TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
August 14, 2017

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 2017

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: Aug 14, 2017

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, 2017 and 2016 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 (the Company) as of June 30, 2017 and 2016 and the related consolidated statements of comprehensive income for the three months ended June 30, 2017 and 2016 and for the six months ended June 30, 2017 and 2016, as well as the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2017 and 2016. 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 and issued into effect by the Financial Supervisory Commission of the Republic of China.

Deloitte & Touche

Taipei, Taiwan

Republic of China

August 8, 2017

<u>*Notice to Readers*</u>

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance 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 applied in the Republic of China.

For the convenience of readers, the independent 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 independent 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)

	June 30, 2017 (Reviewed) Amount	%	December 31, 2016 (Audited) Amount	%	June 30, 2016 (Reviewed) Amount	%
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 570,466,958	29	$ 541,253,833	29	$ 622,359,302	35
Financial assets at fair value through profit or loss (Note 7)	4,995,251		6,451,112		1,820,907	
Available-for-sale financial assets (Notes 8 and 14)	76,252,652	4	67,788,767	4	36,322,049	2
Held-to-maturity financial assets (Note 9)	7,210,380		16,610,116	1	7,362,302	
Hedging derivative financial assets (Notes 4 and 10)	24,517		5,550			
Notes and accounts receivable, net (Note 11)	109,893,282	6	128,335,271	7	111,300,187	6
Receivables from related parties (Note 29)	436,001		969,559		424,210	
Other receivables from related parties (Note 29)	1,532,321		146,788		1,546,979	
Inventories (Notes 12 and 33)	61,010,525	3	48,682,233	3	60,705,814	4
Other financial assets (Notes 30 and 33)	2,450,135		4,100,475		7,419,643	
Other current assets (Note 17)	3,777,530		3,385,422		3,263,678	
Total current assets	838,049,552	42	817,729,126	44	852,525,071	47
NONCURRENT ASSETS						
Held-to-maturity financial assets (Note 9)	20,529,204	1	22,307,561	1	27,266,867	2
Financial assets carried at cost (Note 13)	4,313,269		4,102,467		4,066,621	
Investments accounted for using equity method (Note 14)	18,976,025	1	19,743,888	1	22,064,632	1
Property, plant and equipment (Note 15)	1,077,626,759	54	997,777,687	53	875,870,205	49
Intangible assets (Note 16)	14,118,892	1	14,614,846	1	14,066,562	1
Deferred income tax assets (Note 4)	10,010,278	1	8,271,421		6,643,607	
Refundable deposits	742,707		407,874		441,447	
Other noncurrent assets (Note 17)	2,067,091		1,500,432		1,546,548	
Total noncurrent assets	1,148,384,225	58	1,068,726,176	56	951,966,489	53

TOTAL	$ 1,986,433,777	100	$ 1,886,455,302	100	$ 1,804,491,560	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term loans (Note 18)	$ 54,745,200	3	$ 57,958,200	3	$ 38,739,600	2
Financial liabilities at fair value through profit or loss (Note 7)	82,552		191,135		178,704	
Hedging derivative financial liabilities (Notes 4 and 10)	19				4,217	
Accounts payable	24,509,899	1	26,062,351	2	22,117,148	1
Payables to related parties (Note 29)	1,101,776		1,262,174		1,037,116	
Salary and bonus payable	10,042,918	1	13,681,817	1	9,843,554	1
Accrued profit sharing bonus to employees and compensation to directors and supervisors (Notes 22 and 27)	33,376,142	2	22,894,006	1	30,365,818	2
Payables to contractors and equipment suppliers	50,376,846	2	63,154,514	3	48,102,264	3
Cash dividends payable (Note 22)	181,626,763	9			155,696,382	9
Income tax payable (Note 4)	33,463,459	2	40,306,054	2	31,168,780	2
Provisions (Note 19)	13,818,216	1	18,037,789	1	9,495,889	
Long-term liabilities - current portion (Note 20)	79,865,605	4	38,109,680	2	22,010,000	1
Accrued expenses and other current liabilities (Notes 21 and 29)	40,497,750	2	36,581,553	2	29,979,582	2
Total current liabilities	523,507,145	27	318,239,273	17	398,739,054	23
NONCURRENT LIABILITIES						
Bonds payable (Note 20)	99,300,000	5	153,093,557	8	181,276,211	10
Long-term bank loans	16,940		21,780		26,300	
Deferred income tax liabilities (Note 4)	160,709		141,183		3,631	
Net defined benefit liability (Note 4)	8,556,640		8,551,408		7,456,666	
Guarantee deposits (Note 21)	10,818,377	1	14,670,433	1	17,950,414	1
Others	1,708,321		1,686,542		1,708,306	
Total noncurrent liabilities	120,560,987	6	178,164,903	9	208,421,528	11
Total liabilities	644,068,132	33	496,404,176	26	607,160,582	34
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
Capital stock (Note 22)	259,303,805	13	259,303,805	14	259,303,805	14
Capital surplus (Note 22)	56,282,780	3	56,272,304	3	56,263,141	3
Retained earnings (Note 22)						
Appropriated as legal capital reserve	241,722,663	12	208,297,945	11	208,297,945	12

Unappropriated earnings	802,672,760	40	863,710,224	46	667,701,172	37
	1,044,395,423	52	1,072,008,169	57	875,999,117	49
Others (Note 22)	(18,296,511)	(1)	1,663,983		4,888,074	
Equity attributable to shareholders of the parent	1,341,685,497	67	1,389,248,261	74	1,196,454,137	66
NONCONTROLLING INTERESTS	680,148		802,865		876,841	
Total equity	1,342,365,645	67	1,390,051,126	74	1,197,330,978	66
TOTAL	$ 1,986,433,777	100	$ 1,886,455,302	100	$ 1,804,491,560	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			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
NET REVENUE (Notes 23, 29 and 35)	$ 213,855,212	100	$ 221,809,846	100	$ 447,769,612	100	$ 425,305,207	100
COST OF REVENUE (Notes 12, 27, 29 and 33)	105,101,969	49	107,468,601	48	217,530,703	49	219,593,495	52
GROSS PROFIT BEFORE UNREALIZED GROSS PROFIT ON SALES TO ASSOCIATES	108,753,243	51	114,341,245	52	230,238,909	51	205,711,712	48
UNREALIZED GROSS PROFIT ON SALES TO ASSOCIATES	(44,589)		(7,009)		(40,619)		(39,898)	
GROSS PROFIT	108,708,654	51	114,334,236	52	230,198,290	51	205,671,814	48
OPERATING EXPENSES (Notes 27 and 29)								
Research and development	19,057,456	9	16,903,540	8	38,469,849	8	32,522,503	7
General and administrative	4,927,159	2	4,667,198	2	10,174,762	2	8,512,133	2
Marketing	1,382,199	1	1,436,902	1	2,878,686	1	2,852,001	1
Total operating expenses	25,366,814	12	23,007,640	11	51,523,297	11	43,886,637	10

