TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
November 16, 2017

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2017

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant s Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

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

Taiwan Semiconductor Manufacturing Company Ltd.

Date: November 14, 2017

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

Taiwan Semiconductor Manufacturing

Company Limited and Subsidiaries

Consolidated Financial Statements for the

Nine Months Ended September 30, 2017 and 2016 and

Independent Accountants   Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries (the Company) as of September 30, 2017 and 2016 and the related consolidated statements of comprehensive income for the three months ended September 30, 2017 and 2016 and for the nine months ended September 30, 2017 and 2016, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2017 and 2016. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

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

Deloitte & Touche

Taipei, Taiwan

Republic of China

November 14, 2017

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

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	September 30, 2017 (Reviewed)		December 31, 2016 (Audited)		September 30, 2016 (Reviewed)	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 408,077,695	22	$ 541,253,833	29	$ 463,971,657	27
Financial assets at fair value through profit or loss (Note 7)	1,125,668		6,451,112		1,848,317	
Available-for-sale financial assets (Notes 8 and 14)	84,953,011	5	67,788,767	4	45,815,003	3
Held-to-maturity financial assets (Note 9)	7,521,216		16,610,116	1	5,320,041	
Hedging derivative financial assets (Notes 4 and 10)	98,879		5,550			
Notes and accounts receivable, net (Note 11)	117,649,258	7	128,335,271	7	129,118,058	8
Receivables from related parties (Note 29)	1,076,438		969,559		170,704	
Other receivables from related parties (Note 29)	165,929		146,788		149,684	
Inventories (Notes 12 and 33)	73,893,879	4	48,682,233	3	53,882,144	3
Other financial assets (Notes 30 and 33)	5,209,635		4,100,475		5,866,961	
Other current assets (Note 17)	5,090,170		3,385,422		3,448,916	
Total current assets	704,861,778	38	817,729,126	44	709,591,485	41
NONCURRENT ASSETS						
Held-to-maturity financial assets (Note 9)	18,899,177	1	22,307,561	1	27,430,893	2
Financial assets carried at cost (Note 13)	4,986,046		4,102,467		3,788,041	
Investments accounted for using equity method (Note 14)	17,018,500	1	19,743,888	1	18,691,554	1
Property, plant and equipment (Note 15)	1,065,756,867	58	997,777,687	53	934,928,493	54
Intangible assets (Note 16)	14,841,399	1	14,614,846	1	14,630,613	1
Deferred income tax assets (Note 4)	11,237,149	1	8,271,421		7,506,051	1
Refundable deposits	1,241,028		407,874		509,564	
Other noncurrent assets (Note 17)	2,582,438		1,500,432		1,610,069	
Total noncurrent assets	1,136,562,604	62	1,068,726,176	56	1,009,095,278	59
TOTAL	$ 1,841,424,382	100	$ 1,886,455,302	100	$ 1,718,686,763	100

LIABILITIES AND EQUITY

CURRENT LIABILITIES						
Short-term loans (Note 18)	$ 54,430,200	3	$ 57,958,200	3	$ 37,648,800	2
Financial liabilities at fair value through profit or loss (Note 7)	251,212		191,135		224,525	
Hedging derivative financial liabilities (Notes 4 and 10)	7,545				1,039	
Accounts payable	27,545,477	1	26,062,351	2	24,936,790	1
Payables to related parties (Note 29)	1,442,029		1,262,174		1,039,778	
Salary and bonus payable	12,304,052	1	13,681,817	1	12,183,218	1
Accrued profit sharing bonus to employees and compensation to directors and supervisors (Notes 22 and 27)	17,067,133	1	22,894,006	1	16,252,681	1
Payables to contractors and equipment suppliers	47,975,461	3	63,154,514	3	58,789,579	3
Income tax payable (Note 4)	20,663,395	1	40,306,054	2	27,970,532	2
Provisions (Note 19)	14,123,509	1	18,037,789	1	11,512,994	1
Long-term liabilities - current portion (Note 20)	59,071,057	3	38,109,680	2	38,109,680	2
Accrued expenses and other current liabilities (Notes 21 and 29)	43,641,234	2	36,581,553	2	28,885,496	2
Total current liabilities	298,522,304	16	318,239,273	17	257,555,112	15
NONCURRENT LIABILITIES						
Bonds payable (Note 20)	91,800,000	5	153,093,557	8	152,138,965	9
Long-term bank loans	14,520		21,780		24,200	
Deferred income tax liabilities (Note 4)	120,360		141,183		37,510	
Net defined benefit liability (Note 4)	8,574,626		8,551,408		7,475,381	
Guarantee deposits (Note 21)	9,243,250	1	14,670,433	1	15,872,972	1
Others	1,736,633		1,686,542		1,689,974	
Total noncurrent liabilities	111,489,389	6	178,164,903	9	177,239,002	10
Total liabilities	410,011,693	22	496,404,176	26	434,794,114	25
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
Capital stock (Note 22)	259,303,805	14	259,303,805	14	259,303,805	15
Capital surplus (Note 22)	56,281,271	3	56,272,304	3	56,269,958	3
Retained earnings (Note 22)						
Appropriated as legal capital reserve	241,722,663	13	208,297,945	11	208,297,945	12
Unappropriated earnings	892,598,197	49	863,710,224	46	764,460,228	45
	1,134,320,860	62	1,072,008,169	57	972,758,173	57

Others (Note 22)	(19,189,089)	(1)	1,663,983		(5,218,902)	
Equity attributable to shareholders of the parent	1,430,716,847	78	1,389,248,261	74	1,283,113,034	75
NONCONTROLLING INTERESTS	695,842		802,865		779,615	
Total equity	1,431,412,689	78	1,390,051,126	74	1,283,892,649	75
TOTAL	$ 1,841,424,382	100	$ 1,886,455,302	100	$ 1,718,686,763	100

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
NET REVENUE (Notes 23, 29 and 35)	$ 252,107,345	100	$ 260,405,885	100	$ 699,876,957	100	$ 685,711,092	100
COST OF REVENUE (Notes 12, 27, 29 and 33)	126,230,664	50	128,366,813	49	343,761,367	49	347,960,308	51
GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	125,876,681	50	132,039,072	51	356,115,590	51	337,750,784	49
REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	3,467		11,717		(37,152)		(28,181)	
GROSS PROFIT	125,880,148	50	132,050,789	51	356,078,438	51	337,722,603	49
OPERATING EXPENSES (Notes 27 and 29)								
Research and development	21,045,439	8	18,724,320	7	59,515,288	8	51,246,823	7
General and administrative	5,003,679	2	5,584,814	2	15,178,441	2	14,096,947	2
Marketing	1,487,598	1	1,531,454	1	4,366,284	1	4,383,455	1
	27,536,716	11	25,840,588	10	79,060,013	11	69,727,225	10

