

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
August 19, 2014

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2014

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No

(If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82: .)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Taiwan Semiconductor Manufacturing Company Ltd.

Date: August 19, 2014

By /s/ Lora Ho
Lora Ho
Senior Vice President & Chief Financial Officer

**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2014 and 2013 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of June 30, 2014 and 2013 and the related consolidated statements of comprehensive income for the three months ended June 30, 2014 and 2013 and for the six months ended June 30, 2014 and 2013, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2014 and 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, Interim Financial Reporting, endorsed by the Financial Supervisory Commission of the Republic of China.

August 12, 2014

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and consolidated financial statements shall prevail.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

| ASSETS | June 30, 2014 (Reviewed) | | December 31, 2013 (Audited) | | June 30, 2013 (Reviewed) | |
|--|-----------------------------|----|--------------------------------|----|-----------------------------|----|
| | Amount | % | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | \$ 255,053,573 | 19 | \$ 242,695,447 | 19 | \$ 225,832,646 | 20 |
| Financial assets at fair value through profit or loss (Note 7) | 158,265 | - | 90,353 | - | 20,010 | - |
| Available-for-sale financial assets (Note 8) | 59,082,482 | 4 | 760,793 | - | 1,070,537 | - |
| Held-to-maturity financial assets (Note 9) | 299,230 | - | 1,795,949 | - | 700,576 | - |
| Notes and accounts receivable, net (Note 11) | 86,424,428 | 7 | 71,649,926 | 6 | 79,742,708 | 7 |
| Receivables from related parties (Note 32) | 462,732 | - | 291,708 | - | 597,623 | - |
| Other receivables from related parties (Note 32) | 2,875,842 | - | 221,576 | - | 2,433,325 | - |
| Inventories (Note 12) | 50,954,265 | 4 | 37,494,893 | 3 | 38,614,928 | 3 |
| Other financial assets (Note 33) | 957,366 | - | 501,785 | - | 710,741 | - |
| Other current assets (Note 17) | 2,931,372 | - | 2,984,224 | - | 2,739,259 | - |
| Total current assets | 459,199,555 | 34 | 358,486,654 | 28 | 352,462,353 | 30 |
| NONCURRENT ASSETS | | | | | | |
| Available-for-sale financial assets (Note 8) | - | - | 58,721,959 | 5 | 49,581,219 | 4 |
| Financial assets carried at cost (Note 13) | 2,017,528 | - | 2,145,591 | - | 3,667,697 | 1 |
| Investments accounted for using equity method (Note 14) | 26,355,811 | 2 | 28,316,260 | 2 | 25,012,840 | 2 |
| Property, plant and equipment (Note 15) | 837,167,426 | 63 | 792,665,913 | 63 | 715,595,036 | 61 |
| Intangible assets (Note 16) | 11,433,307 | 1 | 11,490,383 | 1 | 11,142,323 | 1 |
| Deferred income tax assets (Notes 4 and 27) | 5,009,457 | - | 7,239,609 | 1 | 8,667,948 | 1 |
| Refundable deposits (Note 32) | 2,476,534 | - | 2,519,031 | - | 2,412,290 | - |
| Other noncurrent assets (Note 17) | 1,385,149 | - | 1,469,577 | - | 1,343,748 | - |

| | | | | | | |
|-------------------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
| Total noncurrent assets | 885,845,212 | 66 | 904,568,323 | 72 | 817,423,101 | 70 |
| TOTAL | \$ 1,345,044,767 | 100 | \$ 1,263,054,977 | 100 | \$ 1,169,885,454 | 100 |

LIABILITIES AND EQUITY**CURRENT LIABILITIES**

| | | | | | | |
|--|--------------------|-----------|--------------------|-----------|--------------------|-----------|
| Short-term loans (Note 18) | \$ 34,705,206 | 3 | \$ 15,645,000 | 1 | \$ 31,466,400 | 3 |
| Financial liabilities at fair value through profit or loss (Note 7) | 19,418 | - | 33,750 | - | 136,515 | - |
| Hedging derivative financial liabilities (Note 10) | 4,282,501 | - | - | - | - | - |
| Accounts payable | 20,015,515 | 1 | 14,670,260 | 1 | 14,391,539 | 1 |
| Payables to related parties (Note 32) | 1,681,781 | - | 1,688,456 | - | 811,195 | - |
| Salary and bonus payable | 7,806,935 | 1 | 8,330,956 | 1 | 7,135,399 | 1 |
| Accrued profit sharing to employees and bonus to directors and supervisors (Note 22) | 20,100,855 | 1 | 12,738,801 | 1 | 17,366,804 | 1 |
| Payables to contractors and equipment suppliers | 34,657,746 | 3 | 89,810,160 | 7 | 60,883,767 | 5 |
| Cash dividends payable (Note 22) | 77,785,851 | 6 | - | - | 77,773,307 | 7 |
| Income tax payable (Notes 4 and 27) | 17,585,111 | 1 | 22,563,286 | 2 | 11,125,990 | 1 |
| Provisions (Note 19) | 7,709,195 | 1 | 7,603,781 | 1 | 6,289,117 | 1 |
| Accrued expenses and other current liabilities (Note 21) | 20,284,963 | 1 | 16,693,484 | 1 | 16,251,434 | 1 |
| Total current liabilities | 246,635,077 | 18 | 189,777,934 | 15 | 243,631,467 | 21 |

NONCURRENT LIABILITIES

| | | | | | | |
|--|--------------------|-----------|--------------------|-----------|--------------------|-----------|
| Hedging derivative financial liabilities (Note 10) | 1,277,058 | - | 5,481,616 | - | 1,813,291 | - |
| Bonds payable (Note 20) | 210,869,059 | 16 | 210,767,625 | 17 | 169,801,262 | 14 |
| Long-term bank loans | 40,000 | - | 40,000 | - | - | - |
| Other long-term payables (Note 21) | 18,000 | - | 36,000 | - | 36,000 | - |
| Obligations under finance leases | 745,391 | - | 776,230 | - | 760,186 | - |
| Accrued pension cost (Note 4) | 7,589,543 | 1 | 7,589,926 | 1 | 6,917,104 | 1 |
| Others (Note 19) | 910,345 | - | 810,561 | - | 689,873 | - |
| Total noncurrent liabilities | 221,449,396 | 17 | 225,501,958 | 18 | 180,017,716 | 15 |
| Total liabilities | 468,084,473 | 35 | 415,279,892 | 33 | 423,649,183 | 36 |

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE

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| | | | | | | |
|---|-------------------------|------------|-------------------------|------------|-------------------------|------------|
| PARENT | | | | | | |
| Capital stock (Note 22) | 259,293,750 | 19 | 259,286,171 | 21 | 259,283,058 | 22 |
| Capital surplus (Note 22) | 56,026,837 | 4 | 55,858,626 | 4 | 55,828,587 | 5 |
| Retained earnings (Note 22) | | | | | | |
| Appropriated as legal capital reserve | 151,250,682 | 11 | 132,436,003 | 11 | 132,436,003 | 11 |
| Appropriated as special capital reserve | - | - | 2,785,741 | - | 2,785,741 | - |
| Unappropriated earnings | 396,729,648 | 30 | 382,971,408 | 30 | 286,801,018 | 25 |
| | 547,980,330 | 41 | 518,193,152 | 41 | 422,022,762 | 36 |
| Others (Note 22) | 13,485,597 | 1 | 14,170,306 | 1 | 8,777,348 | 1 |
| Equity attributable to shareholders of the parent | 876,786,514 | 65 | 847,508,255 | 67 | 745,911,755 | 64 |
| NONCONTROLLING INTERESTS (Note 22) | | | | | | |
| | 173,780 | - | 266,830 | - | 324,516 | - |
| Total equity | 876,960,294 | 65 | 847,775,085 | 67 | 746,236,271 | 64 |
| TOTAL | \$ 1,345,044,767 | 100 | \$ 1,263,054,977 | 100 | \$ 1,169,885,454 | 100 |

The accompanying notes are an integral part of the consolidated financial statements.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

| | For the Three Months Ended June 30 | | | | For the Six Months Ended June 30 | | | |
|--|------------------------------------|-----|----------------|-----|----------------------------------|-----|----------------|-----|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| NET REVENUE | | | | | | | | |
| (Notes 24, 32 and 37) | \$ 183,020,484 | 100 | \$ 155,886,320 | 100 | \$ 331,235,656 | 100 | \$ 288,641,316 | 100 |
| COST OF REVENUE (Notes 12, 29 and 32) | 91,823,190 | 50 | 79,467,520 | 51 | 169,659,283 | 51 | 151,456,246 | 52 |
| GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES | 91,197,294 | 50 | 76,418,800 | 49 | 161,576,373 | 49 | 137,185,070 | 48 |
| REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES | (4,369) | - | 3,386 | - | 16,648 | - | 6,926 | - |
| GROSS PROFIT | 91,192,925 | 50 | 76,422,186 | 49 | 161,593,021 | 49 | 137,191,996 | 48 |
| OPERATING EXPENSES (Notes 29 and 32) | | | | | | | | |
| Research and development | 13,609,070 | 7 | 11,941,871 | 8 | 25,675,692 | 8 | 22,592,856 | 8 |
| General and administrative | 5,407,864 | 3 | 5,685,570 | 3 | 10,063,535 | 3 | 10,381,090 | 4 |
| Marketing | 1,234,821 | 1 | 1,164,693 | 1 | 2,387,523 | 1 | 2,194,492 | 1 |
| | 20,251,755 | 11 | 18,792,134 | 12 | 38,126,750 | 12 | 35,168,438 | 13 |

Total operating expenses

| | | | | | | | | |
|---|-------------|-----|------------|-----|-------------|----|-------------|----|
| OTHER OPERATING INCOME AND EXPENSES, NET | | | | | | | | |
| (Notes 15 and 29) | (227,251) | - | (970) | - | (229,992) | - | 33,533 | - |
| INCOME FROM OPERATIONS | | | | | | | | |
| (Note 37) | 70,713,919 | 39 | 57,629,082 | 37 | 123,236,279 | 37 | 102,057,091 | 35 |
| NON-OPERATING INCOME AND EXPENSES | | | | | | | | |
| Share of profits of associates and joint venture | | | | | | | | |
| | 1,047,626 | - | 1,059,504 | 1 | 2,003,006 | - | 1,713,657 | 1 |
| Other income | | | | | | | | |
| | 1,316,583 | 1 | 1,009,064 | 1 | 1,930,282 | - | 1,355,385 | 1 |
| Foreign exchange gain (loss), net | | | | | | | | |
| | (355,207) | - | 640,998 | - | (391,608) | - | 448,084 | - |
| Finance costs (Note 25) | | | | | | | | |
| | (801,450) | - | (635,340) | (1) | (1,598,030) | - | (1,129,338) | - |
| Other gains and losses (Note 26) | | | | | | | | |
| | 2,176,649 | 1 | 313,371 | - | 2,220,033 | 1 | 1,319,714 | - |
| Total non-operating income and expenses | | | | | | | | |
| | 3,384,201 | 2 | 2,387,597 | 1 | 4,163,683 | 1 | 3,707,502 | 2 |
| INCOME BEFORE INCOME TAX | | | | | | | | |
| | 74,098,120 | 41 | 60,016,679 | 38 | 127,399,962 | 38 | 105,764,593 | 37 |
| INCOME TAX EXPENSE (Notes 4 and 27) | | | | | | | | |
| | 14,438,263 | 8 | 8,255,176 | 5 | 19,894,327 | 6 | 14,467,547 | 5 |
| NET INCOME | | | | | | | | |
| | 59,659,857 | 33 | 51,761,503 | 33 | 107,505,635 | 32 | 91,297,046 | 32 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | | | | | |
| (Notes 22 and 27) | | | | | | | | |
| Exchange differences arising on translation of foreign operations | | | | | | | | |
| | (3,052,142) | (2) | 1,172,141 | 1 | (220,761) | - | 4,075,894 | 1 |
| Changes in fair value of available-for-sale | | | | | | | | |
| | (31,156) | - | 4,669,793 | 3 | (446,601) | - | 7,495,485 | 3 |

| | | | | | | | | |
|--|----------------------|-----------|----------------------|-----------|-----------------------|-----------|-----------------------|-----------|
| financial assets | | | | | | | | |
| Share of other comprehensive income (loss) of associates and joint venture | (1,274) | - | (191,994) | - | (6,021) | - | (56,871) | - |
| Income tax benefit (expense) related to components of other comprehensive income | (14,079) | - | (29) | - | (11,123) | - | 43,210 | - |
| Other comprehensive income (loss) for the period, net of income tax | (3,098,651) | (2) | 5,649,911 | 4 | (684,506) | - | 11,557,718 | 4 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | \$ 56,561,206 | 31 | \$ 57,411,414 | 37 | \$ 106,821,129 | 32 | \$ 102,854,764 | 36 |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | | | | | | | |
| Shareholders of the parent | \$ 59,702,284 | 33 | \$ 51,807,725 | 33 | \$ 107,573,029 | 32 | \$ 91,384,601 | 32 |
| Noncontrolling interests | (42,427) | - | (46,222) | - | (67,394) | - | (87,555) | - |
| | \$ 59,659,857 | 33 | \$ 51,761,503 | 33 | \$ 107,505,635 | 32 | \$ 91,297,046 | 32 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | | | | | |
| Shareholders of the parent | \$ 56,604,654 | 31 | \$ 57,487,048 | 37 | \$ 106,888,320 | 32 | \$ 102,942,434 | 36 |
| Noncontrolling interests | (43,448) | - | (75,634) | - | (67,191) | - | (87,670) | - |
| | \$ 56,561,206 | 31 | \$ 57,411,414 | 37 | \$ 106,821,129 | 32 | \$ 102,854,764 | 36 |

| | For the Three Months Ended | | For the Six Months Ended | |
|---|----------------------------|------------|--------------------------|------------|
| | June 30 | | June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | Income Attributable to | | Income Attributable to | |
| | Shareholders of | | Shareholders of | |
| | the Parent | the Parent | the Parent | the Parent |
| EARNINGS PER SHARE (NT\$, Note 28) | | | | |
| Basic earnings per share | \$ 2.30 | \$ 2.00 | \$ 4.15 | \$ 3.52 |
| Diluted earnings per share | \$ 2.30 | \$ 2.00 | \$ 4.15 | \$ 3.52 |

The accompanying notes are an integral part of the consolidated financial statements.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

(Reviewed, Not Audited)

| Capital Surplus | Equity Attributable to Shareholders of the Parent | | | | Foreign Currency Translation Reserve | Others Unrealized Gain/Loss from Available- for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
|--------------------|---|-------------------------------|----------------------------|----------------|---|--|-----------------------------------|-------------|
| | Legal Capital Reserve | Special Capital Reserve | Retained Earnings | | | | | |
| | | | Unappropriated Earnings | Total | | | | |
| 5,858,626 | \$ 132,436,003 | \$ 2,785,741 | \$ 382,971,408 | \$ 518,193,152 | \$ (7,140,362) | \$ 21,310,781 | \$ (113) | \$ 14,170,3 |
| - | 18,814,679 | - | (18,814,679) | - | - | - | - | - |
| - | - | (2,785,741) | 2,785,741 | - | - | - | - | - |
| - | - | - | (77,785,851) | (77,785,851) | - | - | - | - |
| - | 18,814,679 | (2,785,741) | (93,814,789) | (77,785,851) | - | - | - | - |
| - | - | - | 107,573,029 | 107,573,029 | - | - | - | - |
| - | - | - | - | - | (223,663) | (461,136) | 90 | (684,7 |

| | | | | | | | | |
|-----------|----------------|--------------|----------------|----------------|-----------------|---------------|---------|-------------|
| - | - | - | 107,573,029 | 107,573,029 | (223,663) | (461,136) | 90 | (684,7 |
| 25,908 | - | - | - | - | - | - | - | - |
| (2,273) | - | - | - | - | - | - | - | - |
| 164,310 | - | - | - | - | - | - | - | - |
| (19,734) | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 6,026,837 | \$ 151,250,682 | \$ - | \$ 396,729,648 | \$ 547,980,330 | \$ (7,364,025) | \$ 20,849,645 | \$ (23) | \$ 13,485,5 |
| 5,675,340 | \$ 115,820,123 | \$ 7,606,224 | \$ 284,985,121 | \$ 408,411,468 | \$ (10,753,806) | \$ 7,973,321 | \$ - | \$ (2,780,4 |
| - | 16,615,880 | - | (16,615,880) | - | - | - | - | - |
| - | - | (4,820,483) | 4,820,483 | - | - | - | - | - |

| | | | | | | | | |
|--------|------------|-------------|--------------|--------------|-----------|-----------|---|----------|
| - | - | - | (77,773,307) | (77,773,307) | - | - | - | - |
| - | 16,615,880 | (4,820,483) | (89,568,704) | (77,773,307) | - | - | - | - |
| - | - | - | 91,384,601 | 91,384,601 | - | - | - | - |
| - | - | - | - | - | 4,017,456 | 7,540,377 | - | 11,557,8 |
| - | - | - | 91,384,601 | 91,384,601 | 4,017,456 | 7,540,377 | - | 11,557,8 |
| 71,474 | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 14,845 | - | - | - | - | - | - | - | - |
| 66,928 | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |

| | | | | | | | | | |
|-----------|----------------|--------------|----------------|----------------|----------------|---------------|------|------------|---|
| - | - | - | - | - | - | - | - | - | - |
| 5,828,587 | \$ 132,436,003 | \$ 2,785,741 | \$ 286,801,018 | \$ 422,022,762 | \$ (6,736,350) | \$ 15,513,698 | \$ - | \$ 8,777,3 | |