OTHER OPERATING INCOME AND EXPENSES, NET (Note 27)	(86,439)		(5,595)		(67,202)		3,138	
INCOME FROM OPERATIONS (Note 35)	83,255,401	39	91,321,001	41	178,607,791	40	161,788,315	38
NON-OPERATING INCOME AND EXPENSES								
Share of profits of associates	618,451		892,266		1,285,261		1,733,161	
Other income	2,626,210	1	1,792,766	1	4,731,189	1	3,125,355	1
Foreign exchange loss, net (Note 34)	(551,533)		(807,218)		(451,738)		(1,900,836)	
Finance costs	(839,913)		(821,425)		(1,656,577)		(1,672,005)	
Other gains and losses (Note 24)	1,008,851		1,029,001		1,424,040		2,588,300	
Total non-operating income and expenses	2,862,066	1	2,085,390	1	5,332,175	1	3,873,975	1
INCOME BEFORE INCOME TAX	86,117,467	40	93,406,391	42	183,939,966	41	165,662,290	39
INCOME TAX EXPENSE (Notes 4 and 25)	19,846,815	9	20,878,112	9	30,048,406	7	28,341,414	7
NET INCOME	66,270,652	31	72,528,279	33	153,891,560	34	137,320,876	32
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 22 and 25)								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translation of foreign operations	1,353,774	1	(353,467)		(19,889,820)	(4)	(6,946,520)	(1)
Changes in fair value of available-for-sale financial assets	28,397		(30,018)		(65,073)		21,276	

Cash flow hedges	18,997				18,997			
Share of other comprehensive income (loss) of associates	3,027		(17,528)		(58,630)		8,629	
Income tax benefit related to items that may be reclassified subsequently	6,041		10,200		52,441		27,640	
Other comprehensive income (loss) for the period, net of income tax	1,410,236	1	(390,813)		(19,942,085)	(4)	(6,888,975)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 67,680,888	32	$ 72,137,466	33	$ 133,949,475	30	$ 130,431,901	31
NET INCOME (LOSS) ATTRIBUTABLE TO:								
Shareholders of the parent	$ 66,271,019	31	$ 72,506,321	33	$ 153,899,917	34	$ 137,287,814	32
Noncontrolling interests	(367)		21,958		(8,357)		33,062	
	$ 66,270,652	31	$ 72,528,279	33	$ 153,891,560	34	$ 137,320,876	32
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Shareholders of the parent	$ 67,680,017	32	$ 72,117,547	33	$ 133,954,807	30	$ 130,401,775	31
Noncontrolling interests	871		19,919		(5,332)		30,126	
	$ 67,680,888	32	$ 72,137,466	33	$ 133,949,475	30	$ 130,431,901	31

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	**2016**	**2017**	**2016**
	Income Attributable to Shareholders of	**Income Attributable to Shareholders of**	**Income Attributable to Shareholders of**	**Income Attributable to**

	the Parent		the Parent		the Parent		Shareholders of the Parent	
EARNINGS PER SHARE (NT$, Note 26)								
Basic earnings per share	$	2.56	$	2.80	$	5.94	$	5.29
Diluted earnings per share	$	2.56	$	2.80	$	5.94	$	5.29

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)

Equity Attributable to Shareholders of the Parent									
	Retained Earnings			Others					
pital Surplus	Legal Capital Reserve	Unappropriated Earnings	Total	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Unearned Stock-Based Employee Compensation	Total	
56,272,304	$ 208,297,945	$ 863,710,224	$ 1,072,008,169	$ 1,661,237	$ 2,641	$ 105	$	$ 1,663,983	$
	33,424,718	(33,424,718)							
		(181,512,663)	(181,512,663)						
	33,424,718	(214,937,381)	(181,512,663)						
		153,899,917	153,899,917						
				(19,947,752)	(14,089)	16,731		(19,945,110)	

		153,899,917	153,899,917	(19,947,752)	(14,089)	16,731		(19,945,110)	
7,715							(15,384)	(15,384)	
2,761									
56,282,780	$ 241,722,663	$ 802,672,760	$ 1,044,395,423	$ (18,286,515)	$ (11,448)	$ 16,836	$ (15,384)	$ (18,296,511)	$
56,300,215	$ 177,640,561	$ 716,653,025	$ 894,293,586	$ 11,039,949	$ 734,771	$ (607)	$	$ 11,774,113	$
	30,657,384	(30,657,384)							
		(155,582,283)	(155,582,283)						
	30,657,384	(186,239,667)	(155,582,283)						
		137,287,814	137,287,814						
				(6,958,514)	72,190	285		(6,886,039)	

		137,287,814	137,287,814	(6,958,514)	72,190	285		(6,886,039)	
(56,169)									
19,095									
56,263,141	$ 208,297,945	$ 667,701,172	$ 875,999,117	$ 4,081,435	$ 806,961	$ (322)	$	$ 4,888,074	$

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	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 183,939,966	$ 165,662,290
Adjustments for:		
Depreciation expense	116,099,116	109,352,892
Amortization expense	2,065,459	1,769,157
Finance costs	1,656,577	1,672,005
Share of profits of associates	(1,285,261)	(1,733,161)
Interest income	(4,588,686)	(2,987,896)
Gain on disposal of property, plant and equipment, net	(15,343)	(6,828)
Impairment loss on financial assets	12,032	30,872
Loss (gain) on disposal of available-for-sale financial assets, net	59,311	(89,669)
Gain on disposal of financial assets carried at cost, net	(4,753)	(20,009)
Loss on disposal of investments accounted for using equity method, net		259,960
Loss from liquidation of subsidiaries		36,105
Unrealized gross profit on sales to associates	40,619	39,898
Loss (gain) on foreign exchange, net	(6,377,351)	308,122
Dividend income	(142,503)	(137,459)
Loss arising from fair value hedges, net	23,494	841
Changes in operating assets and liabilities:		
Financial instruments at fair value through profit or loss	1,159,461	(1,708,787)
Notes and accounts receivable, net	15,263,197	(29,118,721)
Receivables from related parties	533,558	81,512
Other receivables from related parties	8,492	(19,200)
Inventories	(12,328,292)	6,346,456
Other financial assets	1,844,118	(3,053,635)
Other current assets	(143,032)	269,691
Other noncurrent assets	(433,328)	
Accounts payable	(1,398,358)	3,446,305
Payables to related parties	(160,398)	(85,240)
Salary and bonus payable	(3,638,899)	(1,858,488)
Accrued profit sharing bonus to employees and compensation to directors and supervisors	10,482,136	9,406,925
Accrued expenses and other current liabilities	4,823,091	1,420,239
Provisions	(4,192,045)	(642,887)
Net defined benefit liability	5,232	8,640

Cash generated from operations	303,307,610	258,649,930
Income taxes paid	(38,899,186)	(30,444,686)
Net cash generated by operating activities	264,408,424	228,205,244

(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 2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	$ (48,350,281)	$ (28,802,391)
Held-to-maturity financial assets	(1,695,771)	(23,706,522)
Financial assets carried at cost	(475,184)	(218,762)
Property, plant and equipment	(207,694,057)	(111,727,052)
Intangible assets	(1,970,729)	(1,783,656)
Land use right		(805,318)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	36,338,151	8,070,785
Held-to-maturity financial assets	11,350,000	4,700,000
Financial assets carried at cost	50,180	20,009
Property, plant and equipment	170,029	26,517
Proceeds from return of capital of financial assets carried at cost		42,064
Derecognition of hedging derivative financial instruments	6,496	(9,534)
Interest received	4,432,649	3,310,985
Proceeds from government grants - property, plant and equipment	436,587	
Other dividends received	124,835	118,890
Dividends received from investments accounted for using equity method	163,408	
Refundable deposits paid	(378,335)	(59,844)
Refundable deposits refunded	42,008	63,470
Decrease in receivables for temporary payments		706,718
Net cash used in investing activities	(207,450,014)	(150,053,641)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(290,110)	(157,064)
Repayment of bonds	(10,000,000)	(11,471,600)
Repayment of long-term bank loans	(4,840)	(3,700)
Interest paid	(1,383,051)	(1,289,308)
Guarantee deposits received	848,259	498,025
Guarantee deposits refunded	(1,718,541)	(485,721)
Decrease in noncontrolling interests	(524)	(509)

Net cash used in financing activities	(12,548,807)	(12,909,877)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(15,196,478)	(5,571,354)
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,213,125	59,670,372
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	541,253,833	562,688,930
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 570,466,958	$ 622,359,302