Total operating expenses								
OTHER OPERATING INCOME AND EXPENSES, NET (Notes 16 and 27)	(286,999)		51,921		(354,201)		55,059	
INCOME FROM OPERATIONS (Note 35)	98,056,433	39	106,262,122	41	276,664,224	40	268,050,437	39
NON-OPERATING INCOME AND EXPENSES								
Share of profits of associates	751,618		881,376		2,036,879		2,614,537	
Other income	2,128,556	1	1,521,234	1	6,859,745	1	4,646,589	1
Foreign exchange loss, net (Note 34)	(462,310)		(409,625)		(914,048)		(2,310,461)	
Finance costs	(843,214)		(822,667)		(2,499,791)		(2,494,672)	
Other gains and losses, net (Note 24)	887,081		817,175		2,311,121		3,405,475	
Total non-operating income and expenses	2,461,731	1	1,987,493	1	7,793,906	1	5,861,468	1
INCOME BEFORE INCOME TAX	100,518,164	40	108,249,615	42	284,458,130	41	273,911,905	40
INCOME TAX EXPENSE (Notes 4 and 25)	10,568,936	4	11,460,502	5	40,617,342	6	39,801,916	6
NET INCOME	89,949,228	36	96,789,113	37	243,840,788	35	234,109,989	34
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 22 and 25)								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translation of foreign operations	(882,654)	(1)	(10,123,965)	(4)	(20,772,474)	(3)	(17,070,485)	(2)

Changes in fair value of available-for-sale financial assets	(43,684)		59,051		(108,757)		80,327	
Cash flow hedges	19,522				38,519			
Share of other comprehensive income (loss) of associates	1,710		(11,372)		(56,920)		(2,743)	
Income tax benefit (expense) related to items that may be reclassified subsequently	1,192		(33,879)		53,633		(6,239)	
Other comprehensive loss for the period, net of income tax	(903,914)	(1)	(10,110,165)	(4)	(20,845,999)	(3)	(16,999,140)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 89,045,314	35	$ 86,678,948	33	$ 222,994,789	32	$ 217,110,849	32
NET INCOME ATTRIBUTABLE TO:								
Shareholders of the parent	$ 89,925,437	36	$ 96,759,056	37	$ 243,825,354	35	$ 234,046,870	34
Noncontrolling interests	23,791		30,057		15,434		63,119	
	$ 89,949,228	36	$ 96,789,113	37	$ 243,840,788	35	$ 234,109,989	34
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Shareholders of the parent	$ 89,029,620	35	$ 86,652,080	33	$ 222,984,427	32	$ 217,053,855	32
Noncontrolling interests	15,694		26,868		10,362		56,994	
	$ 89,045,314	35	$ 86,678,948	33	$ 222,994,789	32	$ 217,110,849	32

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	**2016**	**2017**	**2016**

	Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent	
EARNINGS PER SHARE (NT$, Note 26)								
Basic earnings per share	$	3.47	$	3.73	$	9.40	$	9.03
Diluted earnings per share	$	3.47	$	3.73	$	9.40	$	9.03

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Reviewed, Not Audited)

Equity Attributable to Shareholders of the Parent								
		Retained Earnings				Others		
				Foreign Currency Translation	Unrealized Gain/Loss from Available-for-sale	Cash Flow	Unearned Stock-Based Employee	
[k] apital Surplus	Legal Capital Reserve	Unappropriated Earnings	Total	Reserve	Financial Assets	Hedges Reserve	Compensation	Total
$ 56,272,304	$ 208,297,945	$ 863,710,224	$ 1,072,008,169	$ 1,661,237	$ 2,641	$ 105	$	$ 1,663,983
	33,424,718	(33,424,718)						
		(181,512,663)	(181,512,663)					
	33,424,718	(214,937,381)	(181,512,663)					
		243,825,354	243,825,354					
				(20,831,019)	(43,804)	33,896		(20,840,927)

		243,825,354	243,825,354	(20,831,019)	(43,804)	33,896		(20,840,927)
6,206							(12,145)	(12,145)
2,761								
$ 56,281,271	$ 241,722,663	$ 892,598,197	$ 1,134,320,860	$ (19,169,782)	$ (41,163)	$ 34,001	$ (12,145)	$ (19,189,089)
$ 56,300,215	$ 177,640,561	$ 716,653,025	$ 894,293,586	$ 11,039,949	$ 734,771	$ (607)	$	$ 11,774,113
	30,657,384	(30,657,384)						
		(155,582,283)	(155,582,283)					
	30,657,384	(186,239,667)	(155,582,283)					
		234,046,870	234,046,870					
				(17,091,106)	97,601	490		(16,993,015)

		234,046,870	234,046,870	(17,091,106)	97,601	490		(16,993,015)
(56,169)								
18,875								
7,037								
$ 56,269,958	$ 208,297,945	$ 764,460,228	$ 972,758,173	$ (6,051,157)	$ 832,372	$ (117)	$	$ (5,218,902)

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 284,458,130	$ 273,911,905
Adjustments for:		
Depreciation expense	186,131,944	164,665,319
Amortization expense	3,197,293	2,725,524
Finance costs	2,499,791	2,494,672
Share of profits of associates	(2,036,879)	(2,614,537)
Interest income	(6,714,157)	(4,509,169)
Loss (gain) on disposal or retirement of property, plant and equipment, net	251,319	(61,491)
Impairment loss on intangible assets	13,520	
Impairment loss on financial assets	15,941	55,055
Gain on disposal of available-for-sale financial assets, net	(266,986)	(83,138)
Gain on disposal of financial assets carried at cost, net	(12,809)	(37,831)
Loss on disposal of investments accounted for using equity method, net		259,960
Loss from liquidation of subsidiaries		36,105
Unrealized gross profit on sales to associates	37,152	28,181
Gain on foreign exchange, net	(6,624,087)	(2,542,581)
Dividend income	(145,588)	(137,420)
Loss arising from fair value hedges, net	32,058	129
Changes in operating assets and liabilities:		
Financial instruments at fair value through profit or loss	5,260,911	(1,690,376)
Notes and accounts receivable, net	5,990,086	(48,540,162)
Receivables from related parties	(106,879)	335,018
Other receivables from related parties	(19,141)	(24,666)
Inventories	(25,211,646)	13,170,126
Other financial assets	604,831	(1,285,255)
Other current assets	(1,639,813)	84,453
Other noncurrent assets	(890,881)	
Accounts payable	1,452,987	5,807,444
Payables to related parties	179,855	(82,578)
Salary and bonus payable	(1,377,765)	481,176
Accrued profit sharing bonus to employees and compensation to directors and supervisors	(5,826,873)	(4,706,212)
Accrued expenses and other current liabilities	9,167,145	1,337,333
Provisions	(3,899,652)	1,398,158

Net defined benefit liability	23,218	27,355
Cash generated from operations	444,543,025	400,502,497
Income taxes paid	(63,351,167)	(45,887,694)
Net cash generated by operating activities	381,191,858	354,614,803

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2017	**2016**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	$ (66,661,656)	$ (51,587,356)
Held-to-maturity financial assets	(1,695,771)	(25,112,300)
Financial assets carried at cost	(1,190,157)	(240,743)
Property, plant and equipment	(269,408,108)	(215,502,503)
Intangible assets	(3,677,303)	(2,989,442)
Land use right		(805,318)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	45,952,054	20,654,629
Held-to-maturity financial assets	12,510,000	7,400,000
Financial assets carried at cost	58,237	160,498
Property, plant and equipment	253,267	93,720
Proceeds from return of capital of financial assets carried at cost	14,828	65,383
Derecognition of hedging derivative financial instruments	(35,790)	(11,974)
Interest received	6,776,756	4,679,716
Proceeds from government grants - property, plant and equipment	436,587	
Other dividends received	145,588	137,420
Dividends received from investments accounted for using equity method	4,245,772	5,478,790
Refundable deposits paid	(1,084,028)	(140,056)
Refundable deposits refunded	247,027	74,455
Decrease in receivables for temporary payments		706,718
Net cash used in investing activities	(273,112,697)	(256,938,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(290,110)	(157,064)
Repayment of bonds	(38,100,000)	(23,471,600)
Repayment of long-term bank loans	(7,260)	(6,120)
Interest paid	(2,907,017)	(3,148,821)
Guarantee deposits received	4,400,240	996,803
Guarantee deposits refunded	(6,810,329)	(500,835)
Cash dividends	(181,512,663)	(155,582,283)
Decrease in noncontrolling interests	(114,624)	(231,666)