The accompanying notes are an integral part of the consolidated financial statements.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | Six Months Ended June 30 | |
|---|---------------------------------|----------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 127,399,962 | \$ 105,764,593 |
| Adjustments for: | | |
| Depreciation expense | 86,338,443 | 73,519,241 |
| Amortization expense | 1,263,048 | 1,071,590 |
| Stock option compensation cost of subsidiary | - | 5,312 |
| Finance costs | 1,598,030 | 1,129,338 |
| Share of profits of associates and joint venture | (2,003,006) | (1,713,657) |
| Interest income | (1,292,325) | (852,693) |
| Gain on disposal of property, plant and equipment and intangible assets, net | (15,325) | (29,365) |
| Impairment loss of property, plant and equipment | 239,864 | - |
| Impairment loss of financial assets | - | 45,716 |
| Gain on disposal of available-for-sale financial assets, net | (134,020) | (990,713) |
| Gain on disposal of financial assets carried at cost, net | (52,694) | (4,573) |
| Loss (gain) on disposal of investments accounted for using equity method | (2,028,643) | 731 |
| Gain on deconsolidation of subsidiary | - | (293,578) |
| Realized gross profit on sales to associates | (16,648) | (6,926) |
| Loss on foreign exchange, net | 1,646,248 | 446,110 |
| Dividend income | (637,957) | (502,692) |
| Income from receipt of equity securities in settlement of trade receivables | (1,211) | (9,590) |
| Loss from hedging instruments | 589,243 | 1,937,366 |
| Gain arising from changes in fair value of available-for-sale financial assets in hedge effective portion | (78,109) | (1,657,824) |
| Changes in operating assets and liabilities: | | |
| Derivative financial instruments | (82,244) | 140,919 |
| Notes and accounts receivable, net | (14,774,504) | (22,223,842) |
| Receivables from related parties | (171,024) | (510,193) |
| Other receivables from related parties | 13,258 | (19,275) |
| Inventories | (13,459,372) | (997,563) |
| Other financial assets | (389,931) | (64,259) |
| Other current assets | 70,323 | (90,235) |
| Accounts payable | 5,331,172 | 281,081 |
| Payables to related parties | (6,675) | (27,167) |
| Salary and bonus payable | (524,021) | (311,632) |
| Accrued profit sharing to employees and bonus to directors and supervisors | 7,362,054 | 6,180,213 |

| | | |
|--|-----------|-----------|
| Accrued expenses and other current liabilities | 2,915,319 | 2,647,510 |
| Provisions | 113,564 | 280,544 |
| Accrued pension cost | (383) | (1,194) |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

| | Six Months Ended June 30 | |
|---|---------------------------------|----------------------|
| | 2014 | 2013 |
| Cash generated from operations | \$ 199,212,436 | \$ 163,143,293 |
| Income taxes paid | (22,602,632) | (14,334,965) |
| Net cash generated by operating activities | 176,609,804 | 148,808,328 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Available-for-sale financial assets | (91,592) | (10,102) |
| Financial assets carried at cost | (3,773) | (16,616) |
| Held-to-maturity financial assets | (1,396,723) | - |
| Property, plant and equipment | (188,233,322) | (158,818,884) |
| Intangible assets | (1,204,154) | (1,477,481) |
| Other assets | - | (30,721) |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | 473,520 | 2,032,100 |
| Held-to-maturity financial assets | 2,900,000 | 4,445,850 |
| Financial assets carried at cost | 62,445 | 11,696 |
| Investments accounted for using equity method | 3,471,883 | - |
| Property, plant and equipment | 114,987 | 111,008 |
| Cash refund from other long-term receivables | 161,900 | - |
| Costs from entering into hedging transactions | (520,856) | (143,982) |
| Interest received | 1,248,110 | 689,878 |
| Other dividends received | 629,843 | 493,557 |
| Refundable deposits paid | (25,460) | (23,124) |
| Refundable deposits refunded | 59,041 | 52,333 |
| Net cash outflow from deconsolidation of subsidiary (Note 30) | - | (979,910) |
| Net cash used in investing activities | (182,354,151) | (153,664,398) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term loans | 19,220,278 | (4,087,493) |

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| | | |
|---|-------------------|-------------------|
| Proceeds from issuance of bonds | - | 89,644,821 |
| Increase in long-term bank loans | - | 650,000 |
| Repayment of long-term bank loans | - | (62,500) |
| Interest paid | (889,467) | (374,202) |
| Guarantee deposits received | 10,374 | 12,114 |
| Guarantee deposits refunded | (3,742) | (53,881) |
| Decrease in obligations under finance leases | (28,426) | (27,796) |
| Proceeds from exercise of employee stock options | 33,487 | 110,175 |
| Increase (decrease) in noncontrolling interests | (45,527) | 217,860 |
| Net cash generated by financing activities | 18,296,977 | 86,029,098 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

| | Six Months Ended June 30 | |
|--|---------------------------------|----------------|
| | 2014 | 2013 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | \$ (194,504) | \$ 1,249,030 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,358,126 | 82,422,058 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 242,695,447 | 143,410,588 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 255,053,573 | \$ 225,832,646 |

The accompanying notes are an integral part of the consolidated financial statements.

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED June 30, 2014 and 2013

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. TSMC is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks.

On September 5, 1994, TSMC's shares were listed on the Taiwan Stock Exchange (TWSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

The address of its registered office and principal place of business is No. 8, Li-Hsin Rd. 6, Hsinchu Science Park, Taiwan. The principal operating activities and operating segments information of TSMC and its subsidiaries (collectively as the Company) are described in Notes 4 and 37.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were reported to the Board of Directors and issued on August 12, 2014.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

As of the date that the accompanying consolidated financial statements were issued, the Company has not applied the following International Financial Reporting Standards, International Accounting Standards (IASs), Interpretations of International Financial Reporting Standards (IFRIC), and Interpretations of IAS (SIC) issued by the International Accounting Standards Board (IASB) (collectively, IFRSs).

- a. The 2013 IFRSs version in issue but not yet effective

On April 3, 2014, according to Rule No. 1030010325 issued by the Financial Supervisory Commission (FSC), the following 2013 IFRSs version endorsed by the FSC (collectively, 2013 Taiwan-IFRSs version) should be adopted by the Company starting 2015.

| New, Revised or Amended Standards and Interpretations | Effective Date Issued by IASB (Note) |
|--|--|
| Amendments to IFRSs Improvements to IFRSs 2009 - Amendment to IAS 39 | January 1, 2009 or January 1, 2010 |
| Amendment to IAS 39 Embedded Derivatives | Effective in fiscal year ended on or after June 30, 2009 |

(Continued)

| New, Revised or Amended Standards and Interpretations | Effective Date Issued by IASB (Note) |
|--|---|
| Improvements to IFRSs 2010 | July 1, 2010 or January 1, 2011 |
| Annual Improvements to IFRSs 2009 - 2011 Cycle | January 1, 2013 |
| Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First - time Adopters | July 1, 2010 |
| Amendment to IFRS 7 Disclosures - offsetting Financial Assets and Financial Liabilities | January 1, 2013 |
| Amendment to IFRS 7 Disclosures - Transfers of Financial Assets | July 1, 2011 |
| IFRS 10 Consolidated Financial Statements | January 1, 2013 |
| IFRS 11 Joint Arrangements | January 1, 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | January 1, 2013 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities: Transition Guidance | January 1, 2013 |
| Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities | January 1, 2014 |
| IFRS 13 Fair Value Measurement | January 1, 2013 |
| Amendment to IAS 1 Presentation of Items of Other Comprehensive Income | July 1, 2012 |
| Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets | January 1, 2012 |
| Amendment to IAS 19 Employee Benefits | January 1, 2013 |
| Amendment to IAS 27 Separate Financial Statements | January 1, 2013 |
| Amendment to IAS 28 Investments in Associates and Joint Ventures | January 1, 2013 |
| Amendment to IAS 32 Offsetting of Financial Assets and Financial Liabilities | January 1, 2014 |

(Concluded)

Note: The aforementioned new, revised or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

Except for the following items, the Company believes that the adoption of aforementioned 2013 Taiwan-IFRSs version will not have a significant effect on the Company's consolidated financial statements.

1) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 is a standard that requires a broader disclosure in an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated entities. The objective of IFRS 12 is to specify the disclosure information provided by the entity that enables the users of financial statements in evaluating the nature of, and risks associated with, its interests in other entities and the effects of those interests on the entity's financial assets and liabilities, as well as the involvement of the owners of noncontrolling interests towards the entity. The Company expects the application of IFRS 12 will result in more extensive disclosures of interests in other entities in the financial statements.

2) IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The measurement requirements of IFRS 13 shall be applied prospectively starting 2015.

3) Amendments to IAS 1, Presentation of Items of Other Comprehensive Income

According to the amendments to IAS 1, the items of other comprehensive income will be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis. The aforementioned allocation basis will not be strictly enforced prior to the adoption of amendments.

Starting 2015, the Company will adopt the aforementioned amendments to prepare the consolidated statements of comprehensive income. The items that will not be reclassified subsequently to profit or loss are expected to include actuarial gains or losses from defined benefit plans, the share of actuarial gains or losses from defined benefit plans of associates and joint venture as well as the related income tax on such items. Items that will be reclassified subsequently to profit or loss are expected to include exchange differences arising on translation of foreign operations, changes in fair value of available-for-sale financial assets, cash flow hedges, the share of other comprehensive income of associates and joint venture as well as the related income tax on items of other comprehensive income (except for the share of actuarial gains or losses from defined benefit plans).

4) Amendments to IAS 19, Employee Benefits

The amendments to IAS 19 require the Company to calculate a net interest amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on planned assets used in current IAS 19. In addition, the amendments eliminate the accounting treatment of either corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs, and instead, required to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis. In addition, the amendments also require a broader disclosure in defined benefit plans.

According to the retrospective application of aforementioned amendments, as of June 30, 2014 and January 1, 2014, the primary impacts on the Company include the adjustment in accrued pension cost for a decrease of NT\$779,136 thousand and NT\$788,263 thousand, respectively, and the adjustment in retained earnings for an increase of NT\$691,572 thousand and NT\$698,762 thousand, respectively.

b. The IFRSs issued by IASB but not endorsed by FSC

The Company has not applied the following IFRSs issued by the IASB but not endorsed by the FSC. As of the date that the consolidated financial statements were issued, the initial adoption to the following standards and interpretations is still subject to the effective date to be published by the FSC.

| New, Revised or Amended Standards and Interpretations | Effective Date Issued by IASB (Note) |
|--|---|
| Annual Improvements to IFRSs 2010 - 2012 Cycle | July 1, 2014 or transactions on or after July 1, 2014 |
| Annual Improvements to IFRSs 2011 - 2013 Cycle | July 1, 2014 |
| IFRS 9 Financial Instruments | January 1, 2018 |
| | January 1, 2018 |

Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and
Transition Disclosure

Amendment to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations January 1, 2016

IFRS 15 Revenue from Contracts with Customers January 1, 2017

(Continued)

| New, Revised or Amended Standards and Interpretations | Effective Date Issued |
|---|------------------------------|
| | by IASB (Note) |
| Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | January 1, 2016 |
| Amendment to IAS 19 Defined Benefit Plans: Employee Contributions | July 1, 2014 |
| Amendment to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets | January 1, 2014 |
| Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting | January 1, 2014 |
| | (Concluded) |

Note: The aforementioned new, revised or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

Except for the following, the initial application of the above new standards and interpretations has not had any material impact on the Company's accounting policies:

1) IFRS 9, Financial Instruments

All recognized financial assets currently in the scope of IAS 39, Financial Instruments: Recognition and Measurement, will be subsequently measured at either the amortized cost or the fair value. The classification and measurement requirements in IFRS 9 are stated as follows:

For the debt instruments invested by the Company, if the contractual cash flows that are solely for payments of principal and interest on the principal amount outstanding, the classification and measurement requirements are stated as follows:

- a) If the objective of the Company's business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss should be recognized in profit and loss.
- b) If the objective of the Company's business model is to hold the financial asset both to collect the contractual cash flows and to sell the financial assets, such assets are measured at fair value through other comprehensive income. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment. A gain or loss on a financial asset measured at fair value through other comprehensive income should be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses.

The other financial assets which do not meet the aforementioned criteria should be measured at the fair value through profit or loss. However, the Company may irrevocably designate an investment in equity instruments that is not held for trading as measured at fair value through other comprehensive income. All relevant gains and losses shall be recognized in other comprehensive income, except for dividends which are recognized in profit or loss. No subsequent

impairment assessment is required.

IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. A loss allowance for expected credit losses should be recognized on financial assets measured at amortized cost and financial assets mandatorily measured at fair value through other comprehensive income. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Company should measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk on a financial instrument has increased significantly since initial recognition, the Company should measure the loss allowance for that financial instrument at an amount equal to the lifetime expected credit losses. The Company should always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

The main change in IFRS 9 is the increase of the eligibility of hedge accounting. It allows reporters to reflect risk management activities in the financial statements more closely as it provides more opportunities to apply hedge accounting. A fundamental difference to IAS 39 is that IFRS 9 (a) increases the scope of hedged items eligible for hedge accounting. For example, the risk components of non-financial items may be designated as hedging accounting; (b) revises a new way to account for the gain or loss recognition arising from hedging derivative financial instruments, which results in a less volatility in profit or loss; and (c) is necessary for there to be an economic relationship between the hedged item and hedging instrument instead of performing the retrospective hedge effectiveness testing.

2) IFRS 15, Revenue from Contracts with Customers

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations.

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 is effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 clarify that the Company is only required to disclose the recoverable amount in the period of impairment accrual or reversal. Moreover, if the recoverable amount of impaired assets is based on fair value less costs of disposal, the Company should also disclose the discount rate used. The Company expects the aforementioned amendments will result in a broader disclosure of recoverable amount for non-financial assets.

Except for the aforementioned impact, as of the date that the accompanying consolidated financial statements were reported for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the other standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2013.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and IAS 34, Interim Financial Reporting, endorsed by the FSC. The consolidated financial statements do not present all the disclosures required for a complete set of annual consolidated financial statements prepared under Taiwan-IFRSs.

Basis of Consolidation

The basis for the consolidated financial statements

The basis for the consolidated financial statements applied in these consolidated financial statements is consistent with those applied in the consolidated financial statements for the year ended December 31, 2013.

The subsidiaries in the consolidated financial statements

The detail information of the subsidiaries at the end of reporting period was as follows:

| Name of Investor | Name of Investee | Main Businesses and Products | Establishment and Operating Location | Percentage of Ownership | | | Note |
|------------------|-------------------------------------|--|--------------------------------------|-------------------------|-------------------|---------------|------|
| | | | | June 30, 2014 | December 31, 2013 | June 30, 2013 | |
| TSMC | TSMC North America | Selling and marketing of integrated circuits and semiconductor devices | San Jose, California, U.S.A. | 100% | 100% | 100% | - |
| | TSMC Japan Limited (TSMC Japan) | Marketing activities | Yokohama, Japan | 100% | 100% | 100% | a) |
| | TSMC Partners, Ltd. (TSMC Partners) | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | Tortola, British Virgin Islands | 100% | 100% | 100% | - |
| | TSMC Korea Limited (TSMC Korea) | Customer service and technical supporting activities | Seoul, Korea | 100% | 100% | 100% | a) |
| | TSMC Europe B.V. (TSMC Europe) | Marketing and engineering supporting activities | Amsterdam, the Netherlands | 100% | 100% | 100% | a) |
| | TSMC Global, Ltd. (TSMC Global) | Investment activities | Tortola, British Virgin Islands | 100% | 100% | 100% | - |

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| | | | | | | | |
|---------------|--|---|-------------------|-------|-------|-------|--|
| | TSMC China Company Limited (TSMC China) | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | Shanghai, China | 100% | 100% | 100% | - |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | 98% | 50% | 50% | b) |
| | VentureTech Alliance Fund II, L.P. (VTAF II) | Investing in new start-up technology companies | Cayman Islands | 98% | 98% | 98% | - |
| | Emerging Alliance Fund, L.P. (Emerging Alliance) | Investing in new start-up technology companies | Cayman Islands | 99.5% | 99.5% | 99.5% | a) |
| | TSMC Solid State Lighting Ltd. (TSMC SSL) | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | Hsin-Chu, Taiwan | 92% | 92% | 92% | TSMC and TSMC GN aggregately have a controlling interest of 94% in TSMC SSL. |
| | TSMC Solar Ltd. (TSMC Solar) | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | Tai-Chung, Taiwan | 99% | 99% | 99% | TSMC and TSMC GN aggregately have a controlling interest of 99% in TSMC Solar. |
| | TSMC Guang Neng Investment, Ltd. (TSMC GN) | Investment activities | Taipei, Taiwan | 100% | 100% | 100% | a) |
| TSMC Partners | TSMC Design Technology Canada Inc. (TSMC Canada) | Engineering support activities | Ontario, Canada | 100% | 100% | 100% | a) |
| | TSMC Technology, Inc. (TSMC Technology) | Engineering support activities | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| | | Investment activities | | 100% | 100% | 100% | - |

TSMC
Development,
Inc. (TSMC
Development)

Delaware,
U.S.A.

(Continued)

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| Name of Investor | Name of Investee | Main Businesses and Products | Establishment and Operating Location | Percentage of Ownership | | | Note |
|---|---|---|--------------------------------------|-------------------------|-------------------|---------------|--------|
| | | | | June 30, 2014 | December 31, 2013 | June 30, 2013 | |
| TSMC Partners | InveStar Semiconductor Development Fund, Inc. (ISDF) | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | 97% | a) |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | 97% | a) |
| TSMC Development | WaferTech, LLC (WaferTech) | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | Washington, U.S.A. | 100% | 100% | 100% | - |
| VTAF III | Mutual-Pak Technology Co., Ltd. (Mutual-Pak) | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | Taipei, Taiwan | 58% | 58% | 58% | a) |
| | Growth Fund Limited (Growth Fund) | Investing in new start-up technology companies | Cayman Islands | 100% | 100% | 100% | a) |
| VTAF III, VTAF II and Emerging Alliance | VentureTech Alliance Holdings, LLC (VTA Holdings) | Investing in new start-up technology companies | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| TSMC SSL | TSMC Lighting North America, Inc. (TSMC Lighting NA) | Selling and marketing of solid state lighting related products | Delaware, U.S.A. | 100% | 100% | 100% | a), c) |
| TSMC Solar | TSMC Solar North America, Inc. (TSMC Solar NA) | Selling and marketing of solar related products | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| | TSMC Solar Europe B.V. (TSMC Solar Europe) | Investing in solar related business | Amsterdam, the Netherlands | 100% | 100% | 100% | a), d) |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | - | 49% | 49% | b) |
| TSMC Solar Europe | TSMC Solar Europe GmbH | Selling of solar related products and providing customer service | Hamburg, Germany | 100% | 100% | 100% | a), d) |

Note a: This is an immaterial subsidiary for which the consolidated financial statements are not reviewed by the Company's independent accountants.

Note b: According to the agreement among TSMC, TSMC Solar and VTAF III, each of the investment held by VTAF III is separately owned by TSMC and TSMC Solar. As the investment owned by VTAF III, which is indirectly owned by TSMC Solar, has entered into liquidation process due to bankruptcy and the bankruptcy trustee confirmed that no residual assets could be reimbursed to the shareholders, in the second quarter of 2014, TSMC Solar's percentage of ownership over VTAF III has decreased to nil. Consequently, TSMC's percentage of ownership over VTAF III has been adjusted to 98%.

Note c: To simplify overseas investment structure, in the second quarter of 2014, the Board of Directors of TSMC SSL approved to file for the liquidation of TSMC Lighting NA. The liquidation procedure is expected to be processed in the third quarter of 2014.

Note d: To simplify overseas investments structure, in the second quarter of 2014, the Board of Directors of TSMC Solar approved to file for the liquidation of TSMC Solar Europe. After the liquidation, TSMC Solar Europe GmbH, the 100% owned subsidiary of TSMC Solar Europe, will be held directly by TSMC Solar. The liquidation procedure is expected to be processed in third quarter of 2014.

Retirement Benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION AND UNCERTAINTY

The same critical accounting judgments and key sources of estimates and uncertainty have been followed in these consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2013.

6. CASH AND CASH EQUIVALENTS

| | June 30, | December 31, | June 30, |
|---|-----------------|---------------------|-----------------|
| | 2014 | 2013 | 2013 |
| Cash and deposits in banks | \$ 243,638,487 | \$ 238,014,580 | \$ 223,809,009 |
| Commercial paper | 5,036,633 | - | - |
| Repurchase agreements collateralized by corporate bonds | 3,613,365 | 1,809,344 | 1,635,358 |
| Repurchase agreements collateralized by short-term commercial paper | 1,708,393 | 2,395,644 | 199,899 |
| Repurchase agreements collateralized by government bonds | 1,056,695 | 475,879 | 188,380 |
| | \$ 255,053,573 | \$ 242,695,447 | \$ 225,832,646 |

Deposits in banks consisted of highly liquid time deposits that were readily convertible to known amounts of cash and which were subject to an insignificant risk of changes in value.

7. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | June 30, | December 31, | June 30, |
|--|-----------------|---------------------|-----------------|
| | 2014 | 2013 | 2013 |
| <u>Derivative financial assets</u> | | | |
| Cross currency swap contracts | \$ 94,358 | \$ - | \$ 2,758 |
| Forward exchange contracts | 63,907 | 90,353 | 17,252 |
| | \$ 158,265 | \$ 90,353 | \$ 20,010 |
| <u>Derivative financial liabilities</u> | | | |
| Cross currency swap contracts | \$ 10,751 | \$ 4,177 | \$ 1,331 |
| Forward exchange contracts | 8,667 | 29,573 | 135,184 |

\$ 19,418 \$ 33,750 \$ 136,515

The Company entered into derivative contracts to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|----------------------|--------------------------|---|
| <u>June 30, 2014</u> | | |
| Sell EUR/Buy US\$ | July 2014 | EUR2,130/ US\$2,900 |
| Sell NT\$/Buy JPY | July 2014 | NT\$190,637/JPY650,000 |
| Sell NT\$/Buy US\$ | July 2014 | NT\$1,291,583/ US\$43,100 |
| Sell US\$/Buy EUR | July 2014 | US\$81,794/EUR60,000 |
| Sell US\$/Buy JPY | July 2014 | US\$407,388/JPY41,429,419 |
| Sell US\$/Buy NT\$ | July 2014 | US\$60,000/NT\$1,801,440 |
| Sell US\$/Buy RMB | July 2014 to August 2014 | US\$132,000/RMB823,267 |

(Continued)

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------------|-------------------------------|---|
| December 31, 2013 | | |
| Sell NT\$/Buy EUR | January 2014 | NT\$4,514,314/EUR110,000 |
| Sell NT\$/Buy US\$ | January 2014 | NT\$683,749/US\$22,800 |
| Sell US\$/Buy EUR | January 2014 | US\$340,134/EUR248,000 |
| Sell US\$/Buy JPY | January 2014 | US\$341,023/JPY35,754,801 |
| Sell US\$/Buy RMB | January 2014 to February 2014 | US\$138,000/RMB841,492 |
| June 30, 2013 | | |
| Sell NT\$/Buy US\$ | July 2013 | NT\$534,830/US\$17,800 |
| Sell US\$/Buy EUR | July 2013 | US\$386,201/EUR296,000 |
| Sell US\$/Buy JPY | July 2013 | US\$308,877/JPY30,237,970 |
| Sell US\$/Buy NT\$ | July 2013 | US\$75,000/NT\$2,252,825 |
| Sell US\$/Buy RMB | July 2013 to August 2013 | US\$99,000/RMB610,816 |

(Concluded)

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|--------------------------|---|---|---|
| June 30, 2014 | | | |
| July 2014 | NT\$2,461,848/US\$82,080 | - | 0.20%-0.48% |
| July 2014 to August 2014 | US\$870,000/NT\$26,093,255 | 0.25%-1.92% | - |
| December 31, 2013 | | | |
| January 2014 | NT\$1,639,215/US\$55,080 | - | 1.03%-2.00% |
| June 30, 2013 | | | |
| July 2013 | NT\$1,200,176/US\$40,080 | - | 0.24%-0.35% |

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

June 30, December 31, June 30,

| | 2014 | 2013 | 2013 |
|------------------------|---------------|---------------|---------------|
| Publicly traded stocks | \$ 59,082,115 | \$ 59,481,569 | \$ 50,643,339 |
| Money market funds | 367 | 1,183 | 8,417 |
| | \$ 59,082,482 | \$ 59,482,752 | \$ 50,651,756 |
| Current portion | \$ 59,082,482 | \$ 760,793 | \$ 1,070,537 |
| Noncurrent portion | - | 58,721,959 | 49,581,219 |
| | \$ 59,082,482 | \$ 59,482,752 | \$ 50,651,756 |

In the second quarter of 2014, the Company reclassified some publicly traded stocks from non-current asset to current asset since the lock-up period will end within a year.

9. HELD-TO-MATURITY FINANCIAL ASSETS

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|------------------------|------------------|----------------------|------------------|
| <u>Current portion</u> | | | |
| Commercial paper | \$ 299,230 | \$ 1,795,949 | \$ - |
| Corporate bonds | - | - | 700,576 |
| | \$ 299,230 | \$ 1,795,949 | \$ 700,576 |

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--|------------------|----------------------|------------------|
| <u>Financial liabilities- current</u> | | | |
| Fair value hedges | | | |
| Stock forward contracts | \$ 4,282,501 | \$ - | \$ - |
| <u>Financial liabilities- noncurrent</u> | | | |
| Fair value hedges | | | |
| Stock forward contracts | \$ 1,277,058 | \$ 5,481,616 | \$ 1,813,291 |

The Company's investments in publicly traded stocks are exposed to the risk of market price fluctuations. Accordingly, the Company entered into stock forward contracts to sell shares at a contracted price determined by specific percentage of the spot price on the trade date in a specific future period in order to hedge the fair value risk caused by changes in equity prices.

The outstanding stock forward contracts consisted of the following:

| June 30, | June 30, |
|----------|----------|
|----------|----------|

| | 2014 | December 31, 2013 | 2013 |
|-------------------------------------|-----------------|------------------------------|---------------|
| Contract amount (US\$ in thousands) | \$ 52,874,969 | \$ 37,431,626 | \$ 14,753,429 |
| | (US\$1,771,000) | (US\$1,256,095) | (US\$492,306) |

11. NOTES AND ACCOUNTS RECEIVABLE, NET

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|------------------------------------|--------------------------|------------------------------|--------------------------|
| Notes and accounts receivable | \$ 86,911,018 | \$ 72,136,514 | \$ 80,229,317 |
| Allowance for doubtful receivables | (486,590) | (486,588) | (486,609) |
| Notes and accounts receivable, net | \$ 86,424,428 | \$ 71,649,926 | \$ 79,742,708 |

In principle, the payment term granted to customers is due 30 days from the invoice date or 30 days from the end of the month of when the invoice is issued. The allowance for doubtful receivables is assessed by reference to the collectability of receivables by performing the account aging analysis, historical experience and current financial condition of customers.

Except for those impaired, for the rest of the notes and accounts receivable, the account aging analysis at the end of the reporting period is summarized in the following table. Notes and accounts receivable include amounts that are past due but for which the Company has not recognized a specific allowance for doubtful receivables after the assessment since there has not been a significant change in the credit quality of its customers and the amounts are still considered recoverable.

Aging analysis of notes and accounts receivable, net

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|-------------------------------|------------------|----------------------|------------------|
| Neither past due nor impaired | \$ 78,140,966 | \$ 64,112,564 | \$ 71,025,800 |
| Past due but not impaired | | | |
| Past due within 30 days | 8,283,462 | 7,537,362 | 8,716,908 |
| | \$ 86,424,428 | \$ 71,649,926 | \$ 79,742,708 |

Movements of the allowance for doubtful receivables

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|---|--|--|------------|
| Balance at January 1, 2014 | \$ 8,058 | \$ 478,530 | \$ 486,588 |
| Provision | 17,220 | 4,495 | 21,715 |
| Reversal | - | (21,715) | (21,715) |
| Effect of exchange rate changes | - | 2 | 2 |
| Balance at June 30, 2014 | \$ 25,278 | \$ 461,312 | \$ 486,590 |
| Balance at January 1, 2013 | \$ 137,336 | \$ 342,876 | \$ 480,212 |
| Provision | - | 117,018 | 117,018 |
| Reversal | (107,433) | (121) | (107,554) |
| Effect of deconsolidation of subsidiary | (3,157) | - | (3,157) |
| Effect of exchange rate changes | 1,660 | (1,570) | 90 |

| | | | |
|--------------------------|-----------|------------|------------|
| Balance at June 30, 2013 | \$ 28,406 | \$ 458,203 | \$ 486,609 |
|--------------------------|-----------|------------|------------|

Aging analysis of accounts receivable that is individually determined as impaired

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|------------------------|--------------------------|------------------------------|--------------------------|
| Not past due | \$ - | \$ 38 | \$ 30,724 |
| Past due 1-30 days | 17,326 | 276 | 3,780 |
| Past due 31-60 days | 334 | 80 | - |
| Past due 61-120 days | - | 158 | - |
| Past due over 121 days | 7,618 | 7,824 | - |
| | \$ 25,278 | \$ 8,376 | \$ 34,504 |

The Company held bank guarantees and other credit enhancements as collateral for certain impaired accounts receivables. As of June 30, 2014, December 31, 2013 and June 30, 2013, the amount of the bank guarantee and other credit enhancements were nil, NT\$318 thousand (US\$11 thousand) and NT\$6,098 thousand (US\$203 thousand), respectively.

12. INVENTORIES

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--------------------------|------------------|----------------------|------------------|
| Finished goods | \$ 5,379,673 | \$ 7,245,209 | \$ 4,603,940 |
| Work in process | 40,510,250 | 26,033,625 | 28,701,406 |
| Raw materials | 3,152,079 | 2,435,269 | 3,474,178 |
| Supplies and spare parts | 1,912,263 | 1,780,790 | 1,835,404 |
| | \$ 50,954,265 | \$ 37,494,893 | \$ 38,614,928 |

Write-down of inventories to net realizable value was included in the cost of revenue, which was as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------|----------------------------|------------|--------------------------|------------|
| | 2014 | 2013 | 2014 | 2013 |
| Inventory losses | \$ 933,574 | \$ 332,110 | \$ 1,523,608 | \$ 237,169 |

13. FINANCIAL ASSETS CARRIED AT COST

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|----------------------------|------------------|----------------------|------------------|
| Non-publicly traded stocks | \$ 1,736,734 | \$ 1,865,078 | \$ 3,372,556 |
| Mutual funds | 280,794 | 280,513 | 295,141 |
| | \$ 2,017,528 | \$ 2,145,591 | \$ 3,667,697 |

Since there is a wide range of estimated fair values of the Company's investments in non-publicly traded stocks, the Company concludes that the fair value cannot be reliably measured and therefore should be measured at the cost less any impairment.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments accounted for using the equity method consisted of the following:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|-----------------------------|--------------------------|------------------------------|--------------------------|
| Associates | \$ 22,785,296 | \$ 24,823,807 | \$ 21,706,316 |
| Jointly controlled entities | 3,570,515 | 3,492,453 | 3,306,524 |
| | \$ 26,355,811 | \$ 28,316,260 | \$ 25,012,840 |

a. Investments in associates
 Associates consisted of the following:

| Principal Activities | Place of Incorporation and Operation | Carrying Amount | | % of Ownership and Voting Rights Held by the Company | | | |
|---|--------------------------------------|-----------------|-------------------|--|---------------|-------------------|---------------|
| | | June 30, 2014 | December 31, 2013 | June 30, 2013 | June 30, 2014 | December 31, 2013 | June 30, 2013 |
| Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | Hsinchu, Taiwan | \$ 9,205,352 | \$ 10,556,348 | \$ 9,619,243 | 33% | 39% | 39% |
| Production and supply of integrated circuits | Singapore | 6,940,820 | 7,457,733 | 6,441,982 | 39% | 39% | 39% |
| Manufacturing and sales of solar cells, monocrystalline silicon solar cells, and test equipment, measurement instruments and components and construction of solar power systems | New Taipei, Taiwan | 3,741,837 | 3,887,462 | 2,714,439 | 20% | 20% | 20% |
| Transfer level to size packaging device | Taoyuan, Taiwan | 1,875,195 | 1,866,123 | 1,816,848 | 40% | 40% | 40% |
| Researching, developing, manufacturing, testing and marketing of | Hsinchu, Taiwan | 1,022,092 | 1,056,141 | 1,113,804 | 35% | 35% | 35% |

| | | | | | | | |
|--|---------------------|----------------------|----------------------|----------------------|---|---|-----|
| egrated uits | | | | | | | |
| earch, elopment, sale of ro- iconductor ice | Delaware, U.S.A. | - | - | - | - | - | 25% |
| | | <u>\$ 22,785,296</u> | <u>\$ 24,823,807</u> | <u>\$ 21,706,316</u> | | | |

In the second quarter of 2014, the Company sold 82,000 thousand common shares of VIS and recognized a disposal gain of NT\$2,028,643 thousand. After the sale, the Company owned approximately 33.7% of the equity interest in VIS.

In the fourth quarter of 2012, the Company recognized an impairment loss in the amount of NT\$1,186,674 thousand, due to the lower estimated recoverable amount compared with the carrying amount of its investments in stocks traded on the Taiwan GreTai Securities Market. Subsequently, as the recoverable amount of the aforementioned investments was higher than its carrying amount, the impairment loss of NT\$1,186,674 thousand recognized in prior year was reversed in the fourth quarter of 2013.

Since TSMC did not participate in Mcube's issuance of new shares in the third quarter of 2013, the Company's percentage of ownership in Mcube decreased to 18%. As a result, the Company evaluated and concluded that the Company no longer exercises significant influence over Mcube. Therefore Mcube is no longer accounted for using the equity method. Further, such investment was reclassified to financial assets carried at cost. The Company also measured the fair value of retained interest in Mcube when the significant influence was lost, which has no difference with the carrying amount; accordingly, the Company did not recognize any gain or loss.

TSMC no longer has power to govern the financial and operating policies of Xintec starting June 2013 due to the loss of power to cast the majority of votes at meetings of the Board of Directors. As a result, Xintec is no longer consolidated and is accounted for using the equity method. Please refer to Note 30.

b. Investments in jointly controlled entities
Jointly controlled entities consisted of the following:

| of ly | Principal Activities | Place of Incorporation and Operation | Carrying Amount | | | % of Ownership and Voting Rights Held by the Company | | |
|----------|---|--|------------------|----------------------|------------------|---|----------------------|------------------|
| | | | June 30, 2014 | December 31, 2013 | June 30, 2013 | June 30, 2014 | December 31, 2013 | June 30, 2013 |
| | Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry | Cayman Islands | \$ 3,570,515 | \$ 3,492,453 | \$ 3,306,524 | 49% | 49% | 49% |

15. PROPERTY, PLANT AND EQUIPMENT

| Land and Land Improvements | Buildings | Machinery and Equipment | Office Equipmen | Assets under Finance Leases | Equipment under Installation and Construction in Progress | Total |
|-------------------------------|----------------|----------------------------|-----------------|--------------------------------|--|------------------|
| 3,986,909 | \$ 229,182,736 | \$ 1,413,919,794 | \$ 22,062,032 | \$ 804,430 | \$ 272,173,793 | \$ 1,942,129,694 |
| - | 21,992,818 | 243,696,287 | 4,269,496 | - | (138,669,929) | 131,288,672 |
| - | - | (739,238) | (426,337) | - | - | (1,165,575) |
| - | (1,996) | 1,996 | - | - | - | - |
| 1,457 | (224,902) | (395,235) | (8,766) | (12,782) | (2,013) | (642,241) |
| 3,988,366 | \$ 250,948,656 | \$ 1,656,483,604 | \$ 25,896,425 | \$ 791,648 | \$ 133,501,851 | \$ 2,071,610,550 |

| | | | | | | |
|-----------|----------------|------------------|---------------|------------|----------------|------------------|
| 404,192 | \$ 125,234,166 | \$ 1,009,213,689 | \$ 14,225,771 | \$ 385,963 | \$ - | \$ 1,149,463,781 |
| 13,767 | 7,328,768 | 77,587,232 | 1,387,716 | 20,960 | - | 86,338,443 |
| - | - | (680,321) | (426,259) | - | - | (1,106,580) |
| - | - | 239,864 | - | - | - | 239,864 |
| - | (532) | 532 | - | - | - | - |
| 610 | (135,642) | (343,389) | (7,518) | (6,445) | - | (492,384) |
| 418,569 | \$ 132,426,760 | \$ 1,086,017,607 | \$ 15,179,710 | \$ 400,478 | \$ - | \$ 1,234,443,124 |
| 3,582,717 | \$ 103,948,570 | \$ 404,706,105 | \$ 7,836,261 | \$ 418,467 | \$ 272,173,793 | \$ 792,665,913 |
| 3,569,797 | \$ 118,521,896 | \$ 570,465,997 | \$ 10,716,715 | \$ 391,170 | \$ 133,501,851 | \$ 837,167,426 |
| 1,527,124 | \$ 197,411,851 | \$ 1,279,893,177 | \$ 20,067,943 | \$ 766,732 | \$ 119,063,976 | \$ 1,618,730,803 |
| 3,212,000 | 23,769,868 | 86,321,847 | 2,151,385 | - | 60,904,636 | 176,359,736 |
| - | - | (1,652,721) | (364,434) | - | - | (2,017,155) |
| - | 3,797 | - | - | - | - | 3,797 |
| (772,029) | (986,205) | (5,630,854) | (1,055,809) | - | (1,632,860) | (10,077,757) |
| 24,183 | 797,936 | 2,409,161 | 50,718 | 31,207 | 7,890 | 3,321,095 |
| 3,991,278 | \$ 220,997,247 | \$ 1,361,340,610 | \$ 20,849,803 | \$ 797,939 | \$ 178,343,642 | \$ 1,786,320,519 |
| 367,369 | \$ 111,801,731 | \$ 875,510,879 | \$ 13,160,567 | \$ 328,069 | \$ - | \$ 1,001,168,615 |

| | | | | | | |
|-----------|----------------|----------------|---------------|------------|----------------|------------------|
| 13,518 | 6,168,796 | 66,150,063 | 1,166,369 | 20,495 | - | 73,519,241 |
| - | - | (1,572,265) | (364,197) | - | - | (1,936,462) |
| - | (226,908) | (3,656,326) | (599,483) | - | - | (4,482,717) |
| 11,915 | 439,710 | 1,951,384 | 40,219 | 13,578 | - | 2,456,806 |
| 392,802 | \$ 118,183,329 | \$ 938,383,735 | \$ 13,403,475 | \$ 362,142 | \$ - | \$ 1,070,725,483 |
| 3,598,476 | \$ 102,813,918 | \$ 422,956,875 | \$ 7,446,328 | \$ 435,797 | \$ 178,343,642 | \$ 715,595,036 |

The significant part of the Company's buildings includes main plants, mechanical and electrical power equipment and clean rooms, and the related depreciation is calculated using the estimated useful lives of 20 years, 10 years and 10 years, respectively.