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, 2017 and 2016

(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 of TSMC s subsidiaries are described in Note 4.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were reported to the Board of Directors and issued on August 8, 2017.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, IFRSs) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have a significant effect on TSMC and its subsidiaries (collectively as the Company) accounting policies:

1) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Company has transaction. If the transaction or balance with a specific related party is 10% or more of the Company s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

(Continued)

When the amendments are applied retrospectively from January 1, 2017, the disclosure of related party transactions is enhanced, please refer to Note 29.

b. The IFRSs issued by International Accounting Standards Board (IASB) and endorsed by FSC with effective date starting 2018

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions	January 1, 2018
IFRS 9 Financial Instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosure	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
Amendment to IFRS 15 Clarifications to IFRS 15	January 1, 2018
Amendment to IAS 7 Disclosure Initiative	January 1, 2017
Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018

Note 1: The aforementioned new, revised or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

Except for the following items, the Company believes that the adoption of aforementioned standards or interpretations will not have a significant effect 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 or reversal of 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 and are continuously assessed for impairment. Interest revenue should be recognized in profit or loss by using the effective interest method. 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. When such financial asset is derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

(Continued)

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, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

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 and is not deemed to be a low credit risk, 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 changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

When IFRS 9 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application. However, the requirements for general hedge accounting shall be applied prospectively.

2) IFRS 15 Revenue from Contracts with Customers and related amendment

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 contract; and

Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are 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.

(Continued)

Except for the aforementioned impact, as of the date the accompanying consolidated financial statements were issued, 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.

c. The IFRSs issued by IASB but not yet endorsed and issued into effect by FSC

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note 3)
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 16 Leases	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019

Note 3: 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 standards or interpretations will not have a significant effect on the Company s accounting policies.

1) IFRS 16 Leases

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for both the principal and interest portion of the lease liability are classified within financing activities.

When IFRS 16 becomes effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the aforementioned impact, as of the date the accompanying consolidated financial statements were issued, 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, 2016.

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.

(Continued)

Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34, Interim Financial Reporting, endorsed and issued into effect 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 the IFRSs endorsed and issued into effect by the FSC (collectively, Taiwan-IFRSs).

Basis of Consolidation

<u>The basis of preparation and the basis for the consolidated financial statements</u>

The basis of preparation and the basis for the consolidated financial statements applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2016.

<u>The subsidiaries in the consolidated financial statements</u>

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

r	Name of Investee	Main Businesses and Products	Establishment and Operating Location	Percentage of Ownership June 30, 2017	December 31, 2016	June 30, 2016	Note
	TSMC North America	Selling and marketing of integrated circuits and other semiconductor devices	San Jose, California, U.S.A.	100%	100%	100%	
	TSMC Japan Limited (TSMC Japan)	Customer service and supporting 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 and other	Tortola, British Virgin Islands	100%	100%	100%	a)

	investment activities					
TSMC Korea Limited (TSMC Korea)	Customer service and supporting activities	Seoul, Korea	100%	100%	100%	a)
TSMC Europe B.V. (TSMC Europe)	Customer service and supporting activities	Amsterdam, the Netherlands	100%	100%	100%	a)
TSMC Global, Ltd. (TSMC Global)	Investment activities	Tortola, British Virgin Islands	100%	100%	100%	
TSMC China Company Limited (TSMC China)	Manufacturing, selling, testing and computer-aided design of integrated circuits and other semiconductor devices	Shanghai, China	100%	100%	100%	
TSMC Nanjing Company Limited (TSMC Nanjing)	Manufacturing, selling, testing and computer-aided design of integrated circuits and other semiconductor devices	Nanjing, China	100%	100%	100%	b)
VentureTech Alliance Fund III, L.P. (VTAF III)	Investing in new start-up technology companies	Cayman Islands	98%	98%	98%	a)
VentureTech Alliance Fund II, L.P. (VTAF II)	Investing in new start-up technology companies	Cayman Islands	98%	98%	98%	a)
TSMC Solar Europe GmbH	Selling of solar related products and providing customer service	Hamburg, Germany	100%	100%	100%	a), c)
Chi Cherng Investment Co., Ltd. (Chi Cherng)	Investment activities	Taipei, Taiwan			100%	d)
VisEra Technologies Company Ltd. (VisEra Tech)	Engaged in manufacturing electronic spare parts and in	Hsin-Chu, Taiwan	87%	87%		e)

	researching, developing, designing, manufacturing, selling, packaging and testing of color filter					
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)
TSMC Development, Inc. (TSMC Development)	Investing in companies involved in the manufacturing related business in the semiconductor industry	Delaware, U.S.A.	100%	100%	100%	
InveStar Semiconductor Development Fund, Inc. (ISDF)	Investing in new start-up technology companies	Cayman Islands	97%	97%	97%	a), f)
InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Investing in new start-up technology companies	Cayman Islands	97%	97%	97%	a), f)
VisEra Holding Company (VisEra Holding)	Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry	Cayman Islands			98%	a), e)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Establishment and Operating Location	Percentage of Ownership June 30, 2017	December 31, 2016	June 30, 2016	Note
TSMC Development	WaferTech, LLC (WaferTech)	Manufacturing, selling and testing of integrated circuits and other semiconductor devices	Washington, U.S.A.	100%	100%	100%	
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	Manufacturing of electronic parts, wholesaling and retailing of electronic materials, and researching, developing and testing of RFID	New 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 TSMC	VentureTech Alliance Holdings, LLC (VTA Holdings)	Investing in new start-up technology companies	Delaware, U.S.A.		100%	100%	a), g)
VisEra Holding	VisEra Tech	Engaged in manufacturing electronic spare parts and in researching, developing, designing, manufacturing, selling, packaging and testing of color filter	Hsin-Chu, Taiwan			87%	e)

(Concluded)

Note a:

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

Note b: Under the investment agreement entered into with the municipal government of Nanjing, China on March 28, 2016, the Company will make an investment in Nanjing in the amount of approximately US$3 billion to establish a subsidiary operating a 300mm wafer fab with the capacity of 20,000 12-inch wafers per month, and a design service center. TSMC Nanjing was established in May 2016.

Note c: TSMC Solar Europe GmbH is in the process of liquidation.

Note d: Chi Cherng was incorporated into TSMC in December 2016.

Note e: To simplify investment structure, VisEra Tech owned by VisEra Holding was transferred to TSMC in the third quarter of 2016. In October 2016, VisEra Holding was incorporated into TSMC Partners, the subsidiary of TSMC.

Note f: ISDF and ISDF II are in the process of liquidation.

Note g: VTA Holdings completed the liquidation procedures in April 2017.

Hedge Accounting

Cash Flow Hedge

The Company designates certain hedging instruments, such as forward exchange contracts, to partially hedge its foreign exchange rate risks associated with certain highly probable forecast transactions, such as capital expenditures. The effective portion of changes in the fair value of hedging instruments is recognized in other comprehensive income. When the forecast transactions actually take place, the associated gains or losses that were recognized in other comprehensive income are removed from equity and included in the initial cost of the hedged items. The gains or losses from hedging instruments relating to the ineffective portion are recognized immediately in profit or loss.

Hedge accounting is discontinued prospectively when the Company revokes the designated hedging relationship, or when the hedging instruments expire or are sold, terminated, or exercised, or no longer meet the criteria for hedge accounting.

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, 2016.