Net cash used in financing activities	(225,341,763)	(182,101,586)

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2017	**2016**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	$ (15,913,536)	$ (14,292,127)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(133,176,138)	(98,717,273)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	541,253,833	562,688,930
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 408,077,695	$ 463,971,657

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 NINE MONTHS ENDED SEPTEMBER 30, 2017 and 2016

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

(Reviewed, Not Audited)

1. GENERAL

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

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

The address of its registered office and principal place of business is No. 8, Li-Hsin Rd. 6, Hsinchu Science Park, Taiwan. The principal operating activities of TSMC s subsidiaries are described in Note 4.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were reported to the Board of Directors and issued on November 14, 2017.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

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

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

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

Except for the following items, the Company believes that the adoption of aforementioned standards or interpretations will not have a significant effect on the Company s accounting policies.

1) IFRS 9 Financial Instruments

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

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

a) If the objective of the Company s business model is to hold the financial asset to collect the contractual cash flows, such assets are measured at the amortized cost. Interest revenue should be recognized in profit or loss by using the effective interest method, continuously assessed for impairment and the impairment loss or reversal of impairment loss should be recognized in profit and loss.

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

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

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

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

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

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

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

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

Identify the contract with the customer;

Identify the performance obligations in the contract;

Determine the transaction price;

Allocate the transaction price to the performance obligations in the contract; and

Recognize revenue when the entity satisfies a performance obligation.

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

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

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

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB
Amendments to IFRS 9 Prepayment Features with Negative Compensation	January 1, 2019
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
IFRS 16 Leases	January 1, 2019
Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019

Except for the following items, the Company believes that the adoption of aforementioned standards or interpretations will not have a significant effect on the Company s accounting policies.

1) IFRS 16 Leases

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2016.

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

Statement of Compliance

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

Basis of Consolidation

The basis of preparation and the basis for the consolidated financial statements

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

The subsidiaries in the consolidated financial statements

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

		Establishment and Operating	Percentage of Ownership			
vestee	Main Businesses and Products	Location	September 30, 2017	December 31, 2016	September 30, 2016	Note
h	Selling and marketing of integrated circuits and other semiconductor devices	San Jose, California, U.S.A.	100%	100%	100%	
n MC	Customer service and supporting activities	Yokohama, Japan	100%	100%	100%	a)
ners, C	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry and other investment activities	Tortola, British Virgin Islands	100%	100%	100%	a)
ea MC	Customer service and supporting activities	Seoul, Korea	100%	100%	100%	a)
ope C	Customer service and supporting activities	Amsterdam, the Netherlands	100%	100%	100%	a)
bal, C	Investment activities	Tortola, British Virgin Islands	100%	100%	100%	
a imited	Manufacturing, selling, testing and computer-aided design of	Shanghai, China	100%	100%	100%	

na)	integrated circuits and other semiconductor devices					
ing imited jing)	Manufacturing, selling, testing and computer-aided design of integrated circuits and other semiconductor devices	Nanjing, China	100%	100%	100%	b)
h nd III, III)	Investing in new start-up technology companies	Cayman Islands	98%	98%	98%	a)
h nd II, II)	Investing in new start-up technology companies	Cayman Islands	98%	98%	98%	a)
r bH	Selling of solar related products and providing customer service	Hamburg, Germany	100%	100%	100%	a), c)
Co., herng)	Investment activities	Taipei, Taiwan			100%	d)
es td. h)	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)
gn ada)	Engineering support activities	Ontario, Canada	100%	100%	100%	a)
, Inc.)	Engineering support activities	Delaware, U.S.A.	100%	100%	100%	a)
nt, Inc. nt)	Investing in companies involved in the manufacturing related business in the semiconductor industry	Delaware, U.S.A.	100%	100%	100%	
tor nt ISDF)	Investing in new start-up technology companies	Cayman Islands	97%	97%	97%	a), f)
tor nt SDF	Investing in new start-up technology companies	Cayman Islands	97%	97%	97%	a), f)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Establishment and Operating Location	Percentage of Ownership September 30, 2017	December 31, 2016	September 30, 2016	Note
TSMC Partners	VisEra Holding Company (VisEra Holding)	Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry	Cayman Islands			100%	a), e)
TSMC Development	WaferTech, LLC (WaferTech)	Manufacturing, selling and testing of integrated circuits and other semiconductor devices	Washington, U.S.A.	100%	100%	100%	
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	Manufacturing of electronic parts, wholesaling and retailing of electronic materials, and researching, developing and testing of RFID	New Taipei, Taiwan	58%	58%	58%	a)
	Growth Fund Limited (Growth Fund)	Investing in new start-up technology companies	Cayman Islands	100%	100%	100%	a)
VTAF III, VTAF II and TSMC	VentureTech Alliance Holdings, LLC (VTA Holdings)	Investing in new start-up technology companies	Delaware, U.S.A.		100%	100%	a), g)

(Concluded)

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

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

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

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

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

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

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

Hedge Accounting

Cash Flow Hedge

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

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

Retirement Benefits

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

Taxation

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

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

The same critical accounting judgments and key sources of estimates and uncertainty have been followed in these consolidated financial statements as were applied in the preparation of the Company s consolidated financial statements for the year ended December 31, 2016.

6. CASH AND CASH EQUIVALENTS

	September 30, 2017	December 31, 2016	September 30, 2016
Cash and deposits in banks	$ 406,922,229	$ 536,895,344	$ 463,671,592
Agency bonds	1,034,635		
Commercial paper	120,831	1,997,239	
Repurchase agreements collateralized by corporate bonds		2,361,250	300,065
	$ 408,077,695	$ 541,253,833	$ 463,971,657

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

	September 30, 2017	December 31, 2016	September 30, 2016
Financial assets			
Held for trading			
Forward exchange contracts	$ 57,395	$ 142,406	$ 84,591
Cross currency swap contracts		10,976	186,592
	57,395	153,382	271,183
Designated as at FVTPL			
Time deposit	1,068,273	6,297,708	1,577,134
Forward exchange contracts		22	
	1,068,273	6,297,730	1,577,134
	$ 1,125,668	$ 6,451,112	$ 1,848,317
Financial liabilities			

Held for trading						
Forward exchange contracts	$	212,135	$	91,585	$	194,557
Cross currency swap contracts		39,077				20,642
		251,212		91,585		215,199
Designated as at FVTPL						
Forward exchange contracts				99,550		9,326
	$	251,212	$	191,135	$	224,525

