

**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By

MORRIS CHANG
Chairman

February 14, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

Opinion

We have audited the accompanying consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with 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) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

Provision of sales returns and allowances

In consideration of business volume and market conditions, the Company provides a variety of business incentives to specific customers or products. The provision of sales returns and allowance is based on historical experience and the varying contractual terms by management's judgment. Please refer to Notes 4, 5 and 19 to the consolidated financial statements for the details of the information about provision of sales returns and allowances. Since the provision of sales returns and allowances is subject to management's judgment,

which has significant uncertainty, and the result could also affect the net revenue in the consolidated financial statements, it has been identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

1. Understood and tested the design and operating effectiveness of the key controls over provision of sales returns and allowances;
2. Understood and assessed the reasonableness of management's assumptions made and methodology used in estimating provision of sales returns and allowances;
3. Sampled and inspected the Company's sales contracts of main products by agreeing the contractual terms and performed an analysis to challenge management's estimation on possibility that specific products could meet business incentives condition to verify the reasonableness of the accrual of the provision;
4. Performed a retrospective review to comparatively analyze the historical accuracy of judgments with reference to actual sales allowance paid.

Timing to commence depreciation of property, plant and equipment (PP&E)

The Company continues to invest in capital expenditures to develop and build capacity in leading-edge technologies to meet customers' demand. Please refer to Notes 4 and 15 to the consolidated financial statements for the details of the information and accounting policy about the depreciation of PP&E. According to IAS 16, depreciation of PP&E should commence when the assets are available for their intended use. Due to the significant capital expenditures incurred by the Company, the appropriateness of the timing to commence depreciation of PP&E could have a material impact on its financial performance. Consequently, the validity of the timing to commence depreciation of PP&E is identified as a key audit matter.

Our key audit procedures performed in respect of the above area included the following:

1. Understood and tested the design and operating effectiveness of the key controls over the timing to commence depreciation of PP&E;
2. Understood the criteria the assets are defined as available for use intended by management and the corresponding accounting treatments;
3. Sampled and reviewed the appropriateness of the timing for commencing depreciation after the assets met the criteria of available for use in current year;
4. Performed an observation on the physical count of equipment under installation and construction in progress; sampled and inspected the supporting documentation to verify that the status of equipment under installation and construction in progress are not available for use;
5. Sampled equipment under installation and construction in progress which met the criteria of available for use and were transferred in the subsequent period to evaluate the reasonableness of the timing for commencing depreciation;
6. Sampled and reviewed the appropriateness of the equipment under installation and construction in progress which are not available for their intended use.

Other Matter

We have also audited the parent company only financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yih-Shin Kao and Yu Feng Huang.

Deloitte & Touche
Taipei, Taiwan
The Republic of China



February 14, 2017

Notice to Readers

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 audit such consolidated financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' 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 auditors' report and consolidated financial statements shall prevail.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

| ASSETS | December 31, 2016 | | December 31, 2015 | |
|---|-------------------------|------------|-------------------------|------------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Note 6) | \$ 541,253,833 | 29 | \$ 562,688,930 | 34 |
| Financial assets at fair value through profit or loss (Note 7) | 6,451,112 | - | 6,026 | - |
| Available-for-sale financial assets (Notes 8 and 14) | 67,788,767 | 4 | 14,299,361 | 1 |
| Held-to-maturity financial assets (Note 9) | 16,610,116 | 1 | 9,166,523 | 1 |
| Hedging derivative financial assets (Note 10) | 5,550 | - | 1,739 | - |
| Notes and accounts receivable, net (Note 11) | 128,335,271 | 7 | 85,059,675 | 5 |
| Receivables from related parties (Note 37) | 969,559 | - | 505,722 | - |
| Other receivables from related parties (Note 37) | 146,788 | - | 125,018 | - |
| Inventories (Notes 5, 12 and 41) | 48,682,233 | 3 | 67,052,270 | 4 |
| Other financial assets (Notes 38 and 41) | 4,100,475 | - | 4,305,358 | - |
| Other current assets (Note 17) | 3,385,422 | - | 3,533,369 | - |
| Total current assets | 817,729,126 | 44 | 746,743,991 | 45 |
| NONCURRENT ASSETS | | | | |
| Held-to-maturity financial assets (Note 9) | 22,307,561 | 1 | 6,910,873 | - |
| Financial assets carried at cost (Note 13) | 4,102,467 | - | 3,990,882 | - |
| Investments accounted for using equity method (Notes 5 and 14) | 19,743,888 | 1 | 24,091,828 | 2 |
| Property, plant and equipment (Notes 5 and 15) | 997,777,687 | 53 | 853,470,392 | 52 |
| Intangible assets (Notes 5, 16 and 33) | 14,614,846 | 1 | 14,065,880 | 1 |
| Deferred income tax assets (Notes 5 and 30) | 8,271,421 | - | 6,384,974 | - |
| Refundable deposits | 407,874 | - | 430,802 | - |
| Other noncurrent assets (Note 17) | 1,500,432 | - | 1,428,676 | - |
| Total noncurrent assets | 1,068,726,176 | 56 | 910,774,307 | 55 |
| TOTAL | \$ 1,886,455,302 | 100 | \$ 1,657,518,298 | 100 |
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 18) | \$ 57,958,200 | 3 | \$ 39,474,000 | 2 |
| Financial liabilities at fair value through profit or loss (Note 7) | 191,135 | - | 72,610 | - |
| Accounts payable | 26,062,351 | 2 | 18,575,286 | 1 |
| Payables to related parties (Note 37) | 1,262,174 | - | 1,149,988 | - |
| Salary and bonus payable | 13,681,817 | 1 | 11,702,042 | 1 |
| Accrued profit sharing bonus to employees and compensation to directors and supervisors (Notes 23 and 32) | 22,894,006 | 1 | 20,958,893 | 1 |
| Payables to contractors and equipment suppliers | 63,154,514 | 3 | 26,012,192 | 2 |
| Income tax payable (Notes 5 and 30) | 40,306,054 | 2 | 32,901,106 | 2 |
| Provisions (Notes 5 and 19) | 18,037,789 | 1 | 10,163,536 | 1 |
| Long-term liabilities - current portion (Note 20) | 38,109,680 | 2 | 23,517,612 | 1 |
| Accrued expenses and other current liabilities (Note 22) | 36,581,553 | 2 | 27,701,329 | 2 |
| Total current liabilities | 318,239,273 | 17 | 212,228,594 | 13 |
| NONCURRENT LIABILITIES | | | | |
| Bonds payable (Note 20) | 153,093,557 | 8 | 191,965,082 | 12 |
| Long-term bank loans | 21,780 | - | 32,500 | - |
| Deferred income tax liabilities (Notes 5 and 30) | 141,183 | - | 31,271 | - |
| Net defined benefit liability (Notes 5 and 21) | 8,551,408 | - | 7,448,026 | - |
| Guarantee deposits (Note 22) | 14,670,433 | 1 | 21,564,801 | 1 |
| Others (Note 19) | 1,686,542 | - | 1,613,545 | - |
| Total noncurrent liabilities | 178,164,903 | 9 | 222,655,225 | 13 |
| Total liabilities | 496,404,176 | 26 | 434,883,819 | 26 |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | |
| Capital stock (Note 23) | 259,303,805 | 14 | 259,303,805 | 16 |
| Capital surplus (Note 23) | 56,272,304 | 3 | 56,300,215 | 3 |
| Retained earnings (Note 23) | | | | |
| Appropriated as legal capital reserve | 208,297,945 | 11 | 177,640,561 | 11 |
| Unappropriated earnings | 863,710,224 | 46 | 716,653,025 | 43 |
| | 1,072,008,169 | 57 | 894,293,586 | 54 |
| Others (Note 23) | 1,663,983 | - | 11,774,113 | 1 |
| Equity attributable to shareholders of the parent | 1,389,248,261 | 74 | 1,221,671,719 | 74 |
| NONCONTROLLING INTERESTS | | | | |
| | 802,865 | - | 962,760 | - |
| Total equity | 1,390,051,126 | 74 | 1,222,634,479 | 74 |
| TOTAL | \$ 1,886,455,302 | 100 | \$ 1,657,518,298 | 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)

| | 2016 | | 2015 | |
|---|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| NET REVENUE (Notes 5, 25, 37 and 43) | \$ 947,938,344 | 100 | \$ 843,497,368 | 100 |
| COST OF REVENUE (Notes 5, 12, 32, 37 and 41) | <u>473,077,173</u> | <u>50</u> | <u>433,117,601</u> | <u>51</u> |
| GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES | 474,861,171 | 50 | 410,379,767 | 49 |
| REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES | <u>(29,073)</u> | <u>-</u> | <u>15,126</u> | <u>-</u> |
| GROSS PROFIT | <u>474,832,098</u> | <u>50</u> | <u>410,394,893</u> | <u>49</u> |
| OPERATING EXPENSES (Notes 5, 32 and 37) | | | | |
| Research and development | 71,207,703 | 7 | 65,544,579 | 8 |
| General and administrative | 19,795,593 | 2 | 17,257,237 | 2 |
| Marketing | <u>5,900,837</u> | <u>1</u> | <u>5,664,684</u> | <u>1</u> |
| Total operating expenses | <u>96,904,133</u> | <u>10</u> | <u>88,466,500</u> | <u>11</u> |
| OTHER OPERATING INCOME AND EXPENSES, NET (Notes 15, 16, 26 and 32) | <u>29,813</u> | <u>-</u> | <u>(1,880,618)</u> | <u>-</u> |
| INCOME FROM OPERATIONS (Note 43) | <u>377,957,778</u> | <u>40</u> | <u>320,047,775</u> | <u>38</u> |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profits of associates and joint venture (Notes 14 and 43) | 3,495,600 | - | 4,132,128 | - |
| Other income (Note 27) | 6,454,901 | 1 | 4,750,829 | 1 |
| Foreign exchange gain, net (Note 42) | 1,161,322 | - | 2,481,446 | - |
| Finance costs (Note 28) | (3,306,153) | - | (3,190,331) | - |
| Other gains and losses (Note 29) | <u>195,932</u> | <u>-</u> | <u>22,207,064</u> | <u>3</u> |
| Total non-operating income and expenses | <u>8,001,602</u> | <u>1</u> | <u>30,381,136</u> | <u>4</u> |
| INCOME BEFORE INCOME TAX | 385,959,380 | 41 | 350,428,911 | 42 |
| INCOME TAX EXPENSE (Notes 5, 30 and 43) | <u>51,621,144</u> | <u>6</u> | <u>43,872,744</u> | <u>6</u> |
| NET INCOME | <u>334,338,236</u> | <u>35</u> | <u>306,556,167</u> | <u>36</u> |
| OTHER COMPREHENSIVE INCOME (LOSS) (Notes 14, 21, 23 and 30) | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit obligation | (1,057,220) | - | (827,703) | - |
| Share of other comprehensive loss of associates and joint venture | (19,961) | - | (2,546) | - |
| Income tax benefit related to items that will not be reclassified subsequently | <u>126,867</u> | <u>-</u> | <u>99,326</u> | <u>-</u> |
| | <u>(950,314)</u> | <u>-</u> | <u>(730,923)</u> | <u>-</u> |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

| | <u>2016</u> | | <u>2015</u> | |
|--|--|----------------|--|----------------|
| | Amount | % | Amount | % |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences arising on translation of foreign operations | \$ (9,379,477) | (1) | \$ 6,604,768 | 1 |
| Changes in fair value of available-for-sale financial assets | (692,523) | - | (20,489,015) | (2) |
| Share of other comprehensive income (loss) of associates and joint venture | 16,301 | - | (83,021) | - |
| Income tax expense related to items that may be reclassified subsequently | <u>(61,176)</u> | <u>-</u> | <u>(15,991)</u> | <u>-</u> |
| | <u>(10,116,875)</u> | <u>(1)</u> | <u>(13,983,259)</u> | <u>(1)</u> |
| Other comprehensive loss for the year, net of income tax | <u>(11,067,189)</u> | <u>(1)</u> | <u>(14,714,182)</u> | <u>(1)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>\$ 323,271,047</u> | <u>34</u> | <u>\$ 291,841,985</u> | <u>35</u> |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | \$ 334,247,180 | 35 | \$ 306,573,837 | 36 |
| Noncontrolling interests | <u>91,056</u> | <u>-</u> | <u>(17,670)</u> | <u>-</u> |
| | <u>\$ 334,338,236</u> | <u>35</u> | <u>\$ 306,556,167</u> | <u>36</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | \$ 323,186,736 | 34 | \$ 291,867,757 | 35 |
| Noncontrolling interests | <u>84,311</u> | <u>-</u> | <u>(25,772)</u> | <u>-</u> |
| | <u>\$ 323,271,047</u> | <u>34</u> | <u>\$ 291,841,985</u> | <u>35</u> |
| | <u>2016</u> | | <u>2015</u> | |
| | Income Attributable to Shareholders of the Parent | | Income Attributable to Shareholders of the Parent | |
| EARNINGS PER SHARE (NT\$, Note 31) | | | | |
| Basic earnings per share | <u>\$ 12.89</u> | | <u>\$ 11.82</u> | |
| Diluted earnings per share | <u>\$ 12.89</u> | | <u>\$ 11.82</u> | |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

| | Equity Attributable to Shareholders of the Parent | | | | | | Others | | | | | | |
|--|---|----------------|-----------------|-----------------------|-------------------------|------------------|--------------------------------------|---|--------------------------|---------------|------------------|--------------------------|------------------|
| | Capital Stock - Common Stock | | | Legal Capital Reserve | Retained Earnings | | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total | Total | Noncontrolling Interests | Total Equity |
| | Shares (In Thousands) | Amount | Capital Surplus | | Unappropriated Earnings | Total | | | | | | | |
| BALANCE, JANUARY 1, 2015 | 25,929,662 | \$ 259,296,624 | \$ 55,989,922 | \$ 151,250,682 | \$ 553,914,592 | \$ 705,165,274 | \$ 4,502,113 | \$ 21,247,483 | \$ (305) | \$ 25,749,291 | \$ 1,046,201,111 | \$ 127,221 | \$ 1,046,328,332 |
| Appropriations of prior year's earnings | | | | | | | | | | | | | |
| Legal capital reserve | - | - | - | 26,389,879 | (26,389,879) | - | - | - | - | - | - | - | - |
| Cash dividends to shareholders - NTS\$4.5 per share | - | - | - | - | (116,683,481) | (116,683,481) | - | - | - | - | (116,683,481) | - | (116,683,481) |
| Total | - | - | - | 26,389,879 | (143,073,360) | (116,683,481) | - | - | - | - | (116,683,481) | - | (116,683,481) |
| Net income (loss) in 2015 | - | - | - | - | 306,573,837 | 306,573,837 | - | - | - | - | 306,573,837 | (17,670) | 306,556,167 |
| Other comprehensive income (loss) in 2015, net of income tax | - | - | - | - | (730,902) | (730,902) | 6,537,836 | (20,512,712) | (302) | (13,975,178) | (14,706,080) | (8,102) | (14,714,182) |
| Total comprehensive income (loss) in 2015 | - | - | - | - | 305,842,935 | 305,842,935 | 6,537,836 | (20,512,712) | (302) | (13,975,178) | 291,867,757 | (25,772) | 291,841,985 |
| Issuance of stock from exercise of employee stock options | 718 | 7,181 | 130,974 | - | - | - | - | - | - | - | 138,155 | - | 138,155 |
| Disposal of investments accounted for using equity method | - | - | (47,850) | - | - | - | - | - | - | - | (47,850) | - | (47,850) |
| Adjustments to share of changes in equities of associates and joint venture | - | - | 230,743 | - | - | - | - | - | - | - | 230,743 | (4,230) | 226,513 |
| From differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries | - | - | - | - | (31,142) | (31,142) | - | - | - | - | (31,142) | 31,142 | - |
| From share of changes in equities of subsidiaries | - | - | (3,574) | - | - | - | - | - | - | - | (3,574) | 3,574 | - |
| Decrease in noncontrolling interests | - | - | - | - | - | - | - | - | - | - | - | (50,218) | (50,218) |
| Effect of acquisition of subsidiary | - | - | - | - | - | - | - | - | - | - | - | 923,683 | 923,683 |
| Effect of disposal of subsidiary | - | - | - | - | - | - | - | - | - | - | - | (42,640) | (42,640) |
| BALANCE, DECEMBER 31, 2015 | 25,930,380 | 259,303,805 | 56,300,215 | 177,640,561 | 716,653,025 | 894,293,586 | 11,039,949 | 734,771 | (607) | 11,774,113 | 1,221,671,719 | 962,760 | 1,222,634,479 |
| Appropriations of prior year's earnings | | | | | | | | | | | | | |
| Legal capital reserve | - | - | - | 30,657,384 | (30,657,384) | - | - | - | - | - | - | - | - |
| Cash dividends to shareholders - NTS\$6.0 per share | - | - | - | - | (155,582,283) | (155,582,283) | - | - | - | - | (155,582,283) | - | (155,582,283) |
| Total | - | - | - | 30,657,384 | (186,239,667) | (155,582,283) | - | - | - | - | (155,582,283) | - | (155,582,283) |
| Net income in 2016 | - | - | - | - | 334,247,180 | 334,247,180 | - | - | - | - | 334,247,180 | 91,056 | 334,338,236 |
| Other comprehensive income (loss) in 2016, net of income tax | - | - | - | - | (950,314) | (950,314) | (9,378,712) | (732,130) | 712 | (10,110,130) | (11,060,444) | (6,745) | (11,067,189) |
| Total comprehensive income (loss) in 2016 | - | - | - | - | 333,296,866 | 333,296,866 | (9,378,712) | (732,130) | 712 | (10,110,130) | 323,186,736 | 84,311 | 323,271,047 |
| Disposal of investments accounted for using equity method | - | - | (56,169) | - | - | - | - | - | - | - | (56,169) | - | (56,169) |
| Adjustments to share of changes in equities of associates and joint venture | - | - | 21,221 | - | - | - | - | - | - | - | 21,221 | 9 | 21,230 |
| From share of changes in equities of subsidiaries | - | - | 7,037 | - | - | - | - | - | - | - | 7,037 | (7,037) | - |
| Decrease in noncontrolling interests | - | - | - | - | - | - | - | - | - | - | - | (235,224) | (235,224) |
| Effect of disposal of subsidiary | - | - | - | - | - | - | - | - | - | - | - | (1,954) | (1,954) |
| BALANCE, DECEMBER 31, 2016 | 25,930,380 | \$ 259,303,805 | \$ 56,272,304 | \$ 208,297,945 | \$ 863,710,224 | \$ 1,072,008,169 | \$ 1,661,237 | \$ 2,641 | \$ 105 | \$ 1,663,983 | \$ 1,389,248,261 | \$ 802,865 | \$ 1,390,051,126 |

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)

| | 2016 | 2015 |
|--|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 385,959,380 | \$ 350,428,911 |
| Adjustments for: | | |
| Depreciation expense | 220,084,998 | 219,303,369 |
| Amortization expense | 3,743,406 | 3,202,200 |
| Finance costs | 3,306,153 | 3,190,331 |
| Share of profits of associates and joint venture | (3,495,600) | (4,132,128) |
| Interest income | (6,317,500) | (4,129,316) |
| Gain on disposal of property, plant and equipment, net | (46,548) | (433,559) |
| Impairment loss on property, plant and equipment | - | 2,545,584 |
| Impairment loss on intangible assets | - | 58,514 |
| Impairment loss on financial assets | 122,240 | 154,721 |
| Loss (gain) on disposal of available-for-sale financial assets, net | 4,014 | (22,070,736) |
| Gain on disposal of financial assets carried at cost, net | (37,241) | (87,193) |
| Loss (gain) on disposal of investments accounted for using equity method, net | 259,960 | (2,507,707) |
| Loss from liquidation of subsidiaries | 36,105 | 138,243 |
| Unrealized (realized) gross profit on sales to associates | 29,073 | (15,126) |
| Loss (gain) on foreign exchange, net | (2,656,406) | 2,563,439 |
| Dividend income | (137,401) | (621,513) |
| Loss (gain) from hedging instruments | (12,725) | 134,112 |
| Loss (gain) arising from changes in fair value of available-for-sale financial assets in hedge effective portion | (4,248) | 305,619 |
| Gain from lease agreement modification | - | (430,041) |
| Changes in operating assets and liabilities: | | |
| Financial instruments at fair value through profit or loss | (6,326,561) | (228,560) |
| Notes and accounts receivable, net | (49,342,698) | 26,630,123 |
| Receivables from related parties | (463,837) | (192,767) |
| Other receivables from related parties | (21,770) | 53,607 |
| Inventories | 18,370,037 | (655,249) |
| Other financial assets | (41,554) | 720,301 |
| Other current assets | 94,512 | 263,384 |
| Other noncurrent assets | (349,771) | - |
| Accounts payable | 7,295,491 | (2,693,358) |
| Payables to related parties | 139,818 | (369,134) |
| Salary and bonus payable | 1,979,775 | 945,030 |
| Accrued profit sharing bonus to employees and compensation to directors and supervisors | 1,935,113 | 2,860,250 |
| Accrued expenses and other current liabilities | 3,693,638 | (3,778,322) |
| Provisions | 7,931,877 | (382,774) |
| Net defined benefit liability | 46,163 | 52,540 |
| Cash generated from operations | 585,777,893 | 570,822,795 |
| Income taxes paid | (45,943,301) | (40,943,357) |
| Net cash generated by operating activities | <u>539,834,592</u> | <u>529,879,438</u> |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

| | 2016 | 2015 |
|---|----------------------|----------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Available-for-sale financial assets | \$ (83,275,573) | \$ (13,392,330) |
| Held-to-maturity financial assets | (33,625,353) | (28,181,915) |
| Financial assets carried at cost | (533,745) | (2,586,169) |
| Property, plant and equipment | (328,045,270) | (257,516,835) |
| Intangible assets | (4,243,087) | (4,283,870) |
| Land use right | (805,318) | - |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | 29,967,979 | 57,493,051 |
| Held-to-maturity financial assets | 10,550,000 | 16,800,000 |
| Financial assets carried at cost | 160,498 | 368,778 |
| Investments accounted for using equity method | - | 5,171,962 |
| Property, plant and equipment | 98,069 | 816,852 |
| Proceeds from return of capital of financial assets carried at cost | 65,087 | - |
| Derecognition of hedging derivative financial instruments | 8,868 | 2,659 |
| Costs from entering into hedging transactions | - | (495,348) |
| Interest received | 6,353,195 | 3,641,920 |
| Proceeds from government grants - land use right and others | 798,469 | - |
| Proceeds from government grants - property, plant and equipment | 738,643 | - |
| Net cash outflow from acquisition of subsidiary (Note 33) | - | (51,601) |
| Net cash inflow from disposal of subsidiary (Note 34) | - | 601,047 |
| Other dividends received | 137,420 | 616,675 |
| Dividends received from investments accounted for using equity method | 5,478,790 | 3,407,126 |
| Refundable deposits paid | (144,982) | (404,458) |
| Refundable deposits refunded | 169,912 | 348,434 |
| Decrease in receivables for temporary payments | <u>706,718</u> | <u>398,185</u> |
| Net cash used in investing activities | <u>(395,439,680)</u> | <u>(217,245,837)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | 18,968,936 | 3,138,680 |
| Repayment of bonds | (23,471,600) | - |
| Repayment of long-term bank loans | (8,540) | - |
| Interest paid | (3,302,420) | (3,156,218) |
| Decrease in obligations under finance leases | - | (29,098) |
| Guarantee deposits received | 6,354,677 | 754,873 |
| Guarantee deposits refunded | (523,234) | (742,458) |
| Cash dividends | (155,582,283) | (116,683,481) |
| Proceeds from exercise of employee stock options | - | 33,891 |
| Decrease in noncontrolling interests | <u>(235,733)</u> | <u>(50,218)</u> |
| Net cash used in financing activities | <u>(157,800,197)</u> | <u>(116,734,029)</u> |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | \$ <u>(8,029,812)</u> | \$ <u>8,258,851</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (21,435,097) | 204,158,423 |
| CASH AND CASH EQUIVALENTS INCLUDED IN NONCURRENT ASSETS HELD FOR SALE, BEGINNING OF YEAR | - | 81,478 |
| CASH AND CASH EQUIVALENT ON CONSOLIDATED BALANCE SHEET, BEGINNING OF YEAR | <u>562,688,930</u> | <u>358,449,029</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 541,253,833</u> | <u>\$ 562,688,930</u> |

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 YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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 approved and authorized for issue by the Board of Directors on February 14, 2017.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

As of the date that the accompanying consolidated financial statements were authorized for issue, TSMC and its subsidiaries (collectively as the "Company") have not applied the following amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) issued by the International Accounting Standards Board (IASB) (collectively, "IFRSs").

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

Rule No. 1050050021 issued by Financial Supervisory Commission (FSC) stipulated that starting January 1, 2017, the Company should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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 significant 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.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefits on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the aforementioned impact, as of the date that the accompanying consolidated financial statements were authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The related impact will be disclosed when the Company completes the evaluation.

b. The IFRSs in issue and endorsed by FSC with effective date starting 2017

According to Rule No. 1050026834 issued by the FSC, the following IFRSs issued by the IASB and endorsed by the FSC should be adopted by the Company starting 2017.

| New, Revised or Amended Standards and Interpretations | Effective Date Issued by IASB (Note 1) |
|--|---|
| 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 |
| Annual Improvements to IFRSs 2012 - 2014 Cycle | January 1, 2016 (Note 2) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| 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 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| 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 |

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 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the Company believes that the adoption of aforementioned IFRSs with effective date starting 2017 will not have a significant effect on the Company's accounting policies:

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

The amendments to IAS 36 clarify that the Company is required to disclose the recoverable amount of an asset or a cash-generating unit only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Company is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. 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 authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of IFRSs with effective date starting 2017. The related impact will be disclosed when the Company completes the evaluation.

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

The Company has not applied the following IFRSs issued by the IASB but not endorsed by the FSC. The FSC announced that the Company should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

| New, Revised or Amended Standards and Interpretations | Effective Date Issued by IASB (Note 3) |
|--|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 4 |
| 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 |
| 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 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IFRS 15 "Clarifications to IFRS 15" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| 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 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.