6. CASH AND CASH EQUIVALENTS

	June 30, 2017	December 31, 2016	June 30, 2016
Cash and deposits in banks	$ 570,466,958	$ 536,895,344	$ 617,660,014
Repurchase agreements collateralized by corporate bonds		2,361,250	4,499,288
Commercial paper		1,997,239	
Repurchase agreements collateralized by government bonds			200,000
	$ 570,466,958	$ 541,253,833	$ 622,359,302

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

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

	June 30, 2017	December 31, 2016	June 30, 2016
<u>Financial assets</u>			
Held for trading			
Forward exchange contracts	$ 209,435	$ 142,406	$ 143,834
Cross currency swap contracts		10,976	62,917
	209,435	153,382	206,751
Designated as at FVTPL			
Time deposit	4,725,106	6,297,708	1,614,156
Forward exchange contracts	60,710	22	
	4,785,816	6,297,730	1,614,156
	$ 4,995,251	$ 6,451,112	$ 1,820,907

<u>Financial liabilities</u>						
Held for trading						
Forward exchange contracts	$	82,552	$	91,585	$	160,423
Cross currency swap contracts						7,408
		82,552		91,585		167,831
Designated as at FVTPL						
Forward exchange contracts				99,550		10,873
	$	82,552	$	191,135	$	178,704

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

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
June 30, 2017		
Sell NT$/Buy EUR	July 2017	NT$5,591,846/EUR164,500
Sell NT$/Buy JPY	July 2017	NT$7,413,646/JPY27,100,000
Sell US$/Buy EUR	July 2017	US$89,202/EUR79,000
Sell US$/Buy JPY	July 2017	US$53,585/JPY6,000,000
Sell US$/Buy NT$	July 2017 to August 2017	US$277,700/NT$8,440,651
Sell US$/Buy RMB	July 2017 to September 2017	US$557,000/RMB3,805,715
December 31, 2016		
Sell NT$/Buy EUR	January 2017	NT$5,393,329/EUR159,400
Sell NT$/Buy JPY	January 2017	NT$7,314,841/JPY26,501,800
Sell US$/Buy EUR	January 2017	US$4,180/EUR4,000
Sell US$/Buy JPY	January 2017	US$428/JPY50,000
Sell US$/Buy NT$	January 2017 to February 2017	US$439,000/NT$14,138,202
Sell US$/Buy RMB	January 2017 to June 2017	US$421,750/RMB2,908,380
June 30, 2016		
Sell NT$/Buy EUR	July 2016	NT$2,114,352/EUR59,000
Sell NT$/Buy JPY	July 2016	NT$4,889,373/JPY15,521,040
Sell US$/Buy JPY	July 2016	US$166,271/JPY16,944,380
Sell US$/Buy RMB	July 2016 to June 2017	US$233,000/RMB1,538,880
Sell US$/Buy NT$	July 2016 to August 2016	US$498,000/NT$16,190,246

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
December 31, 2016			
January 2017	US$170,000/NT$5,487,600	3.98%	
June 30, 2016			
July 2016	US$415,000/NT$13,452,895	0.66%-0.90%	

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30, 2017	December 31, 2016	June 30, 2016
Corporate bonds	$ 32,784,516	$ 29,999,508	$ 12,525,209
Agency bonds/Agency mortgage-backed securities	21,861,711	14,880,482	6,379,861
Asset-backed securities	12,005,502	11,254,757	6,029,248
Government bonds	6,607,624	8,457,362	2,366,035
Publicly traded stocks	2,635,124	3,196,658	2,893,386
Commercial paper	358,175		
Money market funds			6,128,310
	$ 76,252,652	$ 67,788,767	$ 36,322,049

9. HELD-TO-MATURITY FINANCIAL ASSETS

	June 30, 2017	December 31, 2016	June 30, 2016
Corporate bonds/Bank debentures	$ 21,157,966	$ 23,849,701	$ 26,988,011
Negotiable certificate of deposit	4,562,100	4,829,850	4,842,450
Structured product	1,520,700	1,609,950	2,000,000
Commercial paper	498,818	8,628,176	798,708
	$ 27,739,584	$ 38,917,677	$ 34,629,169
Current portion	$ 7,210,380	$ 16,610,116	$ 7,362,302
Noncurrent portion	20,529,204	22,307,561	27,266,867
	$ 27,739,584	$ 38,917,677	$ 34,629,169

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	June 30, 2017	December 31, 2016	June 30, 2016
<u>Financial assets - current</u>			
Fair value hedges			

Interest rate futures contracts	$	4,783	$	5,550	$	
Cash flow hedges						
Forward exchange contracts		19,734				
	$	24,517	$	5,550	$	
Financial liabilities - current						
Fair value hedges						
Interest rate futures contracts	$	19	$		$	4,217

The Company entered into interest rate futures contracts, which are used to hedge against price risk caused by changes in interest rates in the Company s investments in fixed income securities.

The outstanding interest rate futures contracts consisted of the following:

Maturity Period		Contract Amount (US$ in Thousands)
June 30, 2017		
September 2017	US$	115,000
December 31, 2016		
March 2017	US$	53,600
June 30, 2016		
September 2016	US$	10,000

The Company entered into forward exchange contracts to partially hedge foreign exchange rate risks associated with certain highly probable forecast transactions, such as capital expenditures. These contracts have maturities of 12 months or less.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
June 30, 2017		
Sell NT$/Buy EUR	October 2017	NT$329,400/EUR10,000

11. NOTES AND ACCOUNTS RECEIVABLE, NET

	June 30, 2017	December 31, 2016	June 30, 2016
Notes and accounts receivable	$ 110,365,090	$ 128,815,389	$ 111,788,384
Allowance for doubtful receivables	(471,808)	(480,118)	(488,197)
Notes and accounts receivable, net	$ 109,893,282	$ 128,335,271	$ 111,300,187

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. In addition, the Company has obtained guarantee to certain receivables.

Aging analysis of notes and accounts receivable, net

	June 30, 2017	December 31, 2016	June 30, 2016
Neither past due nor impaired	$ 102,621,332	$ 108,411,408	$ 97,225,328
Past due but not impaired			
Past due within 30 days	3,770,828	15,017,824	9,190,367
Past due 31-60 days	1,723,349	1,844,726	1,901,629
Past due 61-120 days	1,777,773	3,061,313	2,982,863
	$ 109,893,282	$ 128,335,271	$ 111,300,187

Movements of the allowance for doubtful receivables

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ 1,848	$ 478,270	$ 480,118
Reversal/Write-off	(1,848)	(6,305)	(8,153)
Effect of exchange rate changes		(157)	(157)
Balance at June 30, 2017	$	$ 471,808	$ 471,808
Balance at January 1, 2016	$ 10,241	$ 478,010	$ 488,251
Effect of exchange rate changes		(54)	(54)
Balance at June 30, 2016	$ 10,241	$ 477,956	$ 488,197

Aging analysis of accounts receivable that is individually determined as impaired

	June 30, 2017	December 31, 2016	June 30, 2016
Past due over 121 days	$	$ 1,848	$ 10,241

12. INVENTORIES

	June 30, 2017	December 31, 2016	June 30, 2016
Finished goods	$ 9,445,865	$ 8,521,873	$ 4,943,938
Work in process	42,817,413	33,330,870	50,604,010
Raw materials	5,866,098	4,012,190	2,765,102
Supplies and spare parts	2,881,149	2,817,300	2,392,764
	$ 61,010,525	$ 48,682,233	$ 60,705,814

Reversal of write-down of inventories resulting from the increase in net realizable value (excluding earthquake losses) and write-down of inventories to net realizable value (excluding earthquake losses) were included in the cost of revenue, which were as follows. Please refer to related earthquake losses in Note 33.