In the second quarter of 2014, the Company recognized impairment losses of NT\$239,864 thousand under other operating segments since the carrying amount of some of machinery and equipment is expected to be unrecoverable. Such impairment losses were included in other operating income and expenses for the six months ended June 30, 2014.

There was no capitalization of borrowing costs for the six months ended June 30, 2014 and 2013.

16. INTANGIBLE ASSETS

| | Goodwill | Technology License Fees | Software and System Design Costs | Patent and Others | Total |
|--|-----------------|--------------------------------|---|--------------------------|---------------|
| <u>Cost</u> | | | | | |
| Balance at January 1, 2014 | \$ 5,627,517 | \$ 4,444,828 | \$ 17,086,805 | \$ 3,729,396 | \$ 30,888,546 |
| Additions | - | 501,134 | 74,638 | 624,465 | 1,200,237 |
| Retirements | - | - | (23,315) | - | (23,315) |
| Effect of exchange rate changes | 7,629 | - | (2,070) | (2,153) | 3,406 |
| Balance at June 30, 2014 | \$ 5,635,146 | \$ 4,945,962 | \$ 17,136,058 | \$ 4,351,708 | \$ 32,068,874 |
| <u>Accumulated amortization</u> | | | | | |
| Balance at January 1, 2014 | \$ - | \$ 3,341,667 | \$ 13,439,135 | \$ 2,617,361 | \$ 19,398,163 |
| Additions | - | 207,843 | 731,718 | 323,487 | 1,263,048 |
| Retirements | - | - | (23,315) | - | (23,315) |
| Effect of exchange rate changes | - | - | (1,922) | (407) | (2,329) |
| Balance at June 30, 2014 | \$ - | \$ 3,549,510 | \$ 14,145,616 | \$ 2,940,441 | \$ 20,635,567 |
| Carrying amounts at | \$ 5,627,517 | \$ 1,103,161 | \$ 3,647,670 | \$ 1,112,035 | \$ 11,490,383 |

January 1, 2014

| | | | | | | | | | | |
|--------------------------------------|----|-----------|----|-----------|----|-----------|----|-----------|----|------------|
| Carrying amounts at June 30, 2014 | \$ | 5,635,146 | \$ | 1,396,452 | \$ | 2,990,442 | \$ | 1,411,267 | \$ | 11,433,307 |
|--------------------------------------|----|-----------|----|-----------|----|-----------|----|-----------|----|------------|

Cost

| | | | | | | | | | | |
|---|----|-----------|----|-----------|----|------------|----|-----------|----|------------|
| Balance at January 1, 2013 | \$ | 5,523,707 | \$ | 4,590,548 | \$ | 15,095,421 | \$ | 3,094,664 | \$ | 28,304,340 |
| Additions | | - | | - | | 1,029,276 | | 204,019 | | 1,233,295 |
| Retirements | | - | | - | | (16,573) | | (23,549) | | (40,122) |
| Reclassification | | - | | (29,565) | | (3,797) | | - | | (33,362) |
| Effect of deconsolidation of subsidiary | | - | | (113,340) | | (25,335) | | (42,089) | | (180,764) |
| Effect of exchange rate changes | | 126,697 | | (1,281) | | 4,628 | | 4,642 | | 134,686 |
| Balance at June 30, 2013 | \$ | 5,650,404 | \$ | 4,446,362 | \$ | 16,083,620 | \$ | 3,237,687 | \$ | 29,418,073 |

Accumulated
amortization

| | | | | | | | | | | |
|---|----|---|----|-----------|----|------------|----|-----------|----|------------|
| Balance at January 1, 2013 | \$ | - | \$ | 3,128,655 | \$ | 12,126,479 | \$ | 2,089,637 | \$ | 17,344,771 |
| Additions | | - | | 140,160 | | 646,735 | | 284,695 | | 1,071,590 |
| Retirements | | - | | - | | (16,301) | | (23,549) | | (39,850) |
| Effect of deconsolidation of subsidiary | | - | | (66,587) | | (12,661) | | (25,195) | | (104,443) |
| Effect of exchange rate changes | | - | | (1,281) | | 4,189 | | 774 | | 3,682 |
| Balance at June 30, 2013 | \$ | - | \$ | 3,200,947 | \$ | 12,748,441 | \$ | 2,326,362 | \$ | 18,275,750 |

| | | | | | | | | | | |
|--------------------------------------|----|-----------|----|-----------|----|-----------|----|---------|----|------------|
| Carrying amounts at June 30, 2013 | \$ | 5,650,404 | \$ | 1,245,415 | \$ | 3,335,179 | \$ | 911,325 | \$ | 11,142,323 |
|--------------------------------------|----|-----------|----|-----------|----|-----------|----|---------|----|------------|

The Company's goodwill has been tested for impairment at the end of the annual reporting period and the recoverable amount is determined based on the value in use. The value in use was calculated based on the cash flow forecast from the financial budgets covering the future five-year period, and the Company used annual discount rate of 8.50% and 9.00% in its test of impairment as of December 31, 2013 and 2012, respectively, to reflect the relevant specific risk in the cash-generating unit.

For the six months ended June 30, 2014 and 2013, the Company did not recognize any impairment loss on goodwill.

17. OTHER ASSETS

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|----------------------|------------------|----------------------|------------------|
| Tax receivable | \$ 1,835,877 | \$ 1,781,376 | \$ 1,411,504 |
| Prepaid expenses | 1,120,915 | 1,081,957 | 1,340,388 |
| Long-term receivable | 652,000 | 820,000 | 781,600 |
| Others | 707,729 | 770,468 | 549,515 |
| | \$ 4,316,521 | \$ 4,453,801 | \$ 4,083,007 |
| Current portion | \$ 2,931,372 | \$ 2,984,224 | \$ 2,739,259 |
| Noncurrent portion | 1,385,149 | 1,469,577 | 1,343,748 |
| | \$ 4,316,521 | \$ 4,453,801 | \$ 4,083,007 |

18. SHORT-TERM LOANS

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|-----------------------|------------------|----------------------|------------------|
| Unsecured loans | | | |
| Amount | \$ 34,705,206 | \$ 15,645,000 | \$ 31,466,400 |
| Original loan content | | | |
| US\$ (in thousands) | \$ 1,101,000 | \$ 525,000 | \$ 1,050,000 |
| EUR (in thousands) | 45,000 | - | - |
| Annual interest rate | 0.38%-0.51% | 0.38%-0.42% | 0.39%-0.42% |
| Maturity date | Due by August | Due in January | Due in July |

| | 2014 | 2014 | 2013 |
|--|------|------|------|
|--|------|------|------|

19. PROVISIONS

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--|--------------------------|------------------------------|--------------------------|
| Sales returns and allowances | \$ 7,709,195 | \$ 7,603,781 | \$ 6,289,117 |
| Warranties | 14,741 | 10,452 | 6,623 |
| | \$ 7,723,936 | \$ 7,614,233 | \$ 6,295,740 |
| Current portion | \$ 7,709,195 | \$ 7,603,781 | \$ 6,289,117 |
| Noncurrent portion (classified under other noncurrent liabilities) | 14,741 | 10,452 | 6,623 |
| | \$ 7,723,936 | \$ 7,614,233 | \$ 6,295,740 |

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| | Sales Returns and Allowances | Warranties | Total |
|--|---------------------------------|------------|--------------|
| <u>Six months ended June 30, 2014</u> | | | |
| Balance, beginning of period | \$ 7,603,781 | \$ 10,452 | \$ 7,614,233 |
| Provision | 3,504,209 | 5,549 | 3,509,758 |
| Payment | (3,395,000) | (1,194) | (3,396,194) |
| Effect of exchange rate changes | (3,795) | (66) | (3,861) |
| | | | |
| Balance, end of period | \$ 7,709,195 | \$ 14,741 | \$ 7,723,936 |
| <u>Six months ended June 30, 2013</u> | | | |
| Balance, beginning of period | \$ 6,038,003 | \$ 4,891 | \$ 6,042,894 |
| Provision | 2,421,262 | 1,678 | 2,422,940 |
| Payment | (2,142,396) | - | (2,142,396) |
| Effect of deconsolidation of subsidiary | (37,748) | - | (37,748) |
| Effect of exchange rate changes | 9,996 | 54 | 10,050 |
| | | | |
| Balance, end of period | \$ 6,289,117 | \$ 6,623 | \$ 6,295,740 |

Provisions for sales returns and allowances are estimated based on historical experience, management judgment, and any known factors that would significantly affect the returns and allowances, and are recognized as a reduction of revenue in the same period of the related product sales.

The provision for warranties represents the present value of the Company's best estimate of the future outflow of the economic benefits that will be required under the Company's obligations for warranties. The estimate has been made on the basis of historical warranty trends of business and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

20. BONDS PAYABLE

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|----------------------------------|------------------|----------------------|------------------|
| <u>Noncurrent portion</u> | | | |
| Domestic unsecured bonds | \$ 166,200,000 | \$ 166,200,000 | \$ 125,000,000 |
| Overseas unsecured bonds | 44,784,000 | 44,700,000 | 44,952,000 |
| | 210,984,000 | 210,900,000 | 169,952,000 |
| Less: Discounts on bonds payable | (114,941) | (132,375) | (150,738) |

\$ 210,869,059 \$ 210,767,625 \$ 169,801,262

The major terms of overseas unsecured bonds are as follows:

| Issuance Period | Total Amount (US\$ in Thousands) | Coupon Rate | Repayment and Interest |
|--------------------------|---|--------------------|--|
| | | | Payment |
| April 2013 to April 2016 | \$ 350,000 | 0.95% | Bullet repayment; interest payable semi-annually |
| April 2013 to April 2018 | 1,150,000 | 1.625% | The same as above |

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21. OTHER LONG-TERM PAYABLES

| | June 30, | December 31, | June 30, |
|---|------------------|---------------------|-------------------|
| | 2014 | 2013 | 2013 |
| Payables for software and system design costs | \$ 54,000 | \$ 54,000 | \$ 54,000 |
| Payables for acquisition of property, plant and equipment | - | - | 859,102 |
| | \$ 54,000 | \$ 54,000 | \$ 913,102 |
| Current portion (classified under accrued expenses and other current liabilities) | \$ 36,000 | \$ 18,000 | \$ 877,102 |
| Noncurrent portion | 18,000 | 36,000 | 36,000 |
| | \$ 54,000 | \$ 54,000 | \$ 913,102 |

TSMC entered into an agreement with a counterparty in 2003 whereby TSMC China purchased in 2004 certain property, plant and equipment. The obligations under the aforementioned agreement were fully paid in July 2013.

22. EQUITY

a. Capital stock

| | June 30, | December 31, | June 30, |
|---------------------------------------|-----------------|---------------------|-----------------|
| | 2014 | 2013 | 2013 |
| Authorized shares (in thousands) | 28,050,000 | 28,050,000 | 28,050,000 |
| Authorized capital | \$ 280,500,000 | \$ 280,500,000 | \$ 280,500,000 |
| Issued and paid shares (in thousands) | 25,929,375 | 25,928,617 | 25,928,305 |
| Issued capital | \$ 259,293,750 | \$ 259,286,171 | \$ 259,283,058 |

A holder of issued common shares with par value of NT\$10 per share is entitled to vote and to receive dividends.

The authorized shares include 500,000 thousand shares allocated for the exercise of employee stock options.

As of June 30, 2014, 1,077,411 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,387,057 thousand shares (one ADS represents five common shares).

b. Capital surplus

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|----------------------------|--------------------------|------------------------------|--------------------------|
| Additional paid-in capital | \$ 24,043,271 | \$ 24,017,363 | \$ 24,006,081 |
| From merger | 22,804,510 | 22,804,510 | 22,804,510 |
| From convertible bonds | 8,892,847 | 8,892,847 | 8,892,847 |

(Continued)

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--|------------------|----------------------|------------------|
| From differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries | \$ - | \$ 100,827 | \$ 107,661 |
| From share of changes in equities of subsidiaries | 81,093 | - | - |
| From share of changes in equities of associates and joint venture | 205,061 | 43,024 | 17,433 |
| Donations | 55 | 55 | 55 |
| | \$ 56,026,837 | \$ 55,858,626 | \$ 55,828,587 |

(Concluded)

Under the Company Law, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds, the surplus from treasury stock transactions and the differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of TSMC's paid-in capital. The capital surplus from share of changes in equities of subsidiaries may be used to offset a deficit.

c. Retained earnings and dividend policy

TSMC's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, TSMC shall first offset its losses in previous years and then set aside the following items accordingly:

- 1) Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC's paid-in capital;
- 2) Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- 3) Bonus to directors and profit sharing to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- 4) Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

TSMC's Articles of Incorporation also provide that profits of TSMC may be distributed by way of cash dividend

and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

TSMC accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT\$3,992,231 thousand and NT\$3,483,909 thousand for the three months ended June 30, 2014 and 2013, respectively; and NT\$7,192,947 thousand and NT\$6,144,391 thousand for the six months ended June 30, 2014 and 2013, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently approved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing approved for distribution to employees is in the form of common shares, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

Pursuant to existing regulations, the Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of stockholders' equity, such as the accumulated balance of foreign currency translation reserve, unrealized valuation gain/loss from available-for-sale financial assets, gain/loss from changes in fair value of hedging instruments in cash flow hedges, etc. For the subsequent decrease in the deduction amount to stockholders' equity, any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of 2013 and 2012 earnings have been approved by TSMC's shareholders in its meeting held on June 24, 2014 and on June 11, 2013, respectively. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | | Dividends Per Share | |
|--------------------------------|----------------------------------|-------------------|----------------------------|-------------------|
| | For Fiscal | For Fiscal | (NT\$) | |
| | Year 2013 | Year 2012 | For Fiscal | For Fiscal |
| | Year 2013 | Year 2012 | Year 2013 | Year 2012 |
| Legal capital reserve | \$ 18,814,679 | \$ 16,615,880 | | |
| Special capital reserve | (2,785,741) | (4,820,483) | | |
| Cash dividends to shareholders | 77,785,851 | 77,773,307 | \$3.00 | \$3.00 |
| | \$ 93,814,789 | \$ 89,568,704 | | |

TSMC's profit sharing to employees and bonus to directors in the amounts of NT\$12,634,665 thousand and NT\$104,136 thousand in cash for 2013, respectively, and profit sharing to employees and bonus to directors in the amounts of NT\$11,115,240 thousand and NT\$71,351 thousand in cash for 2012, respectively, had been approved by the shareholders in its meeting held on June 24, 2014 and June 11, 2013, respectively. The aforementioned approved amount has no difference with the one approved by the Board of Directors in its meetings held on February 18, 2014 and February 5, 2013 and the same amount had been charged against earnings of 2013 and 2012, respectively.

The information about the appropriations of TSMC's profit sharing to employees and bonus to members of the Board of Directors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by TSMC on earnings generated since January 1, 1998.

d. Others
Changes in others were as follows:

| | Six Months Ended June 30, 2014 | | | |
|---|---|---|-------------------------------------|---------------|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for- sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of period | \$ (7,140,362) | \$ 21,310,781 | \$ (113) | \$ 14,170,306 |
| Exchange differences arising on translation of foreign operations | (220,808) | - | - | (220,808) |
| Changes in fair value of available-for-sale financial assets | - | (313,697) | - | (313,697) |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | - | (133,160) | - | (133,160) |
| Share of other comprehensive income of associates and joint venture | (5,872) | (236) | 90 | (6,018) |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | 3,017 | (2,920) | - | 97 |
| Income tax effect | - | (11,123) | - | (11,123) |
| Balance, end of period | \$ (7,364,025) | \$ 20,849,645 | \$ (23) | \$ 13,485,597 |

| | Six Months Ended June 30, 2013 | | | |
|--|---|---|-------------------------------------|----------------|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for- sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of period | \$ (10,753,806) | \$ 7,973,321 | \$ - | \$ (2,780,485) |
| Exchange differences arising on translation of foreign operations | 4,074,732 | - | - | 4,074,732 |
| Changes in fair value of available-for-sale financial assets | - | 8,484,679 | - | 8,484,679 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | - | (987,693) | - | (987,693) |

| | | | | |
|---|----------------|---------------|------|--------------|
| Share of other comprehensive income of associates and joint venture | (58,050) | 225 | - | (57,825) |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | 774 | (44) | - | 730 |
| Income tax effect | - | 43,210 | - | 43,210 |
| Balance, end of period | \$ (6,736,350) | \$ 15,513,698 | \$ - | \$ 8,777,348 |

The exchange differences arising on translation of foreign operation's net assets from its functional currency to TSMC's presentation currency are recognized directly in other comprehensive income and also accumulated in the foreign currency translation reserve.

Unrealized gain/loss on available-for-sale financial assets represents the cumulative gains or losses arising from the fair value measurement on available-for-sale financial assets that are recognized in other comprehensive income, excluding the amounts recognized in profit or loss for the effective portion from changes in fair value of the hedging instruments. When those available-for-sale financial assets have been disposed of or are determined to be impaired subsequently, the related cumulative gains or losses in other comprehensive income are reclassified to profit or loss.

The cash flow hedges reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of the hedging instruments entered into as cash flow hedges. The cumulative gains or losses arising on changes in fair value of the hedging instruments that are recognized and accumulated in cash flow hedges reserve will be reclassified to profit or loss only when the hedge transaction affects profit or loss.

e. Noncontrolling interests

| | Six Months Ended June 30 | |
|---|---------------------------------|-------------------|
| | 2014 | 2013 |
| Balance, beginning of period | \$ 266,830 | \$ 2,543,226 |
| Share of noncontrolling interests | | |
| Net loss | (67,394) | (87,555) |
| Exchange differences arising on translation of foreign operations | 47 | 1,162 |
| Changes in fair value of available-for-sale financial assets | 1,116 | 1,519 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | (860) | (3,020) |
| Stock option compensation cost of subsidiary | - | 5,312 |
| Share of other comprehensive income of associates and joint venture | (100) | 223 |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | - | 1 |
| Adjustments to share of changes in capital surplus of associations and joint venture | (66) | - |
| From share of changes in equities of subsidiaries | 19,734 | - |
| Adjustments arising from changes in percentage of ownership in subsidiaries | - | (66,928) |
| Increase (Decrease) in noncontrolling interests | (45,527) | 203,729 |
| Effect of deconsolidation of subsidiary | - | (2,273,153) |
| Balance, end of period | \$ 173,780 | \$ 324,516 |

23. SHARE-BASED PAYMENT

The Company did not issue employee stock option plans for the six months ended June 30, 2014 and 2013. Information about TSMC's outstanding employee stock options is described as follows:

- a. Optional exemption from applying IFRS 2 Share-based Payment (IFRS 2)

| TSMC | Number of Stock Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|---------------------------------------|---|--|
| <u>Six months ended June 30, 2014</u> | | |
| Balance, beginning of period | 1,763 | \$ 45.9 |
| Options exercised | (758) | 44.2 |
| Balance, end of period | 1,005 | 47.2 |
| Balance exercisable, end of period | 1,005 | 47.2 |
| <u>Six months ended June 30, 2013</u> | | |
| Balance, beginning of period | 5,945 | \$ 34.6 |
| Options exercised | (3,870) | 28.5 |
| Balance, end of period | 2,075 | 46.0 |
| Balance exercisable, end of period | 2,075 | 46.0 |

The numbers of outstanding stock options and exercise prices have been adjusted to reflect the distribution of earnings by TSMC in accordance with the plans.

Information about TSMC's outstanding stock options was as follows:

| | June 30, 2014 | December 31, 2013 | | June 30, 2013 | |
|--------------------------------------|--|--------------------------------------|--|--------------------------------------|--|
| Range of Exercise Price (NT\$) | Weighted-average Remaining Contractual Life (Years) | Range of Exercise Price (NT\$) | Weighted-average Remaining Contractual Life (Years) | Range of Exercise Price (NT\$) | Weighted-average Remaining Contractual Life (Years) |

| | | | | | |
|--------|-----|---------------|-----|---------------|-----|
| \$47.2 | 0.9 | \$43.2-\$47.2 | 1.0 | \$38.0-\$50.1 | 1.6 |
|--------|-----|---------------|-----|---------------|-----|

b. Application of IFRS 2

| TSMC SSL | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|---|--|--|
| <u>Six months ended June 30, 2013</u> | | |
| Balance, beginning of period | - | \$ - |
| Options granted | 17,000 | 10.0 |
| Options exercised | (17,000) | 10.0 |
| Balance, end of period | - | - |
| Balance exercisable, end of period | - | - |
| Weighted-average fair value of options granted (NT\$/share) | \$ - | |

The grant date of aforementioned stock options was April 10, 2013. TSMC SSL used the Black-Scholes model to determine the fair value of the options. The valuation assumptions were as follows:

| | 2013 Stock Option Plan |
|--|-----------------------------------|
| Valuation assumptions: | |
| Stock price on grant date (NT\$/share) | \$ 4.6 |
| Exercise price (NT\$/share) | \$ 10.0 |
| Expected volatility | 51.68% |
| Expected life | 31 days |
| Risk free interest rate | 0.60% |

The stock price on grant date was determined based on the cost approach. The expected volatility was calculated using the historical rate of return based on the TWSE Optoelectronic Index.

The fair value of the aforementioned stock option was close to nil, and accordingly, no compensation cost was recognized.

24. NET REVENUE

The analysis of the Company's net revenue was as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------|-----------------------------------|-----------------------|---------------------------------|-----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Net revenue from sale of goods | \$ 182,882,159 | \$ 155,758,012 | \$ 330,879,781 | \$ 288,390,575 |
| Net revenue from royalties | 138,325 | 128,308 | 355,875 | 250,741 |
| | \$ 183,020,484 | \$ 155,886,320 | \$ 331,235,656 | \$ 288,641,316 |

25. FINANCE COSTS

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------|-----------------------------------|-------------|---------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest expense | | | | |
| Corporate bonds | \$ 770,126 | \$ 593,187 | \$ 1,540,103 | \$ 1,034,881 |
| Bank loans | 26,379 | 29,682 | 48,007 | 72,120 |
| Finance leases | 4,841 | 4,909 | 9,810 | 9,697 |
| Others | 104 | 7,562 | 110 | 12,640 |

\$ 801,450 \$ 635,340 \$ 1,598,030 \$ 1,129,338

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26. OTHER GAINS AND LOSSES

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|-----------------------------------|-------------|---------------------------------|--------------|
| | 2014 | 2013 | 2014 | 2013 |
| Gain on disposal of financial assets, net | | | | |
| Available-for-sale financial assets | \$ 113,033 | \$ 172,398 | \$ 134,020 | \$ 990,713 |
| Financial assets carried at cost | 28,936 | 2,468 | 52,694 | 4,573 |
| Gain/(loss) on disposal of investments accounted for using equity method | 2,028,643 | (248) | 2,028,643 | (731) |
| Gain on deconsolidation of subsidiary | - | 293,578 | - | 293,578 |
| Settlement income | - | 451,050 | - | 451,050 |
| Other gains | 66,911 | 94,023 | 114,524 | 186,610 |
| Net gain/(loss) on financial instruments at FVTPL | | | | |
| Held for trading | 450,728 | (408,731) | 554,838 | (150,294) |
| Impairment loss of financial assets | | | | |
| Financial assets carried at cost | - | (45,716) | - | (45,716) |
| Fair value hedges | | | | |
| Loss from hedging instruments | (914,921) | (2,587,357) | (589,243) | (1,937,366) |
| Gain arising from changes in fair value of available-for-sale financial assets in hedge effective portion | 406,070 | 2,416,999 | 78,109 | 1,657,824 |
| Other losses | (2,751) | (75,093) | (153,552) | (130,527) |
| | \$ 2,176,649 | \$ 313,371 | \$ 2,220,033 | \$ 1,319,714 |

27. INCOME TAX

- a. Income tax expense recognized in profit or loss
Income tax expense consisted of the following:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-----------------------------------|--------------|---------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Current income tax expense (benefit) | | | | |
| Current tax expense recognized in the current period | \$ 11,103,041 | \$ 6,030,509 | \$ 17,122,994 | \$ 11,018,835 |
| Income tax adjustments on prior years | 404,566 | (634,420) | 404,566 | (1,044,163) |
| Other income tax adjustments | 111,171 | (16,082) | 138,167 | (12,284) |

| | | | |
|------------|-----------|------------|-----------|
| 11,618,778 | 5,380,007 | 17,665,727 | 9,962,388 |
|------------|-----------|------------|-----------|

(Continued)

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|--------------|--------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Deferred income tax expense (benefit) | | | | |
| Temporary differences | \$ 619,822 | \$ 6,394 | \$ (54,048) | \$ 1,014,867 |
| Investment tax credits and loss carryforward | 2,199,663 | 2,868,775 | 2,282,648 | 3,490,292 |
| | 2,819,485 | 2,875,169 | 2,228,600 | 4,505,159 |
| Income tax expense recognized in profit or loss | \$ 14,438,263 | \$ 8,255,176 | \$ 19,894,327 | \$ 14,467,547 |

(Concluded)

b. Income tax expense recognized in other comprehensive income

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|-------|--------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Deferred income tax expense (benefit) | | | | |
| Related to unrealized gain/loss on available-for-sale financial assets | \$ 14,079 | \$ 29 | \$ 11,123 | \$ (43,210) |

c. Integrated income tax information

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|---|------------------|----------------------|------------------|
| Balance of the Imputation Credit Account - TSMC | \$ 37,461,918 | \$ 15,242,724 | \$ 22,093,263 |

The estimated and actual creditable ratio for distribution of TSMC's earnings of 2013 and 2012 were 9.78% and 7.75 %, respectively.

Under the Rule No.10204562810 issued by the Ministry of Finance, when calculating the creditable ratio in the year of first-time adoption of Taiwan-IFRSs, the Company has included the adjustments to retained earnings from the effect of transition to Taiwan-IFRSs in the accumulated unappropriated earnings.

The imputation credit allocated to shareholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

All of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

d. Income tax examination

The tax authorities have examined income tax returns of TSMC through 2011. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

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28. EARNINGS PER SHARE

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-------------|-----------------------------------|---------------|---------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Basic EPS | <u>\$2.30</u> | <u>\$2.00</u> | <u>\$4.15</u> | <u>\$3.52</u> |
| Diluted EPS | <u>\$2.30</u> | <u>\$2.00</u> | <u>\$4.15</u> | <u>\$3.52</u> |

EPS is computed as follows:

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) |
|--|--------------------------------|--|-------------------|
| <u>Three months ended June 30, 2014</u> | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | \$ 59,702,284 | 25,929,328 | <u>\$2.30</u> |
| Effect of dilutive potential common shares | <u>-</u> | <u>662</u> | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | <u>\$ 59,702,284</u> | <u>25,929,990</u> | <u>\$2.30</u> |
| <u>Three months ended June 30, 2013</u> | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | \$ 51,807,725 | 25,928,299 | <u>\$2.00</u> |
| Effect of dilutive potential common shares | <u>-</u> | <u>1,192</u> | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | <u>\$ 51,807,725</u> | <u>25,929,491</u> | <u>\$2.00</u> |
| <u>Six months ended June 30, 2014</u> | | | |
| Basic EPS | | | |
| | \$ 107,573,029 | 25,929,089 | <u>\$4.15</u> |

| | | | |
|--|-------|--------------------|---------------------------------|
| Net income available to common shareholders of the parent | | | |
| Effect of dilutive potential common shares | _____ | - | _____ 880 |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | | | |
| | \$ | <u>107,573,029</u> | <u>25,929,969</u> <u>\$4.15</u> |

(Continued)

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) |
|--|------------------------|--|---------------|
| Six months ended June 30, 2013 | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | \$ 91,384,601 | 25,927,130 | <u>\$3.52</u> |
| Effect of dilutive potential common shares | - | 2,340 | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | <u>\$ 91,384,601</u> | <u>25,929,470</u> | <u>\$3.52</u> |

(Concluded)

If the Company may settle the obligation by cash, by issuing shares, or in combination of both cash and shares, profit sharing to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of profit sharing to employees in stock by the closing price (after considering the dilutive effect of dividends) of the common shares at the end of the reporting period. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until profit sharing to employees to be settled in the form of common stocks are approved by the shareholders in the following year.

29. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|----------------------------|----------------------|--------------------------|----------------------|
| | 2014 | 2013 | 2014 | 2013 |
| a. Depreciation of property, plant and equipment | | | | |
| Recognized in cost of revenue | \$ 41,804,816 | \$ 34,427,466 | \$ 79,262,241 | \$ 67,470,119 |
| Recognized in operating expenses | 3,541,464 | 3,120,876 | 7,063,759 | 6,036,445 |
| Recognized in other operating income and expenses | 6,221 | 6,222 | 12,443 | 12,677 |
| | <u>\$ 45,352,501</u> | <u>\$ 37,554,564</u> | <u>\$ 86,338,443</u> | <u>\$ 73,519,241</u> |

b. Amortization of intangible assets

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| | | | | |
|----------------------------------|------------|------------|--------------|--------------|
| Recognized in cost of revenue | \$ 320,331 | \$ 281,530 | \$ 653,798 | \$ 576,662 |
| Recognized in operating expenses | 306,282 | 258,547 | 609,250 | 494,928 |
| | \$ 626,613 | \$ 540,077 | \$ 1,263,048 | \$ 1,071,590 |

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| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|---------------|--------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| c. Research and development costs expensed as incurred | \$ 13,609,070 | \$ 11,941,871 | \$ 25,675,692 | \$ 22,592,856 |
| d. Employee benefits expenses | | | | |
| Post-employment benefits | | | | |
| Defined contribution plans | \$ 430,816 | \$ 403,779 | \$ 843,268 | \$ 788,237 |
| Defined benefit plans | 59,085 | 60,697 | 143,381 | 121,387 |
| | 489,901 | 464,476 | 986,649 | 909,624 |
| Equity-settled share-based payments | - | 2,611 | - | 5,312 |
| Other employee benefits | 19,025,491 | 17,278,663 | 35,856,007 | 32,294,666 |
| | \$ 19,515,392 | \$ 17,745,750 | \$ 36,842,656 | \$ 33,209,602 |
| Employee benefits expense summarized by function | | | | |
| Recognized in cost of revenue | \$ 11,589,156 | \$ 10,576,504 | \$ 21,998,135 | \$ 19,925,928 |
| Recognized in operating expenses | 7,926,236 | 7,169,246 | 14,844,521 | 13,283,674 |
| | \$ 19,515,392 | \$ 17,745,750 | \$ 36,842,656 | \$ 33,209,602 |

30. DECONSOLIDATION OF SUBSIDIARY

Starting June 2013, the Company no longer has power to govern the financial and operating policies of Xintec due to the loss of power to cast the majority of votes at meetings of the Board of Directors; accordingly, the Company derecognized related assets, liabilities and noncontrolling interests of Xintec.

a. Consideration received
The Company did not receive any consideration in the deconsolidation of Xintec.

b. Analysis of assets and liabilities over which the Company lost control

June 30, 2013

| | |
|---------------------------|------------|
| Current assets | |
| Cash and cash equivalents | \$ 979,910 |

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| | |
|-------------------------------|-------------|
| Accounts receivable | 564,364 |
| Inventories | 213,133 |
| Others | 110,766 |
| Noncurrent assets | |
| Property, plant and equipment | 5,595,040 |
| Others | 164,311 |
| Current liabilities | |
| Accounts payable | (1,571,289) |
| Others | (291,715) |

(Continued)

June 30, 2013

| | |
|------------------------|----------------|
| Noncurrent liabilities | |
| Loans | \$ (1,940,625) |
| Others | (27,472) |

| | |
|---------------------------|--------------|
| Net assets deconsolidated | \$ 3,796,423 |
| | (Concluded) |

c. Gain on deconsolidation of subsidiary

Six Months
Ended June 30,

2013

| | |
|---------------------------------|--------------|
| Fair value of interest retained | \$ 1,816,848 |
|---------------------------------|--------------|

Less: Carrying amount of interest retained

| | |
|---------------------------|-------------|
| Net assets deconsolidated | 3,796,423 |
| Noncontrolling interests | (2,273,153) |

1,523,270

| | |
|---------------------------------------|------------|
| Gain on deconsolidation of subsidiary | \$ 293,578 |
|---------------------------------------|------------|

Gain on deconsolidation of subsidiary was included in other gains and losses for the six months ended June 30, 2013.

d. Net cash outflow arising from deconsolidation of the subsidiary

Six Months
Ended June 30,

2013

| | |
|---|-------------------|
| The balance of cash and cash equivalents deconsolidated | \$ <u>979,910</u> |
|---|-------------------|

31. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

| | June 30, | December 31, | June 30, |
|--|-----------------------|-----------------------|-----------------------|
| | 2014 | 2013 | 2013 |
| Financial assets | | | |
| FVTPL | | | |
| Held for trading derivatives | \$ 158,265 | \$ 90,353 | \$ 20,010 |
| Available-for-sale financial assets (Note) | 61,100,010 | 61,628,343 | 54,319,453 |
| Held-to-maturity financial assets | 299,230 | 1,795,949 | 700,576 |
| Loans and receivables | | | |
| Cash and cash equivalents | 255,053,573 | 242,695,447 | 225,832,646 |
| Notes and accounts receivables (including related parties) | 86,887,160 | 71,941,634 | 80,340,331 |
| Other receivables | 4,364,503 | 1,422,795 | 3,804,679 |
| Refundable deposits | 2,476,534 | 2,519,031 | 2,412,290 |
| | \$ 410,339,275 | \$ 382,093,552 | \$ 367,429,985 |

(Continued)

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--|-----------------------|-----------------------|-----------------------|
| Financial liabilities | | | |
| FVTPL | | | |
| Held for trading derivatives | \$ 19,418 | \$ 33,750 | \$ 136,515 |
| Derivative financial instruments in designated hedge accounting relationships | 5,559,559 | 5,481,616 | 1,813,291 |
| Amortized cost | | | |
| Short-term loans | 34,705,206 | 15,645,000 | 31,466,400 |
| Accounts payable (including related parties) | 21,697,296 | 16,358,716 | 15,202,734 |
| Payables to contractors and equipment suppliers | 34,657,746 | 89,810,160 | 60,883,767 |
| Cash dividends payable | 77,785,851 | - | 77,773,307 |
| Accrued expenses and other current liabilities | 17,572,283 | 13,649,615 | 12,933,671 |
| Bonds payable | 210,869,059 | 210,767,625 | 169,801,262 |
| Long-term bank loans | 40,000 | 40,000 | - |
| Other long-term payables | 54,000 | 54,000 | 913,102 |
| Guarantee deposits (classified under other noncurrent liabilities) | 157,011 | 151,660 | 166,112 |
| | \$ 403,117,429 | \$ 351,992,142 | \$ 371,090,161 |

(Concluded)

Note: Including financial assets carried at cost.

b. Financial risk management objectives

The Company seeks to ensure sufficient cost-efficient funding readily available when needed. The Company manages its exposure to foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The plans for material treasury activities are reviewed by Audit Committees and/or Board of Directors in accordance with procedures required by relevant regulations or internal controls. During the implementation of such plans, Corporate Treasury function must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties.

c. Market risk

The Company is exposed to the market risks arising from changes in foreign exchange rates, interest rates and the prices in equity investments, and utilizes some derivative financial instruments to reduce the related risks.