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

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
September 30, 2017		
Sell NT$/Buy EUR	October 2017 to November 2017	NT$13,233,331/EUR369,500
Sell NT$/Buy JPY	October 2017 to November 2017	NT$9,762,488/JPY36,000,000
Sell US$/Buy EUR	October 2017	US$10,519/EUR8,750
Sell US$/Buy JPY	October 2017	US$10,197/JPY1,142,080
Sell US$/Buy RMB	October 2017	US$473,000/RMB3,127,514
Sell US$/Buy NT$	October 2017 to November 2017	US$295,500/NT$8,886,061
Sell RMB/Buy EUR	October 2017	RMB9,947/EUR1,270
Sell RMB/Buy JPY	October 2017	RMB73,088/JPY1,218,200
Sell RMB/Buy GBP	October 2017	RMB3,542/GBP413
Sell RMB/Buy US$	October 2017	RMB30,207/US$4,540
December 31, 2016		
Sell NT$/Buy EUR	January 2017	NT$5,393,329/EUR159,400
Sell NT$/Buy JPY	January 2017	NT$7,314,841/JPY26,501,800
Sell US$/Buy EUR	January 2017	US$4,180/EUR4,000
Sell US$/Buy JPY	January 2017	US$428/JPY50,000
Sell US$/Buy NT$	January 2017 to February 2017	US$439,000/NT$14,138,202
Sell US$/Buy RMB	January 2017 to June 2017	US$421,750/RMB2,908,380
September 30, 2016		
Sell NT$/Buy EUR	October 2016	NT$5,875,971/EUR166,500
Sell NT$/Buy JPY	October 2016 to November 2016	NT$18,401,384/JPY58,842,475
Sell US$/Buy EUR	October 2016	US$5,597/EUR5,000
Sell US$/Buy NT$	October 2016 to November 2016	US$54,000/NT$1,695,076
Sell US$/Buy RMB	October 2016 to June 2017	US$282,020/RMB1,883,798

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
September 30, 2017			
October 2017	US$530,000/NT$16,003,500	1.56%-1.63%	

December 31, 2016		
January 2017	US$170,000/NT$5,487,600	3.98%
September 30, 2016		
October 2016	US$1,646,000/NT$51,816,590	0.69%-0.90%

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Corporate bonds	$ 38,023,860	$ 29,999,508	$ 20,459,534
Agency bonds/Agency mortgage-backed securities	25,383,136	14,880,482	10,679,092
Asset-backed securities	12,195,102	11,254,757	7,326,334
Government bonds	7,044,080	8,457,362	4,304,642
Publicly traded stocks	2,068,370	3,196,658	3,045,401
Commercial paper	238,463		
	$ 84,953,011	$ 67,788,767	$ 45,815,003

9. HELD-TO-MATURITY FINANCIAL ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Corporate bonds/Bank debentures	$ 20,372,593	$ 23,849,701	$ 25,476,134
Negotiable certificate of deposit	4,535,850	4,829,850	4,706,100
Structured product	1,511,950	1,609,950	2,568,700
Commercial paper		8,628,176	
	$ 26,420,393	$ 38,917,677	$ 32,750,934
Current portion	$ 7,521,216	$ 16,610,116	$ 5,320,041
Noncurrent portion	18,899,177	22,307,561	27,430,893
	$ 26,420,393	$ 38,917,677	$ 32,750,934

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	September 30, 2017	December 31, 2016	September 30, 2016
Financial assets- current			
Fair value hedges			
Interest rate futures contracts	$ 51,057	$ 5,550	$

Cash flow hedges						
Forward exchange contracts		47,822				
	$	98,879	$	5,550	$	
Financial liabilities- current						
Fair value hedges						
Interest rate futures contracts	$		$		$	1,039
Cash flow hedges						
Forward exchange contracts		7,545				
	$	7,545	$		$	1,039

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)	
September 30, 2017		
December 2017	US$	158,900
December 31, 2016		
March 2017	US$	53,600
September 30, 2016		
December 2016	US$	5,500

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

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
September 30, 2017		
Sell NT$/Buy EUR	October 2017 to January 2018	NT$4,619,213/EUR130,000

11. NOTES AND ACCOUNTS RECEIVABLE, NET

	September 30, 2017	December 31, 2016	September 30, 2016
Notes and accounts receivable	$ 118,121,051	$ 128,815,389	$ 129,598,103
Allowance for doubtful receivables	(471,793)	(480,118)	(480,045)
Notes and accounts receivable, net	$ 117,649,258	$ 128,335,271	$ 129,118,058

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

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

Aging analysis of notes and accounts receivable, net

	September 30, 2017	December 31, 2016	September 30, 2016
Neither past due nor impaired	$ 108,623,574	$ 108,411,408	$ 116,427,755
Past due but not impaired			
Past due within 30 days	6,791,143	15,017,824	10,259,847
Past due 31-60 days	615,147	1,844,726	1,945,254
Past due 61-120 days	1,619,394	3,061,313	485,202
	$ 117,649,258	$ 128,335,271	$ 129,118,058

Movements of the allowance for doubtful receivables

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	$ 1,848	$ 478,270	$ 480,118
Reversal/Write-off	(1,848)	(6,305)	(8,153)
Effect of exchange rate changes		(172)	(172)
Balance at September 30, 2017	$	$ 471,793	$ 471,793
Balance at January 1, 2016	$ 10,241	$ 478,010	$ 488,251
Provision		321	321
Reversal/Write-off	(8,393)		(8,393)
Effect of exchange rate changes		(134)	(134)
Balance at September 30, 2016	$ 1,848	$ 478,197	$ 480,045

Aging analysis of accounts receivable that is individually determined as impaired

	September 30, 2017	December 31, 2016	September 30, 2016
Past due over 121 days	$	$ 1,848	$ 1,848

12. INVENTORIES

	September 30, 2017	December 31, 2016	September 30, 2016
Finished goods	$ 13,196,752	$ 8,521,873	$ 4,878,237
Work in process	51,122,144	33,330,870	43,386,241
Raw materials	6,256,306	4,012,190	2,876,452
Supplies and spare parts	3,318,677	2,817,300	2,741,214
	$ 73,893,879	$ 48,682,233	$ 53,882,144

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	**2016**	**2017**	**2016**
Inventory losses (reversal of write-down of inventories)	$ 613,132	$ 400,040	$ (850,209)	$ 1,051,173

13. FINANCIAL ASSETS CARRIED AT COST

	September 30, 2017	December 31, 2016	September 30, 2016
Non-publicly traded stocks	$ 2,721,955	$ 2,944,859	$ 2,921,975
Mutual funds	2,264,091	1,157,608	866,066
	$ 4,986,046	$ 4,102,467	$ 3,788,041

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

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

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Associates consisted of the following:

rincipal ctivities	Place of Incorporation and Operation	Carrying Amount September 30, 2017	December 31, 2016	September 30, 2016	% of Ownership and Voting Rights Held by the Company September 30, 2017	December 31, 2016	September 30, 2016
ufacturing, ng,	Hsin-Chu, Taiwan	$ 8,285,386	$ 8,806,384	$ 8,422,487	28%	28%	28%

kaging, ng and puter-aided gn of grated uits and r conductor ces and the ufacturing design ice of ks							
ufacturing selling of grated uits and r conductor ces	Singapore	5,329,236	7,163,516	6,436,314	39%	39%	39%
er level size kaging and er level post ivation rconnection ice	Taoyuan, Taiwan	2,264,539	2,599,807	2,711,649	41%	41%	41%
earching, eloping, ufacturing, ng and keting of grated uits	Hsin-Chu, Taiwan	1,139,339	1,174,181	1,121,104	35%	35%	35%
		$ 17,018,500	$ 19,743,888	$ 18,691,554			

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

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

Name of Associate	September 30, 2017	December 31, 2016	September 30, 2016
VIS	$ 24,325,311	$ 26,089,360	$ 27,203,497
GUC	$ 9,711,075	$ 3,664,997	$ 3,534,271
Xintec	$ 5,630,865	$ 3,622,227	$ 3,800,278