	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
Inventory losses (reversal of write-down of inventories)	$ (520,998)	$ 1,195,805	$ (1,463,341)	$ 651,133

13. FINANCIAL ASSETS CARRIED AT COST

	June 30, 2017	December 31, 2016	June 30, 2016
Non-publicly traded stocks	$ 2,749,463	$ 2,944,859	$ 3,176,575
Mutual funds	1,563,806	1,157,608	890,046
	$ 4,313,269	$ 4,102,467	$ 4,066,621

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.

The stock of Impinj, Inc. was listed in July 2016. Accordingly, the Company reclassified the aforementioned investments from financial assets carried at cost to available-for-sale financial assets.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Associates consisted of the following:

me of sociate	Principal Activities	Place of Incorporation and Operation	Carrying Amount June 30, 2017	Carrying Amount December 31, 2016	Carrying Amount June 30, 2016	% of Ownership and Voting Rights Held by the Company June 30, 2017	December 31, 2016	June 30, 2016
nguard ernational miconductor rporation S)	Manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing and	Hsin-Chu, Taiwan	$ 7,956,845	$ 8,806,384	$ 8,068,620	28%	28%	28%

	design service of masks							
stems on con nufacturing mpany Pte . (SSMC)	Manufacturing and selling of integrated circuits and other semiconductor devices	Singapore	7,596,341	7,163,516	10,154,793	39%	39%	39%
tec Inc. ntec)	Wafer level chip size packaging and wafer level post passivation interconnection service	Taoyuan, Taiwan	2,344,813	2,599,807	2,777,336	41%	41%	41%
bal Unichip rporation JC)	Researching, developing, manufacturing, testing and marketing of integrated circuits	Hsin-Chu, Taiwan	1,078,026	1,174,181	1,063,883	35%	35%	35%
			$ 18,976,025	$ 19,743,888	$ 22,064,632			

Starting June 2016, the Company has no longer served as Motech s board of director. As a result, the Company exercises no significant influence over Motech. Therefore, Motech is no longer accounted for using the equity method. Further, such investment was reclassified to available-for-sale financial assets and the Company recognized a disposal loss of NT$259,960 thousand.

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The market prices of the investments accounted for using the equity method in publicly traded stocks calculated by the closing price at the end of the reporting period are summarized as follows. The closing price represents the quoted price in active markets, the level 1 fair value measurement.

Name of Associate	June 30, 2017	December 31, 2016	June 30, 2016
VIS	$ 27,853,410	$ 26,089,360	$ 24,511,000
GUC	$ 6,022,734	$ 3,664,997	$ 3,417,551
Xintec	$ 5,541,840	$ 3,622,227	$ 2,325,793

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Land Improvements	Buildings	Machinery and Equipment	Office Equipment	Assets under Finance Leases	Equipment under Installation and Construction in Progress	Total
Cost							
Balance at anuary 1, 2017	$ 4,049,292	$ 304,404,474	$ 2,042,867,744	$ 34,729,640	$	$ 387,199,675	$ 2,773,250,825
Additions Deductions)		64,811,014	375,300,110	4,672,797		(248,117,207)	196,666,714
Disposals or etirements		(36,957)	(3,486,590)	(317,146)			(3,840,693)
Reclassification			8,791	1,507			10,298
Effect of xchange rate hanges	(46,417)	(867,048)	(3,532,198)	(111,395)		(62,640)	(4,619,698)
Balance at une 30, 2017	$ 4,002,875	$ 368,311,483	$ 2,411,157,857	$ 38,975,403	$	$ 139,019,828	$ 2,961,467,446
Accumulated epreciation nd impairment							
Balance at anuary 1, 2017	$ 524,845	$ 174,349,077	$ 1,577,377,509	$ 23,221,707	$	$	$ 1,775,473,138
Additions	14,012	9,400,481	104,345,520	2,339,103			116,099,116

Disposals or etirements		(28,816)	(3,333,518)	(317,093)			(3,679,427)
Reclassification			8,195	1,466			9,661
Effect of xchange rate hanges	(29,236)	(713,609)	(3,239,046)	(79,910)			(4,061,801)
Balance at une 30, 2017	$ 509,621	$ 183,007,133	$ 1,675,158,660	$ 25,165,273	$	$	$ 1,883,840,687
Carrying mounts at anuary 1, 2017	$ 3,524,447	$ 130,055,397	$ 465,490,235	$ 11,507,933	$	$ 387,199,675	$ 997,777,687
Carrying mounts at une 30, 2017	$ 3,493,254	$ 185,304,350	$ 735,999,197	$ 13,810,130	$	$ 139,019,828	$ 1,077,626,759
Cost							
Balance at anuary 1, 2016	$ 4,067,391	$ 296,801,864	$ 1,893,489,604	$ 30,700,049	$ 7,113	$ 192,111,548	$ 2,417,177,569
Additions		5,544,359	117,986,695	3,012,979		5,870,440	132,414,473
Disposals or etirements			(1,828,533)	(316,251)			(2,144,784)
Reclassification				7,113	(7,113)		
Effect of xchange rate hanges	(15,914)	(777,818)	(2,435,252)	(44,228)		(19,513)	(3,292,725)
Balance at une 30, 2016	$ 4,051,477	$ 301,568,405	$ 2,007,212,514	$ 33,359,662	$	$ 197,962,475	$ 2,544,154,533
Accumulated epreciation nd impairment							
Balance at anuary 1, 2016	$ 506,185	$ 157,910,155	$ 1,385,857,655	$ 19,426,069	$ 7,113	$	$ 1,563,707,177
Additions	14,949	8,772,080	98,462,355	2,103,508			109,352,892
Disposals or etirements			(1,808,905)	(316,190)			(2,125,095)
Reclassification				7,113	(7,113)		
Effect of xchange rate hanges	(9,643)	(575,262)	(2,034,628)	(31,113)			(2,650,646)
Balance at une 30, 2016	$ 511,491	$ 166,106,973	$ 1,480,476,477	$ 21,189,387	$	$	$ 1,668,284,328

Carrying amounts at June 30, 2016	$ 3,539,986	$ 135,461,432	$ 526,736,037	$ 12,170,275	$	$ 197,962,475	$ 875,870,205

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.

16. INTANGIBLE ASSETS

	Goodwill	Technology License Fees	Software and System Design Costs	Patent and Others	Total
Cost					
Balance at January 1, 2017	$ 6,007,975	$ 9,546,007	$ 22,243,595	$ 5,386,435	$ 43,184,012
Additions		671,467	902,376	242,792	1,816,635
Retirements			(75,237)		(75,237)
Reclassification			7,662	(17,960)	(10,298)
Effect of exchange rate changes	(243,177)	(1,089)	(4,585)	(3,895)	(252,746)
Balance at June 30, 2017	$ 5,764,798	$ 10,216,385	$ 23,073,811	$ 5,607,372	$ 44,662,366
Accumulated amortization and impairment					
Balance at January 1, 2017	$	$ 6,147,200	$ 18,144,428	$ 4,277,538	$ 28,569,166
Additions		774,708	1,045,257	245,494	2,065,459
Retirements			(75,237)		(75,237)
Reclassification			7,409	(17,070)	(9,661)
Effect of exchange rate changes		(1,094)	(3,985)	(1,174)	(6,253)
Balance at June 30, 2017	$	$ 6,920,814	$ 19,117,872	$ 4,504,788	$ 30,543,474
Carrying amounts at January 1, 2017	$ 6,007,975	$ 3,398,807	$ 4,099,167	$ 1,108,897	$ 14,614,846
Carrying amounts at June 30, 2017	$ 5,764,798	$ 3,295,571	$ 3,955,939	$ 1,102,584	$ 14,118,892
Cost					
Balance at January 1, 2016	$ 6,104,784	$ 8,454,304	$ 19,474,428	$ 4,879,026	$ 38,912,542
Additions		751,269	745,416	362,770	1,859,455
Retirements			(1,800)		(1,800)
Effect of exchange rate changes	(84,410)	2,910	(5,961)	(6,179)	(93,640)
Balance at June 30, 2016	$ 6,020,374	$ 9,208,483	$ 20,212,083	$ 5,235,617	$ 40,676,557
Accumulated amortization and impairment					
Balance at January 1, 2016	$	$ 4,779,388	$ 16,431,666	$ 3,635,608	$ 24,846,662

Additions		651,638	791,025	326,494	1,769,157
Retirements			(1,800)		(1,800)
Effect of exchange rate changes		2,910	(5,409)	(1,525)	(4,024)
Balance at June 30, 2016	$	$ 5,433,936	$ 17,215,482	$ 3,960,577	$ 26,609,995
Carrying amounts at June 30, 2016	$ 6,020,374	$ 3,774,547	$ 2,996,601	$ 1,275,040	$ 14,066,562

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 8.40% in its test of impairment for December 31, 2016 to reflect the relevant specific risk in the cash-generating unit.