Foreign currency risk

Most of the Company's operating activities are denominated in foreign currencies. Consequently, the Company is exposed to foreign currency risk. To protect against reductions in value and the volatility of future cash flows caused by changes in foreign exchange rates, the Company utilizes derivative financial instruments, including currency forward contracts and cross currency swaps, to hedge its currency exposure. These instruments help to reduce, but do not eliminate, the impact of foreign currency exchange rate movements.

The Company also holds short-term borrowings in foreign currencies in proportion to its expected future cash flows. This allows foreign-currency-denominated borrowings to be serviced with expected future cash flows and provides a partial hedge against transaction translation exposure.

The Company's sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges against the New Taiwan dollar, the net income for the six months ended June 30, 2014 and 2013 would have decreased by NT\$686,238 thousand and NT\$331,962 thousand, respectively, after taking into consideration of the hedging contracts and the hedged items.

Interest rate risk

The Company is exposed to interest rate risk arising from borrowing at both fixed and floating interest rates. All of the Company's long-term bonds have fixed interest rates and are measured at amortized cost. As such, changes in interest rates would not affect the future cash flows. On the other hand, because interest rates of the Company's long-term bank loans are floating, changes in interest rates would affect the future cash flows but not the fair value.

Assuming the amount of floating interest rate bank loans at the end of the reporting period had been outstanding for the entire period and all other variables were held constant, a hypothetical increase in interest rates of 100 basis point (1%) would have resulted in an increase in the interest expense, net of tax, by approximately NT\$166 thousand for the six months ended June 30, 2014.

Other price risk

The Company is exposed to equity price risk arising from available-for-sale equity investments. To reduce the equity price risk, the Company utilizes some stock forward contracts to partially hedge its exposure.

Assuming a hypothetical decrease of 5% in equity prices of the equity investments at the end of the reporting period, the net income for the six months ended June 30, 2014 and 2013 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the six months ended June 30, 2014 and 2013 would have decreased by NT\$128,251 thousand and NT\$1,879,083 thousand, respectively.

d. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily trade receivables, and from financing activities, primarily deposits, fixed-income investments and other financial instruments with banks. Credit risk is managed separately for business related and financial related exposures. As of the end of the reporting period, the Company's maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the consolidated balance sheet.

Business related credit risk

The Company has considerable trade receivables outstanding with its customers worldwide. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. While the Company has procedures to monitor and limit exposure to credit risk on trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses. This risk is heightened during periods when economic conditions worsen.

As of June 30, 2014, December 31, 2013 and June 30, 2013, the Company's ten largest customers accounted for 67%, 68% and 69% of accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

Financial credit risk

The Company regularly monitors and reviews the transaction limit applied to counterparties and adjusts the concentration limit according to market conditions and the credit standing of the counterparties. The Company mitigates its exposure by selecting counterparties with investment-grade credit ratings.

e. Liquidity risk management

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements associated with existing operations over the next 12 months. The Company manages its liquidity risk by maintaining adequate cash and banking facilities.

As of June 30, 2014, December 31, 2013 and June 30, 2013, the unused of financing facilities of the Company amounted to NT\$60,718,188 thousand, NT\$76,689,543 thousand and NT\$55,098,102 thousand, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principal and interest.

| | Less Than | | | | |
|--|------------------|------------------|------------------|-----------------|---------------|
| | 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
| <u>June 30, 2014</u> | | | | | |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Short-term loans | \$ 34,713,484 | \$ - | \$ - | \$ - | \$ 34,713,484 |
| Accounts payable (including related parties) | 21,697,296 | - | - | - | 21,697,296 |
| Payables to contractors and equipment suppliers | 34,657,746 | - | - | - | 34,657,746 |
| Accrued expenses and other current liabilities | 17,572,283 | - | - | - | 17,572,283 |
| Bonds payable | 3,038,196 | 38,216,868 | 98,612,394 | 85,318,276 | 225,185,734 |

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| | | | | | |
|--|-------------|------------|------------|------------|-------------|
| Long-term bank loans | 1,450 | 15,079 | 21,208 | 7,579 | 45,316 |
| Other long-term payables | 36,000 | 18,000 | - | - | 54,000 |
| Obligations under finance leases | 27,921 | 55,843 | 753,300 | - | 837,064 |
| Guarantee deposits (classified under other noncurrent liabilities) | - | 157,011 | - | - | 157,011 |
| | 111,744,376 | 38,462,801 | 99,386,902 | 85,325,855 | 334,919,934 |

Derivative financial instruments

Forward exchange contracts

| | | | | | |
|----------|--------------|---|---|---|--------------|
| Outflows | 21,906,386 | - | - | - | 21,906,386 |
| Inflows | (21,976,316) | - | - | - | (21,976,316) |
| | (69,930) | - | - | - | (69,930) |

Cross currency swap contracts

| | | | | | |
|----------|--------------|---|---|---|--------------|
| Outflows | 28,436,568 | - | - | - | 28,436,568 |
| Inflows | (28,543,835) | - | - | - | (28,543,835) |
| | (107,267) | - | - | - | (107,267) |

Stock forward contracts

| | | | | | |
|----------|--------------|--------------|---|---|--------------|
| Outflows | 42,712,852 | 10,162,117 | - | - | 52,874,969 |
| Inflows | (42,712,852) | (10,162,117) | - | - | (52,874,969) |
| | - | - | - | - | - |

\$ 111,567,179 \$ 38,462,801 \$ 99,386,902 \$ 85,325,855 \$ 334,742,737

(Continued)

| | Less Than | | | | |
|--|------------------|------------------|------------------|-----------------|---------------|
| | 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
| <u>December 31, 2013</u> | | | | | |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Short-term loans | \$ 15,646,783 | \$ - | \$ - | \$ - | \$ 15,646,783 |
| Accounts payable (including related parties) | 16,358,716 | - | - | - | 16,358,716 |
| Payables to contractors and equipment suppliers | 89,810,160 | - | - | - | 89,810,160 |
| Accrued expenses and other current liabilities | 13,649,615 | - | - | - | 13,649,615 |
| Bonds payable | 3,036,130 | 28,388,887 | 100,830,341 | 94,360,103 | 226,615,461 |
| Long-term bank loans | 1,450 | 10,275 | 21,571 | 12,746 | 46,042 |
| Other long-term payables | 18,000 | 36,000 | - | - | 54,000 |
| Obligations under finance leases | 28,376 | 56,752 | 793,951 | - | 879,079 |
| Guarantee deposits (classified under other noncurrent liabilities) | - | 151,660 | - | - | 151,660 |
| | 138,549,230 | 28,643,574 | 101,645,863 | 94,372,849 | 363,211,516 |
| <u>Derivative financial instruments</u> | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 29,608,952 | - | - | - | 29,608,952 |
| Inflows | (29,605,246) | - | - | - | (29,605,246) |

| | | | | | |
|-------------------------------|----------------|---------------|----------------|---------------|----------------|
| | 3,706 | - | - | - | 3,706 |
| Cross currency swap contracts | | | | | |
| Outflows | 1,639,215 | - | - | - | 1,639,215 |
| Inflows | (1,641,384) | - | - | - | (1,641,384) |
| | (2,169) | - | - | - | (2,169) |
| Stock forward contracts | | | | | |
| Outflows | - | 37,431,626 | - | - | 37,431,626 |
| Inflows | - | (37,431,626) | - | - | (37,431,626) |
| | - | - | - | - | - |
| | \$ 138,550,767 | \$ 28,643,574 | \$ 101,645,863 | \$ 94,372,849 | \$ 363,213,053 |

June 30, 2013Non-derivative financial liabilities

| | | | | | |
|---|---------------|------------|------------|------------|---------------|
| Short-term loans | \$ 31,470,473 | \$ - | \$ - | \$ - | \$ 31,470,473 |
| Accounts payable (including related parties) | 15,202,734 | - | - | - | 15,202,734 |
| Payables to contractors and equipment suppliers | 60,883,767 | - | - | - | 60,883,767 |
| Cash dividends payable | 77,773,307 | - | - | - | 77,773,307 |
| Accrued expenses and other current liabilities | 12,933,671 | - | - | - | 12,933,671 |
| Bonds payable | 2,368,241 | 15,201,201 | 97,982,526 | 66,672,284 | 182,224,252 |
| Other long-term payables | 877,102 | 36,000 | - | - | 913,102 |
| Obligations under finance leases | 28,144 | 56,288 | 56,289 | 731,168 | 871,889 |
| Guarantee deposits | - | 166,112 | - | - | 166,112 |

| | | | | |
|-------------|------------|------------|------------|-------------|
| 201,537,439 | 15,459,601 | 98,038,815 | 67,403,452 | 382,439,307 |
|-------------|------------|------------|------------|-------------|

Derivative
financial
instruments

Forward
exchange
contracts

| | | | | | |
|----------|--------------|---|---|---|--------------|
| Outflows | 26,579,381 | - | - | - | 26,579,381 |
| Inflows | (26,487,571) | - | - | - | (26,487,571) |
| | 91,810 | - | - | - | 91,810 |

Cross currency
swap contracts

| | | | | | |
|----------|-------------|---|---|---|-------------|
| Outflows | 1,200,176 | - | - | - | 1,200,176 |
| Inflows | (1,201,117) | - | - | - | (1,201,117) |
| | (941) | - | - | - | (941) |

Stock forward
contracts

| | | | | | |
|----------|---|--------------|---|---|--------------|
| Outflows | - | 14,753,429 | - | - | 14,753,429 |
| Inflows | - | (14,753,429) | - | - | (14,753,429) |
| | - | - | - | - | - |

| | | | | |
|----------------|---------------|---------------|---------------|----------------|
| \$ 201,628,308 | \$ 15,459,601 | \$ 98,038,815 | \$ 67,403,452 | \$ 382,530,176 |
|----------------|---------------|---------------|---------------|----------------|

(Concluded)

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

Except as detailed in the following table, the Company considers that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

| | June 30, 2014 | | December 31, 2013 | | June 30, 2013 | |
|-----------------------------------|-----------------|-------------|-------------------|--------------|-----------------|-------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Held-to-maturity financial assets | | | | | | |
| Commercial paper | \$ 299,230 | \$ 299,857 | \$ 1,795,949 | \$ 1,795,612 | \$ - | \$ - |
| Corporate bonds | - | - | - | - | 700,576 | 704,777 |
| Financial liabilities | | | | | | |
| Measured at amortized cost | | | | | | |
| Bonds payable | 210,869,059 | 210,756,224 | 210,767,625 | 208,649,668 | 169,801,262 | 168,643,055 |

2) Fair value measurements recognized in the consolidated balance sheets

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | June 30, 2014 | | | |
|--|----------------------|----------------|----------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets at FVTPL</u> | | | | |
| Derivative financial instruments | \$ - | \$ 158,265 | \$ - | \$ 158,265 |
| <u>Available-for-sale financial assets</u> | | | | |
| Publicly traded stocks | \$ 59,082,115 | \$ - | \$ - | \$ 59,082,115 |
| Money market funds | 367 | - | - | 367 |
| | \$ 59,082,482 | \$ - | \$ - | \$ 59,082,482 |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial instruments | \$ - | \$ 19,418 | \$ - | \$ 19,418 |
| <u>Hedging derivative financial liabilities</u> | | | | |
| Stock forward contract | \$ - | \$ 5,559,559 | \$ - | \$ 5,559,559 |

| | December 31, 2013 | | | |
|---|--------------------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets at FVTPL</u> | | | | |
| Derivative financial instruments | \$ - | \$ 90,353 | \$ - | \$ 90,353 |

| | | | | |
|---|---------------|------|------|---------------|
| <u>Available-for-sale financial assets</u> | | | | |
| Publicly traded stocks | \$ 59,481,569 | \$ - | \$ - | \$ 59,481,569 |
| Money market funds | 1,183 | - | - | 1,183 |
| | \$ 59,482,752 | \$ - | \$ - | \$ 59,482,752 |

| | | | | |
|--|------|-----------|------|-----------|
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial instruments | \$ - | \$ 33,750 | \$ - | \$ 33,750 |

| | | | | |
|--|------|--------------|------|--------------|
| <u>Hedging derivative financial liabilities</u> | | | | |
| Stock forward contract | \$ - | \$ 5,481,616 | \$ - | \$ 5,481,616 |

| | June 30, 2013 | | | |
|---|----------------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets at FVTPL</u> | | | | |
| Derivative financial instruments | \$ - | \$ 20,010 | \$ - | \$ 20,010 |

| | | | | |
|---|---------------|------|------|---------------|
| <u>Available-for-sale financial assets</u> | | | | |
| Publicly traded stocks | \$ 50,643,339 | \$ - | \$ - | \$ 50,643,339 |
| Money market funds | 8,417 | - | - | 8,417 |
| | \$ 50,651,756 | \$ - | \$ - | \$ 50,651,756 |

| | | | | |
|--|------|------------|------|------------|
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial instruments | \$ - | \$ 136,515 | \$ - | \$ 136,515 |

Hedging derivative financial liabilities

| | | | | | | |
|------------------------|----|---|--------------|----|---|--------------|
| Stock forward contract | \$ | - | \$ 1,813,291 | \$ | - | \$ 1,813,291 |
|------------------------|----|---|--------------|----|---|--------------|

There were no transfers between Level 1 and 2 for the six months ended June 30, 2014 and 2013, respectively.

There were no purchases and disposals for assets on Level 3 for the six months ended June 30, 2014 and 2013, respectively.

3) Valuation techniques and assumptions used in fair value measurement

The fair values of financial assets and financial liabilities are determined as follows:

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks and money market funds).

Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; and stock forward contracts are measured at the difference between the present value of stock forward price discounted based on the applicable yield curve derived from quoted interest rates and the stock spot price.

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

32. RELATED PARTY TRANSACTIONS

Intercompany balances and transactions between TSMC and its subsidiaries, which are related parties of TSMC, have been eliminated upon consolidation; therefore those items are not disclosed in this note. The following is a summary of transactions between the Company and other related parties:

a. Net Revenue

| <u>Item</u> | <u>Related Party Categories</u> | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--------------------------------|---------------------------------|-----------------------------------|-------------|---------------------------------|--------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Net revenue from sale of goods | Associates | \$ 1,000,358 | \$ 932,700 | \$ 1,993,064 | \$ 1,617,486 |
| | Joint venture | 315 | 311 | 650 | 839 |
| | | \$ 1,000,673 | \$ 933,011 | \$ 1,993,714 | \$ 1,618,325 |
| Net revenue from royalties | Associates | \$ 127,574 | \$ 127,829 | \$ 255,064 | \$ 248,245 |

b. Purchases

| <u>Related Party Categories</u> | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---------------------------------|-----------------------------------|-------------|---------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |

| | | | | |
|------------|--------------|--------------|--------------|--------------|
| Associates | \$ 3,235,213 | \$ 2,173,451 | \$ 5,851,848 | \$ 4,270,005 |
|------------|--------------|--------------|--------------|--------------|

c. Receivables from related parties

| | | June 30, | December 31, | June 30, |
|---|---------------------------------|-------------------|---------------------|-------------------|
| | | 2014 | 2013 | 2013 |
| <u>Item</u> | <u>Related Party Categories</u> | | | |
| Receivables from related parties | Associates | \$ 462,704 | \$ 291,376 | \$ 597,459 |
| | Joint venture | 28 | 332 | 164 |
| | | \$ 462,732 | \$ 291,708 | \$ 597,623 |
| Other receivables from related parties | Associates | \$ 2,875,842 | \$ 221,576 | \$ 2,433,325 |

d. Payables to related parties

| | | June 30, | December 31, | June 30, |
|-----------------------------|---------------------------------|-----------------|---------------------|-----------------|
| | | 2014 | 2013 | 2013 |
| <u>Item</u> | <u>Related Party Categories</u> | | | |
| Payables to related parties | Associates | \$ 1,679,807 | \$ 1,687,239 | \$ 808,388 |
| | Joint venture | 1,974 | 1,217 | 2,807 |
| | | \$ 1,681,781 | \$ 1,688,456 | \$ 811,195 |

e. Acquisition of property, plant and equipment and intangible assets

| | Acquisition Price | | | |
|------------|-----------------------------------|-------------|---------------------------------|-------------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | <u>Related Party Categories</u> | | | |
| Associates | \$ - | \$ 11,835 | \$ - | \$ 11,835 |

f. Disposal of property, plant and equipment

| | Proceeds | | | |
|------------|-----------------------------------|-------------|---------------------------------|-------------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | <u>Related Party Categories</u> | | | |
| Associates | \$ 15,817 | \$ - | \$ 15,817 | \$ 11,418 |

| | Gains (Losses) | | | |
|------------|-----------------------------------|-------------|---------------------------------|-------------|
| | Three Months Ended June 30 | | Six Months Ended June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| | <u>Related Party Categories</u> | | | |
| Associates | \$ 15,817 | \$ (398) | \$ 15,817 | \$ 2,565 |

| | | | | |
|---------------|---|----|---|-----|
| Joint venture | - | 58 | - | 116 |
|---------------|---|----|---|-----|

| | | | | |
|--|-----------|----------|-----------|----------|
| | \$ 15,817 | \$ (340) | \$ 15,817 | \$ 2,681 |
|--|-----------|----------|-----------|----------|

**Deferred Gains (Losses) from Disposal of Property,
Plant and Equipment**

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--|------------------|----------------------|------------------|
|--|------------------|----------------------|------------------|

Related Party Categories

| | | | |
|---------------|------|------|-------------|
| Associates | \$ - | \$ - | \$ (10,320) |
| Joint venture | - | - | 832 |

| | | | |
|--|------|------|------------|
| | \$ - | \$ - | \$ (9,488) |
|--|------|------|------------|

g. Others

| <u>Item</u> | <u>Related Party Categories</u> | June 30, December 31, June 30, | | |
|---------------------|---------------------------------|---------------------------------------|-------------|-------------|
| | | 2014 | 2013 | 2013 |
| Refundable deposits | Associates | \$ 5,813 | \$ 5,813 | \$ 5,813 |

| <u>Item</u> | <u>Related Party Categories</u> | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-----------------------------------|---------------------------------|-----------------------------------|-------------|---------------------------------|-------------|
| | | 2014 | 2013 | 2014 | 2013 |
| Manufacturing expenses | Associates | \$ 651,522 | \$ 6,380 | \$ 1,129,860 | \$ 12,752 |
| | Joint venture | 2,109 | 2,645 | 4,695 | 3,502 |
| | | \$ 653,631 | \$ 9,025 | \$ 1,134,555 | \$ 16,254 |
| Research and development expenses | Associates | \$ 45,302 | \$ - | \$ 53,333 | \$ - |
| | Joint venture | 233 | 2,267 | 841 | 3,458 |
| | | \$ 45,535 | \$ 2,267 | \$ 54,174 | \$ 3,458 |

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, price and terms were determined in accordance with mutual agreements.

The Company leased machinery and equipment from Xintec. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid quarterly and the related expense was classified under manufacturing expenses.

The Company deferred the disposal gain/loss derived from sales of property, plant and equipment to related parties (transactions with associates and joint venture), and then recognized such gain/loss over the depreciable lives of the disposed assets.

h. Compensation of key management personnel:

The compensation to directors and other key management personnel for the six months ended June 30, 2014 and 2013 were as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|------------------------------|-----------------------------------|-------------|---------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| Short-term employee benefits | \$ 430,685 | \$ 463,386 | \$ 763,022 | \$ 630,966 |
| Post-employment benefits | 976 | 1,177 | 33,930 | 2,348 |
| | \$ 431,661 | \$ 464,563 | \$ 796,952 | \$ 633,314 |

The compensation to directors and other key management personnel were determined by the Compensation Committee of TSMC in accordance with the individual performance and the market trends.

33. PLEDGED ASSETS

The Company provided certificate of deposits recorded in other financial assets as collateral mainly for building lease agreements. As of June 30, 2014, December 31, 2013 and June 30, 2013, the aforementioned other financial assets amounted to NT\$120,705 thousand, NT\$120,566 thousand and NT\$120,987 thousand, respectively.

34. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of land, factory and office premises from the Science Park Administration and entered into lease agreements for its office premises and certain office equipment located in the United States, Europe, Japan, Shanghai and Taiwan. These operating leases expire between September 2014 and February 2034 and can be renewed upon expiration.

Future minimum lease payments under the above non-cancellable operating leases are as follows:

| | June 30, 2014 | December 31, 2013 | June 30, 2013 |
|--|--------------------------------|------------------------------------|--------------------------------|
| Not later than 1 year | \$ 872,608 | \$ 859,070 | \$ 841,055 |
| Later than 1 year and not later than 5 years | 2,959,087 | 3,053,029 | 3,125,895 |
| Later than 5 years | 5,215,876 | 5,534,848 | 5,867,588 |
| | \$ 9,047,571 | \$ 9,446,947 | \$ 9,834,538 |

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant contingent liabilities and unrecognized commitments of the Company as of the end of the reporting period, excluding those disclosed in other notes, were as follows:

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity provided TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. As of June 30, 2014, the R.O.C. Government did not invoke such right.
- b. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. TSMC's equity interest in SSMC was 32%. Nevertheless, in September 2006, Philips spun-off its semiconductor subsidiary which was renamed as NXP B.V. Further, TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on

November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares, respectively. TSMC and NXP B.V. are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs. There was no default from the aforementioned commitment as of June 30, 2014.

- c. In June 2010, Keranos, LLC. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. In February 2014, the Court entered a final judgment in favor of TSMC, dismissing all of Keranos' claims against TSMC with prejudice. In March, 2014, Keranos filed a notice of appeal to the U.S. Court of Appeals for the Federal Circuit. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- d. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- e. TSMC joined the Customer Co-Investment Program of ASML and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML's equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity on October 31, 2012. Both parties also signed the research and development funding agreement whereby TSMC shall provide EUR276,000 thousand to ASML's research and development programs from 2013 to 2017. As of June 30, 2014, TSMC has paid EUR82,637 thousand to ASML under the research and development funding agreement.
- f. In September 2013, Zond Inc. filed a complaint in U.S. District Court for the District of Massachusetts against TSMC, certain TSMC subsidiaries and other companies. Both sides have since then taken a number of further legal actions. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- g. In December 2013, Tela Innovations (Tela), Inc. filed complaints in the U.S. District Court for the District of Delaware and in the United States International Trade Commission (ITC) accusing TSMC and TSMC North America of infringing one U.S. patent. The Delaware case had been stayed since February 2014. In March 2014, the ITC Court granted Tela's motion to assert an additional U.S. patent against TSMC and TSMC North America. In January 2014, TSMC filed a lawsuit in the U.S. District Court for the District of North California against Tela for trade secret misappropriation and breach of contract. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- h. In March 2014, DSS Technology Management, Inc. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, TSMC Development, Inc., and several other companies infringe one U.S. patent. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- i. Amounts available under unused letters of credit as of June 30, 2014, December 31, 2013 and June 30, 2013 were NT\$89,568 thousand, NT\$89,400 thousand and NT\$89,904 thousand, respectively.

36. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant financial assets and liabilities denominated in foreign currencies were as follows:

| | Foreign Currencies | Exchange Rate | Carrying |
|-------------------------------------|-------------------------------|----------------------|-----------------|
| | (In Thousands) | (Note) | Amount |
| <u>June 30, 2014</u> | | | |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 3,462,413 | 29.856 | \$ 103,373,806 |
| EUR | 71,378 | 40.75 | 2,908,664 |
| JPY | 739,275 | 0.2946 | 217,790 |
| Non-monetary items | | | |
| HKD | 184,891 | 3.85 | 711,832 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 2,299,423 | 29.856 | 68,651,575 |
| EUR | 132,123 | 40.75 | 5,383,995 |
| JPY | 41,879,354 | 0.2946 | 12,337,658 |
| <u>December 31, 2013</u> | | | |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | 2,756,090 | 29.800 | 82,131,493 |
| EUR | 451,162 | 41.00 | 18,497,657 |
| JPY | 41,386,551 | 0.2834 | 11,728,949 |
| Non-monetary items | | | |
| HKD | 168,334 | 3.84 | 646,402 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 2,026,958 | 29.800 | 60,403,358 |
| EUR | 811,202 | 41.00 | 33,259,299 |
| JPY | 71,931,749 | 0.2834 | 20,385,458 |

| | Foreign Currencies | Exchange Rate | Carrying |
|------------------------------|-------------------------------|----------------------|-----------------|
| | (In Thousands) | (Note) | Amount |
| June 30, 2013 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | \$ 2,986,106 | 29.968 | \$ 89,487,636 |
| EUR | 184,157 | 39.08 | 7,196,873 |
| JPY | 30,579,928 | 0.3033 | 9,274,892 |
| Non-monetary items | | | |
| HKD | 157,296 | 3.86 | 607,161 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,234,044 | 29.968 | 66,949,819 |
| EUR | 449,239 | 39.08 | 17,556,264 |
| JPY | 57,704,049 | 0.3033 | 17,501,638 |
| | | | (Concluded) |

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

37. OPERATING SEGMENTS INFORMATION

a. Operating segments

The Company's only reportable segment is the foundry segment. The foundry segment engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. The Company also had other operating segments that did not exceed the quantitative threshold for separate reporting. These segments mainly engage in the researching, developing, designing, manufacturing and selling of solid state lighting devices and renewable energy and efficiency related technologies and products.

The Company uses the income from operations as the measurement for segment profit and the basis of performance assessment. There was no material differences between the accounting policies of the operating segment and the accounting policies described in Note 4.

b. Segment revenue and operating results

| | Foundry | Others | Elimination | Total |
|--|----------------|---------------|--------------------|----------------|
| <u>Three months ended June 30, 2014</u> | | | | |
| Net revenue from external customers | \$ 182,820,998 | \$ 199,486 | \$ - | \$ 183,020,484 |
| Net revenue from sales among intersegments | - | 12,323 | (12,323) | - |
| Income from operations | 71,374,561 | (660,642) | - | 70,713,919 |

(Continued)

| | Foundry | Others | Elimination | Total |
|--|-------------|-------------|-------------|----------------------------|
| <u>Three months ended June 30, 2013</u> | | | | |
| Net revenue from external customers | 155,802,306 | 84,014 | - | 155,886,320 |
| Net revenue from sales among intersegments | - | 5,660 | (5,660) | - |
| Income from operations | 58,289,165 | (660,083) | - | 57,629,082 |
| <u>Six months ended June 30, 2014</u> | | | | |
| Net revenue from external customers | 330,896,123 | 339,533 | - | 331,235,656 |
| Net revenue from sales among intersegments | - | 26,895 | (26,895) | - |
| Income from operations | 124,575,031 | (1,338,752) | - | 123,236,279 |
| <u>Six months ended June 30, 2013</u> | | | | |
| Net revenue from external customers | 288,483,842 | 157,474 | - | 288,641,316 |
| Net revenue from sales among intersegments | - | 5,898 | (5,898) | - |
| Income from operations | 103,400,482 | (1,343,391) | - | 102,057,091 (Concluded) |

38. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau (SFB) for TSMC:

- a. Financings provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): Please see Table 3 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Please see Table 5 attached;
- f.

Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None;

- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Information about the derivative financial instruments transaction: Please see Notes 7 and 10;
- j. Others: The business relationship between the parent and the subsidiaries, and significant transactions between them: Please see Table 8 attached;

- k. Names, locations, and related information of investees over which TSMC exercises significant influence (excluding information on investment in Mainland China): Please see Table 9 attached;

- l. Information on investment in Mainland China
 - 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 10 attached.

 - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 8 attached.

TABLE 1

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
FINANCINGS PROVIDED**

FOR THE SIX MONTHS ENDED JUNE 30, 2014

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Financial Statement Account | Related Party | Maximum | Ending | Amount | Interest Rate | Nature for Financing | Transaction Amount | Reason for Financing | Collateral | | |
|---|---------------|---|--------------------------------------|------------------------------------|---------------|-----------------------------------|--------------------|----------------------|------------------------|------|-------|
| | | Balance for the Period (US\$ in Thousands) (Note 3) | Balance (US\$ in Thousands) (Note 3) | Actually Drawn (US\$ in Thousands) | | | | | Allowance for Bad Debt | Item | Value |
| Accounts receivables in related companies | Yes | \$ 4,179,840 (US\$ 140,000) | \$ 4,179,840 (US\$ 140,000) | \$ 3,284,160 (US\$ 110,000) | 0.37%-0.3805% | The need for short-term financing | \$ - | Operating capital | \$ - | - | \$ - |
| Accounts receivables in related companies | Yes | 1,791,360 (US\$ 60,000) | 1,791,360 (US\$ 60,000) | 597,120 (US\$ 20,000) | 0.37% | The need for short-term financing | - | Operating capital | - | - | - |

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. The above restriction does not apply to the subsidiaries whose voting shares are 90% and up owned, directly or indirectly, by TSMC (90% and up owned subsidiaries). However, the aggregate amounts lendable to 90% and up owned subsidiaries and the total amount lendable to one such borrower of 90% and up owned subsidiaries shall not exceed forty percent (40%) of the net worth of TSMC Partners.

Note 2: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners.

Note 3: The maximum balance for the period and ending balance represent the amounts approved by the Board of Directors.

TABLE 2**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Relationship | Nature of Party | Limits | | Ending Balance (US\$ in Thousands) (Note 3) | Amount Actually Drawn (US\$ in Thousands) | Ratio | | Maximum Endorse- ment/ Guarantee Amount Allowable (Note 2) | Guarantee Provided by Parent Company |
|--------------|-----------------|--|--|--|---|--|---|--|--|
| | | on Endorse- ment/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2) | Maximum Balance for the Period (US\$ in Thousands) (Note 3) | | | Amount of Endorse- ment/ Guarantee Collateralized by Properties Equity | of Accumu- lated Endorse- ment/ Guarantee to Net per Latest Financial Statements | | |
| Subsidiary | | \$ 219,196,629 | \$ 44,784,000 (US\$ 1,500,000) | \$ 44,784,000 (US\$ 1,500,000) | \$ 44,784,000 (US\$ 1,500,000) | \$ - | 5.1% | \$ 219,196,629 | Yes |

Note 1: The total amount of the guarantee provided by TSMC to any individual entity shall not exceed ten percent (10%) of TSMC's net worth, or the net worth of such entity. However, subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions after the approval of the Board of Directors.

Note 2: The total amount of guarantee shall not exceed twenty-five percent (25%) of TSMC's net worth.

Note 3: The maximum balance for the period and ending balance represent the amounts approved by the Board of Directors.

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
MARKETABLE SECURITIES HELD

JUNE 30, 2014

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | JUNE 30, 2014 | | Fair Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (F Currencies in TH |
|---|-------------------------------------|--|--------------------------------|-------------------|-----------|--|--------------------------------|--|
| | | | | Carrying Value | | | | |
| <u>Commercial paper</u> | | | | | | | | |
| Taiwan Power Company | - | Held-to-maturity financial assets | 30 | \$ | 299,230 | | N/A | \$ |
| <u>Stock</u> | | | | | | | | |
| Semiconductor Manufacturing International Corporation | - | Available-for-sale financial assets | 275,957 | | 711,832 | | 1 | |
| United Industrial Gases Co., Ltd. | - | Financial assets carried at cost | 21,230 | | 193,584 | | 10 | |
| United Etsu Handotai Co., Ltd. | - | | 10,500 | | 105,000 | | 7 | |
| United K. Technology Fund IV | - | | 4,000 | | 39,280 | | 2 | |
| <u>Bond</u> | | | | | | | | |
| Horizon Ventures Fund | - | Financial assets carried at cost | - | | 78,303 | | 12 | |
| Timson Asia Capital | - | | - | | 53,211 | | 1 | |
| <u>Stock</u> | | | | | | | | |
| ML | - | Available-for-sale financial assets | 20,993 | US\$ | 1,954,417 | | 5 | US\$ |
| <u>Money market fund</u> | | | | | | | | |

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| | | | | | | | |
|---|---|--|--------|------|-------|-----|------|
| ga Cash Mgmt Global fshore | - | Available-for-sale financial assets | 12 | US\$ | 12 | N/A | US\$ |
| <u>Stock</u> | | | | | | | |
| cube | - | Financial assets carried at cost | 6,333 | | - | 16 | |
| <u>Preferred stock</u> | | | | | | | |
| anghai Walden Venture pital Enterprise | - | Financial assets carried at cost | - | US\$ | 5,000 | 6 | US\$ |
| <u>Common stock</u> | | | | | | | |
| lobal Investment Holding c. | - | Financial assets carried at cost | 11,124 | US\$ | 3,065 | 6 | US\$ |
| chWave Technology rp. | - | | 4,074 | US\$ | 1,545 | 10 | US\$ |
| <u>Preferred stock</u> | | | | | | | |
| xt IO, Inc. | - | Financial assets carried at cost | 8 | | - | - | |
| T Holdings, LLC | - | | - | US\$ | 141 | 4 | US\$ |
| <u>Preferred stock</u> | | | | | | | |
| ics, Inc. | - | Financial assets carried at cost | 230 | US\$ | 497 | 2 | US\$ |
| <u>Common stock</u> | | | | | | | |
| chip Technologies nited | - | Financial assets carried at cost | 6,857 | US\$ | 3,341 | 14 | US\$ |
| ics, Inc. | - | | 278 | US\$ | 10 | 3 | US\$ |
| yatek Technology, rp. | - | | 745 | US\$ | 163 | 6 | US\$ |
| <u>Preferred stock</u> | | | | | | | |
| ics, Inc. | - | Financial assets carried at cost | 264 | US\$ | 456 | 3 | US\$ |

(Continued)

| JUNE 30, 2014 | | | | | | | |
|---|-------------------------------------|--|--------------------------------|--|-------|--------------------------------|---|
| Investable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | | Percentage of Ownership (%) | Fair Value (Foreign Currency in Thousands) |
| | | | | | | | |
| <u>Common stock</u> | | | | | | | |
| ASML | - | Financial assets carried at cost | 1,806 | US\$ | 2,607 | 8 | US\$ |
| ASML Systems, Inc. | - | | 2,600 | US\$ | 2,243 | 28 | US\$ |
| Wave Technology | - | | 1,267 | US\$ | 1,036 | 3 | US\$ |
| <u>Preferred stock</u> | | | | | | | |
| ASML Technologies, Inc. | - | Financial assets carried at cost | 963 | US\$ | 2,168 | 2 | US\$ |
| ASML Patents | - | | 4,643 | US\$ | 4,441 | 2 | US\$ |
| ASML Technology Corporation | - | | 92 | US\$ | 28 | - | US\$ |
| ASML, Inc. | - | | 711 | US\$ | 1,100 | - | US\$ |
| ASML O, Inc. | - | | 179 | | - | 1 | |
| ASML Holdings, LLC | - | | - | US\$ | 588 | 13 | US\$ |
| <u>Common stock</u> | | | | | | | |
| ASML Patents | - | Available-for-sale financial assets | 7 | US\$ | 486 | - | US\$ |
| ASML Wireless Broadband | - | Financial assets carried at cost | 2,249 | US\$ | 315 | 6 | US\$ |
| <u>Preferred stock</u> | | | | | | | |
| ASML Lux, Inc. | - | Financial assets carried at cost | 7,522 | US\$ | 9,379 | 3 | US\$ |
| ASML, Inc. | - | | 1,154 | US\$ | 1,500 | N/A | US\$ |
| ASML Leds Lighting Corp. | - | | 1,600 | US\$ | 800 | 11 | US\$ |
| ASML Patents, Inc. | - | | 4,147 | US\$ | 170 | - | US\$ |
| ASML Patents (USA), Ltd. | - | | 527 | US\$ | 8,238 | 15 | US\$ |
| ASML Patents, Inc. | - | | 3,890 | US\$ | 3,025 | 2 | US\$ |

Note 1: The carrying value represents carrying amount less accumulated impairment of NT\$412,901 thousand.

Note 2: In October 2012, TSMC Global acquired 5% of the outstanding equity of ASML with a lock-up period of 2.5 years starting from the acquisition date.

Note 3: The carrying value represents carrying amount less accumulated impairment of US\$500 thousand.

Note 4: The carrying value represents carrying amount less accumulated impairment of US\$1,219 thousand.

Note 5: The carrying value represents carrying amount less accumulated impairment of US\$4,672 (Concluded) thousand.

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST
NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE SIX MONTHS ENDED JUNE 30, 2014

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Financial Statement Account | Counter-party | Nature of Relationship | Beginning | | Acquisition | | Shares/Units (In Thousands) | Disposal | | Gross Proceeds (In Thousands) |
|---|---------------|------------------------|-----------------------------|-------------|-----------------------------|------------|-----------------------------|--------------|----------------|-------------------------------|
| | | | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | | Amount | Carrying Value | |
| Fixed-to-maturity financial assets | - | - | 100 | \$ 998,018 | 60 | \$ 598,817 | 160 | \$ 1,600,000 | \$ 1,596,835 | \$ |
| | - | - | 80 | 797,931 | 80 | 797,906 | 130 | 1,300,000 | 1,296,607 | |
| Investments accounted for using equity method | Public Market | Associate | 628,223 | 10,556,348 | - | - | 82,000 | 3,471,883 | 1,443,240 | 2,000,000 |
| Investments accounted for using equity method | Note 2 | Subsidiary | 293,637 | US\$248,252 | - | - | - | - | US\$ 50,000 | |

Note 1: The ending balance includes share of profits/losses of investees and other related adjustment to equity.

Note 2: The disposal is primarily consisted of capital return.

TABLE 5**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(Amounts in Thousands of New Taiwan Dollars)**

| of Party | Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relation- ships | Owner | Prior Transaction | | | Price Reference | Pu Ac |
|-------------|--|-----------------------|---|------------------------------|------------------------------------|-------|---|------------------|--------|---|-------------|
| | | | | | | | of Related Counter-party Relation- ships | Transfer Date | Amount | | |
| | April 9, 2013 to February 21, 2014 | \$ 310,469 | Monthly settlement by the construction progress and acceptance | Mandartech Interiors Inc. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Man purp |
| | January 13, 2013 to June 18, 2014 | 491,470 | Monthly settlement by the construction progress and acceptance | Tasa Construction Inc. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Man purp |

TABLE 6**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Related Party | Nature of Relationships | Purchases/ Sales | Transaction Details | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | |
|--------------------|-------------------------|---------------------|--|---------------|---|-------------------------|----------------------------|--|---------------|
| | | | Amount (Foreign Currencies in Thousands) | % to Total | Payment Terms | Unit Price (Note) | Payment Terms (Note) | Ending Balance (Foreign Currencies in Thousands) | % to Total |
| TSMC North America | Subsidiary | Sales | \$ 215,959,508 | 65 | Net 30 days from invoice date | - | - | \$ 59,308,777 | 70 |
| GUC | Associate | Sales | 1,200,675 | - | Net 30 days from the end of the month of when invoice is issued | - | - | 351,004 | - |
| TSMC China | Subsidiary | Purchases | 8,215,495 | 23 | Net 30 days from the end of the month of when invoice is issued | - | - | (1,866,052) | 8 |

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| | | | | | | | | | |
|------------------------|---------------------|-----------|---------------|----|---|---|---|--------------|----|
| WaferTech | Indirect subsidiary | Purchases | 4,059,315 | 11 | Net 30 days from the end of the month of when invoice is issued | - | - | (637,224) | 3 |
| VIS | Associate | Purchases | 3,735,307 | 11 | Net 30 days from the end of the month of when invoice is issued | - | - | (681,595) | 3 |
| SSMC | Associate | Purchases | 2,116,541 | 6 | Net 30 days from the end of the month of when invoice is issued | - | - | (430,904) | 2 |
| TSMC Solar Europe GmbH | Subsidiary | Sales | 188,719 | 64 | Net 30 days from the end of the month of when invoice is issued | - | - | 85,619 | 93 |
| GUC | Associate of TSMC | Sales | 724,011 | - | Net 30 days from invoice date | - | - | 111,700 | - |
| | | | (US\$ 23,986) | | | | | (US\$ 3,741) | |

Note : The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 7**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****JUNE 30, 2014****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Related Party | Nature of Relationships | Ending Balance | Turnover Days | Overdue | Amount | Action Taken | Amount in |
|---------------|-------------------------|--------------------------------------|---------------|----------|---------------|--------------|-----------|
| | | (Foreign Currencies in Thousands) | | (Note 1) | | | |
| North America | Subsidiary | \$ 59,756,350 | 47 | | \$ 21,592,233 | - | |
| | Associate | 491,591 | 43 | | - | - | |
| | Associate | 1,055,169 | (Note 2) | | - | - | |
| | Associate | 1,565,536 | (Note 2) | | - | - | |
| Dolar | The same parent company | 3,291,392 | (Note 2) | | - | - | |
| | | (US\$ 110,242) | | | | | |
| SL | The same parent company | 597,991 | (Note 2) | | - | - | |
| | | (US\$ 20,029) | | | | | |
| | Parent company | 1,866,052 | 35 | | - | - | |
| | | (RMB 387,823) | | | | | |
| | Associate of TSMC | 111,700 | 23 | | - | - | |
| | | (US\$ 3,741) | | | | | |
| | Parent company | 289,167 | (Note 2) | | - | - | |
| | | (US\$ 9,685) | | | | | |
| | Parent company | 637,224 | 30 | | - | - | |
| | | (US\$ 21,343) | | | | | |

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2:

The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

- 60 -

TABLE 8**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**

(Amounts in Thousands of New Taiwan Dollars)

A. For the six months ended June 30, 2014

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Intercompany Transactions | | Percentage of Consolidated Net Assets or Total Assets (Note 2) |
|-----|--------------|--------------------|------------------------------------|---|----------------|---|
| | | | | Financial Statements Item | Amount | |
| 0 | TSMC | TSMC North America | 1 | Net revenue from sale of goods | \$ 215,959,508 | - 65% |
| | | | | Receivables from related parties | 59,308,777 | - 4% |
| | | | | Other receivables from related parties | 447,573 | - - |
| | | | | Payables to related parties | 5,766 | - - |
| | | TSMC China | 1 | Net revenue from sale of goods | 5,160 | - - |
| | | | | Purchases | 8,215,495 | - 2% |
| | | | | Marketing expenses - commission | 49,400 | - - |
| | | | | Disposal of property, plant and equipment | 1,551 | - - |
| | | | | Gain on disposal of property, plant and equipment | 7,080 | - - |
| | | | | Purchases of property, plant and equipment | 8,198 | - - |
| | | | | Other receivables from related parties | 1,869 | - - |
| | | | | Payables to related parties | 1,866,052 | - - |
| | | TSMC Japan | 1 | Marketing expenses - commission | 122,062 | - - |
| | | | | Payables to related parties | 24,203 | - - |
| | | TSMC Europe | 1 | Marketing expenses - commission | 202,653 | - - |
| | | | | Research and development expenses | 36,275 | - - |
| | | | | Payables to related parties | 46,049 | - - |
| | | TSMC Korea | 1 | Marketing expenses - commission | 13,574 | - - |
| | | | | Payables to related parties | 4,050 | - - |
| | | TSMC Technology | 1 | Research and development expenses | 581,061 | - - |
| | | | | Payables to related parties | 289,167 | - - |
| | | WaferTech | 1 | Net revenue from sale of goods | 4,578 | - - |
| | | | | Purchases | 4,059,315 | - 1% |
| | | | | Other receivables from related parties | 7,381 | - - |
| | | | | Payables to related parties | 637,224 | - - |
| | | | | Disposal of property, plant and equipment | 4,212 | - - |
| | | | | Manufacturing expenses | 1,219 | - - |
| | | TSMC Canada | 1 | Research and development expenses | 104,408 | - - |

| | | | | | |
|----------|---|--|--------|---|-------------|
| | | Payables to related parties | 16,885 | - | - |
| TSMC SSL | 1 | Manufacturing expenses | 25,095 | - | - |
| | | Other gains and losses | 4,050 | - | - |
| | | Other receivables from related parties | 2,036 | - | - |
| | | Payables to related parties | 10,639 | - | - |
| | | Purchases of property, plant and equipment | 38,606 | - | - |
| | | | | | (Continued) |

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Intercompany Transactions | | Percentage of Consolidated Net Assets (Note 2) |
|-----|--------------------|--------------------------|------------------------------------|--|-----------|---|
| | | | | Financial Statements Item | Amount | |
| 0 | TSMC | TSMC Solar | 1 | Other gains and losses | \$ 4,818 | - |
| | | | | Other receivables from related parties | 2,467 | - |
| 1 | TSMC Development | WaferTech | 1 | Other receivables from related parties | 58,882 | - |
| 2 | TSMC North America | TSMC Technology | 3 | Other receivables from related parties | 19,477 | - |
| 3 | TSMC Solar | TSMC Solar Europe GmbH | 1 | Net revenue from sale of goods | 188,719 | - |
| | | | | Receivables from related parties | 85,619 | - |
| | | TSMC Solar North America | 1 | Net revenue from sale of goods | 6,372 | - |
| | | | | Receivables from related parties | 6,318 | - |
| | | TSMC Partners | 3 | Finance costs | 5,233 | - |
| | | | | Other payables to related parties | 3,291,392 | - |
| 4 | TSMC SSL | TSMC Partners | 3 | Other payables to related parties | 597,991 | - |
| | | TSMC China | 3 | Net revenue from sale of goods | 3,197 | - |

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Concluded)

TABLE 9**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)****JUNE 30, 2014****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Location | Main Businesses and Products | Original Investment Amount | | Balance as of June 30, 2014 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) |
|--|--|--|--|-----------------------------|-------------------------------|---|---|
| | | June 30, 2014 (Foreign Currencies in Thousands) | December 31, 2013 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | |
| Portola, British Virgin Islands | Investment activities | \$ 42,327,245 | \$ 42,327,245 | 1 | 100 | \$ 64,609,321 | \$ 93,293 |
| Portola, British Virgin Islands | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | 31,456,130 | 31,456,130 | 988,268 | 100 | 43,912,641 | 982,072 |
| Hsin-Chu, Taiwan | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 11,786,871 | 13,232,288 | 546,223 | 33 | 9,205,352 | 2,665,771 |
| Singapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 6,940,820 | 2,540,544 |
| Hsin-Chung, Taiwan | Engaged in researching, developing, designing, | 11,180,000 | 11,180,000 | 1,118,000 | 99 | 3,882,201 | (660,694) |

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| | | | | | | | |
|----------------------------|---|-----------|-----------|---------|------|-----------|-----------|
| | manufacturing and selling renewable energy and saving related technologies and products | | | | | | |
| San Jose, California, S.A. | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 3,757,434 | (53,385) |
| Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 5,546,744 | 5,546,744 | 554,674 | 92 | 1,246,459 | (981,710) |
| Hoyuan, Taiwan | Wafer level chip size packaging service | 1,357,890 | 1,357,890 | 94,950 | 40 | 1,875,195 | 202,791 |
| Hsin-Chu, Taiwan | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,022,092 | 253,146 |
| Yuanm, Taiwan | Investing in new start-up technology companies | 1,813,466 | 1,908,912 | - | 98 | 824,495 | 21,624 |
| Yuanm, Taiwan | Investing in new start-up technology companies | 602,454 | 596,514 | - | 98 | 443,893 | (4,683) |
| Amsterdam, Netherlands | Marketing and engineering supporting activities | 15,749 | 15,749 | - | 100 | 309,333 | 20,626 |
| Yuanm, Taiwan | Investing in new start-up technology companies | 844,775 | 841,757 | - | 99.5 | 146,399 | (1,797) |
| Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 132,935 | 3,248 |
| Yuanm, Taiwan | Investment activities | 150,000 | 150,000 | - | 100 | 48,143 | (17,204) |
| Hanoi, Vietnam | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 32,736 | 1,962 |
| New Taipei, Taiwan | Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems | 6,228,661 | 6,228,661 | 87,480 | 20 | 3,745,429 | 180,296 |
| Amsterdam, Netherlands | Investing in solar related business | 504,107 | 504,107 | - | 100 | 14,297 | (75,342) |
| Delaware, S.A. | Selling and marketing of solar related products | 205,772 | 205,772 | 1 | 100 | (5,969) | (14,447) |
| Delaware, S.A. | Selling and marketing of solid state lighting related products | 3,133 | 3,133 | 1 | 100 | 2,873 | (6) |

(Continued)

| Location | Main Businesses and Products | Original Investment Amount | | Balance as of June 30, 2014 | | | Carrying Value (Foreign Currencies in Thousands) | Net I (Los the I (Fo Cur Thou |
|------------------|---|---|---|-----------------------------|-------------------------------|---------------------------------|---|--|
| | | June 30, 2014 (Foreign Currencies in Thousands) | December 31, 2013 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | | | |
| aware, A. | Investment activities | \$ 0.03 (US\$ 0.001) | \$ 0.03 (US\$ 0.001) | - | 100 | \$ 21,373,155 (US\$ 715,875) | \$ | |
| man nds | Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry | 1,283,808 (US\$ 43,000) | 1,283,808 (US\$ 43,000) | 43,000 | 49 | 3,570,515 (US\$ 119,591) | (US\$ | |
| aware, A. | Engineering support activities | 0.03 (US\$ 0.001) | 0.03 (US\$ 0.001) | - | 100 | 416,627 (US\$ 13,955) | (US\$ | |
| man nds | Investing in new start-up technology companies | 277,631 (US\$ 9,299) | 422,552 (US\$ 14,153) | 14,153 | 97 | 219,450 (US\$ 7,350) | (US\$ | |
| man nds | Investing in new start-up technology companies | 17,406 (US\$ 583) | 23,497 (US\$ 787) | 787 | 97 | 16,578 (US\$ 555) | (US\$ | |
| ario, ada | Engineering support activities | 68,669 (US\$ 2,300) | 68,669 (US\$ 2,300) | 2,300 | 100 | 150,075 (US\$ 5,027) | (US\$ | |
| shington, A. | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | 895,680 (US\$ 30,000) | 2,388,480 (US\$ 80,000) | 293,637 | 100 | 6,596,716 (US\$ 220,951) | (US\$ | |
| v Taipei, wan | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | 155,609 (US\$ 5,212) | 155,609 (US\$ 5,212) | 15,643 | 58 | 34,484 (US\$ 1,155) | (US\$ | |
| man nds | Investing in new start-up technology companies | 63,593 | 63,593 | - | 100 | 16,467 | | |

| | | (US\$ 2,130) | (US\$ 2,130) | | | (US\$ 552) | (US\$ |
|----------------|---|--------------|--------------|-------|-----|------------|-------|
| aware, .A. | Investing in new start-up technology companies | - | - | - | 62 | - | |
| aware, .A. | Investing in new start-up technology companies | - | - | - | 31 | - | |
| aware, .A. | Investing in new start-up technology companies | - | - | - | 7 | - | |
| nburg, many | Selling of solar related products and providing customer service | 505,300 | 505,300 | - | 100 | 18,066 | |
| | | (EUR 12,400) | (EUR 12,400) | | | (EUR 443) | (EUR |
| Chung, wan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | 53,092 | 52,498 | 5,309 | - | 18,332 | (|
| n-Chu, wan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 86,549 | 54,359 | 8,655 | 1 | 19,476 | (|

Note 1: The share of profits/losses of investee includes the effect of unrealized gross profit on intercompany transactions.

Note 2: The share of profits/losses of the investee company is not reflected herein as such amount is already included in the share of profits/losses of the investor company.

Note 3: Please refer to Table 10 for information on investment in Mainland China.

(Concluded)

TABLE 10**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****INFORMATION ON INVESTMENT IN MAINLAND CHINA****FOR THE SIX MONTHS ENDED JUNE 30, 2014****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Total Amount of Paid-in Capital (Foreign Currencies in Thousands) | Method of Investment | Accumulated Outflow of Investment from Taiwan | Investment Flows | | Accumulated Outflow of Investment from Taiwan | Net Income (Losses) of the Investee Company | Percentage of Ownership | Share Profits/L |
|--|-------------------------|--|------------------|--------|--|--|-------------------------------|--------------------|
| | | as of January 1, 2014 (US\$ in Thousands) | Outflow | Inflow | as of June 30, 2014 (US\$ in Thousands) | | | |
| \$ 18,939,667 (RMB 4,502,080) | (Note 1) | \$ 18,939,667 (US\$ 596,000) | \$ - | \$ - | \$ 18,939,667 (US\$ 596,000) | \$ 2,801,700 | 100% | \$ 2,635, (Note |

Accumulated Investment in Mainland China Investment Amounts Authorized by

as of June 30, 2014

(US\$ in Thousands)

Investment Commission, MOEA

(US\$ in Thousands)

Upper Limit on Investment

(US\$ in Thousands)

| | | |
|----------------|----------------|----------------|
| \$ 18,939,667 | \$ 18,939,667 | \$ 18,939,667 |
| (US\$ 596,000) | (US\$ 596,000) | (US\$ 596,000) |

Note 1: TSMC directly invested US\$596,000 thousand in TSMC China.

Note 2: Amount was recognized based on the reviewed financial statements.