15. PROPERTY, PLANT AND EQUIPMENT

	Land and Land Improvements	Buildings	Machinery and Equipment	Office Equipment	Assets under Finance Leases	Equipment under Installation and Construction in Progress	Total
Cost							
Balance at January 1, 2017	$ 4,049,292	$ 304,404,474	$ 2,042,867,744	$ 34,729,640	$	$ 387,199,675	$ 2,773,250,825
Additions (Deductions)		71,252,771	432,538,004	6,486,826		(255,462,474)	254,815,127
Disposals or retirements		(36,957)	(7,472,448)	(339,470)			(7,848,875)
Reclassification			8,791	1,507			10,298
Effect of exchange rate changes	(50,967)	(640,806)	(3,035,872)	(103,271)		109,897	(3,721,019)
Balance at September 30, 2017	$ 3,998,325	$ 374,979,482	$ 2,464,906,219	$ 40,775,232	$	$ 131,847,098	$ 3,016,506,356
Accumulated depreciation and impairment							
Balance at January 1, 2017	$ 524,845	$ 174,349,077	$ 1,577,377,509	$ 23,221,707	$	$	$ 1,775,473,138

Additions	20,919	15,070,323	167,433,217	3,607,485			186,131,944
Disposals or etirements		(28,816)	(6,968,621)	(339,377)			(7,336,814)
Reclassification			8,195	1,466			9,661
Effect of xchange rate hanges	(32,179)	(549,075)	(2,873,746)	(73,440)			(3,528,440)
Balance at eptember 30, 017	$ 513,585	$ 188,841,509	$ 1,734,976,554	$ 26,417,841	$	$	$ 1,950,749,489
Carrying mounts at anuary 1, 2017	$ 3,524,447	$ 130,055,397	$ 465,490,235	$ 11,507,933	$	$ 387,199,675	$ 997,777,687
Carrying mounts at eptember 30, 017	$ 3,484,740	$ 186,137,973	$ 729,929,665	$ 14,357,391	$	$ 131,847,098	$ 1,065,756,867
Cost							
Balance at anuary 1, 2016	$ 4,067,391	$ 296,801,864	$ 1,893,489,604	$ 30,700,049	$ 7,113	$ 192,111,548	$ 2,417,177,569
Additions		6,915,391	129,035,170	3,832,079		107,584,121	247,366,761
Disposals or etirements		(13,373)	(2,659,973)	(386,859)			(3,060,205)
Reclassification				7,113	(7,113)		
Effect of xchange rate hanges	(39,552)	(1,469,279)	(4,899,538)	(113,918)		(103,092)	(6,625,379)
Balance at eptember 30, 016	$ 4,027,839	$ 302,234,603	$ 2,014,965,263	$ 34,038,464	$	$ 299,592,577	$ 2,654,858,746
Accumulated epreciation nd impairment							
Balance at anuary 1, 2016	$ 506,185	$ 157,910,155	$ 1,385,857,655	$ 19,426,069	$ 7,113	$	$ 1,563,707,177
Additions	22,193	13,210,805	148,223,485	3,208,836			164,665,319
Disposals or etirements		(7,327)	(2,631,853)	(386,796)			(3,025,976)
Reclassification				7,113	(7,113)		
Effect of xchange rate	(24,135)	(1,109,652)	(4,199,447)	(83,033)			(5,416,267)

hanges							
Balance at September 30, 2016	$ 504,243	$ 170,003,981	$ 1,527,249,840	$ 22,172,189	$	$	$ 1,719,930,253
Carrying mounts at September 30, 2016	$ 3,523,596	$ 132,230,622	$ 487,715,423	$ 11,866,275	$	$ 299,592,577	$ 934,928,493

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

16. INTANGIBLE ASSETS

	Goodwill	Technology License Fees	Software and System Design Costs	Patent and Others	Total
Cost					
Balance at January 1, 2017	$ 6,007,975	$ 9,546,007	$ 22,243,595	$ 5,386,435	$ 43,184,012
Additions		805,917	2,591,791	307,928	3,705,636
Retirements			(75,237)		(75,237)
Reclassification			7,662	(17,960)	(10,298)
Effect of exchange rate changes	(267,018)	1,302	(2,728)	(1,026)	(269,470)
Balance at September 30, 2017	$ 5,740,957	$ 10,353,226	$ 24,765,083	$ 5,675,377	$ 46,534,643
Accumulated amortization and impairment					
Balance at January 1, 2017	$	$ 6,147,200	$ 18,144,428	$ 4,277,538	$ 28,569,166
Additions		1,168,030	1,664,395	364,868	3,197,293
Retirements			(75,237)		(75,237)
Reclassification			7,409	(17,070)	(9,661)
Impairment	13,520				13,520
Effect of exchange rate changes	(22)	1,304	(2,710)	(409)	(1,837)
Balance at September 30, 2017	$ 13,498	$ 7,316,534	$ 19,738,285	$ 4,624,927	$ 31,693,244
Carrying amounts at January 1, 2017	$ 6,007,975	$ 3,398,807	$ 4,099,167	$ 1,108,897	$ 14,614,846
Carrying amounts at September 30, 2017	$ 5,727,459	$ 3,036,692	$ 5,026,798	$ 1,050,450	$ 14,841,399
Cost					
Balance at January 1, 2016	$ 6,104,784	$ 8,454,304	$ 19,474,428	$ 4,879,026	$ 38,912,542
Additions		907,268	2,184,076	416,310	3,507,654
Retirements			(4,787)		(4,787)
Effect of exchange rate changes	(209,202)	349	(11,068)	(9,947)	(229,868)
Balance at September 30, 2016	$ 5,895,582	$ 9,361,921	$ 21,642,649	$ 5,285,389	$ 42,185,541
Accumulated amortization and impairment					
Balance at January 1, 2016	$	$ 4,779,388	$ 16,431,666	$ 3,635,608	$ 24,846,662

Additions		1,005,254	1,227,616	492,654	2,725,524
Retirements			(4,787)		(4,787)
Effect of exchange rate changes		349	(10,100)	(2,720)	(12,471)
Balance at September 30, 2016	$	$ 5,784,991	$ 17,644,395	$ 4,125,542	$ 27,554,928
Carrying amounts at September 30, 2016	$ 5,895,582	$ 3,576,930	$ 3,998,254	$ 1,159,847	$ 14,630,613

The Company s goodwill has been tested for impairment at the end of the annual reporting period and the recoverable amount is determined based on the value in use. The value in use was calculated based on the cash flow forecast from the financial budgets covering the future five-year period, and the Company used annual discount rate of 8.40% in its test of impairment for December 31, 2016 to reflect the relevant specific risk in the cash-generating unit.

The Company assessed goodwill impairment since the operating result of a subsidiary was not as expected and the recoverable amount of goodwill was nil. In the third quarter of 2017, the Company recognized the impairment loss of NT$13,520 thousand related to this cash generating unit. Such impairment loss was recognized in other operating income and expenses.

