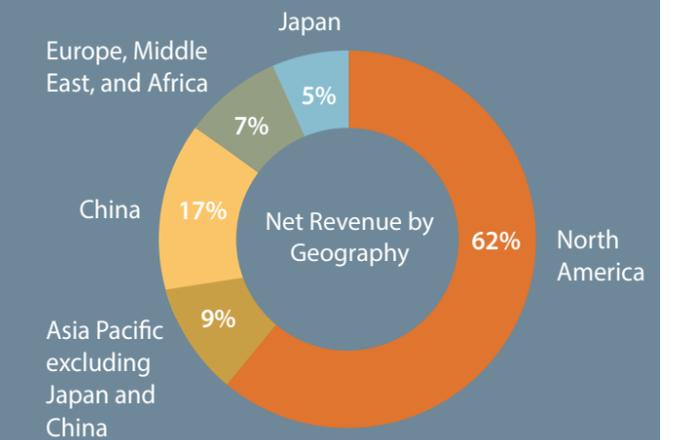
# >12 million wafers

Annual production capacity owned and managed by TSMC and its subsidiaries exceeded 12 million 12-inch equivalent wafers.

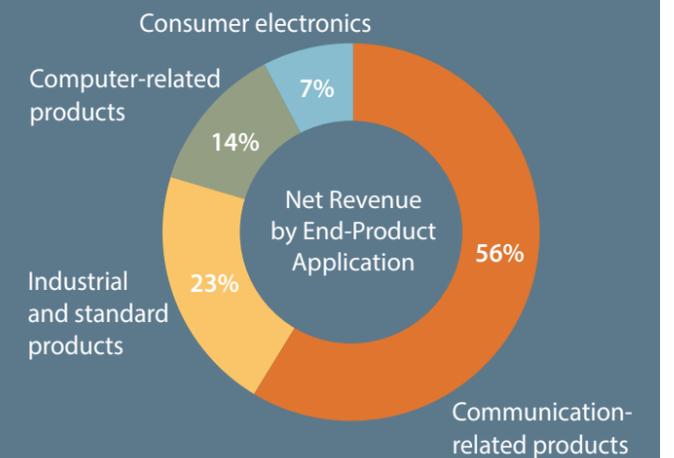
# 63%

Advanced processes at 28nm and beyond generated 63% of revenue compared to 58% in 2017.