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17. OTHER ASSETS

	June 30, 2017	December 31, 2016	June 30, 2016
Tax receivable	$ 3,100,287	$ 2,325,825	$ 2,064,225
Prepaid expenses	1,242,518	1,007,026	1,159,387
Others	1,501,816	1,553,003	1,586,614
	$ 5,844,621	$ 4,885,854	$ 4,810,226
Current portion	$ 3,777,530	$ 3,385,422	$ 3,263,678
Noncurrent portion	2,067,091	1,500,432	1,546,548
	$ 5,844,621	$ 4,885,854	$ 4,810,226

18. SHORT-TERM LOANS

	June 30, 2017	December 31, 2016	June 30, 2016
Unsecured loans			
Amount	$ 54,745,200	$ 57,958,200	$ 38,739,600
Original loan content			
US$ (in thousands)	$ 1,800,000	$ 1,800,000	$ 1,200,000
Annual interest rate	1.27%-1.33%	0.87%-1.07%	0.70%-0.77%
Maturity date	Due by July 2017	Due by January 2017	Due in July 2016

19. PROVISIONS

The Company s current provisions were provisions for sales returns and allowances.

	Sales Returns and Allowances
Six months ended June 30, 2017	
Balance, beginning of period	$ 18,037,789
Provision	20,743,207
Payment	(24,930,685)

Effect of exchange rate changes		(32,095)
Balance, end of period	$	13,818,216
Six months ended June 30, 2016		
Balance, beginning of period	$	10,163,536
Provision		13,433,695
Payment		(14,070,519)
Effect of exchange rate changes		(30,823)
Balance, end of period	$	9,495,889

Provisions for sales returns and allowances are estimated based on historical experience and the consideration of varying contractual terms, and are recognized as a reduction of revenue in the same period of the related product sales.

20. BONDS PAYABLE

	June 30, 2017	December 31, 2016	June 30, 2016
Domestic unsecured bonds	$ 144,200,000	$ 154,200,000	$ 166,200,000
Overseas unsecured bonds	34,976,100	37,028,850	37,125,450
	179,176,100	191,228,850	203,325,450
Less: Discounts on bonds payable	(20,175)	(35,293)	(49,239)
Less: Current portion	(79,855,925)	(38,100,000)	(22,000,000)
	$ 99,300,000	$ 153,093,557	$ 181,276,211

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

21. GUARANTEE DEPOSITS

	June 30, 2017	December 31, 2016	June 30, 2016
Capacity guarantee	$ 16,727,700	$ 20,929,350	$ 24,212,250
Receivables guarantee	4,293,198	5,559,960	
Others	292,113	181,312	200,014
	$ 21,313,011	$ 26,670,622	$ 24,412,264
Current portion (classified under accrued expenses and other current liabilities)	$ 10,494,634	$ 12,000,189	$ 6,461,850
Noncurrent portion	10,818,377	14,670,433	17,950,414
	$ 21,313,011	$ 26,670,622	$ 24,412,264

Some of guarantee deposits were refunded to customers by offsetting related accounts receivable.

22. EQUITY

a. Capital stock

	June 30, 2017	December 31, 2016	June 30, 2016
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)	25,930,380	25,930,380	25,930,380
Issued capital	$ 259,303,805	$ 259,303,805	$ 259,303,805

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, 2017, 1,068,224 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,341,120 thousand shares (one ADS represents five common shares).

b. Capital surplus

	June 30, 2017	December 31, 2016	June 30, 2016
Additional paid-in capital	$ 24,184,939	$ 24,184,939	$ 24,184,939
From merger	22,804,510	22,804,510	22,804,510
From convertible bonds	8,892,847	8,892,847	8,892,847
From share of changes in equities of subsidiaries	110,559	107,798	100,761
From share of changes in equities of associates	289,870	282,155	280,029
Donations	55	55	55
	$ 56,282,780	$ 56,272,304	$ 56,263,141

Under the relevant laws, 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 and convertible bonds) 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 and associates may be used to offset a deficit; however, when generated from issuance of restricted shares for employees, such capital surplus may not be used for any purpose.

c. Retained earnings and dividend policy

In accordance with the amendments to the R.O.C. Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The amendments to TSMC s Articles of Incorporation on earnings distribution policy had been approved by TSMC s shareholders in its meeting held on June 7, 2016. For policy about the profit sharing bonus to employees, please refer to Note 27.

TSMC s amended 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) 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 earnings shall be made preferably by way of cash dividend. Distribution of earnings 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.

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 2016 and 2015 earnings have been approved by TSMC s shareholders in its meetings held on June 8, 2017 and June 7, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2016	For Fiscal Year 2015	For Fiscal Year 2016	For Fiscal Year 2015
Legal capital reserve	$ 33,424,718	$ 30,657,384		
Cash dividends to shareholders	181,512,663	155,582,283	$ 7.0	$ 6.0
	$ 214,937,381	$ 186,239,667		

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, 2017				
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale	Cash Flow Hedges Reserve	Unearned Stock-Based	Total

		Financial Assets		Employee Compensation	
Balance, beginning of period	$ 1,661,237	$ 2,641	$ 105	$	$ 1,663,983
Exchange differences arising on translation of foreign operations	(19,888,672)				(19,888,672)
Changes in fair value of available-for-sale financial assets		(130,925)			(130,925)
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets		61,679			61,679
Gain/(loss) arising on changes in the fair value of hedging instruments			82,504		82,504
Transferred to initial carrying amount of hedged items			(63,507)		(63,507)

(Continued)

	Six Months Ended June 30, 2017				
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Unearned Stock-Based Employee Compensation	Total
Share of other comprehensive income (loss) of associates	$ (59,080)	$ 436	$ 14	$	$ (58,630)
Share of unearned stock-based employee compensation of associates				(15,384)	(15,384)
Income tax effect		54,721	(2,280)		52,441
Balance, end of period	$ (18,286,515)	$ (11,448)	$ 16,836	$ (15,384)	$ (18,296,511)

(Concluded)

	Six Months Ended June 30, 2016			
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of period	$ 11,039,949	$ 734,771	$ (607)	$ 11,774,113
Exchange differences arising on translation of foreign operations	(6,981,647)			(6,981,647)
Other comprehensive income reclassified to profit or loss upon disposal of subsidiaries	36,105			36,105
Changes in fair value of available-for-sale financial assets		112,904		112,904
Cumulative gain reclassified to profit or loss upon disposal of available-for-sale financial assets		(89,669)		(89,669)
Share of other comprehensive income (loss) of associates and joint venture	(8,260)	24,784	285	16,809
Other comprehensive loss reclassified to profit or loss upon disposal of associates	(4,712)	(3,469)		(8,181)
Income tax effect		27,640		27,640
Balance, end of period	$ 4,081,435	$ 806,961	$ (322)	$ 4,888,074

The aforementioned other equity includes the changes in other equities of TSMC and TSMC s share of its subsidiaries and associates.