Note 4: 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.

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 hedging 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.

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 contracts; 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.

3) 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 that the accompanying consolidated financial statements were authorized 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

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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC with the effective dates (collectively, "Taiwan-IFRSs").

Basis of Preparation

The accompanying consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

Basis of Consolidation

The basis for the consolidated financial statements

The consolidated financial statements incorporate the financial statements of TSMC and entities controlled by TSMC (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the shareholders of the parent and to the noncontrolling interests even if this results in the noncontrolling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to shareholders of the parent.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between:

- a. the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and
- b. the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest.

The Company shall account for all amounts recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the Company had directly disposed of the related assets and liabilities.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

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 |
|---|---|--|--------------------------------------|-------------------------|-------------------|------------|
| | | | | December 31, 2016 | December 31, 2015 | |
| TSMC | TSMC North America | Selling and marketing of integrated circuits and semiconductor devices | San Jose, California, U.S.A. | 100% | 100% | - |
| | TSMC Japan Limited (TSMC Japan) | Marketing activities | Yokohama, Japan | 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% | a) |
| | TSMC Korea Limited (TSMC Korea) | Customer service and technical supporting activities | Seoul, Korea | 100% | 100% | a) |
| | TSMC Europe B.V. (TSMC Europe) | Marketing and engineering supporting activities | Amsterdam, the Netherlands | 100% | 100% | a) |
| | TSMC Global, Ltd. (TSMC Global) | Investment activities | Tortola, British Virgin Islands | 100% | 100% | - |
| | 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% | - |
| | TSMC Nanjing Company Limited (TSMC Nanjing) | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | Nanjing, China | 100% | - | b) |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | 98% | 98% | a) |
| | VentureTech Alliance Fund II, L.P. (VTAF II) | Investing in new start-up technology companies | Cayman Islands | 98% | 98% | a) |
| | Emerging Alliance Fund, L.P. (Emerging Alliance) | Investing in new start-up technology companies | Cayman Islands | - | 99.5% | a), c) |
| | TSMC Solar Europe GmbH | Selling of solar related products and providing customer service | Hamburg, Germany | 100% | 100% | a), d) |
| | Chi Cherng Investment Co., Ltd. (Chi Cherng) | Investment activities | Taipei, Taiwan | - | 100% | e), f) |
| | VisEra Technologies Company Ltd. (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), g) |
| | TSMC Partners | TSMC Design Technology Canada Inc. (TSMC Canada) | Engineering support activities | Ontario, Canada | 100% | 100% |
| TSMC Technology, Inc. (TSMC Technology) | | Engineering support activities | Delaware, U.S.A. | 100% | 100% | a) |
| TSMC Development, Inc. (TSMC Development) | | Investment activities | Delaware, U.S.A. | 100% | 100% | - |
| InveStar Semiconductor Development Fund, Inc. (ISDF) | | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | a), h) |
| InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | a), h) |
| 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), g) |
| 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% | - |
| 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% | a) |
| | Growth Fund Limited (Growth Fund) | Investing in new start-up technology companies | Cayman Islands | 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% | a), c) |
| VTAF III, VTAF II and TSMC | VentureTech Alliance Holdings, LLC (VTA Holdings) | Investing in new start-up technology companies | Delaware, U.S.A. | 100% | - | a), c) |
| 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), g) |

Note a: This is an immaterial subsidiary for which the consolidated financial statements are not audited 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 managing 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: Due to the expiration of the investment agreement between Emerging Alliance and TSMC, Emerging Alliance completed the liquidation procedures in April 2016. Emerging Alliance's ownership in VTA Holdings is held directly by TSMC.

Note d: In August 2015, TSMC Solar Ltd. (TSMC Solar) ceased its manufacturing operations. TSMC Solar and TSMC Guang Neng Investment, Ltd. (TSMC GN) were incorporated into TSMC in December 2015. After the incorporation, TSMC Solar Europe GmbH, the subsidiary of TSMC Solar, is held directly by TSMC and TSMC Solar Europe GmbH has started the liquidation procedures. TSMC Solar North America, Inc. (TSMC Solar NA), the subsidiary of TSMC Solar, completed the liquidation procedures in December 2015.

Note e: The Company acquired OmniVision Technologies, Inc.'s (OVT's) 49.1% ownership in VisEra Holding and 100% ownership in Taiwan OmniVision Investment Holding Co. (OVT Taiwan) on November 20, 2015. As a result, the Company has obtained controls of VisEra Holding and OVT Taiwan; therefore the Company has consolidated VisEra Holding, OVT Taiwan and VisEra Tech, held directly by VisEra Holding, since November 20, 2015. Please refer to Note 33.

Note f: OVT Taiwan that originally acquired by the Company was renamed as Chi Cherng in December 2015. Chi Cherng was incorporated into TSMC in December 2016.

Note g: 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.

Foreign Currencies

The financial statements of each individual consolidated entity were expressed in the currency which reflected its primary economic environment (functional currency). The functional currency of TSMC and presentation currency of the consolidated financial statements are both New Taiwan Dollars (NT\$). In preparing the consolidated financial statements, the operating results and financial positions of each consolidated entity are translated into NT\$.

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Such exchange differences are recognized in profit or loss in the year in which they arise. Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items that are measured in terms of historical cost in foreign currencies are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are translated into NT\$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to noncontrolling interests as appropriate).

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the end of the reporting period. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the end of the reporting period. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Cash equivalents, for the purpose of meeting short-term cash commitments, consist of highly liquid time deposits and investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial Instruments

Financial assets and liabilities shall be recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets

Financial assets are classified into the following specified categories: Financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” financial assets, “available-for-sale” financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Regular way purchases or sales of financial assets are recognized and derecognized on a trade date or settlement date basis for which financial assets were classified in the same way, respectively. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Interest income from available-for-sale monetary financial assets and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

Available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period. Such equity instruments are subsequently remeasured at fair value when their fair value can be reliably measured, and the difference between the carrying amount and fair value is recognized in profit or loss or other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including cash and cash equivalents, notes and accounts receivable and other receivables are measured at amortized cost using the effective interest method, less any impairment, except for those loans and receivables with immaterial discounted effect.

Impairment of financial assets

Financial assets, other than those carried at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

For financial assets carried at amortized cost, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

For financial assets carried at amortized cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the year.

In respect of available-for-sale equity instruments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to the recognition of an impairment loss is recognized in other comprehensive income and accumulated under the heading of unrealized gains or losses from available-for-sale financial assets.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the financial asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are subsequently measured either at amortized cost using effective interest method or at FVTPL.

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Financial liabilities other than those held for trading purposes and designated as at FVTPL are subsequently measured at amortized cost at the end of each reporting period.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative Financial Instruments

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial Instruments Designated as at Fair Value through Profit or Loss

A financial instrument may be designated as at fair value through profit or loss (FVTPL) upon initial recognition. The financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Hedge Accounting

The Company designates certain hedging instruments, which include stock forward contracts and interest rate futures contracts in respect of foreign currency risk, as fair value hedge. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately. Hedge accounting is discontinued prospectively when the Company revokes the designated hedging

relationship, or when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting.

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedges reserve. Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedged item is recognized in profit or loss.

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost at the end of the reporting period. Net realizable value represents the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

Noncurrent Assets Held for Sale

Noncurrent assets or disposal groups are classified as noncurrent assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the noncurrent asset held for sale is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the committed sale plan involves loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale, regardless of whether a noncontrolling interest in its former subsidiary is retained after the sale.

Noncurrent assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation would cease.

Investments Accounted for Using Equity Method

Investments accounted for using the equity method include investments in associates and interests in joint venture.

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The operating results and assets and liabilities of associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the associate and joint venture as well as the distribution received. The Company also recognizes its share in the changes in the equities of associates and joint venture.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate or a joint venture recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date when the Company ceases to have significant influence over an associate. When the Company retains an interest in the former associate, the Company measures the retained interest at fair value at that date. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Company shall account for all amounts recognized in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If the Company's ownership interest in an associate is reduced as a result of disposal, but the investment continues to be an associate, the Company should reclassify to profit or loss only a proportionate amount of the gain or loss previously recognized in other comprehensive income.

When the Company subscribes to additional shares in an associate or a joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the net assets of the associate or joint venture. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription to the shares of associate or joint venture by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate or joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate or joint venture had directly disposed of the related assets or liabilities.

When a consolidated entity transacts with an associate or a joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate or joint venture that are not owned by the Company.

Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment. Costs include any incremental costs that are directly attributable to the construction or acquisition of the item of property, plant and equipment.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives: land improvements - 20 years; buildings - 5 to 20 years; machinery and equipment - 2 to 5 years; office equipment - 3 to 15 years; and leased assets - 20 years. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Land is not depreciated.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the assets. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Company as lessee

Assets held under finance lease are initially recognized as assets of the Company at the fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as an obligation under finance lease.

Lease payments are apportioned between finance expense and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Intangible Assets

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Other intangible assets

Other separately acquired intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method over the following estimated useful lives: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 3 years or contract period; patent and others - the economic life or contract period. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of Tangible and Intangible Assets

Goodwill

Goodwill is not amortized and instead is tested for impairment annually, or more frequently when there is an indication that the cash generating unit may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units

that are expected to benefit from the synergies of the combination. If the recoverable amount of a cash-generating unit is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such cash generating unit and then to the other assets of the cash generating unit pro rata based on the carrying amount of each asset in the cash generating unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Other tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or a cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Guarantee Deposit

Guarantee deposit mainly consists of cash received under deposit agreements with customers to ensure they have access to the Company's specified capacity; and as guarantee of accounts receivable to ensure payment from customers. Cash received from customers is recorded as guarantee deposit upon receipt. Guarantee deposits are refunded to customers when terms and conditions set forth in the deposit agreements have been satisfied.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In principle, 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. Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

Royalties, dividend and interest income

Revenue from royalties is recognized on an accrual basis in accordance with the substance of the relevant agreement, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Employee Benefits

Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for service rendered by employees.

Retirement benefits

For defined contribution retirement benefit plans, payments to the benefit plan are recognized as an expense when the employees have rendered service entitling them to the contribution. For defined benefit retirement benefit plans, the cost of providing benefit is recognized based on actuarial calculations.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the Projected Unit Credit Method. Service cost (including current service cost), and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Company's defined benefit plan.

Share-based Payment Arrangements

The Company elected to take the optional exemption under IFRS 1 for the share-based payment transactions granted and vested before January 1, 2012, the date of transition to Taiwan-IFRSs. There were no stock options granted prior to but unvested at the date of transition.

The compensation costs of employee stock options that were granted after January 1, 2012 are measured at the fair value of the stock options at the grant date. The fair value of the stock option granted determined at the grant date of the stock options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of stock options that will eventually vest, with a corresponding increase in capital surplus - employee stock option. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from original estimates.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, net operating loss carryforwards and unused tax credits to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint venture, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. The deferred tax assets which originally not recognized is also reviewed at the end of each reporting period and recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Noncontrolling interests are initially measured at the noncontrolling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss is recognized in profit or loss.

Insurance Claim

The Company recognizes insurance claim reimbursement for losses incurred related to disaster damages. Insurance claim reimbursements are recorded, net of any deductible amounts, at the time while there is evidence that the claim reimbursement is virtually certain to be received.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets (mainly including land use right and depreciable assets) are recognized as a deduction from the carrying amount of the related assets and recognized as a reduced depreciation or amortization charge in profit or loss over the contract period or useful lives of the related assets. Government grants that are receivables as compensation for expenses already incurred are deducted from incurred expenses in the period in which they become receivables.

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

In the application of the aforementioned Company's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgments, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Revenue Recognition

The Company recognizes revenue when the conditions described in Note 4 are satisfied. The Company also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience and the consideration of varying contractual terms, and our management periodically reviews the adequacy of the estimation used.

Impairment of Tangible and Intangible Assets Other than Goodwill

In the process of evaluating the potential impairment of tangible and intangible assets other than goodwill, the Company is required to make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups with the consideration of the nature of semiconductor industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

Impairment of Goodwill

The assessment of impairment of goodwill requires the Company to make subjective judgment to determine the identified cash-generating units, allocate the goodwill to relevant cash-generating units and estimate the recoverable amount of relevant cash-generating units.

Impairment Assessment on Investment Using Equity Method

The Company assesses the impairment of investments accounted for using the equity method whenever triggering events or changes in circumstances indicate that an investment may be impaired and carrying value may not be recoverable. The Company measures the impairment based on a projected future cash flow of the investees, including the underlying assumptions of sales growth rate and capacity utilization rate formulated by such investees' internal management team. The Company also takes into account market conditions and the relevant industry trends to ensure the reasonableness of such assumptions.

Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Company's subjective judgment and estimate, including the future revenue growth and profitability, tax holidays, the amount of tax credits can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

Valuation of Inventory

Inventories are stated at the lower of cost or net realizable value, and the Company uses judgment and estimate to determine the net realizable value of inventory at the end of each reporting period.

Due to the rapid technological changes, the Company estimates the net realizable value of inventory for obsolescence and unmarketable items at the end of reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon.

Recognition and Measurement of Defined Benefit Plans

Net defined benefit liability and the resulting defined benefit costs under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase rate. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

| | December 31, 2016 | December 31, 2015 |
|--|-----------------------|-----------------------|
| Cash and deposits in banks | \$ 536,895,344 | \$ 557,270,910 |
| Repurchase agreements collateralized by corporate bonds | 2,361,250 | 5,132,778 |
| Commercial paper | 1,997,239 | - |
| Repurchase agreements collateralized by government bonds | <u>-</u> | <u>285,242</u> |
| | <u>\$ 541,253,833</u> | <u>\$ 562,688,930</u> |

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

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|----------------------|----------------------|
| <u>Financial assets</u> | | |
| Held for trading | | |
| Forward exchange contracts | \$ 142,406 | \$ 6,026 |
| Cross currency swap contracts | <u>10,976</u> | <u>-</u> |
| | <u>153,382</u> | <u>6,026</u> |
| Designated as at FVTPL | | |
| Time deposit | 6,297,708 | - |
| Forward exchange contracts | <u>22</u> | <u>-</u> |
| | <u>6,297,730</u> | <u>-</u> |
| | <u>\$ 6,451,112</u> | <u>\$ 6,026</u> |
| <u>Financial liabilities</u> | | |
| Held for trading | | |
| Forward exchange contracts | \$ 91,585 | \$ 72,610 |
| Designated as at FVTPL | | |
| Forward exchange contracts | <u>99,550</u> | <u>-</u> |
| | <u>\$ 191,135</u> | <u>\$ 72,610</u> |

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>December 31, 2016</u> | | |
| 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 |
| <u>December 31, 2015</u> | | |
| Sell US\$/Buy JPY | January 2016 | US\$128,418/JPY15,449,355 |
| Sell US\$/Buy RMB | January 2016 | US\$226,000/RMB1,464,472 |
| Sell US\$/Buy NT\$ | January 2016 to February 2016 | US\$440,000/NT\$14,434,179 |

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 |
|--------------------------|---|---|---|
| <u>December 31, 2016</u> | | | |
| January 2017 | US\$170,000/NT\$5,487,600 | 3.98% | - |

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Corporate bonds | \$ 29,999,508 | \$ 6,267,768 |
| Agency bonds | 14,880,482 | 2,627,367 |
| Corporate issued asset-backed securities | 11,254,757 | 3,154,366 |
| Government bonds | 8,457,362 | 878,377 |
| Publicly traded stocks | <u>3,196,658</u> | <u>1,371,483</u> |
| | <u>\$ 67,788,767</u> | <u>\$ 14,299,361</u> |

9. HELD-TO-MATURITY FINANCIAL ASSETS

| | December 31, 2016 | December 31, 2015 |
|-----------------------------------|------------------------------|------------------------------|
| Corporate bonds/Bank debentures | \$ 23,849,701 | \$ 8,143,146 |
| Commercial paper | 8,628,176 | - |
| Negotiable certificate of deposit | 4,829,850 | 4,934,250 |
| Structured product | <u>1,609,950</u> | <u>3,000,000</u> |
| | <u>\$ 38,917,677</u> | <u>\$ 16,077,396</u> |
| Current portion | \$ 16,610,116 | \$ 9,166,523 |
| Noncurrent portion | <u>22,307,561</u> | <u>6,910,873</u> |
| | <u>\$ 38,917,677</u> | <u>\$ 16,077,396</u> |

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

| | December 31, 2016 | December 31, 2015 |
|----------------------------------|------------------------------|------------------------------|
| <u>Financial assets- current</u> | | |
| Fair value hedges | | |
| Interest rate futures contracts | <u>\$ 5,550</u> | <u>\$ 1,739</u> |

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) |
|--------------------------|--|
| <u>December 31, 2016</u> | |
| March 2017 | US\$ 53,600 |
| <u>December 31, 2015</u> | |
| March 2016 | US\$ 13,800 |

11. NOTES AND ACCOUNTS RECEIVABLE, NET

| | December 31, 2016 | December 31, 2015 |
|------------------------------------|------------------------------|------------------------------|
| Notes and accounts receivable | \$ 128,815,389 | \$ 85,547,926 |
| Allowance for doubtful receivables | <u>(480,118)</u> | <u>(488,251)</u> |
| Notes and accounts receivable, net | <u>\$ 128,335,271</u> | <u>\$ 85,059,675</u> |

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

Aging analysis of notes and accounts receivable, net

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|------------------------------|------------------------------|
| Neither past due nor impaired | \$ 108,411,408 | \$ 71,482,666 |
| Past due but not impaired | | |
| Past due within 30 days | 15,017,824 | 13,577,009 |
| Past due 31-60 days | 1,844,726 | - |
| Past due 61-120 days | <u>3,061,313</u> | <u>-</u> |
| | <u>\$ 128,335,271</u> | <u>\$ 85,059,675</u> |

Movements of the allowance for doubtful receivables

| | Individually Assessed for Impairment | Collectively Assessed for Impairment | Total |
|-------------------------------------|---|---|-------------------|
| Balance at January 1, 2016 | \$ 10,241 | \$ 478,010 | \$ 488,251 |
| Provision | - | 321 | 321 |
| Reversal/Write-off | (8,393) | - | (8,393) |
| Effect of exchange rate changes | <u>-</u> | <u>(61)</u> | <u>(61)</u> |
| Balance at December 31, 2016 | <u>\$ 1,848</u> | <u>\$ 478,270</u> | <u>\$ 480,118</u> |
| Balance at January 1, 2015 | \$ 8,093 | \$ 478,637 | \$ 486,730 |
| Provision | 28,593 | 4,814 | 33,407 |
| Reversal/Write-off | (29,065) | (4,737) | (33,802) |
| Effect of acquisition of subsidiary | 1,847 | - | 1,847 |
| Effect of exchange rate changes | <u>773</u> | <u>(704)</u> | <u>69</u> |
| Balance at December 31, 2015 | <u>\$ 10,241</u> | <u>\$ 478,010</u> | <u>\$ 488,251</u> |

Aging analysis of accounts receivable that is individually determined as impaired

| | December 31, 2016 | December 31, 2015 |
|------------------------|------------------------------|------------------------------|
| Past due over 121 days | <u>\$ 1,848</u> | <u>\$ 10,241</u> |

12. INVENTORIES

| | December 31, 2016 | December 31, 2015 |
|--------------------------|----------------------|----------------------|
| Finished goods | \$ 8,521,873 | \$ 7,974,902 |
| Work in process | 33,330,870 | 53,632,056 |
| Raw materials | 4,012,190 | 3,038,756 |
| Supplies and spare parts | <u>2,817,300</u> | <u>2,406,556</u> |
| | <u>\$ 48,682,233</u> | <u>\$ 67,052,270</u> |

Write-down of inventories to net realizable value (excluding earthquake losses) in the amount of NT\$1,542,779 thousand and NT\$464,361 thousand, respectively, were included in the cost of revenue for the years ended December 31, 2016 and 2015. Please refer to related earthquake losses in Note 41.

13. FINANCIAL ASSETS CARRIED AT COST

| | December 31, 2016 | December 31, 2015 |
|----------------------------|----------------------|----------------------|
| Non-publicly traded stocks | \$ 2,944,859 | \$ 3,268,100 |
| Mutual funds | <u>1,157,608</u> | <u>722,782</u> |
| | <u>\$ 4,102,467</u> | <u>\$ 3,990,882</u> |

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 stocks of Impinj, Inc. and Richwave Technology Corp. were listed in July 2016 and November 2015, respectively. 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

a. Investments in associates

Associates consisted of the following:

| Name of Associate | Principal Activities | Place of Incorporation and Operation | Carrying Amount | | % of Ownership and Voting Rights Held by the Company | |
|--|--|--|----------------------|----------------------|---|----------------------|
| | | | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Vanguard International Semiconductor Corporation (VIS) | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | Hsinchu, Taiwan | \$ 8,806,384 | \$ 8,446,054 | 28% | 28% |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | Fabrication and supply of integrated circuits | Singapore | 7,163,516 | 9,511,515 | 39% | 39% |
| Xintec Inc. (Xintec) | Wafer level chip size packaging service | Taoyuan, Taiwan | 2,599,807 | 2,928,362 | 41% | 41% |

(Continued)

| Name of Associate | Principal Activities | Place of Incorporation and Operation | Carrying Amount | | % of Ownership and Voting Rights Held by the Company | |
|----------------------------------|---|--------------------------------------|----------------------|----------------------|--|-------------------|
| | | | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Global Unichip Corporation (GUC) | Researching, developing, manufacturing, testing and marketing of integrated circuits | Hsinchu, Taiwan | \$ 1,174,181 | \$ 1,152,335 | 35% | 35% |
| Motech Industries, Inc. (Motech) | Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems | New Taipei, Taiwan | - | 2,053,562 | - | 12% |
| | | | <u>\$ 19,743,888</u> | <u>\$ 24,091,828</u> | | |

(Concluded)

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.

In June 2015, Motech merged with Topcell Solar International Co., Ltd with exchange of shares. As a result, the Company's percentage of ownership over Motech decreased to 18.0%. In the fourth quarter of 2015, the Company sold 29,160 thousand common shares of Motech and recognized a disposal gain of NT\$202,384 thousand. After the sale, the Company's percentage of ownership over Motech decreased to 12.0%. Motech continued to be accounted for using equity method as the Company still retained significant influence over Motech.

The Company acquired OVT's 49.1% ownership in VisEra Holding on November 20, 2015. As a result, the Company has obtained control of VisEra Holding and consolidated VisEra Holding since November 20, 2015. The Company included the Xintec shares held by VisEra Holding and total percentage of ownership over Xintec increased to 41.4%. To simplify investment structure, Xintec owned by VisEra Holding was transferred to TSMC in the third quarter of 2016.

In March 2015, Xintec listed its shares on the R.O.C. Over-the-Counter (Taipei Exchange). Consequently, the Company's percentage of ownership over Xintec was diluted to approximately 35.4%. In April 2015, the Company sold 2,172 thousand common shares of Xintec and recognized a disposal gain of NT\$43,017 thousand.

In the second quarter of 2015, the Company sold 82,000 thousand common shares of VIS and recognized a disposal gain of NT\$2,263,539 thousand. After the sale, the Company owned approximately 28.3 % of the equity interest in VIS.

The summarized financial information in respect of each of the Company's material associates is set out below. The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with Taiwan-IFRSs adjusted by the Company using the equity method of accounting.

1) VIS

| | December 31, 2016 | December 31, 2015 |
|------------------------|------------------------------|------------------------------|
| Current assets | <u>\$ 25,662,921</u> | <u>\$ 24,800,749</u> |
| Noncurrent assets | <u>\$ 9,501,442</u> | <u>\$ 7,785,093</u> |
| Current liabilities | <u>\$ 5,476,672</u> | <u>\$ 4,262,001</u> |
| Noncurrent liabilities | <u>\$ 804,107</u> | <u>\$ 712,611</u> |

| | Years Ended December 31 | |
|-----------------------------------|--------------------------------|----------------------|
| | 2016 | 2015 |
| Net revenue | <u>\$ 25,828,634</u> | <u>\$ 23,319,721</u> |
| Income from operations | <u>\$ 6,083,625</u> | <u>\$ 4,593,430</u> |
| Net income | <u>\$ 5,520,645</u> | <u>\$ 4,139,031</u> |
| Other comprehensive income (loss) | <u>\$ 5,592</u> | <u>\$ (61,886)</u> |
| Total comprehensive income | <u>\$ 5,526,237</u> | <u>\$ 4,077,145</u> |
| Cash dividends received | <u>\$ 1,206,981</u> | <u>\$ 1,206,414</u> |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated balance sheets was as follows:

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Net assets | \$ 28,883,584 | \$ 27,611,230 |
| Percentage of ownership | <u>28%</u> | <u>28%</u> |
| The Company's share of net assets of the associate | <u>8,179,830</u> | <u>7,819,500</u> |
| Goodwill | <u>626,554</u> | <u>626,554</u> |
| Carrying amount of the investment | <u>\$ 8,806,384</u> | <u>\$ 8,446,054</u> |

2) SSMC

| | December 31, 2016 | December 31, 2015 |
|------------------------|------------------------------|------------------------------|
| Current assets | <u>\$ 14,585,150</u> | <u>\$ 20,078,179</u> |
| Noncurrent assets | <u>\$ 5,360,076</u> | <u>\$ 6,144,263</u> |
| Current liabilities | <u>\$ 1,746,602</u> | <u>\$ 1,954,057</u> |
| Noncurrent liabilities | <u>\$ 286,340</u> | <u>\$ 303,217</u> |

| | Years Ended December 31 | |
|----------------------------|--------------------------------|----------------------|
| | 2016 | 2015 |
| Net revenue | <u>\$ 14,045,927</u> | <u>\$ 15,026,016</u> |
| Income from operations | <u>\$ 4,921,735</u> | <u>\$ 5,802,261</u> |
| Net income | <u>\$ 4,918,140</u> | <u>\$ 5,904,586</u> |
| Total comprehensive income | <u>\$ 4,918,140</u> | <u>\$ 5,904,586</u> |
| Cash dividends received | <u>\$ 4,076,170</u> | <u>\$ 1,556,592</u> |

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated balance sheets was as follows:

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Net assets | \$ 17,912,284 | \$ 23,965,168 |
| Percentage of ownership | <u>39%</u> | <u>39%</u> |
| The Company's share of net assets of the associate | <u>6,948,175</u> | <u>9,296,089</u> |
| Goodwill | <u>213,984</u> | <u>213,984</u> |
| Other adjustments | <u>1,357</u> | <u>1,442</u> |
| Carrying amount of the investment | <u>\$ 7,163,516</u> | <u>\$ 9,511,515</u> |

Aggregate information of associates that are not individually material was summarized as follows:

| | Years Ended December 31 | |
|--|--------------------------------|---------------------|
| | 2016 | 2015 |
| The Company's share of profits (losses) of associates | \$ <u>23,140</u> | \$ <u>(171,358)</u> |
| The Company's share of other comprehensive income (loss) of associates | \$ <u>(5,244)</u> | \$ <u>7,880</u> |
| The Company's share of total comprehensive income (loss) of associates | \$ <u>17,896</u> | \$ <u>(163,478)</u> |

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 | December 31, 2016 | December 31, 2015 |
|--------------------------|------------------------------|------------------------------|
| VIS | \$ <u>26,089,360</u> | \$ <u>19,868,766</u> |
| GUC | \$ <u>3,664,997</u> | \$ <u>3,081,399</u> |
| Xintec | \$ <u>3,622,227</u> | \$ <u>3,605,534</u> |
| Motech | | \$ <u>2,636,054</u> |

b. Investments in joint venture

The Company and OVT entered into a joint agreement to invest in VisEra Holding. The Company acquired OVT's 49.1% ownership in VisEra Holding on November 20, 2015. As a result, the Company has obtained control of VisEra Holding and consolidated VisEra Holding since November 20, 2015. Please refer to Note 33 for related disclosures.

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 January 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 | - | 9,113,314 | 156,874,203 | 4,584,087 | - | 195,255,966 | 365,827,570 |
| Disposals or retirements | - | (13,372) | (3,094,143) | (469,235) | - | - | (3,576,750) |
| Reclassification | - | - | - | 7,113 | (7,113) | - | - |
| Effect of exchange rate changes | (18,099) | (1,497,332) | (4,401,920) | (92,374) | - | (167,839) | (6,177,564) |
| Balance at December 31, 2016 | <u>\$ 4,049,292</u> | <u>\$ 304,404,474</u> | <u>\$ 2,042,867,744</u> | <u>\$ 34,729,640</u> | <u>\$ -</u> | <u>\$ 387,199,675</u> | <u>\$ 2,773,250,825</u> |
| Accumulated depreciation | | | | | | | |
| Balance at January 1, 2016 | \$ 506,185 | \$ 157,910,155 | \$ 1,385,857,655 | \$ 19,426,069 | \$ 7,113 | \$ - | \$ 1,563,707,177 |
| Additions | 29,440 | 17,540,470 | 198,189,423 | 4,325,665 | - | - | 220,084,998 |
| Disposals or retirements | - | (7,326) | (3,049,502) | (468,401) | - | - | (3,525,229) |
| Reclassification | - | - | - | 7,113 | (7,113) | - | - |
| Effect of exchange rate changes | (10,780) | (1,094,222) | (3,620,067) | (68,739) | - | - | (4,793,808) |
| Balance at December 31, 2016 | <u>\$ 524,845</u> | <u>\$ 174,349,077</u> | <u>\$ 1,577,377,509</u> | <u>\$ 23,221,707</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,775,473,138</u> |
| Carrying amounts at December 31, 2016 | <u>\$ 3,524,447</u> | <u>\$ 130,055,397</u> | <u>\$ 465,490,235</u> | <u>\$ 11,507,933</u> | <u>\$ -</u> | <u>\$ 387,199,675</u> | <u>\$ 997,777,687</u> |
| Cost | | | | | | | |
| Balance at January 1, 2015 | \$ 4,036,785 | \$ 269,163,850 | \$ 1,754,170,227 | \$ 27,960,835 | \$ 841,154 | \$ 109,334,736 | \$ 2,165,507,587 |
| Additions | - | 26,960,460 | 142,090,400 | 3,428,660 | - | 82,595,294 | 255,074,814 |
| Disposals or retirements | - | (74,941) | (5,923,022) | (1,170,037) | - | - | (7,168,000) |
| Lease agreement modification | - | - | - | - | (824,129) | - | (824,129) |
| Effect of acquisition of subsidiary | - | 624,731 | 1,402,023 | 447,906 | - | 176,549 | 2,651,209 |
| Effect of exchange rate changes | 30,606 | 127,764 | 1,749,976 | 32,685 | (9,912) | 4,969 | 1,936,088 |
| Balance at December 31, 2015 | <u>\$ 4,067,391</u> | <u>\$ 296,801,864</u> | <u>\$ 1,893,489,604</u> | <u>\$ 30,700,049</u> | <u>\$ 7,113</u> | <u>\$ 192,111,548</u> | <u>\$ 2,417,177,569</u> |
| Accumulated depreciation and impairment | | | | | | | |
| Balance at January 1, 2015 | \$ 459,140 | \$ 141,245,913 | \$ 1,188,388,402 | \$ 16,767,934 | \$ 447,397 | \$ - | \$ 1,347,308,786 |
| Additions | 28,935 | 16,312,589 | 199,184,992 | 3,751,643 | 25,210 | - | 219,303,369 |
| Disposals or retirements | - | (74,075) | (5,585,441) | (1,125,191) | - | - | (6,784,707) |
| Lease agreement modification | - | - | - | - | (460,380) | - | (460,380) |
| Impairment | - | 278,057 | 2,256,785 | 10,742 | - | - | 2,545,584 |
| Effect of exchange rate changes | 18,110 | 147,671 | 1,612,917 | 20,941 | (5,114) | - | 1,794,525 |
| Balance at December 31, 2015 | <u>\$ 506,185</u> | <u>\$ 157,910,155</u> | <u>\$ 1,385,857,655</u> | <u>\$ 19,426,069</u> | <u>\$ 7,113</u> | <u>\$ -</u> | <u>\$ 1,563,707,177</u> |
| Carrying amounts at December 31, 2015 | <u>\$ 3,561,206</u> | <u>\$ 138,891,709</u> | <u>\$ 507,631,949</u> | <u>\$ 11,273,980</u> | <u>\$ -</u> | <u>\$ 192,111,548</u> | <u>\$ 853,470,392</u> |

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.

For the year ended December 31, 2015, the Company recognized an impairment loss of NT\$259,568 thousand under foundry segment since the carrying amount of some of property, plant and equipment was expected to be unrecoverable. Such impairment loss was included in other operating income and expenses.

In August 2015, TSMC Solar ceased its manufacturing operations. In the third quarter of 2015, the Company recognized an impairment loss of NT\$2,286,016 thousand since the carrying amounts of certain machinery and equipment, office equipment and mechanical and electrical power equipment were not expected to be recoverable. Such impairment loss was included in other operating income and expenses.

The Company had a building lease agreement with leasing terms from December 2003 to November 2018 and such lease was accounted for as a finance lease. In August 2015, the lease was determined to be an operating lease due to a modification on lease conditions; as such, the Company recognized a gain of NT\$430,041 thousand from the modification. Such gain was included in other operating income and expenses.

16. INTANGIBLE ASSETS

| | Goodwill | Technology License Fees | Software and System Design Costs | Patent and Others | Total |
|--|---------------------|-------------------------|----------------------------------|---------------------|----------------------|
| <u>Cost</u> | | | | | |
| Balance at January 1, 2016 | \$ 6,104,784 | \$ 8,454,304 | \$ 19,474,428 | \$ 4,879,026 | \$ 38,912,542 |
| Additions | - | 1,091,261 | 2,788,512 | 519,289 | 4,399,062 |
| Retirements | - | - | (5,273) | - | (5,273) |
| Effect of exchange rate changes | (96,809) | 442 | (14,072) | (11,880) | (122,319) |
| Balance at December 31, 2016 | <u>\$ 6,007,975</u> | <u>\$ 9,546,007</u> | <u>\$ 22,243,595</u> | <u>\$ 5,386,435</u> | <u>\$ 43,184,012</u> |
| <u>Accumulated amortization</u> | | | | | |
| Balance at January 1, 2016 | \$ - | \$ 4,779,388 | \$ 16,431,666 | \$ 3,635,608 | \$ 24,846,662 |
| Additions | - | 1,367,370 | 1,730,834 | 645,202 | 3,743,406 |
| Retirements | - | - | (5,273) | - | (5,273) |
| Effect of exchange rate changes | - | 442 | (12,799) | (3,272) | (15,629) |
| Balance at December 31, 2016 | <u>\$ -</u> | <u>\$ 6,147,200</u> | <u>\$ 18,144,428</u> | <u>\$ 4,277,538</u> | <u>\$ 28,569,166</u> |
| Carrying amounts at December 31, 2016 | <u>\$ 6,007,975</u> | <u>\$ 3,398,807</u> | <u>\$ 4,099,167</u> | <u>\$ 1,108,897</u> | <u>\$ 14,614,846</u> |
| <u>Cost</u> | | | | | |
| Balance at January 1, 2015 | \$ 5,888,813 | \$ 6,350,253 | \$ 18,697,098 | \$ 4,292,555 | \$ 35,228,719 |
| Additions | - | 2,112,572 | 867,774 | 587,754 | 3,568,100 |
| Retirements | - | - | (101,377) | - | (101,377) |
| Effect of acquisition of subsidiary | 52,669 | - | 12,111 | - | 64,780 |
| Effect of exchange rate changes | 163,302 | (8,521) | (1,178) | (1,283) | 152,320 |
| Balance at December 31, 2015 | <u>\$ 6,104,784</u> | <u>\$ 8,454,304</u> | <u>\$ 19,474,428</u> | <u>\$ 4,879,026</u> | <u>\$ 38,912,542</u> |
| <u>Accumulated amortization and impairment</u> | | | | | |
| Balance at January 1, 2015 | \$ - | \$ 3,778,912 | \$ 14,861,146 | \$ 3,057,151 | \$ 21,697,209 |
| Additions | - | 950,867 | 1,672,627 | 578,706 | 3,202,200 |
| Retirements | - | - | (101,377) | - | (101,377) |
| Impairment | - | 58,130 | 384 | - | 58,514 |
| Effect of exchange rate changes | - | (8,521) | (1,114) | (249) | (9,884) |
| Balance at December 31, 2015 | <u>\$ -</u> | <u>\$ 4,779,388</u> | <u>\$ 16,431,666</u> | <u>\$ 3,635,608</u> | <u>\$ 24,846,662</u> |
| Carrying amounts at December 31, 2015 | <u>\$ 6,104,784</u> | <u>\$ 3,674,916</u> | <u>\$ 3,042,762</u> | <u>\$ 1,243,418</u> | <u>\$ 14,065,880</u> |

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 both December 31, 2016 and 2015 to reflect the relevant specific risk in the cash-generating unit.

For the years ended December 31, 2016 and 2015, the Company did not recognize any impairment loss on goodwill.

In August 2015, TSMC Solar ceased its manufacturing operation and the Company recognized an impairment loss of NT\$58,514 thousand in the third quarter of 2015 since the carrying amounts of technology license fees, software and system design costs were expected to be unrecoverable. Such impairment loss was included in other operating income and expenses.

17. OTHER ASSETS

| | December 31, 2016 | December 31, 2015 |
|----------------------|------------------------------|------------------------------|
| Tax receivable | \$ 2,325,825 | \$ 2,026,509 |
| Prepaid expenses | 1,007,026 | 1,457,044 |
| Net Input VAT | 333,140 | - |
| Long-term receivable | - | 360,000 |
| Others | <u>1,219,863</u> | <u>1,118,492</u> |
| | <u>\$ 4,885,854</u> | <u>\$ 4,962,045</u> |
| Current portion | \$ 3,385,422 | \$ 3,533,369 |
| Noncurrent portion | <u>1,500,432</u> | <u>1,428,676</u> |
| | <u>\$ 4,885,854</u> | <u>\$ 4,962,045</u> |

18. SHORT-TERM LOANS

| | December 31, 2016 | December 31, 2015 |
|-----------------------|------------------------------|------------------------------|
| Unsecured loans | | |
| Amount | <u>\$ 57,958,200</u> | <u>\$ 39,474,000</u> |
| Original loan content | | |
| US\$ (in thousands) | \$ 1,800,000 | \$ 1,200,000 |
| Annual interest rate | 0.87%-1.07% | 0.50%-0.77% |
| Maturity date | Due by January 2017 | Due by February 2016 |

19. PROVISIONS

| | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| Sales returns and allowances | \$ 18,037,789 | \$ 10,163,536 |
| Warranties | <u>28,187</u> | <u>46,304</u> |
| | <u>\$ 18,065,976</u> | <u>\$ 10,209,840</u> |
| Current portion | \$ 18,037,789 | \$ 10,163,536 |
| Noncurrent portion (classified under other noncurrent liabilities) | <u>28,187</u> | <u>46,304</u> |
| | <u>\$ 18,065,976</u> | <u>\$ 10,209,840</u> |

| | Sales Returns and Allowances | Warranties | Total |
|-------------------------------------|---------------------------------|------------------|----------------------|
| <u>Year ended December 31, 2016</u> | | | |
| Balance, beginning of year | \$ 10,163,536 | \$ 46,304 | \$ 10,209,840 |
| Provision (Reversal) | 36,519,312 | (13,629) | 36,505,683 |
| Payment | (28,569,318) | (4,488) | (28,573,806) |
| Effect of exchange rate changes | <u>(75,741)</u> | <u>-</u> | <u>(75,741)</u> |
| Balance, end of year | <u>\$ 18,037,789</u> | <u>\$ 28,187</u> | <u>\$ 18,065,976</u> |
| <u>Year ended December 31, 2015</u> | | | |
| Balance, beginning of year | \$ 10,445,452 | \$ 19,828 | \$ 10,465,280 |
| Provision | 17,723,154 | 41,831 | 17,764,985 |
| Payment | (18,133,061) | (14,698) | (18,147,759) |
| Effect of acquisition of subsidiary | 126,049 | - | 126,049 |
| Effect of exchange rate changes | <u>1,942</u> | <u>(657)</u> | <u>1,285</u> |
| Balance, end of year | <u>\$ 10,163,536</u> | <u>\$ 46,304</u> | <u>\$ 10,209,840</u> |

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 year 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 best estimate has been made on the basis of historical warranty trends of business.

20. BONDS PAYABLE

| | December 31, 2016 | December 31, 2015 |
|----------------------------------|-----------------------|-----------------------|
| Domestic unsecured bonds | \$ 154,200,000 | \$ 166,200,000 |
| Overseas unsecured bonds | <u>37,028,850</u> | <u>49,342,500</u> |
| | 191,228,850 | 215,542,500 |
| Less: Discounts on bonds payable | (35,293) | (67,306) |
| Less: Current portion | <u>(38,100,000)</u> | <u>(23,510,112)</u> |
| | <u>\$ 153,093,557</u> | <u>\$ 191,965,082</u> |

The major terms of domestic unsecured bonds are as follows:

| Issuance | Tranche | Issuance Period | Total Amount | Coupon Rate | Repayment and Interest Payment |
|-----------------|----------------|----------------------------------|---------------------|--------------------|---|
| 100-1 | A | September 2011 to September 2016 | \$ 10,500,000 | 1.40% | Bullet repayment; interest payable annually |
| | B | September 2011 to September 2018 | 7,500,000 | 1.63% | The same as above |
| 100-2 | A | January 2012 to January 2017 | 10,000,000 | 1.29% | The same as above |
| | B | January 2012 to January 2019 | 7,000,000 | 1.46% | The same as above |
| 101-1 | A | August 2012 to August 2017 | 9,900,000 | 1.28% | The same as above |
| | B | August 2012 to August 2019 | 9,000,000 | 1.40% | The same as above |
| 101-2 | A | September 2012 to September 2017 | 12,700,000 | 1.28% | The same as above |
| | B | September 2012 to September 2019 | 9,000,000 | 1.39% | The same as above |
| 101-3 | - | October 2012 to October 2022 | 4,400,000 | 1.53% | The same as above |
| 101-4 | A | January 2013 to January 2018 | 10,600,000 | 1.23% | The same as above |
| | B | January 2013 to January 2020 | 10,000,000 | 1.35% | The same as above |
| | C | January 2013 to January 2023 | 3,000,000 | 1.49% | The same as above |
| 102-1 | A | February 2013 to February 2018 | 6,200,000 | 1.23% | The same as above |
| | B | February 2013 to February 2020 | 11,600,000 | 1.38% | The same as above |
| | C | February 2013 to February 2023 | 3,600,000 | 1.50% | The same as above |
| 102-2 | A | July 2013 to July 2020 | 10,200,000 | 1.50% | The same as above |
| | B | July 2013 to July 2023 | 3,500,000 | 1.70% | The same as above |
| 102-3 | A | August 2013 to August 2017 | 4,000,000 | 1.34% | The same as above |
| | B | August 2013 to August 2019 | 8,500,000 | 1.52% | The same as above |
| 102-4 | A | September 2013 to September 2016 | 1,500,000 | 1.35% | The same as above |
| | B | September 2013 to September 2017 | 1,500,000 | 1.45% | The same as above |

(Continued)

| Issuance | Tranche | Issuance Period | Total Amount | Coupon Rate | Repayment and Interest Payment |
|-----------------|----------------|----------------------------------|---------------------|--------------------|--|
| 102-4 | C | September 2013 to March 2019 | \$ 1,400,000 | 1.60% | Bullet repayment; interest payable annually (interest for the six months prior to maturity will accrue on the basis of actual days and be repayable at maturity) |
| | D | September 2013 to March 2021 | 2,600,000 | 1.85% | The same as above |
| | E | September 2013 to March 2023 | 5,400,000 | 2.05% | The same as above |
| | F | September 2013 to September 2023 | 2,600,000 | 2.10% | Bullet repayment; interest payable annually |
| | | | | | (Concluded) |

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. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The plan under the R.O.C. Labor Pension Act (the "Act") is deemed a defined contribution plan. Pursuant to the Act, TSMC, Mutual-Pak, TSMC Solar and VisEra Tech have made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts. Furthermore, TSMC North America, TSMC China, TSMC Nanjing, TSMC Europe, TSMC Canada, TSMC Technology, TSMC Solar NA and TSMC Solar Europe GmbH also make monthly contributions at certain percentages of the basic salary of their employees. Accordingly, the Company recognized expenses of NT\$2,164,900 thousand and NT\$2,003,534 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively.

b. Defined benefit plans

TSMC and TSMC Solar have defined benefit plans under the R.O.C. Labor Standards Law that provide benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. Before the end of each year, the Company assesses the balance in the Funds. If the amount of the balance in the Funds is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one

appropriation that should be made before the end of March of the next year. The Funds are operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the Funds.

Amounts recognized in the consolidated statements of comprehensive income in respect of these defined benefit plans were as follows:

| | Years Ended December 31 | |
|--|--------------------------------|---------------------|
| | 2016 | 2015 |
| Current service cost | \$ 132,786 | \$ 134,541 |
| Net interest expense | <u>139,355</u> | <u>144,389</u> |
| Components of defined benefit costs recognized in profit or loss | <u>272,141</u> | <u>278,930</u> |
| Remeasurement on the net defined benefit liability: | | |
| Return on plan assets (excluding amounts included in net interest expense) | 45,721 | (13,707) |
| Actuarial loss arising from experience adjustments | 38,195 | 297,077 |
| Actuarial loss arising from changes in financial assumptions | 694,632 | 544,333 |
| Actuarial loss arising from changes in demographic assumptions | <u>278,672</u> | <u>-</u> |
| Components of defined benefit costs recognized in other comprehensive income | <u>1,057,220</u> | <u>827,703</u> |
| Total | <u>\$ 1,329,361</u> | <u>\$ 1,106,633</u> |

The pension costs of the aforementioned defined benefit plans were recognized in profit or loss by the following categories:

| | Years Ended December 31 | |
|-------------------------------------|--------------------------------|-------------------|
| | 2016 | 2015 |
| Cost of revenue | \$ 176,977 | \$ 189,523 |
| Research and development expenses | 73,395 | 81,333 |
| General and administrative expenses | 17,367 | 3,102 |
| Marketing expenses | <u>4,402</u> | <u>4,972</u> |
| | <u>\$ 272,141</u> | <u>\$ 278,930</u> |

The amounts arising from the defined benefit obligation of the Company in the consolidated balance sheets were as follows:

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Present value of defined benefit obligation | \$ 12,480,480 | \$ 11,318,174 |
| Fair value of plan assets | <u>(3,929,072)</u> | <u>(3,870,148)</u> |
| Net defined benefit liability | <u>\$ 8,551,408</u> | <u>\$ 7,448,026</u> |

Movements in the present value of the defined benefit obligation were as follows:

| | Years Ended December 31 | |
|--|--------------------------------|----------------------|
| | 2016 | 2015 |
| Balance, beginning of year | \$ 11,318,174 | \$ 10,265,284 |
| Current service cost | 132,786 | 134,541 |
| Interest expense | 212,909 | 228,444 |
| Remeasurement losses: | | |
| Actuarial loss arising from experience adjustments | 38,195 | 297,077 |
| Actuarial loss arising from changes in financial assumptions | 694,632 | 544,333 |
| Actuarial loss arising from changes in demographic assumptions | 278,672 | - |
| Benefits paid from plan assets | (194,888) | (146,136) |
| Benefits paid directly by the Company | <u>-</u> | <u>(5,369)</u> |
| Balance, end of year | <u>\$ 12,480,480</u> | <u>\$ 11,318,174</u> |

Movements in the fair value of the plan assets were as follows:

| | Years Ended December 31 | |
|--|--------------------------------|---------------------|
| | 2016 | 2015 |
| Balance, beginning of year | \$ 3,870,148 | \$ 3,697,502 |
| Interest income | 73,554 | 84,055 |
| Remeasurement gains (losses): | | |
| Return on plan assets (excluding amounts included in net interest expense) | (45,721) | 13,707 |
| Contributions from employer | 225,979 | 221,020 |
| Benefits paid from plan assets | <u>(194,888)</u> | <u>(146,136)</u> |
| Balance, end of year | <u>\$ 3,929,072</u> | <u>\$ 3,870,148</u> |

The fair value of the plan assets by major categories at the end of reporting period was as follows:

| | December 31, 2016 | December 31, 2015 |
|--------------------|------------------------------|------------------------------|
| Cash | \$ 818,426 | \$ 690,821 |
| Equity instruments | 1,852,950 | 2,070,142 |
| Debt instruments | <u>1,257,696</u> | <u>1,109,185</u> |
| | <u>\$ 3,929,072</u> | <u>\$ 3,870,148</u> |

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions of the actuarial valuation were as follows:

| | Measurement Date | |
|-----------------------------|------------------------------|------------------------------|
| | December 31, 2016 | December 31, 2015 |
| Discount rate | 1.50% | 1.90% |
| Future salary increase rate | 3.00% | 3.00% |

Through the defined benefit plans under the R.O.C. Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The pension funds are invested in equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the government's designated authorities or under the mandated management. However, under the R.O.C. Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the debt investments of the plan assets.

Assuming a hypothetical decrease in interest rate at the end of the reporting period contributed to a decrease of 0.5% in the discount rate and all other assumptions were held constant, the present value of the defined benefit obligation would increase by NT\$970,282 thousand and NT\$844,058 thousand as of December 31, 2016 and 2015, respectively.

- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

Assuming the expected salary rate increases by 0.5% at the end of the reporting period and all other assumptions were held constant, the present value of the defined benefit obligation would increase by NT\$951,424 thousand and NT\$830,699 thousand as of December 31, 2016 and 2015, respectively.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated balance sheets.

The Company expects to make contributions of NT\$232,759 thousand to the defined benefit plans in the next year starting from December 31, 2016. The weighted average duration of the defined benefit obligation is 14 years.

22. GUARANTEE DEPOSITS

| | December 31, 2016 | December 31, 2015 |
|-----------------------|------------------------------|------------------------------|
| Capacity guarantee | \$ 20,929,350 | \$ 27,549,563 |
| Receivables guarantee | 5,559,960 | - |
| Others | <u>181,312</u> | <u>183,051</u> |
| | <u>\$ 26,670,622</u> | <u>\$ 27,732,614</u> |

(Continued)

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|-------------------------------------|
| Current portion (classified under accrued expenses and other current liabilities) | \$ 12,000,189 | \$ 6,167,813 |
| Noncurrent portion | <u>14,670,433</u> | <u>21,564,801</u> |
| | <u>\$ 26,670,622</u> | <u>\$ 27,732,614</u> (Concluded) |

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

23. EQUITY

a. Capital stock

| | December 31, 2016 | December 31, 2015 |
|---------------------------------------|------------------------------|------------------------------|
| Authorized shares (in thousands) | <u>28,050,000</u> | <u>28,050,000</u> |
| Authorized capital | <u>\$ 280,500,000</u> | <u>\$ 280,500,000</u> |
| Issued and paid shares (in thousands) | <u>25,930,380</u> | <u>25,930,380</u> |
| Issued capital | <u>\$ 259,303,805</u> | <u>\$ 259,303,805</u> |

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 December 31, 2016, 1,072,194 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,360,968 thousand shares (one ADS represents five common shares).

b. Capital surplus

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Additional paid-in capital | \$ 24,184,939 | \$ 24,184,939 |
| From merger | 22,804,510 | 22,804,510 |
| From convertible bonds | 8,892,847 | 8,892,847 |
| From share of changes in equities of subsidiaries | 107,798 | 100,761 |
| From share of changes in equities of associates and joint venture | 282,155 | 317,103 |
| Donations | <u>55</u> | <u>55</u> |
| | <u>\$ 56,272,304</u> | <u>\$ 56,300,215</u> |

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, associates and joint venture may be used to offset a deficit.

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 profits 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 32.

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 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.

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 2015 and 2014 earnings have been approved by TSMC's shareholders in its meetings held on June 7, 2016 and on June 9, 2015, respectively. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | | Dividends Per Share (NT\$) | |
|--------------------------------|----------------------------------|---------------------------------|---------------------------------------|---------------------------------|
| | For Fiscal Year 2015 | For Fiscal Year 2014 | For Fiscal Year 2015 | For Fiscal Year 2014 |
| Legal capital reserve | \$ 30,657,384 | \$ 26,389,879 | | |
| Cash dividends to shareholders | <u>155,582,283</u> | <u>116,683,481</u> | \$6.0 | \$4.5 |
| | <u>\$ 186,239,667</u> | <u>\$ 143,073,360</u> | | |

TSMC's appropriations of earnings for 2016 had been approved in the meeting of the Board of Directors held on February 14, 2017. The appropriations and dividends per share were as follows:

| | <u>Appropriation of Earnings</u> For Fiscal Year 2016 | <u>Dividends Per Share (NT\$)</u> For Fiscal Year 2016 |
|--------------------------------|---|--|
| Legal capital reserve | \$ 33,424,718 | |
| Cash dividends to shareholders | <u>181,512,663</u> | \$ 7.0 |
| | <u>\$ 214,937,381</u> | |

The appropriations of earnings for 2016 are to be presented for approval in the TSMC's shareholders' meeting to be held on June 8, 2017 (expected).

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:

| | <u>Year Ended December 31, 2016</u> | | | |
|--|---|---|-------------------------------------|---------------------|
| | <u>Foreign Currency Translation Reserve</u> | <u>Unrealized Gain/Loss from Available-for- sale Financial Assets</u> | <u>Cash Flow Hedges Reserve</u> | <u>Total</u> |
| Balance, beginning of year | \$ 11,039,949 | \$ 734,771 | \$ (607) | \$ 11,774,113 |
| Exchange differences arising on translation of foreign operations | (9,409,190) | - | - | (9,409,190) |
| Other comprehensive income reclassified to profit or loss upon liquidation of subsidiaries | 36,105 | - | - | 36,105 |
| Changes in fair value of available-for-sale financial assets | - | (696,240) | - | (696,240) |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | - | 4,071 | - | 4,071 |
| Share of other comprehensive income (loss) of associates and joint venture | (915) | 24,684 | 712 | 24,481 |
| Other comprehensive loss reclassified to profit or loss upon disposal of associates | (4,712) | (3,469) | - | (8,181) |
| Income tax effect | <u>-</u> | <u>(61,176)</u> | <u>-</u> | <u>(61,176)</u> |
| Balance, end of year | <u>\$ 1,661,237</u> | <u>\$ 2,641</u> | <u>\$ 105</u> | <u>\$ 1,663,983</u> |

| | Year Ended December 31, 2015 | | | |
|---|---|---|-------------------------------------|----------------------|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for- sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of year | \$ 4,502,113 | \$ 21,247,483 | \$ (305) | \$ 25,749,291 |
| Exchange differences arising on translation of foreign operations | 8,061,882 | - | - | 8,061,882 |
| Other comprehensive income/losses reclassified to profit or loss upon liquidation of subsidiaries | 138,087 | - | - | 138,087 |
| Changes in fair value of available-for-sale financial assets | - | (5,543) | - | (5,543) |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | (1,595,413) | (20,475,233) | - | (22,070,646) |
| Share of other comprehensive income of associates and joint venture | (60,642) | (17,996) | (313) | (78,951) |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | (6,078) | 2,051 | 11 | (4,016) |
| Income tax effect | - | (15,991) | - | (15,991) |
| Balance, end of year | <u>\$ 11,039,949</u> | <u>\$ 734,771</u> | <u>\$ (607)</u> | <u>\$ 11,774,113</u> |

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.

24. SHARE-BASED PAYMENT

TSMC's Employee Stock Option Plans, consisting of the TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan, were approved by the Securities and Futures Bureau on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of stock options authorized to be granted under the TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each stock option eligible to subscribe for one common share of TSMC when exercised. The stock options may be granted to qualified employees of TSMC or any of its domestic or foreign subsidiaries, in which TSMC's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The stock options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the stock options are granted at an exercise price equal to the closing price of TSMC's common shares quoted on the TWSE on the grant date.

The Company did not issue employee stock option plans for years ended December 31, 2016 and 2015. Information about the TSMC's outstanding employee stock options is described as follows:

| | Number of Stock Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|-------------------------------------|---|--|
| <u>Year ended December 31, 2015</u> | | |
| Balance, beginning of year | 718 | \$47.2 |
| Options exercised | <u>(718)</u> | 47.2 |
| Balance, end of year | <u> -</u> | - |
| Balance exercisable, end of year | <u> -</u> | - |

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.

The employee stock options have been fully exercised in the second quarter of 2015.

25. NET REVENUE

| | Years Ended December 31 | |
|--------------------------------|--------------------------------|-----------------------|
| | 2016 | 2015 |
| Net revenue from sale of goods | \$ 947,415,900 | \$ 842,997,542 |
| Net revenue from royalties | <u>522,444</u> | <u>499,826</u> |
| | <u>\$ 947,938,344</u> | <u>\$ 843,497,368</u> |

26. OTHER OPERATING INCOME AND EXPENSES, NET

| | Years Ended December 31 | |
|---|--------------------------------|-----------------------|
| | 2016 | 2015 |
| Gain on disposal of property, plant and equipment | \$ 46,548 | \$ 433,559 |
| Impairment loss on property, plant and equipment | - | (2,545,584) |
| Gain from lease agreement modification | - | 430,041 |
| Others | <u>(16,735)</u> | <u>(198,634)</u> |
| | <u>\$ 29,813</u> | <u>\$ (1,880,618)</u> |

27. OTHER INCOME

| | Years Ended December 31 | |
|-------------------------------------|-------------------------|---------------------|
| | 2016 | 2015 |
| Interest income | | |
| Bank deposits | \$ 4,892,652 | \$ 3,928,030 |
| Available-for-sale financial assets | 816,185 | 35,811 |
| Held-to-maturity financial assets | 383,261 | 76,818 |
| Structured product | <u>225,402</u> | <u>88,657</u> |
| | 6,317,500 | 4,129,316 |
| Dividend income | <u>137,401</u> | <u>621,513</u> |
| | <u>\$ 6,454,901</u> | <u>\$ 4,750,829</u> |

28. FINANCE COSTS

| | Years Ended December 31 | |
|------------------|-------------------------|---------------------|
| | 2016 | 2015 |
| Interest expense | | |
| Corporate bonds | \$ 3,014,753 | \$ 3,103,702 |
| Bank loans | 291,178 | 74,664 |
| Finance leases | - | 11,666 |
| Others | <u>222</u> | <u>299</u> |
| | <u>\$ 3,306,153</u> | <u>\$ 3,190,331</u> |

29. OTHER GAINS AND LOSSES

| | Years Ended December 31 | |
|--|-------------------------|----------------------|
| | 2016 | 2015 |
| Gain (loss) on disposal of financial assets, net | | |
| Available-for-sale financial assets | \$ (4,014) | \$ 22,070,736 |
| Financial assets carried at cost | 37,241 | 87,193 |
| Gain (loss) on disposal of investments accounted for using equity method, net | (259,960) | 2,507,707 |
| Other gains | 176,734 | 189,330 |
| Net gain (loss) on financial instruments at FVTPL | | |
| Held for trading | 467,051 | (1,769,253) |
| Designated as at FVTPL | (37,369) | - |
| Fair value hedges | | |
| Gain (loss) from hedging instruments | 12,725 | (134,112) |
| Gain (loss) arising from changes in fair value of available-for-sale financial assets in hedge effective portion | 4,248 | (305,619) |
| Impairment loss of financial assets | | |
| Financial assets carried at cost | (122,240) | (154,721) |
| Loss from liquidation of subsidiaries | (36,105) | (138,243) |
| Other losses | <u>(42,379)</u> | <u>(145,954)</u> |
| | <u>\$ 195,932</u> | <u>\$ 22,207,064</u> |

30. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

| | Years Ended December 31 | |
|--|--------------------------------|----------------------|
| | 2016 | 2015 |
| Current income tax expense | | |
| Current tax expense recognized in the current year | \$ 54,315,433 | \$ 45,857,504 |
| Income tax adjustments on prior years | (1,041,762) | (992,995) |
| Other income tax adjustments | <u>122,461</u> | <u>247,835</u> |
| | <u>53,396,132</u> | <u>45,112,344</u> |
| Deferred income tax expense (benefit) | | |
| The origination and reversal of temporary differences | (1,775,023) | (1,542,786) |
| Investment tax credits and operating loss carryforward | <u>35</u> | <u>303,186</u> |
| | <u>(1,774,988)</u> | <u>(1,239,600)</u> |
| Income tax expense recognized in profit or loss | <u>\$ 51,621,144</u> | <u>\$ 43,872,744</u> |

A reconciliation of income before income tax and income tax expense recognized in profit or loss was as follows:

| | Years Ended December 31 | |
|---|--------------------------------|-----------------------|
| | 2016 | 2015 |
| Income before tax | <u>\$ 385,959,380</u> | <u>\$ 350,428,911</u> |
| Income tax expense at the statutory rate | \$ 66,945,088 | \$ 60,666,157 |
| Tax effect of adjusting items: | | |
| Deductible items in determining taxable income | (51,324) | (6,332,097) |
| Tax-exempt income | (19,594,962) | (22,144,303) |
| Additional income tax under the Alternative Minimum Tax Act | - | 6,041,603 |
| Additional income tax on unappropriated earnings | 11,957,213 | 12,103,356 |
| The origination and reversal of temporary differences | (1,775,023) | (1,542,786) |
| Income tax credits | (4,940,147) | (4,243,661) |
| Remeasurement of operating loss carryforward | <u>(400)</u> | <u>69,635</u> |
| | 52,540,445 | 44,617,904 |
| Income tax adjustments on prior years | (1,041,762) | (992,995) |
| Other income tax adjustments | <u>122,461</u> | <u>247,835</u> |
| Income tax expense recognized in profit or loss | <u>\$ 51,621,144</u> | <u>\$ 43,872,744</u> |

For the years ended December 31, 2016 and 2015, the Company applied a tax rate of 17% for entities subject to the R.O.C. Income Tax Law; for other jurisdictions, the Company measures taxes by using the applicable tax rate for each individual jurisdiction.

b. Income tax expense recognized in other comprehensive income

| | Years Ended December 31 | |
|--|--------------------------------|------------------|
| | 2016 | 2015 |
| Deferred income tax benefit (expense) | | |
| Related to remeasurement of defined benefit obligation | \$ 126,867 | \$ 99,326 |
| Related to unrealized gain/loss on available-for-sale financial assets | <u>(61,176)</u> | <u>(15,991)</u> |
| | <u>\$ 65,691</u> | <u>\$ 83,335</u> |

c. Deferred income tax balance

The analysis of deferred income tax assets and liabilities in the consolidated balance sheets was as follows:

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| <u>Deferred income tax assets</u> | | |
| Temporary differences | | |
| Depreciation | \$ 4,244,214 | \$ 2,852,961 |
| Provision for sales returns and allowance | 1,512,061 | 1,141,511 |
| Net defined benefit liability | 939,543 | 895,486 |
| Unrealized loss on inventories | 737,247 | 622,741 |
| Deferred compensation cost | 378,740 | 316,283 |
| Goodwill from business combination | - | 10,025 |
| Others | 445,133 | 531,449 |
| Operating loss carryforward | <u>14,483</u> | <u>14,518</u> |
| | <u>\$ 8,271,421</u> | <u>\$ 6,384,974</u> |

Deferred income tax liabilities

| | | |
|-------------------------------------|---------------------|--------------------|
| Temporary differences | | |
| Available-for-sale financial assets | \$ (92,447) | \$ (31,271) |
| Unrealized exchange gains | <u>(48,736)</u> | <u>-</u> |
| | <u>\$ (141,183)</u> | <u>\$ (31,271)</u> |

| | Year Ended December 31, 2016 | | | | Balance, End of Year |
|---|---------------------------------------|-----------------------|---|--|---------------------------------|
| | Balance, Beginning of Year | Recognized in | | Effect of Exchange Rate Changes | |
| | | Profit or Loss | Other Comprehensive Income | | |
| <u>Deferred income tax assets</u> | | | | | |
| Temporary differences | | | | | |
| Depreciation | \$ 2,852,961 | \$ 1,437,648 | \$ - | \$ (46,395) | \$ 4,244,214 |
| Provision for sales returns and allowance | 1,141,511 | 371,410 | - | (860) | 1,512,061 |
| Net defined benefit liability | 895,486 | (82,810) | 126,867 | - | 939,543 |
| Unrealized loss on inventories | 622,741 | 115,490 | - | (984) | 737,247 |
| Deferred compensation cost | 316,283 | 69,311 | - | (6,854) | 378,740 |
| Goodwill from business combination | 10,025 | (9,836) | - | (189) | - |
| Others | 531,449 | (77,454) | - | (8,862) | 445,133 |
| Operating loss carryforward | <u>14,518</u> | <u>(35)</u> | <u>-</u> | <u>-</u> | <u>14,483</u> |
| | <u>\$ 6,384,974</u> | <u>\$ 1,823,724</u> | <u>\$ 126,867</u> | <u>\$ (64,144)</u> | <u>\$ 8,271,421</u> |

(Continued)

| | Year Ended December 31, 2016 | | | | | |
|--|-------------------------------|--------------------|----------------------------------|-------------|------------------------------------|-------------------------|
| | Balance, Beginning of Year | Recognized in | | | Effect of Exchange Rate Changes | Balance, End of Year |
| | | Profit or Loss | Other Comprehensive Income | | | |
| <u>Deferred income tax liabilities</u> | | | | | | |
| Temporary differences | | | | | | |
| Available-for-sale financial assets | \$ (31,271) | \$ - | \$ (61,176) | \$ - | \$ (92,447) | |
| Unrealized exchange gains | <u>-</u> | <u>(48,736)</u> | <u>-</u> | <u>-</u> | <u>(48,736)</u> | |
| | <u>\$ (31,271)</u> | <u>\$ (48,736)</u> | <u>\$ (61,176)</u> | <u>\$ -</u> | <u>\$ (141,183)</u> | |

(Concluded)

| | Year Ended December 31, 2015 | | | | | | |
|--|----------------------------------|---------------------|----------------------------------|------------------|---|---------------------------------------|-------------------------|
| | Balance, Beginning of Year | Recognized in | | | Effect of Acquisition of Subsidiary | Effect of Exchange Rate Changes | Balance, End of Year |
| | | Profit or Loss | Other Comprehensive Income | | | | |
| <u>Deferred income tax assets</u> | | | | | | | |
| Temporary differences | | | | | | | |
| Depreciation | \$ 1,011,065 | \$ 1,808,736 | \$ - | \$ 11,899 | \$ 21,261 | \$ 2,852,961 | |
| Provision for sales returns and allowance | 1,230,752 | (104,428) | - | 13,815 | 1,372 | 1,141,511 | |
| Net defined benefit liability | 787,391 | 8,769 | 99,326 | - | - | 895,486 | |
| Unrealized loss on inventories | 591,871 | 25,088 | - | 4,081 | 1,701 | 622,741 | |
| Deferred compensation cost | 255,621 | 49,348 | - | - | 11,314 | 316,283 | |
| Goodwill from business combination | 195,453 | (185,799) | - | - | 371 | 10,025 | |
| Others | 749,678 | (243,398) | - | 148 | 25,021 | 531,449 | |
| Operating loss carryforward | <u>316,951</u> | <u>(303,186)</u> | <u>-</u> | <u>-</u> | <u>753</u> | <u>14,518</u> | |
| | <u>\$ 5,138,782</u> | <u>\$ 1,055,130</u> | <u>\$ 99,326</u> | <u>\$ 29,943</u> | <u>\$ 61,793</u> | <u>\$ 6,384,974</u> | |
| <u>Deferred income tax liabilities</u> | | | | | | | |
| Temporary differences | | | | | | | |
| Available-for-sale financial assets | \$ (15,280) | \$ - | \$ (15,991) | \$ - | \$ - | \$ (31,271) | |
| Unrealized exchange gains | <u>(184,470)</u> | <u>184,470</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| | <u>\$ (199,750)</u> | <u>\$ 184,470</u> | <u>\$ (15,991)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (31,271)</u> | |

- d. The investment operating loss carryforward and deductible temporary differences for which no deferred income tax assets have been recognized in the consolidated financial statements

The information of the operating loss carryforward for which no deferred tax assets have been recognized was as follows:

| | December 31, 2016 | December 31, 2015 |
|---------------|----------------------|----------------------|
| Expiry period | | |
| 1 - 4 years | \$ 136,703 | \$ 85,402 |
| 5 - 10 years | <u>41,389</u> | <u>97,831</u> |
| | <u>\$ 178,092</u> | <u>\$ 183,233</u> |

As of December 31, 2016 and 2015, the aggregate deductible temporary differences for which no deferred income tax assets have been recognized amounted to NT\$1,919,784 thousand and NT\$1,972,286 thousand, respectively.

e. Unused operating loss carryforward and tax-exemption information

As of December 31, 2016, operating loss carryforward of Mutual-Pak consisted of the following:

| | Remaining Creditable Amount |
|---------------|------------------------------------|
| Expiry period | |
| 1 - 4 years | \$ 136,703 |
| 5 - 10 years | <u>126,585</u> |
| | <u>\$ 263,288</u> |

As of December 31, 2016, the profits generated from the following projects of TSMC are exempt from income tax for a five-year period:

| | Tax-exemption Period |
|--|-----------------------------|
| Construction and expansion of 2007 by TSMC | 2014 to 2018 |
| Construction and expansion of 2008 by TSMC | 2015 to 2019 |
| Construction and expansion of 2009 by TSMC | 2018 to 2022 |

f. The information of unrecognized deferred income tax liabilities associated with investments

As of December 31, 2016 and 2015, the aggregate taxable temporary differences associated with investments in subsidiaries not recognized as deferred income tax liabilities amounted to NT\$83,181,401 thousand and NT\$80,919,309 thousand, respectively.

g. Integrated income tax information

| | December 31, 2016 | December 31, 2015 |
|---------------------------|------------------------------|------------------------------|
| Balance of the Imputation | | |
| Credit Account - TSMC | <u>\$ 82,072,562</u> | <u>\$ 59,973,516</u> |

The estimated and actual creditable ratio for distribution of TSMC's earnings of 2016 and 2015 were 13.94% and 12.57%, respectively; however, effective from January 1, 2015, the creditable ratio for individual shareholders residing in the R.O.C. will be half of the original creditable ratio according to the revised Article 66 - 6 of 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.

h. Income tax examination

The tax authorities have examined income tax returns of TSMC through 2013. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

31. EARNINGS PER SHARE

| | <u>Years Ended December 31</u> | |
|-------------|--------------------------------|----------------|
| | 2016 | 2015 |
| Basic EPS | <u>\$12.89</u> | <u>\$11.82</u> |
| Diluted EPS | <u>\$12.89</u> | <u>\$11.82</u> |

EPS is computed as follows:

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) |
|--|------------------------|--|----------------|
| <u>Year ended December 31, 2016</u> | | | |
| Basic/Diluted EPS | | | |
| Net income available to common shareholders of the parent | <u>\$ 334,247,180</u> | <u>25,930,380</u> | <u>\$12.89</u> |
| <u>Year ended December 31, 2015</u> | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | <u>\$ 306,573,837</u> | <u>25,930,288</u> | <u>\$11.82</u> |
| Effect of dilutive potential common shares | <u>-</u> | <u>92</u> | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | <u>\$ 306,573,837</u> | <u>25,930,380</u> | <u>\$11.82</u> |

32. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

| | <u>Years Ended December 31</u> | |
|--|--------------------------------|-----------------------|
| | 2016 | 2015 |
| a. Depreciation of property, plant and equipment | | |
| Recognized in cost of revenue | \$ 203,476,848 | \$ 204,126,243 |
| Recognized in operating expenses | 16,583,067 | 15,152,174 |
| Recognized in other operating income and expenses | <u>25,083</u> | <u>24,952</u> |
| | <u>\$ 220,084,998</u> | <u>\$ 219,303,369</u> |
| b. Amortization of intangible assets | | |
| Recognized in cost of revenue | \$ 2,028,492 | \$ 1,642,051 |
| Recognized in operating expenses | <u>1,714,914</u> | <u>1,560,149</u> |
| | <u>\$ 3,743,406</u> | <u>\$ 3,202,200</u> |
| c. Research and development costs expensed as incurred | <u>\$ 71,207,703</u> | <u>\$ 65,544,579</u> |

| | Years Ended December 31 | |
|--|--------------------------------|----------------------|
| | 2016 | 2015 |
| d. Employee benefits expenses | | |
| Post-employment benefits | | |
| Defined contribution plans | \$ 2,164,900 | \$ 2,003,534 |
| Defined benefit plans | <u>272,141</u> | <u>278,930</u> |
| | 2,437,041 | 2,282,464 |
| Other employee benefits | <u>97,248,082</u> | <u>89,322,946</u> |
| | <u>\$ 99,685,123</u> | <u>\$ 91,605,410</u> |
| Employee benefits expense summarized by function | | |
| Recognized in cost of revenue | \$ 58,493,500 | \$ 52,983,173 |
| Recognized in operating expenses | <u>41,191,623</u> | <u>38,622,237</u> |
| | <u>\$ 99,685,123</u> | <u>\$ 91,605,410</u> |

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. Prior to the amendments, TSMC's Articles of Incorporation provided that, when allocating the net profits for each fiscal year, TSMC shall first set aside legal capital reserve and special capital reserve, then set aside not more than 0.3% of the balance as compensation to directors and not less than 1% as profit sharing bonus to employees, 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\$22,418,339 thousand and NT\$20,556,888 thousand for the years ended December 31, 2016 and 2015, 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.

TSMC's profit sharing bonus to employees and compensation to directors in the amounts of NT\$17,645,966 thousand and NT\$406,854 thousand in cash for 2014, respectively, had been approved by the shareholders in its meetings held on June 9, 2015. The aforementioned approved amount has no difference with the one recognized in the consolidated financial statements for the year ended December 31, 2014.

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.

33. CONSOLIDATION OF SUBSIDIARY

Due to a Chinese consortium's acquisition of OVT, major shareholders of VisEra Holding and OVT Taiwan, the Company acquired OVT's 49.1% ownership in VisEra Holding and 100% ownership in OVT Taiwan on November 20, 2015. The related information is as follows:

a. Subsidiaries acquired

| | Principal Activity | Date of Acquisition | Proportion of Voting Equity Interests Acquired (%) | Consideration Transferred |
|----------------|---|----------------------------|---|----------------------------------|
| VisEra Holding | Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry | November 20, 2015 | 49.1 | <u>\$ 3,536,119</u> |
| OVT Taiwan | Investment activities | November 20, 2015 | 100 | <u>\$ 394,674</u> |

b. Considerations transferred

| | VisEra Holding | OVT Taiwan |
|------|-----------------------|-------------------|
| Cash | <u>\$ 3,536,119</u> | <u>\$ 394,674</u> |

c. Assets acquired and liabilities assumed at the date of acquisition

| | VisEra Holding | OVT Taiwan |
|--|-----------------------|-------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 3,858,482 | \$ 20,710 |
| Accounts receivable | 511,999 | - |
| Inventories | 59,050 | - |
| Other financial assets | 706,500 | 373,813 |
| Other current assets | 26,441 | 155 |
| Noncurrent assets | | |
| Investments accounted for using equity method | 721,641 | - |
| Property, plant and equipment | 2,651,209 | - |
| Intangible assets | 12,111 | - |
| Deferred income tax assets | 29,943 | - |
| Refundable deposits | <u>15,611</u> | <u>-</u> |
| | <u>8,592,987</u> | <u>394,678</u> |
| Current liabilities | | |
| Financial liabilities at fair value through profit or loss | 975 | - |
| Accounts payable | 87,480 | - |
| Salary and bonus payable | 183,090 | - |

(Continued)

| | VisEra Holding | OVT Taiwan |
|---|-----------------------|----------------------------------|
| Accrued profit sharing bonus to employees and compensation to directors and supervisors | \$ 45,819 | \$ 4 |
| Payables to contractors and equipment suppliers | 132,305 | - |
| Income tax payable | 47,860 | - |
| Provisions | 126,049 | - |
| Accrued expenses and other current liabilities | 102,851 | - |
| Noncurrent liabilities | | |
| Guarantee deposits | <u>1,279</u> | <u>-</u> |
| | <u>727,708</u> | <u>4</u> |
| Net assets | <u>\$ 7,865,279</u> | <u>\$ 394,674</u> (Concluded) |

d. Goodwill arising on acquisition

| | VisEra Holding |
|--|-----------------------|
| Consideration transferred | \$ 3,536,119 |
| Fair value of investments previously owned | 3,458,146 |
| Less: Fair value of identifiable net assets acquired | (7,865,279) |
| Noncontrolling interests | <u>923,683</u> |
| Goodwill arising on acquisition | <u>\$ 52,669</u> |

e. Net cash outflow on acquisition of subsidiaries

| | VisEra Holding | OVT Taiwan |
|--|-----------------------|-------------------|
| Consideration paid in cash | \$ 3,536,119 | \$ 394,674 |
| Less: Cash and cash equivalent balances acquired | <u>(3,858,482)</u> | <u>(20,710)</u> |
| | <u>\$ (322,363)</u> | <u>\$ 373,964</u> |

f. Impact of acquisitions on the results of the Company

The results of VisEra Holding since the acquisition date included in the consolidated statements of comprehensive income for the year ended December 31, 2015 were as follows:

| | VisEra Holding |
|-------------|-----------------------|
| Net revenue | <u>\$ 254,319</u> |
| Net income | <u>\$ 16,264</u> |

Had the business combination of VisEra Holding been in effect on January 1, 2015, the Company's net revenue and net income for the year ended December 31, 2015 would have been NT\$846,401,819 thousand and NT\$306,687,674 thousand, respectively. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on January 1, 2015, nor is it intended to be a projection of future results. The aforementioned pro-forma net revenue and net income were calculated based on the fair value of assets acquired and liabilities assumed at the date of acquisition.

34. DISPOSAL OF SUBSIDIARY

In January 2015, the Board of Directors of TSMC approved a sale of TSMC SSL common shares of 565,480 thousand held by TSMC and TSMC GN to Epistar Corporation. The transaction was completed in February 2015.

a. Consideration received from the disposal

| | |
|--|-------------------|
| Total consideration received | \$ 825,000 |
| Expenditure associated with consideration received | <u>(142,475)</u> |
| Net consideration received | <u>\$ 682,525</u> |

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

| | |
|--|-------------------|
| Assets | |
| Cash and cash equivalents | \$ 81,478 |
| Inventories | 28,519 |
| Other current assets | 91,331 |
| Property, plant and equipment | 643,699 |
| Intangible assets | 47,373 |
| Others | <u>51,808</u> |
| | <u>944,208</u> |
| Liabilities | |
| Salary and bonus payable | 38,151 |
| Accrued expenses and other current liabilities | 68,132 |
| Net defined benefit liability | 35,845 |
| Others | <u>76,915</u> |
| | <u>219,043</u> |
| Net assets disposed of | <u>\$ 725,165</u> |

c. Gain/loss on disposal of subsidiary

| | |
|-------------------------------------|---------------|
| Net consideration received | \$ 682,525 |
| Net assets disposed of | (725,165) |
| Noncontrolling interests | <u>42,640</u> |
| Gain/loss on disposal of subsidiary | <u>\$ -</u> |

d. Net cash inflow arising from disposal of subsidiary

| | |
|--|-------------------|
| Net consideration received | \$ 682,525 |
| Less: Balance of cash and cash equivalents disposed of | <u>81,478</u> |
| | <u>\$ 601,047</u> |

35. CAPITAL MANAGEMENT

The Company requires significant amounts of capital to build and expand its production facilities and acquire additional equipment. In consideration of the industry dynamics, the Company manages its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, capital asset purchases, research and development activities, dividend payments, debt service requirements and other business requirements associated with its existing operations over the next 12 months.

36. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

| | December 31, 2016 | December 31, 2015 |
|---|------------------------------|------------------------------|
| Financial assets | | |
| FVTPL | | |
| Held for trading | \$ 153,382 | \$ 6,026 |
| Designated as at FVTPL | 6,297,730 | - |
| Available-for-sale financial assets (Note) | 71,891,234 | 18,290,243 |
| Held-to-maturity financial assets | 38,917,677 | 16,077,396 |
| Derivative financial instruments in designated hedge accounting relationships | 5,550 | 1,739 |
| Loans and receivables | | |
| Cash and cash equivalents | 541,253,833 | 562,688,930 |
| Notes and accounts receivable (including related parties) | 129,304,830 | 85,565,397 |
| Other receivables | 2,626,401 | 4,790,376 |
| Refundable deposits | <u>407,874</u> | <u>430,802</u> |
| | <u>\$ 790,858,511</u> | <u>\$ 687,850,909</u> |
| Financial liabilities | | |
| FVTPL | | |
| Held for trading | \$ 91,585 | \$ 72,610 |
| Designated as at FVTPL | 99,550 | - |
| Amortized cost | | |
| Short-term loans | 57,958,200 | 39,474,000 |
| Accounts payable (including related parties) | 27,324,525 | 19,725,274 |
| Payables to contractors and equipment suppliers | 63,154,514 | 26,012,192 |
| Accrued expenses and other current liabilities | 20,713,259 | 18,900,123 |
| Bonds payable (including long-term liabilities-current portion) | 191,193,557 | 215,475,194 |
| Long-term bank loans (including long-term liabilities-current portion) | 31,460 | 40,000 |
| Other long-term payables (classified under accrued expenses and other current liabilities) | - | 18,000 |
| Guarantee deposits (including those classified under accrued expenses and other current liabilities) | <u>26,670,622</u> | <u>27,732,614</u> |
| | <u>\$ 387,237,272</u> | <u>\$ 347,450,007</u> |

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 years ended December 31, 2016 and 2015 would have decreased by NT\$111,347 thousand and NT\$902,083 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 and from fixed income securities. 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\$261 thousand and NT\$332 thousand for the years ended December 31, 2016 and 2015, respectively.

The Company classified 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. To manage its exposure to the fair value fluctuations, the Company enters into interest rate futures contract to hedge against price risk caused by changes in risk-free interest rates in the Company's investments in available-for-sale fixed income securities.

Assuming a hypothetical increase of 100 basis point (1%) in interest rates of available-for-sale fixed income securities at the end of the reporting period, the net income for the years ended December 31, 2016 and 2015 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the years ended December 31, 2016 and 2015 would have decreased by NT\$1,600,929 thousand and NT\$271,547 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 equity prices of the equity investments at the end of the reporting period, the net income for the years ended December 31, 2016 and 2015 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the years ended December 31, 2016 and 2015 would have decreased by NT\$342,565 thousand and NT\$259,996 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 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 December 31, 2016 and 2015, the Company's ten largest customers accounted for 74% and 68% 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.

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>December 31, 2016</u> | | | | | |
| <u>Non-derivative financial liabilities</u> | | | | | |
| 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) | <u>12,000,189</u> | <u>13,060,483</u> | <u>1,609,950</u> | <u>-</u> | <u>26,670,622</u> |
| | <u>221,847,060</u> | <u>112,242,085</u> | <u>36,953,115</u> | <u>22,979,426</u> | <u>394,021,686</u> |
| <u>Derivative financial instruments</u> | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 40,571,841 | - | - | - | 40,571,841 |
| Inflows | <u>(40,586,344)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(40,586,344)</u> |
| | <u>(14,503)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(14,503)</u> |
| Cross currency swap contracts | | | | | |
| Outflows | 5,478,066 | - | - | - | 5,478,066 |
| Inflows | <u>(5,487,600)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(5,487,600)</u> |
| | <u>(9,534)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,534)</u> |
| | <u>\$ 221,823,023</u> | <u>\$ 112,242,085</u> | <u>\$ 36,953,115</u> | <u>\$ 22,979,426</u> | <u>\$ 393,997,649</u> |
| <u>December 31, 2015</u> | | | | | |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Short-term loans | \$ 39,488,957 | \$ - | \$ - | \$ - | \$ 39,488,957 |
| Accounts payable (including related parties) | 19,725,274 | - | - | - | 19,725,274 |
| Payables to contractors and equipment suppliers | 26,012,192 | - | - | - | 26,012,192 |
| Accrued expenses and other current liabilities | 18,900,123 | - | - | - | 18,900,123 |
| Bonds payable | 26,494,990 | 104,462,371 | 68,378,787 | 25,981,316 | 225,317,464 |
| Long-term bank loans | 8,800 | 21,540 | 12,741 | - | 43,081 |
| Other long-term payables (classified under accrued expenses and other current liabilities) | 18,000 | - | - | - | 18,000 |
| Guarantee deposits (including those classified under accrued expenses and other current liabilities) | <u>6,167,813</u> | <u>13,341,051</u> | <u>8,223,750</u> | <u>-</u> | <u>27,732,614</u> |
| | <u>136,816,149</u> | <u>117,824,962</u> | <u>76,615,278</u> | <u>25,981,316</u> | <u>357,237,705</u> |
| <u>Derivative financial instruments</u> | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 23,192,477 | - | - | - | 23,192,477 |
| Inflows | <u>(23,135,579)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(23,135,579)</u> |
| | <u>56,898</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>56,898</u> |
| | <u>\$ 136,873,047</u> | <u>\$ 117,824,962</u> | <u>\$ 76,615,278</u> | <u>\$ 25,981,316</u> | <u>\$ 357,294,603</u> |

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:

| | December 31, 2016 | | | |
|--|--------------------------|----------------------|----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets at FVTPL</u> | | | | |
| Held for trading | | | | |
| Forward exchange contracts | \$ - | \$ 142,406 | \$ - | \$ 142,406 |
| Cross currency swap contracts | - | 10,976 | - | 10,976 |
| Designated as at FVTPL | | | | |
| Time deposit | - | 6,297,708 | - | 6,297,708 |
| Forward exchange contracts | - | 22 | - | 22 |
| | <u>\$ -</u> | <u>\$ 6,451,112</u> | <u>\$ -</u> | <u>\$ 6,451,112</u> |
| <u>Available-for-sale financial assets</u> | | | | |
| Corporate bonds | \$ 29,999,508 | \$ - | \$ - | \$ 29,999,508 |
| Agency bonds | 14,880,482 | - | - | 14,880,482 |
| Corporate issued asset-backed securities | - | 11,254,757 | - | 11,254,757 |
| Government bonds | 8,457,362 | - | - | 8,457,362 |
| Publicly traded stocks | <u>3,196,658</u> | <u>-</u> | <u>-</u> | <u>3,196,658</u> |
| | <u>\$ 56,534,010</u> | <u>\$ 11,254,757</u> | <u>\$ -</u> | <u>\$ 67,788,767</u> |
| <u>Hedging derivative financial assets</u> | | | | |
| Interest rate futures contracts | <u>\$ 5,550</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,550</u> |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Held for trading | | | | |
| Forward exchange contracts | \$ - | \$ 91,585 | \$ - | \$ 91,585 |
| Designated as at FVTPL | | | | |
| Forward exchange contracts | - | 99,550 | - | 99,550 |
| | <u>\$ -</u> | <u>\$ 191,135</u> | <u>\$ -</u> | <u>\$ 191,135</u> |

| | December 31, 2015 | | | |
|--|--------------------------|---------------------|----------------|----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Financial assets at FVTPL</u> | | | | |
| Held for trading | | | | |
| Forward exchange contracts | \$ - | \$ 6,026 | \$ - | \$ 6,026 |
| <u>Available-for-sale financial assets</u> | | | | |
| Corporate bonds | \$ 6,267,768 | \$ - | \$ - | \$ 6,267,768 |
| Corporate issued asset-backed securities | - | 3,154,366 | - | 3,154,366 |
| Agency bonds | 2,627,367 | - | - | 2,627,367 |
| Publicly traded stocks | 1,371,483 | - | - | 1,371,483 |
| Government bonds | 878,377 | - | - | 878,377 |
| | <u>\$ 11,144,995</u> | <u>\$ 3,154,366</u> | <u>\$ -</u> | <u>\$ 14,299,361</u> |
| <u>Hedging derivative financial assets</u> | | | | |
| Interest rate futures contracts | \$ 1,739 | \$ - | \$ - | \$ 1,739 |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Held for trading | | | | |
| Forward exchange contracts | \$ - | \$ 72,610 | \$ - | \$ 72,610 |

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2016 and 2015, respectively.

There were no purchases and disposals for assets on Level 3 for the years ended December 31, 2016 and 2015, respectively.

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 interest rate futures contracts, publicly traded stocks, money market funds, government bonds, agency bonds and corporate bonds).
- 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. For investments in corporate issued asset-backed securities and time deposit, the fair value are determined using quoted market prices or the present value of future cash flows based on the observable yield curves.

3) Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the Company considers that the carrying amounts of financial instruments that are not measured at fair value recognized in the consolidated financial statements approximate their fair values.

| | <u>December 31, 2016</u> | | <u>December 31, 2015</u> | |
|-----------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Financial assets</u> | | | | |
| Held-to-maturity financial assets | | | | |
| Corporate bonds/Bank debentures | \$ 23,849,701 | \$ 23,996,429 | \$ 8,143,146 | \$ 8,146,756 |
| Commercial paper | 8,628,176 | 8,630,769 | - | - |
| Negotiable certificate of deposit | 4,829,850 | 4,847,785 | 4,934,250 | 4,945,878 |
| Structured product | 1,609,950 | 1,609,738 | 3,000,000 | 2,995,731 |
| <u>Financial liabilities</u> | | | | |
| Measured at amortized cost | | | | |
| Bonds payable | 191,193,557 | 192,845,296 | 215,475,194 | 216,223,736 |

Fair value hierarchy

The table below sets out the balances for the Company's assets and liabilities that are not measured at fair value but for which the fair value is disclosed:

| | <u>December 31, 2016</u> | | | |
|-----------------------------------|--------------------------|----------------------|----------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Assets</u> | | | | |
| Held-to-maturity securities | | | | |
| Corporate bonds/Bank debentures | \$ 23,996,429 | \$ - | \$ - | \$ 23,996,429 |
| Commercial paper | - | 8,630,769 | - | 8,630,769 |
| Negotiable certificate of deposit | - | 4,847,785 | - | 4,847,785 |
| Structured product | - | 1,609,738 | - | 1,609,738 |
| | <u>\$ 23,996,429</u> | <u>\$ 15,088,292</u> | <u>\$ -</u> | <u>\$ 39,084,721</u> |
| <u>Liabilities</u> | | | | |
| Measured at amortized cost | | | | |
| Bonds payable | <u>\$ 192,845,296</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 192,845,296</u> |
| <u>December 31, 2015</u> | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Assets</u> | | | | |
| Held-to-maturity securities | | | | |
| Corporate bonds/Bank debentures | \$ 8,146,756 | \$ - | \$ - | \$ 8,146,756 |
| Negotiable certificate of deposit | - | 4,945,878 | - | 4,945,878 |
| Structured product | - | 2,995,731 | - | 2,995,731 |
| | <u>\$ 8,146,756</u> | <u>\$ 7,941,609</u> | <u>\$ -</u> | <u>\$ 16,088,365</u> |
| <u>Liabilities</u> | | | | |
| Measured at amortized cost | | | | |
| Bonds payable | <u>\$ 216,223,736</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 216,223,736</u> |

Fair value measurement

For investments in bonds, the fair value is determined using active market prices.

For investments in commercial paper, negotiable certificate of deposit and structured product, the fair value is determined using the present value of future cash flows based on the observable yield curves.

The fair value of the Company's bonds payable is determined using active market prices.

37. 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 significant transactions between the Company and other related parties:

a. Net revenue

| <u>Item</u> | <u>Related Party Categories</u> | <u>Years Ended December 31</u> | |
|--------------------------------|---------------------------------|--------------------------------|---------------------|
| | | <u>2016</u> | <u>2015</u> |
| Net revenue from sale of goods | Associates | \$ 5,929,141 | \$ 4,253,961 |
| | Joint venture | <u>-</u> | <u>1,206</u> |
| | | <u>\$ 5,929,141</u> | <u>\$ 4,255,167</u> |
| Net revenue from royalties | Associates | <u>\$ 516,749</u> | <u>\$ 489,420</u> |

b. Purchases

| <u>Related Party Categories</u> | <u>Years Ended December 31</u> | |
|---------------------------------|--------------------------------|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Associates | <u>\$ 10,108,210</u> | <u>\$ 11,126,415</u> |

c. Receivables from related parties

| <u>Item</u> | <u>Related Party Categories</u> | <u>December 31,</u> | <u>December 31,</u> |
|--|---------------------------------|---------------------|---------------------|
| | | <u>2016</u> | <u>2015</u> |
| Receivables from related parties | Associates | <u>\$ 969,559</u> | <u>\$ 505,722</u> |
| Other receivables from related parties | Associates | <u>\$ 146,788</u> | <u>\$ 125,018</u> |

d. Payables to related parties

| | | December 31, 2016 | December 31, 2015 |
|-----------------------------|---------------------------------|------------------------------|------------------------------|
| <u>Item</u> | <u>Related Party Categories</u> | | |
| Payables to related parties | Associates | <u>\$ 1,262,174</u> | <u>\$ 1,149,988</u> |

e. Acquisition of property, plant and equipment

| | | Acquisition Price | |
|---------------------------------|--|--------------------------------|------------------|
| | | Years Ended December 31 | |
| | | 2016 | 2015 |
| <u>Related Party Categories</u> | | | |
| Associates | | <u>\$ -</u> | <u>\$ 26,207</u> |

f. Others

| | | Years Ended December 31 | |
|-----------------------------------|---------------------------------|--------------------------------|---------------------|
| | | 2016 | 2015 |
| <u>Item</u> | <u>Related Party Categories</u> | | |
| Manufacturing expenses | Associates | \$ 1,389,164 | \$ 2,321,858 |
| | Joint venture | <u>-</u> | <u>12,819</u> |
| | | <u>\$ 1,389,164</u> | <u>\$ 2,334,677</u> |
| Research and development expenses | Associates | \$ 161,735 | \$ 142,833 |
| | Joint venture | <u>-</u> | <u>1,398</u> |
| | | <u>\$ 161,735</u> | <u>\$ 144,231</u> |

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, factory and office from Xintec and VIS. The lease terms and prices were both determined in accordance with mutual agreements. The rental expenses were paid to Xintec and VIS quarterly or monthly; the related expenses were both 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.

g. Compensation of key management personnel

The compensation to directors and other key management personnel for the years ended December 31, 2016 and 2015 were as follows:

| | <u>Years Ended December 31</u> | |
|------------------------------|--------------------------------|---------------------|
| | 2016 | 2015 |
| Short-term employee benefits | \$ 2,023,971 | \$ 1,883,013 |
| Post-employment benefits | <u>3,992</u> | <u>10,926</u> |
| | <u>\$ 2,027,963</u> | <u>\$ 1,893,939</u> |

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.

38. PLEDGED ASSETS

The Company provided certificate of deposits recorded in other financial assets as collateral mainly for building lease agreements. As of December 31, 2016 and 2015, the aforementioned other financial assets amounted to NT\$185,698 thousand and NT\$177,229 thousand, respectively.

39. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of land, office premises and certain office equipment. These operating leases expire between January 2017 and June 2066 and can be renewed upon expiration.

The Company expensed the lease payments as follows:

| | <u>Years Ended December 31</u> | |
|------------------------|--------------------------------|-------------------|
| | 2016 | 2015 |
| Minimum lease payments | <u>\$ 1,135,735</u> | <u>\$ 995,983</u> |

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

| | December 31, 2016 | December 31, 2015 |
|--|------------------------------|------------------------------|
| Not later than 1 year | \$ 1,321,546 | \$ 1,099,017 |
| Later than 1 year and not later than 5 years | 3,677,432 | 3,635,180 |
| Later than 5 years | <u>6,623,957</u> | <u>6,921,891</u> |
| | <u>\$ 11,622,935</u> | <u>\$ 11,656,088</u> |

40. 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 December 31, 2016, 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 December 31, 2016.
- 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 were 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 and TSMC North America, dismissing all of Keranos's claims against TSMC and TSMC North America with prejudice. Keranos appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit, and in August 2015, the Federal Circuit remanded the case back to the Texas court for further proceedings. In January 2017, the Texas court dismissed all of Keranos's claims against TSMC and TSMC North America with prejudice, and dismissed TSMC's and TSMC North America's counterclaims without prejudice. The case is over as to TSMC and TSMC North America.
- 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. In September 2014, the Court granted summary judgment of noninfringement in favor of TSMC and TSMC North America. Ziptronix, Inc. can appeal the Court's order. In August 2015, Tesser Technologies, Inc. announced it had acquired Ziptronix. In February 2017, the Court dismissed all of Ziptronix's claims against TSMC and TSMC North America with prejudice.
- 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. The lock-up period expired on May 1, 2015 and as of October 8, 2015, all ASML shares had been disposed.

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

December 31, 2016, TSMC has paid EUR228,603 thousand to ASML under the research and development funding agreement.

- f. In March 2014, DSS Technology Management, Inc. (DSS) filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, TSMC Development and several other companies infringe one U.S. patent. TSMC Development has subsequently been dismissed. In May 2015, the Court entered a final judgment of noninfringement in favor of TSMC and TSMC North America. DSS appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). In November 2015, the Patent Trial and Appeal Board (PTAB) determined after concluding an Inter Partes Review (IPR) that the patent claims asserted by DSS in the District Court litigation are unpatentable. DSS appealed the PTAB's decision to the Federal Circuit in January 2016. In March 2016, the District Court's judgment of noninfringement was affirmed by the Federal Circuit. In April 2016, the District Court litigation between the parties and the related Federal Circuit appeal were dismissed, and the appeal proceeding of the PTAB's decision is also over as to TSMC.
- g. Amounts available under unused letters of credit as of December 31, 2016 and 2015 were NT\$122,356 thousand and NT\$144,738 thousand, respectively.

41. SIGNIFICANT LOSS FROM DISASTER

On February 6, 2016, an earthquake struck Taiwan. The resulting damage was mostly to inventories and equipment. The Company recognized related earthquake losses of NT\$2,492,138 thousand, net of insurance claim, for the year ended December 31, 2016. Such losses were primarily included in cost of revenue.

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

The following information was summarized according to the foreign currencies other than the functional currency of the Company. The exchange rates disclosed were used to translate the foreign currencies into the functional currency. The significant financial assets and liabilities denominated in foreign currencies were as follows:

| | Foreign Currencies (In Thousands) | Exchange Rate (Note 1) | Carrying Amount (In Thousands) |
|------------------------------|--|-----------------------------------|---|
| <u>December 31, 2016</u> | | | |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 5,042,715 | 32.199 | \$ 162,370,381 |
| EUR | 19,556 | 34.30 | 670,767 |
| JPY | 37,024,347 | 0.2775 | 10,274,256 |
| Non-monetary items | | | |
| HKD | 257,056 | 4.15 | 1,066,780 |
| <u>Financial liabilities</u> | | | |
| Monetary items | | | |
| USD | 4,000,930 | 32.199 | 128,825,952 |
| EUR | 183,922 | 34.30 | 6,308,513 |
| JPY | 61,062,114 | 0.2775 | 16,944,737 |

(Continued)

| | Foreign Currencies (In Thousands) | Exchange Rate (Note 1) | Carrying Amount (In Thousands) |
|--------------------------|--|-----------------------------------|---|
| <u>December 31, 2015</u> | | | |
| <u>Financial assets</u> | | | |
| Monetary items | | | |
| USD | \$ 3,089,634 | 32.895 | \$ 101,633,497 |
| USD | 251,824 | 6.494(Note 2) | 8,283,759 |
| EUR | 43,933 | 36.00 | 1,581,571 |
| JPY | 9,717,089 | 0.2733 | 2,655,680 |
| Non-monetary items | | | |
| HKD | 166,727 | 4.24 | 706,924 |

Financial liabilities

| | | | |
|----------------|------------|--------|-------------|
| Monetary items | | | |
| USD | 2,952,404 | 32.895 | 97,119,331 |
| EUR | 44,174 | 36.00 | 1,590,264 |
| JPY | 26,416,113 | 0.2733 | 7,219,524 |
| | | | (Concluded) |

Note 1: Except as otherwise noted, exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

Note 2: The exchange rate represents the number of RMB for which one USD dollars could be exchanged.

The realized and unrealized foreign exchange gain and loss were net gains of NT\$1,161,322 thousand and NT\$2,481,446 thousand for the years ended December 31, 2016 and 2015, respectively. Since there were varieties of foreign currency transactions and functional currencies within the subsidiaries of the Company, the Company was unable to disclose foreign exchange gain (loss) towards each foreign currency with significant impact.

43. 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 engaged in the researching, developing, designing, manufacturing and selling of 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 | Total |
|---|----------------|-----------|----------------|
| <u>Year ended December 31, 2016</u> | | | |
| Net revenue from external customers | \$ 947,938,344 | \$ - | \$ 947,938,344 |
| Income from operations | 377,957,778 | - | 377,957,778 |
| Share of profits of associates and joint venture | 3,495,600 | - | 3,495,600 |
| Income tax expense | 51,621,144 | - | 51,621,144 |
| <u>Year ended December 31, 2015</u> | | | |
| Net revenue from external customers | 842,690,157 | 807,211 | 843,497,368 |
| Income (loss) from operations | 320,833,219 | (785,444) | 320,047,775 |
| Share of profits (loss) of associates and joint venture | 4,517,699 | (385,571) | 4,132,128 |
| Income tax expense (benefit) | 43,874,515 | (1,771) | 43,872,744 |

c. Geographic information

| | Net Revenue from External Customers | | Non-current Assets | |
|------------------------------------|--|-----------------------|---------------------------|-----------------------|
| | Years Ended December 31 | | December 31, | December 31, |
| | 2016 | 2015 | 2016 | 2015 |
| Taiwan | \$ 127,062,984 | \$ 90,169,543 | \$ 991,567,870 | \$ 844,173,826 |
| United States | 610,371,107 | 566,600,178 | 8,245,054 | 8,892,851 |
| Asia | 146,907,470 | 123,705,876 | 14,071,364 | 15,889,993 |
| Europe, the Middle East and Africa | 58,042,311 | 57,064,965 | 8,677 | 8,278 |
| Others | <u>5,554,472</u> | <u>5,956,806</u> | - | - |
| | <u>\$ 947,938,344</u> | <u>\$ 843,497,368</u> | <u>\$ 1,013,892,965</u> | <u>\$ 868,964,948</u> |

The Company categorized the net revenue mainly based on the country in which the customer is headquartered. Non-current assets include property, plant and equipment, intangible assets and other noncurrent assets.

d. Production information

| Production | Years Ended December 31 | |
|-------------------|--------------------------------|-----------------------|
| | 2016 | 2015 |
| Wafer | \$ 909,179,151 | \$ 802,937,969 |
| Others | <u>38,759,193</u> | <u>40,559,399</u> |
| | <u>\$ 947,938,344</u> | <u>\$ 843,497,368</u> |

e. Major customers representing at least 10% of net revenue

| | Years Ended December 31 | | | |
|------------|--------------------------------|----------|----------------|----------|
| | 2016 | | 2015 | |
| | Amount | % | Amount | % |
| Customer A | \$ 157,185,418 | 17 | \$ 134,117,206 | 16 |
| Customer B | 107,463,238 | 11 | 134,158,421 | 16 |

44. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau 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 joint venture): 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.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2016

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

| No. | Financing Company | Counter-party | Financial Statement Account | Related Party | Maximum Balance for the Period (RMB in Thousands) (Note 2) | Ending Balance (RMB in Thousands) (Note 2) | Amount Actually Drawn (RMB in Thousands) | Interest Rate | Nature for Financing | Transaction Amounts | Reason for Financing (Note 3) | Allowance for Bad Debt | Collateral | | Financing Limits for Each Borrowing Company | Financing Company's Total Financing Amount Limits |
|-----|-------------------|---------------|--|---------------|--|--|--|---------------|--|---------------------|-------------------------------|------------------------|------------|-------|---|---|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | TSMC China | TSMC Nanjing | Other receivables from related parties | Yes | \$ 21,313,180 (RMB4,600,000) | \$ 21,313,180 (RMB4,600,000) | \$ 4,169,970 (RMB 900,000) | 0.35%-1.5% | The need for short-term/long-term financing (Note 3) | \$ - | Operating capital | \$ - | - | \$ - | \$ 42,850,549 (Note 1) | \$ 42,850,549 (Note 1) |

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 China. 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 100% owned, directly or indirectly, by TSMC. However, the total amount lendable to 100% owned subsidiaries by TSMC shall not exceed forty percent (40%) of the net worth of TSMC China. When there is a lending for funding needs by TSMC China to TSMC, or to the subsidiaries, which are not located in Taiwan, directly or indirectly wholly owned by TSMC, the lending will not be subject to the restriction set forth in the above paragraph of this Article. Notwithstanding the foregoing, the aggregate amount available for lending and the total amount lending limit for such borrower still shall not exceed the net worth of TSMC China.