## Net Revenue by Geography



## Net Revenue by End-Product Application



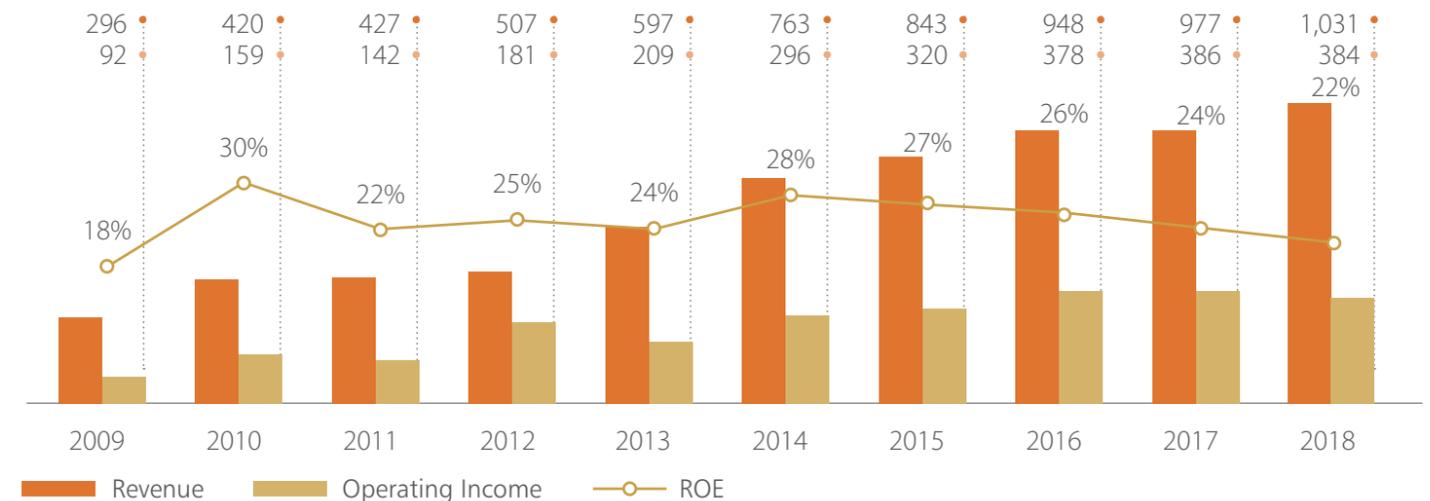
# Financial Performance

Good financial performance is the key to corporate sustainability. TSMC pursues good financial performance mainly through revenue growth and consistent improvement in profitability, to create greater economic value for its stakeholders, including shareholders, employees, customers, suppliers, government, society, and others. To help investors better understand TSMC's long-term investment value, TSMC has set clear strategic financial objectives: (1) average return on equity (ROE) to be at least 20% across cycles; (2) compound annual growth rate of net income to be between 5% and 10% for the years 2015 through 2020.

In 2018, TSMC's ROE reached 22.0%; revenue growth calculated in NT dollars reached 5.5%, while net income growth was 2.3%. Net income growth in 2018 was lower than the long-term target as capacity utilization was impacted by (1) excess inventory in the global semiconductor supply chain, (2) macroeconomic uncertainties and (3) product seasonality in certain end markets. Despite these short-term challenges, TSMC believes the ongoing megatrends of 5G and AI will fuel the future development of the semiconductor industry, and mobile devices, high-performance computing, automotive electronics and the Internet of Things (IoT) markets will continue to drive the Company's long-term growth. Therefore, the Company still expects to achieve its strategic financial objectives.

## Financial Performance

Unit: NT\$ billion



To maintain good financial performance, TSMC adopts four strategies to increase long-term investment value: (1) continue to invest in process technologies and capacity, (2) maintain trusting relationships with customers, (3) pursue growth in revenue and in market segment share, and (4) maintain or improve profitability and investment returns.



AA-

Standard & Poor's (S&P) Ratings

Aa3

Moody's Ratings

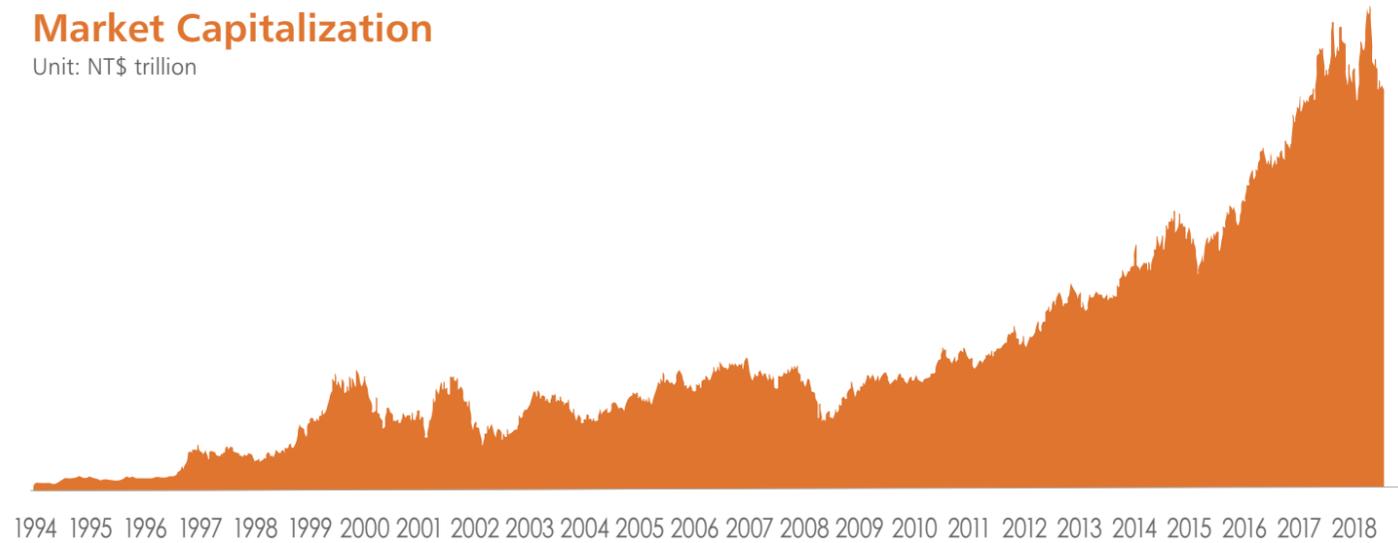
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Taiwan Ratings



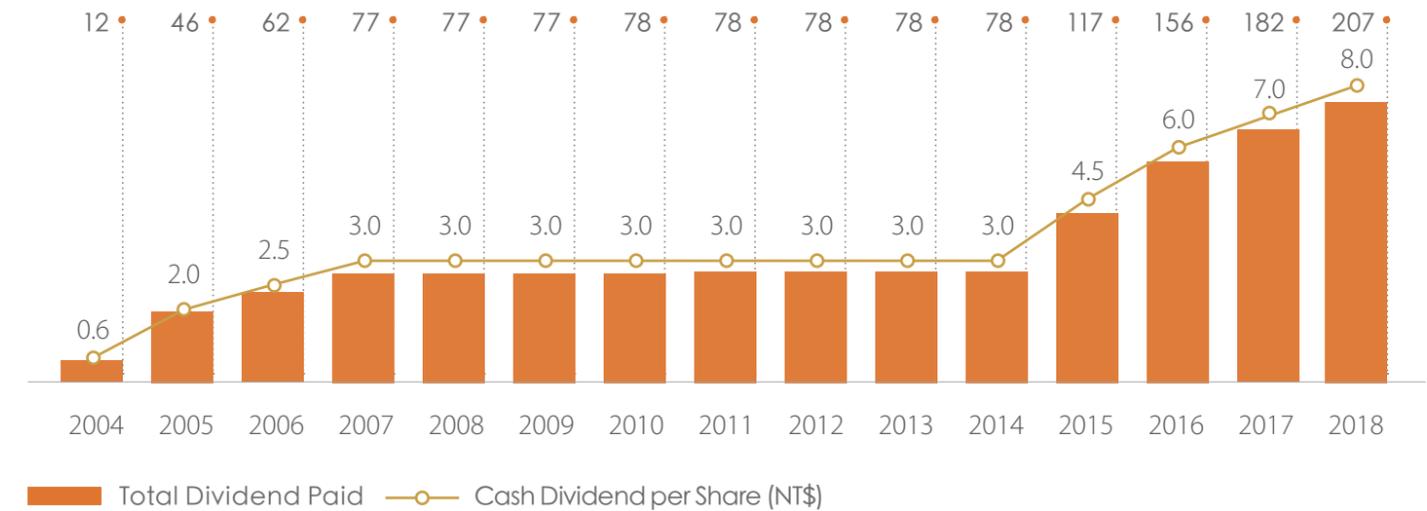
## Market Capitalization

Unit: NT\$ trillion



## Cash Dividend

Unit: NT\$ billion



Supported by solid operating performance and future growth potential, TSMC's share price, adjusted for cash dividends, increased 1.8% in 2018, marking 10 consecutive years of annual growth. Since the Company went public in 1994, TSMC has been profitable every year and TSMC's market capitalization has grown steadily. As of December 31, 2018, TSMC's market capitalization reached NT\$5.8 trillion, or US\$190 billion.

TSMC's solid financial performance enables the Company to distribute profits to shareholders in the form of annual cash dividends. From 2004 to 2018, TSMC has paid out nearly NT\$1.4 trillion, or US\$45 billion, in cash dividends.

In the future, TSMC intends to maintain a stable dividend policy and to return about 70% of free cash flow to shareholders every year by distributing quarterly dividends. As the Company's business continues to grow and generates greater amounts of free cash flow, TSMC remains committed to a sustainable cash dividends on both an annual and quarterly basis.

In June 2019, TSMC held an annual shareholders' meeting (AGM) to approve the Board's proposed NT\$8 cash dividend per share for full-year 2018 and the revision of the Articles of Incorporation to adopt quarterly dividends. Under the authorization of the AGM, the Board also approved a NT\$2 cash dividend per share for first quarter 2019. Therefore, TSMC's shareholders will receive a total of NT\$10 per share in cash dividends in 2019.

**25%**

10-Year Averaged ROE  
(2009-2018)

**13%**

10-Year Net Income CAGR  
(2009-2018)

**5.8** trillion (NT\$)

Market Capitalization at the End  
of 2018

**1.8%**

Total Shareholder Return in 2018

**1.4** trillion (NT\$)

Cumulative Cash Dividends from  
2004 to 2018

**10** per share (NT\$)

Total Cash Dividend Payments  
in 2019

# Tax Policy

TSMC supports tax policies and incentives that encourage innovation and foster economic growth. We aim for our tax approach to be transparent and sustainable over the long term.

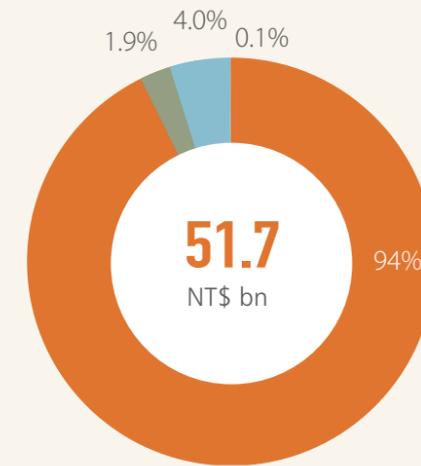
## Our Commitments

- Act at all times in accordance with all applicable laws and regulations.
- Inter-company transactions are based on the arm's length principle, in compliance with internationally accepted transfer pricing guidance published by the OECD.
- Be transparent in financial reporting. Disclosures are made in accordance with applicable regulations and reporting requirements.
- Do not use tax havens or tax structures whose sole purpose is for tax avoidance.
- Do not transfer value created to low-tax jurisdictions.
- Develop strong, mutually respectful relationships with tax authorities based on transparency and trust.
- Always consider tax as part of major business decisions.
- Analyze the operating environment and assess tax risk through corporate management mechanism.

## Tax Risk Management and Effective Tax Rate

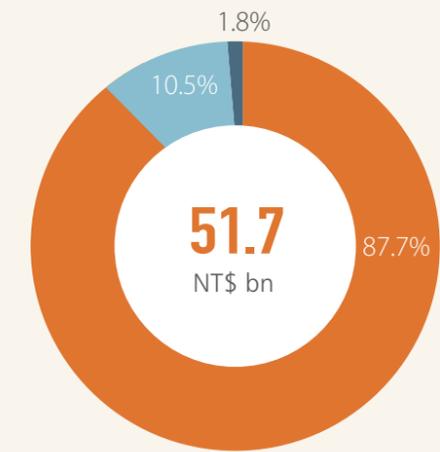
- We are subject to tax laws and regulations in various jurisdictions in which we operate or conduct business. Any unfavorable changes of tax laws and regulations in these jurisdictions could increase our effective tax rate and have an adverse effect on our operating results. We have established an enterprise risk management (ERM) program to manage the tax risks. For more details on risk management, please refer to "Risk Management" section in TSMC's 2018 Annual Report.
- Our effective tax rate in 2018 was 11.7%, lower than 13.4% in 2017, mainly due to lower surtax imposed on unappropriated earnings. In addition, the effective tax rate in 2018 was lower than the R.O.C. statutory corporate income tax rate of 20%, due primarily to a five-year tax exemption for capital investments made in previous years, and tax credit for research and development expenditures.

## 2018 Taxes Paid Breakdown <sup>Note</sup>



- Taiwan R.O.C.
- Asia (excluding R.O.C.)
- North America
- Others

Note We categorize our tax paid geographically based on the country in which TSMC and subsidiaries are located.



- Corporate Income Tax
- Labor and Health Insurance, Social Security
- Others

**51.7** bn (NT\$)

In 2018, TSMC's total tax payments on a cash basis worldwide were NT\$51.7 billion.

**>90%**

In 2018, over 90% of TSMC's revenue and operating profit were generated from our business operations in Taiwan. At the same time, over 90% of our tax payments were also made to the R.O.C. government.

**1**

Based on data provided by "Bloomberg Professional", TSMC was the largest corporate income taxpayer among all public listed companies in Taiwan in 2018.

**7.6%**

TSMC's 2018 income tax payment in Taiwan represented 7.6% of total corporate income taxes collected by the R.O.C. government.