23. NET REVENUE

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net revenue from sale of goods	$ 213,731,711	$ 221,667,204	$ 447,486,888	$ 425,050,621
Net revenue from royalties	123,501	142,642	282,724	254,586
	$ 213,855,212	$ 221,809,846	$ 447,769,612	$ 425,305,207

24. OTHER GAINS AND LOSSES

	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
Gain (loss) on disposal of financial assets, net				
Available-for-sale financial assets	$ (50,329)	$ 100,498	$ (59,311)	$ 89,669
Financial assets carried at cost	4,753	5,628	4,753	20,009
Loss on disposal of investments accounted for using equity method, net		(259,960)		(259,960)
Other gains	92,681	25,210	128,776	62,638
Net gain (loss) on financial instruments at FVTPL				
Held for trading	923,136	1,297,816	1,296,276	2,829,951
Designated as at FVTPL	47,530	(70,947)	97,664	(70,947)
Gain (loss) arising from fair value hedges, net	(4,007)	404	(23,494)	(841)
Impairment loss on financial assets				
Financial assets carried at cost		(30,872)	(12,032)	(30,872)
Loss from liquidation of subsidiaries		(36,105)		(36,105)
Other losses	(4,913)	(2,671)	(8,592)	(15,242)
	$ 1,008,851	$ 1,029,001	$ 1,424,040	$ 2,588,300

25. INCOME TAX

a. Income tax expense recognized in profit or loss

	Three Months Ended June 30 2017	Three Months Ended June 30 2016	Six Months Ended June 30 2017	Six Months Ended June 30 2016
Current income tax expense				
Current tax expense recognized in the current period	$ 20,033,186	$ 20,823,242	$ 32,675,274	$ 29,469,752
Income tax adjustments on prior years	(938,292)	(1,035,405)	(938,292)	(1,035,405)
Other income tax adjustments	34,178	169,156	70,534	204,996
	19,129,072	19,956,993	31,807,516	28,639,343
Deferred income tax expense (benefit)				
The origination and reversal of temporary differences	(719,574)	(51,179)	(1,759,110)	(297,929)
Investment tax credits and operating loss carryforward	1,437,317	972,298		

	717,743	921,119	(1,759,110)	(297,929)
Income tax expense recognized in profit or loss	$ 19,846,815	$ 20,878,112	$ 30,048,406	$ 28,341,414

b. Income tax expense recognized in other comprehensive income

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Deferred income tax benefit (expense)				
Related to unrealized gain/loss on available-for-sale financial assets	$ 8,321	$ 10,200	$ 54,721	$ 27,640
Related to gain/loss on cash flow hedges	(2,280)		(2,280)	
Total income tax recognized in other comprehensive income	$ 6,041	$ 10,200	$ 52,441	$ 27,640

c. Integrated income tax information

	June 30, 2017	December 31, 2016	June 30, 2016
Balance of the Imputation Credit Account - TSMC	$ 120,076,806	$ 82,072,562	$ 90,045,123

The estimated and actual creditable ratio for distribution of TSMC s earnings of 2016 and 2015 were 13.90% and 12.57%, respectively; however, the creditable ratio for individual shareholders residing in the R.O.C. is half of the original creditable ratio according to the R.O.C. Income Tax Law.

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 2014. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

26. EARNINGS PER SHARE

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Basic EPS	$ 2.56	$ 2.80	$ 5.94	$ 5.29

Diluted EPS	$ 2.56	$ 2.80	$ 5.94	$ 5.29

EPS is computed as follows:

	Amounts (Numerator)	Number of Shares (Denominator) (In Thousands)	EPS (NT$)
Three months ended June 30, 2017			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 66,271,019	25,930,380	$ 2.56
Three months ended June 30, 2016			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 72,506,321	25,930,380	$ 2.80
Six months ended June 30, 2017			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 153,899,917	25,930,380	$ 5.94
Six months ended June 30, 2016			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 137,287,814	25,930,380	$ 5.29

27. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
a. Depreciation of property, plant and equipment				
Recognized in cost of revenue	$ 52,169,204	$ 50,255,557	$ 106,662,166	$ 101,084,838
Recognized in operating expenses	4,790,330	4,140,384	9,424,507	8,255,414
Recognized in other operating income and expenses	6,221	6,222	12,443	12,640
	$ 56,965,755	$ 54,402,163	$ 116,099,116	$ 109,352,892

	Three Months Ended June 30 2017	2016	Six Months Ended June 30 2017	2016
b. Amortization of intangible assets				
Recognized in cost of revenue	$ 514,854	$ 491,251	$ 1,042,762	$ 980,928
Recognized in operating expenses	511,781	381,574	1,022,697	788,229
	$ 1,026,635	$ 872,825	$ 2,065,459	$ 1,769,157
c. Research and development costs expensed as incurred	$ 19,057,456	$ 16,903,540	$ 38,469,849	$ 32,522,503
d. Employee benefits expenses				
Post-employment benefits				
Defined contribution plans	$ 580,666	$ 527,976	$ 1,156,426	$ 1,054,449
Defined benefit plans	67,887	68,034	135,762	136,059
	648,553	596,010	1,292,188	1,190,508
Other employee benefits	22,809,113	22,846,683	48,098,295	44,346,307
	$ 23,457,666	$ 23,442,693	$ 49,390,483	$ 45,536,815
Employee benefits expense summarized by function				
Recognized in cost of revenue	$ 13,905,886	$ 13,811,159	$ 29,134,786	$ 26,916,580
Recognized in operating expenses	9,551,780	9,631,534	20,255,697	18,620,235
	$ 23,457,666	$ 23,442,693	$ 49,390,483	$ 45,536,815

In accordance with the amendments to the R.O.C. Company Act in May 2015 and the amended TSMC s Articles of Incorporation approved by TSMC s shareholders in its meeting held on June 7, 2016, TSMC shall allocate compensation to directors and profit sharing bonus to employees of TSMC not more than 0.3% and not less than 1% of annual profits during the period, respectively.

TSMC accrued profit sharing bonus to employees based on a percentage of net income before income tax, profit sharing bonus to employees and compensation to directors during the period, which amounted to NT$4,445,463 thousand and NT$4,863,012 thousand for the three months ended June 30, 2017 and 2016, respectively; and NT$10,322,557 thousand and NT$9,207,536 thousand for the six months ended June 30, 2017 and 2016, respectively. Compensation to directors was expensed based on estimated amount payable. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

The Board of Directors of TSMC held on February 14, 2017 approved the profit sharing bonus to employees and compensation to directors in the amounts of NT$22,418,339 thousand and NT$376,432 thousand in cash for 2016, respectively. There is no significant difference between the aforementioned approved amounts and the amounts charged against earnings of 2016.

TSMC s profit sharing bonus to employees and compensation to directors in the amounts of NT$20,556,888 thousand and NT$356,186 thousand in cash for 2015, respectively, had been approved by the Board of Directors on February 2, 2016. The profit sharing bonus to employees and compensation to directors in cash for 2015 had been reported to TSMC s shareholders in its meeting held on June 7, 2016, after the amended TSMC s Articles of Incorporation had been approved. The aforementioned approved amount has no difference with the one recognized in the consolidated financial statements for the year ended December 31, 2015.

The information about the appropriations of TSMC s profit sharing bonus to employees and compensation to directors is available at the Market Observation Post System website.