Note 2: The maximum balance for the period and ending balance represent the amounts approved by the Board of Directors.

Note 3: The restriction of the term of each loan for funding not exceeding one year shall not apply to inter-company loans for funding between offshore subsidiaries in which the Company holds, directly or indirectly, 100% of the voting shares.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016

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

| No. | Endorsement/ Guarantee Provider | Guaranteed Party | | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2) | Maximum Balance for the Period (US\$ in Thousands) (Note 3) | Ending Balance (US\$ in Thousands) (Note 3) | Amount Actually Drawn (US\$ in Thousands) | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements | Maximum Endorsement/ Guarantee Amount Allowable (Note 2) | Guarantee Provided by Parent Company | Guarantee Provided by A Subsidiary | Guarantee Provided to Subsidiaries in Mainland China |
|-----|------------------------------------|-----------------------|---------------------------|--|--|--|--|---|---|---|---|--|--|
| | | Name | Nature of Relationship | | | | | | | | | | |
| 0 | TSMC | TSMC Global | Subsidiary | \$ 347,312,065 | \$ 48,298,500 (US\$ 1,500,000) | \$ 37,028,850 (US\$ 1,150,000) | \$ 37,028,850 (US\$ 1,150,000) | \$ - | 2.67% | \$ 347,312,065 | Yes | No | No |
| | | TSMC North America | Subsidiary | 347,312,065 | 2,679,385 (US\$ 83,213) | 2,679,385 (US\$ 83,213) | 2,679,385 (US\$ 83,213) | - | 0.19% | 347,312,065 | Yes | No | No |

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.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES HELD

DECEMBER 31, 2016

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

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|--|---|----------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC | <u>Corporate bond</u> | | | | | | | |
| | CPC Corporation, Taiwan | - | Held-to-maturity financial assets | - | \$ 1,967,303 | N/A | \$ 1,969,240 | |
| | Hon Hai Precision Ind. Co., Ltd. | - | " | - | 400,250 | N/A | 400,389 | |
| | Taiwan Power Company | - | " | - | 200,848 | N/A | 200,865 | |
| | Nan Ya Plastics Corporation | - | " | - | 150,742 | N/A | 150,763 | |
| | Formosa Petrochemical Corporation | - | " | - | 100,219 | N/A | 100,403 | |
| | <u>Commercial paper</u> | | | | | | | |
| | Taiwan Power Company | - | Held-to-maturity financial assets | 865 | 8,628,176 | N/A | 8,630,769 | |
| | <u>Stock</u> | | | | | | | |
| | Motech | - | Available-for-sale financial assets | 58,320 | 1,650,450 | 12 | 1,650,450 | |
| | Semiconductor Manufacturing International Corporation | - | " | 21,105 | 1,066,780 | 1 | 1,066,780 | |
| | RichWave Technology Corp. | - | " | 2,208 | 126,722 | 4 | 126,722 | |
| | United Industrial Gases Co., Ltd. | - | Financial assets carried at cost | 21,230 | 193,584 | 10 | 193,584 | |
| | Shin-Etsu Handotai Taiwan Co., Ltd. | - | " | 10,500 | 105,000 | 7 | 105,000 | |
| | Global Investment Holding Inc. | - | " | 11,124 | 99,041 | 6 | 99,041 | |
| | W.K. Technology Fund IV | - | " | 2,560 | 18,121 | 2 | 18,121 | |
| | <u>Fund</u> | | | | | | | |
| Horizon Ventures Fund | - | Financial assets carried at cost | - | 11,259 | 12 | 11,259 | | |
| Crimson Asia Capital | - | " | - | 8,263 | 1 | 8,263 | | |
| TSMC Partners | <u>Common stock</u> | | | | | | | |
| | Tela Innovations | - | Financial assets carried at cost | 10,440 | US\$ 65,000 | 25 | US\$ 65,000 | |
| | Mcube Inc. | - | " | 6,333 | - | 13 | - | |
| | <u>Fund</u> | | | | | | | |
| | China Walden Venture Investments II, L.P. | - | Financial assets carried at cost | - | US\$ 7,291 | 9 | US\$ 7,291 | |
| Shanghai Walden Venture Capital Enterprise | - | " | - | US\$ 4,270 | 6 | US\$ 4,270 | | |
| TSMC Global | <u>Corporate bond</u> | | | | | | | |
| | Bank of America Corp. | - | Available-for-sale financial assets | - | US\$ 29,886 | N/A | US\$ 29,886 | |
| | JPMorgan Chase & Co. | - | " | - | US\$ 26,231 | N/A | US\$ 26,231 | |
| | Morgan Stanley | - | " | - | US\$ 25,451 | N/A | US\$ 25,451 | |
| | Goldman Sachs Group Inc. | - | " | - | US\$ 18,769 | N/A | US\$ 18,769 | |
| | Verizon Communications | - | " | - | US\$ 17,059 | N/A | US\$ 17,059 | |
| | Citigroup Inc. | - | " | - | US\$ 16,819 | N/A | US\$ 16,819 | |
| | Abbvie Inc. | - | " | - | US\$ 13,850 | N/A | US\$ 13,850 | |
| | AT&T Inc. | - | " | - | US\$ 13,332 | N/A | US\$ 13,332 | |
| | Gilead Sciences Inc. | - | " | - | US\$ 11,850 | N/A | US\$ 11,850 | |
| | Aetna Inc. | - | " | - | US\$ 11,618 | N/A | US\$ 11,618 | |
| | PNC Bank NA | - | " | - | US\$ 11,598 | N/A | US\$ 11,598 | |
| | Capital One NA | - | " | - | US\$ 10,533 | N/A | US\$ 10,533 | |
| Oracle Corp. | - | " | - | US\$ 10,405 | N/A | US\$ 10,405 | | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|-------------------------------------|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Svenska Handelsbanken AB | - | Available-for-sale financial assets | - | US\$ 9,837 | N/A | US\$ 9,837 | |
| | CVS Health Corp. | - | " | - | US\$ 9,736 | N/A | US\$ 9,736 | |
| | Westpac Banking Corp. | - | " | - | US\$ 8,905 | N/A | US\$ 8,905 | |
| | Anheuser Busch InBev Fin. | - | " | - | US\$ 8,737 | N/A | US\$ 8,737 | |
| | Ford Motor Credit Co LLC | - | " | - | US\$ 8,681 | N/A | US\$ 8,681 | |
| | Analog Devices, Inc. | - | " | - | US\$ 8,619 | N/A | US\$ 8,619 | |
| | Teva Pharmaceuticals Netherlands | - | " | - | US\$ 8,467 | N/A | US\$ 8,467 | |
| | American Intl. Group | - | " | - | US\$ 7,944 | N/A | US\$ 7,944 | |
| | Credit Suisse New York | - | " | - | US\$ 7,267 | N/A | US\$ 7,267 | |
| | BB&T Corporation | - | " | - | US\$ 7,189 | N/A | US\$ 7,189 | |
| | BMW US Capital LLC | - | " | - | US\$ 7,180 | N/A | US\$ 7,180 | |
| | Pricoa Global Funding I | - | " | - | US\$ 7,140 | N/A | US\$ 7,140 | |
| | Daimler Finance NA LLC. | - | " | - | US\$ 7,101 | N/A | US\$ 7,101 | |
| | Bank of Ny Mellon Corp. | - | " | - | US\$ 7,006 | N/A | US\$ 7,006 | |
| | BP Capital Markets PLC | - | " | - | US\$ 6,658 | N/A | US\$ 6,658 | |
| | ERAC USA Finance LLC | - | " | - | US\$ 6,623 | N/A | US\$ 6,623 | |
| | Duke Energy Corp. | - | " | - | US\$ 6,535 | N/A | US\$ 6,535 | |
| | Southern Co. | - | " | - | US\$ 6,510 | N/A | US\$ 6,510 | |
| | Ventas Realty LP/Cap Crp. | - | " | - | US\$ 6,429 | N/A | US\$ 6,429 | |
| | Citizens Bank NA/RI | - | " | - | US\$ 6,331 | N/A | US\$ 6,331 | |
| | Suntrust Banks Inc. | - | " | - | US\$ 6,203 | N/A | US\$ 6,203 | |
| | Welltower Inc. | - | " | - | US\$ 6,145 | N/A | US\$ 6,145 | |
| | Wells Fargo & Company | - | " | - | US\$ 6,127 | N/A | US\$ 6,127 | |
| | American Express Credit | - | " | - | US\$ 6,045 | N/A | US\$ 6,045 | |
| | Berkshire Hathaway Fin. | - | " | - | US\$ 6,017 | N/A | US\$ 6,017 | |
| | Skandinaviska Enskilda Banken AB | - | " | - | US\$ 6,001 | N/A | US\$ 6,001 | |
| | Sysco Corporation | - | " | - | US\$ 5,978 | N/A | US\$ 5,978 | |
| | Express Scripts Holding | - | " | - | US\$ 5,899 | N/A | US\$ 5,899 | |
| | Toronto Dominion Bank | - | " | - | US\$ 5,806 | N/A | US\$ 5,806 | |
| | Groupe Danone S.A. | - | " | - | US\$ 5,763 | N/A | US\$ 5,763 | |
| | Shell International Fin. | - | " | - | US\$ 5,713 | N/A | US\$ 5,713 | |
| | Toyota Motor Credit Corp. | - | " | - | US\$ 5,633 | N/A | US\$ 5,633 | |
| | TIAA Asset Management Finance LLC | - | " | - | US\$ 5,617 | N/A | US\$ 5,617 | |
| | ABN AMRO Bank N.V. | - | " | - | US\$ 5,572 | N/A | US\$ 5,572 | |
| | Protective Life Global Funding | - | " | - | US\$ 5,552 | N/A | US\$ 5,552 | |
| | Key Bank N.A. | - | " | - | US\$ 5,532 | N/A | US\$ 5,532 | |
| | Mitsubishi UFJ Fin Grp. | - | " | - | US\$ 5,524 | N/A | US\$ 5,524 | |
| | Cisco Systems Inc. | - | " | - | US\$ 5,511 | N/A | US\$ 5,511 | |
| | Hyundai Capital America | - | " | - | US\$ 5,471 | N/A | US\$ 5,471 | |
| | New York Life Global FDG | - | " | - | US\$ 5,445 | N/A | US\$ 5,445 | |
| | Siemens Financieringsmat | - | " | - | US\$ 5,357 | N/A | US\$ 5,357 | |
| | Fifth Third Bank | - | " | - | US\$ 5,341 | N/A | US\$ 5,341 | |
| | Aviation Capital Group | - | " | - | US\$ 5,144 | N/A | US\$ 5,144 | |
| | Sempra Energy | - | " | - | US\$ 5,144 | N/A | US\$ 5,144 | |
| | Intl. Bank Recon. & Development | - | " | - | US\$ 5,137 | N/A | US\$ 5,137 | |
| | HSBC Holdings PLC | - | " | - | US\$ 5,124 | N/A | US\$ 5,124 | |
| | UBS AG Stamford CT | - | " | - | US\$ 5,017 | N/A | US\$ 5,017 | |
| | Sumitomo Mitsui Trust Bank, Limited | - | " | - | US\$ 5,008 | N/A | US\$ 5,008 | |
| | Macquarie Group Ltd. | - | " | - | US\$ 4,984 | N/A | US\$ 4,984 | |
| | Reliance Stand Life II | - | " | - | US\$ 4,925 | N/A | US\$ 4,925 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|-------------------------------------|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Dominion Resources Inc. | - | Available-for-sale financial assets | - | US\$ 4,907 | N/A | US\$ 4,907 | |
| | Walgreens Boots Alliance | - | " | - | US\$ 4,905 | N/A | US\$ 4,905 | |
| | Swedbank AB | - | " | - | US\$ 4,839 | N/A | US\$ 4,839 | |
| | Air Liquide Finance | - | " | - | US\$ 4,696 | N/A | US\$ 4,696 | |
| | ING Bank N.V. | - | " | - | US\$ 4,692 | N/A | US\$ 4,692 | |
| | Jackson Natl Life Global | - | " | - | US\$ 4,570 | N/A | US\$ 4,570 | |
| | Mondelez International | - | " | - | US\$ 4,527 | N/A | US\$ 4,527 | |
| | Mizuho Financial Group | - | " | - | US\$ 4,436 | N/A | US\$ 4,436 | |
| | Enel Finance Intl N.V. | - | " | - | US\$ 4,402 | N/A | US\$ 4,402 | |
| | CA, Inc. | - | " | - | US\$ 4,353 | N/A | US\$ 4,353 | |
| | Deutsche Telekom International Fin. | - | " | - | US\$ 4,340 | N/A | US\$ 4,340 | |
| | Oaktree Capital Management, L.P. | - | " | - | US\$ 4,316 | N/A | US\$ 4,316 | |
| | Twenty-First Century Fox Inc. | - | " | - | US\$ 4,271 | N/A | US\$ 4,271 | |
| | Lloyds Bank PLC | - | " | - | US\$ 4,220 | N/A | US\$ 4,220 | |
| | Schlumberger Hldgs Corp. | - | " | - | US\$ 4,150 | N/A | US\$ 4,150 | |
| | Nextera Energy Capital | - | " | - | US\$ 4,067 | N/A | US\$ 4,067 | |
| | Keycorp Pty Ltd. | - | " | - | US\$ 4,043 | N/A | US\$ 4,043 | |
| | Ameren Corp. | - | " | - | US\$ 4,017 | N/A | US\$ 4,017 | |
| | Pepsico Inc. | - | " | - | US\$ 4,004 | N/A | US\$ 4,004 | |
| | State Street Corp. | - | " | - | US\$ 3,995 | N/A | US\$ 3,995 | |
| | United Technologies Corporation | - | " | - | US\$ 3,968 | N/A | US\$ 3,968 | |
| | Fortive Corporation | - | " | - | US\$ 3,941 | N/A | US\$ 3,941 | |
| | Wells Fargo Bank NA | - | " | - | US\$ 3,880 | N/A | US\$ 3,880 | |
| | Autozone Inc. | - | " | - | US\$ 3,803 | N/A | US\$ 3,803 | |
| | Husky Energy Inc. | - | " | - | US\$ 3,775 | N/A | US\$ 3,775 | |
| | Sumitomo Mitsui Financial Group | - | " | - | US\$ 3,772 | N/A | US\$ 3,772 | |
| | Fifth Third Bancorp | - | " | - | US\$ 3,771 | N/A | US\$ 3,771 | |
| | Ryder System Inc. | - | " | - | US\$ 3,730 | N/A | US\$ 3,730 | |
| | Anheuser Busch InBev Worldwide Inc. | - | " | - | US\$ 3,659 | N/A | US\$ 3,659 | |
| | US Bank NA Cincinnati | - | " | - | US\$ 3,568 | N/A | US\$ 3,568 | |
| | UBS Group Funding | - | " | - | US\$ 3,547 | N/A | US\$ 3,547 | |
| | BAT Intl Finance PLC | - | " | - | US\$ 3,497 | N/A | US\$ 3,497 | |
| | Credit Agricole London | - | " | - | US\$ 3,331 | N/A | US\$ 3,331 | |
| | Lam Research Corp. | - | " | - | US\$ 3,218 | N/A | US\$ 3,218 | |
| | Time Warner Inc. | - | " | - | US\$ 3,022 | N/A | US\$ 3,022 | |
| | Canadian Imperial Bank | - | " | - | US\$ 3,002 | N/A | US\$ 3,002 | |
| | BNP Paribas New York Branch | - | " | - | US\$ 3,000 | N/A | US\$ 3,000 | |
| | Suncorp Metway Ltd. | - | " | - | US\$ 2,983 | N/A | US\$ 2,983 | |
| | Corpoerative Centrale | - | " | - | US\$ 2,974 | N/A | US\$ 2,974 | |
| | Microsoft Corp. | - | " | - | US\$ 2,905 | N/A | US\$ 2,905 | |
| | HSBC USA Inc. | - | " | - | US\$ 2,869 | N/A | US\$ 2,869 | |
| | Rabobank Nederland NY | - | " | - | US\$ 2,855 | N/A | US\$ 2,855 | |
| | Principal Life Global Funding II | - | " | - | US\$ 2,782 | N/A | US\$ 2,782 | |
| | KfW | - | " | - | US\$ 2,748 | N/A | US\$ 2,748 | |
| | PartnerRe Finance B LLC | - | " | - | US\$ 2,709 | N/A | US\$ 2,709 | |
| | Sprint Spectrum L.P. | - | " | - | US\$ 2,705 | N/A | US\$ 2,705 | |
| | Apple Inc. | - | " | - | US\$ 2,607 | N/A | US\$ 2,607 | |
| | Exelon Generation Co. LLC | - | " | - | US\$ 2,584 | N/A | US\$ 2,584 | |
| | MetLife Global Funding I | - | " | - | US\$ 2,524 | N/A | US\$ 2,524 | |
| | Unitedhealth Group Inc. | - | " | - | US\$ 2,500 | N/A | US\$ 2,500 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|--|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Toronto Domin Holding | - | Available-for-sale financial assets | - | US\$ 2,478 | N/A | US\$ 2,478 | |
| | Nordea Bank AB | - | " | - | US\$ 2,457 | N/A | US\$ 2,457 | |
| | Commonwealth Bank Australia NY | - | " | - | US\$ 2,404 | N/A | US\$ 2,404 | |
| | Marriott International, Inc. | - | " | - | US\$ 2,399 | N/A | US\$ 2,399 | |
| | Dow Chemical Co/The | - | " | - | US\$ 2,357 | N/A | US\$ 2,357 | |
| | Mckesson Corp. | - | " | - | US\$ 2,253 | N/A | US\$ 2,253 | |
| | Public Service Colorado | - | " | - | US\$ 2,166 | N/A | US\$ 2,166 | |
| | Allied World Assurance | - | " | - | US\$ 2,155 | N/A | US\$ 2,155 | |
| | Celgene Corp. | - | " | - | US\$ 2,115 | N/A | US\$ 2,115 | |
| | Stancorp Financial Group | - | " | - | US\$ 2,097 | N/A | US\$ 2,097 | |
| | Johnson Controls International PLC | - | " | - | US\$ 2,052 | N/A | US\$ 2,052 | |
| | The Bear Stearns Companies LLC. | - | " | - | US\$ 2,011 | N/A | US\$ 2,011 | |
| | British Telecommunications PLC | - | " | - | US\$ 2,011 | N/A | US\$ 2,011 | |
| | Erste Bank der oesterreichischen Sparkassen AG | - | " | - | US\$ 2,000 | N/A | US\$ 2,000 | |
| | Norinchukin Bank | - | " | - | US\$ 2,000 | N/A | US\$ 2,000 | |
| | Nordic Investment Bank | - | " | - | US\$ 1,996 | N/A | US\$ 1,996 | |
| | FMS Wertmanagement | - | " | - | US\$ 1,995 | N/A | US\$ 1,995 | |
| | Asian Development Bank | - | " | - | US\$ 1,994 | N/A | US\$ 1,994 | |
| | Kells Funding LLC | - | " | - | US\$ 1,993 | N/A | US\$ 1,993 | |
| | Magellan Midstream Partners LP | - | " | - | US\$ 1,971 | N/A | US\$ 1,971 | |
| | Stryker Corp. | - | " | - | US\$ 1,951 | N/A | US\$ 1,951 | |
| | National Australia Bank/NY | - | " | - | US\$ 1,944 | N/A | US\$ 1,944 | |
| | Huntington National Bank | - | " | - | US\$ 1,911 | N/A | US\$ 1,911 | |
| | BPCE SA | - | " | - | US\$ 1,910 | N/A | US\$ 1,910 | |
| | Sumitomo Mitsui Banking | - | " | - | US\$ 1,898 | N/A | US\$ 1,898 | |
| | Royal Bank of Canada | - | " | - | US\$ 1,893 | N/A | US\$ 1,893 | |
| | Oncor Electric Delivery | - | " | - | US\$ 1,853 | N/A | US\$ 1,853 | |
| | WestRock RKT Company | - | " | - | US\$ 1,843 | N/A | US\$ 1,843 | |
| | Orange S.A. | - | " | - | US\$ 1,824 | N/A | US\$ 1,824 | |
| | Regency Centers, L.P. | - | " | - | US\$ 1,817 | N/A | US\$ 1,817 | |
| | LyondellBasell Industries N.V. | - | " | - | US\$ 1,796 | N/A | US\$ 1,796 | |
| | Aust. & NZ Banking Grp. NY | - | " | - | US\$ 1,794 | N/A | US\$ 1,794 | |
| | Southern Power Company | - | " | - | US\$ 1,785 | N/A | US\$ 1,785 | |
| | Dominion Gas Holdings, LLC | - | " | - | US\$ 1,764 | N/A | US\$ 1,764 | |
| | Cardinal Health Inc. | - | " | - | US\$ 1,754 | N/A | US\$ 1,754 | |
| | Kimco Realty Corp. | - | " | - | US\$ 1,739 | N/A | US\$ 1,739 | |
| | Amgen Inc. | - | " | - | US\$ 1,706 | N/A | US\$ 1,706 | |
| | Tyson Foods, Inc. | - | " | - | US\$ 1,704 | N/A | US\$ 1,704 | |
| | Enterprise Products Operating, LLC | - | " | - | US\$ 1,697 | N/A | US\$ 1,697 | |
| | Deutsche Bank AG, London | - | " | - | US\$ 1,644 | N/A | US\$ 1,644 | |
| | Pacific Gas & Electric | - | " | - | US\$ 1,633 | N/A | US\$ 1,633 | |
| | Trans Canada Pipelines | - | " | - | US\$ 1,566 | N/A | US\$ 1,566 | |
| | African Development Bank | - | " | - | US\$ 1,562 | N/A | US\$ 1,562 | |
| | Capital One Bank (USA), NA | - | " | - | US\$ 1,553 | N/A | US\$ 1,553 | |
| | Branch Banking & Trust | - | " | - | US\$ 1,532 | N/A | US\$ 1,532 | |
| | Simon Property Group LP | - | " | - | US\$ 1,507 | N/A | US\$ 1,507 | |
| | Halliburton Co. | - | " | - | US\$ 1,505 | N/A | US\$ 1,505 | |
| | Pfizer Inc. | - | " | - | US\$ 1,491 | N/A | US\$ 1,491 | |
| | Standard Chartered PLC | - | " | - | US\$ 1,487 | N/A | US\$ 1,487 | |
| | Suncor Energy, Inc. | - | " | - | US\$ 1,482 | N/A | US\$ 1,482 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|--------------------------------------|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Westpac Banking Corp. | - | Available-for-sale financial assets | - | US\$ 1,481 | N/A | US\$ 1,481 | |
| | Procter & Gamble Co/The | - | " | - | US\$ 1,472 | N/A | US\$ 1,472 | |
| | HSBC Bank PLC | - | " | - | US\$ 1,468 | N/A | US\$ 1,468 | |
| | Guardian Life Global Funding | - | " | - | US\$ 1,461 | N/A | US\$ 1,461 | |
| | General Electric Co. | - | " | - | US\$ 1,417 | N/A | US\$ 1,417 | |
| | Eastman Chemical Company | - | " | - | US\$ 1,407 | N/A | US\$ 1,407 | |
| | ConocoPhillips | - | " | - | US\$ 1,396 | N/A | US\$ 1,396 | |
| | Walt Disney Company/The | - | " | - | US\$ 1,396 | N/A | US\$ 1,396 | |
| | PacifiCorp | - | " | - | US\$ 1,387 | N/A | US\$ 1,387 | |
| | Deutsche Bank AG | - | " | - | US\$ 1,351 | N/A | US\$ 1,351 | |
| | Biogen Inc. | - | " | - | US\$ 1,343 | N/A | US\$ 1,343 | |
| | IBM Corp. | - | " | - | US\$ 1,308 | N/A | US\$ 1,308 | |
| | Eaton Corp. | - | " | - | US\$ 1,307 | N/A | US\$ 1,307 | |
| | Santander UK PLC | - | " | - | US\$ 1,289 | N/A | US\$ 1,289 | |
| | Philip Morris Intl Inc. | - | " | - | US\$ 1,287 | N/A | US\$ 1,287 | |
| | Equifax Inc. | - | " | - | US\$ 1,282 | N/A | US\$ 1,282 | |
| | American Airlines 2013-2 | - | " | - | US\$ 1,278 | N/A | US\$ 1,278 | |
| | Visa Inc. | - | " | - | US\$ 1,277 | N/A | US\$ 1,277 | |
| | Nissan Motor Acceptance | - | " | - | US\$ 1,256 | N/A | US\$ 1,256 | |
| | Kroger Co. | - | " | - | US\$ 1,254 | N/A | US\$ 1,254 | |
| | CSX Corp. | - | " | - | US\$ 1,248 | N/A | US\$ 1,248 | |
| | Banque Fed Cred Mutuel | - | " | - | US\$ 1,178 | N/A | US\$ 1,178 | |
| | ONEOK Partners LP | - | " | - | US\$ 1,160 | N/A | US\$ 1,160 | |
| | Corning Inc. | - | " | - | US\$ 1,142 | N/A | US\$ 1,142 | |
| | Public Service Enterprise Group Inc. | - | " | - | US\$ 1,138 | N/A | US\$ 1,138 | |
| | ERP Operating LP | - | " | - | US\$ 1,123 | N/A | US\$ 1,123 | |
| | Berkshire Hathaway Inc. | - | " | - | US\$ 1,119 | N/A | US\$ 1,119 | |
| | Chevron Corp. | - | " | - | US\$ 1,103 | N/A | US\$ 1,103 | |
| | Medtronic Inc. | - | " | - | US\$ 1,098 | N/A | US\$ 1,098 | |
| | Wesfarmers Ltd. | - | " | - | US\$ 1,094 | N/A | US\$ 1,094 | |
| | Marsh & McLennan Cos Inc. | - | " | - | US\$ 1,088 | N/A | US\$ 1,088 | |
| | International Paper Company | - | " | - | US\$ 1,080 | N/A | US\$ 1,080 | |
| | BNP Paribas | - | " | - | US\$ 1,071 | N/A | US\$ 1,071 | |
| | Cigna Corporation | - | " | - | US\$ 1,069 | N/A | US\$ 1,069 | |
| | Comcast Corp. | - | " | - | US\$ 1,056 | N/A | US\$ 1,056 | |
| | Merck & Co Inc. | - | " | - | US\$ 1,055 | N/A | US\$ 1,055 | |
| | EOG Resources, Inc. | - | " | - | US\$ 1,053 | N/A | US\$ 1,053 | |
| | Berkshire Hathaway Energy Co. | - | " | - | US\$ 1,051 | N/A | US\$ 1,051 | |
| | Lincoln National Corp. | - | " | - | US\$ 1,048 | N/A | US\$ 1,048 | |
| | Macy's Retail Holdings Inc. | - | " | - | US\$ 1,027 | N/A | US\$ 1,027 | |
| | Statoil ASA | - | " | - | US\$ 1,020 | N/A | US\$ 1,020 | |
| | Amazon.com Inc. | - | " | - | US\$ 1,019 | N/A | US\$ 1,019 | |
| | Altera Corp. | - | " | - | US\$ 1,017 | N/A | US\$ 1,017 | |
| | HP Enterprise Co. | - | " | - | US\$ 1,010 | N/A | US\$ 1,010 | |
| | Home Depot Inc. | - | " | - | US\$ 1,009 | N/A | US\$ 1,009 | |
| | Realty Income Corp. | - | " | - | US\$ 1,008 | N/A | US\$ 1,008 | |
| | Manuf & Traders Trust Co. | - | " | - | US\$ 1,007 | N/A | US\$ 1,007 | |
| | Carnival Corp. | - | " | - | US\$ 1,004 | N/A | US\$ 1,004 | |
| | John Deere Capital Corp. | - | " | - | US\$ 1,004 | N/A | US\$ 1,004 | |
| | Macquarie Bank Ltd. | - | " | - | US\$ 1,003 | N/A | US\$ 1,003 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|--------------------------------------|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Caterpillar Financial Services Corp. | - | Available-for-sale financial assets | - | US\$ 1,000 | N/A | US\$ 1,000 | |
| | Nisource Finance Corp. | - | " | - | US\$ 996 | N/A | US\$ 996 | |
| | Georgia-Pacific LLC | - | " | - | US\$ 988 | N/A | US\$ 988 | |
| | Duke Realty LP | - | " | - | US\$ 972 | N/A | US\$ 972 | |
| | Texas Eastern Transmission, LP | - | " | - | US\$ 972 | N/A | US\$ 972 | |
| | Duke Energy Progress Inc. | - | " | - | US\$ 962 | N/A | US\$ 962 | |
| | Glaxosmithkline Cap. Inc. | - | " | - | US\$ 950 | N/A | US\$ 950 | |
| | Southern Electric Generating Company | - | " | - | US\$ 909 | N/A | US\$ 909 | |
| | Lockheed Martin Corp. | - | " | - | US\$ 904 | N/A | US\$ 904 | |
| | Svenska Handelsbanken AB (publ) | - | " | - | US\$ 891 | N/A | US\$ 891 | |
| | AXA Financial, Inc. | - | " | - | US\$ 886 | N/A | US\$ 886 | |
| | Federal Realty Invs Trust | - | " | - | US\$ 883 | N/A | US\$ 883 | |
| | Mastercard Inc. | - | " | - | US\$ 855 | N/A | US\$ 855 | |
| | Nucor Corporation | - | " | - | US\$ 843 | N/A | US\$ 843 | |
| | AXIS Specialty Finance PLC | - | " | - | US\$ 821 | N/A | US\$ 821 | |
| | Pacific LifeCorp | - | " | - | US\$ 816 | N/A | US\$ 816 | |
| | Bank Of Montreal | - | " | - | US\$ 812 | N/A | US\$ 812 | |
| | Societe Generale Group | - | " | - | US\$ 810 | N/A | US\$ 810 | |
| | Xylem Inc. | - | " | - | US\$ 809 | N/A | US\$ 809 | |
| | Manulife Financial Corporation | - | " | - | US\$ 804 | N/A | US\$ 804 | |
| | Cox Communications, Inc. | - | " | - | US\$ 791 | N/A | US\$ 791 | |
| | Koninklijke Philips N.V. | - | " | - | US\$ 786 | N/A | US\$ 786 | |
| | CMS Energy Corp. | - | " | - | US\$ 772 | N/A | US\$ 772 | |
| | Crown Castle Towers LLC | - | " | - | US\$ 758 | N/A | US\$ 758 | |
| | HCP Inc. | - | " | - | US\$ 751 | N/A | US\$ 751 | |
| | Southern Railway Co. | - | " | - | US\$ 741 | N/A | US\$ 741 | |
| | DTE Electric Company | - | " | - | US\$ 718 | N/A | US\$ 718 | |
| | Baker Hughes Incorporated | - | " | - | US\$ 714 | N/A | US\$ 714 | |
| | Regions Financial Corporation | - | " | - | US\$ 710 | N/A | US\$ 710 | |
| | Total Capital International S.A. | - | " | - | US\$ 703 | N/A | US\$ 703 | |
| | Continental Airlines Inc. | - | " | - | US\$ 700 | N/A | US\$ 700 | |
| | TTX Co. | - | " | - | US\$ 700 | N/A | US\$ 700 | |
| | Scentre Group | - | " | - | US\$ 699 | N/A | US\$ 699 | |
| | Air Lease Corporation | - | " | - | US\$ 696 | N/A | US\$ 696 | |
| | Cargill, Incorporated | - | " | - | US\$ 693 | N/A | US\$ 693 | |
| | Danske Bank A/S | - | " | - | US\$ 689 | N/A | US\$ 689 | |
| | Entergy Louisiana, LLC | - | " | - | US\$ 676 | N/A | US\$ 676 | |
| | Ohio Power Company | - | " | - | US\$ 669 | N/A | US\$ 669 | |
| | National Retail Properties, Inc. | - | " | - | US\$ 663 | N/A | US\$ 663 | |
| | Capital One Financial Co. | - | " | - | US\$ 661 | N/A | US\$ 661 | |
| | Liberty Property LP | - | " | - | US\$ 638 | N/A | US\$ 638 | |
| | Grupo Bimbo, S.A.B. de C.V. | - | " | - | US\$ 637 | N/A | US\$ 637 | |
| | Potash Corp Saskatchewan Inc. | - | " | - | US\$ 637 | N/A | US\$ 637 | |
| | ABC Inc. | - | " | - | US\$ 621 | N/A | US\$ 621 | |
| | Life Technologies Corp. | - | " | - | US\$ 620 | N/A | US\$ 620 | |
| | Dr Pepper Snapple Group, Inc. | - | " | - | US\$ 614 | N/A | US\$ 614 | |
| | Kimberly Clark Corp. | - | " | - | US\$ 604 | N/A | US\$ 604 | |
| | Bayer US Finance LLC | - | " | - | US\$ 599 | N/A | US\$ 599 | |
| | CenterPoint Energy Resources | - | " | - | US\$ 594 | N/A | US\$ 594 | |
| | Host Hotels & Resorts, Inc. | - | " | - | US\$ 590 | N/A | US\$ 590 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|--------------------------------------|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | MUFG Union Bank, N.A. | - | Available-for-sale financial assets | - | US\$ 586 | N/A | US\$ 586 | |
| | AvalonBay Communities Inc. | - | " | - | US\$ 581 | N/A | US\$ 581 | |
| | Bunge Limited Finance Corp. | - | " | - | US\$ 573 | N/A | US\$ 573 | |
| | Boston Properties LP | - | " | - | US\$ 562 | N/A | US\$ 562 | |
| | Nordstrom Inc. | - | " | - | US\$ 553 | N/A | US\$ 553 | |
| | Caisse Centrale Desjardins | - | " | - | US\$ 549 | N/A | US\$ 549 | |
| | Digital Realty Trust, L.P. | - | " | - | US\$ 544 | N/A | US\$ 544 | |
| | McDonald's Corp. | - | " | - | US\$ 543 | N/A | US\$ 543 | |
| | Southwestern Electric Power Company | - | " | - | US\$ 543 | N/A | US\$ 543 | |
| | Prudential Financial Inc. | - | " | - | US\$ 540 | N/A | US\$ 540 | |
| | O'Reilly Automotive Inc. | - | " | - | US\$ 537 | N/A | US\$ 537 | |
| | TD Ameritrade Holding Corp. | - | " | - | US\$ 535 | N/A | US\$ 535 | |
| | American Express Co. | - | " | - | US\$ 531 | N/A | US\$ 531 | |
| | Burlington Northern Santa Fe Corp. | - | " | - | US\$ 526 | N/A | US\$ 526 | |
| | Inter-American Development Bank | - | " | - | US\$ 507 | N/A | US\$ 507 | |
| | PSEG Power LLC | - | " | - | US\$ 504 | N/A | US\$ 504 | |
| | CBS Corp. | - | " | - | US\$ 503 | N/A | US\$ 503 | |
| | Comerica Inc. | - | " | - | US\$ 474 | N/A | US\$ 474 | |
| | Honeywell International Inc. | - | " | - | US\$ 464 | N/A | US\$ 464 | |
| | Nationwide Building Society | - | " | - | US\$ 445 | N/A | US\$ 445 | |
| | Valero Energy Corp. | - | " | - | US\$ 441 | N/A | US\$ 441 | |
| | Blackstone Holdings Finance Co., LLC | - | " | - | US\$ 429 | N/A | US\$ 429 | |
| | Exxon Mobil Corporation | - | " | - | US\$ 400 | N/A | US\$ 400 | |
| | Conocophillips Company | - | " | - | US\$ 399 | N/A | US\$ 399 | |
| | Volkswagen Group of America, Inc. | - | " | - | US\$ 398 | N/A | US\$ 398 | |
| | First Niagara Financial Group, Inc. | - | " | - | US\$ 394 | N/A | US\$ 394 | |
| | Aon Corp. | - | " | - | US\$ 394 | N/A | US\$ 394 | |
| | Nationwide Financial Service, Inc. | - | " | - | US\$ 382 | N/A | US\$ 382 | |
| | American Honda Finance | - | " | - | US\$ 368 | N/A | US\$ 368 | |
| | Wm. Wrigley Jr. Co. | - | " | - | US\$ 353 | N/A | US\$ 353 | |
| | Metlife Inc. | - | " | - | US\$ 329 | N/A | US\$ 329 | |
| | Pearson Dol Fin Two PLC | - | " | - | US\$ 315 | N/A | US\$ 315 | |
| | Barclays Bank PLC | - | " | - | US\$ 292 | N/A | US\$ 292 | |
| | BAE Systems Holdings, Inc. | - | " | - | US\$ 292 | N/A | US\$ 292 | |
| | EMD Finance LLC | - | " | - | US\$ 278 | N/A | US\$ 278 | |
| | Mattel Inc. | - | " | - | US\$ 268 | N/A | US\$ 268 | |
| | U.S. Bancorp | - | " | - | US\$ 262 | N/A | US\$ 262 | |
| | Nomura Holdings Inc. | - | " | - | US\$ 252 | N/A | US\$ 252 | |
| | Kansas City Power & Light Company | - | " | - | US\$ 247 | N/A | US\$ 247 | |
| | Bank of Nova Scotia | - | " | - | US\$ 246 | N/A | US\$ 246 | |
| | Aon PLC | - | " | - | US\$ 245 | N/A | US\$ 245 | |
| | Protective Life Corporation | - | " | - | US\$ 238 | N/A | US\$ 238 | |
| | WestRock MWV, LLC | - | " | - | US\$ 235 | N/A | US\$ 235 | |
| | Rolls Royce PLC | - | " | - | US\$ 223 | N/A | US\$ 223 | |
| | Assurant, Inc. | - | " | - | US\$ 212 | N/A | US\$ 212 | |
| | Woolworths Limited | - | " | - | US\$ 196 | N/A | US\$ 196 | |
| | JPMorgan Chase & Co. | - | Held-to-maturity financial assets | - | US\$ 153,147 | N/A | US\$ 154,710 | |
| | Wells Fargo & Company | - | " | - | US\$ 150,007 | N/A | US\$ 150,321 | |
| | Goldman Sachs Group, Inc. | - | " | - | US\$ 100,000 | N/A | US\$ 100,959 | |
| | Westpac Banking Corp. | - | " | - | US\$ 100,000 | N/A | US\$ 100,743 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|-------------------|--|-------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Commonwealth Bank of Australia | - | Held-to-maturity financial assets | - | US\$ 50,000 | N/A | US\$ 50,419 | |
| | National Australia Bank | - | " | - | US\$ 50,000 | N/A | US\$ 50,313 | |
| | Bank of Nova Scotia | - | " | - | US\$ 49,982 | N/A | US\$ 50,158 | |
| | <u>Government bond</u> | | | | | | | |
| | US Treasury N/B | - | Available-for-sale financial assets | - | US\$ 259,231 | N/A | US\$ 259,231 | |
| | Abu Dhabi Government International Bond | - | " | - | US\$ 3,428 | N/A | US\$ 3,428 | |
| | <u>Agency bond</u> | | | | | | | |
| | Federal National Mortgage Association | - | Available-for-sale financial assets | - | US\$ 271,325 | N/A | US\$ 271,325 | |
| | Federal Home Loan Mortgage Corporation | - | " | - | US\$ 154,300 | N/A | US\$ 154,300 | |
| | Government National Mortgage Association | - | " | - | US\$ 18,007 | N/A | US\$ 18,007 | |
| | Federal Home Loan Bank | - | " | - | US\$ 9,663 | N/A | US\$ 9,663 | |
| | Export Import Bank Korea | - | " | - | US\$ 3,008 | N/A | US\$ 3,008 | |
| | Export Developmnt Canada | - | " | - | US\$ 2,648 | N/A | US\$ 2,648 | |
| | Government National Mortgage Association | - | " | - | US\$ 1,937 | N/A | US\$ 1,937 | |
| | Federal Farm Credit Bank | - | " | - | US\$ 898 | N/A | US\$ 898 | |
| | Fhlmc Multifamily Structured PTC | - | " | - | US\$ 356 | N/A | US\$ 356 | |
| | <u>Negotiable certificate of deposit</u> | | | | | | | |
| | China Construction Bank | - | Held-to-maturity financial assets | - | US\$ 50,000 | N/A | US\$ 50,245 | |
| | China Development Bank | - | " | - | US\$ 50,000 | N/A | US\$ 50,179 | |
| | Bank of China | - | " | - | US\$ 50,000 | N/A | US\$ 50,134 | |
| | <u>Corporate issued asset-backed securities</u> | | | | | | | |
| | Capital One Multi Asset Execution Trust | - | Available-for-sale financial assets | - | US\$ 39,626 | N/A | US\$ 39,626 | |
| | Chase Issuance Trust | - | " | - | US\$ 31,276 | N/A | US\$ 31,276 | |
| | American Express Credit Account Master Trust | - | " | - | US\$ 23,114 | N/A | US\$ 23,114 | |
| | Discover Card Execution Note Trust | - | " | - | US\$ 23,076 | N/A | US\$ 23,076 | |
| | Citibank Credit Card Issuance Trust | - | " | - | US\$ 22,585 | N/A | US\$ 22,585 | |
| | Bank of America Credit Card Trust | - | " | - | US\$ 19,464 | N/A | US\$ 19,464 | |
| | Nissan Auto Lease Trust | - | " | - | US\$ 13,780 | N/A | US\$ 13,780 | |
| | GS Mortgage Securities Trust | - | " | - | US\$ 12,386 | N/A | US\$ 12,386 | |
| | Ford Credit Floorplan Master Owner Trust | - | " | - | US\$ 11,944 | N/A | US\$ 11,944 | |
| | Ford Credit Auto Owner Trust | - | " | - | US\$ 10,910 | N/A | US\$ 10,910 | |
| | UBS-Barclays Commercial Mortgage Trust | - | " | - | US\$ 10,161 | N/A | US\$ 10,161 | |
| | Nissan Auto Receivables Owner Trust | - | " | - | US\$ 10,067 | N/A | US\$ 10,067 | |
| | Mercedes Benz Master Owner Trust | - | " | - | US\$ 10,012 | N/A | US\$ 10,012 | |
| | GM Financial Automobile Leasing Trust | - | " | - | US\$ 9,557 | N/A | US\$ 9,557 | |
| | Honda Auto Receivables Owner Trust | - | " | - | US\$ 7,632 | N/A | US\$ 7,632 | |
| | J.P. Morgan Chase Commercial Mortgage Securities Trust | - | " | - | US\$ 7,510 | N/A | US\$ 7,510 | |
| | Hyundai Auto Receivables Trust | - | " | - | US\$ 7,315 | N/A | US\$ 7,315 | |
| | Toyota Auto Receivables Owner Trust | - | " | - | US\$ 7,134 | N/A | US\$ 7,134 | |
| | Hyundai Auto Lease Securitization Trust | - | " | - | US\$ 6,371 | N/A | US\$ 6,371 | |
| | BMW Vehicle Lease Trust | - | " | - | US\$ 5,936 | N/A | US\$ 5,936 | |
| | Morgan Stanley Bank of America Merrill Lynch Trust | - | " | - | US\$ 5,790 | N/A | US\$ 5,790 | |
| | Chesapeake Funding II LLC | - | " | - | US\$ 5,746 | N/A | US\$ 5,746 | |
| | Ford Credit Auto Owner Trust | - | " | - | US\$ 5,651 | N/A | US\$ 5,651 | |
| | JPMBB Commercial Mortgage Securities Trust | - | " | - | US\$ 5,472 | N/A | US\$ 5,472 | |
| | COMM Mortgage Trust | - | " | - | US\$ 5,208 | N/A | US\$ 5,208 | |
| | Mercedes Benz Auto Lease Trust | - | " | - | US\$ 4,517 | N/A | US\$ 4,517 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2016 | | | | Note |
|--------------------------------|---|----------------------------------|-------------------------------------|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | |
| TSMC Global | Citigroup Commercial Mortgage Trust | - | Available-for-sale financial assets | - | US\$ 4,207 | N/A | US\$ 4,207 | |
| | Morgan Stanley Capital I Trust | - | " | - | US\$ 4,114 | N/A | US\$ 4,114 | |
| | Mercedes Benz Auto Receivables Trust | - | " | - | US\$ 3,699 | N/A | US\$ 3,699 | |
| | BMW Floorplan Master Owner Trust | - | " | - | US\$ 2,437 | N/A | US\$ 2,437 | |
| | Ford Credit Auto Lease Trust | - | " | - | US\$ 2,174 | N/A | US\$ 2,174 | |
| | Nissan Master Owner Trust Receivables Trust | - | " | - | US\$ 2,003 | N/A | US\$ 2,003 | |
| | Carmax Auto Owner Trust | - | " | - | US\$ 2,000 | N/A | US\$ 2,000 | |
| | Golden Credit Card Trust | - | " | - | US\$ 1,801 | N/A | US\$ 1,801 | |
| | Wheels SPV LLC | - | " | - | US\$ 1,690 | N/A | US\$ 1,690 | |
| | Wells Fargo Commercial Mortgage Trust | - | " | - | US\$ 1,295 | N/A | US\$ 1,295 | |
| | CFCRE Commercial Mortgage Trust | - | " | - | US\$ 1,083 | N/A | US\$ 1,083 | |
| | Enterprise Fleet Financing LLC | - | " | - | US\$ 798 | N/A | US\$ 798 | |
| | <u>Structure product</u> | | | | | | | |
| | Bank of Tokyo-Mitsubishi UFJ | - | Held-to-maturity financial assets | - | US\$ 50,000 | N/A | US\$ 49,993 | |
| <u>Fund</u> | | | | | | | | |
| Primavera Capital Fund II L.P. | - | Financial assets carried at cost | - | US\$ 23,784 | 4 | US\$ 23,784 | | |
| VTAF III | <u>Common stock</u> | | | | | | | |
| | LiquidLeds Lighting Corp. | - | Financial assets carried at cost | 1,600 | US\$ 800 | 11 | US\$ 800 | |
| | Xenio Corporation | - | " | 435 | US\$ 453 | 3 | US\$ 453 | |
| | Accton Wireless Broadband Corp. | - | " | 2,249 | US\$ 315 | 6 | US\$ 315 | |
| | <u>Preferred stock</u> | | | | | | | |
| | GTBF, Inc. | - | Financial assets carried at cost | 1,154 | US\$ 1,500 | - | US\$ 1,500 | |
| Neoconix, Inc. | - | " | 4,147 | US\$ 170 | - | US\$ 170 | | |
| VTAF II | <u>Common stock</u> | | | | | | | |
| | RichWave Technology Corp. | - | Available-for-sale financial assets | 1,334 | US\$ 2,378 | 2 | US\$ 2,378 | |
| | Impinj, Inc. | - | " | 62 | US\$ 2,189 | - | US\$ 2,189 | |
| | Sentelic | - | Financial assets carried at cost | 1,806 | US\$ 2,607 | 8 | US\$ 2,607 | |
| | 5V Technologies, Inc. | - | " | 963 | US\$ 2,168 | 2 | US\$ 2,168 | |
| | Aether Systems, Inc. | - | " | 3,100 | US\$ 339 | 30 | US\$ 339 | |
| <u>Preferred stock</u> | | | | | | | | |
| Aquantia | - | Financial assets carried at cost | 4,643 | US\$ 4,441 | 2 | US\$ 4,441 | | |
| ISDF | <u>Preferred stock</u> | | | | | | | |
| Sonics, Inc. | - | Financial assets carried at cost | 230 | - | 3 | - | | |
| ISDF II | <u>Common stock</u> | | | | | | | |
| | Alchip Technologies Limited | - | Available-for-sale financial assets | 6,581 | US\$ 6,387 | 11 | US\$ 6,387 | |
| | Sonics, Inc. | - | Financial assets carried at cost | 278 | - | 4 | - | |
| | <u>Preferred stock</u> | | | | | | | |
| Sonics, Inc. | - | Financial assets carried at cost | 264 | - | 4 | - | | |
| Growth Fund | <u>Common stock</u> | | | | | | | |
| | Innovium, Inc. | - | Financial assets carried at cost | 221 | US\$ 370 | - | US\$ 370 | |
| <u>Preferred stock</u> | | | | | | | | |
| Innovium, Inc. | - | Financial assets carried at cost | 230 | US\$ 384 | - | US\$ 384 | | |

(Concluded)

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 YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Ending Balance (Note 1) | | |
|--------------|--|---|----------------|------------------------|-----------------------------|--------------|-----------------------------|-------------|-----------------------------|--------------|----------------|-------------------------|-----------------------------|-------------|
| | | | | | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Carrying Value | Gain/Loss on Disposal | Shares/Units (In Thousands) | Amount |
| TSMC | <u>Bank debentures</u> HSBC Bank (Taiwan) Limited | Held-to-maturity financial assets | - | - | - | \$ 3,305,475 | - | \$ - | - | \$ 3,300,000 | \$ 3,300,000 | \$ - | - | \$ - |
| | <u>Corporate bond</u> CPC Corporation, Taiwan | Held-to-maturity financial assets | - | - | - | 1,543,723 | - | 1,513,743 | - | 1,075,000 | 1,075,000 | - | - | 1,967,303 |
| | Hon Hai Precision Ind. Co., Ltd. | " | - | - | - | 1,003,858 | - | - | - | 600,000 | 600,000 | - | - | 400,250 |
| | Taiwan Power Company | " | - | - | - | 1,207,601 | - | - | - | 1,000,000 | 1,000,000 | - | - | 200,848 |
| | Nan Ya Plastics Corporation | " | - | - | - | - | - | 302,139 | - | 150,000 | 150,000 | - | - | 150,742 |
| | <u>Structure product</u> Hua Nan Commercial Bank | Held-to-maturity financial assets | - | - | - | 2,000,000 | - | - | - | 2,000,000 | 2,000,000 | - | - | - |
| | Cathay United Bank | " | - | - | - | 1,000,000 | - | - | - | 1,000,000 | 1,000,000 | - | - | - |
| | <u>Commercial paper</u> Taiwan Power Company | Held-to-maturity financial assets | - | - | - | - | 945 | 9,426,884 | 80 | 800,000 | 800,000 | - | 865 | 8,628,176 |
| | <u>Stock</u> TSMC Global | Investments accounted for using equity method | - | Subsidiary | 5 | 203,425,723 | 2 | 64,451,983 | - | - | - | - | 7 | 265,634,729 |
| | TSMC Nanjing | " | - | Subsidiary | - | - | - | 6,435,200 | - | - | - | - | - | 6,331,094 |
| | VisEra Tech | " | VisEra Holding | Subsidiary | - | - | 253,120 | 5,005,171 | - | - | - | - | 253,120 | 5,234,883 |
| | Xintec | " | VisEra Holding | Associate | 92,778 | 2,209,785 | 18,504 | 678,348 | - | - | - | - | 111,282 | 2,599,807 |
| | | | | | | | | Note 2 | | | | | | |
| | | | | | | | | Note 2 | | | | | | |
| TSMC Global | <u>Corporate bond</u> Bank of America Corp. | Available-for-sale financial assets | - | - | - | US\$ 6,993 | - | US\$ 25,862 | - | US\$ 4,624 | US\$ 4,532 | US\$ 92 | - | US\$ 27,973 |
| | JPMorgan Chase & Co. | " | - | - | - | US\$ 4,971 | - | US\$ 28,534 | - | US\$ 11,121 | US\$ 10,999 | US\$ 122 | - | US\$ 22,330 |
| | Verizon Communications | " | - | - | - | US\$ 4,994 | - | US\$ 12,385 | - | - | - | - | - | US\$ 17,059 |
| | Citigroup Inc. | " | - | - | - | US\$ 2,986 | - | US\$ 13,979 | - | - | - | - | - | US\$ 16,819 |
| | Abbvie Inc. | " | - | - | - | - | - | US\$ 14,338 | - | US\$ 251 | US\$ 251 | - | - | US\$ 13,850 |
| | AT&T Inc. | " | - | - | - | US\$ 3,882 | - | US\$ 10,044 | - | US\$ 384 | US\$ 390 | US\$ (6) | - | US\$ 13,332 |
| | Gilead Sciences Inc. | " | - | - | - | US\$ 1,000 | - | US\$ 11,222 | - | - | - | - | - | US\$ 11,850 |
| | Aetna Inc. | " | - | - | - | - | - | US\$ 11,687 | - | - | - | - | - | US\$ 11,618 |
| | Morgan Stanley | " | - | - | - | US\$ 1,005 | - | US\$ 10,359 | - | - | - | - | - | US\$ 11,237 |
| | Oracle Corp. | " | - | - | - | US\$ 2,428 | - | US\$ 9,572 | - | US\$ 1,447 | US\$ 1,426 | US\$ 21 | - | US\$ 10,405 |
| | Svenska Handelsbanken AB | " | - | - | - | - | - | US\$ 9,922 | - | - | - | - | - | US\$ 9,837 |
| | Teva Pharmaceuticals Netherlands | " | - | - | - | - | - | US\$ 14,629 | - | US\$ 5,856 | US\$ 5,987 | US\$ (131) | - | US\$ 8,467 |

(Continued)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Ending Balance (Note 1) | | |
|--------------|---|-------------------------------------|---------------|------------------------|-----------------------------|-------------|-----------------------------|--------------|-----------------------------|--------------|----------------|-------------------------|-----------------------------|--------------|
| | | | | | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Carrying Value | Gain/Loss on Disposal | Shares/Units (In Thousands) | Amount |
| TSMC Global | BMW US Capital LLC | Available-for-sale financial assets | - | - | - | US\$ - | - | US\$ 11,211 | - | US\$ 3,990 | US\$ 3,990 | US\$ - | - | US\$ 7,180 |
| | Wells Fargo & Company | " | - | - | - | US\$ 2,475 | - | US\$ 9,706 | - | US\$ 6,008 | US\$ 5,967 | US\$ 41 | - | US\$ 6,127 |
| | Sysco Corporation | " | - | - | - | - | - | US\$ 13,622 | - | US\$ 7,605 | US\$ 7,496 | US\$ 109 | - | US\$ 5,978 |
| | Shell International Fin. | " | - | - | - | US\$ 1,243 | - | US\$ 9,752 | - | US\$ 5,212 | US\$ 5,234 | US\$ (22) | - | US\$ 5,713 |
| | Cisco Systems Inc. | " | - | - | - | - | - | US\$ 13,545 | - | US\$ 8,079 | US\$ 8,007 | US\$ 72 | - | US\$ 5,511 |
| | US Bank NA Cincinnati | " | - | - | - | - | - | US\$ 12,590 | - | US\$ 9,018 | US\$ 8,985 | US\$ 33 | - | US\$ 3,568 |
| | JPMorgan Chase & Co. | Held-to-maturity financial assets | - | - | - | US\$ 10,798 | - | US\$ 143,533 | - | - | - | - | - | US\$ 153,147 |
| | Wells Fargo & Company | " | - | - | - | - | - | US\$ 150,008 | - | - | - | - | - | US\$ 150,007 |
| | Westpac Banking Corp. | " | - | - | - | - | - | US\$ 100,000 | - | - | - | - | - | US\$ 100,000 |
| | Goldman Sachs Group, Inc. | " | - | - | - | - | - | US\$ 100,000 | - | - | - | - | - | US\$ 100,000 |
| | Commonwealth Bank of Australia | " | - | - | - | - | - | US\$ 50,000 | - | - | - | - | - | US\$ 50,000 |
| | National Australia Bank | " | - | - | - | - | - | US\$ 50,000 | - | - | - | - | - | US\$ 50,000 |
| | Bank of Nova Scotia | " | - | - | - | - | - | US\$ 49,978 | - | - | - | - | - | US\$ 49,982 |
| | <u>Government bond</u> | | | | | | | | | | | | | |
| | US Treasury N/B | Available-for-sale financial assets | - | - | - | US\$ 26,702 | - | US\$ 285,949 | - | US\$ 110,552 | US\$ 111,205 | US\$ (653) | - | US\$ 195,285 |
| | US Treasury Floating Rate Note | " | - | - | - | - | - | US\$ 104,729 | - | US\$ 74,021 | US\$ 73,990 | US\$ 31 | - | US\$ 30,756 |
| | Treasury Inflation-Indexed N/B | " | - | - | - | - | - | US\$ 19,492 | - | - | - | - | - | US\$ 19,349 |
| | US Treasury N/B | " | - | - | - | - | - | US\$ 27,040 | - | US\$ 12,938 | US\$ 12,963 | US\$ (25) | - | US\$ 13,842 |
| | WI Treasury Securities | " | - | - | - | - | - | US\$ 14,698 | - | US\$ 14,699 | US\$ 14,698 | US\$ 1 | - | - |
| | Treasury Bill | " | - | - | - | - | - | US\$ 10,486 | - | US\$ 10,494 | US\$ 10,486 | US\$ 8 | - | - |
| | <u>Agency bond</u> | | | | | | | | | | | | | |
| | Fed Hm Ln Pc Pool G60594 | Available-for-sale financial assets | - | - | - | - | - | US\$ 16,185 | - | US\$ 609 | US\$ 698 | US\$ (89) | - | US\$ 15,322 |
| | Fnma Pool AL9128 | " | - | - | - | - | - | US\$ 23,724 | - | US\$ 9,288 | US\$ 9,351 | US\$ (63) | - | US\$ 14,067 |
| | Fnma Pool AL7191 | " | - | - | - | US\$ 5,864 | - | US\$ 9,855 | - | US\$ 2,925 | US\$ 3,333 | US\$ (408) | - | US\$ 12,533 |
| | Fnma Pool AL8430 | " | - | - | - | - | - | US\$ 10,171 | - | US\$ 516 | US\$ 584 | US\$ (68) | - | US\$ 9,462 |
| | Fnma Pool 888577 | " | - | - | - | - | - | US\$ 11,995 | - | US\$ 2,292 | US\$ 2,619 | US\$ (327) | - | US\$ 9,281 |
| | Fed Hm Ln Pc Pool G18605 | " | - | - | - | - | - | US\$ 9,855 | - | US\$ 425 | US\$ 447 | US\$ (22) | - | US\$ 9,177 |
| | Fed Hm Ln Pc Pool G60081 | " | - | - | - | - | - | US\$ 9,954 | - | US\$ 439 | US\$ 478 | US\$ (39) | - | US\$ 9,173 |
| | Fnma Pool AV5062 | " | - | - | - | - | - | US\$ 9,975 | - | US\$ 1,309 | US\$ 1,366 | US\$ (57) | - | US\$ 8,457 |
| | Fed Hm Ln Pc Pool G60344 | " | - | - | - | - | - | US\$ 9,385 | - | US\$ 9,351 | US\$ 9,385 | US\$ (34) | - | - |
| | Fnma Pool AS8074 | " | - | - | - | - | - | US\$ 19,967 | - | US\$ 20,007 | US\$ 19,967 | US\$ 40 | - | - |
| | Fed Home Ln Discount Nt. | " | - | - | - | - | - | US\$ 12,496 | - | US\$ 12,504 | US\$ 12,496 | US\$ 8 | - | - |
| | Fnma Tba 15 Yr 2.5 | " | - | - | - | US\$ 3,964 | - | US\$ 11,998 | - | US\$ 16,006 | US\$ 15,978 | US\$ 28 | - | - |
| | <u>Corporate issued asset-backed securities</u> | | | | | | | | | | | | | |
| | Capital One Multi Asset Execution Trust | Available-for-sale financial assets | - | - | - | US\$ 8,961 | - | US\$ 32,785 | - | US\$ 1,999 | US\$ 1,996 | US\$ 3 | - | US\$ 39,626 |
| | Chase Issuance Trust | " | - | - | - | US\$ 15,507 | - | US\$ 21,462 | - | US\$ 5,744 | US\$ 5,753 | US\$ (9) | - | US\$ 31,276 |
| | Discover Card Execution Note Trust | " | - | - | - | US\$ 12,126 | - | US\$ 17,060 | - | US\$ 6,104 | US\$ 6,152 | US\$ (48) | - | US\$ 23,076 |
| | Citibank Credit Card Issuance Trust | " | - | - | - | US\$ 9,756 | - | US\$ 19,801 | - | US\$ 6,850 | US\$ 6,843 | US\$ 7 | - | US\$ 22,585 |
| | Bank of America Credit Card Trust | " | - | - | - | US\$ 4,433 | - | US\$ 13,019 | - | - | - | - | - | US\$ 17,465 |
| | Ford Credit Floorplan Master Owner Trust | " | - | - | - | US\$ 5,922 | - | US\$ 9,465 | - | US\$ 3,459 | US\$ 3,460 | US\$ (1) | - | US\$ 11,944 |

(Continued)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Ending Balance (Note 1) | | |
|--------------|---|-------------------------------------|---------------|------------------------|-----------------------------|-------------|-----------------------------|--------------|-----------------------------|--------------|----------------|-------------------------|-----------------------------|-------------|
| | | | | | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Carrying Value | Gain/Loss on Disposal | Shares/Units (In Thousands) | Amount |
| TSMC Global | <u>Structure product</u> Bank of Tokyo-Mitsubishi UFJ | Held-to-maturity financial assets | - | - | - | US\$ - | - | US\$ 50,000 | - | US\$ - | US\$ - | US\$ - | - | US\$ 50,000 |
| | <u>Fund</u> Primavera Capital Fund II L.P. | Financial assets carried at cost | - | - | - | US\$ 12,017 | - | US\$ 11,767 | - | - | - | - | - | US\$ 23,784 |
| | <u>Money market fund</u> Goldman Sachs US\$ Liquid Reserves Fund | Available-for-sale financial assets | - | - | - | - | 199,144 | US\$ 199,144 | 199,144 | US\$ 199,144 | US\$ 199,144 | - | - | - |

Note 1: The ending balance includes the amortization of premium/discount on bonds investments, share of profits/losses of investees and other related adjustment.

Note 2: The Company restructured the organizational structure to simplify investment structure. Therefore, the acquisition amount was the carrying value of VisEra Holding's investment in VisEra Tech and Xintec, respectively.

(Concluded)

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 YEAR ENDED DECEMBER 31, 2016

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

| Company Name | Types of Property | Transaction Date | Transaction Amount (Foreign Currencies in Thousands) | Payment Term | Counter-party | Nature of Relationships | Prior Transaction of Related Counter-party | | | | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|-------------------|--|--|--|--|-------------------------|--|---------------|---------------|--------|---|------------------------|-------------|
| | | | | | | | Owner | Relationships | Transfer Date | Amount | | | |
| TSMC | Fab | April 15, 2015 to February 17, 2016 | \$ 362,111 | Monthly settlement by the construction progress and acceptance | Environetics Design Group Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| | Fab | September 17, 2015 to January 25, 2016 | 3,201,800 | Monthly settlement by the construction progress and acceptance | DA CIN Construction Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| | Fab | November 20, 2015 to October 26, 2016 | 329,010 | Monthly settlement by the construction progress and acceptance | TASA Construction Corporation | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| | Fab | December 10, 2015 to April 11, 2016 | 3,167,768 | Monthly settlement by the construction progress and acceptance | Fu Tsu Construction Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| | Fab | December 31, 2015 to January 04, 2016 | 1,250,000 | Monthly settlement by the construction progress and acceptance | China Steel Structure Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| | Fab | January 22, 2016 to January 25, 2016 | 750,000 | Monthly settlement by the construction progress and acceptance | KEDGE Construction Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| TSMC Nanjing | Land use right | June 16, 2016 | RMB 160,521 | 100% payment | Nanjing Municipal Bureau of Land and Resources | - | N/A | N/A | N/A | N/A | Bidding | Manufacturing purpose | None |
| | Fab | June 30, 2016 | RMB 899,997 | Monthly settlement by the construction progress and acceptance | China Construction First Division Group Construction & Development Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |
| | Fab | October 17, 2016 | RMB 408,980 | Monthly settlement by the construction progress and acceptance | Shanghai Baoye Group Co., Ltd. | - | N/A | N/A | N/A | N/A | Bidding, price comparison and price negotiation | Manufacturing purpose | None |

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 YEAR ENDED DECEMBER 31, 2016

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

| Company Name | Related Party | Nature of Relationships | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | Note |
|--------------------|--------------------|-------------------------|---------------------|--|------------|---|----------------------|---------------|--|------------|------|
| | | | Purchases/Sales | Amount (Foreign Currencies in Thousands) | % to Total | Payment Terms | Unit Price | Payment Terms | Ending Balance (Foreign Currencies in Thousands) | % to Total | |
| TSMC | TSMC North America | Subsidiary | Sales | \$ 633,917,888 | 65 | Net 30 days from invoice date (Note) | - | Note | \$ 85,874,678 | 67 | |
| | GUC | Associate | Sales | 5,008,684 | 1 | Net 30 days from the end of the month of when invoice is issued | - | - | 931,787 | 1 | |
| | TSMC China | Subsidiary | Purchases | 19,256,773 | 27 | Net 30 days from the end of the month of when invoice is issued | - | - | (1,775,774) | 6 | |
| | WaferTech | Indirect subsidiary | Purchases | 8,531,562 | 12 | Net 30 days from the end of the month of when invoice is issued | - | - | (1,303,795) | 4 | |
| | VIS | Associate | Purchases | 6,732,298 | 10 | Net 30 days from the end of the month of when invoice is issued | - | - | (587,407) | 2 | |
| | SSMC | Associate | Purchases | 3,375,422 | 5 | Net 30 days from the end of the month of when invoice is issued | - | - | (505,655) | 2 | |
| TSMC North America | GUC | Associate of TSMC | Sales | 842,301 (US\$ 26,098) | - | Net 30 days from invoice date | - | - | 37,349 (US\$ 1,160) | - | |

Note: The tenor is 30 days from TSMC's invoice date or determined by the payment terms granted to its clients by TSMC North America.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2016

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

| Company Name | Related Party | Nature of Relationships | Ending Balance (Foreign Currencies in Thousands) | Turnover Days (Note 1) | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|-----------------------|---------------------------|---------------------------------------|--|---------------------------|--------------|--------------|---|----------------------------|
| | | | | | Amount | Action Taken | | |
| TSMC | TSMC North America GUC | Subsidiary Associate | \$ 86,675,335 | 41 | \$ 5,767,087 | - | \$ 14,527,760 | \$ - |
| | | | 931,787 | 52 | 593,265 | - | | |
| TSMC North America | TSMC | Parent company | 200,701 (US\$ 6,233) | Note 2 | - | - | - | - |
| TSMC China | TSMC | Parent company | 1,775,774 (RMB 383,265) | 31 | - | - | - | - |
| | TSMC Nanjing | The same parent company | 4,190,708 (RMB 904,476) | Note 2 | - | - | - | - |
| TSMC Technology | TSMC | Parent company | 209,112 (US\$ 6,494) | Note 2 | - | - | - | - |
| WaferTech | TSMC | The ultimate parent of the Company | 1,303,795 (US\$ 40,492) | 42 | - | - | - | - |
| | TSMC Development | Parent company | 172,015 (US\$ 5,342) | Note 2 | - | - | - | - |

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.

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Intercompany Transactions | | | |
|-----------|------------------|-----------------------------|---------------------------------|--|----------------|----------------|--|
| | | | | Financial Statements Item | Amount | Terms (Note 2) | Percentage of Consolidated Net Revenue or Total Assets |
| 0 | TSMC | TSMC North America | 1 | Net revenue from sale of goods | \$ 633,917,888 | - | 67% |
| | | | | Receivables from related parties | 85,874,678 | - | 5% |
| | | | | Other receivables from related parties | 800,657 | - | - |
| | | | | Payables to related parties | 200,701 | - | - |
| | | TSMC Japan | 1 | Marketing expenses - commission | 262,274 | - | - |
| | | TSMC Europe | 1 | Marketing expenses - commission | 451,801 | - | - |
| | | TSMC China | 1 | Purchases | 19,256,773 | - | 2% |
| | | | | Marketing expenses - commission | 133,704 | - | - |
| | | | | Payables to related parties | 1,775,774 | - | - |
| | | TSMC Canada | 1 | Research and development expenses | 241,163 | - | - |
| | | TSMC Technology | 1 | Research and development expenses | 1,870,324 | - | - |
| | | | | Payables to related parties | 209,112 | - | - |
| WaferTech | 1 | Purchases | 8,531,562 | - | 1% | | |
| | | Payables to related parties | 1,303,795 | - | - | | |
| 1 | TSMC China | TSMC Nanjing | 3 | Other receivables from related parties | 4,190,708 | - | - |
| 2 | TSMC Development | WaferTech | 3 | Other payables from related parties | 172,015 | - | - |

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.

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)
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2016 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Share of Profits/Losses of Investee (Note 1) (Foreign Currencies in Thousands) | Note | |
|--------------------|---|-----------------------------------|--|--|---|---------------------------------|-------------------------|--|---|--|------------|------------|
| | | | | December 31, 2016 (Foreign Currencies in Thousands) | December 31, 2015 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | | | | |
| TSMC | TSMC Global TSMC Partners | Tortola, British Virgin Islands | Investment activities | \$ 232,207,219 | \$ 167,755,236 | 7 | 100 | \$ 265,634,729 | \$ 2,818,659 | \$ 2,818,659 | Subsidiary | |
| | | Tortola, 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 | 51,749,910 | 2,145,629 | 2,145,629 | Subsidiary | |
| | | VIS | Hsin-Chu, Taiwan | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 10,180,677 | 10,180,677 | 464,223 | 28 | 8,806,384 | 5,537,925 | 1,563,446 | Associate |
| | | SSMC VisEra Tech | Singapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 7,163,516 | 4,921,406 | 1,909,013 | Associate |
| | Hsin-Chu, Taiwan | | Engaged in manufacturing electronic spare parts and in researching, developing, designing, manufacturing, selling, packaging and testing of color filter | 5,005,171 | - | 253,120 | 87 | 5,234,883 | 661,562 | 229,712 | Subsidiary | |
| | | TSMC North America | San Jose, California, U.S.A | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 4,340,303 | 195,672 | 195,672 | Subsidiary |
| | | Xintec GUC | Taoyuan, Taiwan | Wafer level chip size packaging service | 1,988,317 | 1,309,969 | 111,282 | 41 | 2,599,807 | (636,819) | (242,999) | Associate |
| | Hsin-Chu, Taiwan | | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,174,181 | 551,082 | 192,426 | Associate | |
| | | VTAF II TSMC Europe | Cayman Islands | Investing in new start-up technology companies | 608,562 | 608,562 | - | 98 | 467,171 | (87,451) | (85,702) | Subsidiary |
| | Amsterdam, the Netherlands | | Marketing and engineering supporting activities | 15,749 | 15,749 | - | 100 | 353,695 | 40,471 | 40,471 | Subsidiary | |
| | | VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,355,417 | 1,499,452 | - | 98 | 219,350 | (13,072) | (12,810) | Subsidiary |
| | | TSMC Japan | Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 132,999 | 3,861 | 3,861 | Subsidiary |
| | | TSMC Korea | Seoul, Korea | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 35,706 | 2,074 | 2,074 | Subsidiary |
| | | TSMC Solar Europe GmbH | Hamburg, Germany | Selling of solar related products and providing customer service | 25,266 | 25,266 | 1 | 100 | (6,328) | (7,810) | (7,810) | Subsidiary |
| | | VTA Holdings Emerging Alliance | Delaware, U.S.A | Investing in new start-up technology companies | - | - | - | 7 | - | - | - | Subsidiary |
| | Cayman Islands | | Investing in new start-up technology companies | - | 844,775 | - | - | - | (313) | (311) | Subsidiary | |
| | | Chi Cherng Motech | Taipei, Taiwan | Investment activities | Note 4 | 394,674 | Note 4 | Note 4 | Note 4 | 1,612 | 1,612 | Note 4 |
| 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 | | Note 3 | 5,221,931 | Note 3 | Note 3 | Note 3 | Note 3 | 93,030 | Note 3 | | |
| TSMC Partners | TSMC Development | Delaware, U.S.A | Investment activities | 18,898,843 (US\$ 586,939) | 18,898,843 (US\$ 586,939) | - | 100 | 27,109,843 (US\$ 841,947) | 1,606,936 (US\$ 49,790) | Note 2 | Subsidiary | |
| | TSMC Technology | Delaware, U.S.A | Engineering support activities | 459,867 (US\$ 14,282) | 459,867 (US\$ 14,282) | - | 100 | 543,177 (US\$ 16,869) | 9,719 (US\$ 301) | Note 2 | Subsidiary | |
| | ISDF II | Cayman Islands | Investing in new start-up technology companies | 167,236 (US\$ 5,194) | 299,419 (US\$ 9,299) | 9,299 | 97 | 195,721 (US\$ 6,078) | 2,925 (US\$ 91) | Note 2 | Subsidiary | |
| | TSMC Canada | Ontario, Canada | Engineering support activities | 74,058 (US\$ 2,300) | 74,058 (US\$ 2,300) | 2,300 | 100 | 168,346 (US\$ 5,228) | 14,870 (US\$ 461) | Note 2 | Subsidiary | |
| | ISDF | Cayman Islands | Investing in new start-up technology companies | 15,301 (US\$ 475) | 18,772 (US\$ 583) | 583 | 97 | 489 (US\$ 15) | (69) (US\$ (2)) | Note 2 | Subsidiary | |

(Continued)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2016 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Share of Profits/Losses of Investee (Note 1) (Foreign Currencies in Thousands) | Note |
|------------------|------------------|--------------------|--|---|---|---------------------------------|-------------------------|--|---|--|------------|
| | | | | December 31, 2016 (Foreign Currencies in Thousands) | December 31, 2015 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | | | |
| TSMC Partners | VisEra Holding | Cayman Islands | Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry | Note 5 | \$ 4,868,630 (US\$ 151,204) | Note 5 | Note 5 | Note 5 | \$ 351,135 (US\$ 10,880) | Note 2 | Note 5 |
| VTAF III | Growth Fund | Cayman Islands | Investing in new start-up technology companies | \$ 47,067 (US\$ 1,462) | 47,067 (US\$ 1,462) | - | 100 | \$ 29,486 (US\$ 916) | 3,901 (US\$ 121) | Note 2 | Subsidiary |
| | Mutual-Pak | New Taipei, Taiwan | Manufacturing of electronic parts, wholesaling and retailing of electronic materials, and researching, developing and testing of RFID | 167,843 (US\$ 5,213) | 167,843 (US\$ 5,213) | 15,643 | 58 | 21,725 (US\$ 675) | 2,526 (US\$ 78) | Note 2 | Subsidiary |
| | VTA Holdings | Delaware, U.S.A | Investing in new start-up technology companies | - | - | - | 62 | - | - | Note 2 | Subsidiary |
| VTAF II | VTA Holdings | Delaware, U.S.A | Investing in new start-up technology companies | - | - | - | 31 | - | - | Note 2 | Subsidiary |
| TSMC Development | WaferTech | Washington, U.S.A | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | - | - | 293,637 | 100 | 5,785,335 (US\$ 179,674) | 1,483,317 (US\$ 45,960) | Note 2 | Subsidiary |
| VisEra Holding | VisEra Tech | Hsin-Chu, Taiwan | Engaged in manufacturing electronic spare parts and in researching, developing, designing, manufacturing, selling, packaging and testing of color filter | Note 5 | 3,028,916 (US\$ 94,069) | Note 5 | Note 5 | Note 5 | 661,562 (US\$ 20,498) | Note 2 | Note 5 |
| | Xintec | Taoyuan, Taiwan | Wafer level chip size packaging service | Note 5 | 195,864 (US\$ 6,083) | Note 5 | Note 5 | Note 5 | (636,819) (US\$ (19,732)) | Note 2 | Note 5 |

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: The Company has no longer served as Motech's board of director starting June 2016. 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.

Note 4: Chi Cherng was incorporated into TSMC in December 2016.

Note 5: In October 2016, VisEra Holding was incorporated into TSMC Partners, the subsidiary of TSMC.

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
**INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR TWELVE MONTHS ENDED DECEMBER 31, 2016**
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Investee Company | Main Businesses and Products | Total Amount of Paid-in Capital (RMB in Thousands) | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2016 (US\$ in Thousands) | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of December 31, 2016 (US\$ in Thousands) | Net Income (Losses) of the Investee Company | Percentage of Ownership | Share of Profits/Losses | Carrying Amount as of December 31, 2016 | Accumulated Inward Remittance of Earnings as of December 31, 2016 |
|------------------|--|--|----------------------|---|-----------------------------|--------|---|---|-------------------------|--------------------------|---|---|
| | | | | | Outflow (US\$ in Thousands) | Inflow | | | | | | |
| TSMC China | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | \$ 18,939,667 (RMB 4,502,080) | Note 1 | \$ 18,939,667 (US\$ 596,000) | \$ - | \$ - | \$ 18,939,667 (US\$ 596,000) | \$ 6,181,335 | 100% | \$ 6,094,460 (Note 2) | \$ 42,618,308 | \$ - |
| TSMC Nanjing | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | 6,435,200 (RMB 1,366,240) | Note 1 | - | 6,435,200 (US\$ 200,000) | - | 6,435,200 (US\$ 200,000) | 939 | 100% | 939 (Note 2) | 6,331,094 | - |

| Accumulated Investment in Mainland China as of December 31, 2016 (US\$ in Thousands) | Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands) | Upper Limit on Investment |
|--|--|---------------------------|
| \$ 25,374,867 (US\$ 796,000) | \$ 119,412,667 (US\$3,596,000) | Note 3 |

Note 1: TSMC directly invested US\$596,000 thousand in TSMC China and US\$200,000 thousands in TSMC Nanjing.

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

Note 3: As the Company has obtained the certificate of being qualified for operating headquarters issued by Industrial Development Bureau, MOEA on August 2016, the upper limit on investment in mainland China pursuant to "Principle of Investment or Technical Cooperation in Mainland China" is not applicable.