17. OTHER ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Tax receivable	$ 4,203,892	$ 2,325,825	$ 2,344,133
Prepaid expenses	1,313,927	1,007,026	1,061,724
Others	2,154,789	1,553,003	1,653,128
	$ 7,672,608	$ 4,885,854	$ 5,058,985
Current portion	$ 5,090,170	$ 3,385,422	$ 3,448,916
Noncurrent portion	2,582,438	1,500,432	1,610,069
	$ 7,672,608	$ 4,885,854	$ 5,058,985

18. SHORT-TERM LOANS

	September 30, 2017	December 31, 2016	September 30, 2016
Unsecured loans			
Amount	$ 54,430,200	$ 57,958,200	$ 37,648,800
Original loan content			
US$ (in thousands)	$ 1,800,000	$ 1,800,000	$ 1,200,000
Annual interest rate	1.45%-1.54%	0.87%-1.07%	0.80%-0.84%
Maturity date	Due by October 2017	Due by January 2017	Due by October 2016

19. PROVISIONS

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

	Sales Returns and Allowances
<u>Nine months ended September 30, 2017</u>	
Balance, beginning of period	$ 18,037,789
Provision	31,130,506

Payment		(35,025,604)
Effect of exchange rate changes		(19,182)
Balance, end of period	$	14,123,509
Nine months ended September 30, 2016		
Balance, beginning of period	$	10,163,536
Provision		22,811,145
Payment		(21,399,058)
Effect of exchange rate changes		(62,629)
Balance, end of period	$	11,512,994

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

20. BONDS PAYABLE

	September 30, 2017	December 31, 2016	September 30, 2016
Domestic unsecured bonds	$ 116,100,000	$ 154,200,000	$ 154,200,000
Overseas unsecured bonds	34,774,850	37,028,850	36,080,100
	150,874,850	191,228,850	190,280,100
Less: Discounts on bonds payable	(13,473)	(35,293)	(41,135)
Less: Current portion	(59,061,377)	(38,100,000)	(38,100,000)
	$ 91,800,000	$ 153,093,557	$ 152,138,965

The major terms of overseas unsecured bonds are as follows:

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

21. GUARANTEE DEPOSITS

	September 30, 2017	December 31, 2016	September 30, 2016
Capacity guarantee	$ 15,119,500	$ 20,929,350	$ 21,961,800
Receivables guarantee	2,742,840	5,559,960	
Others	371,627	181,312	657,812
	$ 18,233,967	$ 26,670,622	$ 22,619,612
Current portion (classified under accrued expenses and other current liabilities)	$ 8,990,717	$ 12,000,189	$ 6,746,640
Noncurrent portion	9,243,250	14,670,433	15,872,972
	$ 18,233,967	$ 26,670,622	$ 22,619,612

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

22. EQUITY

a. Capital stock

	September 30, 2017	December 31, 2016	September 30, 2016
Authorized shares (in thousands)	28,050,000	28,050,000	28,050,000
Authorized capital	$ 280,500,000	$ 280,500,000	$ 280,500,000
Issued and paid shares (in thousands)	25,930,380	25,930,380	25,930,380
Issued capital	$ 259,303,805	$ 259,303,805	$ 259,303,805

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

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

As of September 30, 2017, 1,068,165 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,340,823 thousand shares (one ADS represents five common shares).

b. Capital surplus

	September 30, 2017	December 31, 2016	September 30, 2016
Additional paid-in capital	$ 24,184,939	$ 24,184,939	$ 24,184,939
From merger	22,804,510	22,804,510	22,804,510
From convertible bonds	8,892,847	8,892,847	8,892,847
From share of changes in equities of subsidiaries	110,559	107,798	107,798
From share of changes in equities of associates	288,361	282,155	279,809
Donations	55	55	55
	$ 56,281,271	$ 56,272,304	$ 56,269,958

Under the relevant laws, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers and convertible bonds) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends up to a certain percentage of TSMC s paid-in capital. The capital surplus from share of changes in equities of subsidiaries and associates may be used to offset a deficit; however, when generated from issuance of restricted shares for employees, such capital surplus may not be used for any purpose.

c. Retained earnings and dividend policy

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

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

1) Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC s paid-in capital;

2)

Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;

3) Any balance left over shall be allocated according to the resolution of the shareholders meeting.

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

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

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

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

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

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

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

d. Others

Changes in others were as follows:

	Nine Months Ended September 30, 2017				
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial	Cash Flow Hedges Reserve	Unearned Stock-Based Employee Compensation	Total

Assets

Balance, beginning of period	$	1,661,237	$	2,641	$	105	$	$ 1,663,983
Exchange differences arising on translation of foreign operations		(20,770,834)						(20,770,834)
Changes in fair value of available-for-sale financial assets				145,862				145,862
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets				(251,187)				(251,187)
Gain/(loss) arising on changes in the fair value of hedging instruments						102,026		102,026
Transferred to initial carrying amount of hedged items						(63,507)		(63,507)

(Continued)

	Nine Months Ended September 30, 2017				
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Unearned Stock-Based Employee Compensation	Total
Share of other comprehensive income (loss) of associates	$ (60,185)	$ 3,265	$	$	$ (56,920)
Share of unearned stock-based employee compensation of associates				(12,145)	(12,145)
Income tax effect		58,256	(4,623)		53,633
Balance, end of period	$ (19,169,782)	$ (41,163)	$ 34,001	$ (12,145)	$ (19,189,089)

(Concluded)

	Nine Months Ended September 30, 2016			
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of period	$ 11,039,949	$ 734,771	$ (607)	$ 11,774,113
Exchange differences arising on translation of foreign operations	(17,101,349)			(17,101,349)
Other comprehensive income reclassified to profit or loss upon disposal of subsidiaries	36,105			36,105
Changes in fair value of available-for-sale financial assets		164,311		164,311
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets		(83,098)		(83,098)
Share of other comprehensive income (loss) of associates	(21,150)	26,096	490	5,436
Other comprehensive loss reclassified to profit or loss upon disposal of associates	(4,712)	(3,469)		(8,181)
Income tax effect		(6,239)		(6,239)
Balance, end of period	$ (6,051,157)	$ 832,372	$ (117)	$ (5,218,902)

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

23. NET REVENUE

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Net revenue from sale of goods	$ 251,984,109	$ 260,273,538	$ 699,470,997	$ 685,324,159
Net revenue from royalties	123,236	132,347	405,960	386,933
	$ 252,107,345	$ 260,405,885	$ 699,876,957	$ 685,711,092

24. OTHER GAINS AND LOSSES

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Gain (loss) on disposal of financial assets, net				
Available-for-sale financial assets	$ 326,297	$ (6,531)	$ 266,986	$ 83,138
Financial assets carried at cost	8,056	17,822	12,809	37,831
Loss on disposal of investments accounted for using equity method, net				(259,960)
Other gains	77,327	45,865	206,103	108,503
Net gain (loss) on financial instruments at FVTPL				
Held for trading	463,651	792,837	1,759,927	3,622,788
Designated as at FVTPL	33,045	13,185	130,709	(57,762)
Gain (loss) arising from fair value hedges, net	(8,564)	712	(32,058)	(129)
Impairment loss on financial assets				
Financial assets carried at cost	(3,909)	(24,183)	(15,941)	(55,055)
Loss from liquidation of subsidiaries				(36,105)
Other losses	(8,822)	(22,532)	(17,414)	(37,774)
	$887,081	$817,175	$2,311,121	$3,405,475

25. INCOME TAX

a. Income tax expense recognized in profit or loss

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Current income tax expense				
Current tax expense recognized in the current period	$ 11,785,404	$ 12,489,756	$ 44,460,678	$ 41,959,508
Income tax adjustments on prior years	(9,614)	(500)	(947,906)	(1,035,905)
Other income tax adjustments	60,267	(115,358)	130,801	89,638
	11,836,057	12,373,898	43,643,573	41,013,241
Deferred income tax benefit				
The origination and reversal of temporary differences	(1,267,121)	(913,396)	(3,026,231)	(1,211,325)
	$10,568,936	$11,460,502	$40,617,342	$39,801,916

b. Income tax expense recognized in other comprehensive income

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Deferred income tax benefit (expense)				
Related to unrealized gain/loss on available-for-sale financial assets	$ 3,535	$ (33,879)	$ 58,256	$ (6,239)
Related to gain/loss on cash flow hedges	(2,343)		(4,623)	
	$ 1,192	$ (33,879)	$ 53,633	$ (6,239)

c. Integrated income tax information

	September 30, 2017	December 31, 2016	September 30, 2016
Balance of the Imputation			
Credit Account TSMC	$ 90,519,690	$ 82,072,562	$ 66,840,242

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

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

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

d. Income tax examination

The tax authorities have examined income tax returns of TSMC through 2014. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

26. EARNINGS PER SHARE

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016

Basic EPS	$	3.47	$	3.73	$	9.40	$	9.03
Diluted EPS	$	3.47	$	3.73	$	9.40	$	9.03

EPS is computed as follows:

	Amounts (Numerator)	Number of Shares (Denominator) (In Thousands)	EPS (NT$)
Three months ended September 30, 2017			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 89,925,437	25,930,380	$ 3.47
Three months ended September 30, 2016			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 96,759,056	25,930,380	$ 3.73
Nine months ended September 30, 2017			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 243,825,354	25,930,380	$ 9.40
Nine months ended September 30, 2016			
Basic/Diluted EPS			
Net income available to common shareholders of the parent	$ 234,046,870	25,930,380	$ 9.03

27. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
a. Depreciation of property, plant and equipment				
Recognized in cost of revenue	$ 65,040,285	$ 51,260,197	$ 171,702,451	$ 152,345,035
Recognized in operating expenses	4,974,403	4,046,009	14,398,910	12,301,423
Recognized in other operating income and expenses	18,140	6,221	30,583	18,861
	$70,032,828	$55,312,427	$186,131,944	$164,665,319

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
b. Amortization of intangible assets				
Recognized in cost of revenue	$ 542,083	$ 518,837	$ 1,584,845	$ 1,499,765
Recognized in operating expenses	589,751	437,530	1,612,448	1,225,759
	$ 1,131,834	$ 956,367	$ 3,197,293	$ 2,725,524
c. Research and development expenses	$ 21,045,439	$ 18,724,320	$ 59,515,288	$ 51,246,823
d. Employee benefits expenses				
Post-employment benefits				
Defined contribution plans	$ 611,107	$ 565,374	$ 1,767,533	$ 1,619,823
Defined benefit plans	67,875	68,024	203,637	204,083
	678,982	633,398	1,971,170	1,823,906
Other employee benefits	26,164,537	26,290,477	74,262,832	70,636,784
	$26,843,519	$26,923,875	$76,234,002	$72,460,690
Employee benefits expense summarized by function				
Recognized in cost of revenue	$ 15,696,897	$ 15,698,148	$ 44,831,683	$ 42,614,728
Recognized in operating expenses	11,146,622	11,225,727	31,402,319	29,845,962
	$26,843,519	$26,923,875	$76,234,002	$72,460,690

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

TSMC accrued profit sharing bonus to employees based on a percentage of net income before income tax, profit sharing bonus to employees and compensation to directors during the period, which amounted to NT$6,034,054 thousand and NT$6,489,734 thousand for the three months ended September 30, 2017 and 2016, respectively; and NT$16,356,611 thousand and NT$15,697,270 thousand for the nine months ended September 30, 2017 and 2016, respectively. Compensation to directors was expensed based on estimated amount payable. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in accounting estimate.

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

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

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

28. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	September 30, 2017	December 31, 2016	September 30, 2016
Financial assets			
FVTPL (Note 1)	$ 1,125,668	$ 6,451,112	$ 1,848,317
Available-for-sale financial assets (Note 2)	89,939,057	71,891,234	49,603,044
Held-to-maturity financial assets	26,420,393	38,917,677	32,750,934
Hedging derivative financial assets	98,879	5,550	
Loans and receivables (Note 3)	533,419,983	673,592,938	597,817,350
	$ 651,003,980	$ 790,858,511	$ 682,019,645
Financial liabilities			
FVTPL (Note 1)	$ 251,212	$ 191,135	$ 224,525
Hedging derivative financial liabilities	7,545		1,039
Amortized cost (Note 4)	323,056,014	387,046,137	354,746,112
	$ 323,314,771	$ 387,237,272	$ 354,971,676

Note 1: Including held for trading and designated as at FVTPL.

Note 2: Including financial assets carried at cost.

Note 3: Including cash and cash equivalents, notes and accounts receivable (including related parties), other receivables and refundable deposits.

Note 4: Including short-term loans, accounts payable (including related parties), payables to contractors and equipment suppliers, accrued expenses and other current liabilities, bonds payable, long-term bank loans, and guarantee deposits.

b. Financial risk management objectives

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

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

c. Market risk

The Company is exposed to the financial market risks, primarily changes in foreign currency exchange rates, interest rates and equity investment prices.

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

The Company s sensitivity analysis of foreign currency risk mainly focuses on the foreign currency monetary items and the derivatives financial instruments at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges relative to the New Taiwan dollar, the net income for the nine months ended September 30, 2017 and 2016 would have decreased by NT$185,262 thousand and NT$673,869 thousand, respectively, and the other comprehensive income for the nine months ended September 30, 2017 would have decreased by NT$465,790 thousand.

Interest rate risk

The Company is exposed to interest rate risk primarily related to its outstanding debt and investments in fixed income securities. All of the Company s bonds payable have fixed interest rates and are measured at amortized cost. As such, changes in interest rates would not affect the future cash flows. On the other hand, because interest rates of the Company s long-term bank loans are floating, changes in interest rates would affect the future cash flows but not the fair value.

Assuming the amount of the long-term bank loans at the end of the reporting period had been outstanding for the entire period and all other variables were held constant, a hypothetical 100 basis point (1.00%) increase in interest rates would have resulted in an increase in the interest expense, net of tax, by approximately NT$151 thousand and NT$211 thousand for the nine months ended September 30, 2017 and 2016, respectively.

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

Based on a sensitivity analysis performed at the end of the reporting period, a hypothetical 100 basis points (1.00%) increase in interest rates across all maturities would have resulted in a decrease in other comprehensive income by NT$1,919,137 thousand and NT$1,018,890 thousand for the nine months ended September 30, 2017 and 2016, respectively.

Other price risk

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

Assuming a hypothetical decrease of 5% in prices of the equity investments at the end of the reporting period for the nine months ended September 30, 2017 and 2016, the other comprehensive income would have decreased by NT$335,977 thousand and NT$320,828 thousand, respectively.

d. Credit risk management

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

Business related credit risk

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

As of September 30, 2017, December 31, 2016 and September 30, 2016, the Company s ten largest customers accounted for 73%, 74% and 76% of accounts receivable, respectively. The Company believes the concentration of credit risk is not material for the remaining accounts receivable.

Financial credit risk

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

e. Liquidity risk management

The objective of liquidity risk management is to ensure the Company has sufficient liquidity to fund its business requirements associated with existing operations over the next 12 months. The Company manages its liquidity risk by maintaining adequate cash and cash equivalent, short-term available-for-sale financial assets and short-term held-to-maturity financial assets.

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

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
September 30, 2017					
Non-derivative financial liabilities					
Short-term loans	$ 54,454,435	$	$	$	$ 54,454,435
Accounts payable (including related parties)	28,987,506				28,987,506
Payables to contractors and equipment suppliers	47,975,461				47,975,461
Accrued expenses and other current liabilities	22,543,303				22,543,303
Bonds payable	61,213,960	68,616,980	3,404,812	22,686,332	155,922,084
Long-term bank loans	10,301	14,844			25,145
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	8,990,717	9,157,976	85,274		18,233,967
	224,175,683	77,789,800	3,490,086	22,686,332	328,141,901
Derivative financial instruments					
Forward exchange contracts					
Outflows	51,905,530				51,905,530
Inflows	(51,837,951)				(51,837,951)
	67,579				67,579
Cross currency swap contracts					
Outflows					
Inflows	16,050,825				16,050,825
	(16,003,500)				(16,003,500)
	47,325				47,325
	$ 224,290,587	$ 77,789,800	$ 3,490,086	$ 22,686,332	$ 328,256,805
December 31, 2016					
Non-derivative financial liabilities					
Short-term loans	$ 57,974,562	$	$	$	$ 57,974,562
Accounts payable (including related parties)	27,324,525				27,324,525

Payables to contractors and equipment suppliers	63,154,514				63,154,514
Accrued expenses and other current liabilities	20,713,259				20,713,259
Bonds payable	40,669,468	99,161,486	35,340,742	22,979,426	198,151,122
Long-term bank loans	10,543	20,116	2,423		33,082
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	12,000,189	13,060,483	1,609,950		26,670,622
	221,847,060	112,242,085	36,953,115	22,979,426	394,021,686
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	40,571,841				40,571,841
Inflows	(40,586,344)				(40,586,344)
	(14,503)				(14,503)
Cross currency swap contracts					
Outflows	5,478,066				5,478,066
Inflows	(5,487,600)				(5,487,600)
	(9,534)				(9,534)
	$ 221,823,023	$ 112,242,085	$ 36,953,115	$ 22,979,426	$ 393,997,649

(Continued)

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
September 30, 2016					
Non-derivative financial liabilities					
Short-term loans	$ 37,654,235	$	$	$	$ 37,654,235
Accounts payable (including related parties)	25,976,568				25,976,568
Payables to contractors and equipment suppliers	58,789,579				58,789,579
Accrued expenses and other current liabilities	19,438,708				19,438,708
Bonds payable	40,484,308	98,706,626	35,464,787	23,077,131	197,732,852
Long-term bank loans	10,624	20,277	4,867		35,768
Guarantee deposits (including those classified under accrued expenses and other current liabilities)	6,746,640	12,735,572	3,137,400		22,619,612
	189,100,662	111,462,475	38,607,054	23,077,131	362,247,322
Derivative financial instruments					
Forward exchange contracts					
Outflows	34,995,231				34,995,231
Inflows	(34,933,393)				(34,933,393)
	61,838				61,838
Cross currency swap contracts					
Outflows	51,658,145				51,658,145
Inflows	(51,816,590)				(51,816,590)
	(158,445)				(158,445)
	$189,004,055	$111,462,475	$38,607,054	$23,077,131	$362,150,715

(Concluded)

f. Fair value of financial instruments

1) Fair value measurements recognized in the consolidated balance sheets

Fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

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

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

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

Fair value hierarchy

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

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Held for trading				
Forward exchange contracts	$	$ 57,395	$	$ 57,395
Designated as at FVTPL				
Time deposit		1,068,273		1,068,273
	$	$ 1,125,668	$	$ 1,125,668
Available-for-sale financial assets				
Corporate bonds	$ 38,023,860	$	$	$ 38,023,860
Agency bonds/Agency mortgage-backed securities	25,383,136			25,383,136
Asset-backed securities		12,195,102		12,195,102
Government bonds	7,044,080			7,044,080
Publicly traded stocks	2,068,370			2,068,370
Commercial paper		238,463		238,463
	$ 72,519,446	$ 12,433,565	$	$ 84,953,011
Hedging derivative financial assets				
Fair value hedges				
Interest rate futures contracts	$ 51,057	$	$	$ 51,057
Cash flow hedges				
Forward exchange contracts		47,822		47,822
	$ 51,057	$ 47,822	$	$ 98,879
Financial liabilities at FVTPL				
Held for trading				
Forward exchange contracts	$	$ 212,135	$	$ 212,135
Cross currency swap contracts		39,077		39,077
	$	$ 251,212	$	$ 251,212
Hedging derivative financial liabilities				

Cash flow hedges					
Forward exchange contracts	$	$	7,545	$	$ 7,545

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

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Held for trading				
Cross currency swap contracts	$	$ 186,592	$	$ 186,592
Forward exchange contracts		84,591		84,591
Designated as at FVTPL				
Time deposit		1,577,134		1,577,134

	$	$ 1,848,317	$	$ 1,848,317

<u>Available-for-sale financial assets</u>

Corporate bonds	$ 20,459,534	$	$	$ 20,459,534
Agency bonds/Agency mortgage-backed securities	10,679,092			10,679,092
Asset-backed securities		7,326,334		7,326,334
Government bonds	4,304,642			4,304,642
Publicly traded stocks	3,045,401			3,045,401
	$ 38,488,669	$ 7,326,334	$	$ 45,815,003

(Continued)

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Financial liabilities at FVTPL				
Held for trading				
Forward exchange contracts	$	$ 194,557	$	$ 194,557
Cross currency swap contracts		20,642		20,642
Designated as at FVTPL				
Forward exchange contracts		9,326		9,326
	$	$ 224,525	$	$ 224,525
Hedging derivative financial liabilities				
Fair value hedges				
Interest rate futures contracts	$ 1,039	$	$	$ 1,039

(Concluded)

There were no transfers between Level 1 and Level 2 for the nine months ended September 30, 2017 and 2016, respectively.

There were no purchases and disposals for assets classified as Level 3 for the nine months ended September 30, 2017 and 2016, respectively.

Valuation techniques and assumptions used in fair value measurement

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

The fair values of interest rate futures contracts, publicly traded stocks, government bonds, agency bonds, agency mortgage-backed securities and corporate bonds are determined by quoted market prices in active markets.

Forward exchange contracts and cross currency swap contracts are measured using forward exchange rates and the discounted curves that are derived from quoted market prices. For investments in asset-backed securities, the fair values are determined by quoted market prices. For investments in commercial paper and time deposit designated as FVTPL, the fair values are determined by the present value of future cash flows based on the discounted curves that are derived from the quoted market prices.

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

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

	September 30, 2017		December 31, 2016		September 30, 2016	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets						
Held-to-maturity financial assets						
Corporate bonds/Bank debentures	$ 20,372,593	$ 20,593,872	$ 23,849,701	$ 23,996,429	$ 25,476,134	$ 25,619,049
Negotiable certificate of deposit	4,535,850	4,538,254	4,829,850	4,847,785	4,706,100	4,733,944
Structured product	1,511,950	1,503,684	1,609,950	1,609,738	2,568,700	2,559,235
Commercial paper			8,628,176	8,630,769		
Financial liabilities						
Measured at amortized cost						
Bonds payable	150,861,377	152,840,029	191,193,557	192,845,296	190,238,965	192,763,012

Fair value hierarchy

The table below sets out the fair value hierarchy for the Company s assets and liabilities which are not required to measure at fair value:

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Held-to-maturity securities				
Corporate bonds	$ 20,593,872	$	$	$ 20,593,872
Negotiable certificate of deposit		4,538,254		4,538,254
Structured product		1,503,684		1,503,684
	$ 20,593,872	$ 6,041,938	$	$ 26,635,810
Financial liabilities				
Measured at amortized cost				
Bonds payable	$ 152,840,029	$	$	$