

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
May 17, 2016

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of May 2016

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

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

Taiwan Semiconductor Manufacturing Company Ltd.

Date: May 17, 2016

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

**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries**

**Consolidated Financial Statements for the
Three Months Ended March 31, 2016 and 2015 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries (the Company) as of March 31, 2016 and 2015 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

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

May 10, 2016

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

| | March 31, 2016 (Reviewed) | | December 31, 2015 (Audited) | | March 31, 2015 (Reviewed) | |
|--|------------------------------|----|--------------------------------|----|------------------------------|----|
| | Amount | % | Amount | % | Amount | % |
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | \$ 617,984,318 | 36 | \$ 562,688,930 | 34 | \$ 437,412,411 | 28 |
| Financial assets at fair value through profit or loss (Note 7) | 618,810 | | 6,026 | | 297,698 | |
| Available-for-sale financial assets (Note 8) | 22,232,905 | 1 | 14,299,361 | 1 | 68,204,390 | 5 |
| Held-to-maturity financial assets (Note 9) | 7,561,182 | 1 | 9,166,523 | 1 | 13,060,038 | 1 |
| Hedging derivative financial assets (Note 10) | | | 1,739 | | | |
| Notes and accounts receivable, net (Note 11) | 96,273,270 | 6 | 85,059,675 | 5 | 98,529,745 | 6 |
| Receivables from related parties (Note 32) | 683,818 | | 505,722 | | 592,021 | |
| Other receivables from related parties (Note 32) | 141,009 | | 125,018 | | 162,908 | |
| Inventories (Notes 12 and 36) | 57,242,320 | 3 | 67,052,270 | 4 | 64,599,666 | 4 |
| Other financial assets (Notes 4, 33 and 36) | 7,057,944 | | 4,305,358 | | 3,946,604 | |
| Other current assets (Note 17) | 2,695,531 | | 3,533,369 | | 3,688,211 | |
| Total current assets | 812,491,107 | 47 | 746,743,991 | 45 | 690,493,692 | 44 |
| NONCURRENT ASSETS | | | | | | |
| Held-to-maturity financial assets (Note 9) | 17,525,301 | 1 | 6,910,873 | | | |
| Financial assets carried at cost (Note 13) | 4,093,568 | | 3,990,882 | | 1,817,677 | |
| Investments accounted for using equity method (Note 14) | 24,715,683 | 1 | 24,091,828 | 2 | 30,363,144 | 2 |
| Property, plant and equipment (Note 15) | 844,305,450 | 49 | 853,470,392 | 52 | 813,219,884 | 52 |
| Intangible assets (Note 16) | 13,989,513 | 1 | 14,065,880 | 1 | 13,138,963 | 1 |

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| | | | | | | |
|-------------------------------------|-------------------------|------------|-------------------------|-------------|-------------------------|------------|
| Deferred income tax assets (Note 4) | 7,561,741 | 1 | 6,384,974 | 6,246,031 | 1 | |
| Refundable deposits | 443,337 | | 430,802 | 442,633 | | |
| Other noncurrent assets (Note 17) | 1,399,936 | | 1,428,676 | 1,173,031 | | |
| Total noncurrent assets | 914,034,529 | 53 | 910,774,307 | 866,401,363 | 56 | |
| TOTAL | \$ 1,726,525,636 | 100 | \$ 1,657,518,298 | 100 | \$ 1,556,895,055 | 100 |

LIABILITIES AND EQUITY

CURRENT LIABILITIES

| | | | | | | |
|---|---------------|----|---------------|----|---------------|----|
| Short-term loans (Note 18) | \$ 34,690,040 | 2 | \$ 39,474,000 | 2 | \$ 18,683,595 | 1 |
| Financial liabilities at fair value through profit or loss (Note 7) | 16 | | 72,610 | | 64,929 | |
| Hedging derivative financial liabilities (Note 10) | 458 | | | | 11,627,838 | 1 |
| Accounts payable | 18,513,952 | 1 | 18,575,286 | 1 | 18,595,310 | 1 |
| Payables to related parties (Note 32) | 1,115,073 | | 1,149,988 | | 1,609,613 | |
| Salary and bonus payable | 8,580,300 | 1 | 11,702,042 | 1 | 8,032,667 | 1 |
| Accrued profit sharing bonus to employees and compensation to directors and supervisors (Notes 22 and 28) | 25,395,073 | 1 | 20,958,893 | 1 | 23,436,465 | 1 |
| Payables to contractors and equipment suppliers | 33,953,061 | 2 | 26,012,192 | 2 | 27,372,814 | 2 |
| Income tax payable (Note 4) | 41,474,426 | 2 | 32,901,106 | 2 | 38,954,401 | 2 |
| Provisions (Note 19) | 10,090,163 | 1 | 10,163,536 | 1 | 8,130,817 | 1 |
| Long-term liabilities - current portion (Note 20) | 33,272,901 | 2 | 23,517,612 | 1 | | |
| Accrued expenses and other current liabilities (Note 21) | 28,807,760 | 2 | 27,701,329 | 2 | 31,056,696 | 2 |
| Total current liabilities | 235,893,223 | 14 | 212,228,594 | 13 | 187,565,145 | 12 |

NONCURRENT LIABILITIES

| | | | | | | |
|--|-------------|----|-------------|----|-------------|----|
| Bonds payable (Note 20) | 181,151,058 | 11 | 191,965,082 | 12 | 213,208,771 | 14 |
| Long-term bank loans | 30,000 | | 32,500 | | 40,000 | |
| Deferred income tax liabilities (Note 4) | 13,831 | | 31,271 | | 159,538 | |
| Obligations under finance leases | | | | | 799,612 | |
| Net defined benefit liability (Note 4) | 7,437,455 | | 7,448,026 | | 6,553,652 | |
| Guarantee deposits (Note 21) | 19,492,280 | 1 | 21,564,801 | 1 | 23,715,049 | 2 |
| Others (Note 19) | 1,561,713 | | 1,613,545 | | 937,535 | |
| Total noncurrent liabilities | 209,686,337 | 12 | 222,655,225 | 13 | 245,414,157 | 16 |
| Total liabilities | 445,579,560 | 26 | 434,883,819 | 26 | 432,979,302 | 28 |

| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | | |
|---|------------------|-----|------------------|-----|------------------|-----|
| Capital stock (Note 22) | 259,303,805 | 15 | 259,303,805 | 16 | 259,303,020 | 17 |
| Capital surplus (Note 22) | 56,317,375 | 3 | 56,300,215 | 3 | 56,274,436 | 4 |
| Retained earnings (Note 22) | | | | | | |
| Appropriated as legal capital reserve | 177,640,561 | 11 | 177,640,561 | 11 | 151,250,682 | 10 |
| Unappropriated earnings | 781,434,518 | 45 | 716,653,025 | 43 | 632,904,503 | 40 |
| | 959,075,079 | 56 | 894,293,586 | 54 | 784,155,185 | 50 |
| Others (Note 22) | 5,276,848 | | 11,774,113 | 1 | 24,110,858 | 1 |
| Equity attributable to shareholders of the parent | | | | | | |
| | 1,279,973,107 | 74 | 1,221,671,719 | 74 | 1,123,843,499 | 72 |
| NONCONTROLLING INTERESTS | | | | | | |
| | 972,969 | | 962,760 | | 72,254 | |
| Total equity | | | | | | |
| | 1,280,946,076 | 74 | 1,222,634,479 | 74 | 1,123,915,753 | 72 |
| TOTAL | | | | | | |
| | \$ 1,726,525,636 | 100 | \$ 1,657,518,298 | 100 | \$ 1,556,895,055 | 100 |

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In Thousands of New Taiwan Dollars, Except Earnings Per Share)****(Reviewed, Not Audited)**

| | Three Months Ended March 31 | | | |
|--|------------------------------------|----------|----------------|----------|
| | 2016 | | 2015 | |
| | Amount | % | Amount | % |
| NET REVENUE (Notes 24, 32 and 38) | \$ 203,495,361 | 100 | \$ 222,034,144 | 100 |
| COST OF REVENUE (Notes 12, 28, 32 and 36) | 112,124,894 | 55 | 112,585,333 | 51 |
| GROSS PROFIT BEFORE UNREALIZED GROSS PROFIT ON SALES TO ASSOCIATES | 91,370,467 | 45 | 109,448,811 | 49 |
| UNREALIZED GROSS PROFIT ON SALES TO ASSOCIATES | (32,889) | | (19,547) | |
| GROSS PROFIT | 91,337,578 | 45 | 109,429,264 | 49 |
| OPERATING EXPENSES (Notes 28 and 32) | | | | |
| Research and development | 15,618,963 | 7 | 16,781,463 | 7 |
| General and administrative | 3,844,935 | 2 | 4,366,053 | 2 |
| Marketing | 1,415,099 | 1 | 1,390,996 | 1 |
| Total operating expenses | 20,878,997 | 10 | 22,538,512 | 10 |
| OTHER OPERATING INCOME AND EXPENSES, NET (Note 28) | 8,733 | | (264,629) | |
| INCOME FROM OPERATIONS (Note 38) | 70,467,314 | 35 | 86,626,123 | 39 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profits of associates and joint venture | 840,895 | | 1,134,649 | 1 |
| Other income | 1,332,589 | 1 | 881,782 | |
| Foreign exchange gain (loss), net (Note 37) | (1,093,618) | (1) | 48,183 | |
| Finance costs | (850,580) | | (793,942) | |
| Other gains and losses (Note 25) | 1,559,299 | 1 | 362,185 | |
| Total non-operating income and expenses | 1,788,585 | 1 | 1,632,857 | 1 |

| | | | | |
|-------------------------------------|------------|----|------------|----|
| INCOME BEFORE INCOME TAX | 72,255,899 | 36 | 88,258,980 | 40 |
| INCOME TAX EXPENSE (Notes 4 and 26) | 7,463,302 | 4 | 9,275,072 | 4 |
| NET INCOME | 64,792,597 | 32 | 78,983,908 | 36 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

| | Three Months Ended March 31 | | | |
|---|-------------------------------|-----------|-------------------------------|-----------|
| | 2016 | | 2015 | |
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME (LOSS) (Notes 22 and 26) | | | | |
| Items that may be reclassified subsequently to profit or loss | | | | |
| Exchange differences arising on translation of foreign operations | \$ (6,593,053) | (3) | \$ (2,279,138) | (1) |
| Changes in fair value of available-for-sale financial assets | 51,294 | | (204,815) | |
| Share of other comprehensive income of associates and joint venture | 26,157 | | 843,163 | |
| Income tax benefit (expense) related to items that may be reclassified subsequently | 17,440 | | (4,793) | |
| Other comprehensive loss for the period, net of income tax | (6,498,162) | (3) | (1,645,583) | (1) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | \$ 58,294,435 | 29 | \$ 77,338,325 | 35 |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | \$ 64,781,493 | 32 | \$ 78,989,911 | 36 |
| Noncontrolling interests | 11,104 | | (6,003) | |
| | \$ 64,792,597 | 32 | \$ 78,983,908 | 36 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | \$ 58,284,228 | 29 | \$ 77,351,478 | 35 |
| Noncontrolling interests | 10,207 | | (13,153) | |
| | \$ 58,294,435 | 29 | \$ 77,338,325 | 35 |
| | 2016 | | 2015 | |
| | Income Attributable to | | Income Attributable to | |
| | Shareholders of | | Shareholders of | |

| | the Parent | | the Parent | |
|---|-------------------|------|-------------------|------|
| EARNINGS PER SHARE (NT\$, Note 27) | | | | |
| Basic earnings per share | \$ | 2.50 | \$ | 3.05 |
| Diluted earnings per share | \$ | 2.50 | \$ | 3.05 |

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)

(Reviewed, Not Audited)

| Equity Attributable to Shareholders of the Parent | | | | Others | | | | | |
|---|-----------------------|-------------------------|----------------|--------------------------------------|---|--------------------------|----------|---------------|--------|
| Capital Surplus | Legal Capital Reserve | Retained Earnings | | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total | | |
| | | Unappropriated Earnings | Total | | | | | | |
| 05 | \$ 56,300,215 | \$ 177,640,561 | \$ 716,653,025 | \$ 894,293,586 | \$ 11,039,949 | \$ 734,771 | \$ (607) | \$ 11,774,113 | \$ 1,2 |
| | | | 64,781,493 | 64,781,493 | | | | | |
| | | | | | (6,587,294) | 89,938 | 91 | (6,497,265) | |
| | | | 64,781,493 | 64,781,493 | (6,587,294) | 89,938 | 91 | (6,497,265) | |
| | 17,160 | | | | | | | | |

05 \$ 56,317,375 \$ 177,640,561 \$ 781,434,518 \$ 959,075,079 \$ 4,452,655 \$ 824,709 \$ (516) \$ 5,276,848 \$ 1,2

24 \$ 55,989,922 \$ 151,250,682 \$ 553,914,592 \$ 705,165,274 \$ 4,502,113 \$ 21,247,483 \$ (305) \$ 25,749,291 \$ 1,0

78,989,911 78,989,911

(2,258,112) 619,879 (200) (1,638,433)

78,989,911 78,989,911 (2,258,112) 619,879 (200) (1,638,433)

06 23,793

261,752

(1,031)

20 \$ 56,274,436 \$ 151,250,682 \$ 632,904,503 \$ 784,155,185 \$ 2,244,001 \$ 21,867,362 \$ (505) \$ 24,110,858 \$ 1,1

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

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | Three Months Ended March 31 | |
|--|------------------------------------|---------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | \$ 72,255,899 | \$ 88,258,980 |
| Adjustments for: | | |
| Depreciation expense | 54,950,729 | 54,706,227 |
| Amortization expense | 896,332 | 771,769 |
| Finance costs | 850,580 | 793,942 |
| Share of profits of associates and joint venture | (840,895) | (1,134,649) |
| Interest income | (1,332,589) | (881,782) |
| Loss (gain) on disposal of property, plant and equipment, net | (8,235) | 4,081 |
| Loss (gain) on disposal of available-for-sale financial assets, net | 10,829 | (2,961) |
| Gain on disposal of financial assets carried at cost, net | (14,381) | (42,243) |
| Unrealized gross profit on sales to associates | 32,889 | 19,547 |
| Gain on foreign exchange, net | (1,293,976) | (1,054,551) |
| Loss (gain) from hedging instruments | 11,870 | (4,592,076) |
| Loss (gain) arising from changes in fair value of available-for-sale financial assets in hedge effective portion | (10,625) | 4,602,284 |
| Changes in operating assets and liabilities: | | |
| Derivative financial instruments | (685,378) | (526,938) |
| Notes and accounts receivable, net | (12,473,495) | 16,205,075 |
| Receivables from related parties | (178,096) | (279,066) |
| Other receivables from related parties | (15,991) | 15,717 |
| Inventories | 9,809,950 | 1,738,305 |
| Other financial assets | (3,129,147) | (425,720) |
| Other current assets | 837,838 | (32,060) |
| Accounts payable | 3,728 | (2,573,738) |
| Payables to related parties | (7,283) | 118,123 |
| Salary and bonus payable | (3,121,742) | (2,541,255) |
| Accrued profit sharing bonus to employees and compensation to directors and supervisors | 4,436,180 | 5,383,645 |
| Accrued expenses and other current liabilities | 760,672 | (82,857) |
| Provisions | (64,147) | (2,314,512) |
| Net defined benefit liability | (10,571) | (14,130) |
| Cash generated from operations | 121,670,945 | 156,119,157 |
| Income taxes paid | (142,092) | (118,496) |

| | | |
|--|-------------|-------------|
| Net cash generated by operating activities | 121,528,853 | 156,000,661 |
|--|-------------|-------------|

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of:

| | | |
|-------------------------------------|--------------|-------------|
| Available-for-sale financial assets | (11,171,713) | |
| Held-to-maturity financial assets | (12,439,373) | (9,372,767) |
| Financial assets carried at cost | (187,378) | (31,533) |

(Continued)

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

| | Three Months Ended March 31 | |
|---|------------------------------------|------------------|
| | 2016 | 2015 |
| Property, plant and equipment | \$ (38,141,373) | \$ (48,875,682) |
| Intangible assets | (1,003,705) | (1,151,372) |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | 2,943,420 | 36,021 |
| Held-to-maturity financial assets | 3,000,000 | 800,000 |
| Financial assets carried at cost | 14,381 | 9,125 |
| Property, plant and equipment | 12,470 | 30,161 |
| Derecognition of hedging derivative financial instrument | (9,647) | |
| Interest received | 1,541,119 | 874,723 |
| Net cash inflow from disposal of subsidiary (Note 30) | | 601,047 |
| Refundable deposits paid | (55,609) | (189,442) |
| Refundable deposits refunded | 47,608 | 101,714 |
| Decrease in receivables for temporary payments | 102,433 | |
| Net cash used in investing activities | (55,347,367) | (57,168,005) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in short-term loans | (4,114,866) | (17,341,135) |
| Interest paid | (689,803) | (861,616) |
| Guarantee deposits received | 200,080 | 176,072 |
| Guarantee deposits refunded | (202,243) | (174,920) |
| Proceeds from exercise of employee stock options | | 30,189 |
| Decrease in noncontrolling interests | | (179) |
| Net cash used in financing activities | (4,806,832) | (18,171,589) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | |
| | (6,079,266) | (1,779,163) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 55,295,388 | 78,881,904 |
| CASH AND CASH EQUIVALENTS INCLUDED IN NONCURRENT ASSETS HELD FOR SALE, BEGINNING OF PERIOD | | 81,478 |

| | | |
|---|----------------|----------------|
| CASH AND CASH EQUIVALENT ON CONSOLIDATED BALANCE SHEET, BEGINNING OF PERIOD | 562,688,930 | 358,449,029 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 617,984,318 | \$ 437,412,411 |

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 THREE MONTHS ENDED MARCH 31, 2016 and 2015

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

(Reviewed, Not Audited)

1. GENERAL

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

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

The address of its registered office and principal place of business is No. 8, Li-Hsin Rd. 6, Hsinchu Science Park, Taiwan. The principal operating activities and operating segments information of TSMC and its subsidiaries (collectively as the Company) are described in Notes 4 and 38.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were reported to the Board of Directors and issued on May 10, 2016.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has not applied the following International Financial Reporting Standards (IFRS), International Accounting Standards (IASs), Interpretations of International Financial Reporting Standards, and Interpretations of IASs (collectively, IFRSs) issued by the International Accounting Standards Board (IASB) but not endorsed by the Financial Supervisory Commission (FSC). On March 10, 2016, the FSC preannounced the scope of IFRSs to be endorsed and will take effect from January 1, 2017. The scope includes all IFRSs that were issued by the IASB before January 1, 2016 and have effective dates on or before January 1, 2017, which means the scope excludes those that are not yet effective as of January 1, 2017 such as IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and those with undetermined effective dates. In addition, the FSC announced that an entity should apply IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were issued, the FSC has not announced the effective dates of other new, amended and revised standards and interpretations.

| 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) |
| IFRS 9 Financial Instruments | January 1, 2018 |

(Continued)

| New, Revised or Amended Standards and Interpretations | Effective Date Issued by IASB (Note 1) |
|--|---|
| 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 | Effective date to be determined by IASB |
| 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 |
| 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 1 Disclosure Initiative | January 1, 2016 |
| Amendment to IAS 7 Disclosure Initiative | January 1, 2017 |
| Amendment to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses | January 1, 2017 |
| 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 |

(Concluded)

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

a. 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:

- 1) 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.

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

b. 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.

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c. 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.

d. Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2015.

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 IAS 34, Interim Financial Reporting, endorsed by the FSC. The consolidated financial statements do not present all the disclosures required for a complete set of annual consolidated financial statements prepared under the IFRSs.

Basis of ConsolidationThe basis for the consolidated financial statements

The basis for the consolidated financial statements applied in these consolidated financial statements is consistent with those applied in the consolidated financial statements for the year ended December 31, 2015.

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 |
|------------------|---|--|--------------------------------------|-------------------------|-------------------|----------------|------|
| | | | | March 31, 2016 | December 31, 2015 | March 31, 2015 | |
| TSMC | TSMC North America | Selling and marketing of integrated circuits and semiconductor devices | San Jose, California, U.S.A. | 100% | 100% | 100% | |
| | TSMC Japan Limited (TSMC Japan) | Marketing activities | Yokohama, Japan | 100% | 100% | 100% | a) |
| | TSMC Partners, Ltd. (TSMC Partners) | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | Tortola, British Virgin Islands | 100% | 100% | 100% | a) |
| | TSMC Korea Limited (TSMC Korea) | Customer service and technical supporting activities | Seoul, Korea | 100% | 100% | 100% | a) |
| | TSMC Europe B.V. (TSMC Europe) | Marketing and engineering supporting activities | Amsterdam, the Netherlands | 100% | 100% | 100% | a) |
| | TSMC Global, Ltd. (TSMC Global) | Investment activities | Tortola, British Virgin Islands | 100% | 100% | 100% | |
| | TSMC China Company Limited (TSMC China) | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by | Shanghai, China | 100% | 100% | 100% | |

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| | customers | | | | | | |
|---------------|--|--|-------------------|-------|-------|-------|------------|
| | VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | 98% | 98% | 98% | a) |
| | VentureTech Alliance Fund II, L.P. (VTAF II) | Investing in new start-up technology companies | Cayman Islands | 98% | 98% | 98% | a) |
| | Emerging Alliance Fund, L.P. (Emerging Alliance) | Investing in new start-up technology companies | Cayman Islands | 99.5% | 99.5% | 99.5% | a), b) |
| | TSMC Solar Ltd. (TSMC Solar) | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | Tai-Chung, Taiwan | | | 99% | c) |
| | TSMC Guang Neng Investment, Ltd. (TSMC GN) | Investment activities | Taipei, Taiwan | | | 100% | c) |
| | TSMC Solar Europe GmbH | Selling of solar related products and providing customer service | Hamburg, Germany | 100% | 100% | | a), c), d) |
| | Chi Cherng Investment Co., Ltd. (Chi Cherng) | Investment activities | Taipei, Taiwan | 100% | 100% | | e), f) |
| TSMC Partners | TSMC Design Technology Canada Inc. (TSMC Canada) | Engineering support activities | Ontario, Canada | 100% | 100% | 100% | a) |
| | TSMC Technology, Inc. (TSMC Technology) | Engineering support activities | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| | TSMC Development, Inc. (TSMC Development) | Investment activities | Delaware, U.S.A. | 100% | 100% | 100% | |
| | InveStar Semiconductor Development | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | 97% | a) |

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| | | | | | | | |
|---|---|---|----------------------------|------|------|------|--------|
| | Fund, Inc. (ISDF) | | | | | | |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | 97% | a) |
| | VisEra Holding Company (VisEra Holding) | Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry | Cayman Islands | 98% | 98% | 49% | a), e) |
| TSMC Development | WaferTech, LLC (WaferTech) | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | Washington, U.S.A. | 100% | 100% | 100% | |
| VTAF III | Mutual-Pak Technology Co., Ltd. (Mutual-Pak) | Manufacturing of electronic parts, wholesaling and retailing of electronic materials, and researching, developing and testing of RFID | New Taipei, Taiwan | 58% | 58% | 58% | |
| | Growth Fund Limited (Growth Fund) | Investing in new start-up technology companies | Cayman Islands | 100% | 100% | 100% | a) |
| VTAF III, VTAF II and Emerging Alliance | VentureTech Alliance Holdings, LLC (VTA Holdings) | Investing in new start-up technology companies | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| TSMC Solar | TSMC Solar North America, Inc. (TSMC Solar NA) | Selling and marketing of solar related products | Delaware, U.S.A. | | | 100% | a), c) |
| | TSMC Solar Europe B.V. (TSMC Solar Europe) | Investing in solar related business | Amsterdam, the Netherlands | | | 100% | a), d) |

(Continued)

| Name of Investor | Name of Investee | Main Businesses and Products | Establishment and Operating Location | Percentage of Ownership | | | Note |
|-------------------|--|--|--------------------------------------|-------------------------|-------------------|----------------|------------|
| | | | | March 31, 2016 | December 31, 2015 | March 31, 2015 | |
| TSMC Solar Europe | TSMC Solar Europe GmbH | Selling of solar modules and related products and providing customer service | Hamburg, Germany | | | 100% | a), c), d) |
| VisEra Holding | 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% | 87% | 87% | e) |

(Concluded)

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

Note b: Due to the expiration of the investment agreement between Emerging Alliance and TSMC, Emerging Alliance completed the liquidation procedures in April 2016.

Note c: In August 2015, TSMC Solar ceased its manufacturing operations. TSMC Solar and TSMC GN were incorporated into TSMC in December 2015. After the incorporation, TSMC Solar Europe GmbH, the 100% owned subsidiary of TSMC Solar, is held directly by TSMC and TSMC Solar Europe GmbH has started the liquidation procedures. TSMC Solar NA, the 100% owned subsidiary of TSMC Solar, completed the liquidation procedures in December 2015.

Note d: To simplify overseas investments structure, in the second quarter of 2014, the Board of Directors of TSMC Solar approved to file for the liquidation of TSMC Solar Europe. The liquidation procedure was completed in the second quarter of 2015 and TSMC Solar Europe GmbH, the 100% owned subsidiary of TSMC Solar Europe, was held directly by TSMC Solar.

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 29.

Note f: OVT Taiwan that originally acquired by the Company was renamed as Chi Cherng in December 2015. Under an 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 wholly-owned subsidiary managing a 300mm wafer fab and design service center.

Retirement Benefits

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

Taxation

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

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.

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

The same critical accounting judgments and key sources of estimates and uncertainty have been followed in these consolidated financial statements as were applied in the preparation of the Company's consolidated financial statements for the year ended December 31, 2015.

6. CASH AND CASH EQUIVALENTS

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|---|-------------------|----------------------|-------------------|
| Cash and deposits in banks | \$ 610,578,696 | \$ 557,270,910 | \$ 432,069,913 |
| Repurchase agreements collateralized by corporate bonds | 7,005,622 | 5,132,778 | 3,629,594 |
| Repurchase agreements collateralized by government bonds | 400,000 | 285,242 | 264,590 |
| Repurchase agreements collateralized by short-term commercial paper | | | 448,784 |
| Commercial paper | | | 999,530 |
| | \$ 617,984,318 | \$ 562,688,930 | \$ 437,412,411 |

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

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|--|-------------------|----------------------|-------------------|
| <u>Derivative financial assets</u> | | | |
| Forward exchange contracts | \$ 618,810 | \$ 6,026 | \$ 297,698 |
| <u>Derivative financial liabilities</u> | | | |
| Forward exchange contracts | \$ 16 | \$ 72,610 | \$ 64,601 |
| Cross currency swap contracts | | | 328 |
| | \$ 16 | \$ 72,610 | \$ 64,929 |

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:

Contract Amount

| | Maturity Date | (In Thousands) |
|--------------------------|-------------------------------|------------------------------|
| <u>March 31, 2016</u> | | |
| Sell US\$/Buy JPY | April 2016 | US\$500/JPY56,125 |
| Sell US\$/Buy RMB | April 2016 | US\$193,000/RMB1,255,743 |
| Sell US\$/Buy NT\$ | April 2016 to May 2016 | US\$1,092,000/NT\$35,729,464 |
| <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 |

(Continued)

| | Maturity Date | Contract Amount (In Thousands) |
|-----------------------|-------------------------|-----------------------------------|
| <u>March 31, 2015</u> | | |
| Sell EUR/Buy US\$ | April 2015 | EUR5,420/US\$5,794 |
| Sell NT\$/Buy US\$ | June 2015 | NT\$1,777,048/US\$56,000 |
| Sell US\$/Buy EUR | April 2015 | US\$20,640/EUR19,000 |
| Sell US\$/Buy JPY | April 2015 | US\$2,000/JPY240,130 |
| Sell US\$/Buy NT\$ | April 2015 to June 2015 | US\$1,965,000/NT\$61,740,851 |
| Sell US\$/Buy RMB | April 2015 | US\$177,000/RMB1,103,996 |
| | | (Concluded) |

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|-----------------------|-----------------------------------|------------------------------------|--|
| <u>March 31, 2015</u> | | | |
| April 2015 | NT\$2,758,469/US\$88,130 | | 0.02% |

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|--|-------------------|----------------------|-------------------|
| Corporate bonds | \$ 9,343,220 | \$ 6,267,768 | \$ |
| Corporate issued asset-backed securities | 5,618,046 | 3,154,366 | |
| Agency bonds | 5,507,441 | 2,627,367 | |
| Publicly traded stocks | 1,255,493 | 1,371,483 | 68,204,002 |
| Government bonds | 508,705 | 878,377 | |
| Money market funds | | | 388 |
| | \$ 22,232,905 | \$ 14,299,361 | \$ 68,204,390 |

9. HELD-TO-MATURITY FINANCIAL ASSETS

| March 31, | December 31, 2015 | March 31, 2015 |
|-----------|----------------------|-------------------|
|-----------|----------------------|-------------------|

2016

| | | | |
|-----------------------------------|---------------|---------------|---------------|
| Corporate bonds/Bank debentures | \$ 16,860,145 | \$ 8,143,146 | \$ |
| Negotiable certificate of deposit | 4,827,000 | 4,934,250 | |
| Structured product | 3,000,000 | 3,000,000 | |
| Commercial paper | 399,338 | | 13,060,038 |
| | \$ 25,086,483 | \$ 16,077,396 | \$ 13,060,038 |
| Current portion | \$ 7,561,182 | \$ 9,166,523 | \$ 13,060,038 |
| Noncurrent portion | 17,525,301 | 6,910,873 | |
| | \$ 25,086,483 | \$ 16,077,396 | \$ 13,060,038 |

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

| | March 31, | December 31, | March 31, |
|--|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| <u>Financial assets - current</u> | | | |
| Fair value hedges | | | |
| Interest rate futures contracts | \$ | \$ 1,739 | \$ |
| <u>Financial liabilities - current</u> | | | |
| Fair value hedges | | | |
| Interest rate futures contracts | \$ 458 | \$ | \$ |
| Stock forward contracts | | | 11,627,838 |
| | \$ 458 | \$ | \$ 11,627,838 |

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>March 31, 2016</u> | |
| June 2016 | US\$ 8,000 |
| <u>December 31, 2015</u> | |
| March 2016 | US\$ 13,800 |

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

The outstanding stock forward contracts consisted of the following:

| | March 31, | December 31, | March 31, |
|-------------------------------------|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| Contract amount (US\$ in thousands) | \$ | \$ | \$ 55,611,164 |

11. NOTES AND ACCOUNTS RECEIVABLE, NET

| | March 31, | December 31, | March 31, |
|------------------------------------|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| Notes and accounts receivable | \$ 96,761,458 | \$ 85,547,926 | \$ 99,016,398 |
| Allowance for doubtful receivables | (488,188) | (488,251) | (486,653) |
| Notes and accounts receivable, net | \$ 96,273,270 | \$ 85,059,675 | \$ 98,529,745 |

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

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

Aging analysis of notes and accounts receivable, net

| | March 31, | December 31, | March 31, |
|-------------------------------|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| Neither past due nor impaired | \$ 83,871,066 | \$ 71,482,666 | \$ 89,431,546 |
| Past due but not impaired | | | |
| Past due within 30 days | 10,181,534 | 13,577,009 | 8,299,658 |
| Past due 31-60 days | 1,815,102 | | 798,541 |
| Past due 61-120 days | 405,568 | | |
| | \$ 96,273,270 | \$ 85,059,675 | \$ 98,529,745 |

Movements of the allowance for doubtful receivables

| | Individually | Collectively | Total |
|---------------------------------|---------------------|---------------------|--------------|
| | Assessed for | Assessed for | |
| | Impairment | Impairment | |
| Balance at January 1, 2016 | \$ 10,241 | \$ 478,010 | \$ 488,251 |
| Effect of exchange rate changes | | (63) | (63) |

| | | | | | | |
|---------------------------------|----|--------|----|---------|----|---------|
| Balance at March 31, 2016 | \$ | 10,241 | \$ | 477,947 | \$ | 488,188 |
| Balance at January 1, 2015 | \$ | 8,093 | \$ | 478,637 | \$ | 486,730 |
| Provision | | | | 290 | | 290 |
| Reversal | | (81) | | (209) | | (290) |
| Effect of exchange rate changes | | | | (77) | | (77) |
| Balance at March 31, 2015 | \$ | 8,012 | \$ | 478,641 | \$ | 486,653 |

Aging analysis of accounts receivable that is individually determined as impaired

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|------------------------|-------------------|----------------------|-------------------|
| Past due over 121 days | \$ 10,058 | \$ 10,241 | \$ 8,012 |

12. INVENTORIES

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|--------------------------|-------------------|----------------------|-------------------|
| Finished goods | \$ 5,812,241 | \$ 7,974,902 | \$ 10,960,937 |
| Work in process | 46,429,187 | 53,632,056 | 47,725,273 |
| Raw materials | 2,716,815 | 3,038,756 | 3,742,818 |
| Supplies and spare parts | 2,284,077 | 2,406,556 | 2,170,638 |
| | \$ 57,242,320 | \$ 67,052,270 | \$ 64,599,666 |

Reversal of the reserve for inventory write-downs resulting from the increase in net realizable value in the amount of NT\$544,672 thousand (excluding earthquake losses) and write-down of inventories to net realizable value in the amount of NT\$1,769,358 thousand, respectively, were included in the cost of revenue for the three months ended March 31, 2016 and 2015. Please refer to related earthquake losses in Note 36.

13. FINANCIAL ASSETS CARRIED AT COST

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|----------------------------|-------------------|----------------------|-------------------|
| Non-publicly traded stocks | \$ 3,204,088 | \$ 3,268,100 | \$ 1,593,978 |
| Mutual funds | 889,480 | 722,782 | 223,699 |
| | \$ 4,093,568 | \$ 3,990,882 | \$ 1,817,677 |

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 common stock of Richwave Technology Corp. was listed on the Taiwan Stock Exchange Corporation in November 2015. Thus, the Company reclassified the aforementioned investment from financial assets carried at cost to available-for-sale financial assets.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|---------------|---------------------------|------------------------------|---------------------------|
| Associates | \$ 24,715,683 | \$ 24,091,828 | \$ 26,209,636 |
| Joint venture | | | 4,153,508 |
| | \$ 24,715,683 | \$ 24,091,828 | \$ 30,363,144 |

a. Investments in associates
Associates consisted of the following:

| Associate | Principal Activities | Place of Incorporation and Operation | Carrying Amount | | | % of Ownership and Voting Rights Held by the Company | | |
|-----------|---|--------------------------------------|-----------------|-------------------|----------------|--|-------------------|----------------|
| | | | March 31, 2016 | December 31, 2015 | March 31, 2015 | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| on | Fabrication and supply of integrated circuits | Singapore | \$ 9,649,635 | \$ 9,511,515 | \$ 8,919,391 | 39% | 39% | 39% |
| l. | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | Hsinchu, Taiwan | 8,846,336 | 8,446,054 | 10,560,974 | 28% | 28% | 33% |
|) | Wafer level chip size packaging service | Taoyuan, Taiwan | 2,896,364 | 2,928,362 | 2,360,234 | 41% | 41% | 35% |
| s, | 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 | 2,148,431 | 2,053,562 | 3,247,436 | 12% | 12% | 20% |
| C) | Researching, developing, manufacturing, testing and marketing of integrated circuits | Hsinchu, Taiwan | 1,174,917 | 1,152,335 | 1,121,601 | 35% | 35% | 35% |

\$ 24,715,683 \$ 24,091,828 \$ 26,209,636

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%.

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 continues to be accounted for using equity method as the Company still retains significant influence over Motech.

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 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 follow. The closing price represents the quoted price in active markets, the level 1 fair value measurement.

| Name of Associate | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|-------------------|-------------------|----------------------|-------------------|
| VIS | \$ 23,350,442 | \$ 19,868,766 | \$ 29,059,090 |
| GUC | \$ 3,926,449 | \$ 3,081,399 | \$ 3,875,092 |
| Xintec | \$ 3,204,919 | \$ 3,605,534 | \$ 5,602,050 |
| Motech | \$ 2,128,672 | \$ 2,636,054 | \$ 3,704,769 |

b. Investments in joint venture
Joint venture consisted of the following:

| Name of Joint Venture | Principal Activities | Place of Incorporation and Operation | Carrying Amount | | % of Ownership and Voting Rights Held by the Company | | | |
|-----------------------|---|--------------------------------------|-----------------|----------------|--|-------------------|----------------|-----|
| | | | March 31, 2016 | March 31, 2015 | March 31, 2016 | December 31, 2015 | March 31, 2015 | |
| VisEra Holding | Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry | Cayman Islands | \$ | \$ | \$ 4,153,508 | | | 49% |

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 29 for related disclosures.

15. PROPERTY, PLANT AND EQUIPMENT

| | Land and Land Improvements | Land Buildings | Machinery and Equipment | Office Equipment | Assets under Finance Leases | Equipment under Installation and Construction in Progress | Total |
|---------------------------------|----------------------------|----------------|-------------------------|------------------|-----------------------------|---|------------------|
| 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 | | 2,448,970 | 16,972,797 | 883,459 | | 25,824,137 | 46,129,363 |
| Disposals or retirements | | | (998,529) | (61,741) | | | (1,060,270) |
| Reclassification | | | | 7,113 | (7,113) | | |
| Effect of exchange rate changes | (18,593) | (442,618) | (1,584,024) | (39,858) | | (5,747) | (2,090,840) |

| | | | | | | | | |
|----------------|--------------|----------------|------------------|---------------|----|----------------|------------------|--|
| Balance at | | | | | | | | |
| March 31, 2016 | \$ 4,048,798 | \$ 298,808,216 | \$ 1,907,879,848 | \$ 31,489,022 | \$ | \$ 217,929,938 | \$ 2,460,155,822 | |

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 | 7,557 | 4,382,978 | 49,527,167 | 1,033,027 | | | 54,950,729 | |
| Disposals or retirements | | | (983,846) | (61,680) | | | (1,045,526) | |
| Reclassification | | | | 7,113 | (7,113) | | | |
| Effect of exchange rate changes | (11,222) | (341,013) | (1,380,339) | (29,434) | | | (1,762,008) | |

| | | | | | | | | |
|----------------|------------|----------------|------------------|---------------|----|----|------------------|--|
| Balance at | | | | | | | | |
| March 31, 2016 | \$ 502,520 | \$ 161,952,120 | \$ 1,433,020,637 | \$ 20,375,095 | \$ | \$ | \$ 1,615,850,372 | |

| | | | | | | | | |
|------------------------|--------------|----------------|----------------|---------------|----|----------------|----------------|--|
| Carrying amounts at | | | | | | | | |
| January 1, 2016 | \$ 3,561,206 | \$ 138,891,709 | \$ 507,631,949 | \$ 11,273,980 | \$ | \$ 192,111,548 | \$ 853,470,392 | |

| | | | | | | | | |
|------------------------|--------------|----------------|----------------|---------------|----|----------------|----------------|--|
| Carrying amounts at | | | | | | | | |
| March 31, 2016 | \$ 3,546,278 | \$ 136,856,096 | \$ 474,859,211 | \$ 11,113,927 | \$ | \$ 217,929,938 | \$ 844,305,450 | |

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 | | 3,562,755 | 22,835,366 | 978,950 | | 22,555,321 | 49,932,392 | |
| Disposals or retirements | | | (462,676) | (305,318) | | | (767,994) | |
| Effect of exchange rate changes | (8,244) | (218,806) | (719,097) | (35,173) | (7,820) | (31,166) | (1,020,306) | |

| | | | | | | | | |
|----------------|--------------|----------------|------------------|---------------|------------|----------------|------------------|--|
| Balance at | | | | | | | | |
| March 31, 2015 | \$ 4,028,541 | \$ 272,507,799 | \$ 1,775,823,820 | \$ 28,599,294 | \$ 833,334 | \$ 131,858,891 | \$ 2,213,651,679 | |

Accumulated
depreciation

| | | | | | | | | |
|-----------------|------------|----------------|------------------|---------------|------------|----|------------------|--|
| Balance at | | | | | | | | |
| January 1, 2015 | \$ 459,140 | \$ 141,245,913 | \$ 1,188,388,402 | \$ 16,767,934 | \$ 447,397 | \$ | \$ 1,347,308,786 | |
| Additions | 7,191 | 3,907,238 | 49,864,675 | 916,304 | 10,819 | | 54,706,227 | |
| | | | (428,452) | (305,300) | | | (733,752) | |

| | | | | | | | |
|------------------------------------|--------------|----------------|------------------|---------------|------------|----------------|------------------|
| Disposals or retirements | | | | | | | |
| Effect of exchange rate changes | (4,619) | (155,227) | (656,474) | (29,001) | (4,145) | | (849,466) |
| Balance at March 31, 2015 | \$ 461,712 | \$ 144,997,924 | \$ 1,237,168,151 | \$ 17,349,937 | \$ 454,071 | \$ | \$ 1,400,431,795 |
| Carrying amounts at March 31, 2015 | \$ 3,566,829 | \$ 127,509,875 | \$ 538,655,669 | \$ 11,249,357 | \$ 379,263 | \$ 131,858,891 | \$ 813,219,884 |

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 is expected to be unrecoverable. Such impairment loss was included in other operating income and expenses for the year ended December 31, 2015.

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 some of machinery and equipment, office equipment and mechanical and electrical power equipment were expected to be unrecoverable. Such impairment loss was included in other operating income and expenses for the year ended December 31, 2015.

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 for the year ended December 31, 2015.

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 | | 454,622 | 230,629 | 235,392 | 920,643 |
| Retirements | | | (1,800) | | (1,800) |
| Effect of exchange rate changes | (98,616) | 2,607 | (2,667) | (2,478) | (101,154) |
| Balance at March 31, 2016 | \$ 6,006,168 | \$ 8,911,533 | \$ 19,700,590 | \$ 5,111,940 | \$ 39,730,231 |
| <u>Accumulated amortization</u> | | | | | |
| Balance at January 1, 2016 | \$ | \$ 4,779,388 | \$ 16,431,666 | \$ 3,635,608 | \$ 24,846,662 |
| Additions | | 314,356 | 409,156 | 172,820 | 896,332 |
| Retirements | | | (1,800) | | (1,800) |
| Effect of exchange rate changes | | 2,607 | (2,430) | (653) | (476) |
| Balance at March 31, 2016 | \$ | \$ 5,096,351 | \$ 16,836,592 | \$ 3,807,775 | \$ 25,740,718 |
| Carrying amounts at January 1, 2016 | \$ 6,104,784 | \$ 3,674,916 | \$ 3,042,762 | \$ 1,243,418 | \$ 14,065,880 |
| Carrying amounts at March 31, 2016 | \$ 6,006,168 | \$ 3,815,182 | \$ 2,863,998 | \$ 1,304,165 | \$ 13,989,513 |

| <u>Cost</u> | | | | | |
|------------------------------------|--------------|--------------|---------------|--------------|---------------|
| Balance at January 1, 2015 | \$ 5,888,813 | \$ 6,350,253 | \$ 18,697,098 | \$ 4,292,555 | \$ 35,228,719 |
| Additions | | 78,496 | 199,110 | 145,880 | 423,486 |
| Retirements | | | (42,737) | | (42,737) |
| Effect of exchange rate changes | (43,186) | (6,053) | (1,425) | (1,305) | (51,969) |
| Balance at March 31, 2015 | \$ 5,845,627 | \$ 6,422,696 | \$ 18,852,046 | \$ 4,437,130 | \$ 35,557,499 |
| <u>Accumulated amortization</u> | | | | | |
| Balance at January 1, 2015 | \$ | \$ 3,778,912 | \$ 14,861,146 | \$ 3,057,151 | \$ 21,697,209 |
| Additions | | 212,239 | 421,365 | 138,165 | 771,769 |
| Retirements | | | (42,737) | | (42,737) |
| Effect of exchange rate changes | | (6,053) | (1,349) | (303) | (7,705) |
| Balance at March 31, 2015 | \$ | \$ 3,985,098 | \$ 15,238,425 | \$ 3,195,013 | \$ 22,418,536 |
| Carrying amounts at March 31, 2015 | \$ 5,845,627 | \$ 2,437,598 | \$ 3,613,621 | \$ 1,242,117 | \$ 13,138,963 |

The Company's goodwill has been tested for impairment at the end of the annual reporting period and the recoverable amount is determined based on the value in use. The value in use was calculated based on the cash flow forecast from the financial budgets covering the future five-year period, and the Company used annual discount rate of 8.40% in its test of impairment for December 31, 2015 to reflect the relevant specific risk in the cash-generating unit.

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 for the year ended December 31, 2015.

17. OTHER ASSETS

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|----------------------|-------------------|----------------------|-------------------|
| Tax receivable | \$ 1,534,342 | \$ 2,026,509 | \$ 2,069,072 |
| Prepaid expenses | 1,151,672 | 1,457,044 | 1,598,404 |
| Long-term receivable | 365,000 | 360,000 | 341,100 |
| Others | 1,044,453 | 1,118,492 | 852,666 |
| | \$ 4,095,467 | \$ 4,962,045 | \$ 4,861,242 |
| Current portion | \$ 2,695,531 | \$ 3,533,369 | \$ 3,688,211 |
| Noncurrent portion | 1,399,936 | 1,428,676 | 1,173,031 |
| | \$ 4,095,467 | \$ 4,962,045 | \$ 4,861,242 |

18. SHORT-TERM LOANS

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|------------------------|----------------------|-------------------------|----------------------|
| Unsecured loans Amount | \$ 34,690,040 | \$ 39,474,000 | \$ 18,683,595 |
| Original loan content | | | |
| US\$ (in thousands) | \$ 1,078,000 | \$ 1,200,000 | \$ 595,000 |
| Annual interest rate | 0.62%-0.70% | 0.50%-0.77% | 0.38%-0.47% |
| Maturity date | Due in April 2016 | Due by February 2016 | Due in April 2015 |

19. PROVISIONS

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|--|---------------------------|------------------------------|---------------------------|
| Sales returns and allowances | \$ 10,090,163 | \$ 10,163,536 | \$ 8,130,817 |
| Warranties | 42,808 | 46,304 | 14,853 |
| | \$ 10,132,971 | \$ 10,209,840 | \$ 8,145,670 |
| Current portion | \$ 10,090,163 | \$ 10,163,536 | \$ 8,130,817 |
| Noncurrent portion (classified under other noncurrent liabilities) | 42,808 | 46,304 | 14,853 |
| | \$ 10,132,971 | \$ 10,209,840 | \$ 8,145,670 |

| | Sales Returns and Allowances | Warranties | Total |
|---|---------------------------------|------------|---------------|
| <u>Three months ended March 31, 2016</u> | | | |
| Balance, beginning of period | \$ 10,163,536 | \$ 46,304 | \$ 10,209,840 |
| Provision/Reversal | 6,999,654 | (2,119) | 6,997,535 |
| Payment | (7,060,305) | (1,377) | (7,061,682) |
| Effect of exchange rate changes | (12,722) | | (12,722) |
| Balance, end of period | \$ 10,090,163 | \$ 42,808 | \$ 10,132,971 |
| <u>Three months ended March 31, 2015</u> | | | |
| Balance, beginning of period | \$ 10,445,452 | \$ 19,828 | \$ 10,465,280 |
| Provision/Reversal | 1,427,900 | (2,984) | 1,424,916 |
| Payment | (3,738,087) | (1,340) | (3,739,427) |
| Effect of exchange rate changes | (4,448) | (651) | (5,099) |
| Balance, end of period | \$ 8,130,817 | \$ 14,853 | \$ 8,145,670 |

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

The provision for warranties represents the present value of the Company's best estimate of the future outflow of the economic benefits that will be required under the Company's obligations for warranties. The best estimate has been made on the basis of historical warranty trends of business.

20. BONDS PAYABLE

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|----------------------------------|-------------------|----------------------|-------------------|
| Domestic unsecured bonds | \$ 166,200,000 | \$ 166,200,000 | \$ 166,200,000 |
| Overseas unsecured bonds | 48,270,000 | 49,342,500 | 47,101,500 |
| | 214,470,000 | 215,542,500 | 213,301,500 |
| Less: Discounts on bonds payable | (56,041) | (67,306) | (92,729) |
| Less: Current portion | (33,262,901) | (23,510,112) | |
| | \$ 181,151,058 | \$ 191,965,082 | \$ 213,208,771 |

The major terms of overseas unsecured bonds are as follows:

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

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21. GUARANTEE DEPOSITS

| | March 31, | December 31, | March 31, |
|---|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2015 |
| Capacity guarantee | \$ 25,744,000 | \$ 27,549,563 | \$ 29,830,950 |
| Others | 185,365 | 183,051 | 164,299 |
| | \$ 25,929,365 | \$ 27,732,614 | \$ 29,995,249 |
| Current portion (classified under accrued expenses and other current liabilities) | \$ 6,437,085 | \$ 6,167,813 | \$ 6,280,200 |
| Noncurrent portion | 19,492,280 | 21,564,801 | 23,715,049 |
| | \$ 25,929,365 | \$ 27,732,614 | \$ 29,995,249 |

Starting from the second quarter of 2015, some of guarantee deposits were refunded to customers by offsetting related accounts receivable.

22. EQUITY

a. Capital stock

| | March 31, | December 31, | March 31, |
|---------------------------------------|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| Authorized shares (in thousands) | 28,050,000 | 28,050,000 | 28,050,000 |
| Authorized capital | \$ 280,500,000 | \$ 280,500,000 | \$ 280,500,000 |
| Issued and paid shares (in thousands) | 25,930,380 | 25,930,380 | 25,930,302 |
| Issued capital | \$ 259,303,805 | \$ 259,303,805 | \$ 259,303,020 |

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 March 31, 2016, 1,072,635 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,363,175 thousand shares (one ADS represents five common shares).

b. Capital surplus

| | March 31, | December 31, | March 31, |
|---|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2015 |
| Additional paid-in capital | \$ 24,184,939 | \$ 24,184,939 | \$ 24,077,758 |
| From merger | 22,804,510 | 22,804,510 | 22,804,510 |
| From convertible bonds | 8,892,847 | 8,892,847 | 8,892,847 |
| From share of changes in equities of subsidiaries | 100,761 | 100,761 | 103,304 |
| From share of changes in equities of associates and joint venture | 334,263 | 317,103 | 395,962 |
| Donations | 55 | 55 | 55 |
| | \$ 56,317,375 | \$ 56,300,215 | \$ 56,274,436 |

Under the Company Law, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers 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 may be used to offset a deficit.

c. Retained earnings and dividend policy

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

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

4) Any balance left over shall be allocated according to the resolution of the shareholders' meeting. TSMC's existing 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.

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The consequential amendments to TSMC's Articles of Incorporation had been proposed by TSMC's Board of Directors on February 2, 2016 and are subject to the resolution of the shareholders in their meeting to be held on June 7, 2016 (expected). For information about the accrual basis of profit sharing bonus to employees and compensation to directors for the three months ended March 31, 2016 and 2015, and the appropriations for the years ended December 31, 2015 and 2014, please refer to employee benefits expense in Note 28.

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 Board of Directors in its meeting held on February 2, 2016 and by TSMC's shareholders in its meeting held 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 | 155,582,283 | 116,683,481 | \$ 6.0 | \$ 4.5 |
| | \$ 186,239,667 | \$ 143,073,360 | | |

The appropriations of earnings for 2015 are to be presented for approval in the TSMC's shareholders' meeting to be held on June 7, 2016 (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:

| | Three Months Ended March 31, 2016 | | | |
|---|---|--|-----------------------------|---------------|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for- sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of period | \$ 11,039,949 | \$ 734,771 | \$ (607) | \$ 11,774,113 |
| Exchange differences arising on translation of foreign operations | (6,591,873) | | | (6,591,873) |
| Changes in fair value of available-for-sale financial assets | | 40,182 | | 40,182 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | | 10,829 | | 10,829 |

| | | | | |
|---|--------------|------------|----------|--------------|
| Share of other comprehensive income of associates and joint venture | 4,579 | 21,487 | 91 | 26,157 |
| Income tax effect | | 17,440 | | 17,440 |
| Balance, end of period | \$ 4,452,655 | \$ 824,709 | \$ (516) | \$ 5,276,848 |

| | Three Months Ended March 31, 2015 | | | |
|--|---|---|-------------------------------------|----------------------|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for- sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of period | \$ 4,502,113 | \$ 21,247,483 | \$ (305) | \$ 25,749,291 |
| Exchange differences arising on translation of foreign operations | (2,278,865) | | | (2,278,865) |
| Changes in fair value of available-for-sale financial assets | | (195,085) | | (195,085) |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | | (2,902) | | (2,902) |
| Share of other comprehensive income of associates and joint venture | 20,753 | 822,659 | (200) | 843,212 |
| Income tax effect | | (4,793) | | (4,793) |
| Balance, end of period | \$ 2,244,001 | \$ 21,867,362 | \$ (505) | \$ 24,110,858 |

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.

23. SHARE-BASED PAYMENT

The Company did not issue employee stock option plans for the three months ended March 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>Three months ended March 31, 2015</u> | | |
| Balance, beginning of period | 718 | \$ 47.2 |
| Options exercised | (640) | 47.2 |
| Balance, end of period | 78 | 47.2 |
| Balance exercisable, end of period | 78 | 47.2 |

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.

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

| March 31, 2015 | |
|-----------------------|-------------------------|
| Range of | Weighted-average |
| Exercise Price | Remaining |
| (NT\$) | Contractual Life |
| (Years) | |
| \$47.2 | 0.1 |

24. NET REVENUE

| | Three Months Ended March 31 | |
|--------------------------------|------------------------------------|-----------------------|
| | 2016 | 2015 |
| Net revenue from sale of goods | \$ 203,383,417 | \$ 221,899,524 |
| Net revenue from royalties | 111,944 | 134,620 |
| | \$ 203,495,361 | \$ 222,034,144 |

25. OTHER GAINS AND LOSSES

| | Three Months Ended March 31 | |
|--|------------------------------------|-------------|
| | 2016 | 2015 |
| Gain (loss) on disposal of financial assets, net | | |
| Available-for-sale financial assets | \$ (10,829) | \$ 2,961 |
| Financial assets carried at cost | 14,381 | 42,243 |
| Other gains | 37,428 | 16,169 |
| Net gain on financial instruments at FVTPL | | |
| Held for trading | 1,532,135 | 317,555 |
| Fair value hedges | | |
| Gain (loss) from hedging instruments | (11,870) | 4,592,076 |

| | | |
|--|--------------|-------------|
| Gain (loss) arising from changes in fair value of available-for-sale financial assets in hedge effective portion | 10,625 | (4,602,284) |
| Other losses | (12,571) | (6,535) |
| | \$ 1,559,299 | \$ 362,185 |

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26. INCOME TAX

a. Income tax expense recognized in profit or loss

| | Three Months Ended March 31 | |
|--|------------------------------------|---------------------|
| | 2016 | 2015 |
| Current income tax expense | | |
| Current tax expense recognized in the current period | \$ 8,646,510 | \$ 10,403,960 |
| Other income tax adjustments | 35,840 | 42,039 |
| | 8,682,350 | 10,445,999 |
| Deferred income tax benefit | | |
| The origination and reversal of temporary differences | (246,750) | (183,268) |
| Investment tax credits and operating loss carryforward | (972,298) | (987,659) |
| | (1,219,048) | (1,170,927) |
| Income tax expense recognized in profit or loss | \$ 7,463,302 | \$ 9,275,072 |

b. Income tax expense recognized in other comprehensive income

| | Three Months Ended March 31 | |
|--|------------------------------------|-------------|
| | 2016 | 2015 |
| Deferred income tax benefit (expense) | | |
| Related to unrealized gain/loss on available-for-sale financial assets | \$ 17,440 | \$ (4,793) |

c. Integrated income tax information

| | March 31, | December 31, | March 31, |
|----------------------------------|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| Balance of the Imputation | | | |
| Credit Account - TSMC | \$ 59,973,516 | \$ 59,973,516 | \$ 35,353,150 |

The estimated and actual creditable ratio for distribution of TSMC's earnings of 2015 and 2014 were 12.71% and 11.13%, respectively; however, effective from January 1, 2015, the creditable ratio for individual shareholders residing in the Republic of China will be half of the original creditable ratio according to the revised Article 66 - 6 of

the Income Tax Law.

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

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

d. Income tax examination

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

27. EARNINGS PER SHARE

| | Three Months Ended March 31 | |
|-------------|------------------------------------|-------------|
| | 2016 | 2015 |
| Basic EPS | \$ 2.50 | \$ 3.05 |
| Diluted EPS | \$ 2.50 | \$ 3.05 |

EPS is computed as follows:

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) |
|--|--------------------------------|--|-------------------|
| <u>Three months ended March 31, 2016</u> | | | |
| Basic/Diluted EPS | | | |
| Net income available to common shareholders of the parent | \$ 64,781,493 | 25,930,380 | \$ 2.50 |
| <u>Three months ended March 31, 2015</u> | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | \$ 78,989,911 | 25,930,011 | \$ 3.05 |
| Effect of dilutive potential common shares | | 344 | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | \$ 78,989,911 | 25,930,355 | \$ 3.05 |

28. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

| | Three Months Ended March 31 | |
|--|------------------------------------|-------------|
| | 2016 | 2015 |
| a. Depreciation of property, plant and equipment | | |

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| | | |
|---|---------------|---------------|
| Recognized in cost of revenue | \$ 50,829,281 | \$ 51,041,714 |
| Recognized in operating expenses | 4,115,030 | 3,658,291 |
| Recognized in other operating income and expenses | 6,418 | 6,222 |

| | | |
|--|---------------|---------------|
| | \$ 54,950,729 | \$ 54,706,227 |
|--|---------------|---------------|

b. Amortization of intangible assets

| | | |
|----------------------------------|------------|------------|
| Recognized in cost of revenue | \$ 489,677 | \$ 407,750 |
| Recognized in operating expenses | 406,655 | 364,019 |

| | | |
|--|------------|------------|
| | \$ 896,332 | \$ 771,769 |
|--|------------|------------|

| | | |
|--|---------------|---------------|
| c. Research and development costs expensed as incurred | \$ 15,618,963 | \$ 16,781,463 |
|--|---------------|---------------|

| | Three Months Ended March 31 | |
|--|------------------------------------|---------------|
| | 2016 | 2015 |
| d. Employee benefits expenses | | |
| Post-employment benefits | | |
| Defined contribution plans | \$ 526,247 | \$ 475,826 |
| Defined benefit plans | 68,025 | 68,128 |
| | 594,272 | 543,954 |
| Other employee benefits | 21,412,249 | 22,244,739 |
| | \$ 22,006,521 | \$ 22,788,693 |
| Employee benefits expense summarized by function | | |
| Recognized in cost of revenue | \$ 13,105,421 | \$ 13,294,494 |
| Recognized in operating expenses | 8,901,100 | 9,494,199 |
| | \$ 22,006,521 | \$ 22,788,693 |

Under the Company Act as amended in May 2015, the Company's Articles of Incorporation should stipulate a fixed amount or ratio of annual profit to be distributed as profit sharing bonus to employees. The Company expects to make amendments to the Company's Articles of Incorporation to be approved during the 2016 annual shareholders' meeting.

TSMC accrued profit sharing bonus to employees based on a percentage of net income before income tax, profit sharing bonus to employees and compensation to directors during the period, which amounted to NT\$4,344,524 thousand for the three months ended March 31, 2016. TSMC accrued profit sharing bonus to employees based on certain percentage of net income during the period, which amounted to NT\$5,282,686 thousand for the three months ended March 31, 2015. 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 2, 2016 approved the 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 payment in 2015, respectively. There is no significant difference between the aforementioned approved amounts and the amounts charged against earnings of 2015. After the amendments to TSMC's Articles of Incorporation to be approved during the TSMC's shareholders' meeting to be held on June 7, 2016 (expected), the appropriations of profit sharing bonus to employees and compensation to directors for 2015 are to be submitted to the shareholders' meeting.

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 approved by the Board of Directors in its meetings held on February 10, 2015 and the same amount had been charged against earnings of 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.

29. 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 | \$ 3,536,119 |
| OVT Taiwan | Investment activities | November 20, 2015 | 100 | \$ 394,674 |

b. Considerations transferred

| | VisEra Holding | OVT Taiwan |
|------|-----------------------|-------------------|
| Cash | \$ 3,536,119 | \$ 394,674 |

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 | 15,611 | |
| | 8,592,987 | 394,678 |
| Current liabilities | | |
| Financial liabilities at fair value through profit or loss | 975 | |
| Accounts payable | 87,480 | |
| Salary and bonus payable | 183,090 | |
| Accrued profit sharing bonus to employees and compensation to directors and supervisors | 45,819 | 4 |
| Payables to contractors and equipment suppliers | 132,305 | |

(Continued)

| | VisEra Holding | OVT Taiwan |
|--|-----------------------|-------------------|
| Income tax payable | \$ 47,860 | \$ |
| Provisions | 126,049 | |
| Accrued expenses and other current liabilities | 102,851 | |
| Noncurrent liabilities | | |
| Guarantee deposits | 1,279 | |
| | 727,708 | 4 |
| Net assets | \$ 7,865,279 | \$ 394,674 |

(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 | 923,683 |
| Goodwill arising on acquisition | \$ 52,669 |

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 | (3,858,482) | (20,710) |
| | \$ (322,363) | \$ 373,964 |

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 | \$ | 254,319 |
| Net income | \$ | 16,264 |

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.

30. 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 Guang Neng 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 | (142,475) |
| Net consideration received | \$ 682,525 |

- b. Gain/loss on disposal of subsidiary

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

- c. Net cash inflow arising from disposal of subsidiary

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

31. FINANCIAL INSTRUMENTS

- a. Categories of financial instruments

| | March 31, | December 31, | March 31, |
|------------------|------------------|---------------------|------------------|
| | 2016 | 2015 | 2015 |
| Financial assets | | | |

FVTPL

| | | | |
|---|----------------|----------------|----------------|
| Held for trading derivatives | \$ 618,810 | \$ 6,026 | \$ 297,698 |
| Available-for-sale financial assets (Note) | 26,326,473 | 18,290,243 | 70,022,067 |
| Held-to-maturity financial assets | 25,086,483 | 16,077,396 | 13,060,038 |
| Derivative financial instruments in designated hedge accounting relationships | | 1,739 | |
| Loans and receivables | | | |
| Cash and cash equivalents | 617,984,318 | 562,688,930 | 437,412,411 |
| Notes and accounts receivables (including related parties) | 96,957,088 | 85,565,397 | 99,121,766 |
| Other receivables | 3,741,675 | 4,790,376 | 4,450,612 |
| Refundable deposits | 443,337 | 430,802 | 442,633 |
| | \$ 771,158,184 | \$ 687,850,909 | \$ 624,807,225 |

(Continued)

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|---|-------------------|----------------------|-------------------|
| Financial liabilities | | | |
| FVTPL | | | |
| Held for trading derivatives | \$ 16 | \$ 72,610 | \$ 64,929 |
| Derivative financial instruments in designated hedge accounting relationships | 458 | | 11,627,838 |
| Amortized cost | | | |
| Short-term loans | 34,690,040 | 39,474,000 | 18,683,595 |
| Accounts payable (including related parties) | 19,629,025 | 19,725,274 | 20,204,923 |
| Payables to contractors and equipment suppliers | 33,953,061 | 26,012,192 | 27,372,814 |
| Accrued expenses and other current liabilities | 19,366,919 | 18,900,123 | 21,517,261 |
| Bonds payable (including long-term liabilities-current portion) | 214,413,959 | 215,475,194 | 213,208,771 |
| Long-term bank loans (including long-term liabilities-current portion) | 40,000 | 40,000 | 40,000 |
| Other long-term payables (classified under accrued expenses and other current liabilities and other noncurrent liabilities) | | 18,000 | 18,000 |
| Guarantee deposits (including those classified under accrued expenses and other current liabilities) | 25,929,365 | 27,732,614 | 29,995,249 |
| | \$ 348,022,843 | \$ 347,450,007 | \$ 342,733,380 |

(Concluded)

Note: Including financial assets carried at cost.

b. Financial risk management objectives

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

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

c. Market risk

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

Foreign currency risk

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

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

The Company's sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges against the New Taiwan dollar, the net income for the three months ended March 31, 2016 and 2015 would have decreased by NT\$300,909 thousand and NT\$211,761 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\$83 thousand for both the three months ended March 31, 2016 and 2015.

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 three months ended March 31, 2016 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the three months ended March 31, 2016 would have decreased by NT\$455,802 thousand.

Other price risk

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

Assuming a hypothetical decrease of 5% in equity prices of the equity investments at the end of the reporting period, the net income for the three months ended March 31, 2016 and 2015 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the three months ended March 31, 2016 and 2015 would have decreased by NT\$260,202 thousand and NT\$135,041 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 March 31, 2016, December 31, 2015 and March 31, 2015, the Company's ten largest customers accounted for 71%, 68% 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>March 31, 2016</u> | | | | | |
| <u>Non-derivative financial liabilities</u> | | | | | |
| Short-term loans | \$ 34,704,042 | \$ | \$ | \$ | \$ 34,704,042 |
| Accounts payable (including related parties) | 19,629,025 | | | | 19,629,025 |
| Payables to contractors and equipment suppliers | 33,953,061 | | | | 33,953,061 |
| Accrued expenses and other current liabilities | 19,366,919 | | | | 19,366,919 |
| Bonds payable | 36,133,767 | 101,672,799 | 62,362,560 | 23,272,541 | 223,441,667 |
| Long-term bank loans | 11,191 | 21,336 | 10,145 | | 42,672 |
| Guarantee deposits (including those classified under accrued expenses and other current liabilities) | 6,437,085 | 13,056,280 | 6,436,000 | | 25,929,365 |
| | 150,235,090 | 114,750,415 | 68,808,705 | 23,272,541 | 357,066,751 |

(Continued)

| | Less Than | | | | |
|---|------------------|------------------|------------------|-----------------|----------------|
| | 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
| <u>Derivative financial instruments</u> | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 34,065,842 | | | | 34,065,842 |
| Inflows | (34,689,811) | | | | (34,689,811) |
| | (623,969) | | | | (623,969) |
| | \$ 149,611,121 | \$ 114,750,415 | \$ 68,808,705 | \$ 23,272,541 | \$ 356,442,782 |

December 31, 2015Non-derivative financial liabilities

| | | | | | |
|--|---------------|-------------|------------|------------|---------------|
| 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) | 6,167,813 | 13,341,051 | 8,223,750 | | 27,732,614 |
| | 136,816,149 | 117,824,962 | 76,615,278 | 25,981,316 | 357,237,705 |

Derivative financial instruments

Forward exchange contracts

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| | | | | | |
|----------|----------------|----------------|---------------|---------------|----------------|
| Outflows | 23,192,477 | | | | 23,192,477 |
| Inflows | (23,135,579) | | | | (23,135,579) |
| | 56,898 | | | | 56,898 |
| | \$ 136,873,047 | \$ 117,824,962 | \$ 76,615,278 | \$ 25,981,316 | \$ 357,294,603 |

March 31, 2015

Non-derivative
financial liabilities

| | | | | | |
|--|---------------|------------|-------------|------------|---------------|
| Short-term loans | \$ 18,685,301 | \$ | \$ | \$ | \$ 18,685,301 |
| Accounts payable (including related parties) | 20,204,923 | | | | 20,204,923 |
| Payables to contractors and equipment suppliers | 27,372,814 | | | | 27,372,814 |
| Accrued expenses and other current liabilities | 21,517,261 | | | | 21,517,261 |
| Bonds payable | 3,072,885 | 83,163,353 | 102,525,541 | 36,555,015 | 225,316,794 |
| Long-term bank loans | 1,450 | 22,115 | 20,665 | | 44,230 |
| Other long-term payables (classified under other noncurrent liabilities) | | 18,000 | | | 18,000 |
| Obligations under finance leases | 29,392 | 58,784 | 792,972 | | 881,148 |
| Guarantee deposits (including those classified under accrued expenses and other current liabilities) | 6,280,200 | 12,724,699 | 10,990,350 | | 29,995,249 |
| | 97,164,226 | 95,986,951 | 114,329,528 | 36,555,015 | 344,035,720 |

(Continued)

| | Less Than | | | | Total |
|---|---------------|---------------|----------------|---------------|----------------|
| | 1 Year | 2-3 Years | 4-5 Years | 5+ Years | |
| <u>Derivative financial instruments</u> | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 67,083,597 | | | | 67,083,597 |
| Inflows | (67,143,691) | | | | (67,143,691) |
| | (60,094) | | | | (60,094) |
| Cross currency swap contracts | | | | | |
| Outflows | 2,758,469 | | | | 2,758,469 |
| Inflows | (2,767,416) | | | | (2,767,416) |
| | (8,947) | | | | (8,947) |
| Stock forward contracts | | | | | |
| Outflows | 55,611,164 | | | | 55,611,164 |
| Inflows | (55,611,164) | | | | (55,611,164) |
| | | | | | |
| | \$ 97,095,185 | \$ 95,986,951 | \$ 114,329,528 | \$ 36,555,015 | \$ 343,966,679 |
| | | | | | (Concluded) |

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

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

| | March 31, 2016 | | December 31, 2015 | | March 31, 2015 | |
|-------------------------|-----------------|------------|-------------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Financial assets</u> | | | | | | |

Held-to-maturity
financial assets

| | | | | | | |
|---|---------------|---------------|--------------|--------------|------------|------------|
| Corporate bonds/Bank debentures | \$ 16,860,145 | \$ 16,885,477 | \$ 8,143,146 | \$ 8,146,756 | \$ | \$ |
| Negotiable certificate of deposit | 4,827,000 | 4,854,916 | 4,934,250 | 4,945,878 | | |
| Structured product | 3,000,000 | 2,996,985 | 3,000,000 | 2,995,731 | | |
| Commercial paper | 399,338 | 398,928 | | | 13,060,038 | 13,075,689 |

Financial
liabilities

Measured at
amortized cost

| | | | | | | |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Bonds payable | 214,413,959 | 216,343,027 | 215,475,194 | 216,223,736 | 213,208,771 | 213,488,410 |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|

2) 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; and stock forward contracts are measured at the difference between the present value of stock forward price discounted based on the applicable yield curve derived from quoted interest rates and the stock spot price. For investments in corporate issued asset-backed securities, the fair value is determined using quoted market prices or the present value of future cash flows based on the observable yield curves.

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

3) Fair value measurements recognized in the consolidated balance sheets

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

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

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

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

Financial assets and liabilities measured at fair value on a recurring basis

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

| | March 31, 2016 | | | |
|----------------|-----------------------|----------------|--------------|--|
| Level 1 | Level 2 | Level 3 | Total | |

Financial assets at FVTPL

| | | | | | | |
|----------------------------------|----|----|---------|----|----|---------|
| Derivative financial instruments | \$ | \$ | 618,810 | \$ | \$ | 618,810 |
|----------------------------------|----|----|---------|----|----|---------|

Available-for-sale financial assets

| | | | | | | |
|-----------------|----|-----------|----|----|----|-----------|
| Corporate bonds | \$ | 9,343,220 | \$ | \$ | \$ | 9,343,220 |
|-----------------|----|-----------|----|----|----|-----------|

| | | | | | | |
|--|--|--|-----------|--|--|-----------|
| Corporate issued asset-backed securities | | | 5,618,046 | | | 5,618,046 |
|--|--|--|-----------|--|--|-----------|

| | | | | | | |
|--------------|--|-----------|--|--|--|-----------|
| Agency bonds | | 5,507,441 | | | | 5,507,441 |
|--------------|--|-----------|--|--|--|-----------|

| | | | | | | |
|------------------------|--|-----------|--|--|--|-----------|
| Publicly traded stocks | | 1,255,493 | | | | 1,255,493 |
|------------------------|--|-----------|--|--|--|-----------|

| | | | | | | |
|------------------|--|---------|--|--|--|---------|
| Government bonds | | 508,705 | | | | 508,705 |
|------------------|--|---------|--|--|--|---------|

| | | | | | | |
|--|----|------------|----|-----------|----|------------|
| | \$ | 16,614,859 | \$ | 5,618,046 | \$ | 22,232,905 |
|--|----|------------|----|-----------|----|------------|

(Continued)

| | March 31, 2016 | | | Total |
|---|----------------|---------|---------|--------|
| | Level 1 | Level 2 | Level 3 | |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial instruments | \$ | \$ 16 | \$ | \$ 16 |
| <u>Hedging derivative financial liabilities</u> | | | | |
| Interest rate futures contracts | \$ 458 | \$ | \$ | \$ 458 |
| (Concluded) | | | | |

| | December 31, 2015 | | | Total |
|--|-------------------|--------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | |
| <u>Financial assets at FVTPL</u> | | | | |
| Derivative financial instruments | \$ | \$ 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 |
| | \$ 11,144,995 | \$ 3,154,366 | \$ | \$ 14,299,361 |

| | | | | |
|--|----------|----|----|----------|
| <u>Hedging derivative financial assets</u> | | | | |
| Interest rate futures contracts | \$ 1,739 | \$ | \$ | \$ 1,739 |

| | | | | |
|---------------------------------------|----|-----------|----|-----------|
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial instruments | \$ | \$ 72,610 | \$ | \$ 72,610 |

| | March 31, 2015 | | | Total |
|----------------------------------|----------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | |
| <u>Financial assets at FVTPL</u> | | | | |
| Derivative financial instruments | \$ | \$ 297,698 | \$ | \$ 297,698 |

| <u>Available-for-sale financial assets</u> | | | | |
|---|---------------|---------------|----|---------------|
| Publicly traded stocks | \$ 68,204,002 | \$ | \$ | \$ 68,204,002 |
| Money market funds | 388 | | | 388 |
| | \$ 68,204,390 | \$ | \$ | \$ 68,204,390 |
| <u>Financial liabilities at FVTPL</u> | | | | |
| Derivative financial instruments | \$ | \$ 64,929 | \$ | \$ 64,929 |
| <u>Hedging derivative financial liabilities</u> | | | | |
| Stock forward contract | \$ | \$ 11,627,838 | \$ | \$ 11,627,838 |

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2016 and 2015, respectively.

There were no purchases and disposals for assets on Level 3 for the three months ended March 31, 2016 and 2015, respectively.

Financial assets and liabilities not measured at fair value but for which the fair value is disclosed

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

For investments in negotiable certificate of deposit, structured product and commercial paper, 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.

The table below sets out the balances for the Company's assets and liabilities at amortized cost but for which the fair value is disclosed:

| | March 31, 2016 | | | |
|-----------------------------------|-----------------------|----------------|----------------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Assets</u> | | | | |
| Held-to-maturity securities | | | | |
| Corporate bonds/Bank debentures | \$ 16,885,477 | \$ | \$ | \$ 16,885,477 |
| Negotiable certificate of deposit | | 4,854,916 | | 4,854,916 |
| Structured product | | 2,996,985 | | 2,996,985 |
| Commercial paper | | 398,928 | | 398,928 |
| | \$ 16,885,477 | \$ 8,250,829 | \$ | \$ 25,136,306 |

Liabilities

| | | | | |
|----------------------------|----------------|----|----|----------------|
| Measured at amortized cost | | | | |
| Bonds payable | \$ 216,343,027 | \$ | \$ | \$ 216,343,027 |

| | December 31, 2015 | | | |
|-----------------------------------|--------------------------|----------------|----------------|---------------|
| | 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 |
| | \$ 8,146,756 | \$ 7,941,609 | \$ | \$ 16,088,365 |

Liabilities

Measured at amortized cost

| | | | | |
|---------------|----------------|----|----|----------------|
| Bonds payable | \$ 216,223,736 | \$ | \$ | \$ 216,223,736 |
|---------------|----------------|----|----|----------------|

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| | March 31, 2015 | | | |
|-----------------------------|----------------|---------------|---------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| <u>Assets</u> | | | | |
| Held-to-maturity securities | | | | |
| Commercial paper | \$ | \$ 13,075,689 | \$ | \$ 13,075,689 |
| <u>Liabilities</u> | | | | |
| Measured at amortized cost | | | | |
| Bonds payable | \$ 213,488,410 | \$ | \$ | \$ 213,488,410 |

32. RELATED PARTY TRANSACTIONS

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

a. Net revenue

| <u>Item</u> | <u>Related Party Categories</u> | Three Months Ended March 31 | |
|--------------------------------|---------------------------------|-----------------------------|--------------|
| | | 2016 | 2015 |
| Net revenue from sale of goods | Associates | \$ 1,605,016 | \$ 1,014,662 |
| | Joint venture | | 384 |
| | | \$ 1,605,016 | \$ 1,015,046 |
| Net revenue from royalties | Associates | \$ 111,944 | \$ 131,976 |

b. Purchases

| <u>Related Party Categories</u> | Three Months Ended March 31 | |
|---------------------------------|-----------------------------|--------------|
| | 2016 | 2015 |
| Associates | \$ 2,345,245 | \$ 3,004,276 |

c. Receivables from related parties

| | | March 31, | December 31, | March 31, |
|--|---------------------------------|------------------|---------------------|------------------|
| | | 2016 | 2015 | 2015 |
| <u>Item</u> | <u>Related Party Categories</u> | | | |
| Receivables from related parties | Associates | \$ 683,818 | \$ 505,722 | \$ 591,801 |
| | Joint venture | | | 220 |
| | | \$ 683,818 | \$ 505,722 | \$ 592,021 |
| Other receivables from related parties | Associates | \$ 141,009 | \$ 125,018 | \$ 162,908 |

d. Payables to related parties

| | | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|-----------------------------|---------------------------------|-------------------|----------------------|-------------------|
| <u>Item</u> | <u>Related Party Categories</u> | | | |
| Payables to related parties | Associates | \$ 1,115,073 | \$ 1,149,988 | \$ 1,608,521 |
| | Joint venture | | | 1,092 |
| | | \$ 1,115,073 | \$ 1,149,988 | \$ 1,609,613 |

e. Others

| | | Three Months Ended March 31 | |
|-----------------------------------|---------------------------------|-----------------------------|------------|
| | | 2016 | 2015 |
| <u>Item</u> | <u>Related Party Categories</u> | | |
| Manufacturing expenses | Associates | \$ 386,173 | \$ 714,514 |
| | Joint venture | | 2,340 |
| | | \$ 386,173 | \$ 716,854 |
| Research and development expenses | Associates | \$ 41,092 | \$ 19,053 |
| | Joint venture | | 60 |
| | | \$ 41,092 | \$ 19,113 |

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

The Company leased machinery and equipment from Xintec and office from VIS, respectively. The lease terms and prices were both determined in accordance with mutual agreements. The rental expenses were paid to Xintec and VIS quarterly and monthly, respectively; 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.

f. Compensation of key management personnel

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

| | Three Months Ended March 31 | |
|------------------------------|------------------------------------|-------------------|
| | 2016 | 2015 |
| Short-term employee benefits | \$ 374,776 | \$ 486,043 |
| Post-employment benefits | 1,038 | 1,005 |
| | \$ 375,814 | \$ 487,048 |

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

33. PLEDGED ASSETS

The Company provided certificate of deposits recorded in other financial assets as collateral mainly for litigation and building lease agreements. As of March 31, 2016, December 31, 2015 and March 31, 2015, the aforementioned other financial assets amounted to NT\$154,406 thousand, NT\$177,229 thousand and NT\$290,149 thousand, respectively.

34. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of land, factory and office premises from the Science Park Administration and entered into lease agreements for its office premises and certain office equipment located in the United States, Europe, Japan, Shanghai and Taiwan. These operating leases expire between April 2016 and March 2035 and can be renewed upon expiration.

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

| | March 31, 2016 | December 31, 2015 | March 31, 2015 |
|--|-------------------|----------------------|-------------------|
| Not later than 1 year | \$ 1,311,773 | \$ 1,099,017 | \$ 893,878 |
| Later than 1 year and not later than 5 years | 3,997,732 | 3,635,180 | 3,338,430 |
| Later than 5 years | 8,021,844 | 6,921,891 | 6,199,795 |
| | \$ 13,331,349 | \$ 11,656,088 | \$ 10,432,103 |

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity provided TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. As of March 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 March 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, dismissing all of Keranos' claims against TSMC 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. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- d. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. 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, Tessera Technologies, Inc. announced it had acquired Ziptronix. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- e. TSMC joined the Customer Co-Investment Program of ASML and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML's equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity on October 31, 2012. 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 March 31, 2016, TSMC has paid EUR181,859 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 March 31, 2016, December 31, 2015 and March 31, 2015 were NT\$122,284 thousand, NT\$144,738 thousand and NT\$219,807 thousand, respectively.

36. SIGNIFICANT LOSS FROM DISASTER

On February 6, 2016, an earthquake struck Taiwan. The resulting damage was mostly to inventories and equipment. In the first quarter of 2016, the Company recognized related earthquake losses of NT\$2,289,128 thousand, net of insurance claim. Such losses were primarily included in cost of revenue for the three months ended March 31, 2016.

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37. 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 | Exchange Rate | Carrying Amount |
|------------------------------|-----------------------|---------------|--------------------|
| | (In Thousands) | (Note 1) | (In Thousands) |
| <u>March 31, 2016</u> | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 3,627,139 | 32.180 | \$ 116,721,336 |
| USD | 210,246 | 6.468(Note 2) | 6,765,720 |
| EUR | 75,403 | 36.50 | 2,752,202 |
| JPY | 37,639,213 | 0.2862 | 10,772,343 |
| <u>Non-monetary items</u> | | | |
| HKD | 145,623 | 4.15 | 604,334 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 2,884,882 | 32.180 | 92,835,508 |
| EUR | 78,424 | 36.50 | 2,862,461 |
| JPY | 37,648,450 | 0.2862 | 10,774,987 |
| <u>December 31, 2015</u> | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| 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 |
| <u>Non-monetary items</u> | | | |
| HKD | 166,727 | 4.24 | 706,924 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| 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 |

(Continued)

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|------------------------------|-----------------------|---------------|--------------------|
| | (In Thousands) | (Note 1) | (In Thousands) |
| <u>March 31, 2015</u> | | | |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 4,303,475 | 31.401 | \$ 135,133,422 |
| USD | 237,194 | 6.200(Note 2) | 7,448,123 |
| EUR | 41,782 | 34.11 | 1,425,179 |
| JPY | 37,695,164 | 0.2622 | 9,883,672 |
| <u>Non-monetary items</u> | | | |
| HKD | 158,285 | 4.05 | 641,056 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | 2,619,790 | 31.401 | 82,264,028 |
| USD | 60,802 | 6.200(Note 2) | 1,909,235 |
| EUR | 62,574 | 34.11 | 2,134,416 |
| JPY | 37,333,072 | 0.2622 | 9,788,731 |
| | | | (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 was a net loss of NT\$1,093,618 thousand and a net gain of NT\$48,183 thousand for the three months ended March 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.

38. 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>Three months ended March 31, 2016</u> | | | |
| Net revenue from external customers | \$ 203,495,361 | \$ | \$ 203,495,361 |
| Income from operations | 70,467,314 | | 70,467,314 |
| <u>Three months ended March 31, 2015</u> | | | |
| Net revenue from external customers | 221,895,133 | 139,011 | 222,034,144 |
| Income (loss) from operations | 86,975,767 | (349,644) | 86,626,123 |

39. ADDITIONAL DISCLOSURES

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

- a. Financings provided: None;
- b. Endorsement/guarantee provided: Please see Table 1 attached;
- c. Marketable securities held (excluding investments in subsidiaries, associates and joint venture): Please see Table 2 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 3 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 4 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 5 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 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 7 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 8 attached;

1. 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 9 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 7 attached.

TABLE 1**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE THREE MONTHS ENDED MARCH 31, 2016****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Guaranteed Party Name | Nature of Relationship | 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) | Ratio of Accumulated Endorsement/ Guarantee Amount to | Ratio of Accumulated Endorsement/ Guarantee Amount to | Ratio of Accumulated Endorsement/ Guarantee Amount to |
|--------------------------|---------------------------|---|--|---|---|--|--|--|
| | | | | | | of Net Equity per Share by Financial Statements | of Net Equity per Share by Financial Statements | of Net Equity per Share by Financial Statements |
| TSMC Global | Subsidiary | \$ 319,993,277 | \$ 48,270,000 | \$ 48,270,000 | \$ 48,270,000 | \$ | 3.77% | \$ 319,993,277 |
| | | | (US\$ 1,500,000) | (US\$ 1,500,000) | (US\$ 1,500,000) | | | |
| TSMC North America | Subsidiary | 319,993,277 | 2,677,804 | 2,677,804 | 2,677,804 | | 0.21% | 319,993,277 |
| | | | (US\$ 83,213) | (US\$ 83,213) | (US\$ 83,213) | | | |

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

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

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

TABLE 2**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****MARKETABLE SECURITIES HELD**

March 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 | March 31, 2016 | | Fair Value (Foreign Currencies in Thousands) | Not |
|-------------------|-------------------------------------|-------------------------------|-----------------------------------|-----------------------------|--|--|------------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) Percentage of Ownership (%) | | |
| SMC | <u>Bank debentures</u> | | | | | | |
| | HSBC Bank (Taiwan) Limited | | Held-to-maturity financial assets | | \$ 300,497 | N/A | \$ 300,704 |
| | The Export-Import Bank of the ROC | | | | 149,999 | N/A | 149,999 |
| | <u>Corporate bond</u> | | | | | | |
| | CPC Corporation, Taiwan | | Held-to-maturity financial assets | | 3,055,201 | N/A | 3,060,359 |
| | Taiwan Power Company | | | | 1,205,701 | N/A | 1,207,609 |
| | Hon Hai Precision Ind. Co., Ltd. | | | | 1,002,494 | N/A | 1,004,519 |
| | Nan Ya Plastics Corporation | | | | 302,038 | N/A | 302,038 |
| | Formosa Petrochemical Corporation | | | | 300,710 | N/A | 300,701 |
| | Formosa Plastics Corporation | | | | 175,530 | N/A | 175,963 |
| | China Steel Corporation | | | | 100,310 | N/A | 100,476 |
| | <u>Structure deposit</u> | | | | | | |
| | Hua Nan Commercial Bank | | Held-to-maturity financial assets | | 2,000,000 | N/A | 1,997,251 |
| | | | | | 1,000,000 | N/A | 999,734 |

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| | | | | | | | |
|---|--|-------------------------------------|---------|-------------|-----|---------|--------|
| Cathay United Bank | | | | | | | |
| <u>Commercial paper</u> | | | | | | | |
| Taiwan Power Company | | Held-to-maturity financial assets | 40 | 399,338 | N/A | 398,928 | |
| <u>Stock</u> | | | | | | | |
| Semiconductor Manufacturing International Corporation | | Available-for-sale financial assets | 211,047 | 604,334 | 1 | 604,334 | |
| 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 | |
| W.K. Technology Fund IV | | | 3,200 | 24,521 | 2 | 24,521 | |
| <u>Fund</u> | | | | | | | |
| Horizon Ventures Fund | | Financial assets carried at cost | | 11,259 | 12 | 11,259 | |
| Crimson Asia Capital | | | | 9,357 | 1 | 9,357 | |
| SMC Partners <u>Stock</u> | | | | | | | |
| Tela Innovations | | Financial assets carried at cost | 10,440 | US\$ 65,000 | 25 | US\$ | 65,000 |
| Mcube Inc. | | | 6,333 | | 14 | | |
| <u>Fund</u> | | | | | | | |
| Shanghai Walden Venture Capital Enterprise | | Financial assets carried at cost | | US\$ 5,000 | 6 | US\$ | 5,000 |
| China Walden Venture Investments II, L.P. | | | | US\$ 4,931 | 9 | US\$ | 4,931 |
| SMC Global <u>Corporate bond</u> | | | | | | | |
| JPMorgan Chase & Co. | | Available-for-sale financial assets | | US\$ 11,067 | N/A | US\$ | 11,067 |
| Bank of America Corp. | | | | US\$ 8,997 | N/A | US\$ | 8,997 |
| Sysco Corporation | | | | US\$ 7,970 | N/A | US\$ | 7,970 |
| Verizon Communications | | | | US\$ 7,201 | N/A | US\$ | 7,201 |
| Bank of Ny Mellon Corp. | | | | US\$ 6,127 | N/A | US\$ | 6,127 |
| BB&T Corporation | | | | US\$ 6,040 | N/A | US\$ | 6,040 |

| March 31, 2016 | | | | | | |
|-------------------|---|-------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|------------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | Fair Value | |
| | | | | (Foreign Currencies) (In Thousands) | (Foreign Currencies) (In Thousands) | |
| | | | | Percentage of Ownership (%) | Note | |
| TSMC Global | Citigroup Inc. | | Available-for-sale financial assets | US\$ 6,024 | N/A | US\$ 6,024 |
| | AT&T Inc. | | | US\$ 5,894 | N/A | US\$ 5,894 |
| | Citizens Bank NA/RI | | | US\$ 5,551 | N/A | US\$ 5,551 |
| | State Street Corp. | | | US\$ 5,549 | N/A | US\$ 5,549 |
| | Anheuser Busch InBev Fin. | | | US\$ 5,120 | N/A | US\$ 5,120 |
| | US Bank NA Cincinnati | | | US\$ 5,031 | N/A | US\$ 5,031 |
| | PNC Bank NA Burlington North Santa Fe | | | US\$ 4,958 | N/A | US\$ 4,958 |
| | Swedbank AB | | | US\$ 4,933 | N/A | US\$ 4,933 |
| | ING Bank N.V. | | | US\$ 4,887 | N/A | US\$ 4,887 |
| | Hyundai Capital America | | | US\$ 4,726 | N/A | US\$ 4,726 |
| | KfW | | | US\$ 4,671 | N/A | US\$ 4,671 |
| | Morgan Stanley | | | US\$ 4,628 | N/A | US\$ 4,628 |
| | CVS Health Corp. | | | US\$ 4,572 | N/A | US\$ 4,572 |
| | Pepsico Inc. | | | US\$ 4,483 | N/A | US\$ 4,483 |
| | Berkshire Hathaway Inc. | | | US\$ 4,208 | N/A | US\$ 4,208 |
| | Chubb Ina Holdings Inc. | | | US\$ 4,085 | N/A | US\$ 4,085 |
| | Cisco Systems Inc. | | | US\$ 4,067 | N/A | US\$ 4,067 |
| | Ameren Corp. | | | US\$ 4,058 | N/A | US\$ 4,058 |
| | Home Depot Inc. | | | US\$ 4,056 | N/A | US\$ 4,056 |
| | Svenska Handelsbanken AB | | | US\$ 4,040 | N/A | US\$ 4,040 |
| | Wells Fargo Bank NA | | | US\$ 4,037 | N/A | US\$ 4,037 |
| | Public Service Electric and Gas Company | | | US\$ 4,030 | N/A | US\$ 4,030 |
| | Johnson & Johnson | | | US\$ 4,028 | N/A | US\$ 4,028 |
| | Asian Development Bank | | | US\$ 4,021 | N/A | US\$ 4,021 |
| | | | | US\$ 4,001 | N/A | US\$ 4,001 |
| | | | | US\$ 3,971 | N/A | US\$ 3,971 |

| | | | |
|--------------------------------|------------|-----|------------|
| Toronto Dominion Bank | | | |
| WEC Energy Group Inc. | US\$ 3,967 | N/A | US\$ 3,967 |
| Enel Finance Intl N.V. | US\$ 3,931 | N/A | US\$ 3,931 |
| National Rural Util. Coop. | US\$ 3,869 | N/A | US\$ 3,869 |
| UBS Group Funding | US\$ 3,557 | N/A | US\$ 3,557 |
| Intl Bk Recon & Develop | US\$ 3,547 | N/A | US\$ 3,547 |
| Fifth Third Bancorp | US\$ 3,427 | N/A | US\$ 3,427 |
| Fifth Third Bank | US\$ 2,846 | N/A | US\$ 2,846 |
| Wells Fargo & Company | US\$ 2,520 | N/A | US\$ 2,520 |
| Ryder System Inc. | US\$ 2,504 | N/A | US\$ 2,504 |
| Oracle Corp. | US\$ 2,481 | N/A | US\$ 2,481 |
| Morgan Stanley | US\$ 2,442 | N/A | US\$ 2,442 |
| American Honda Finance | US\$ 2,370 | N/A | US\$ 2,370 |
| Shell International Fin. | US\$ 2,222 | N/A | US\$ 2,222 |
| Comcast Corp. | US\$ 2,162 | N/A | US\$ 2,162 |
| Xcel Energy Inc. | US\$ 2,025 | N/A | US\$ 2,025 |
| Toyota Motor Credit Corp. | US\$ 2,019 | N/A | US\$ 2,019 |
| Visa Inc. | US\$ 2,012 | N/A | US\$ 2,012 |
| FMS Wertmanagement | US\$ 2,009 | N/A | US\$ 2,009 |
| Nordic Investment Bank | US\$ 2,007 | N/A | US\$ 2,007 |
| New York Life Global FDG | US\$ 2,005 | N/A | US\$ 2,005 |
| Royal Bank of Canada | US\$ 2,003 | N/A | US\$ 2,003 |
| African Development Bank | US\$ 2,001 | N/A | US\$ 2,001 |
| Pricoa Global Funding 144A | US\$ 1,993 | N/A | US\$ 1,993 |
| Goldman Sachs Group Inc. | US\$ 1,928 | N/A | US\$ 1,928 |

(Continued)

| March 31, 2016 | | | | | | |
|-------------------|-------------------------------------|-------------------------------|-------------------------------------|-----------------------------|-----------------------------|----------------------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value | Percentage of Ownership (%) | Fair Value |
| | | | | (Foreign Currencies) | | (Foreign Currencies) |
| | | | | Shares/Units (in Thousands) | | (in Thousands) Note |
| TSMC Global | Oncor Electric Delivery | | Available-for-sale financial assets | US\$ 1,884 | N/A | US\$ 1,884 |
| | Procter & Gamble Co/The | | | US\$ 1,828 | N/A | US\$ 1,828 |
| | Electricite de France SA | | | US\$ 1,818 | N/A | US\$ 1,818 |
| | Public Service Colorado | | | US\$ 1,687 | N/A | US\$ 1,687 |
| | JPMorgan Chase & Co. | | | US\$ 1,606 | N/A | US\$ 1,606 |
| | Heineken N.V. | | | US\$ 1,601 | N/A | US\$ 1,601 |
| | Capital One Bank (USA), NA | | | US\$ 1,549 | N/A | US\$ 1,549 |
| | Medtronic Inc. | | | US\$ 1,513 | N/A | US\$ 1,513 |
| | Abbvie Inc. | | | US\$ 1,510 | N/A | US\$ 1,510 |
| | Nextera Energy Capital | | | US\$ 1,509 | N/A | US\$ 1,509 |
| | Wm. Wrigley Jr. Co. | | | US\$ 1,506 | N/A | US\$ 1,506 |
| | Pfizer Inc. | | | US\$ 1,405 | N/A | US\$ 1,405 |
| | Biogen Inc. | | | US\$ 1,391 | N/A | US\$ 1,391 |
| | General Electric Co. | | | US\$ 1,350 | N/A | US\$ 1,350 |
| | Unitedhealth Group Inc. | | | US\$ 1,317 | N/A | US\$ 1,317 |
| | CSX Corp. | | | US\$ 1,308 | N/A | US\$ 1,308 |
| | Chevron Corp. | | | US\$ 1,257 | N/A | US\$ 1,257 |
| | Principal Lfe Glb Fnd II | | | US\$ 1,206 | N/A | US\$ 1,206 |
| | American Intl Group | | | US\$ 1,169 | N/A | US\$ 1,169 |
| | Trans Canada Pipelines | | | US\$ 1,152 | N/A | US\$ 1,152 |
| | Corning Inc. | | | US\$ 1,140 | N/A | US\$ 1,140 |
| | Pacificorp | | | US\$ 1,095 | N/A | US\$ 1,095 |
| | Merck & Co Inc. | | | US\$ 1,075 | N/A | US\$ 1,075 |
| | Gilead Sciences Inc. | | | US\$ 1,030 | N/A | US\$ 1,030 |
| | Statoil ASA | | | US\$ 1,026 | N/A | US\$ 1,026 |
| | | | | US\$ 1,017 | N/A | US\$ 1,017 |

| | | | |
|---------------------------------|------------|-----|------------|
| Met Life Glob Funding I | | | |
| Morgan Stanley | US\$ 1,017 | N/A | US\$ 1,017 |
| Keycorp | US\$ 1,016 | N/A | US\$ 1,016 |
| UBS AG Stamford CT | US\$ 1,013 | N/A | US\$ 1,013 |
| Celgene Corp. | US\$ 1,011 | N/A | US\$ 1,011 |
| Bank of America N.A. | US\$ 1,009 | N/A | US\$ 1,009 |
| Suntrust Banks Inc. | US\$ 1,009 | N/A | US\$ 1,009 |
| Schlumberger Hldgs Corp. | US\$ 1,007 | N/A | US\$ 1,007 |
| Rabobank Nederland NY | US\$ 1,006 | N/A | US\$ 1,006 |
| HSBC USA Inc. | US\$ 1,003 | N/A | US\$ 1,003 |
| Carnival Corp. | US\$ 1,003 | N/A | US\$ 1,003 |
| IBM Corp. | US\$ 1,002 | N/A | US\$ 1,002 |
| Credit Suisse New York | US\$ 1,002 | N/A | US\$ 1,002 |
| Eaton Corp. | US\$ 1,001 | N/A | US\$ 1,001 |
| Aig Global Funding | US\$ 999 | N/A | US\$ 999 |
| Deutsche Bank AG, London | US\$ 994 | N/A | US\$ 994 |
| Marsh & Mclennan Cos Inc. | US\$ 935 | N/A | US\$ 935 |
| Stryker Corp. | US\$ 910 | N/A | US\$ 910 |
| Mastercard Inc. | US\$ 871 | N/A | US\$ 871 |
| Amgen Inc. | US\$ 861 | N/A | US\$ 861 |
| Eaton Corp. | US\$ 838 | N/A | US\$ 838 |
| Manuf & Traders Trust Co. | US\$ 757 | N/A | US\$ 757 |
| TTX Co. | US\$ 709 | N/A | US\$ 709 |
| Commonwealth Bk Austr NY | US\$ 651 | N/A | US\$ 651 |
| Bayer US Finance LLC | US\$ 603 | N/A | US\$ 603 |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | March 31, 2016 | | | Fair Value (Foreign Currencies) in Thousands | Note |
|-------------------|-------------------------------------|-------------------------------|-------------------------------------|-----------------------------|--|-----------------------------|--|------|
| | | | | Shares/Units (in Thousands) | Carrying Value (Foreign Currencies) in Thousands | Percentage of Ownership (%) | | |
| TSMC Global | Coca Cola Co/The | | Available-for-sale financial assets | US\$ | 591 | N/A | US\$ 591 | |
| | Mcdonald S Corp. | | | US\$ | 555 | N/A | US\$ 555 | |
| | American Intl Group | | | US\$ | 505 | N/A | US\$ 505 | |
| | Duke Energy Corp. | | | US\$ | 427 | N/A | US\$ 427 | |
| | Nissan Motor Acceptance | | | US\$ | 297 | N/A | US\$ 297 | |
| | Philip Morris Intl Inc. | | | US\$ | 291 | N/A | US\$ 291 | |
| | U.S. Bancorp | | | US\$ | 265 | N/A | US\$ 265 | |
| | Rolls Royce PLC | | | US\$ | 226 | N/A | US\$ 226 | |
| | Berkshire Hathaway Fin. | | | US\$ | 137 | N/A | US\$ 137 | |
| | Goldman Sachs Group, Inc. | | Held-to-maturity financial assets | US\$ | 100,000 | N/A | US\$ 100,251 | |
| | JPMorgan Chase & Co. | | | US\$ | 69,070 | N/A | US\$ 69,217 | |
| | Commonwealth Bank of Australia | | | US\$ | 50,000 | N/A | US\$ 50,053 | |
| | National Australia Bank | | | US\$ | 50,000 | N/A | US\$ 50,019 | |
| | Westpac Banking Corporation | | | US\$ | 50,000 | N/A | US\$ 50,011 | |
| | <u>Government bond</u> | | | | | | | |
| | US Treasury N/B | | Available-for-sale financial assets | US\$ | 15,808 | N/A | US\$ 15,808 | |
| | <u>Agency bond</u> | | | | | | | |
| | Fnma Pool AL7191 | | Available-for-sale financial assets | US\$ | 15,331 | N/A | US\$ 15,331 | |
| | Fnma Pool 888577 | | | US\$ | 11,975 | N/A | US\$ 11,975 | |
| | Fnma Pool AV5062 | | | US\$ | 10,002 | N/A | US\$ 10,002 | |
| | Fnma Pool AL1543 | | | US\$ | 6,235 | N/A | US\$ 6,235 | |
| | | | | US\$ | 6,051 | N/A | US\$ 6,051 | |

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| | | | | |
|-----------------------------|------|-------|-----|------------|
| Fnma Pool AL8153 | | | | |
| Fed Hm Ln Pc Pool J32501 | US\$ | 5,778 | N/A | US\$ 5,778 |
| Fnma Pool 995113 | US\$ | 4,797 | N/A | US\$ 4,797 |
| Fnma Pool AD4037 | US\$ | 4,775 | N/A | US\$ 4,775 |
| Fnma Pool AS6275 | US\$ | 4,762 | N/A | US\$ 4,762 |
| Fnma Pool AL7671 | US\$ | 4,675 | N/A | US\$ 4,675 |
| Fnma Pool AL0516 | US\$ | 4,066 | N/A | US\$ 4,066 |
| Fnma Pool 310104 | US\$ | 4,006 | N/A | US\$ 4,006 |
| Fnma Pool AS3460 | US\$ | 3,921 | N/A | US\$ 3,921 |
| Fnma Pool AV3015 | US\$ | 3,918 | N/A | US\$ 3,918 |
| Fnma Pool AL0950 | US\$ | 3,252 | N/A | US\$ 3,252 |
| Fnma Pool AH5613 | US\$ | 3,209 | N/A | US\$ 3,209 |
| Fed Hm Ln Pc Pool A94972 | US\$ | 3,120 | N/A | US\$ 3,120 |
| Fnma Pool AS6092 | US\$ | 3,060 | N/A | US\$ 3,060 |
| Fed Hm Ln Pc Pool J32520 | US\$ | 3,057 | N/A | US\$ 3,057 |
| Fannie Mae | US\$ | 3,001 | N/A | US\$ 3,001 |
| Fed Hm Ln Pc Pool G60374 | US\$ | 2,816 | N/A | US\$ 2,816 |
| Fnma Pool 725423 | US\$ | 2,814 | N/A | US\$ 2,814 |
| Fed Hm Ln Pc Pool 2B5202 | US\$ | 2,615 | N/A | US\$ 2,615 |
| Fnma Pool 888637 | US\$ | 2,563 | N/A | US\$ 2,563 |
| Fed Hm Ln Pc Pool 849787 | US\$ | 2,373 | N/A | US\$ 2,373 |
| Fnma Pool 995024 | US\$ | 2,339 | N/A | US\$ 2,339 |
| Fnma Pool AD0198 | US\$ | 2,266 | N/A | US\$ 2,266 |
| Fnma Pool AL6818 | US\$ | 2,201 | N/A | US\$ 2,201 |
| Fnma Pool AY6119 | US\$ | 2,025 | N/A | US\$ 2,025 |
| Fnma Pool AL7485 | US\$ | 2,008 | N/A | US\$ 2,008 |

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| | | | | | |
|---------------------|------|-------|-----|------|-------|
| Freddie Mac | US\$ | 2,000 | N/A | US\$ | 2,000 |
| Fnma Pool 255364 | US\$ | 1,964 | N/A | US\$ | 1,964 |

(Continued)

| March 31, 2016 | | | | | | | |
|-------------------|---|-------------------------------|-------------------------------------|-------------------------------------|-----------------------------|---------------------------------|------------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Carrying Value (Foreign Currencies) | | Fair Value (Foreign Currencies) | |
| | | | | Shares/Units (In Thousands) | Percentage of Ownership (%) | (In Thousands) | |
| TSMC Global | Fnma Pool AL6254 | | Available-for-sale financial assets | | US\$ 1,894 | N/A | US\$ 1,894 |
| | Fnma Pool AL7421 | | | | US\$ 1,875 | N/A | US\$ 1,875 |
| | Fnma Pool AH7196 | | | | US\$ 1,830 | N/A | US\$ 1,830 |
| | Freddie Mac Fnma Pool 930289 | | | | US\$ 1,749 | N/A | US\$ 1,749 |
| | Fnma Pool AL4141 | | | | US\$ 1,618 | N/A | US\$ 1,618 |
| | Fnma Pool MA1201 | | | | US\$ 1,611 | N/A | US\$ 1,611 |
| | Fannie Mae Fnma Pool 890101 | | | | US\$ 1,529 | N/A | US\$ 1,529 |
| | Federal Farm Credit Bank Fed Hm Ln Pc Pool 849872 | | | | US\$ 1,395 | N/A | US\$ 1,395 |
| | Fed Hm Ln Pc Pool 849614 | | | | US\$ 1,304 | N/A | US\$ 1,304 |
| | Fnma Pool AX5630 | | | | US\$ 1,252 | N/A | US\$ 1,252 |
| | Fnma Pool AL7912 | | | | US\$ 1,251 | N/A | US\$ 1,251 |
| | Fed Hm Ln Pc Pool J32972 | | | | US\$ 1,101 | N/A | US\$ 1,101 |
| | Fed Hm Ln Pc Pool V60841 | | | | US\$ 1,066 | N/A | US\$ 1,066 |
| | Fed Hm Ln Pc Pool 840260 | | | | US\$ 1,028 | N/A | US\$ 1,028 |
| | Fnma Pool 888129 | | | | US\$ 845 | N/A | US\$ 845 |
| | Fed Hm Ln Pc Pool G05956 | | | | US\$ 774 | N/A | US\$ 774 |
| | | | | | US\$ 772 | N/A | US\$ 772 |
| | | | | | US\$ 742 | N/A | US\$ 742 |
| | | | | | US\$ 713 | N/A | US\$ 713 |
| | | | | | US\$ 705 | N/A | US\$ 705 |

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| | | | |
|---|----------|-----|----------|
| Fnma Pool AD0249 Export Developmnt Canada | US\$ 655 | N/A | US\$ 655 |
| Fannie Mae | US\$ 645 | N/A | US\$ 645 |
| Fnma Pool 257041 | US\$ 624 | N/A | US\$ 624 |
| Fnma Pool AL6302 | US\$ 614 | N/A | US\$ 614 |
| Fnma Pool 725946 | US\$ 530 | N/A | US\$ 530 |
| Fnma Pool AL7920 | US\$ 523 | N/A | US\$ 523 |
| Fnma Pool 257004 | US\$ 495 | N/A | US\$ 495 |
| Fed Hm Ln Pc Pool C03532 | US\$ 416 | N/A | US\$ 416 |
| Fed Hm Ln Pc Pool G60473 | US\$ 392 | N/A | US\$ 392 |
| Fed Hm Ln Pc Pool J33012 | US\$ 387 | N/A | US\$ 387 |
| Fnma Pool AW8203 | US\$ 378 | N/A | US\$ 378 |
| Fnma Pool AE0154 | US\$ 363 | N/A | US\$ 363 |
| Fnma Pool AL6406 | US\$ 362 | N/A | US\$ 362 |
| Fnma Pool 256513 | US\$ 354 | N/A | US\$ 354 |
| Fed Hm Ln Pc Pool C03464 | US\$ 327 | N/A | US\$ 327 |
| Fed Hm Ln Pc Pool G03221 | US\$ 261 | N/A | US\$ 261 |
| Fnma Pool 735997 | US\$ 260 | N/A | US\$ 260 |
| Fnma Pool 889633 | US\$ 222 | N/A | US\$ 222 |
| Fnma Pool 725424 | US\$ 191 | N/A | US\$ 191 |
| Fnma Pool 889576 | US\$ 180 | N/A | US\$ 180 |
| Fnma Pool 888994 | US\$ 164 | N/A | US\$ 164 |
| Fed Hm Ln Pc Pool | US\$ 136 | N/A | US\$ 136 |

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| | | | | |
|-----------|------|-----|-----|----------|
| C91854 | | | | |
| Fnma Pool | | | | |
| AE0375 | US\$ | 124 | N/A | US\$ 124 |
| Fnma Pool | | | | |
| 889455 | US\$ | 82 | N/A | US\$ 82 |
| Fnma Pool | | | | |
| 995018 | US\$ | 79 | N/A | US\$ 79 |
| Fnma Pool | | | | |
| 831811 | US\$ | 66 | N/A | US\$ 66 |
| Fnma Pool | | | | |
| 954940 | US\$ | 46 | N/A | US\$ 46 |
| Fed Hm Ln | | | | |
| Pc Pool | | | | |
| 849506 | US\$ | 44 | N/A | US\$ 44 |
| Fnma Pool | | | | |
| AL6964 | US\$ | 32 | N/A | US\$ 32 |
| Fed Hm Ln | | | | |
| Pc Pool | | | | |
| C91845 | US\$ | 27 | N/A | US\$ 27 |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | March 31, 2016 | | | Fair Value (Foreign Currencies in Thousands) Note |
|---|--|-------------------------------------|-------------------------------------|-----------------------------|--|-----------------------------|---|
| | | | | Shares/Units (in Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | |
| TSMC Global | Fnma Pool 745516 | | Available-for-sale financial assets | US\$ | 25 | N/A | US\$ 25 |
| | Fnma Pool 890071 | | | US\$ | 24 | N/A | US\$ 24 |
| | Fnma Pool 535994 | | | US\$ | 23 | N/A | US\$ 23 |
| | Fnma Pool AE0616 | | | US\$ | 21 | N/A | US\$ 21 |
| | Fnma Pool 323692 | | | US\$ | 17 | N/A | US\$ 17 |
| | Fnma Pool 725773 | | | US\$ | 14 | N/A | US\$ 14 |
| | Fnma Pool 735141 | | | US\$ | 11 | N/A | US\$ 11 |
| | <u>Negotiable certificate of deposit</u> | | | | | | |
| | Bank of China | | Held-to-maturity financial assets | US\$ 50,000 | | N/A | US\$ 50,334 |
| | China Development Bank | | | US\$ 50,000 | | N/A | US\$ 50,325 |
| China Construction Bank | | | US\$ 50,000 | | N/A | US\$ 50,209 | |
| <u>Corporate issued asset-backed securities</u> | | | | | | | |
| Chase Issuance Trust | | Available-for-sale financial assets | US\$ 22,037 | | N/A | US\$ 22,037 | |
| Citibank Credit Card Issuance Trust | | | US\$ 21,035 | | N/A | US\$ 21,035 | |
| Discover Card Execution Note Trust | | | US\$ 18,553 | | N/A | US\$ 18,553 | |
| Capital One Multi Asset Execution Trust | | | US\$ 16,335 | | N/A | US\$ 16,335 | |
| Bank of America | | | US\$ 10,442 | | N/A | US\$ 10,442 | |

| | | | |
|--|------------|-----|------------|
| Credit Card Trust | | | |
| American Express Credit Account Master Trust | US\$ 7,779 | N/A | US\$ 7,779 |
| Ford Credit Floorplan Master Owner Trust | US\$ 7,330 | N/A | US\$ 7,330 |
| Mercedes Benz Master Owner Trust | US\$ 5,987 | N/A | US\$ 5,987 |
| Ford Credit Auto Owner Trust | US\$ 4,701 | N/A | US\$ 4,701 |
| American Express Credit Account Master Trust | US\$ 4,002 | N/A | US\$ 4,002 |
| American Express Credit Account Master Trust | US\$ 3,997 | N/A | US\$ 3,997 |
| GS Mortgage Securities Trust | US\$ 3,177 | N/A | US\$ 3,177 |
| Mercedes Benz Auto Lease Trust | US\$ 3,002 | N/A | US\$ 3,002 |
| Hyundai Auto Receivables Trust | US\$ 2,843 | N/A | US\$ 2,843 |
| BMW Floorplan Master Owner Trust | US\$ 2,438 | N/A | US\$ 2,438 |
| Toyota Auto Receivables Owner Trust | US\$ 2,076 | N/A | US\$ 2,076 |
| Carmax Auto Owner Trust | US\$ 2,009 | N/A | US\$ 2,009 |
| Nissan Auto Receivables Owner Trust | US\$ 2,005 | N/A | US\$ 2,005 |
| Ford Credit Auto Owner Trust | US\$ 2,002 | N/A | US\$ 2,002 |

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| | | | |
|---|------------|-----|------------|
| Nissan Auto Lease Trust | US\$ 2,002 | N/A | US\$ 2,002 |
| Hyundai Auto Lease Securitization Trust | US\$ 2,001 | N/A | US\$ 2,001 |
| Nissan Auto Receivables Owner Trust | US\$ 2,001 | N/A | US\$ 2,001 |
| Toyota Auto Receivables Owner Trust | US\$ 2,001 | N/A | US\$ 2,001 |
| BMW Vehicle Lease Trust | US\$ 2,000 | N/A | US\$ 2,000 |
| Mercedes Benz Auto Lease Trust | US\$ 2,000 | N/A | US\$ 2,000 |
| USAA Auto Owner Trust | US\$ 1,999 | N/A | US\$ 1,999 |
| Nissan Master Owner Trust Receivables Trust | US\$ 1,996 | N/A | US\$ 1,996 |
| Chrysler Capital Auto Receivables Trust | US\$ 1,806 | N/A | US\$ 1,806 |
| Golden Credit Card Trust | US\$ 1,800 | N/A | US\$ 1,800 |
| Hyundai Auto Lease Securitization Trust | US\$ 1,756 | N/A | US\$ 1,756 |
| Mercedes Benz Auto Receivables Trust | US\$ 1,704 | N/A | US\$ 1,704 |
| Honda Auto Receivables Owner Trust | US\$ 1,701 | N/A | US\$ 1,701 |
| Toyota Auto Receivables Owner Trust | US\$ 1,685 | N/A | US\$ 1,685 |
| Ford Credit Auto Lease Trust | US\$ 1,656 | N/A | US\$ 1,656 |
| Ford Credit Auto Owner Trust | US\$ 1,431 | N/A | US\$ 1,431 |
| Chesapeake Funding II | US\$ 1,380 | N/A | US\$ 1,380 |

LLC

Hyundai Auto

Receivables

Trust

US\$ 1,008

N/A

US\$ 1,008

(Continued)

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| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | March 31, 2016 | | | Fair Value (Foreign Currencies in Thousands) Note |
|-------------------|--|-------------------------------|-------------------------------------|-----------------------------|--|-----------------------------|---|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | |
| TSMC Global | Nissan Auto Lease Trust | | Available-for-sale financial assets | | US\$ 818 | N/A | US\$ 818 |
| | Hyundai Auto Lease Securitization Trust | | | | US\$ 86 | N/A | US\$ 86 |
| | <u>Fund</u> Primavera Capital Fund II L.P. | | Financial assets carried at cost | | US\$ 17,069 | 5 | US\$ 17,069 |
| VTAF III | <u>Common stock</u> Accton Wireless Broadband Corp. | | Financial assets carried at cost | 2,249 | US\$ 315 | 6 | US\$ 315 |
| | <u>Preferred stock</u> BridgeLux, Inc. | | Financial assets carried at cost | 7,522 | US\$ 5,177 | 3 | US\$ 5,177 |
| | GTBF, Inc. | | | 1,154 | US\$ 1,500 | N/A | US\$ 1,500 |
| | LiquidLeds Lighting Corp. | | | 1,600 | US\$ 800 | 11 | US\$ 800 |
| | Neoconix, Inc. | | | 4,147 | US\$ 170 | | US\$ 170 |
| VTAF II | <u>Common stock</u> RichWave Technology Corp. | | Available-for-sale financial assets | 1,267 | US\$ 3,079 | 3 | US\$ 3,079 |
| | Sentelic | | Financial assets carried at cost | 1,806 | US\$ 2,607 | 8 | US\$ 2,607 |
| | Aether Systems, Inc. | | | 3,100 | US\$ 2,429 | 30 | US\$ 2,429 |
| | <u>Preferred stock</u> Aquantia | | Financial assets carried at cost | 4,643 | US\$ 4,441 | 2 | US\$ 4,441 |
| | 5V Technologies, Inc. | | | 963 | US\$ 2,168 | 2 | US\$ 2,168 |
| | Impinj, Inc. | | | 711 | US\$ 1,100 | | US\$ 1,100 |
| | | | | | US\$ 588 | 13 | US\$ 588 |

QST
Holdings,
LLC

Cresta
Technology
Corporation

92 US\$ 28 US\$ 28

Emerging Alliance Common
stock

RichWave
Technology
Corp.

Available-for-sale
financial assets

4,034 US\$ 9,803 8 US\$ 9,803

Global
Investment
Holding Inc.

Financial assets
carried at cost

11,124 US\$ 3,065 6 US\$ 3,065

Preferred
stock

QST
Holdings,
LLC

Financial assets
carried at cost

US\$ 141 4 US\$ 141

ISDF Preferred
stock

Sonics, Inc.

Financial assets
carried at cost

230 3

ISDF II Common
stock

Alchip
Technologies
Limited

Available-for-sale
financial assets

6,581 US\$ 7,352 11 US\$ 7,352

Goyatek
Technology,
Corp.

Financial assets
carried at cost

745 6

Sonics, Inc.

278 4

Preferred
stock

Sonics, Inc.

Financial assets
carried at cost

264 4

(Concluded)

TABLE 3**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 THREE MONTHS ENDED MARCH 31, 2016****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Financial Statement Account | Counter-party | Nature of Relationship | Beginning | Acquisition | Disposal | Carrying Value | Gain |
|---|---------------|------------------------|--------------------------------|--------------------------|--------------------------|----------------|------|
| | | | Balance | Shares/Units | Shares/Units | | |
| | | | Shares/Units (In Thousands) | Amount (In Thousands) | Amount (In Thousands) | Amount | |
| Held-to-maturity financial assets | | | \$ 3,305,475 | \$ | \$ 3,000,000 | \$ 3,000,000 | |
| Held-to-maturity financial assets | | | 1,543,723 | 1,513,743 | | | |
| | | | | 302,139 | | | |
| Held-to-maturity financial assets | | | | 40 | 399,338 | | |
| Prepayments for Investments (Note 2) | | Subsidiary | | | 6,620,627 | | |
| Held-to-maturity financial assets | | | | US\$ 100,000 | | | |
| | | | US\$ 10,798 | US\$ 58,533 | | | |
| | | | | US\$ 50,000 | | | |
| | | | | US\$ 50,000 | | | |
| | | | | US\$ 50,000 | | | |

| | | | | | | | | |
|-------------------------------------|------|--------|------|--------|------|--------|------|--------|
| Available-for-sale financial assets | US\$ | 26,702 | US\$ | 2,259 | US\$ | 13,250 | US\$ | 13,287 |
| Available-for-sale financial assets | US\$ | 5,864 | US\$ | 9,855 | US\$ | 501 | US\$ | 571 |
| | | | US\$ | 11,995 | | | | |
| | | | US\$ | 9,975 | | | | |
| | US\$ | 3,964 | US\$ | 11,998 | US\$ | 16,006 | US\$ | 15,978 |
| Available-for-sale financial assets | US\$ | 9,756 | US\$ | 11,268 | | | | |

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: To lower the hedging cost, in February 2016, the Board of Directors of TSMC approved to inject US\$2,000,000 thousand of capital into TSMC Global. This project was approved by the Investment Commission, MOEA. The prepayment for investment was US\$202,900 thousand as of March 31, 2016 and the total injection is expected to be finished in the fourth quarter of 2016.

TABLE 4**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 THREE MONTHS ENDED MARCH 31, 2016****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Transaction Date | Transaction Amount (Foreign Currencies in Thousands) | Payment Term | Counter-party | Nature of Relationships | Prior Transaction of Related Counter-party | | | | Reference |
|--|--|--|-------------------------------------|-------------------------|--|---------------|---------------|--------|---|
| | | | | | Owner | Relationships | Transfer Date | Amount | |
| 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 competition and negotiation |
| 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 competition and negotiation |
| December 10, 2015 to January 25, 2016 | 2,747,768 | Monthly settlement by the construction progress and acceptance | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Bidding price competition and negotiation |
| 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 competition and negotiation |
| 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 competition and negotiation |

TABLE 5**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 THREE MONTHS ENDED MARCH 31, 2016****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Related Party | Nature of Relationships | Transaction Details Purchases/Sales | Amount (Foreign Currencies % to in Thousands) | | Payment Terms | Abnormal Transaction | | Note Pa Re Ending (For Curre Thou |
|------------------|-------------------------|--|---|----|---|----------------------|---------------|---|
| | | | Total | % | | Unit Price | Payment Terms | |
| IC h erica | Subsidiary | Sales | \$ 127,059,031 | 61 | Net 30 days from invoice date (Note) | | Note | \$ 56 |
| C | Associate | Sales | 1,334,523 | 1 | Net 30 days from the end of the month of when invoice is issued | | | |
| IC na | Subsidiary | Purchases | 4,411,905 | 28 | Net 30 days from the end of the month of when invoice is issued | | | (1 |
| erTech | Indirect subsidiary | Purchases | 2,122,936 | 13 | Net 30 days from the end of the month of when invoice is issued | | | (1 |
| | Associate | Purchases | 1,657,063 | 10 | Net 30 days from the end of the month of when invoice is issued | | | |
| IC | Associate | Purchases | 688,182 | 4 | Net 30 days from the end of the month of when invoice is | | | |

| | | | | |
|-------------------|-------|--------------|-------------------------------------|--------|
| | | | issued | |
| Associate of TSMC | Sales | 241,322 | Net 30 days from invoice date | |
| | | (US\$ 7,282) | | (US\$) |

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.

TABLE 6**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

March 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 Amount | Action Taken | Amounts Rec in Al Subsequer Period |
|--------------|--------------------|-------------------------|--|---------------------------|-------------------|--------------|---|
| | TSMC North America | Subsidiary | \$ 59,249,788 | 41 | \$ 3,525,530 | | \$ 3,559,18 |
| | GUC | Associate | 669,088 | 39 | 280,933 | | 280,93 |
| Japan | TSMC | Parent company | 111,863 | 109 | | | |
| | | | (JPY 390,856) | | | | |
| China | TSMC | Parent company | 1,282,363 | 28 | | | |
| | | | (RMB 257,732) | | | | |
| Technology | TSMC | Parent company | 204,667 | Note 2 | | | |
| | | | (US\$ 6,360) | | | | |
| Tech | TSMC | Parent company | 1,313,799 | 44 | | | |
| | | | (US\$ 40,827) | | | | |

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.

TABLE 7**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS****FOR THE THREE MONTHS ENDED MARCH 31, 2016****(Amounts in Thousands of New Taiwan Dollars)**

| Company Name | Counter Party | Nature of Relationship (Note 1) | Financial Statements Item | Intercompany Transactions | |
|--------------|--------------------|------------------------------------|--|---------------------------|--|
| | | | | Amount | Percentage of Consolidated Net Revenue or Total Assets |
| TSMC | TSMC North America | 1 | Net revenue from sale of goods | \$ 127,059,031 | 62% |
| | | | Receivables from related parties | 56,786,317 | 3% |
| | | | Other receivables from related parties | 2,463,471 | |
| | TSMC Japan | 1 | Payables to related parties | 111,863 | |
| | TSMC Europe | 1 | Marketing expenses - commission | 111,849 | |
| | TSMC China | 1 | Purchases | 4,411,905 | 2% |
| | | | Payables to related parties | 1,282,363 | |
| | TSMC Technology | 1 | Research and development expenses | 448,421 | |
| | WaferTech | 1 | Payables to related parties | 204,667 | |
| | | | Purchases | 2,122,936 | 1% |
| | | | Payables to related parties | 1,313,799 | |

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

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.

TABLE 8**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 THREE MONTHS ENDED MARCH 31, 2016****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of March 31, 2016 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Share of Profits/Loss of Investee (Note 1) (Foreign Currencies in Thousands) |
|------------------|---------------------------------|--|--|---|----------------------------------|--|----------------|---|--|
| | | | March 31, 2016 (Foreign Currencies in Thousands) | December 31, 2015 (Foreign Currencies in Thousands) | Shares (In Percentage Ownership) | Carrying Value (Foreign Currencies in Thousands) | | | |
| SMC Global | Tortola, British Virgin Islands | Investment activities | \$ 174,375,863 (Note 3) | \$ 167,755,236 | 5 | 100 | \$ 206,150,350 | \$ 479,955 | \$ 479,955 |
| SMC Partners | 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 | 50,549,617 | 695,284 | 695,284 |
| SMC | Singapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 9,649,635 | 902,923 | 350,244 |
| SMC | Hsin-Chu, Taiwan | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, | 10,180,677 | 10,180,677 | 464,223 | 28 | 8,846,336 | 1,353,171 | 381,994 |

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| | | | | | | | | | |
|-------------------|-----------------------------|---|-----------|-----------|--------|------|-----------|----------|----------|
| | | VLSI and related parts | | | | | | | |
| SMC North America | San Jose, California, U.S.A | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 4,176,574 | 34,944 | 34,944 |
| intec | Taoyuan, Taiwan | Wafer level chip size packaging service | 1,309,969 | 1,309,969 | 92,778 | 35 | 2,188,733 | (61,998) | (21,361) |
| ototech | 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 | 5,221,931 | 5,221,931 | 58,320 | 12 | 2,148,431 | 816,584 | 78,418 |
| UC | Hsin-Chu, Taiwan | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,174,917 | 159,654 | 55,874 |
| TAF II | Cayman Islands | Investing in new start-up technology companies | 608,562 | 608,562 | | 98 | 541,318 | 2,719 | 2,665 |
| Emerging Alliance | Cayman Islands | Investing in new start-up technology companies | 844,775 | 844,775 | | 99.5 | 419,414 | (280) | (279) |
| Chi Cheng | Taipei, Taiwan | Investment activities | 394,674 | 394,674 | 36,600 | 100 | 394,584 | 220 | 220 |
| TAF III | Cayman Islands | Investing in new start-up technology companies | 1,499,452 | 1,499,452 | | 98 | 374,164 | (3,991) | (3,911) |
| SMC Europe | Amsterdam, the Netherlands | Marketing and engineering supporting activities | 15,749 | 15,749 | | 100 | 345,505 | 10,311 | 10,311 |
| SMC Japan | Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 135,200 | 1,742 | 1,742 |
| SMC Korea | Seoul, Korea | Customer service and technical | 13,656 | 13,656 | 80 | 100 | 36,337 | 716 | 716 |

| | | supporting activities | | | | | | | |
|-----------------------|------------------|--|--------|--------|---|-----|---------|---------|---------|
| SMC Solar Europe GmbH | Hamburg, Germany | Selling of solar modules and related products and providing customer service | 25,266 | 25,266 | 1 | 100 | (1,603) | (2,823) | (2,823) |

(Continued)

| Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of March 31, 2016 | | | Net Income of the Investee (Losses) of the Investee (Foreign Currencies in Thousands) | Prof of (Losses) of the Investee (Foreign Currencies in Thousands) |
|------------------|--------------------|---|--|---|-------------------------------------|--|---|---|--|
| | | | March 31, 2016 (Foreign Currencies in Thousands) | December 31, 2015 (Foreign Currencies in Thousands) | Shares (In Percentage of Ownership) | Carrying Value (Foreign Currencies in Thousands) | Current Value (Foreign Currencies in Thousands) | | |
| Development | Delaware, U.S.A | Investment activities | 0.03 (US\$ 0.001) | 0.03 (US\$ 0.001) | 100 | 26,033,188 | 557,721 | | |
| Manufacturing | Cayman Islands | Investing in companies involved in the design, manufacture, and other related businesses in the semiconductor industry | 4,865,757 (US\$ 151,204) | 4,865,757 (US\$ 151,204) | 86,000 | 98 (US\$ 219,858) | 7,075,016 (US\$ 2,652) | 87,873 (US\$ 16,830) | |
| Technology | Delaware, U.S.A | Engineering support activities | 0.03 (US\$ 0.001) | 0.03 (US\$ 0.001) | 100 | 553,841 | 21,291 | | |
| FF II | Cayman Islands | Investing in new start-up technology companies | 299,242 (US\$ 9,299) | 299,242 (US\$ 9,299) | 9,299 | 97 (US\$ 10,892) | 350,511 | 4 (US\$) | |
| Canada | Ontario, Canada | Engineering support activities | 74,014 (US\$ 2,300) | 74,014 (US\$ 2,300) | 2,300 | 100 (US\$ 5,040) | 162,178 | 2,351 (US\$ 71) | |
| F | Cayman Islands | Investing in new start-up technology companies | 18,761 (US\$ 583) | 18,761 (US\$ 583) | 583 | 97 (US\$ 125) | 4,035 | 11 (US\$) | |
| With Fund | Cayman Islands | Investing in new start-up technology companies | 47,040 (US\$ 1,462) | 47,040 (US\$ 1,462) | 100 | 24,801 (US\$ 771) | | (801) (US\$ (24)) | |
| Mal-Pak | New Taipei, Taiwan | Manufacturing of electronic parts, wholesaling and retailing of electronic materials, and researching, developing and testing of RFID | \$ 167,744 (US\$ 5,212) | \$ 167,744 (US\$ 5,212) | 15,643 | 58 (US\$ 510) | \$ 16,401 | \$ (6,587) (US\$ (199)) | |

| | | | | | | | | | |
|---------|----------------------|---|---------------|---------------|---------|-----|----------------|----------------|--|
| ings | Delaware, U.S.A | Investing in new start-up technology companies | | | | | | | |
| ings | Delaware, U.S.A | Investing in new start-up technology companies | | | | 31 | | | |
| ings | Delaware, U.S.A | Investing in new start-up technology companies | | | | 7 | | | |
| erTech | Washington, U.S.A | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | | | 293,637 | 100 | 6,749,915 | 529,517 | |
| | | | | | | | (US\$ 209,755) | (US\$ 15,979) | |
| ra Tech | Hsin-Chu, Taiwan | Engaged in manufacturing electronic spare parts and in researching, developing, designing, manufacturing, selling, packaging and testing of color filter | 3,027,129 | 3,027,129 | 253,120 | 87 | 5,447,635 | 94,720 | |
| | | | (US\$ 94,069) | (US\$ 94,069) | | | (US\$ 169,286) | (US\$ 2,858) | |
| ec | Taoyuan, Taiwan | Wafer level chip size packaging service | 195,749 | 195,749 | 18,504 | 6 | 707,631 | (61,998) | |
| | | | (US\$ 6,083) | (US\$ 6,083) | | | (US\$ 21,990) | (US\$ (1,871)) | |

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: To lower the hedging cost, in February 2016, the Board of Directors of TSMC approved to inject US\$2,000,000 thousand of capital into TSMC Global. This project was approved by the Investment Commission, MOEA. The prepayment for investment was US\$202,900 thousand as of March 31, 2016 and the total injection is expected to be finished in the fourth quarter of 2016.

(Concluded)

TABLE 9**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****INFORMATION ON INVESTMENT IN MAINLAND CHINA****FOR THE THREE MONTHS ENDED MARCH 31, 2016**

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

| Main Businesses and Products | Total Amount of Paid-in Capital Foreign Currencies in Thousands) | Method of Investment | Accumulated Investment | | Net Income (Losses) of the Investee Company | Percentage of Ownership | Share of Profits/Losses |
|--|--|----------------------|---|---|---|-------------------------|-------------------------|
| | | | Outflow of Investment from Taiwan as of January 1, 2016 (US\$ in Thousands) | Flows Investment from Taiwan as of March 31, 2016 (US\$ in Thousands) | | | |
| 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) | \$ 1,033,338 | 100% | \$ 974,151 (Note 2) |

| Investment Amounts Authorized by Commission, MOEA Upper Limit on Investment | | |
|---|--------------------------------------|---|
| Accumulated Investment in Mainland China as of March 31, 2016 (US\$ in Thousands) | Commission, MOEA (US\$ in Thousands) | Upper Limit on Investment (US\$ in Thousands) |
| \$ 18,939,667 (US\$ 596,000) | \$ 119,412,667 (US\$ 3,596,000) | \$ 768,567,646 |

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

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