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	June 30, 2017	December 31, 2016	June 30, 2016
Financial assets			
FVTPL			
Held for trading	$ 209,435	$ 153,382	$ 206,751
Designated as at FVTPL	4,785,816	6,297,730	1,614,156
Available-for-sale financial assets (Note)	80,565,921	71,891,234	40,388,670
Held-to-maturity financial assets	27,739,584	38,917,677	34,629,169
Derivative financial instruments in designated hedge accounting relationships	24,517	5,550	
Loans and receivables			
Cash and cash equivalents	570,466,958	541,253,833	622,359,302
Notes and accounts receivable (including related parties)	110,329,283	129,304,830	111,724,397
Other receivables	3,982,456	2,626,401	5,503,244
Refundable deposits	742,707	407,874	441,447
	$ 798,846,677	$ 790,858,511	$ 816,867,136
Financial liabilities			
FVTPL			
Held for trading	$ 82,552	$ 91,585	$ 167,831
Designated as at FVTPL		99,550	10,873
Derivative financial instruments in designated hedge accounting relationships	19		4,217
Amortized cost			
Short-term loans	54,745,200	57,958,200	38,739,600
Accounts payable (including related parties)	25,611,675	27,324,525	23,154,264
Payables to contractors and equipment suppliers	50,376,846	63,154,514	48,102,264

Cash dividends payable	181,626,763		155,696,382
Accrued expenses and other current liabilities	21,005,399	20,713,259	20,189,411

(Continued)

	June 30, 2017	December 31, 2016	June 30, 2016
Bonds payable (including long-term liabilities-current portion)	$ 179,155,925	$ 191,193,557	$ 203,276,211
Long-term bank loans (including long-term liabilities-current portion)	26,620	31,460	36,300
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	21,313,011	26,670,622	24,412,264
	$ 533,944,010	$ 387,237,272	$ 513,789,617

(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 financial market risks, primarily changes in foreign currency exchange rates, interest rates and equity investment prices.

<u>Foreign currency risk</u>

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, such as forward exchange contracts and cross currency swaps, and non-derivative financial instruments, such as foreign currency-denominated debt, to partially hedge its currency exposure.

The Company s sensitivity analysis of foreign currency risk mainly focuses on the foreign currency monetary items and the derivatives financial instruments at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges relative to the New Taiwan dollar, the net income for the six months ended June 30, 2017 and 2016 would have decreased by NT$503,920 thousand and NT$89,642 thousand, respectively, and the other comprehensive income for the six months ended June 30, 2017 would have decreased by NT$34,770 thousand.

Interest rate risk

The Company is exposed to interest rate risk primarily related to its outstanding debt and investments in fixed income securities. All of the Company s bonds payable 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 the long-term 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 100 basis point (1.00%) increase in interest rates would have resulted in an increase in the interest expense, net of tax, by approximately NT$110 thousand and NT$151 thousand for the six months ended June 30, 2017 and 2016, respectively.

The Company classified its investments in fixed income securities as held-to-maturity and available-for-sale financial assets. Because held-to-maturity fixed income securities are measured at amortized cost, changes in interest rates would not affect the fair value. On the other hand, available-for-sale fixed income securities are exposed to fair value fluctuations caused by changes in interest rates. The Company utilized interest rate futures to partially hedge the interest rate risk on its available-for-sale fixed income investments. These hedges may offset only a portion of, but do not eliminate, the financial impact from movements in interest rates.

Based on a sensitivity analysis performed for the six months ended June 30, 2017 and 2016, a hypothetical 100 basis points (1.00%) increase in interest rates across all maturities would have resulted in a decrease in other comprehensive income by NT$1,717,186 thousand and NT$607,921 thousand, respectively.

Other price risk

The Company is exposed to equity price risk arising from available-for-sale equity investments.

Assuming a hypothetical decrease of 5% in prices of the equity investments at the end of the reporting period for the six months ended June 30, 2017 and 2016, the other comprehensive income would have decreased by NT$329,734 thousand and NT$328,089 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 investing 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.

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, 2017, December 31, 2016 and June 30, 2016, the Company s ten largest customers accounted for 70%, 74% and 69% of accounts receivable, respectively. The Company believes the concentration of credit risk is not material for the remaining accounts receivable.

Financial credit risk

The Company regularly monitors and reviews the concentration 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 limiting the exposure to any individual counterparty and 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 cash equivalent, short-term available-for-sale financial assets and short-term held-to-maturity financial assets.

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
June 30, 2017					
Non-derivative financial liabilities					
Short-term loans	$ 54,765,829	$	$	$	$ 54,765,829
Accounts payable (including related parties)	25,611,675				25,611,675
Payables to contractors and equipment suppliers	50,376,846				50,376,846
Accrued expenses and other current liabilities	21,005,399				21,005,399
Bonds payable	82,131,653	66,178,944	13,623,019	22,784,016	184,717,632
Long-term bank loans	10,382	17,389			27,771
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	10,494,634	10,732,609	85,768		21,313,011
	244,396,418	76,928,942	13,708,787	22,784,016	357,818,163
Derivative financial instruments					
Forward exchange contracts					
Outflows	43,064,181				43,064,181

Inflows	(43,297,762)				(43,297,762)
	(233,581)				(233,581)
	$ 244,162,837	$ 76,928,942	$ 13,708,787	$ 22,784,016	$ 357,584,582
December 31, 2016					
Non-derivative financial liabilities					
Short-term loans	$ 57,974,562	$	$	$	$ 57,974,562
Accounts payable (including related parties)	27,324,525				27,324,525
Payables to contractors and equipment suppliers	63,154,514				63,154,514
Accrued expenses and other current liabilities	20,713,259				20,713,259
Bonds payable	40,669,468	99,161,486	35,340,742	22,979,426	198,151,122
Long-term bank loans	10,543	20,116	2,423		33,082
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	12,000,189	13,060,483	1,609,950		26,670,622
	221,847,060	112,242,085	36,953,115	22,979,426	394,021,686

(Continued)

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
Derivative financial instruments					
Forward exchange contracts					
Outflows	$ 40,571,841	$	$	$	$ 40,571,841
Inflows	(40,586,344)				(40,586,344)
	(14,503)				(14,503)
Cross currency swap contracts					
Outflows	5,478,066				5,478,066
Inflows	(5,487,600)				(5,487,600)
	(9,534)				(9,534)
	$ 221,823,023	$ 112,242,085	$ 36,953,115	$ 22,979,426	$ 393,997,649
June 30, 2016					
Non-derivative financial liabilities					
Short-term loans	$ 38,743,592	$	$	$	$ 38,743,592
Accounts payable (including related parties)	23,154,264				23,154,264
Payables to contractors and equipment suppliers	48,102,264				48,102,264
Accrued expenses and other current liabilities	20,189,411				20,189,411
Bonds payable	24,797,738	101,437,838	62,143,440	23,174,836	211,553,852
Long-term bank loans	11,040	21,056	6,353		38,449
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	6,461,850	13,107,964	4,842,450		24,412,264
	161,460,159	114,566,858	66,992,243	23,174,836	366,194,096
Derivative financial instruments					
Forward exchange contracts					
Outflows	35,970,330				35,970,330
Inflows	(35,960,606)				(35,960,606)

	9,724				9,724
Cross currency swap contracts					
Outflows	13,404,146				13,404,146
Inflows	(13,452,895)				(13,452,895)
	(48,749)				(48,749)
	$ 161,421,134	$ 114,566,858	$ 66,992,243	$ 23,174,836	$ 366,155,071

(Concluded)

f. Fair value of financial instruments

1) Fair value measurements recognized in the consolidated balance sheets

Fair value measurements are 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).

2) Fair value of financial instruments that are measured at fair value on a recurring basis

Fair value hierarchy

The following table presents the Company s financial assets and liabilities measured at fair value on a recurring basis: