TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
March 06, 2014

**1934 Act Registration No. 1-14700**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

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

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of March 2014**

**Taiwan Semiconductor Manufacturing Company Ltd.**

**(Translation of Registrant s Name Into English)**

**No. 8, Li-Hsin Rd. 6,**

**Hsinchu Science Park,**

**Taiwan**

**(Address of Principal Executive Offices)**

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

Form 20-F x 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 x

(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: March 06, 2014

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

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**Consolidated Financial Statements for the**

**Years Ended December 31, 2013 and 2012 and**

**Independent Auditors   Report**

**REPRESENTATION LETTER**

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2013, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the Statement of Financial Accounting Standards No. 7, Consolidated Financial Statements. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By

MORRIS CHANG

Chairman

February 18, 2014

**INDEPENDENT AUDITORS REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2013 and 2012 and January 1, 2012, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance translated by Accounting Research and Development Foundation endorsed by the Financial Supervisory Commission of the Republic of China with the effective dates.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the parent company only financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the years ended December 31, 2013 and 2012 on which we have issued an unqualified opinion.

February 18, 2014

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

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

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

Member of Deloitte Touche Tohmatsu Limited

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**CONSOLIDATED BALANCE SHEETS**

**(In Thousands of New Taiwan Dollars)**

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | $ 242,695,447 | 19 | $ 143,410,588 | 15 | $ 143,472,277 | 18 |
| Financial assets at fair value through profit or loss (Note 7) | 90,353 | | 39,554 | | 15,360 | |
| Available-for-sale financial assets (Note 8) | 760,793 | | 2,410,635 | | 3,308,770 | |
| Held-to-maturity financial assets (Note 9) | 1,795,949 | | 5,056,973 | 1 | 3,825,680 | 1 |
| Notes and accounts receivable, net (Note 11) | 71,649,926 | 6 | 57,777,586 | 6 | 45,830,288 | 6 |
| Receivables from related parties (Note 37) | 291,708 | | 353,811 | | 185,764 | |
| Other receivables from related parties (Note 37) | 221,576 | | 185,550 | | 122,292 | |
| Inventories (Notes 5 and 12) | 37,494,893 | 3 | 37,830,498 | 4 | 24,840,582 | 3 |
| Other financial assets (Note 38) | 501,785 | | 473,833 | | 617,142 | |
| Other current assets (Note 17) | 2,984,224 | | 2,786,408 | | 2,174,014 | |
| Total current assets | 358,486,654 | 28 | 250,325,436 | 26 | 224,392,169 | 28 |
| NONCURRENT ASSETS | | | | | | |
| Available-for-sale financial assets (Note 8) | 58,721,959 | 5 | 38,751,245 | 4 | | |
| Held-to-maturity financial assets (Note 9) | | | | | 5,243,167 | 1 |
| Financial assets carried at cost (Note 13) | 2,145,591 | | 3,605,077 | | 4,315,005 | 1 |
| Investments accounted for using equity method (Notes 5 and 14) | 28,316,260 | 2 | 23,360,918 | 3 | 24,886,931 | 3 |
| Property, plant and equipment (Notes 5 and 15) | 792,665,913 | 63 | 617,562,188 | 64 | 490,422,153 | 63 |
| Intangible assets (Notes 5 and 16) | 11,490,383 | 1 | 10,959,569 | 1 | 10,861,563 | 1 |
| Deferred income tax assets (Notes 5 and 31) | 7,239,609 | 1 | 13,128,219 | 2 | 13,604,218 | 2 |
| Refundable deposits (Note 37) | 2,519,031 | | 2,426,712 | | 4,518,863 | 1 |
| Other noncurrent assets (Note 17) | 1,469,577 | | 1,235,144 | | 1,306,746 | |
| Total noncurrent assets | 904,568,323 | 72 | 711,029,072 | 74 | 555,158,646 | 72 |
| TOTAL | $ 1,263,054,977 | 100 | $ 961,354,508 | 100 | $ 779,550,815 | 100 |

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|

| LIABILITIES AND EQUITY | Amount | % | Amount | % | Amount | % |
|---|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | | |
| Short-term loans (Note 18) | $ 15,645,000 | 1 | $ 34,714,929 | 4 | $ 25,926,528 | 3 |
| Financial liabilities at fair value through profit or loss (Note 7) | 33,750 | | 15,625 | | 13,742 | |
| Hedging derivative financial liabilities (Note 10) | | | | | 232 | |
| Accounts payable | 14,670,260 | 1 | 14,490,429 | 2 | 10,530,487 | 1 |
| Payables to related parties (Note 37) | 1,688,456 | | 748,613 | | 1,328,521 | |
| Salary and bonus payable | 8,330,956 | 1 | 7,535,296 | 1 | 6,148,499 | 1 |
| Accrued profit sharing to employees and bonus to directors and supervisors (Note 24) | 12,738,801 | 1 | 11,186,591 | 1 | 9,081,293 | 1 |
| Payables to contractors and equipment suppliers | 89,810,160 | 7 | 44,831,798 | 5 | 35,540,526 | 5 |
| Income tax payable (Note 31) | 22,563,286 | 2 | 15,635,594 | 2 | 10,656,124 | 1 |
| Provisions (Notes 5 and 19) | 7,603,781 | 1 | 6,038,003 | | 5,068,263 | 1 |
| Accrued expenses and other current liabilities (Notes 15 and 22) | 16,693,484 | 1 | 13,148,944 | 1 | 13,218,235 | 2 |
| Current portion of bonds payable and long-term bank loans (Notes 20 and 21) | | | 128,125 | | 4,562,500 | 1 |
| Total current liabilities | 189,777,934 | 15 | 148,473,947 | 16 | 122,074,950 | 16 |
| NONCURRENT LIABILITIES | | | | | | |
| Hedging derivative financial liabilities (Note 10) | 5,481,616 | | | | | |
| Bonds payable (Note 20) | 210,767,625 | 17 | 80,000,000 | 8 | 18,000,000 | 3 |
| Long-term bank loans (Note 21) | 40,000 | | 1,359,375 | | 1,587,500 | |
| Provisions (Note 19) | 10,452 | | 4,891 | | 2,889 | |
| Other long-term payables (Note 22) | 36,000 | | 54,000 | | | |
| Obligations under finance leases (Note 15) | 776,230 | | 748,115 | | 870,993 | |
| Accrued pension cost (Notes 5 and 23) | 7,589,926 | 1 | 6,921,234 | 1 | 6,241,024 | 1 |
| Guarantee deposits | 151,660 | | 203,890 | | 443,983 | |
| Others | 648,449 | | 495,150 | | 400,831 | |
| Total noncurrent liabilities | 225,501,958 | 18 | 89,786,655 | 9 | 27,547,220 | 4 |
| Total liabilities | 415,279,892 | 33 | 238,260,602 | 25 | 149,622,170 | 20 |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | | |
| Capital stock (Note 24) | 259,286,171 | 21 | 259,244,357 | 27 | 259,162,226 | 33 |
| Capital surplus (Note 24) | 55,858,626 | 4 | 55,675,340 | 6 | 55,471,662 | 7 |
| Retained earnings (Note 24) | | | | | | |
| Appropriated as legal capital reserve | 132,436,003 | 11 | 115,820,123 | 12 | 102,399,995 | 13 |
| Appropriated as special capital reserve | 2,785,741 | | 7,606,224 | 1 | 6,433,874 | 1 |
| Unappropriated earnings | 382,971,408 | 30 | 284,985,121 | 29 | 211,630,458 | 27 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 518,193,152 | 41 | 408,411,468 | 42 | 320,464,327 | 41 |
| Others (Note 24) | 14,170,306 | 1 | (2,780,485) | | (7,606,219) | (1) |
| Equity attributable to shareholders of the parent | 847,508,255 | 67 | 720,550,680 | 75 | 627,491,996 | 80 |
| NONCONTROLLING INTERESTS (Note 24) | 266,830 | | 2,543,226 | | 2,436,649 | |
| Total equity | 847,775,085 | 67 | 723,093,906 | 75 | 629,928,645 | 80 |
| TOTAL | $ 1,263,054,977 | 100 | $ 961,354,508 | 100 | $ 779,550,815 | 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)**

| | 2013 Amount | % | 2012 Amount | % |
|---|---|---|---|---|
| NET REVENUE (Notes 5, 26, 37 and 42) | $ 597,024,197 | 100 | $ 506,745,234 | 100 |
| COST OF REVENUE (Notes 12, 33 and 37) | 316,057,820 | 53 | 262,583,098 | 52 |
| GROSS PROFIT BEFORE UNREALIZED GROSS PROFIT ON SALES TO ASSOCIATES | 280,966,377 | 47 | 244,162,136 | 48 |
| UNREALIZED GROSS PROFIT ON SALES TO ASSOCIATES | (20,870) | | (25,029) | |
| GROSS PROFIT | 280,945,507 | 47 | 244,137,107 | 48 |
| OPERATING EXPENSES (Notes 5, 33 and 37) | | | | |
| Research and development | 48,118,165 | 8 | 40,383,195 | 8 |
| General and administrative | 18,928,544 | 3 | 17,631,694 | 3 |
| Marketing | 4,516,525 | 1 | 4,495,986 | 1 |
| Total operating expenses | 71,563,234 | 12 | 62,510,875 | 12 |
| OTHER OPERATING INCOME AND EXPENSES, NET (Notes 27 and 33) | 47,090 | | (449,364) | |
| INCOME FROM OPERATIONS (Note 42) | 209,429,363 | 35 | 181,176,868 | 36 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profits of associates and joint venture (Notes 14 and 42) | 3,972,031 | 1 | 2,073,729 | |
| Other income (Note 28) | 2,342,123 | | 1,716,093 | |
| Foreign exchange gain, net | 285,460 | | 582,498 | |
| Finance costs (Notes 10 and 29) | (2,646,776) | | (1,020,422) | |
| Other gains and losses (Notes 30 and 37) | 2,104,921 | | (2,852,310) | |
| Total non-operating income and expenses | 6,057,759 | 1 | 499,588 | |
| INCOME BEFORE INCOME TAX | 215,487,122 | 36 | 181,676,456 | 36 |
| INCOME TAX EXPENSE (Notes 31 and 42) | 27,468,185 | 5 | 15,552,654 | 3 |
| NET INCOME | 188,018,937 | 31 | 166,123,802 | 33 |

(Continued)

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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

| | 2013 Amount | % | 2012 Amount | % |
|---|---|---|---|---|
| OTHER COMPREHENSIVE INCOME (LOSS) (Notes 10, 14, 23, 24 and 31) | | | | |
| Exchange differences arising on translation of foreign operations | $ 3,668,509 | 1 | $ (4,322,697) | (1) |
| Changes in fair value of available-for-sale financial assets | 13,290,385 | 2 | 9,534,269 | 2 |
| Cash flow hedges | | | 232 | |
| Share of other comprehensive income (loss) of associates and joint venture | (59,740) | | 53,748 | |
| Actuarial loss from defined benefit plans | (662,074) | | (685,978) | |
| Income tax benefit (expense) related to components of other comprehensive income | 115,168 | | (326,942) | |
| Other comprehensive income for the year, net of income tax | 16,352,248 | 3 | 4,252,632 | 1 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 204,371,185 | 34 | $ 170,376,434 | 34 |
| NET INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | $ 188,146,790 | 31 | $ 166,318,286 | 33 |
| Noncontrolling interests | (127,853) | | (194,484) | |
| | $ 188,018,937 | 31 | $ 166,123,802 | 33 |
| TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | $ 204,505,782 | 34 | $ 170,521,543 | 34 |
| Noncontrolling interests | (134,597) | | (145,109) | |
| | $ 204,371,185 | 34 | $ 170,376,434 | 34 |

| | 2013 Income Attributable to Shareholders of the Parent | 2012 Income Attributable to Shareholders of the Parent |
|---|---|---|
| EARNINGS PER SHARE (NT$, Note 32) | | |
| Basic earnings per share | $ 7.26 | $ 6.42 |
| Diluted earnings per share | $ 7.26 | $ 6.41 |

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

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

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

| Equity Attributable to Shareholders of the Parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Retained Earnings | | | | Others | | | |
| Capital Surplus | Legal Capital Reserve | Special Capital Reserve | Unappropriated Earnings | Total | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| $ 55,471,662 | $ 102,399,995 | $ 6,433,874 | $ 211,630,458 | $ 320,464,327 | $ (6,433,364) | $ (1,172,762) | $ (93) | $ (7,606,219) |
| | 13,420,128 | | (13,420,128) | | | | | |
| | | 1,172,350 | (1,172,350) | | | | | |
| | | | (77,748,668) | (77,748,668) | | | | |
| | 13,420,128 | 1,172,350 | (92,341,146) | (77,748,668) | | | | |
| | | | 166,318,286 | 166,318,286 | | | | |
| | | | (622,477) | (622,477) | (4,320,442) | 9,146,083 | 93 | 4,825,734 |
| | | | 165,695,809 | 165,695,809 | (4,320,442) | 9,146,083 | 93 | 4,825,734 |
| 160,357 | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2,588 | | | | | | | | |
| 40,733 | | | | | | | | |
| 55,675,340 | 115,820,123 | 7,606,224 | 284,985,121 | 408,411,468 | (10,753,806) | 7,973,321 | | (2,780,485) |
| | 16,615,880 | | (16,615,880) | | | | | |
| | | (4,820,483) | 4,820,483 | | | | | |
| | | | (77,773,307) | (77,773,307) | | | | |
| | 16,615,880 | (4,820,483) | (89,568,704) | (77,773,307) | | | | |
| | | | 188,146,790 | 188,146,790 | | | | |
| | | | (591,799) | (591,799) | 3,613,444 | 13,337,460 | (113) | 16,950,791 |
| | | | 187,554,991 | 187,554,991 | 3,613,444 | 13,337,460 | (113) | 16,950,791 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 82,756 | | | | | | | | |
| 38,084 | | | | | | | | |
| 62,446 | | | | | | | | |
| $ 55,858,626 | $ 132,436,003 | $ 2,785,741 | $ 382,971,408 | $ 518,193,152 | $ (7,140,362) | $ 21,310,781 | $ (113) | $ 14,170,306 |

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)**

| | **2013** | **2012** |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 215,487,122 | $ 181,676,456 |
| Adjustments for: | | |
| Depreciation expense | 153,979,847 | 129,168,514 |
| Amortization expense | 2,202,022 | 2,180,775 |
| Stock option compensation cost of subsidiary | 5,312 | 6,219 |
| Finance costs | 2,646,776 | 1,020,422 |
| Share of profits of associates and joint venture | (3,972,031) | (2,073,729) |
| Interest income | (1,835,980) | (1,645,036) |
| Gain on disposal of property, plant and equipment and intangible assets, net | (48,848) | (103) |
| Impairment loss on property, plant and equipment | | 444,505 |
| Impairment loss of financial assets | 352,214 | 4,231,602 |
| Gain on disposal of available-for-sale financial assets, net | (1,267,086) | (399,598) |
| Gain on disposal of financial assets carried at cost, net | (44,721) | (141,491) |
| Loss (gain) on disposal of investments in associates | 733 | (4,977) |
| Gain on deconsolidation of subsidiary | (293,578) | |
| Unrealized gross profit on sales to associates | 20,870 | 25,029 |
| Loss (gain) on foreign exchange, net | 317,547 | (3,219,144) |
| Dividend income | (506,143) | (71,057) |
| Income from receipt of equity securities in settlement of trade receivables | (9,977) | (886) |
| Loss on hedging instruments | 5,602,779 | |
| Gain on arising from changes in fair value of available-for-sale financial assets in hedge effective portion | (5,071,118) | |
| Changes in operating assets and liabilities: | | |
| Derivative financial instruments | (32,189) | (22,311) |
| Notes and accounts receivable, net | (14,131,066) | (11,947,191) |
| Receivables from related parties | (204,278) | (168,047) |
| Other receivables from related parties | 50,589 | (63,258) |
| Inventories | 122,472 | (12,989,916) |
| Other financial assets | 18,578 | 53,182 |
| Other current assets | (312,251) | 648,051 |
| Accounts payable | 346,401 | 3,656,358 |
| Payables to related parties | 850,094 | (605,182) |
| Salary and bonus payable | 883,925 | 1,386,797 |
| Accrued profit sharing to employees and bonus to directors and supervisors | 1,552,210 | 2,105,298 |
| Accrued expenses and other current liabilities | 3,531,017 | 2,051,785 |
| Provisions | 1,595,810 | 977,901 |
| Accrued pension cost | 9,554 | (5,769) |
| Cash generated from operations | 361,846,606 | 296,275,199 |
| Income taxes paid | (14,463,069) | (11,312,039) |

| | | |
|---|---|---|
| Net cash generated by operating activities | 347,383,537 | 284,963,160 |

(Continued)

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In Thousands of New Taiwan Dollars)**

| | **2013** | **2012** |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Available-for-sale financial assets | $ (21,303) | $ (31,525,876) |
| Held-to-maturity financial assets | (1,795,949) | |
| Financial assets carried at cost | (27,165) | (56,512) |
| Property, plant and equipment | (287,594,773) | (246,137,361) |
| Intangible assets | (2,750,361) | (1,782,299) |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | 2,418,578 | 964,367 |
| Held-to-maturity financial assets | 5,145,850 | 2,711,440 |
| Financial assets carried at cost | 67,986 | 353,656 |
| Property, plant and equipment | 173,554 | 157,484 |
| Other assets | | 26,688 |
| Costs from entering into hedging transactions | (143,982) | |
| Interest received | 1,790,725 | 1,719,026 |
| Other dividends received | 506,143 | 71,057 |
| Dividends received from associates | 2,141,881 | 2,088,472 |
| Refundable deposits paid | (98,888) | (517,162) |
| Refundable deposits refunded | 113,399 | 2,609,313 |
| Net cash outflow from deconsolidation of subsidiary (Note 34) | (979,910) | |
| Net cash used in investing activities | (281,054,215) | (269,317,707) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of bonds | 130,844,821 | 62,000,000 |
| Repayment of bonds | | (4,500,000) |
| Increase (decrease) in short-term loans | (19,636,240) | 9,747,094 |
| Increase in long-term bank loans | 690,000 | 50,000 |
| Repayment of long-term bank loans | (62,500) | (212,500) |
| Repayment of other long-term payables | (853,788) | (2,367,866) |
| Interest paid | (1,330,886) | (736,607) |
| Guarantee deposits received | 41,519 | 15,671 |
| Guarantee deposits refunded | (113,087) | (255,764) |
| Decrease in obligations under finance leases | (27,796) | (108,863) |
| Proceeds from exercise of employee stock options | 124,570 | 242,488 |
| Cash dividends | (77,773,307) | (77,748,668) |
| Increase in noncontrolling interests | 202,619 | 286,200 |
| Net cash generated by (used in) financing activities | 32,105,925 | (13,588,815) |
| | 849,612 | (2,118,327) |

| | | |
|---|---|---|
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 99,284,859 | (61,689) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 143,410,588 | 143,472,277 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 242,695,447 | $ 143,410,588 |

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

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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

## 1. GENERAL

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

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

The address of its registered office and principal place of business is No. 8, Li-Hsin Rd. 6, Hsinchu Science Park, Taiwan. The principal operating activities and operating segments information of TSMC and its subsidiaries (collectively as the Company ) are described in Notes 4 and 42.

## 2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements were approved and authorized for issue by the Board of Directors on February 18, 2014.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

On May 14, 2009, the Financial Supervisory Commission (FSC) announced the roadmap of IFRSs adoption for R.O.C. companies. Accordingly, starting 2013, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare the consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, International Accounting Standards (IASs), interpretations as well as related guidance translated by Accounting Research and Development Foundation (ARDF) endorsed by the FSC with the effective dates (collectively, Taiwan-IFRSs .)

a. New and revised standards, amendments and interpretations in issue but not yet effective

As of the date that the accompanying consolidated financial statements were authorized for issue, the new, revised or amended IFRSs, IASs, interpretations and related guidance in issue but not yet adopted by the Company as well as the effective dates issued by the International Accounting Standards Board (IASB), are stated as follows; however, the initial adoption to the following standards and interpretations is still subject to the effective date to be published by the FSC except that the standards and interpretation included in the 2013 Taiwan-IFRSs version should be adopted by the

Company starting 2015.

| **New, Revised or Amended Standards and Interpretations** | **Effective Date Issued by IASB (Note)** |
|---|---|
| Included in the 2013 Taiwan-IFRSs version | |
| Amendments to IFRSs Improvements to IFRSs 2009 - Amendment to IAS 39 | January 1, 2009 or January 1, 2010 |
| Amendment to IAS 39 Embedded Derivatives | Effective in fiscal year ended on or after June 30, 2009 |
| Improvements to IFRSs 2010 | July 1, 2010 or January 1, 2011 |
| Annual Improvements to IFRSs 2009 - 2011 Cycle | January 1, 2013 |
| Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First - time Adopters | July 1, 2010 |
| Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First - time Adopters | July 1, 2011 |
| Amendments to IFRS 1 Government Loans | January 1, 2013 |
| Amendment to IFRS 7 Disclosures - offsetting Financial Assets and Financial Liabilities | January 1, 2013 |
| Amendment to IFRS 7 Disclosures - Transfers of Financial Assets | July 1, 2011 |
| IFRS 10 Consolidated Financial Statements | January 1, 2013 |
| IFRS 11 Joint Arrangements | January 1, 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | January 1, 2013 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities: Transition Guidance | January 1, 2013 |
| Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities | January 1, 2014 |
| IFRS 13 Fair Value Measurement | January 1, 2013 |
| Amendment to IAS 1 Presentation of Items of Other Comprehensive Income | July 1, 2012 |
| Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets | January 1, 2012 |
| Amendment to IAS 19 Employee Benefits | January 1, 2013 |
| Amendment to IAS 27 Separate Financial Statements | January 1, 2013 |
| Amendment to IAS 28 Investments in Associates and Joint Ventures | January 1, 2013 |
| Amendment to IAS 32 Offsetting of Financial Assets and Financial Liabilities | January 1, 2014 |
| IFRIC 20 Stripping Costs in the Production Phase of A Surface Mine | January 1, 2013 |
| Not included in the 2013 Taiwan-IFRSs version | |
| Annual Improvements to IFRSs 2010 - 2012 Cycle | July 1, 2014 or transactions on or after July 1, 2014 |
| Annual Improvements to IFRSs 2011 - 2013 Cycle | July 1, 2014 |
| IFRS 9 Financial Instruments | Not yet determined |
| Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosure | Not yet determined |
| IFRS 14 Regulatory Deferral Accounts | January 1, 2016 |
| Amendment to IAS 19 Defined Benefit Plans: Employee Contributions | July 1, 2014 |
| Amendment to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets | January 1, 2014 |
| Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting | January 1, 2014 |
| IFRIC 21 Levies | January 1, 2014 |

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

b. Significant changes in accounting policy resulted from new and revised standards, amendments and interpretations in issue but not yet effective

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

Under IFRS 9, 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. If the objective of the Company s business model is to hold the financial asset to collect the contractual cash flows which are solely for payments of principal and interest on the principal amount outstanding, such assets are measured at the amortized cost. All other financial assets must be measured at the fair value through profit or loss as of the end of the reporting period.

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

The amendment to IFRS 9 issued by IASB introduces the new hedge accounting model and removed the original mandatory effective date of January 1, 2015 (on and after). IASB will reconsider the appropriate effective date once the standard is complete with a new impairment model and the finalization of any limited amendments to classification and measurement.

2) IFRS 12, Disclosure of Interests in Other Entities

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

3) IFRS 13, Fair Value Measurement

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

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

The amendments to IAS 1 introduce a new disclosure terminology for other comprehensive income, which require additional disclosures in other comprehensive income. The items of other comprehensive income will be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis. The Company expects the aforementioned amendments will change the Company s presentation on the statement of comprehensive income.

5) Amendments to IAS 19, Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans, which require the Company to recognize changes in defined benefit obligations or assets, to disclose the components of the defined benefit costs, to eliminate the corridor approach and to accelerate the recognition of past service cost. According to the amendments, all actuarial gains and losses will be recognized immediately through other comprehensive income; the past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis. In addition, the amendment also requires a broader disclosure in defined benefit plans.

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

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

c. Impact of the application of the new and revised standards, amendments and interpretations in issue but not yet effective on the consolidated financial statements of the Company

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are the first Taiwan-IFRSs annual consolidated financial statements prepared for the year ended December 31, 2013. The Company s date of transition to Taiwan-IFRSs is January 1, 2012, and the effect of the transition to Taiwan-IFRSs is disclosed in Note 43.

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.

Significant accounting policies are summarized as follows:

**Statement of Compliance**

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, IASs, interpretations as well as related guidance translated by the ARDF endorsed by the FSC with the effective dates.

**Basis of Preparation**

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

The opening balance sheet at the date of transition is prepared in accordance with the recognition and measurement required by IFRS 1. According to IFRS 1, the Company is required to apply each effective IFRS retrospectively in its opening balance sheet at the date of transition to Taiwan-IFRSs; except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The main optional exemptions the Company adopted are described in Note 43.

**Basis of Consolidation**

<u>The basis for the consolidated financial statements</u>

The consolidated financial statements incorporate the financial statements of TSMC and entities controlled by TSMC (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

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

a. the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and

b. the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest.

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

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

The subsidiaries in the consolidated financial statements

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

| Name of Investor | Name of Investee | Main Businesses and Products | Establishment and Operating Location | Percentage of Ownership December 31, 2013 | December 31, 2012 | January 1, 2012 | Note |
|---|---|---|---|---|---|---|---|
| TSMC | TSMC North America | Selling and marketing of integrated circuits and semiconductor devices | San Jose, California, U.S.A. | 100% | 100% | 100% | |
| | TSMC Japan Limited (TSMC Japan) | Marketing activities | Yokohama, Japan | 100% | 100% | 100% | a) |
| | TSMC Partners, Ltd. (TSMC Partners) | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | Tortola, British Virgin Islands | 100% | 100% | 100% | |
| | TSMC Korea Limited (TSMC Korea) | Customer service and technical supporting activities | Seoul, Korea | 100% | 100% | 100% | a) |
| | TSMC Europe B.V. (TSMC Europe) | Marketing and engineering supporting activities | Amsterdam, the Netherlands | 100% | 100% | 100% | a) |
| | TSMC Global, Ltd. (TSMC Global) | Investment activities | Tortola, British Virgin Islands | 100% | 100% | 100% | |
| | TSMC China Company Limited (TSMC China) | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications | Shanghai, China | 100% | 100% | 100% | |

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| | | provided by customers | | | | | |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | 50% | 50% | 53% | |
| | VentureTech Alliance Fund II, L.P. (VTAF II) | Investing in new start-up technology companies | Cayman Islands | 98% | 98% | 98% | |
| | Emerging Alliance Fund, L.P. (Emerging Alliance) | Investing in new start-up technology companies | Cayman Islands | 99.5% | 99.5% | 99.5% | a) |
| | Xintec Inc. (Xintec) | Wafer level chip size packaging service | Taoyuan, Taiwan | b) | 40% | 40% | |
| | TSMC Solid State Lighting Ltd. (TSMC SSL) | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | Hsin-Chu, Taiwan | 92% | 95% | 100% | TSMC and TSMC GN aggregately have a controlling interest of 93% in TSMC SSL. |
| | TSMC Solar Ltd. (TSMC Solar) | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | Tai-Chung, Taiwan | 99% | 99% | 100% | TSMC and TSMC GN aggregately have a controlling interest of 99% in TSMC Solar. |
| | TSMC Guang Neng Investment, Ltd. (TSMC GN) | Investment activities | Taipei, Taiwan | 100% | 100% | | |
| TSMC Partners | TSMC Design Technology Canada Inc. (TSMC Canada) | Engineering support activities | Ontario, Canada | 100% | 100% | 100% | a) |

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|---|---|---|---|---|---|---|---|
| | TSMC Technology, Inc. (TSMC Technology) | Engineering support activities | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| | TSMC Development, Inc. (TSMC Development) | Investment activities | Delaware, U.S.A. | 100% | 100% | 100% | |
| | InveStar Semiconductor Development Fund, Inc. (ISDF) | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | 97% | a) |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | Investing in new start-up technology companies | Cayman Islands | 97% | 97% | 97% | a) |
| TSMC Development | WaferTech, LLC (WaferTech) | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | Washington, U.S.A. | 100% | 100% | 100% | |
| VTAF III | Mutual-Pak Technology Co., Ltd. (Mutual-Pak) | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | Taipei, Taiwan | 58% | 58% | 57% | a) |
| | Growth Fund Limited (Growth Fund) | Investing in new start-up technology companies | Cayman Islands | 100% | 100% | 100% | a) |
| VTAF III, VTAF II and Emerging Alliance | VentureTech Alliance Holdings, LLC (VTA Holdings) | Investing in new start-up technology companies | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| TSMC SSL | TSMC Lighting North America, Inc. (TSMC Lighting NA) | Selling and marketing of solid state lighting related products | Delaware, U.S.A. | 100% | 100% | 100% | a) |
| TSMC Solar | TSMC Solar North America, Inc. (TSMC | Selling and marketing of solar related | Delaware, U.S.A. | 100% | 100% | 100% | a) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Solar NA) | products | | | | | |
| | TSMC Solar Europe B.V. (TSMC Solar Europe) | Investing in solar related business | Amsterdam, the Netherlands | 100% | 100% | 100% | a) |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | 49% | 49% | 46% | |
| TSMC Solar Europe | TSMC Solar Europe GmbH | Selling of solar related products and providing customer service | Hamburg, Germany | 100% | 100% | 100% | a) |

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

Note b: TSMC has no power to govern the financial and operating policies of Xintec starting June 2013 due to the loss of power to cast the majority of votes at meetings of the Board of Directors. As a result, Xintec is no longer consolidated and is accounted for using the equity method. Please refer to Note 34.

**Foreign Currencies**

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

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

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

**Classification of Current and Noncurrent Assets and Liabilities**

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

**Cash Equivalents**

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

**Financial Instruments**

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

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. Fair value is determined in the manner described in Note 36.

**Financial Assets**

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

Financial assets at fair value through profit or loss

Derivative financial instruments that do not meet the criteria for hedge accounting are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

Stocks and money market funds held by the Company that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value at the end of each reporting period.

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

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**Financial Liabilities and Equity Instruments**

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities measured at FVTPL are derivative financial instruments that do not meet the criteria for hedge accounting, and they are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

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

Derecognition of financial liabilities

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

**Derivative Financial Instruments**

The Company enters into a variety of derivative financial instruments to manage its market risk exposure to foreign exchange rate, interest rate and equity price fluctuation, including forward exchange contracts, cross currency swap contracts, interest rate swaps and forward stock contracts.

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

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

**Inventories**

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

**Investments Accounted for Using Equity Method**

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

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

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control). Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

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

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

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

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

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

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

**Property, Plant and Equipment**

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

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

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives: land improvements - 20 years; buildings - 10 to 20 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 15 years; and leased assets - 20 years. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Land is not depreciated.

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

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

**Leases**

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

<u>The Company as lessor</u>

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

The Company as lessee

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

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

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

**Intangible Assets**

Goodwill

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

Other intangible assets

Other separately acquired intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method over the following estimated useful lives: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 2 to 5 years; patent and others - the economic life or contract period. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Impairment of Tangible and Intangible Assets**

Goodwill

Goodwill is not amortized and instead is tested for impairment annually, or more frequently when there is an indication that the cash generating unit may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company s cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. If the recoverable amount of a cash-generating unit is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such cash generating unit and then to the other assets of the cash generating unit pro rata based on the carrying amount of each asset in the cash generating unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Other tangible and intangible assets

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

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

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

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

**Provision**

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

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

**Revenue Recognition**

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

<u>Sale of goods</u>

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

The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In principle, payment term granted to customers is due 30 days from the invoice date or 30 days from the end of the month of when the invoice is issued. Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

Royalties, dividend and interest income

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

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

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

**Retirement Benefits**

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial calculations being carried out at year end. Actuarial gains and losses are reported in retained earnings in the period that they are recognized as other comprehensive income.

**Share-based Payment Arrangements**

The Company elected to take the optional exemption under IFRS 1 for the share-based payment transactions granted and vested before the date of transition to Taiwan-IFRSs. There were no stock options granted prior to but unvested at the date of transition. Please refer to the description in Note 43 b.

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

**Taxation**

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

Current tax

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

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

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

In the application of the Company s accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

**Revenue Recognition**

The Company recognizes revenue when the conditions described in Note 4 are satisfied. The Company also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

**Impairment of Tangible and Intangible Assets Other than Goodwill**

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

**Impairment of Goodwill**

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

**Impairment Assessment on Investment Using Equity Method**

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

**Realization of Deferred Income Tax Assets**

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

**Valuation of Inventory**

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

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

**Recognition and Measurement of Defined Benefit Plans**

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

## 6. CASH AND CASH EQUIVALENTS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Cash and deposits in banks | $ 238,014,580 | $ 140,072,294 | $ 139,637,363 |
| Repurchase agreements collateralized by short-term commercial paper | 2,395,644 | 349,341 | |
| Repurchase agreements collateralized by corporate bonds | 1,809,344 | 2,691,042 | |
| Repurchase agreements collateralized by government bonds | 475,879 | 297,911 | 3,834,914 |
| | $ 242,695,447 | $ 143,410,588 | $ 143,472,277 |

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Derivative financial assets | | | |
| Forward exchange contracts | $ 90,353 | $ 38,607 | $ 15,360 |
| Cross currency swap contracts | | 947 | |
| | $ 90,353 | $ 39,554 | $ 15,360 |
| Derivative financial liabilities | | | |
| Forward exchange contracts | $ 29,573 | $ 12,174 | $ 13,623 |
| Cross currency swap contracts | 4,177 | 3,451 | 119 |
| | $ 33,750 | $ 15,625 | $ 13,742 |

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

Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|---|---|---|
| December 31, 2013 | | |
| Sell NT$/Buy EUR | January 2014 | NT$4,514,314/EUR110,000 |
| Sell NT$/Buy US$ | January 2014 | NT$683,749/US$22,800 |
| Sell US$/Buy EUR | January 2014 | US$340,134/EUR248,000 |
| Sell US$/Buy JPY | January 2014 | US$341,023/JPY35,754,801 |
| Sell US$/Buy RMB | January 2014 to February 2014 | US$138,000/RMB841,492 |
| December 31, 2012 | | |
| Sell NT$/Buy EUR | January 2013 | NT$9,417,062/EUR246,000 |
| Sell NT$/Buy US$ | January 2013 | NT$590,403/US$20,400 |
| Sell NT$/Buy JPY | January 2013 | NT$44,110/JPY130,000 |
| Sell US$/Buy NT$ | January 2013 to March 2013 | US$13,700/NT$398,239 |
| Sell US$/Buy RMB | January 2013 | US$20,000/RMB124,735 |
| January 1, 2012 | | |
| Sell EUR/Buy NT$ | January 2012 | EUR38,600/NT$1,528,206 |
| Sell NT$/Buy US$ | January 2012 to February 2012 | NT$163,491/US$5,400 |
| Sell RMB/Buy US$ | January 2012 | RMB1,118,705/US$177,000 |
| Sell US$/Buy EUR | January 2012 | US$2,082/EUR1,591 |
| Sell US$/Buy JPY | January 2012 | US$3,335/JPY259,830 |
| Sell US$/Buy NT$ | January 2012 to February 2012 | US$16,900/NT$510,122 |

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|---|---|---|---|
| December 31, 2013 | | | |
| January 2014 | NT$1,639,215/US$55,080 | | 1.03%-2.00% |
| December 31, 2012 | | | |
| January 2013 | NT$1,083,139/US$37,280 | | 0.06% |
| January 2013 | US$275,000/NT$7,986,190 | 0.14%-0.17% | |
| January 1, 2012 | | | |
| January 2012 | NT$420,431/US$13,880 | | 0.48% |

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Publicly traded stocks | $ 59,481,569 | $ 41,160,437 | $ 3,306,248 |
| Money market funds | 1,183 | 1,443 | 2,522 |
| | $ 59,482,752 | $ 41,161,880 | $ 3,308,770 |
| Current portion | $ 760,793 | $ 2,410,635 | $ 3,308,770 |
| Noncurrent portion | 58,721,959 | 38,751,245 | |
| | $ 59,482,752 | $ 41,161,880 | $ 3,308,770 |

In October 2012, the Company acquired 5% of the outstanding equity of ASML Holding N.V. (ASML) for EUR837,816 thousand with a lock-up period of 2.5 years starting from the acquisition date. (Note 40e)

In the second quarter of 2012, the Company recognized an impairment loss on some of the foreign publicly traded stocks in the amount of NT$2,677,529 thousand due to the significant decline in fair value.

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Commercial paper | $ 1,795,949 | $ | $ |
| Corporate bonds | | 5,056,973 | 8,614,527 |
| Government bonds | | | 454,320 |
| | $ 1,795,949 | $ 5,056,973 | $ 9,068,847 |
| Current portion | $ 1,795,949 | $ 5,056,973 | $ 3,825,680 |
| Noncurrent portion | | | 5,243,167 |
| | $ 1,795,949 | $ 5,056,973 | $ 9,068,847 |

## 10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Financial liabilities | | | |

| | | | |
|---|---|---|---|
| Current | | | |
| Cash flow hedges | | | |
| Interest rate swap contracts | $ | $ | $ 232 |
| | | | |
| <u>Financial liabilities</u> | | | |
| Noncurrent | | | |
| Fair value hedges | | | |
| Stock forward contracts | $ 5,481,616 | $ | $ |

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

The outstanding stock forward contracts consisted of the following:

| Contract Amount (In Thousands) | Contract Price |
|---|---|
| December 31, 2013 | |
| NT$37,431,626 | Determined by the specific percentage of spot price on the trade date |
| (US$1,256,095) | |

In addition, the Company s long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. The interest rate swap contract of the Company was due in August 2012. The contract information was as follows:

| Contract Amount (In Thousands) | Maturity Date | Range of Interest Rates Paid | Range of Interest Rates Received |
|---|---|---|---|
| January 1, 2012 | | | |
| NT$80,000 | August 31, 2012 | 1.38% | 0.63%-0.86% |

For the year ended December 31, 2012, the amount recognized in other comprehensive income and accumulated under the heading of cash flow hedges reserve from the above interest rate swap contract amounted to a net gain of NT$5 thousand; the amount reclassified from equity and recognized as a loss from the above interest rate swap contract amounted to a net loss of NT$227 thousand, which was included under finance costs in the consolidated statements of comprehensive income.

## 11. NOTES AND ACCOUNTS RECEIVABLE, NET

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Notes and accounts receivable | $ 72,136,514 | $ 58,257,798 | $ 46,321,240 |
| Allowance for doubtful receivables | (486,588) | (480,212) | (490,952) |
| Notes and accounts receivable, net | $ 71,649,926 | $ 57,777,586 | $ 45,830,288 |

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

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

Aging analysis of notes and accounts receivable, net

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Neither past due nor impaired | $ 64,112,564 | $ 47,528,952 | $ 39,362,390 |
| Past due but not impaired | | | |
| Past due within 30 days | 7,537,362 | 10,248,634 | 6,467,898 |
| | $ 71,649,926 | $ 57,777,586 | $ 45,830,288 |

Movements of the allowance for doubtful receivables

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance, beginning of year | $ 480,212 | $ 490,952 |
| Provision | 9,436 | 450 |
| Write-off | | (11,083) |
| Effect of deconsolidation of subsidiary | (3,157) | |
| Effect of exchange rate changes | 97 | (107) |
| Balance, end of year | $ 486,588 | $ 480,212 |

Aging analysis of accounts receivable that is individually determined to be impaired

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Not past due | $ 38 | $ 160,354 | $ 81,017 |
| Past due 1-30 days | 276 | 2,863 | 24,351 |
| Past due 31-60 days | 80 | | 4,684 |
| Past due 61-120 days | 158 | | |
| Past due over 121 days | 7,824 | 3,157 | 9,769 |
| | $ 8,376 | $ 166,374 | $ 119,821 |

The Company held bank guarantees and other credit enhancements as collateral for certain impaired accounts receivables. As of December 31, 2013 and 2012 and January 1, 2012, the amount of the bank guarantee and other credit enhancements were US$11 thousand, US$1,000 thousand and US$2,962 thousand, respectively.

**12. INVENTORIES**

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Finished goods | $ 7,245,209 | $ 6,244,824 | $ 3,347,849 |
| Work in process | 26,033,625 | 25,713,217 | 17,940,960 |
| Raw materials | 2,435,269 | 3,864,105 | 1,808,615 |
| Supplies and spare parts | 1,780,790 | 2,008,352 | 1,743,158 |
| | $ 37,494,893 | $ 37,830,498 | $ 24,840,582 |

Write-down of inventories to net realizable value in the amount of NT$664,662 thousand and NT$1,558,915 thousand, respectively, were included in the cost of revenue for the years ended December 31, 2013 and 2012.

## 13. FINANCIAL ASSETS CARRIED AT COST

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Non-publicly traded stocks | $ 1,865,078 | $ 3,314,713 | $ 4,004,314 |
| Mutual funds | 280,513 | 290,364 | 310,691 |
| | $ 2,145,591 | $ 3,605,077 | $ 4,315,005 |

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 Company recognized impairment loss on financial assets carried at cost in the amount of NT$1,538,888 thousand and NT$367,399 thousand for the years ended December 31, 2013 and 2012, respectively.

## 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Associates | $ 24,823,807 | $ 20,325,277 | $ 22,033,567 |
| Jointly controlled entities | 3,492,453 | 3,035,641 | 2,853,364 |
| | $ 28,316,260 | $ 23,360,918 | $ 24,886,931 |

a. Investments in associates

Associates consisted of the following:

| | Place of Incorporation and Operation | Carrying Amount | % of Ownership and Voting Rights Held by the Company |
|---|---|---|---|

| Name of Associate | Principal Activities | | December 31, 2013 | December 31, 2012 | January 1, 2012 | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|---|---|---|---|
| Vanguard International Semiconductor Corporation (VIS) | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | Hsinchu, Taiwan | $ 10,556,348 | $ 9,406,597 | $ 8,985,340 | 39% | 40% | 39% |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | Fabrication and supply of integrated circuits | Singapore | 7,457,733 | 6,710,956 | 6,289,429 | 39% | 39% | 39% |
| Motech Industries, Inc. (Motech) | Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems | Taipei, Taiwan | 3,887,462 | 2,992,899 | 5,609,002 | 20% | 20% | 20% |
| Xintec | Wafer level chip size packaging service | Taoyuan, Taiwan | 1,866,123 | | | 40% | | |
| Global Unichip Corporation (GUC) | Researching, developing, manufacturing, testing and marketing of integrated circuits | Hsinchu, Taiwan | 1,056,141 | 1,214,825 | 1,149,796 | 35% | 35% | 35% |
| Mcube Inc. (Mcube) | Research, development, and sale of micro-semiconductor device | Delaware, U.S.A. | | | | | 25% | 25% |
| | | | $ 24,823,807 | $ 20,325,277 | $ 22,033,567 | | | |

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

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

TSMC has no power to govern the financial and operating policies of Xintec starting June 2013 due to the loss of power to cast the majority of votes at meetings of the Board of Directors. As a result, Xintec is no longer consolidated and is accounted for using the equity method. Please refer to Note 34.

The summarized financial information in respect of the Company s associates is set out below. The summarized financial information below represents amounts shown in the associates financial statements prepared in accordance with IFRSs, IASs, interpretations as well as related guidance translated by the ARDF endorsed by the FSC with the effective dates, which is also adjusted by the Company using the equity method of accounting.

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Total assets | $ 96,689,523 | $ 82,348,735 | $ 87,282,437 |
| Total liabilities | (28,141,625) | (21,683,504) | (20,948,855) |
| Net assets | $ 68,547,898 | $ 60,665,231 | $ 66,333,582 |
| The Company s share of net assets of associates | $ 24,823,807 | $ 20,325,277 | $ 22,033,567 |

| | Years Ended December 31 2013 | 2012 |
|---|---|---|
| Net revenue | $ 67,752,079 | $ 55,746,115 |
| Net income | $ 8,325,722 | $ 175,900 |
| Other comprehensive income (loss) | $ 168,081 | $ (24,553) |
| The Company s share of profits of associates | $ 3,518,495 | $ 1,456,645 |
| The Company s share of other comprehensive income (loss) of associates | $ 18,554 | $ (39,238) |

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:

| Name of Associate | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| VIS | $ 22,239,112 | $ 12,658,703 | $ 6,627,758 |
| Motech | $ 5,345,015 | $ 2,383,824 | $ 4,645,176 |
| GUC | $ 3,454,902 | $ 4,692,130 | $ 4,645,442 |

b. Investments in jointly controlled entities

Jointly controlled entities consisted of the following:

| f Jointly Controlled Entity | Principal Activities | Place of Incorporation and Operation | Carrying Amount | | | % of Ownership and Voting Rights Held by the Company | | |
|---|---|---|---|---|---|---|---|---|
| | | | December 31, 2013 | December 31, 2012 | January 1, 2012 | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Holding Company (VisEra ) | Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry | Cayman Islands | $ 3,492,453 | $ 3,035,641 | $ 2,853,364 | 49% | 49% | 49% |

The summarized financial information in respect of the Company s jointly controlled entity is set out below. The summarized financial information below represents amounts shown in the jointly controlled entity s financial statements prepared in accordance with IFRSs, IASs, interpretations as well as related guidance translated by the ARDF endorsed by the FSC with the effective dates, which is also adjusted by the Company using the equity method of accounting.

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Current assets | $ 2,335,612 | $ 1,887,122 | $ 1,616,916 |
| Noncurrent assets | $ 1,564,485 | $ 1,780,903 | $ 1,732,247 |
| Current liabilities | $ 407,184 | $ 631,803 | $ 495,066 |
| Noncurrent liabilities | $ 460 | $ 581 | $ 733 |

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Net revenue | $ 1,801,619 | $ 1,869,049 |
| Income from operations | $ 474,787 | $ 522,486 |
| Net income | $ 453,536 | $ 617,084 |
| Other comprehensive income (loss) | $ (78,294) | $ 92,986 |
| Total comprehensive income | $ 375,242 | $ 710,070 |
| Income tax expense | $ 64,311 | $ 135,247 |
| The Company s share of profits of joint venture | $ 453,536 | $ 617,084 |
| The Company s share of other comprehensive income (loss) of joint venture | $ (78,294) | $ 92,986 |

## 15. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Land and land improvements | $ 3,582,717 | $ 1,159,755 | $ 1,185,573 |
| Buildings | 103,948,570 | 85,610,120 | 71,915,740 |
| Machinery and equipment | 404,706,105 | 404,382,298 | 294,814,381 |
| Office equipment | 7,836,261 | 6,907,376 | 5,148,538 |
| Assets under finance leases | 418,467 | 438,663 | 493,945 |
| Equipment under installation and construction in progress | 272,173,793 | 119,063,976 | 116,863,976 |
| | $ 792,665,913 | $ 617,562,188 | $ 490,422,153 |

| | Year Ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, Beginning of Year | Additions | Disposals | Reclassification | Effect of Deconsolidation of Subsidiary | Effect of Exchange Rate Changes | Balance, End of Year |
| Cost | | | | | | | |
| Land and land improvements | $ 1,527,124 | $ 3,212,000 | $ | $ | $ (772,029) | $ 19,814 | $ 3,986,909 |
| Buildings | 197,411,851 | 31,869,046 | | 3,797 | (986,205) | 884,247 | 229,182,736 |
| Machinery and equipment | 1,279,893,177 | 140,223,121 | (2,925,145) | 360 | (5,630,854) | 2,359,135 | 1,413,919,794 |
| Office equipment | 20,067,943 | 3,791,109 | (788,080) | | (1,055,809) | 46,869 | 22,062,032 |
| Assets under finance leases | 766,732 | | | | | 37,698 | 804,430 |
| | 1,499,666,827 | $ 179,095,276 | $ (3,713,225) | $ 4,157 | $ (8,444,897) | $ 3,347,763 | 1,669,955,901 |
| Accumulated depreciation and impairment | | | | | | | |
| Land improvements | 367,369 | $ 27,069 | $ | $ | $ | $ 9,754 | 404,192 |
| Buildings | 111,801,731 | 13,183,558 | | | (226,908) | 475,785 | 125,234,166 |
| Machinery and equipment | 875,510,879 | 138,314,235 | (2,809,185) | | (3,656,326) | 1,854,086 | 1,009,213,689 |
| Office equipment | 13,160,567 | 2,413,652 | (786,464) | | (599,483) | 37,499 | 14,225,771 |
| Assets under finance leases | 328,069 | 41,333 | | | | 16,561 | 385,963 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1,001,168,615 | $ 153,979,847 | $ (3,595,649) | $ | $ (4,482,717) | $ 2,393,685 | 1,149,463,781 |
| Equipment under installation and construction in progress | 119,063,976 | $ 154,706,858 | $ | $ | $ (1,632,860) | $ 35,819 | 272,173,793 |
| | $ 617,562,188 | | | | | | $ 792,665,913 |

| | Year Ended December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, Beginning of Year | Additions | Disposals | Impairment | Reclassification | Effect of Exchange Rate Changes | Balance, End of Year |
| Cost | | | | | | | |
| Land and land improvements | $ 1,541,128 | $ 18,500 | $ | $ | $ | $ (32,504) | $ 1,527,124 |
| Buildings | 172,997,391 | 25,183,927 | (54,456) | | (11,074) | (703,937) | 197,411,851 |
| Machinery and equipment | 1,057,926,529 | 226,497,664 | (2,104,900) | | 11,040 | (2,437,156) | 1,279,893,177 |
| Office equipment | 17,041,306 | 3,680,707 | (563,454) | | 34 | (90,650) | 20,067,943 |
| Assets under finance leases | 791,480 | | | | | (24,748) | 766,732 |
| | 1,250,297,834 | $ 255,380,798 | $ (2,722,810) | $ | $ | $ (3,288,995) | 1,499,666,827 |
| Accumulated depreciation and impairment | | | | | | | |
| Land improvements | 355,555 | $ 26,983 | $ | $ | $ | $ (15,169) | 367,369 |
| Buildings | 101,081,651 | 11,154,790 | (44,354) | | (164) | (390,192) | 111,801,731 |
| Machinery and equipment | 763,112,148 | 116,070,821 | (1,966,751) | 422,323 | 158 | (2,127,820) | 875,510,879 |
| Office equipment | 11,892,768 | 1,875,785 | (555,485) | 22,182 | 6 | (74,689) | 13,160,567 |
| Assets under finance leases | 297,535 | 40,135 | | | | (9,601) | 328,069 |
| | 876,739,657 | $ 129,168,514 | $ (2,566,590) | $ 444,505 | $ | $ (2,617,471) | 1,001,168,615 |
| Equipment under installation and | 116,863,976 | $ 2,308,355 | $ | $ | $ (8,525) | $ (99,830) | 119,063,976 |

| | | |
|---|---|---|
| construction in progress | | |
| | $ 490,422,153 | $ 617,562,188 |

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

For the year ended December 31, 2012, the Company recognized impairment loss of NT$444,505 thousand related to property, plant and equipment of the foundry reportable segment since the carrying amount of some of property, plant and equipment is expected to be unrecoverable.

The Company entered into agreements to lease buildings from December 2003 to November 2018 that qualify as finance leases.

Future minimum lease gross payments were as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Minimum lease payments | | | |
| Not later than 1 year | $ 28,376 | $ 27,042 | $ |
| Later than 1 year and not later than 5 years | 850,703 | 108,168 | 223,296 |
| Later than five years | | 729,566 | 780,962 |
| | 879,079 | 864,776 | 1,004,258 |
| Less: Future finance expenses | 94,040 | 108,471 | 133,265 |
| Present value of minimum lease payments | $ 785,039 | $ 756,305 | $ 870,993 |
| Present value of minimum lease payments | | | |
| Not later than 1 year | $ 27,684 | $ 26,382 | $ |
| Later than 1 year and not later than 5 years | 757,355 | 100,821 | 213,411 |
| Later than five years | | 629,102 | 657,582 |
| | $ 785,039 | $ 756,305 | $ 870,993 |
| Current portion | $ 8,809 | $ 8,190 | $ |
| Noncurrent portion | 776,230 | 748,115 | 870,993 |
| | $ 785,039 | $ 756,305 | $ 870,993 |

There was no capitalization of borrowing costs for the year ended December 31, 2013. During the year ended December 31, 2012, the Company capitalized the borrowing costs directly attributable to the acquisition or construction of property, plant and equipment. For the year ended December 31, 2012, the amount of capitalized borrowing costs was NT$6,442 thousand and the capitalized interest rate was 1.08%-1.20%.

## 16. INTANGIBLE ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Goodwill | $ 5,627,517 | $ 5,523,707 | $ 5,693,999 |
| Technology license fees | 1,103,161 | 1,461,893 | 1,682,892 |
| Software and system design costs | 3,647,670 | 2,968,942 | 2,366,483 |
| Patent and others | 1,112,035 | 1,005,027 | 1,118,189 |
| | $ 11,490,383 | $ 10,959,569 | $ 10,861,563 |

| | Year Ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Balance, Beginning of Year** | **Additions** | **Disposals** | **Reclassification** | **Effect of Deconsolidation of Subsidiary** | **Effect of Exchange Rate Changes** | **Balance, End of Year** |
| Cost | | | | | | | |
| Goodwill | $ 5,523,707 | $ | $ | $ | $ | $ 103,810 | $ 5,627,517 |
| Technology license fees | 4,590,548 | | | (29,564) | (113,340) | (2,816) | 4,444,828 |
| Software and system design costs | 15,095,421 | 2,140,675 | (18,246) | (111,105) | (25,335) | 5,395 | 17,086,805 |
| Patent and others | 3,094,664 | 578,901 | (23,549) | 101,007 | (42,089) | 20,462 | 3,729,396 |
| | 28,304,340 | $ 2,719,576 | $ (41,795) | $ (39,662) | $ (180,764) | $ 126,851 | 30,888,546 |

(Continued)

| | Year Ended December 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance, Beginning of Year | Additions | Disposals | Reclassification | Effect of Deconsolidation of Subsidiary | Effect of Exchange Rate Changes | Balance, End of Year |
| Accumulated amortization | | | | | | | |
| Technology license fees | $ 3,128,655 | $ 282,414 | $ | $ | $ (66,587) | $ (2,815) | $ 3,341,667 |
| Software and system design costs | 12,126,479 | 1,344,339 | (17,974) | (5,941) | (12,661) | 4,893 | 13,439,135 |
| Patent and others | 2,089,637 | 575,269 | (23,549) | | (25,195) | 1,199 | 2,617,361 |
| | 17,344,771 | $ 2,202,022 | $ (41,523) | $ (5,941) | $ (104,443) | $ 3,277 | 19,398,163 |
| | $ 10,959,569 | | | | | | $ 11,490,383 |

(Concluded)

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Balance, Beginning of Year | Additions | Disposals | Reclassification | Effect of Exchange Rate Changes | Balance, End of Year |
| Cost | | | | | | |
| Goodwill | $ 5,693,999 | $ | $ | $ | $ (170,292) | $ 5,523,707 |
| Technology license fees | 4,370,173 | 31,022 | | 191,580 | (2,227) | 4,590,548 |
| Software and system design costs | 13,438,579 | 1,795,360 | (48,193) | (85,464) | (4,861) | 15,095,421 |
| Patent and others | 2,670,031 | 427,340 | (93,034) | 93,990 | (3,663) | 3,094,664 |
| | 26,172,782 | $ 2,253,722 | $ (141,227) | $ 200,106 | $ (181,043) | 28,304,340 |
| Accumulated amortization | | | | | | |
| Technology license fees | 2,687,281 | $ 442,467 | $ | $ | $ (1,093) | 3,128,655 |
| Software and system design costs | 11,072,096 | 1,143,493 | (48,193) | (36,552) | (4,365) | 12,126,479 |
| Patent and others | 1,551,842 | 594,815 | (93,034) | 36,552 | (538) | 2,089,637 |
| | 15,311,219 | $ 2,180,775 | $ (141,227) | $ | $ (5,996) | 17,344,771 |
| | $ 10,861,563 | | | | | $ 10,959,569 |

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

For the years ended December 31, 2013 and 2012, the Company did not recognize any impairment loss on goodwill.

## 17. OTHER ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Tax receivable | $ 1,781,376 | $ 1,565,104 | $ 708,891 |
| Prepaid expenses | 1,081,957 | 1,080,236 | 1,436,416 |
| Long-term receivable | 820,000 | 767,800 | 785,400 |
| Others | 770,468 | 608,412 | 550,053 |
| | $ 4,453,801 | $ 4,021,552 | $ 3,480,760 |
| Current portion | $ 2,984,224 | $ 2,786,408 | $ 2,174,014 |
| Noncurrent portion | 1,469,577 | 1,235,144 | 1,306,746 |
| | $ 4,453,801 | $ 4,021,552 | $ 3,480,760 |

## 18. SHORT-TERM LOANS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Unsecured loans | | | |
| Amount | $ 15,645,000 | $ 34,714,929 | $ 25,926,528 |
| | | | |
| Original loan content | | | |
| US$ (in thousands) | $ 525,000 | $ 1,195,500 | $ 856,000 |
| Annual interest rate | 0.38%-0.42% | 0.39%-0.58% | 0.45%-1.00% |
| Maturity date | Due in January 2014 | Due in January 2013 | Due by February 2012 |

## 19. PROVISIONS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Sales returns and allowances | $ 7,603,781 | $ 6,038,003 | $ 5,068,263 |
| Warranties | 10,452 | 4,891 | 2,889 |
| | $ 7,614,233 | $ 6,042,894 | $ 5,071,152 |
| | | | |
| Current portion | $ 7,603,781 | $ 6,038,003 | $ 5,068,263 |
| Noncurrent portion | 10,452 | 4,891 | 2,889 |
| | $ 7,614,233 | $ 6,042,894 | $ 5,071,152 |

| | Sales Returns and Allowances | Warranties | Total |
|---|---|---|---|
| <u>Year ended December 31, 2013</u> | | | |
| Balance, beginning of year | $ 6,038,003 | $ 4,891 | $ 6,042,894 |
| Provision made | 6,633,290 | 6,162 | 6,639,452 |
| Payment | (5,042,752) | (890) | (5,043,642) |
| Effect of deconsolidation of subsidiary | (37,748) | | (37,748) |
| Effect of exchange rate changes | 12,988 | 289 | 13,277 |
| Balance, end of year | $ 7,603,781 | $ 10,452 | $ 7,614,233 |
| | | | |
| <u>Year ended December 31, 2012</u> | | | |
| Balance, beginning of year | $ 5,068,263 | $ 2,889 | $ 5,071,152 |
| Provision made | 7,187,023 | 2,048 | 7,189,071 |

| | | | |
|---|---|---|---|
| Payment | (6,211,170) | | (6,211,170) |
| Effect of exchange rate changes | (6,113) | (46) | (6,159) |
| Balance, end of year | $ 6,038,003 | $ 4,891 | $ 6,042,894 |

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

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

**20. BONDS PAYABLE**

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Domestic unsecured bonds | $ 166,200,000 | $ 80,000,000 | $ 22,500,000 |
| Overseas unsecured bonds | 44,700,000 | | |
| | 210,900,000 | 80,000,000 | 22,500,000 |
| Less: Discounts on bonds payable | 132,375 | | |
| Total | $ 210,767,625 | $ 80,000,000 | $ 22,500,000 |
| Current portion | $ | $ | $ 4,500,000 |
| Noncurrent portion | 210,767,625 | 80,000,000 | 18,000,000 |
| | $ 210,767,625 | $ 80,000,000 | $ 22,500,000 |

The major terms of domestic unsecured bonds are as follows:

| Issuance | Tranche | Issuance Period | Total Amount | Coupon Rate | Repayment and Interest Payment |
|---|---|---|---|---|---|
| 100-1 | A | September 2011 to September 2016 | $ 10,500,000 | 1.40% | Bullet repayment; interest payable annually |
| | B | September 2011 to September 2018 | 7,500,000 | 1.63% | |
| 100-2 | A | January 2012 to January 2017 | 10,000,000 | 1.29% | |
| | B | January 2012 to January 2019 | 7,000,000 | 1.46% | |
| 101-1 | A | August 2012 to August 2017 | 9,900,000 | 1.28% | |
| | B | August 2012 to August 2019 | 9,000,000 | 1.40% | |
| 101-2 | A | September 2012 to September 2017 | 12,700,000 | 1.28% | |
| | B | September 2012 to September 2019 | 9,000,000 | 1.39% | |
| 101-3 | - | October 2012 to October 2022 | 4,400,000 | 1.53% | |
| 101-4 | A | January 2013 to January 2018 | 10,600,000 | 1.23% | |
| | B | January 2013 to January 2020 | 10,000,000 | 1.35% | |
| | C | January 2013 to January 2023 | 3,000,000 | 1.49% | |

(Continued)

| Issuance | Tranche | Issuance Period | Total Amount | Coupon Rate | Repayment and Interest Payment |
|---|---|---|---|---|---|
| 102-1 | A | February 2013 to February 2018 | $ 6,200,000 | 1.23% | Bullet repayment; interest payable annually |
| | B | February 2013 to February 2020 | 11,600,000 | 1.38% | |
| | C | February 2013 to February 2023 | 3,600,000 | 1.50% | |
| 102-2 | A | July 2013 to July 2020 | 10,200,000 | 1.50% | |
| | B | July 2013 to July 2023 | 3,500,000 | 1.70% | |
| 102-3 | A | August 2013 to August 2017 | 4,000,000 | 1.34% | |
| | B | August 2013 to August 2019 | 8,500,000 | 1.52% | |
| 102-4 | A | September 2013 to September 2016 | 1,500,000 | 1.35% | |
| | B | September 2013 to September 2017 | 1,500,000 | 1.45% | |
| | C | September 2013 to March 2019 | 1,400,000 | 1.60% | Bullet repayment; interest payable annually (interest for the six months prior to maturity will accrue on the basis of actual days and be repayable at maturity) |
| | D | September 2013 to March 2021 | 2,600,000 | 1.85% | |
| | E | September 2013 to March 2023 | 5,400,000 | 2.05% | |
| | F | September 2013 to September 2023 | 2,600,000 | 2.10% | Bullet repayment; interest payable annually |
| Domestic 5th | C | January 2002 to January 2012 | 4,500,000 | 3.00% | |

(Concluded)

The major terms of foreign 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% | |

## 21. LONG-TERM BANK LOANS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Bank loans for working capital: | | | |
| Repayable from April 2016 in 16 quarterly installments, annual interest rate at 3.63% in 2013 | $ 40,000 | $ | $ |
| Repayable in full in one lump sum payment in June 2016, however, reflective of a prepayment of NT$100,000 thousand in September 2012, annual interest rate at 1.08%-1.21% in 2012 | | 550,000 | 650,000 |
| Repayable in full in one lump sum payment in March 2015, however, reflective of a prepayment of NT$50,000 thousand in August 2012, annual interest rate at 1.16%-1.18% in 2012 | | 450,000 | 500,000 |
| Repayable from July 2012 in 16 quarterly installments, annual interest rate at 1.21%-1.24% in 2012 | | 262,500 | 300,000 |
| Repayable from September 2012 in 16 quarterly installments, annual interest rate at 1.21%-1.24% in 2012 | | 175,000 | 200,000 |
| Repayable from October 2013 in 16 quarterly installments, annual interest rate at 1.23%-1.24% in 2012 | | 50,000 | |
| | $ 40,000 | $ 1,487,500 | $ 1,650,000 |
| Current portion | $ | $ 128,125 | $ 62,500 |
| Noncurrent portion | 40,000 | 1,359,375 | 1,587,500 |
| | $ 40,000 | $ 1,487,500 | $ 1,650,000 |

As of December 31, 2013, in relation to the deconsolidation of Xintec in June 2013 (refer to Note 34), long-term bank loans of Xintec have been derecognized.

## 22. OTHER LONG-TERM PAYABLES

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Payables for software and system design costs | $ 54,000 | $ 113,000 | $ |

| | | | |
|---|---|---|---|
| Payables for acquisition of property, plant and equipment | | 825,447 | 3,399,855 |
| Payables for technology transfer | | 29,038 | |
| | $ 54,000 | $ 967,485 | $ 3,399,855 |
| Current portion (classified under accrued expenses and other current liabilities) | $ 18,000 | $ 913,485 | $ 3,399,855 |
| Noncurrent portion | 36,000 | 54,000 | |
| | $ 54,000 | $ 967,485 | $ 3,399,855 |

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

## 23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The plan under the Labor Pension Act (the Act ) is deemed a defined contribution plan. Pursuant to the Act, TSMC, Xintec, Mutual-Pak, TSMC SSL and TSMC Solar have made monthly contributions equal to 6% of each employee s monthly salary to employees pension accounts. Furthermore, TSMC North America, TSMC China, TSMC Europe, TSMC Canada, TSMC Technology, TSMC Solar NA and TSMC Solar Europe GmbH also make monthly contributions at certain percentages of the basic salary of their employees. Accordingly, the Company recognized expenses of NT$1,590,414 thousand and NT$1,403,507 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2013 and 2012, respectively.

b. Defined benefit plans

TSMC, Xintec, TSMC SSL and TSMC Solar have defined benefit plans under the Labor Standards Law that provide benefits based on an employee s length of service and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee s name in the Bank of Taiwan. TSMC revised its defined benefit plan in the fourth quarter of 2013 to set the employee s mandatory retirement age. Such plan changes have reflected in the actuarial results as of December 31, 2013.

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

| | Measurement Date | | |
|---|---|---|---|
| | December 31, | December 31, | January 1, |
| | 2013 | 2012 | 2012 |
| Discount rate | 2.15% | 1.50%-1.75% | 1.75% |
| Future salary rate increase | 3.00% | 2.00%-3.00% | 2.50%-3.00% |
| Expected rate of return on plan assets | 1.25% | 1.75%-2.00% | 2.00% |

The pension costs of the defined benefit plans recognized in profit or loss were as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Current service cost | $ 134,762 | $ 129,217 |
| Interest cost | 175,563 | 160,018 |
| Expected return on plan assets | (67,324) | (63,279) |
| Past service cost | (7,240) | (7,239) |

| | | |
|---|---|---|
| | $ 235,761 | $ 218,717 |

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

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Cost of revenue | $ 152,512 | $ 137,857 |
| Research and development expenses | 60,864 | 57,536 |
| General and administrative expenses | 18,080 | 18,923 |
| Marketing expenses | 4,305 | 4,401 |
| | $ 235,761 | $ 218,717 |

For the years ended December 31, 2013 and 2012, the pre-tax actuarial loss recognized in other comprehensive income were NT$662,074 thousand and NT$685,978 thousand, respectively. As of December 31, 2013 and 2012, the pre-tax accumulated actuarial loss recognized in other comprehensive income were NT$1,348,052 thousand and NT$685,978 thousand, respectively.

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

| | **December 31, 2013** | **December 31, 2012** | **January 1, 2012** |
|---|---|---|---|
| Present value of defined benefit obligation | $ 10,329,510 | $ 10,133,361 | $ 9,214,125 |
| Fair value of plan assets | (3,527,847) | (3,352,567) | (3,120,665) |
| Funded status | 6,801,663 | 6,780,794 | 6,093,460 |
| Unrecognized prior service cost | 788,263 | 140,440 | 147,564 |
| Accrued pension cost | $ 7,589,926 | $ 6,921,234 | $ 6,241,024 |

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

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Balance, beginning of year | $ 10,133,361 | $ 9,214,125 |
| Current service cost | 134,762 | 129,217 |
| Interest cost | 175,563 | 160,018 |
| Effect of plan changes | (655,179) | |
| Benefits paid from plan assets | (50,508) | (26,119) |
| Benefits paid directly by the Company | (7,011) | |
| Actuarial loss | 638,071 | 656,120 |
| Effect of deconsolidation of subsidiary | (39,549) | |

| | | |
|---|---|---|
| Balance, end of year | $ 10,329,510 | $ 10,133,361 |

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

| | Years Ended December 31 | |
| --- | --- | --- |
| | 2013 | 2012 |
| Balance, beginning of year | $ 3,352,567 | $ 3,120,665 |
| Expected return on plan assets | 67,324 | 63,279 |
| Actuarial loss | (24,003) | (29,858) |
| Contributions from employer | 219,062 | 224,600 |
| Benefits paid | (50,508) | (26,119) |
| Effect of deconsolidation of subsidiary | (36,595) | |
| Balance, end of year | $ 3,527,847 | $ 3,352,567 |

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

| | Fair Value of Plan Assets (%) | | |
| --- | --- | --- | --- |
| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Cash | 23 | 25 | 24 |
| Equity instruments | 45 | 38 | 41 |
| Debt instruments | 32 | 37 | 35 |
| | 100 | 100 | 100 |

The overall expected rate of return on plan assets was based on the historical return trends, analysts predictions of the market over the life of related obligation, reference to the performance of the Funds operated by the Committee and the consideration of the effect that the minimum return should not be less than the average interest rate on a two-year time deposit published by the local banks. For the years ended December 31, 2013 and 2012, the actual return on plan assets were NT$43,321 thousand and NT$33,421 thousand, respectively.

The Company elects to disclose the historical information of experience adjustments from the adoption of Taiwan-IFRSs, which is as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| --- | --- | --- | --- |
| Experience adjustments on plan liabilities | $ 1,294,538 | $ 396,616 | $ |
| Experience adjustments on plan assets | $ (24,003) | $ (29,858) | $ |

The Company expects to make contributions of NT$223,524 thousand to the defined benefit plans in the next year starting from December 31, 2013.

## 24. EQUITY

a. Capital stock

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| 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) | 25,928,617 | 25,924,435 | 25,916,222 |
| Issued capital | $ 259,286,171 | $ 259,244,357 | $ 259,162,226 |

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

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

As of December 31, 2013, 1,082,959 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,414,794 thousand shares (one ADS represents five common shares).

b. Capital surplus

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Additional paid-in capital | $ 24,017,363 | $ 23,934,607 | $ 23,774,250 |
| From merger | 22,804,510 | 22,804,510 | 22,804,510 |
| From convertible bonds | 8,892,847 | 8,892,847 | 8,892,847 |
| From differences between equity purchase price and carrying amount arising from acquisition or disposal of subsidiaries | 100,827 | 40,733 | |
| From share of changes in equities of associates and joint venture | 43,024 | 2,588 | |
| Donations | 55 | 55 | 55 |
| | $ 55,858,626 | $ 55,675,340 | $ 55,471,662 |

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

c. Retained earnings and dividend policy

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

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

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

3) Bonus to directors and profit sharing to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;

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

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

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

TSMC accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT$12,634,665 thousand and NT$11,115,240 thousand for the years ended December 31, 2013 and 2012, respectively. Bonuses to members of the Board of Directors were expensed based on estimated amount payable. If the actual amounts subsequently approved by the shareholders differ from the amounts estimated, the differences are recorded in the year such bonuses are approved by the shareholders as a change in accounting estimate. If profit sharing approved for distribution to employees is in the form of common shares, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders meeting.

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

Pursuant to existing regulations, the Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of stockholders equity, such as the accumulated balance of foreign currency translation reserve, unrealized valuation gain/loss on 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 2012 and 2011 earnings have been approved by TSMC s shareholders in its meetings held on June 11, 2013 and on June 12, 2012, respectively. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For Fiscal Year 2012** | **For Fiscal Year 2011** | **For Fiscal Year 2012** | **For Fiscal Year 2011** |
| Legal capital reserve | $ 16,615,880 | $ 13,420,128 | | |
| Special capital reserve | (4,820,483) | 1,172,350 | | |

| | | | | |
|---|---|---|---|---|
| Cash dividends to shareholders | 77,773,307 | 77,748,668 | $ 3.00 | $ 3.00 |
| | $ 89,568,704 | $ 92,341,146 | | |

TSMC s profit sharing to employees and bonus to members of the Board of Directors in the amounts of NT$11,115,240 thousand and NT$71,351 thousand in cash for 2012, respectively, and profit sharing to employees and bonus to members of the Board of Directors in the amounts of NT$8,990,026 thousand and NT$62,324 thousand in cash for 2011, respectively, had been approved by the shareholders in its meetings held on June 11, 2013 and June 12, 2012, respectively. The aforementioned approved amount is the same as the one approved by the Board of Directors in its meetings held on February 5, 2013 and February 14, 2012, respectively, and the same amount had been charged against earnings for the years ended December 31, 2012 and 2011, respectively.

The appropriations of earnings, payment of profit sharing to employees and bonus to members of the Board of Directors for the year ended December 31, 2012 approved by the Board of Directors of TSMC were based on the financial statements for the year ended December 31, 2012 prepared under the R.O.C. GAAP and in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by the FSC before amendment.

TSMC s appropriations of earnings for 2013 had been approved in the meeting of the Board of Directors held on February 18, 2014. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings For Fiscal Year 2013 | Dividends Per Share (NT$) For Fiscal Year 2013 |
|---|---|---|
| Legal capital reserve | $ 18,814,679 | |
| Special capital reserve | (2,785,741) | |
| Cash dividends to shareholders | 77,785,851 | $ 3.00 |
| | $ 93,814,789 | |

The Board of Directors of TSMC also approved the profit sharing to employees and bonus to members of the Board of Directors in the amounts of NT$12,634,665 thousand and NT$104,136 thousand in cash for payment in 2013, respectively. There is no significant difference between the aforementioned approved amounts and the amounts charged against earnings of 2013.

The appropriations of earnings, profit sharing to employees and bonus to members of the Board of Directors for 2013 are to be presented for approval in the TSMC s shareholders meeting to be held on June 24, 2014 (expected).

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

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

d. Others

Changes in others were as follows:

| | Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of year | $ (10,753,806) | $ 7,973,321 | $ | $ (2,780,485) |
| Exchange differences arising on translation of foreign operations | 3,667,657 | | | 3,667,657 |
| Changes in fair value of available-for-sale financial assets | | 14,554,695 | | 14,554,695 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | | (1,256,281) | | (1,256,281) |
| Share of other comprehensive income of associates and joint venture | (54,989) | 2,551 | (113) | (52,551) |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | 776 | (44) | | 732 |
| Income tax effect | | 36,539 | | 36,539 |
| Balance, end of year | $ (7,140,362) | $ 21,310,781 | $ (113) | $ 14,170,306 |

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of year | $ (6,433,364) | $ (1,172,762) | $ (93) | $ (7,606,219) |
| Exchange differences arising on translation of foreign operations | (4,375,597) | | | (4,375,597) |
| Changes in fair value of hedging instruments for cash flow hedges | | | 2 | 2 |
| Changes in fair value of hedging instruments for cash flow hedges reclassified to profit or loss | | | 91 | 91 |

| | | |
|---|---|---|
| Changes in fair value of available-for-sale financial assets | 7,255,261 | 7,255,261 |

(Continued)

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Cumulative loss reclassified to profit or loss upon impairment of available-for-sale financial assets | $ | $ 2,677,529 | $ | $ 2,677,529 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | | (394,857) | | (394,857) |
| Share of other comprehensive income of associates and joint venture | 55,155 | 17,450 | | 72,605 |
| Income tax effect | | (409,300) | | (409,300) |
| Balance, end of year | $ (10,753,806) | $ 7,973,321 | $ | $ (2,780,485) |

(Concluded)

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

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

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

e. Noncontrolling interests

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance, beginning of year | $ 2,543,226 | $ 2,436,649 |
| Share of noncontrolling interests | | |
| Net loss | (127,853) | (194,484) |
| Exchange differences arising on translation of foreign operations | 852 | 52,900 |
| | 2,776 | 1,077 |

Changes in fair value of available-for-sale financial assets

(Continued)

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | $ (10,805) | $ (4,741) |
| Changes in fair value of hedging instruments for cash flow hedges | | 3 |
| Changes in fair value of hedging instruments for cash flow hedges reclassified to profit or loss | | 136 |
| Stock option compensation cost of subsidiary | 5,312 | 6,219 |
| Share of other comprehensive income of associates and joint venture | 177 | |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | 1 | |
| Actuarial gain/loss from defined benefit plans | 299 | |
| Income tax expense related to actuarial gain/loss from defined benefit plans | (44) | |
| Adjustments arising from changes in percentage of ownership in subsidiaries | (62,446) | (40,733) |
| Increase in noncontrolling interests | 188,488 | 286,200 |
| Effect of deconsolidation of subsidiary | (2,273,153) | |
| Balance, end of year | $ 266,830 | $ 2,543,226 |

(Concluded)

## 25. SHARE-BASED PAYMENT

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

The Company elected to take the optional exemption from applying IFRS 2 retrospectively for shared-based payment transactions granted and vested before January 1, 2012. The plans are described as follows:

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

Stock options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2013.

Information about TSMC s outstanding stock options for the years ended December 31, 2013 and 2012 was as follows:

| | Number of Stock Options (In Thousands) | Weighted-average Exercise Price (NT$) |
|---|---|---|
| Year ended December 31, 2013 | | |
| Balance, beginning of year | 5,945 | $ 34.6 |
| Stock options exercised | (4,182) | 29.8 |
| Balance, end of year | 1,763 | 45.9 |
| Year ended December 31, 2012 | | |
| Balance, beginning of year | 14,293 | $ 31.4 |
| Stock options exercised | (8,213) | 29.5 |
| Stock options canceled | (135) | 34.6 |
| Balance, end of year | 5,945 | 34.6 |

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

Information about TSMC s outstanding stock options was as follows:

| December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|
| Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) | Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) | Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) |
| $43.2-$47.2 | 1.0 | $ 20.2-$28.3 | 0.4 | $ 20.9-$29.3 | 1.2 |
| | | $ 38.0-$50.1 | 2.0 | $ 38.0-$50.1 | 2.9 |

As of December 31, 2013, all of the above outstanding stock options were exercisable.

b. Application of IFRS 2

The Company applied IFRS 2 for the following plans as the shared-based payment transactions were granted and vested on or after January 1, 2012. The plans are described as follows:

The Board of Directors of TSMC SSL approved on December 18, 2012 and November 21, 2011 the issuance of new shares and allocated 17,000 thousand shares and 17,175 thousand shares for 2013 and 2012 stock option plan, respectively, for their employees to subscribe to, according to the Company Law. The aforementioned stock options were fully vested on the grant date.

Information about TSMC SSL s employee stock options related to the aforementioned new shares issued was as follows:

| | Number of Stock Options (In Thousands) | Weighted-average Exercise Price (NT$) |
|---|---|---|
| Year ended December 31, 2013 | | |
| Balance, beginning of year | | $ |
| Stock options granted | 17,000 | 10.0 |
| Stock options exercised | (17,000) | 10.0 |
| Balance, end of year | | |
| Year ended December 31, 2012 | | |
| Balance, beginning of year | | $ |
| Stock options granted | 17,175 | 10.0 |
| Stock options exercised | (17,175) | 10.0 |
| Balance, end of year | | |

The grant dates of aforementioned stock options were April 10, 2013 and January 9, 2012, respectively. TSMC SSL used the Black-Scholes model to determine the fair value of the stock options. The valuation assumptions were as follows:

| | 2013 Stock Option Plan | 2012 Stock Option Plan |
|---|---|---|
| Valuation assumptions: | | |
| Stock price on grant date (NT$/share) | $4.6 | $8.9 |
| Exercise price (NT$/share) | $10.0 | $10.0 |
| Expected volatility | 51.68% | 40.32% |
| Expected life | 31 days | 40 days |
| Risk free interest rate | 0.60% | 0.76% |

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

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

The Board of Directors of TSMC Solar approved on November 21, 2011 the issuance of new shares and allocated 12,341 thousand shares for stock option plan for their employees to subscribe to, according to the Company Law. The aforementioned stock options were fully vested on the grant date.

Information about TSMC Solar s employee stock options related to the aforementioned new shares issued was as follows:

| | Number of Stock Options (In Thousands) | Weighted-average Exercise Price (NT$) |
|---|---|---|
| Year ended December 31, 2012 | | |
| Balance, beginning of year | | $ |
| Stock options granted | 12,341 | 10.0 |
| Stock options exercised | (12,341) | 10.0 |
| Balance, end of year | | |

The grant date of aforementioned stock options was January 9, 2012. TSMC Solar used the Black-Scholes model to determine the fair value of the stock options. The valuation assumptions were as follows:

| | |
|---|---|
| Valuation assumptions: | |
| Stock price on grant date (NT$/share) | $9.0 |
| Exercise price (NT$/share) | $10.0 |
| Expected volatility | 40.32% |
| Expected life | 40 days |
| Risk free interest rate | 0.76% |

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

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

**26. NET REVENUE**

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

| | Years Ended December 31 2013 | 2012 |
|---|---|---|
| Net revenue from sale of goods | $ 596,516,949 | $ 506,248,580 |
| Net revenue from royalties | 507,248 | 496,654 |
| | $ 597,024,197 | $ 506,745,234 |

## 27. OTHER OPERATING INCOME AND EXPENSES, NET

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Income (expenses) of rental assets | | |
| Rental income | $ 13,385 | $ 808 |
| Depreciation of rental assets | (25,120) | (6,656) |
| | (11,735) | (5,848) |
| Gain on disposal of property, plant and equipment and intangible assets, net | 48,848 | 103 |
| Impairment loss on property, plant and equipment | | (444,505) |
| Income from receipt of equity securities in settlement of trade receivables | 9,977 | 886 |
| | $ 47,090 | $ (449,364) |

## 28. OTHER INCOME

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Interest income | | |
| Bank deposits | $ 1,808,239 | $ 1,513,025 |
| Available-for-sale financial assets | 5,328 | 5,964 |
| Held-to-maturity financial assets | 22,413 | 126,047 |
| | 1,835,980 | 1,645,036 |
| Dividend income | 506,143 | 71,057 |
| | $ 2,342,123 | $ 1,716,093 |

## 29. FINANCE COSTS

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Interest expense | | |
| Corporate bonds | $ 2,501,820 | $ 758,204 |
| Bank loans | 110,716 | 200,907 |
| Finance leases | 19,539 | 20,773 |
| Others | 14,701 | 46,753 |

| | | |
|---|---|---|
| | 2,646,776 | 1,026,637 |
| Loss reclassified to profit or loss arising from effective portion for cash flow hedges | | 227 |
| Capitalized interest | | (6,442) |
| | $ 2,646,776 | $ 1,020,422 |

## 30. OTHER GAINS AND LOSSES

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Gain on disposal of financial assets, net | | |
| Available-for-sale financial assets | $ 1,267,086 | $ 399,598 |
| Financial assets carried at cost | 44,721 | 141,491 |
| Gain on deconsolidation of subsidiary | 293,578 | |
| Settlement income | 899,745 | 883,845 |
| Other gains | 394,330 | 504,880 |
| Net gain (loss) on financial instruments at FVTPL | | |
| Held for trading | 196,711 | (252,530) |
| Impairment loss reversal (accrual) of financial assets | | |
| Available-for-sale financial assets | | (2,677,529) |
| Financial assets carried at cost | (1,538,888) | (367,399) |
| Investment accounted for using equity method | 1,186,674 | (1,186,674) |
| Fair value hedges | | |
| Loss from hedging instruments | (5,602,779) | |
| Gain arising from changes in fair value of available-for-sale financial assets in hedge effective portion | 5,071,118 | |
| Other losses | (107,375) | (297,992) |
| | $ 2,104,921 | $ (2,852,310) |

## 31. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Current income tax expense (benefit) | | |
| Current tax expense recognized in the current year | $ 22,501,143 | $ 15,201,438 |
| Income tax adjustments on prior years | (1,021,688) | 55,313 |
| Other income tax adjustments | (10,623) | 201,119 |
| | 21,468,832 | 15,457,870 |
| Deferred income tax expense (benefit) | | |
| Effect of tax rate changes | | (543,611) |
| The origination and reversal of temporary differences | 674,231 | (865,386) |
| Investment tax credits and operating loss carryforward | 5,325,122 | 1,503,781 |

| | | |
|---|---|---|
| | 5,999,353 | 94,784 |
| Income tax expense recognized in profit or loss | $ 27,468,185 | $ 15,552,654 |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Income before tax | $ 215,487,122 | $ 181,676,456 |
| Income tax expense at the statutory rate | $ 38,458,611 | $ 34,085,426 |
| Tax effect of adjusting items: | | |
| Nondeductible (deductible) items in determining taxable income | (1,417,976) | (3,011,224) |
| Tax-exempt income | (8,612,025) | (9,830,280) |
| Additional income tax on unappropriated earnings | 7,659,010 | 4,193,497 |
| Effect of tax rate changes on deferred income tax | | (543,611) |
| The origination and reversal of temporary differences | 674,231 | (865,386) |
| Income tax credits | (3,136,942) | (2,828,300) |
| Remeasurement of investment tax credits | (3,460,886) | (4,215,165) |
| Remeasurement of operating loss carryforward | (1,663,527) | (1,688,735) |
| Current income tax expense | 28,500,496 | 15,296,222 |
| Income tax adjustments on prior years | (1,021,688) | 55,313 |
| Other income tax adjustments | (10,623) | 201,119 |
| Income tax expense recognized in profit or loss | $ 27,468,185 | $ 15,552,654 |

For the years ended December 31, 2013 and 2012, the Company applied a tax rate of 17% for entities subject to the Income Tax Law of the Republic of China; for other jurisdictions, the Company measures taxes by using the applicable tax rate for each individual jurisdiction.

b. Income tax expense recognized in other comprehensive income

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Deferred income tax expense (benefit) | | |
| Related to unrealized gain/loss on available-for-sale financial assets | $ (36,539) | $ 409,300 |
| Related to actuarial gain/loss from defined benefit plans | (78,629) | (82,358) |
| | $ (115,168) | $ 326,942 |

c. Deferred income tax balance

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Investment tax credits | $ 1,955,980 | $ 7,324,263 | $ 9,869,024 |
| Temporary differences | | | |
| Depreciation | 644,824 | 1,502,736 | 2,056,421 |
| Provision for sales returns and allowance | 900,354 | 717,889 | 494,914 |
| Accrued pension cost | 908,022 | 824,052 | 618,336 |
| Available-for-sale financial assets | 6,154 | 224,618 | 308,929 |

(Continued)

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Unrealized loss on inventories | $ 438,423 | $ 404,656 | $ 2,757 |
| Goodwill from business combination | 373,682 | 329,766 | |
| Deferred compensation cost | 267,416 | 132,286 | 101,639 |
| Others | 684,585 | 624,609 | 131,424 |
| Operating loss carryforward | 1,060,169 | 1,043,344 | 20,774 |
| | $ 7,239,609 | $ 13,128,219 | $ 13,604,218 |

(Concluded)

| | Balance, Beginning of Year | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Effect of Deconsolidation of Subsidiary | Effect of Exchange Rate Changes | Balance, End of Year |
|---|---|---|---|---|---|---|
| Year Ended December 31, 2013 | | | | | | |
| Investment tax credits | $ 7,324,263 | $ (5,348,982) | $ | $ (19,301) | $ | $ 1,955,980 |
| Temporary differences | | | | | | |
| Depreciation | 1,502,736 | (865,021) | | (15,387) | 22,496 | 644,824 |
| Provision for sales returns and allowance | 717,889 | 188,198 | | (6,417) | 684 | 900,354 |
| Accrued pension cost | 824,052 | 5,813 | 78,629 | (472) | | 908,022 |
| Available-for-sale financial assets | 224,618 | (255,003) | 36,539 | | | 6,154 |
| Unrealized loss on inventory | 404,656 | 32,665 | | | 1,102 | 438,423 |
| Goodwill from business combination | 329,766 | 35,115 | | | 8,801 | 373,682 |
| Deferred compensation cost | 132,286 | 131,107 | | | 4,023 | 267,416 |
| Others | 624,609 | 52,895 | | (3,987) | 11,068 | 684,585 |
| Operating loss carryforward | 1,043,344 | 23,860 | | (32,910) | 25,875 | 1,060,169 |
| Deferred income tax assets | $ 13,128,219 | $ (5,999,353) | $ 115,168 | $ (78,474) | $ 74,049 | $ 7,239,609 |

| Year Ended December 31, 2012 | | | | | | |
|---|---|---|---|---|---|---|
| Investment tax credits | $ 9,869,024 | $ (2,544,761) | $ | $ | $ | $ 7,324,263 |
| Temporary differences | | | | | | |
| Depreciation | 2,056,421 | (545,820) | | | (7,865) | 1,502,736 |
| Provision for sales returns and allowance | 494,914 | 223,435 | | | (460) | 717,889 |
| Accrued pension cost | 618,336 | 123,358 | 82,358 | | | 824,052 |
| Available-for-sale financial assets | 308,929 | 324,989 | (409,300) | | | 224,618 |
| Unrealized loss on inventory | 2,757 | 402,707 | | | (808) | 404,656 |
| Goodwill from business combination | | 335,921 | | | (6,155) | 329,766 |
| Deferred compensation cost | 101,639 | 35,492 | | | (4,845) | 132,286 |
| Others | 131,424 | 508,915 | | | (15,730) | 624,609 |
| Operating loss carryforward | 20,774 | 1,040,980 | | | (18,410) | 1,043,344 |
| Deferred income tax assets | $ 13,604,218 | $ (94,784) | $ (326,942) | $ | $ (54,273) | $ 13,128,219 |

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

The information of the investment tax credits for which no deferred income tax assets have been recognized was as follows:

| | **December 31, 2013** | **December 31, 2012** | **January 1, 2012** |
|---|---|---|---|
| Expiry year | | | |
| 2012 | $ | $ | $ 11,254 |
| 2013 | | 33,089 | 5,493,620 |
| 2014 | 3,019,880 | 5,830,285 | 4,915,861 |
| 2015 | | 22,864 | 23,590 |
| | $ 3,019,880 | $ 5,886,238 | $ 10,444,325 |

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Expiry year | | | |
| 2014 - 2018 | $ 41,894 | $ 41,894 | $ 41,894 |
| 2019 - 2023 | 5,773,037 | 5,402,683 | 7,558,917 |
| | $ 5,814,931 | $ 5,444,577 | $ 7,600,811 |

As of December 31, 2013 and 2012 and January 1, 2012, the aggregate deductible temporary differences for which no deferred income tax assets have been recognized amounted to NT$8,673,160 thousand, NT$13,589,292 thousand and NT$14,893,317 thousand, respectively.

e. Unused investment tax credits, operating loss carryforward and tax-exemption information

As of December 31, 2013, investment tax credits of TSMC and TSMC SSL consisted of the following:

| Law/Statute | Item | Remaining Creditable Amount | Expiry Year |
|---|---|---|---|
| Statute for Upgrading Industries | Purchase of machinery and equipment | $ 4,493,509 | 2014 |
| | | 482,351 | 2015 |
| | | $ 4,975,860 | |

As of December 31, 2013, operating loss carryforward of TSMC Solar, TSMC SSL, Mutual-Pak and WaferTech consisted of the following:

| Remaining Creditable Amount | Remaining Creditable Amount |
|---|---|
| Expiry Year | |
| 2014 - 2018 | $ 41,894 |
| 2019 - 2023 | 9,052,631 |
| | $ 9,094,525 |

As of December 31, 2013, the profits generated from the following projects of TSMC are exempt from income tax for a five-year period:

| | Tax-exemption Period |
|---|---|
| Construction and expansion of 2005 by TSMC | 2010 to 2014 |
| Construction and expansion of 2006 by TSMC | 2011 to 2015 |
| Construction and expansion of 2007 by TSMC | 2014 to 2018 |

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

As of December 31, 2013 and 2012 and January 1, 2012, the aggregate taxable temporary differences associated with investments in subsidiaries not unrecognized as deferred income tax liabilities amounted to NT$28,035,340 thousand, NT$20,516,999 thousand and NT$15,074,593 thousand, respectively.

g. Integrated income tax information

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Balance of the Imputation Credit Account - TSMC | $ 15,242,724 | $ 8,130,060 | $ 4,003,228 |

The estimated and actual creditable ratio for distribution of TSMC s earnings of 2013 and 2012 were 9.80% and 7.75 %, respectively.

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

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

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

h. Income tax examination

The tax authorities have examined income tax returns of TSMC through 2010. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

## 32. EARNINGS PER SHARE

| | Years Ended December 31 2013 | 2012 |
|---|---|---|
| Basic EPS | $ 7.26 | $ 6.42 |
| Diluted EPS | $ 7.26 | $ 6.41 |

EPS is computed as follows:

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT$) |
|---|---|---|---|
| Year ended December 31, 2013 | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | $ 188,146,790 | 25,927,778 | $ 7.26 |

| | | | |
|---|---|---|---|
| Effect of dilutive potential common shares | | 1,825 | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | $ 188,146,790 | 25,929,603 | $ 7.26 |

(Continued)

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT$) |
|---|---|---|---|
| Year ended December 31, 2012 | | | |
| Basic EPS | | | |
| Net income available to common shareholders of the parent | $ 166,318,286 | 25,920,735 | $ 6.42 |
| Effect of dilutive potential common shares | | 7,201 | |
| Diluted EPS | | | |
| Net income available to common shareholders of the parent (including effect of dilutive potential common shares) | $ 166,318,286 | 25,927,936 | $ 6.41 |

(Concluded)

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

## 33. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net income included the following items:

| | Years Ended December 31 2013 | 2012 |
|---|---|---|
| a. Depreciation of property, plant and equipment | | |
| Recognized in cost of revenue | $ 141,002,263 | $ 118,313,581 |
| Recognized in operating expenses | 12,952,464 | 10,848,277 |
| Recognized in other operating income and expenses | 25,120 | 6,656 |
| | $ 153,979,847 | $ 129,168,514 |
| b. Amortization of intangible assets | | |
| Recognized in cost of revenue | $ 1,154,698 | $ 1,344,819 |
| Recognized in operating expenses | 1,047,324 | 835,956 |
| | $ 2,202,022 | $ 2,180,775 |
| | $ 48,118,165 | $ 40,383,195 |

c. Research and development costs expensed as incurred

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| d. Employee benefits expenses | | |
| Post-employment benefits (Note 23) | | |
| Defined contribution plans | $ 1,590,414 | $ 1,403,507 |
| Defined benefit plans | 235,761 | 218,717 |
| | 1,826,175 | 1,622,224 |
| Equity-settled share-based payments | 5,312 | 6,219 |
| Other employee benefits | 65,514,082 | 59,668,232 |
| | $ 67,345,569 | $ 61,296,675 |
| Employee benefits expense summarized by function | | |
| Recognized in cost of revenue | $ 40,245,628 | $ 35,561,523 |
| Recognized in operating expenses | 27,099,941 | 25,735,152 |
| | $ 67,345,569 | $ 61,296,675 |

## 34. DECONSOLIDATION OF SUBSIDIARY

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

a. Consideration received

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

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

| | June 30, 2013 |
|---|---|
| Current assets | |
| Cash and cash equivalents | $ 979,910 |
| Accounts receivable | 564,364 |
| Inventories | 213,133 |
| Others | 110,766 |
| Noncurrent assets | |
| Property, plant and equipment | 5,595,040 |
| Others | 164,311 |
| Current liabilities | |
| Accounts payable | (1,571,289) |
| Others | (291,715) |

| | |
|---|---|
| Noncurrent liabilities | |
| Loans | (1,940,625) |
| Others | (27,472) |
| Net assets deconsolidated | $ 3,796,423 |

c. Gain on deconsolidation of subsidiary

| | Six Months Ended June 30, 2013 |
|---|---|
| Fair value of interest retained | $ 1,816,848 |
| Less: Carrying amount of interest retained | |
| Net assets deconsolidated | 3,796,423 |
| Noncontrolling interests | (2,273,153) |
| | 1,523,270 |
| Gain on deconsolidation of subsidiary | $ 293,578 |

Gain on deconsolidation of subsidiary was included in other gains and losses for the year ended December 31, 2013.

d. Net cash outflow arising from deconsolidation of the subsidiary

| | Six Months Ended June 30, 2013 |
|---|---|
| The balance of cash and cash equivalents deconsolidated | $ 979,910 |

**35. CAPITAL MANAGEMENT**

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

**36. FINANCIAL INSTRUMENTS**

a. Categories of financial instruments

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Financial assets | | | |
| FVTPL | | | |
| Held for trading derivatives | $ 90,353 | $ 39,554 | $ 15,360 |
| Available-for-sale financial assets (Note) | 61,628,343 | 44,766,957 | 7,623,775 |
| Held-to-maturity financial assets | 1,795,949 | 5,056,973 | 9,068,847 |
| Loans and receivables | | | |
| Cash and cash equivalents | 242,695,447 | 143,410,588 | 143,472,277 |
| Notes and accounts receivables (including related parties) | 71,941,634 | 58,131,397 | 46,016,052 |
| Other receivables | 1,422,795 | 1,307,473 | 1,403,694 |
| Refundable deposits | 2,519,031 | 2,426,712 | 4,518,863 |
| | $ 382,093,552 | $ 255,139,654 | $ 212,118,868 |

(Continued)

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Financial liabilities | | | |
| FVTPL | | | |
| Held for trading derivatives | $ 33,750 | $ 15,625 | $ 13,742 |
| Derivative financial instruments in designated hedge accounting relationships | 5,481,616 | | 232 |
| Amortized cost | | | |
| Short-term loans | 15,645,000 | 34,714,929 | 25,926,528 |
| Accounts payable (including related parties) | 16,358,716 | 15,239,042 | 11,859,008 |
| Payables to contractors and equipment suppliers | 89,810,160 | 44,831,798 | 35,540,526 |
| Accrued expenses and other current liabilities | 13,649,615 | 9,316,232 | 7,796,538 |
| Bonds payable | 210,767,625 | 80,000,000 | 22,500,000 |
| Long-term bank loans | 40,000 | 1,487,500 | 1,650,000 |
| Other long-term payables | 54,000 | 967,485 | 3,399,855 |
| Guarantee deposits | 151,660 | 203,890 | 443,983 |
| | $ 351,992,142 | $ 186,776,501 | $ 109,130,412 |

(Concluded)

Note: Including financial assets carried at cost.

b. Financial risk management objectives

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

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

c. Market risk

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

Foreign currency risk

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

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

The Company s sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges against the New Taiwan dollar, the net income for the years ended December 31, 2013 and 2012 would have decreased by NT$171,961 thousand and NT$719,882 thousand, respectively, after taking into consideration of the hedging contracts and the hedged items.

Interest rate risk

The Company is exposed to interest rate risk arising from borrowing at both fixed and floating interest rates. All of the Company s long-term bonds have fixed interest rates and are measured at amortized cost. As such, changes in interest rates would not affect the future cash flows. On the other hand, because interest rates of the Company s long-term bank loans are floating, changes in interest rates would affect the future cash flows but not the fair value. To reduce the cash flow risk caused by floating interest rates, the Company utilized an interest rate swap contract to partially hedge its exposure.

Assuming the amount of floating interest rate bank loans at the end of the reporting period had been outstanding for the entire period and all other variables were held constant, a hypothetical increase in interest rates of 100 basis point (1%) would have resulted in an increase in the interest expense, net of tax, by approximately NT$332 thousand and NT$12,346 thousand for the years ended December 31, 2013 and 2012, respectively.

Other price risk

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

Assuming a hypothetical decrease of 5% in equity prices of the equity investments at the end of the reporting period, the net income for the years ended December 31, 2013 and 2012 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the years ended December 31, 2013 and 2012 would have decreased by NT$931,881 thousand and NT$2,217,457 thousand, respectively.

d. Credit risk management

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

Business related credit risk

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

As of December 31, 2013 and 2012 and January 1, 2012, the Company s ten largest customers accounted for 68%, 68% and 64% of accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

Financial credit risk

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

e. Liquidity risk management

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

As of December 31, 2013 and 2012 and January 1, 2012, the unused of financing facilities of the Company amounted to NT$76,689,543 thousand, NT$53,422,331 thousand and NT$63,708,014 thousand, respectively.

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

| | Less Than 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|
| December 31, 2013 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | $ 15,646,783 | $ | $ | $ | $ 15,646,783 |
| Accounts payable (including related parties) | 16,358,716 | | | | 16,358,716 |
| Payables to contractors and equipment suppliers | 89,810,160 | | | | 89,810,160 |
| Accrued expenses and other current liabilities | 13,649,615 | | | | 13,649,615 |
| Bonds payable | 3,036,130 | 28,388,887 | 100,830,341 | 94,360,103 | 226,615,461 |
| Long-term bank loans | 1,450 | 10,275 | 21,571 | 12,746 | 46,042 |
| | 18,000 | 36,000 | | | 54,000 |

| | | | | | |
|---|---|---|---|---|---|
| Other long-term payables | | | | | |
| Obligations under finance leases | 28,376 | 56,752 | 793,951 | | 879,079 |
| Guarantee deposits | | 151,660 | | | 151,660 |
| | 138,549,230 | 28,643,574 | 101,645,863 | 94,372,849 | 363,211,516 |
| Derivative financial instruments | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 29,608,952 | | | | 29,608,952 |
| Inflows | (29,605,246) | | | | (29,605,246) |
| | 3,706 | | | | 3,706 |
| Cross currency swap contracts | | | | | |
| Outflows | 1,639,215 | | | | 1,639,215 |
| Inflows | (1,641,384) | | | | (1,641,384) |
| | (2,169) | | | | (2,169) |
| Stock forward contracts | | | | | |
| Outflows | | 37,431,626 | | | 37,431,626 |
| Inflows | | (37,431,626) | | | (37,431,626) |
| | | | | | |
| | $ 138,550,767 | $ 28,643,574 | $ 101,645,863 | $ 94,372,849 | $ 363,213,053 |

(Continued)

| | Less Than 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | $ 34,721,003 | $ | $ | $ | $ 34,721,003 |
| Accounts payable (including related parties) | 15,239,042 | | | | 15,239,042 |
| Payables to contractors and equipment suppliers | 44,831,798 | | | | 44,831,798 |
| Accrued expenses and other current liabilities | 9,316,232 | | | | 9,316,232 |
| Bonds payable | 1,108,150 | 2,216,300 | 44,911,191 | 37,834,474 | 86,070,115 |
| Long-term bank loans | 146,571 | 745,174 | 637,580 | | 1,529,325 |
| Other long-term payables | 913,485 | 36,000 | 18,000 | | 967,485 |
| Obligations under finance leases | 27,042 | 54,084 | 54,084 | 729,566 | 864,776 |
| Guarantee deposits | | 203,890 | | | 203,890 |
| | 106,303,323 | 3,255,448 | 45,620,855 | 38,564,040 | 193,743,666 |
| Derivative financial instruments | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 11,030,154 | | | | 11,030,154 |
| Inflows | (11,059,396) | | | | (11,059,396) |
| | (29,242) | | | | (29,242) |
| Cross currency swap contracts | | | | | |
| Outflows | 9,068,589 | | | | 9,068,589 |
| Inflows | (9,068,727) | | | | (9,068,727) |
| | (138) | | | | (138) |
| | $ 106,273,943 | $ 3,255,448 | $ 45,620,855 | $ 38,564,040 | $ 193,714,286 |
| January 1, 2012 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | $ 25,933,177 | $ | $ | $ | $ 25,933,177 |
| Accounts payable (including related parties) | 11,859,008 | | | | 11,859,008 |
| Payables to contractors and equipment suppliers | 35,540,526 | | | | 35,540,526 |
| Accrued expenses and other current liabilities | 7,796,538 | | | | 7,796,538 |
| Bonds payable | 4,775,081 | 538,500 | 11,000,933 | 7,713,258 | 24,027,772 |
| Long-term bank loans | 79,558 | 778,190 | 849,021 | | 1,706,769 |
| Other long-term payables | 3,399,855 | | | | 3,399,855 |
| Obligations under finance leases | | 167,472 | 55,824 | 780,962 | 1,004,258 |
| Guarantee deposits | | 443,983 | | | 443,983 |
| | 89,383,743 | 1,928,145 | 11,905,778 | 8,494,220 | 111,711,886 |

| | | | | | |
|---|---|---|---|---|---|
| Derivative financial instruments | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 7,736,197 | | | | 7,736,197 |
| Inflows | (7,726,584) | | | | (7,726,584) |
| | 9,613 | | | | 9,613 |
| Cross currency swap contracts | | | | | |
| Outflows | 420,431 | | | | 420,431 |
| Inflows | (420,397) | | | | (420,397) |
| | 34 | | | | 34 |
| Interest rate swap contracts | | | | | |
| Outflows | 706 | | | | 706 |
| Inflows | (442) | | | | (442) |
| | 264 | | | | 264 |
| | $ 89,393,654 | $ 1,928,145 | $ 11,905,778 | $ 8,494,220 | $ 111,721,797 |

(Concluded)

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

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

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Held-to-maturity financial assets | | | | | | |
| Commercial paper | $ 1,795,949 | $ 1,795,612 | $ | $ | $ | $ |
| Corporate bonds | | | 5,056,973 | 5,066,363 | 8,614,527 | 8,674,016 |
| Government bonds | | | | | 454,320 | 454,047 |
| Financial liabilities | | | | | | |
| Measured at amortized cost | | | | | | |
| Bonds payable | 210,767,625 | 208,649,668 | 80,000,000 | 80,343,413 | 22,500,000 | 22,597,115 |

2) Fair value measurements recognized in the consolidated balance sheets

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

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

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

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

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| | $ | $ 90,353 | $ | $ 90,353 |

| | | | | |
|---|---|---|---|---|
| Derivative financial instruments | | | | |
| Available-for-sale financial assets | | | | |
| Publicly traded stocks | $ 59,481,569 | $ | $ | $ 59,481,569 |
| Money market funds | 1,183 | | | 1,183 |
| | $ 59,482,752 | $ | $ | $ 59,482,752 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial instruments | $ | $ 33,750 | $ | $ 33,750 |
| Hedging derivative financial liabilities | | | | |
| Stock forward contract | $ | $ 5,481,616 | $ | $ 5,481,616 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial instruments | $ | $ 39,554 | $ | $ 39,554 |
| | | | | |
| Available-for-sale financial assets | | | | |
| Publicly traded stocks | $ 41,160,437 | $ | $ | $ 41,160,437 |
| Money market funds | 1,443 | | | 1,443 |
| | | | | |
| | $ 41,161,880 | $ | $ | $ 41,161,880 |
| | | | | |
| Financial liabilities at FVTPL | | | | |
| Derivative financial instruments | $ | $ 15,625 | $ | $ 15,625 |

| | January 1, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial instruments | $ | $ 15,360 | $ | $ 15,360 |
| | | | | |
| Available-for-sale financial assets | | | | |
| Publicly traded stocks | $ 3,306,248 | $ | $ | $ 3,306,248 |
| Money market funds | 2,522 | | | 2,522 |
| | | | | |
| | $ 3,308,770 | $ | $ | $ 3,308,770 |
| | | | | |
| Financial liabilities at FVTPL | | | | |
| Derivative financial instruments | $ | $ 13,742 | $ | $ 13,742 |
| | | | | |
| Hedging derivative financial liabilities | | | | |
| Interest rate swap contract | $ | $ 232 | $ | $ 232 |

There were no transfers between Level 1 and 2 for the years ended December 31, 2013 and 2012, respectively.

There were no purchases and disposals for assets on Level 3 for the years ended December 31, 2013 and 2012, respectively.

3) Valuation techniques and assumptions used in fair value measurement

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

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

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

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

## 37. RELATED PARTY TRANSACTIONS

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

a. Net Revenue

| | Net Revenue from Sale of Goods | | Net Revenue from Royalties | |
|---|---|---|---|---|
| | Years Ended December 31 | | Years Ended December 31 | |
| Related Party Categories | 2013 | 2012 | 2013 | 2012 |
| Associates | $ 4,093,031 | $ 5,307,621 | $ 497,020 | $ 479,239 |
| Joint venture | 1,677 | 3,410 | | |
| | $ 4,094,708 | $ 5,311,031 | $ 497,020 | $ 479,239 |

b. Purchases

| | Years Ended December 31 | |
|---|---|---|
| Related Party Categories | 2013 | 2012 |
| Associates | $ 10,052,359 | $ 8,114,307 |

c. Receivables from related parties

| Related Party Categories | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Associates | $ 291,376 | $ 353,652 | $ 185,552 |
| Joint venture | 332 | 159 | 212 |
| | $ 291,708 | $ 353,811 | $ 185,764 |

d. Payables to related parties

| Related Party Categories | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Associates | $ 1,687,239 | $ 746,532 | $ 1,325,791 |
| Joint venture | 1,217 | 2,081 | 2,730 |

| | | | |
|---|---|---|---|
| | $ 1,688,456 | $ 748,613 | $ 1,328,521 |

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

| Related Party Categories | Purchase Price Years Ended December 31 2013 | 2012 |
|---|---|---|
| Associates | $ 21,135 | $ 47,051 |
| Joint venture | | 1,224 |
| | $ 21,135 | $ 48,275 |

f. Disposal of property, plant and equipment

| Related Party Categories | Years Ended December 31, 2013 Proceeds | Gains (Losses) | Years Ended December 31, 2012 Proceeds | Gains (Losses) |
|---|---|---|---|---|
| Associates | $ 69,683 | $ 6,146 | $ 20,380 | $ (132) |
| Joint venture | | 948 | 9,000 | 213 |
| | $ 69,683 | $ 7,094 | $ 29,380 | $ 81 |

| Related Party Categories | Deferred Gains (Losses) from Disposal of Property, Plant and Equipment December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Associates | $ | $ (7,806) | $ |
| Joint venture | | 948 | |
| | $ | $ (6,858) | $ |

g. Others

| Related Party Categories | Manufacturing Expenses Years Ended December 31 2013 | 2012 | Research and Development Expenses Years Ended December 31 2013 | 2012 |
|---|---|---|---|---|
| Associates | $ 934,480 | $ 8,347 | $ 903 | $ 4,644 |
| Joint venture | 6,582 | 15,544 | 6,340 | 8,911 |
| | $ 941,062 | $ 23,891 | $ 7,243 | $ 13,555 |

| Related Party Categories | Non-operating Income Years Ended December 31 2013 | 2012 |
|---|---|---|
| Associates | $ | $ 6,046 |

| Related Party Categories | Other Receivables from Related Parties December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Associates | $ 221,576 | $ 185,550 | $ 121,767 |
| Joint venture | | | 525 |
| | $ 221,576 | $ 185,550 | $ 122,292 |

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| | Refundable Deposits | | |
|---|---|---|---|
| | December 31, | December 31, | January 1, |
| Related Party Categories | 2013 | 2012 | 2012 |
| Associates | $ 5,813 | $ 5,813 | $ |
| Joint venture | | 4 | |
| | $ 5,813 | $ 5,817 | $ |

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

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

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

h. Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Short-term employee benefits | $ 1,356,119 | $ 1,417,358 |
| Post-employment benefits | 9,064 | 3,896 |
| | $ 1,365,183 | $ 1,421,254 |

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

## 38. PLEDGED ASSETS

The Company provided certificate of deposits recorded in other financial assets as collateral mainly for building lease agreements. As of December 31, 2013 and 2012 and January 1, 2012, the aforementioned other financial assets amounted to NT$120,566 thousand, NT$119,710 thousand and NT$121,140 thousand, respectively.

## 39. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of land, factory and office premises from the Science Park Administration and entered into lease agreements for its office premises and certain office equipment located in the United States, Europe, Japan, Shanghai and Taiwan. These operating leases expire between January 2014 and December 2032 and can be renewed upon expiration.

The Company expensed the lease payments as follows:

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Minimum lease payments | $ 902,439 | $ 689,198 |

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Not later than 1 year | $ 859,070 | $ 693,758 | $ 627,882 |
| Later than 1 year and not later than 5 years | 3,053,029 | 2,478,443 | 2,258,302 |
| Later than 5 years | 5,534,848 | 4,221,524 | 3,870,728 |
| | $ 9,446,947 | $ 7,393,725 | $ 6,756,912 |

**40. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

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

a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC s capacity provided TSMC s outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. In 2013 and 2012, the R.O.C. Government did not involve such right.

b. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. TSMC s equity interest in SSMC was 32%. Nevertheless, in September 2006, Philips spun-off its semiconductor subsidiary which was renamed as NXP B.V. Further, TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares, respectively. TSMC and NXP B.V. are required, in the aggregate, to purchase at least 70% of SSMC s capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs. There was no default from the aforementioned commitment as of December 31, 2013.

c. In June 2010, Keranos, LLC. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

d. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

e. TSMC joined the Customer Co-Investment Program of ASML and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML s equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity on October 31, 2012. Both parties also signed the research and development funding agreement whereby TSMC shall provide EUR276,000 thousand to ASML s research and development programs from 2013 to 2017. For the year ended December 31, 2013, TSMC paid EUR55,078 thousand to ASML under the research and development funding agreement.

f. In December 2013, Tela Innovations, Inc. filed complaints in the U.S. District Court for the District of Delaware and in the United States International Trade Commission accusing TSMC and TSMC North America of infringing one U.S. patent. In January 2014, TSMC filed a lawsuit against Tela for trade secret misappropriation and breach of contract. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

g. Amounts available under unused letters of credit as of December 31, 2013 and 2012 and January 1, 2012 were NT$89,400 thousand, NT$99,671 thousand and NT$263,880 thousand, respectively.

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

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

| | Foreign Currencies (In Thousands) | Exchange Rate (Note) | Carrying Amount |
|---|---|---|---|
| December 31, 2013 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 2,756,090 | 29.800 | $ 82,131,493 |
| EUR | 451,162 | 41.00 | 18,497,657 |
| JPY | 41,386,551 | 0.2834 | 11,728,949 |
| Non-monetary items | | | |
| HKD | 168,334 | 3.84 | 646,402 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,026,958 | 29.800 | 60,403,358 |
| EUR | 811,202 | 41.00 | 33,259,299 |
| JPY | 71,931,749 | 0.2834 | 20,385,458 |

(Continued)

| | Foreign Currencies (In Thousands) | Exchange Rate (Note) | Carrying Amount |
|---|---|---|---|
| December 31, 2012 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 2,442,184 | 29.038 | $ 70,916,125 |
| EUR | 117,535 | 38.39-38.49 | 4,512,154 |
| JPY | 35,381,976 | 0.3352-0.3364 | 11,860,041 |
| Non-monetary items | | | |
| HKD | 492,014 | 3.75 | 1,845,053 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,388,832 | 29.038 | 69,366,903 |
| EUR | 245,481 | 38.39-38.49 | 9,424,022 |
| JPY | 43,292,238 | 0.3352-0.3364 | 14,511,562 |
| January 1, 2012 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | 1,566,212 | 30.288 | 47,437,429 |
| EUR | 125,490 | 39.18-39.27 | 4,927,977 |
| JPY | 33,242,609 | 0.3897-0.3906 | 12,954,665 |
| Non-monetary items | | | |
| HKD | 671,060 | 3.90 | 2,617,134 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 1,772,583 | 30.288 | 53,688,005 |
| EUR | 109,782 | 39.18-39.27 | 4,311,133 |
| JPY | 35,364,089 | 0.3897-0.3906 | 13,781,403 |

(Concluded)

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

## 42. OPERATING SEGMENTS INFORMATION

a. Operating segments

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

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

b. Segment revenue and operating results

| | Foundry | Others | Elimination | Total |
|---|---|---|---|---|
| Year ended December 31, 2013 | | | | |
| Net revenue from external customers | $ 596,615,439 | $ 408,758 | $ | $ 597,024,197 |
| Net revenue from sales among intersegments | | 33,215 | (33,215) | |
| Income (loss) from operations | 212,156,627 | (2,727,264) | | 209,429,363 |
| Share of profits of associates and joint venture | 4,280,780 | (308,749) | | 3,972,031 |
| Income tax expense | 27,468,185 | | | 27,468,185 |
| Year ended December 31, 2012 | | | | |
| Net revenue from external customers | 506,594,586 | 150,648 | | 506,745,234 |
| Net revenue from sales among intersegments | | 14,678 | (14,678) | |
| Income (loss) from operations | 183,794,638 | (2,617,770) | | 181,176,868 |
| Share of profits of associates and joint venture | 3,470,406 | (1,396,677) | | 2,073,729 |
| Income tax expense | 15,553,242 | (588) | | 15,552,654 |

c. Geographic information

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | Net Revenue from External Customers | | Non-current Assets | |
| | 2013 | 2012 | 2013 | 2012 |
| Taiwan | $ 74,150,318 | $ 68,150,152 | $ 783,173,768 | $ 603,844,829 |
| United States | 423,265,839 | 343,707,672 | 7,691,023 | 7,699,344 |
| Asia | 56,533,399 | 46,687,358 | 14,743,733 | 18,196,790 |
| Europe | 41,229,682 | 46,429,835 | 17,349 | 15,938 |
| Others | 1,844,959 | 1,770,217 | | |
| | $ 597,024,197 | $ 506,745,234 | $ 805,625,873 | $ 629,756,901 |

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

d. Production information

| | Years Ended December 31 | |
|---|---|---|
| **Production** | **2013** | **2012** |
| Wafer | $ 560,685,213 | $ 462,970,436 |
| Others | 36,338,984 | 43,774,798 |
| | $ 597,024,197 | $ 506,745,234 |

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

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Amount | % | Amount | % |
| Customer A | $ 130,563,982 | 22 | $ 85,880,132 | 17 |

## 43. FIRST-TIME ADOPTION OF TAIWAN-IFRSs

a. Basis of preparation for financial information under Taiwan-IFRSs

The Company prepares consolidated financial statements for the year ended December 31, 2013 under Taiwan-IFRSs. As the basis of the preparation, the Company not only follows the significant accounting policies stated in Note 4 but also applies IFRS 1.

b. Exemptions from IFRS 1

IFRS 1 establishes the procedures for the Company s first consolidated financial statements prepared in accordance with Taiwan-IFRSs. According to IFRS 1, the Company is required to determine the accounting policies under Taiwan-IFRSs and retrospectively apply those accounting policies in its opening balance sheet at the date of transition to Taiwan-IFRSs; except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The main optional exemptions the Company adopted are summarized as follows:

1) Business combinations. The Company elected not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations was the same as the carrying amount of goodwill under R.O.C. GAAP as of January 1, 2012.

2) Employee benefits. The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2012. In addition, the Company elected to apply the exemption disclosure requirement provided by IFRS 1, in which the amounts of present value of defined benefit obligations, the fair value of plan assets, the surplus or deficit in the plan and the experience adjustments are determined for each accounting period prospectively from the transition date.

3) Share-based payment. The Company elected to take the optional exemption from applying IFRS 2 retrospectively for the shared-based payment transactions granted and vested before January 1, 2012.

c. Effect of transition to Taiwan-IFRSs

After transition to Taiwan-IFRSs, the effect on the Company s consolidated balance sheets as of December 31, 2012 and January 1, 2012 (the transition date) as well as the consolidated statements of comprehensive income for the year ended December 31, 2012, is stated as follows:

1) Reconciliation of consolidated balance sheet as of December 31, 2012

| R.O.C. GAAP | | Effect of Transition to Taiwan-IFRSs | | Taiwan-IFRSs | | |
|---|---|---|---|---|---|---|
| Item | Amount | Recognition and Measurement Difference | Presentation Difference | Amount | Item | Note |
| Current assets | | | | | | |
| Cash and cash equivalents | $ 143,410,588 | $ | $ | $ 143,410,588 | Cash and cash equivalents | |
| Financial assets at fair value through profit or loss | 39,554 | | | 39,554 | Financial assets at fair value through profit or loss | |
| Available-for-sale financial assets | 2,410,635 | | | 2,410,635 | Available-for-sale financial assets | |
| Held-to-maturity financial assets | 5,056,973 | | | 5,056,973 | Held-to-maturity financial assets | |
| Notes and accounts receivable | 58,257,798 | | (480,212) | 57,777,586 | Notes and accounts receivable, net | |
| Receivables from related parties | 353,811 | | | 353,811 | Receivables from related parties | |
| Allowance for doubtful receivables | (480,212) | | 480,212 | | | |
| Allowance for sales returns and others | (6,038,003) | | 6,038,003 | | | a) |
| Other receivables from related parties | 185,550 | | | 185,550 | Other receivables from related parties | |
| Other financial assets | 473,833 | | | 473,833 | Other financial assets | |
| Inventories | 37,830,498 | | | 37,830,498 | Inventories | |
| Deferred income tax assets | 8,001,202 | | (8,001,202) | | | b) |
| Prepaid expenses and other current assets | 2,786,408 | | | 2,786,408 | Other current assets | |
| Total current assets | 252,288,635 | | (1,963,199) | 250,325,436 | Total current assets | |
| Long-term investments | | | | | | |
| Investments accounted for using equity | 23,430,020 | (69,102) | | 23,360,918 | Investments accounted for using equity | e) |

| | | | | | | |
|---|---|---|---|---|---|---|
| method | | | | | method | |
| Available-for-sale financial assets | 38,751,245 | | | 38,751,245 | Available-for-sale financial assets | |
| Financial assets carried at cost | 3,605,077 | | | 3,605,077 | Financial assets carried at cost | |
| Total long-term investments | 65,786,342 | (69,102) | | 65,717,240 | | |
| Net property, plant and equipment | 617,529,446 | | 32,742 | 617,562,188 | Property, plant and equipment | c) |
| Intangible assets | 10,959,569 | | | 10,959,569 | Intangible assets | |
| Other assets | | | | | | |
| Deferred income tax assets | 4,776,015 | 351,002 | 8,001,202 | 13,128,219 | Deferred income tax assets | b), d) |
| Refundable deposits | 2,426,712 | | | 2,426,712 | Refundable deposits | |
| Others | 1,267,886 | | (32,742) | 1,235,144 | Other noncurrent assets | c) |
| Total other assets | 8,470,613 | 351,002 | 7,968,460 | 16,790,075 | | |
| Total | $ 955,034,605 | $ 281,900 | $ 6,038,003 | $ 961,354,508 | Total | |
| Current liabilities | | | | | | |
| Short-term loans | $ 34,714,929 | $ | $ | $ 34,714,929 | Short-term loans | |
| Financial liabilities at fair value through profit or loss | 15,625 | | | 15,625 | Financial liabilities at fair value through profit or loss | |
| Accounts payable | 14,490,429 | | | 14,490,429 | Accounts payable | |
| Payables to related parties | 748,613 | | | 748,613 | Payables to related parties | |
| Income tax payable | 15,635,594 | | | 15,635,594 | Income tax payable | |
| Salary and bonus payable | 7,535,296 | | | 7,535,296 | Salary and bonus payable | |
| Accrued profit sharing to employees and bonus to directors and supervisors | 11,186,591 | | | 11,186,591 | Accrued profit sharing to employees and bonus to directors and supervisors | |
| Payables to contractors and equipment suppliers | 44,831,798 | | | 44,831,798 | Payables to contractors and equipment suppliers | |
| Accrued expenses and other current | 13,148,944 | | | 13,148,944 | Accrued expenses and other current | |

| | | | | | |
|---|---|---|---|---|---|
| liabilities | | | | liabilities | |
| Current portion of bonds payable and long-term bank loans | 128,125 | | 128,125 | Current portion of bonds payable and long-term bank loans | |
| | | 6,038,003 | 6,038,003 | Provisions | a) |
| Total current liabilities | 142,435,944 | 6,038,003 | 148,473,947 | Total current liabilities | |

(Continued)

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Taiwan-IFRSs Recognition and Measurement Difference | Effect of Transition to Taiwan-IFRSs Presentation Difference | Taiwan-IFRSs Amount | Taiwan-IFRSs Item | Note |
|---|---|---|---|---|---|---|
| Long-term liabilities | | | | | | |
| Bonds payable | $ 80,000,000 | $ | $ | $ 80,000,000 | Bonds payable | |
| Long-term bank loans | 1,359,375 | | | 1,359,375 | Long-term bank loans | |
| Other long-term payables | 54,000 | | | 54,000 | Other long-term payables | |
| Obligations under capital leases | 748,115 | | | 748,115 | Obligations under finance leases | |
| Total long-term liabilities | 82,161,490 | | | 82,161,490 | | |
| Other liabilities | | | | | | |
| Accrued pension cost | 3,979,541 | 2,941,693 | | 6,921,234 | Accrued pension cost | d) |
| Guarantee deposits | 203,890 | | | 203,890 | Guarantee deposits | |
| | | | 4,891 | 4,891 | Provisions | |
| Others | 500,041 | | (4,891) | 495,150 | Others | |
| Total other liabilities | 4,683,472 | 2,941,693 | | 7,625,165 | | |
| Total liabilities | 229,280,906 | 2,941,693 | 6,038,003 | 238,260,602 | Total liabilities | |
| Equity attributable to shareholders of the parent | | | | | | |
| Capital stock | 259,244,357 | | | 259,244,357 | Capital stock | |
| Capital surplus | 56,137,809 | (462,469) | | 55,675,340 | Capital surplus | e) |
| Retained earnings | | | | | Retained earnings | |
| Appropriated as legal capital reserve | 115,820,123 | | | 115,820,123 | Appropriated as legal capital reserve | |
| Appropriated as special capital reserve | 7,606,224 | | | 7,606,224 | Appropriated as special capital Reserve | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Unappropriated earnings | 287,174,942 | (2,189,821) | | 284,985,121 | Unappropriated earnings | d), e) |
| | 410,601,289 | (2,189,821) | | 408,411,468 | | |
| Others | | | | | | |
| Cumulative translation adjustments | (10,753,763) | (43) | | (10,753,806) | Foreign currency translation reserve | e) |
| Net loss not recognized as pension cost | (5,299) | 5,299 | | | | d), e) |
| Unrealized gain/loss on financial instruments | 7,973,321 | | | 7,973,321 | Unrealized gain/loss from available-for-sale financial assets | |
| | (2,785,741) | 5,256 | | (2,780,485) | | |
| Equity attributable to shareholders of the parent | 723,197,714 | (2,647,034) | | 720,550,680 | Equity attributable to shareholders of the parent | |
| Minority interests | 2,555,985 | (12,759) | | 2,543,226 | Noncontrolling interests | d) |
| Total shareholders equity | 725,753,699 | (2,659,793) | | 723,093,906 | Total equity | |
| Total | $ 955,034,605 | $ 281,900 | $ 6,038,003 | $ 961,354,508 | Total | |

(Concluded)

2) Reconciliation of consolidated balance sheet as of January 1, 2012

| R.O.C. GAAP | | Effect of Transition to Taiwan-IFRSs | | Taiwan-IFRSs | | |
|---|---|---|---|---|---|---|
| Item | Amount | Recognition and Measurement Difference | Presentation Difference | Amount | Item | Note |
| Current assets | | | | | | |
| Cash and cash equivalents | $ 143,472,277 | $ | $ | $ 143,472,277 | Cash and cash equivalents | |
| | 15,360 | | | 15,360 | | |

| | | | | | |
|---|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | Financial assets at fair value through profit or loss | |
| Available-for-sale financial assets | 3,308,770 | | 3,308,770 | Available-for-sale financial assets | |
| Held-to-maturity financial assets | 3,825,680 | | 3,825,680 | Held-to-maturity financial assets | |
| Notes and accounts receivable | 46,321,240 | (490,952) | 45,830,288 | Notes and accounts receivable, net | |
| Receivables from related parties | 185,764 | | 185,764 | Receivables from related Parties | |
| Allowance for doubtful receivables | (490,952) | 490,952 | | | |
| Allowance for sales returns and others | (5,068,263) | 5,068,263 | | | a) |
| Other receivables from related parties | 122,292 | | 122,292 | Other receivables from related parties | |
| Other financial assets | 617,142 | | 617,142 | Other financial assets | |
| Inventories | 24,840,582 | | 24,840,582 | Inventories | |
| Deferred income tax assets | 5,936,490 | (5,936,490) | | | b) |

(Continued)

| R.O.C. GAAP Item | Amount | Effect of Transition to Taiwan-IFRSs Recognition and Measurement Difference | Effect of Transition to Taiwan-IFRSs Presentation Difference | Taiwan-IFRSs Amount | Item | Note |
|---|---|---|---|---|---|---|
| Prepaid expenses and other current assets | $ 2,174,014 | $ | $ | $ 2,174,014 | Other current asset | |
| Total current assets | 225,260,396 | | (868,227) | 224,392,169 | Total current assets | |
| Long-term investments | | | | | | |
| Investments accounted for using equity method | 24,900,332 | (13,401) | | 24,886,931 | Investments accounted for using equity method | e) |
| Held-to-maturity financial assets | 5,243,167 | | | 5,243,167 | Held-to-maturity financial assets | |
| Financial assets carried at cost | 4,315,005 | | | 4,315,005 | Financial assets carried at cost | |
| Total long-term investments | 34,458,504 | (13,401) | | 34,445,103 | | |
| Net property, plant and equipment | 490,374,916 | | 47,237 | 490,422,153 | Property, plant and equipment | c) |
| Intangible assets | 10,861,563 | | | 10,861,563 | Intangible assets | |
| Other assets | | | | | | |
| Deferred income tax assets | 7,436,717 | 231,011 | 5,936,490 | 13,604,218 | Deferred income tax assets | b), d) |
| Refundable deposits | 4,518,863 | | | 4,518,863 | Refundable deposits | |
| Others | 1,353,983 | | (47,237) | 1,306,746 | Other noncurrent assets | c) |
| Total other assets | 13,309,563 | 231,011 | 5,889,253 | 19,429,827 | | |
| Total | $ 774,264,942 | $ 217,610 | $ 5,068,263 | $ 779,550,815 | Total | |
| Current liabilities | | | | | | |
| Short-term loans | $ 25,926,528 | $ | $ | $ 25,926,528 | Short-term loans | |
| Financial liabilities at fair value through profit or loss | 13,742 | | | 13,742 | Financial liabilities at fair value through profit or loss | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Hedging derivative financial liabilities | 232 | | | 232 | Hedging derivative financial liabilities | |
| Accounts payable | 10,530,487 | | | 10,530,487 | Accounts payable | |
| Payables to related parties | 1,328,521 | | | 1,328,521 | Payables to related parties | |
| Income tax payable | 10,656,124 | | | 10,656,124 | Income tax payable | |
| Salary and bonus payable | 6,148,499 | | | 6,148,499 | Salary and bonus payable | |
| Accrued profit sharing to employees and bonus to directors and supervisors | 9,081,293 | | | 9,081,293 | Accrued profit sharing to employees and bonus to directors and supervisors | |
| Payables to contractors and equipment suppliers | 35,540,526 | | | 35,540,526 | Payables to contractors and equipment suppliers | |
| Accrued expenses and other current liabilities | 13,218,235 | | | 13,218,235 | Accrued expenses and other current liabilities | |
| Current portion of bonds payable and long-term bank loans | 4,562,500 | | | 4,562,500 | Current portion of bonds payable and long-term bank loans | |
| | | | 5,068,263 | 5,068,263 | Provisions | a) |
| Total current liabilities | 117,006,687 | | 5,068,263 | 122,074,950 | Total current liabilities | |
| Long-term liabilities | | | | | | |
| Bonds payable | 18,000,000 | | | 18,000,000 | Bonds payable | |
| Long-term bank loans | 1,587,500 | | | 1,587,500 | Long-term bank loans | |
| Obligations under capital leases | 870,993 | | | 870,993 | Obligations under finance leases | |
| Total long-term liabilities | 20,458,493 | | | 20,458,493 | | |
| Other liabilities | | | | | | |
| Accrued pension cost | 3,908,508 | 2,332,516 | | 6,241,024 | Accrued pension cost | d) |
| Guarantee deposits | 443,983 | | | 443,983 | Guarantee deposits | |
| | | | 2,889 | 2,889 | Provisions | |
| Others | 403,720 | | (2,889) | 400,831 | Others | |
| Total other liabilities | 4,756,211 | 2,332,516 | | 7,088,727 | | |
| Total liabilities | 142,221,391 | 2,332,516 | 5,068,263 | 149,622,170 | Total liabilities | |

| | | | | | |
|---|---|---|---|---|---|
| Equity attributable to shareholders of the parent | | | | | |
| Capital stock | 259,162,226 | | 259,162,226 | Capital stock | |
| Capital surplus | 55,846,357 | (374,695) | 55,471,662 | Capital surplus | e) |
| Retained earnings | | | | Retained earnings | |
| Appropriated as legal capital reserve | 102,399,995 | | 102,399,995 | Appropriated as legal capital reserve | |
| Appropriated as special capital reserve | 6,433,874 | | 6,433,874 | Appropriated as special capital reserve | |
| Unappropriated earnings | 213,357,286 | (1,726,828) | 211,630,458 | Unappropriated earnings | d), e) |
| | 322,191,155 | (1,726,828) | 320,464,327 | | |

(Continued)

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Taiwan-IFRSs Recognition and Measurement Difference | Effect of Transition to Taiwan-IFRSs Presentation Difference | Taiwan-IFRSs Amount | Taiwan-IFRSs Item | Note |
|---|---|---|---|---|---|---|
| Others | | | | | | |
| Cumulative translation adjustments | $ (6,433,369) | $ 5 | $ | $ (6,433,364) | Foreign currency translation reserve | e) |
| Unrealized gain/loss on financial instruments | (1,172,855) | | 93 | (1,172,762) | Unrealized gain/loss from available-for-sale financial assets | |
| | | | (93) | (93) | Cash flow hedges reserve | |
| | (7,606,224) | 5 | | (7,606,219) | | |
| Equity attributable to shareholders of the parent | 629,593,514 | (2,101,518) | | 627,491,996 | Equity attributable to shareholders of the parent | |
| Minority interests | 2,450,037 | (13,388) | | 2,436,649 | Noncontrolling interests | d) |
| Total shareholders equity | 632,043,551 | (2,114,906) | | 629,928,645 | Total equity | |
| Total | $ 774,264,942 | $ 217,610 | $ 5,068,263 | $ 779,550,815 | Total | |

(Concluded)

3) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Taiwan-IFRSs Recognition and Measurement Difference | Effect of Transition to Taiwan-IFRSs Presentation Difference | Taiwan-IFRSs Amount | Taiwan-IFRSs Item | Note |
|---|---|---|---|---|---|---|
| Net sales | $ 506,248,580 | $ | $ 496,654 | $ 506,745,234 | Net revenue | f) |
| Cost of sales | 262,628,681 | (45,583) | | 262,583,098 | Cost of revenue | d) |
| Gross profit before affiliates elimination | 243,619,899 | 45,583 | 496,654 | 244,162,136 | Gross profit before unrealized gross profit on sales to associates | |
| Unrealized gross profit from affiliates | (25,029) | | | (25,029) | Unrealized gross profit on sales to associates | |
| Gross profit | 243,594,870 | 45,583 | 496,654 | 244,137,107 | Gross profit | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Operating expenses | | | | | | |
| Research and development | 40,402,138 | (18,943) | | 40,383,195 | Research and development | d) |
| General and administrative | 17,638,088 | (6,394) | | 17,631,694 | General and administrative | d) |
| Marketing | 4,497,451 | (1,465) | | 4,495,986 | Marketing | d) |
| Total operating expenses | 62,537,677 | (26,802) | | 62,510,875 | | |
| | | | (449,364) | (449,364) | Other operating income and expenses, net | f) |
| Income from operations | 181,057,193 | 72,385 | 47,290 | 181,176,868 | Income from operations | |
| Non-operating income and gains | | | | | | |
| Equity in earnings of equity method investees, net | 2,028,611 | 45,118 | | 2,073,729 | Share of profits of associates and joint venture | e) |
| Interest income | 1,645,036 | | (1,645,036) | | | f) |
| Settlement income | 883,845 | | (883,845) | | | f) |
| Foreign exchange gain, net | 582,498 | | | 582,498 | Foreign exchange gain, net | |
| Gain on settlement and disposal of financial assets, net | 541,089 | | (541,089) | | | f) |
| Technical service income | 496,654 | | (496,654) | | | f) |
| Others | 604,304 | | (604,304) | | | f) |
| | | | 1,716,093 | 1,716,093 | Other income | f) |
| | | 4,977 | (2,857,287) | (2,852,310) | Other gains and losses | e), f) |
| Total non-operating income and gains | 6,782,037 | 50,095 | (5,312,122) | 1,520,010 | | |
| Non-operating expenses and losses | | | | | | |
| Impairment of financial assets | 4,231,602 | | (4,231,602) | | | f) |
| Interest expense | 1,020,422 | | | 1,020,422 | Finance costs | |
| Impairment loss on idle assets | 444,505 | | (444,505) | | | f) |
| Loss on disposal of property, plant and equipment | 31,816 | | (31,816) | | | f) |
| Others | 556,909 | | (556,909) | | | f) |

| | | | |
|---|---|---|---|
| Total non-operating expenses and losses | 6,285,254 | (5,264,832) | 1,020,422 |

(Continued)

| R.O.C. GAAP | | Effect of Transition to Taiwan-IFRSs | | Taiwan-IFRSs | | |
|---|---|---|---|---|---|---|
| **Item** | **Amount** | **Recognition and Measurement Difference** | **Presentation Difference** | **Amount** | **Item** | **Note** |
| Income before income tax | $ 181,553,976 | $ 122,480 | $ | $ 181,676,456 | Income before income tax | |
| Income tax expense | 15,590,287 | (37,633) | | 15,552,654 | Income tax expense | d) |
| Net income | $ 165,963,689 | $ 160,113 | $ _ | 166,123,802 | Net income | |
| | | | | (4,322,697) | Exchange differences arising on translation of foreign operations | |
| | | | | 9,534,269 | Changes in fair value of available-for-sale financial assets | |
| | | | | 232 | Cash flow hedges | |
| | | | | 53,748 | Share of other comprehensive income of associates and joint venture | e) |
| | | | | (685,978) | Actuarial loss from defined benefit plans | d) |
| | | | | (326,942) | Income tax expense related to components of other comprehensive income | d) |
| | | | | 4,252,632 | Other comprehensive income for the year, net of income tax | |
| | | | | $ 170,376,434 | Total comprehensive income for the year | |

(Concluded)

4) Significant reconciliation differences in consolidated statements of cash flows for the year ended December 31, 2012

The Company prepared the statement of cash flows using the indirect method under R.O.C. GAAP, in which the interest received is not required to be disclosed separately; instead, the interest received and the interest paid are included within the operating activities in the statement of cash flows. However, according to IAS No. 7, Statement of Cash Flows, for the year ended December 31, 2012, the interest received of NT$1,719,026 thousand should be disclosed separately in the investing activities; and the interest paid of NT$736,607 thousand should be disclosed in the financing activities based on their nature, respectively.

Except for the above differences, there are no other significant differences between R.O.C. GAAP and Taiwan-IFRSs in the consolidated statement of cash flows.

d. Notes to the reconciliation of the significant differences:

a) Allowance for sales returns and others

Under R.O.C. GAAP, provisions for estimated sales returns and others are recognized as a reduction in revenue in the year the related revenue is recognized based on historical experience. The corresponding allowance for sales returns and others is presented as a reduction in accounts receivable. Under Taiwan-IFRSs, the allowance for sales returns and others is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions in accordance with IAS No. 37, Provisions, Contingent Liabilities and Contingent Assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provisions were NT$6,038,003 thousand and NT$5,068,263 thousand, respectively.

b) Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, a deferred tax asset and liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Under Taiwan-IFRSs, a deferred tax asset and liability is classified as noncurrent asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. In accordance with IAS No. 12, Income Taxes, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to noncurrent assets were NT$8,001,202 thousand and NT$5,936,490 thousand, respectively.

c) The classification of assets leased to others and idle assets

Under R.O.C. GAAP, assets leased to others and idle assets are classified under other assets. Under Taiwan-IFRSs, the aforementioned items are classified as property, plant and equipment according to their nature. In accordance with IAS No. 40, Investment Property, investment properties are defined as properties held to earn rentals or for capital appreciation; however, the Company s assets leased to others are mainly housing facilities leased to employees and manufacturing facilities leased to suppliers. The housing facilities leased to employees are not classified as investment properties; and manufacturing facilities leased to suppliers are not considered as investment properties since they cannot be sold separately and comprise only an insignificant portion of the entire facility.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from assets leased to others and idle assets to property, plant and equipment were NT$32,742 thousand and NT$47,237 thousand, respectively.

d) Employee benefits

The Company had recognized the pension cost and retirement benefit obligation under its defined benefit plans based on actuarial valuations performed in conformity with R.O.C. GAAP. Under Taiwan-IFRSs, the Company should carry out actuarial valuation on defined benefit obligation in accordance with IAS No. 19, Employee Benefits.

In addition, under R.O.C. GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of such actuarial gains and losses. When using the corridor approach, actuarial gains and losses is amortized over the expected average remaining working lives of the participating employees.

Under IAS No. 19, Employee Benefits, the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

At the transition date, the Company performed the actuarial valuation under IAS No. 19, Employee Benefits, and recognized the valuation difference directly to retained earnings under the requirement of IFRS 1. For the year ended December 31, 2012, total actuarial gains and losses were also recognized to other comprehensive income in accordance with actuarial valuation carried out in 2012.

In addition, under R.O.C. GAAP, a minimum pension liability should be recognized in the balance sheet. If the accrued pension cost is less than the minimum pension liability, the difference should be recognized as an additional liability. Under Taiwan-IFRSs, there is no aforementioned requirement to recognize minimum pension liability.

As of December 31, 2012 and January 1, 2012, accrued pension cost of the Company was adjusted for an increase of NT$2,941,693 thousand and NT$2,332,516 thousand, respectively; deferred income tax assets were adjusted for an increase of NT$351,002 thousand and NT$231,011 thousand, respectively; noncontrolling interests were adjusted for a decrease of NT$12,759 thousand and NT$13,388 thousand, respectively. As of December 31, 2012, net loss not recognized as pension cost was adjusted for a decrease of NT$4,416 thousand. For the year ended December 31, 2012, pension cost and income tax expense of the Company were adjusted for a decrease of NT$72,385 thousand and NT$37,633 thousand, respectively; actuarial loss from defined benefit plans and income tax benefit related to components of other comprehensive income were recognized in the amount of NT$685,978 thousand and NT$82,358 thousand, respectively.

e) Investments accounted for using the equity method

The Company has evaluated significant differences between current accounting policies and Taiwan-IFRSs for the Company s associates and joint ventures accounted for using the equity method. The significant difference is mainly due to the adjustment to employee benefits.

In addition, if the investor subscribes to additional shares of associates and joint ventures that is disproportionate to its existing ownership percentage and results in a decrease in the investor s ownership percentage in the associate and joint venture, the resulting carrying amount of the investment differs from the amount of the investor s share in the equity of the associates and joint venture. Under R.O.C. GAAP, the investor records such a difference as an adjustment to the carrying amount of the investment with the corresponding amount charged or credited to capital surplus. Under Taiwan-IFRSs, such a difference is still adjusted to carrying amount of the investment and capital surplus. If the investor s ownership interest in an associate and joint venture decreases, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate and joint venture had directly disposed of the related assets or liabilities.

As of December 31, 2012 and January 1, 2012, as a result of the differences mentioned above, investment accounted for using the equity method was adjusted for a decrease of NT$69,102 thousand and NT$13,401 thousand, respectively; foreign currency translation reserve was adjusted for a decrease of NT$43 thousand and an increase of NT$5 thousand, respectively; capital surplus was adjusted for a decrease of NT$462,469 thousand and NT$374,695 thousand, respectively. As of December 31, 2012, net loss not recognized as pension cost was adjusted for a decrease of NT$883 thousand. In addition, equity in earnings of equity method investees and share of other comprehensive income of associates and joint venture were adjusted for an increase of NT$45,118 thousand and a decrease of NT$18,905 thousand for the year ended December 31, 2012, respectively; other gains and losses was adjusted for a gain of NT$4,977 thousand for the year ended December 31, 2012.

f) The reclassification of line items in the consolidated statement of comprehensive income

In accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers before its amendment due to the adoption of Taiwan-IFRSs, income from operations in the consolidated income statement only includes net revenue, cost of revenue and operating expenses. Under Taiwan-IFRSs, based on the nature of operating transactions, technical service income is reclassified under net revenue; rental revenue, depreciation of rental assets, net gain or loss on disposal of property, plant and equipment and other assets, and impairment loss on idle assets, are reclassified under other operating income and expenses, which are included in income from operations.

Under Taiwan-IFRSs, based on the nature of operating transactions, for the year ended December 31, 2012, the Company reclassified technical service income of NT$496,654 thousand to net revenue, rental revenue of NT$808 thousand, net gain on disposal of property, plant and equipment and other assets of NT$103 thousand, other income of NT$886 thousand, depreciation of rental assets of NT$6,656 thousand and impairment loss on idle assets of NT$444,505 thousand to other operating income and expenses. In addition, interest income of NT$1,645,036 thousand and dividend income of NT$71,057 thousand were also reclassified to other income; settlement income of NT$883,845 thousand, net gain on disposal of financial assets of NT$541,089 thousand, others of NT$499,903 thousand (under non-operating income and gains), net valuation loss on financial instruments of NT$252,530 thousand, impairment loss of financial assets of NT$4,231,602 thousand as well as others of NT$297,992 thousand (under non-operating expenses and losses) were reclassified to other gains and losses for the year ended December 31, 2012.

## 44. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for TSMC:

a. Financings provided: Please see Table 1 attached;

b. Endorsement/guarantee provided: Please see Table 2 attached;

c. Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): Please see Table 3 attached;

d. Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Please see Table 4 attached;

e. Acquisition of individual real estate properties at costs of at least NT$300 million or 20% of the paid-in capital: Please see Table 5 attached;

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

g. Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Please see Table 6 attached;

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 7 attached;

i. Information about the derivative financial instruments transaction: Please see Notes 7 and 10;

j. Others: The business relationship between the parent and the subsidiaries and between each subsidiary, and significant transactions between them: Please see Table 8 attached;

k. Names, locations, and related information of investees over which TSMC exercises significant influence: Please see Table 9 attached;

l. Information on investment in Mainland China

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

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

**TABLE 1**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**FINANCINGS PROVIDED**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| Financial ement Account | Related Party | Maximum Balance for the Period (US$ in Thousands) (Note 3) | Ending Balance (US$ in Thousands) (Note 3) | Amount Actually Drawn (US$ in Thousands) | Interest Rate | Nature for Financing | Transaction Amounts | Reason for Financing | Allowa for Bad Deb |
|---|---|---|---|---|---|---|---|---|---|
| r receivables related parties | Yes | $ 3,874,000 (US$ 130,000) | $ | $ | | The need for short-term financing | $ | Purchase equipment | $ |
| er receivables related parties | Yes | 2,682,000 (US$ 90,000) | 2,682,000 (US$ 90,000) | 2,100,900 (US$ 70,500) | 0.37%-0.3805% | The need for short-term financing | | Operating capital | |
| er receivables related parties | Yes | 1,788,000 (US$ 60,000) | 1,788,000 (US$ 60,000) | 298,000 (US$ 10,000) | 0.37% | The need for short-term financing | | Operating capital | |
| er receivables related parties | Yes | 2,384,000 (US$ 80,000) | | | | The need for short-term financing | | Operating capital | |
| er receivables related parties | Yes | 2,682,000 (US$ 90,000) | | | | The need for short-term financing | | Operating capital | |

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners and TSMC Development, respectively. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower s net worth. The above restriction does not apply to the offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC (offshore 100% owned subsidiaries) or the subsidiaries whose voting shares are 90% and up owned, directly or indirectly, by TSMC (90% and up owned subsidiaries). However, the respective lending limit for offshore 100% owned subsidiaries shall not exceed the net worth of TSMC Partners and TSMC Development, respectively, and the aggregate amounts lendable to 90% and up owned subsidiaries and the total amount lendable to one such borrower in 90% and up owned subsidiaries shall not exceed forty percent

(40%) of the net worth of TSMC Partners and TSMC Development, respectively.

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

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

Note 4: The amount was determined based on the audited financial statements in accordance with local accounting principles.

**TABLE 2**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**ENDORSEMENTS/GUARANTEES PROVIDED**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| aranteed Party | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ne | Nature of Relationship | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2) | Maximum Balance for the Period (US$ in Thousands) (Note 3) | Ending Balance (US$ in Thousands) (Note 3) | Amount Actually Drawn (US$ in Thousands) | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements | Maximum Endorsement/ Guarantee Amount Allowable (Note 2) | Guar Provi Par Com |
| lobal | Subsidiary | $ 211,877,064 | $ 44,700,000 (US$ 1,500,000) | $ 44,700,000 (US$ 1,500,000) | $ 44,700,000 (US$ 1,500,000) | $ | 5.3% | $ 211,877,064 | Y |

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

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

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

**TABLE 3**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**MARKETABLE SECURITIES HELD**

**DECEMBER 31, 2013**

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

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2013 Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | Note |
|---|---|---|---|---|---|---|---|---|
| TSMC | Commercial paper | | | | | | | |
| | CPC Corporation, Taiwan | | Held-to-maturity financial assets | 100 | $ 998,018 | N/A | $ 997,608 | |
| | Taiwan Power Company | | | 80 | 797,931 | N/A | 798,004 | |
| | Stock | | | | | | | |
| | Semiconductor Manufacturing International Corporation | | Available-for-sale financial assets | 275,957 | 646,402 | 1 | 646,402 | Note 1 |
| | United Industrial Gases Co., Ltd. | | Financial assets carried at cost | 21,230 | 193,584 | 10 | 437,105 | |
| | Shin-Etsu Handotai Taiwan Co., Ltd. | | | 10,500 | 105,000 | 7 | 340,108 | |
| | W.K. Technology Fund IV | | | 4,000 | 39,280 | 2 | 34,919 | |
| | Fund | | | | | | | |
| | Horizon Ventures Fund | | Financial assets carried at cost | | 78,303 | 12 | 78,303 | |
| | Crimson Asia Capital | | | | 53,211 | 1 | 53,211 | |
| TSMC Global | Stock | | | | | | | |
| | ASML | | Available-for-sale financial assets | 20,993 | US$ 1,970,536 | 5 | US$ 1,970,536 | Note 2 |
| | Money market fund | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ssga Cash Mgmt Global Offshore | Available-for-sale financial assets | 40 | US$ | 40 | N/A | US$ | 40 | |
| TSMC North America | Stock | | | | | | | | |
| | Spansion Inc. | Available-for-sale financial assets | 274 | US$ | 3,799 | | US$ | 3,799 | |
| TSMC Partners | Stock | | | | | | | | |
| | Mcube | Financial assets carried at cost | 6,333 | | | 17 | | | |
| | Fund | | | | | | | | |
| | Shanghai Walden Venture Capital Enterprise | Financial assets carried at cost | | US$ | 5,000 | 6 | US$ | 5,000 | |
| Emerging Alliance | Common stock | | | | | | | | |
| | Global Investment Holding Inc. | Financial assets carried at cost | 11,124 | US$ | 3,065 | 6 | US$ | 3,065 | |
| | RichWave Technology Corp. | | 4,074 | US$ | 1,545 | 10 | US$ | 1,545 | |
| | Preferred stock | | | | | | | | |
| | Next IO, Inc. | Financial assets carried at cost | 8 | | | | | | Note 3 |
| | QST Holdings, LLC | | | US$ | 141 | 4 | US$ | 141 | |
| ISDF | Preferred stock | | | | | | | | |
| | Sonics, Inc. | Financial assets carried at cost | 230 | US$ | 497 | 2 | US$ | 497 | |
| ISDF II | Common stock | | | | | | | | |
| | Alchip Technologies Limited | Financial assets carried at cost | 7,520 | US$ | 3,664 | 14 | US$ | 3,664 | |
| | Sonics, Inc. | | 278 | US$ | 10 | 3 | US$ | 10 | |
| | Goyatek Technology, Corp. | | 745 | US$ | 163 | 6 | US$ | 163 | |
| | Preferred stock | | | | | | | | |
| | Sonics, Inc. | Financial assets carried at cost | 264 | US$ | 456 | 3 | US$ | 456 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2013 Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | Note |
|---|---|---|---|---|---|---|---|---|
| VTAF II | Common stock | | | | | | | |
| | Sentelic | | Financial assets carried at cost | 1,806 | US$ 2,607 | 8 | US$ 2,607 | |
| | Aether Systems, Inc. | | | 2,600 | US$ 2,243 | 28 | US$ 2,243 | |
| | RichWave Technology Corp. | | | 1,267 | US$ 1,036 | 3 | US$ 1,036 | |
| | Preferred stock | | | | | | | |
| | 5V Technologies, Inc. | | Financial assets carried at cost | 963 | US$ 2,168 | 3 | US$ 2,168 | |
| | Aquantia | | | 4,556 | US$ 4,316 | 2 | US$ 4,316 | |
| | Cresta Technology Corporation | | | 92 | US$ 28 | | US$ 28 | |
| | Impinj, Inc. | | | 711 | US$ 1,100 | | US$ 1,100 | |
| | Next IO, Inc. | | | 179 | | 1 | | Note 4 |
| | QST Holdings, LLC | | | | US$ 588 | 13 | US$ 588 | |
| VTAF III | Common stock | | | | | | | |
| | Accton Wireless Broadband Corp. | | Financial assets carried at cost | 2,249 | US$ 315 | 6 | US$ 315 | |
| | Preferred stock | | | | | | | |
| | BridgeLux, Inc. | | Financial assets carried at cost | 7,522 | US$ 9,379 | 3 | US$ 9,379 | |
| | GTBF, Inc. | | | 1,154 | US$ 1,500 | N/A | US$ 1,500 | |
| | LiquidLeds Lighting Corp. | | | 1,600 | US$ 800 | 11 | US$ 800 | |
| | Neoconix, Inc. | | | 4,147 | US$ 170 | | US$ 170 | Note 5 |
| | Powervation, Ltd. | | | 527 | US$ 8,238 | 15 | US$ 8,238 | |
| | Stion Corp. | | | 8,152 | | 15 | | Note 6 |
| | Tilera, Inc. | | | 3,890 | US$ 3,025 | 2 | US$ 3,025 | |
| | Validity Sensors, Inc. | | | 11,192 | US$ 4,197 | 4 | US$ 4,197 | |

Note 1: The carrying value represents carrying amount less accumulated impairment of NT$412,901 thousand.
Note 2: In October 2012, TSMC Global acquired 5% of the outstanding equity of ASML with a lock-up period of 2.5 years starting from the acquisition date.
Note 3: The carrying value represents carrying amount less accumulated impairment of US$500 thousand.
Note 4: The carrying value represents carrying amount less accumulated impairment of US$1,219 thousand.
Note 5: The carrying value represents carrying amount less accumulated impairment of US$4,672 thousand.
Note 6: The carrying value represents carrying amount less accumulated impairment of US$55,474 thousand.

(Concluded)

**TABLE 4**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| | | | Beginning Balance | | | Acquisition | | Disposal | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Financial Statement Account | Counter-party | Nature of Relationship | Shares/Units (In Thousands) | | Amount (Foreign Currencies in Thousands) | Shares/ Units (In Thousands) | Amount (Foreign Currencies in Thousands) | Shares/Units (In Thousands) | | Amount (Foreign Currencies in Thousands) | | Carrying V (Foreign Currenci in Thousan |
| lable-for-sale cial assets | | | | | | | | | | | | |
| | | | 1,277,958 | $ | 1,845,052 | | $ | 1,002,001 | $ | 1,830,424 | $ | 983,7 |
| stments unted for equity od | Note 2 | Subsidiary | 430,400 | | 2,389,541 | 124,274 | 1,242,744 | | | | | |
| -to-maturity cial assets | | | | | | | | | | | | |
| | | | | | | 100 | 998,018 | | | | | |
| | | | | | | 80 | 797,931 | | | | | |
| -to-maturity cial assets | | | 20,000 | US$ | 19,999 | | | 20,000 | US$ | 20,000 | US$ | 20,0 |
| | | | 25,000 | US$ | 25,000 | | | 25,000 | US$ | 25,000 | US$ | 25,0 |
| | | | 25,000 | US$ | 25,000 | | | 25,000 | US$ | 25,000 | US$ | 25,0 |
| | | | 20,000 | US$ | 19,999 | | | 20,000 | US$ | 20,000 | US$ | 20,0 |
| | | | 35,000 | US$ | 35,006 | | | 35,000 | US$ | 35,000 | US$ | 35,0 |
| | | | 25,000 | US$ | 25,000 | | | 25,000 | US$ | 25,000 | US$ | 25,0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| stments unted for g equity od | Note 3 | Subsidiary | 293,637 | US$ | 262,053 | US$ 100,0 |

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

Note 2: The acquisition is primarily consisted of cash injection.

Note 3: The disposal is primarily consisted of capital return.

**TABLE 5**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(Amounts in Thousands of New Taiwan Dollars)**

| | | | | | Prior Transaction of Related Counter-party | | | | |
|---|---|---|---|---|---|---|---|---|---|
| n Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationships | Owner | Relationships | Transfer Date | Amount | Price Reference |
| 2013 | $ 2,248,400 | By the contract | Miaoli County Government | | N/A | N/A | N/A | N/A | Public biddin |
| 2013 9, | 3,561,600 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public biddin |
| 2013 2013 | 4,373,205 | By the construction progress | Da Cin Construction Co., Ltd. | | N/A | N/A | N/A | N/A | Public biddin |
| 013 to 2013 | 338,948 | By the construction progress | I Domain Industrial Co., Ltd. | | N/A | N/A | N/A | N/A | Public biddin |
| 3 to 13 | 2,615,744 | By the construction progress | China Steel Structure Co., Ltd. | | N/A | N/A | N/A | N/A | Public biddin |
| 13 to 13 | 615,038 | By the construction progress | Tasa Construction Corporation | | N/A | N/A | N/A | N/A | Public biddin |

**TABLE 6**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| | | | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Pay or Receivable | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Related Party | Nature of Relationships | Purchases/ Sales | Amount (Foreign Currencies in Thousands) | % to Total | Payment Terms | Unit Price (Note) | Payment Terms (Note) | Ending Balance (Foreign Currencies in Thousands) | T |
| | TSMC North America | Subsidiary | Sales | $ 414,087,565 | 69 | Net 30 days from invoice date | | | $ 52,750,047 | |
| | GUC | Associate | Sales | 1,970,934 | 1 | Net 30 days from the end of the month of when invoice is issued | | | 219,424 | |
| | VIS | Associate | Sales | 195,101 | | Net 30 days from the end of the month of when invoice is issued | | | | |
| | Mcube | Associate of the Company subsidiary (Note 2) | Sales s | 119,067 | | Net 30 days from invoice date | | | | |
| | TSMC China | Subsidiary | Purchases | 16,902,114 | 27 | Net 30 days from the end of | | | (1,509,508) | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | the month of when invoice is issued | |
| | WaferTech | Indirect subsidiary | Purchases | 8,520,337 | 14 | Net 30 days from the end of the month of when invoice is issued | (685,906) |
| | VIS | Associate | Purchases | 6,993,964 | 11 | Net 30 days from the end of the month of when invoice is issued | (731,587) |
| | SSMC | Associate | Purchases | 3,056,372 | 5 | Net 30 days from the end of the month of when invoice is issued | (382,007) |
| ar | TSMC Solar Europe GmbH | Subsidiary | Sales | 146,866 | 57 | Net 30 days from the end of the month of when invoice is issued | 16,287 |
| th America | GUC | Associate of TSMC | Sales | 1,714,625 (US$ 57,780) | | Net 30 days from invoice date | 71,952 (US$ 2,414) |

Note 1: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

Note 2: TSMC Partners, the subsidiary of TSMC, did not exercise significant influence over Mcube starting the third quarter of 2013, and therefore, Mcube is no longer a related party to the Company.

**TABLE 7**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**DECEMBER 31, 2013**

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

| Company Name | Related Party | Nature of Relationships | Ending Balance (Foreign Currencies in Thousands) | Turnover Days (Note 1) | Overdue Amount | Overdue Action Taken | Amounts Received in Subsequent Period | Allowance fo Bad Debts |
|---|---|---|---|---|---|---|---|---|
| TSMC | TSMC North America | Subsidiary | $ 53,078,207 | 41 | $ 16,627,236 | | $ 18,782,230 | $ |
| | GUC | Associate | 219,424 | 42 | | | | |
| | VIS | Associate | 105,881 | (Note 2) | | | | |
| TSMC Partners | TSMC Solar | The same parent company | 2,102,953 (US$ 70,569) | (Note 2) | | | | |
| | TSMC SSL | The same parent company | 298,025 (US$ 10,001) | (Note 2) | | | | |
| TSMC China | TSMC | Parent company | 1,509,508 (RMB 308,836) | 31 | | | | |
| TSMC Technology | TSMC | Parent company | 170,332 (US$ 5,716) | (Note 2) | | | | |
| WaferTech | TSMC | Parent company | 685,906 (US$ 23,017) | 27 | | | | |

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

Note 2: The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

**TABLE 8**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(Amounts in Thousands of New Taiwan Dollars)**

| | | | | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|---|
| **No.** | **Company Name** | **Counter Party** | **Nature of Relationship (Note 1)** | **Financial Statements Item** | **Amount** | **Terms (Note 2)** | **Percentage of Consolidated Net Revenue or Total Assets** |
| 0 | TSMC | TSMC North America | 1 | Net revenue from sale of goods | $ 414,087,565 | | 69% |
| | | | | Receivables from related parties | 52,750,047 | | 4% |
| | | | | Other receivables from related parties | 328,160 | | |
| | | | | Payables to related parties | 7,675 | | |
| | | TSMC China | 1 | Net revenue from sale of goods | 7,798 | | |
| | | | | Net revenue from royalty | 15,624 | | |
| | | | | Purchases | 16,902,114 | | 3% |
| | | | | Marketing expenses - commission | 89,129 | | |
| | | | | Disposal of property, plant and equipment | 67,174 | | |
| | | | | Gain on disposal of property, plant and equipment | 2,682 | | |
| | | | | Purchases of property, plant and equipment | 100,298 | | |
| | | | | Other receivables from related parties | 15,409 | | |
| | | | | Payables to related parties | 1,509,508 | | |
| | | TSMC Japan | 1 | Marketing expenses - commission | 240,268 | | |
| | | | | Payables to related parties | 37,906 | | |
| | | TSMC Europe | 1 | | 385,931 | | |

| | | | | |
|---|---|---|---|---|
| | | Marketing expenses - commission | | |
| | | Research and development expenses | 62,070 | |
| | | Payables to related parties | 55,482 | |
| TSMC Korea | 1 | Marketing expenses - commission | 21,609 | |
| | | Payables to related parties | 2,327 | |
| TSMC Technology | 1 | Research and development expenses | 826,291 | |
| | | Payables to related parties | 170,332 | |
| WaferTech | 1 | Net revenue from sale of goods | 12,525 | |
| | | Purchases | 8,520,337 | 1% |
| | | Other receivables from related parties | 3,009 | |
| | | Payables to related parties | 685,906 | |
| TSMC Canada | 1 | Research and development expenses | 217,031 | |
| | | Payables to related parties | 17,096 | |
| Xintec | 1 | Manufacturing expenses | 106,290 | |
| | | Research and development expenses | 1,418 | |
| | | Disposal of property, plant and equipment | 26,978 | |
| TSMC SSL | 1 | Manufacturing expenses | 12,956 | |
| | | Other gains and losses | 8,550 | |
| | | Other receivables from related parties | 2,160 | |
| | | Payables to related parties | 3,292 | |
| TSMC Solar | 1 | Manufacturing expenses | 2,822 | |
| | | General and administrative expenses | 2,257 | |
| | | Other gains and losses | 10,086 | |

(Continued)

| | | | | Intercompany Transactions | | | |
|---|---|---|---|---|---|---|---|
| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Financial Statements Item | Amount | Terms (Note 2) | Percentage of Consolidated Net Revenue or Total Assets |
| 0 | TSMC | TSMC Solar | 1 | Purchases of property, plant and equipment | $ 20,201 | | |
| | | | | Other receivables from related parties | 2,431 | | |
| | | | | Payables to related parties | 14,054 | | |
| 1 | TSMC Development | WaferTech | 1 | Other receivables from related parties | 40,485 | | |
| 2 | TSMC North America | TSMC Technology | 3 | Other receivables from related parties | 8,307 | | |
| 3 | TSMC Solar | TSMC Solar Europe GmbH | 1 | Net revenue from sale of goods | 146,866 | | |
| | | | | Receivables from related parties | 16,287 | | |
| | | TSMC Development | 3 | Finance costs | 2,613 | | |
| | | TSMC Partners | 3 | Finance costs | 2,043 | | |
| | | | | Other payables to related parties | 2,102,953 | | |
| 4 | TSMC SSL | TSMC Partners | 3 | Other receivables from related parties | 298,025 | | |
| 5 | TSMC China | Xintec | 3 | Disposal of property, plant and equipment | 48,193 | | |
| | | TSMC Partners | 3 | Finance costs | 2,788 | | |

Note 1: No. 1 represents the transactions from parent company to subsidiary.
No. 3 represents the transactions between subsidiaries.

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

(Concluded)

**TABLE 9**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| | | | | Original Investment Amount | | Balance as of December 31, 2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ny | Investee Company | Location | Main Businesses and Products | December 31, 2013 (Foreign Currencies in Thousands) | December 31, 2012 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Share Profits/I of Inve (Note (Fore Currenc Thousa |
| | TSMC Global | Tortola, British Virgin Islands | Investment activities | $ 42,327,245 | $ 42,327,245 | 1 | 100 | $ 64,953,489 | $ (172,392) | $ (172 |
| | TSMC Partners | Tortola, British Virgin Islands | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | 31,456,130 | 31,456,130 | 988,268 | 100 | 42,861,788 | 3,516,560 | 3,516 |
| | VIS | Hsin-Chu, Taiwan | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 13,232,288 | 13,232,288 | 628,223 | 39 | 10,556,348 | 4,370,988 | 1,724 |
| | SSMC | Singapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 7,457,733 | 5,039,563 | 1,954 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| TSMC Solar | Tai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | 11,180,000 | 11,180,000 | 1,118,000 | 99 | 4,551,318 | (1,554,038) | (1,516 |
| TSMC North America | San Jose, California, U.S.A. | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 3,763,194 | 468,309 | 468 |
| TSMC SSL | Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 5,546,744 | 4,304,000 | 554,674 | 92 | 2,154,913 | (1,663,137) | (1,550 |
| Xintec | Taoyuan, Taiwan | Wafer level chip size packaging service | 1,357,890 | 1,357,890 | 94,950 | 40 | 1,866,123 | 288,881 | 37 |
| GUC | Hsin-Chu, Taiwan | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,056,141 | 289,204 | 100 |
| VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,908,912 | 1,896,914 | | 50 | 892,439 | (1,509,593) | (151 |
| VTAF II | Cayman Islands | Investing in new start-up technology companies | 596,514 | 704,447 | | 98 | 441,763 | (3,662) | (3 |
| TSMC Europe | Amsterdam, the Netherlands | Marketing and engineering supporting | 15,749 | 15,749 | | 100 | 290,838 | 37,659 | 37 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | activities | | | | | | | |
| Emerging Alliance | Cayman Islands | Investing in new start-up technology companies | 841,757 | 852,258 | | 99.5 | 144,924 | (10,806) | (10 |
| TSMC Japan | Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 124,762 | 4,717 | 4 |
| TSMC GN | Taipei, Taiwan | Investment activities | 150,000 | 100,000 | | 100 | 85,162 | (22,899) | (22 |
| TSMC Korea | Seoul, Korea | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 29,475 | 1,296 | 1 |
| Motech | Taipei, Taiwan | Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems | 6,228,661 | 6,228,661 | 87,480 | 20 | 3,887,462 | 251,864 | N |
| VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,806,693 | 1,801,918 | | 49 | 597 | (1,509,593) | N |
| TSMC Solar Europe | Amsterdam, the Netherlands | Investing in solar related business | 504,107 | 504,107 | | 100 | 89,196 | (93,795) | N |
| TSMC Solar NA | Delaware, U.S.A. | Selling and marketing of solar related products | 205,772 | 205,772 | 1 | 100 | 8,305 | (36,733) | N |
| TSMC Lighting NA | Delaware, U.S.A. | Selling and marketing of solid state lighting related products | 3,133 | 3,133 | 1 | 100 | 2,873 | (65) | N |

(Continued)

| | | | Original Investment Amount | | Balance as of December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| vestee mpany | Location | Main Businesses and Products | December 31, 2013 (Foreign Currencies in Thousands) | December 31, 2012 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) |
| C lopment | Delaware, U.S.A. | Investment activities | $ 0.03 (US$ 0.001) | $ 0.03 (US$ 0.001) | | 100 | $ 20,614,259 (US$ 691,754) | $ 2,593,196 (US$ 87,387) |
| ra ing pany | Cayman Islands | Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry | 1,281,400 (US$ 43,000) | 1,281,400 (US$ 43,000) | 43,000 | 49 | 3,492,453 (US$ 117,196) | 922,947 (US$ 31,102) |
| C nology | Delaware, U.S.A. | Engineering support activities | 0.03 (US$ 0.001) | 0.03 (US$ 0.001) | | 100 | 386,971 (US$ 12,986) | 37,518 (US$ 1,264) |
| II | Cayman Islands | Investing in new start-up technology companies | 421,759 (US$ 14,153) | 421,759 (US$ 14,153) | 14,153 | 97 | 322,518 (US$ 10,823) | 73,175 (US$ 2,466) |
| | Cayman Islands | Investing in new start-up technology companies | 23,453 (US$ 787) | 23,453 (US$ 787) | 787 | 97 | 248,411 (US$ 8,336) | 190,339 (US$ 6,414) |
| C da | Ontario, Canada | Engineering support activities | 68,540 (US$ 2,300) | 68,540 (US$ 2,300) | 2,300 | 100 | 142,773 (US$ 4,791) | 15,493 (US$ 522) |
| rTech | Washington, U.S.A. | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | 2,384,000 (US$ 80,000) | 8,344,000 (US$ 280,000) | 293,637 | 100 | 7,397,902 (US$ 248,252) | 2,558,757 (US$ 86,226) |
| | | | 155,318 | 155,318 | 15,643 | 58 | 36,404 | (19,129) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| al-Pak nology Ltd. | Taipei, Taiwan | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | (US$ 5,212) | (US$ 5,212) | | | (US$ 1,222) | (US$ (645) |
| wth Fund | Cayman Islands | Investing in new start-up technology companies | 63,474 (US$ 2,130) | 54,534 (US$ 1,830) | | 100 | 18,075 (US$ 607) | (1,839) (US$ (62) |
| ings | Delaware, U.S.A. | Investing in new start-up technology companies | | | | 62 | | |
| ings | Delaware, U.S.A. | Investing in new start-up technology companies | | | | 31 | | |
| ings | Delaware, U.S.A. | Investing in new start-up technology companies | | | | 7 | | |
| C Solar pe H | Hamburg, Germany | Selling of solar related products and providing customer service | 508,400 (EUR 12,400) | 508,400 (EUR 12,400) | | 100 | 85,863 (EUR 2,094) | (93,917) (EUR (2,375) |
| C Solar | Tai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | 52,498 | 42,945 | 5,250 | | 21,056 | (1,554,038) |
| C SSL | Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 54,359 | 34,266 | 5,436 | 1 | 21,011 | (1,663,137) |

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

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

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

(Concluded)

**TABLE 10**

**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**

**INFORMATION ON INVESTMENT IN MAINLAND CHINA**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| pany | Main Businesses and Products | Total Amount of Paid-in Capital (Foreign Currencies in Thousands) | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2013 (US$ in Thousands) | Investment Flows Outflow | Investment Flows Inflow | Accumulated Outflow of Investment from Taiwan as of December 31, 2013 (US$ in Thousands) | Percentage of Ownership | Share of Profits/ Losses | Car Am as Decen 20 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | $ 18,939,667<br>(RMB 4,502,080) | (Note 1) | $ 18,939,667<br>(US$ 596,000) | $ | $ | $ 18,939,667<br>(US$ 596,000) | 100% | $ 5,111,975<br>(Note 2) | $ 23,8 |

| Accumulated Investment in Mainland China as of December 31, 2013 (US$ in Thousands) | Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousands) | Upper Limit on Investment (US$ in Thousands) |
|---|---|---|
| $ 18,939,667<br>(US$ 596,000) | $ 18,939,667<br>(US$ 596,000) | $ 18,939,667<br>(US$ 596,000) |

Note 1: TSMC directly invested US$596,000 thousand in TSMC China.
Note 2: Amount was recognized based on the audited financial statements.

**Taiwan Semiconductor Manufacturing Company Limited**

**Parent Company Only Financial Statements for the**

**Years Ended December 31, 2013 and 2012 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying parent company only balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2013 and 2012 and January 1, 2012 and the related parent company only statements of comprehensive income for the years ended December 31, 2013 and 2012, as well as the parent company only statements of changes in equity and cash flows for the years ended December 31, 2013 and 2012. These parent company only financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the parent company only financial statements referred to above present fairly, in all material respects, the parent company only financial position of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2013 and 2012 and January 1, 2012, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers.

The statements of major accounting items listed in the parent company only financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2013 are presented for the purpose of additional analysis. Such statements have been subjected to the auditing procedures applied in our audits of the financial statements mentioned above. In our opinion, such statements are fairly stated in all material respects in relation to the financial statements as a whole.

February 18, 2014

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

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

*For the convenience of readers, the auditors report and the accompanying 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 auditors report and financial statements shall prevail.*

Member of Deloitte Touche Tohmatsu Limited

**Taiwan Semiconductor Manufacturing Company Limited**

**PARENT COMPANY ONLY BALANCE SHEETS**

**(In Thousands of New Taiwan Dollars)**

| ASSETS | December 31, 2013 Amount | % | December 31, 2012 Amount | % | January 1, 2012 Amount | % |
|---|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents (Note 6) | $ 146,438,768 | 12 | $ 109,150,810 | 12 | $ 85,262,521 | 11 |
| Financial assets at fair value through profit or loss (Note 7) | 64,030 | | 38,824 | | 14,925 | |
| Available-for-sale financial assets (Note 8) | 646,402 | | 1,845,052 | | 2,617,134 | 1 |
| Held-to-maturity financial assets (Note 9) | 1,795,949 | | 701,146 | | 701,136 | |
| Notes and accounts receivable, net (Note 10) | 17,445,877 | 2 | 15,252,394 | 2 | 19,409,266 | 3 |
| Receivables from related parties (Note 34) | 52,969,803 | 4 | 40,987,444 | 4 | 24,777,534 | 3 |
| Other receivables from related parties (Note 34) | 572,000 | | 274,963 | | 188,028 | |
| Inventories (Notes 5 and 11) | 35,243,061 | 3 | 35,296,391 | 4 | 22,853,397 | 3 |
| Other financial assets | 61,842 | | 175,261 | | 122,010 | |
| Other current assets (Note 16) | 2,386,031 | | 2,097,329 | | 1,725,736 | |
| Total current assets | 257,623,763 | 21 | 205,819,614 | 22 | 157,671,687 | 21 |
| NONCURRENT ASSETS | | | | | | |
| Held-to-maturity financial assets (Note 9) | | | | | 702,291 | |
| Financial assets carried at cost (Note 12) | 469,378 | | 483,759 | | 497,835 | |
| Investments accounted for using equity method (Notes 5 and 13) | 165,075,781 | 14 | 139,150,441 | 15 | 128,143,256 | 17 |
| Property, plant and equipment (Notes 5 and 14) | 770,443,494 | 64 | 586,636,036 | 61 | 454,420,770 | 59 |
| Intangible assets (Notes 5 and 15) | 7,069,456 | 1 | 6,449,837 | 1 | 6,287,000 | 1 |
| Deferred income tax assets (Notes 5 and 28) | 4,580,468 | | 10,318,863 | 1 | 13,228,485 | 2 |
| Refundable deposits | 2,496,663 | | 2,394,826 | | 4,491,735 | |
| Other noncurrent assets (Note 16) | 820,000 | | 884,277 | | 1,022,349 | |
| Total noncurrent assets | 950,955,240 | 79 | 746,318,039 | 78 | 608,793,721 | 79 |
| TOTAL | $ 1,208,579,003 | 100 | $ 952,137,653 | 100 | $ 766,465,408 | 100 |

| LIABILITIES AND EQUITY | December 31, 2013 Amount | % | December 31, 2012 Amount | % | January 1, 2012 Amount | % |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| CURRENT LIABILITIES | | | | | | |
| Short-term loans (Note 17) | $ 15,645,000 | 1 | $ 34,714,929 | 4 | $ 25,926,528 | 3 |
| Financial liabilities at fair value through profit or loss (Note 7) | 25,404 | | 6,274 | | | |
| Accounts payable | 13,628,675 | 1 | 13,392,221 | 1 | 9,522,688 | 1 |
| Payables to related parties (Note 34) | 4,183,979 | | 3,230,342 | | 2,992,582 | |
| Accrued profit sharing to employees and bonus to directors (Note 21) | 12,738,801 | 1 | 11,186,591 | 1 | 9,055,704 | 1 |
| Payables to contractors and equipment suppliers | 89,555,814 | 8 | 44,371,108 | 5 | 33,811,970 | 5 |
| Income tax payable (Note 28) | 22,567,331 | 2 | 15,196,399 | 1 | 10,647,797 | 1 |
| Provisions (Notes 5 and 18) | 7,217,331 | 1 | 5,732,738 | 1 | 4,887,879 | 1 |
| Accrued expenses and other current liabilities | 21,633,409 | 2 | 16,698,014 | 2 | 13,057,161 | 2 |
| Current portion of bonds payable (Note 19) | | | | | 4,500,000 | 1 |
| Total current liabilities | 187,195,744 | 16 | 144,528,616 | 15 | 114,402,309 | 15 |
| NONCURRENT LIABILITIES | | | | | | |
| Bonds payable (Note 19) | 166,200,000 | 14 | 80,000,000 | 8 | 18,000,000 | 2 |
| Other long-term payables | 36,000 | | 54,000 | | | |
| Accrued pension cost (Notes 5 and 20) | 7,491,040 | | 6,805,042 | 1 | 6,132,071 | 1 |
| Guarantee deposits | 147,964 | | 199,315 | | 439,032 | |
| Total noncurrent liabilities | 173,875,004 | 14 | 87,058,357 | 9 | 24,571,103 | 3 |
| Total liabilities | 361,070,748 | 30 | 231,586,973 | 24 | 138,973,412 | 18 |
| EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT | | | | | | |
| Capital stock (Note 21) | 259,286,171 | 21 | 259,244,357 | 27 | 259,162,226 | 34 |
| Capital surplus (Note 21) | 55,858,626 | 5 | 55,675,340 | 6 | 55,471,662 | 7 |
| Retained earnings (Note 21) | | | | | | |
| Appropriated as legal capital reserve | 132,436,003 | 11 | 115,820,123 | 12 | 102,399,995 | 13 |
| Appropriated as special capital reserve | 2,785,741 | | 7,606,224 | 1 | 6,433,874 | 1 |
| Unappropriated earnings | 382,971,408 | 32 | 284,985,121 | 30 | 211,630,458 | 28 |
| | 518,193,152 | 43 | 408,411,468 | 43 | 320,464,327 | 42 |
| Others (Note 21) | 14,170,306 | 1 | (2,780,485) | | (7,606,219) | (1) |
| Total equity | 847,508,255 | 70 | 720,550,680 | 76 | 627,491,996 | 82 |
| TOTAL | $ 1,208,579,003 | 100 | $ 952,137,653 | 100 | $ 766,465,408 | 100 |

The accompanying notes are an integral part of the parent company only financial statements.

**Taiwan Semiconductor Manufacturing Company Limited**

**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| NET REVENUE (Notes 5, 23 and 34) | $ 591,087,600 | 100 | $ 500,369,525 | 100 |
| COST OF REVENUE (Notes 11, 30 and 34) | 319,407,163 | 54 | 265,494,185 | 53 |
| GROSS PROFIT BEFORE UNREALIZED GROSS PROFIT ON SALES TO SUBSIDIARIES AND ASSOCIATES | 271,680,437 | 46 | 234,875,340 | 47 |
| UNREALIZED GROSS PROFIT ON SALES TO SUBSIDIARIES AND ASSOCIATES | (35,577) | | (25,029) | |
| GROSS PROFIT | 271,644,860 | 46 | 234,850,311 | 47 |
| OPERATING EXPENSES (Notes 5, 30 and 34) | | | | |
| Research and development | 46,922,471 | 8 | 38,769,956 | 8 |
| General and administrative | 17,697,411 | 3 | 16,324,238 | 3 |
| Marketing | 2,304,472 | | 2,386,889 | 1 |
| Total operating expenses | 66,924,354 | 11 | 57,481,083 | 12 |
| OTHER OPERATING INCOME AND EXPENSES, NET (Notes 24 and 30) | (66,614) | | (549,087) | |
| INCOME FROM OPERATIONS | 204,653,892 | 35 | 176,820,141 | 35 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Share of profits of subsidiaries and associates (Note 13) | 9,530,933 | 2 | 8,175,390 | 2 |
| Other income (Note 25) | 1,082,426 | | 936,903 | |
| Foreign exchange gain, net | 279,488 | | 327,744 | |
| Finance costs (Note 26) | (2,092,236) | | (945,114) | |
| Other gains and losses (Notes 27 and 34) | 2,262,047 | | (1,562,677) | |
| Total non-operating income and expenses | 11,062,658 | 2 | 6,932,246 | 2 |
| INCOME BEFORE INCOME TAX | 215,716,550 | 37 | 183,752,387 | 37 |
| INCOME TAX EXPENSE (Note 28) | 27,569,760 | 5 | 17,434,101 | 4 |
| NET INCOME | 188,146,790 | 32 | 166,318,286 | 33 |

(Continued)

**Taiwan Semiconductor Manufacturing Company Limited**

**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**

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

| | 2013 Amount | % | 2012 Amount | % |
|---|---|---|---|---|
| OTHER COMPREHENSIVE INCOME (LOSS) (Notes 13, 20, 21 and 28) | | | | |
| Exchange differences arising on translation of foreign operations | $ 3,655,675 | 1 | $ (4,317,386) | (1) |
| Changes in fair value of available-for-sale financial assets | (214,935) | | 2,407,647 | 1 |
| Share of other comprehensive income of subsidiaries and associates | 13,472,874 | 2 | 7,118,419 | 1 |
| Actuarial loss from defined benefit plans | (671,774) | | (677,413) | |
| Income tax benefit (expense) related to components of other comprehensive income | 117,152 | | (328,010) | |
| Other comprehensive income for the year, net of income tax | 16,358,992 | 3 | 4,203,257 | 1 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 204,505,782 | 35 | $ 170,521,543 | 34 |
| EARNINGS PER SHARE (NT$, Note 29) | | | | |
| Basic earnings per share | $ 7.26 | | $ 6.42 | |
| Diluted earnings per share | $ 7.26 | | $ 6.41 | |

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

**Taiwan Semiconductor Manufacturing Company Limited**

**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY**

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

| Common Stock | | Retained Earnings | | | | Others | | |
|---|---|---|---|---|---|---|---|---|
| Amount | Capital Surplus | Legal Capital Reserve | Special Capital Reserve | Unappropriated Earnings | Total | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve |
| 259,162,226 | $ 55,471,662 | $ 102,399,995 | $ 6,433,874 | $ 211,630,458 | $ 320,464,327 | $ (6,433,364) | $ (1,172,762) | $ (93) |
| | | | | | | | | |
| | | 13,420,128 | | (13,420,128) | | | | |
| | | | 1,172,350 | (1,172,350) | | | | |
| | | | | (77,748,668) | (77,748,668) | | | |
| | | 13,420,128 | 1,172,350 | (92,341,146) | (77,748,668) | | | |
| | | | | 166,318,286 | 166,318,286 | | | |
| | | | | (622,477) | (622,477) | (4,320,442) | 9,146,083 | 93 |
| | | | | 165,695,809 | 165,695,809 | (4,320,442) | 9,146,083 | 93 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 82,131 | 160,357 | | | | | | | |
| | 2,588 | | | | | | | |
| | 40,733 | | | | | | | |
| 259,244,357 | 55,675,340 | 115,820,123 | 7,606,224 | 284,985,121 | 408,411,468 | (10,753,806) | 7,973,321 | |
| | | 16,615,880 | | (16,615,880) | | | | |
| | | | (4,820,483) | 4,820,483 | | | | |
| | | | | (77,773,307) | (77,773,307) | | | |
| | | 16,615,880 | (4,820,483) | (89,568,704) | (77,773,307) | | | |
| | | | | 188,146,790 | 188,146,790 | | | |
| | | | | (591,799) | (591,799) | 3,613,444 | 13,337,460 | (113) |
| | | | | 187,554,991 | 187,554,991 | 3,613,444 | 13,337,460 | (113) |
| 41,814 | 82,756 | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 38,084 | | | | | | | |
| | 62,446 | | | | | | | |
| 259,286,171 | $ 55,858,626 | $ 132,436,003 | $ 2,785,741 | $ 382,971,408 | $ 518,193,152 | $ (7,140,362) | $ 21,310,781 | $ (113) |

The accompanying notes are an integral part of the parent company only financial statements.

**Taiwan Semiconductor Manufacturing Company Limited**

**PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS**

**(In Thousands of New Taiwan Dollars)**

| | **2013** | **2012** |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | $ 215,716,550 | $ 183,752,387 |
| Adjustments for: | | |
| Depreciation expense | 147,266,825 | 122,377,815 |
| Amortization expense | 2,072,926 | 2,022,064 |
| Finance costs | 2,092,236 | 945,114 |
| Share of profits of subsidiaries and associates | (9,530,933) | (8,175,390) |
| Interest income | (1,011,301) | (867,227) |
| Loss on disposal of property, plant and equipment and intangible assets, net | 64,753 | 125,488 |
| Impairment loss on property, plant and equipment | | 418,330 |
| Impairment loss of financial assets | | 2,677,529 |
| Gain on disposal of available-for-sale financial assets, net | (846,709) | (110,634) |
| Loss (gain) on disposal of financial assets carried at cost, net | (42,664) | 269 |
| Loss (gain) on disposal of investments in associates | 656 | (4,977) |
| Gain on deconsolidation of subsidiary | (293,578) | |
| Unrealized gross profit on sales to associates | 35,577 | 25,029 |
| Loss (gain) on foreign exchange, net | 315,098 | (3,143,506) |
| Dividend income | (71,125) | (69,676) |
| Changes in operating assets and liabilities: | | |
| Derivative financial instruments | (6,076) | (17,625) |
| Notes and accounts receivable, net | (2,193,483) | 4,156,872 |
| Receivables from related parties | (11,982,359) | (16,209,910) |
| Other receivables from related parties | (257,810) | (89,347) |
| Inventories | 53,330 | (12,442,994) |
| Other current assets | (266,929) | (363,366) |
| Other financial assets | 68,313 | (18,057) |
| Accounts payable | 182,965 | 3,565,949 |
| Payables to related parties | 961,579 | (67,770) |
| Accrued profit sharing to employees and bonus to directors | 1,552,210 | 2,130,887 |
| Accrued expenses and other current liabilities | 4,269,512 | 3,281,875 |
| Provisions | 1,484,593 | 844,859 |
| Accrued pension cost | 14,224 | (4,442) |
| Cash generated from operations | 349,648,380 | 284,739,546 |
| Income taxes paid | (14,365,054) | (10,312,114) |
| Net cash generated by operating activities | 335,283,326 | 274,427,432 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Held to maturity financial assets | (1,795,949) | |

| | | |
|---|---|---|
| Financial assets carried at cost | (2,177) | (1,093) |
| Property, plant and equipment | (285,889,575) | (242,063,668) |
| Intangible assets | (2,727,399) | (1,743,043) |

(Continued)

**Taiwan Semiconductor Manufacturing Company Limited**

**PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS**

**(In Thousands of New Taiwan Dollars)**

| | 2013 | 2012 |
|---|---|---|
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | $ 1,830,424 | $ 612,834 |
| Held-to-maturity financial assets | 700,000 | 700,000 |
| Financial assets carried at cost | 59,222 | 14,900 |
| Property, plant and equipment | 162,068 | 93,984 |
| Interest received | 1,057,553 | 834,314 |
| Other dividends received | 71,125 | 69,676 |
| Dividends received from subsidiaries and associates | 2,151,373 | 1,688,878 |
| Refundable deposits paid | (96,072) | (508,158) |
| Refundable deposits refunded | 112,204 | 2,599,560 |
| Net cash used in investing activities | (284,367,203) | (237,701,816) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of bonds | 86,200,000 | 62,000,000 |
| Repayment of bonds | | (4,500,000) |
| Increase (decrease) in short-term loans | (19,636,240) | 9,747,093 |
| Interest paid | (1,286,296) | (670,165) |
| Guarantee deposits received | 40,729 | 13,038 |
| Guarantee deposits refunded | (111,313) | (249,771) |
| Proceeds from exercise of employee stock options | 124,570 | 242,488 |
| Payment of partial acquisition of interests in subsidiaries | (1,357,222) | (2,259,244) |
| Proceeds from partial disposal of interests in subsidiaries | 170,914 | 587,902 |
| Cash dividends | (77,773,307) | (77,748,668) |
| Net cash used in financing activities | (13,628,165) | (12,837,327) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 37,287,958 | 23,888,289 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 109,150,810 | 85,262,521 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 146,438,768 | $ 109,150,810 |

The accompanying notes are an integral part of the parent company only financial statements. (Concluded)

**Taiwan Semiconductor Manufacturing Company Limited**

**NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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

## 1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC ), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company 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, the Company s shares were listed on the Taiwan Stock Exchange (TWSE). On October 8, 1997, the Company 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.

## 2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The accompanying parent company only financial statements were approved and authorized for issue by the Board of Directors on February 18, 2014.

## 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

a. New and revised standards, amendments and interpretations in issue but not yet effective

As of the date that the accompanying parent company only financial statements were authorized for issue, the new, revised or amended International Financial Reporting Standards, International Accounting Standards, interpretations and related guidance in issue but not yet adopted by the Company as well as the effective dates issued by the International Accounting Standards Board (IASB), are stated as follows; however, the initial adoption to the following standards and interpretations is still subject to the effective date to be published by the Financial Supervisory Commission (FSC) except that the standards and interpretation included in the 2013 Taiwan-IFRSs version should be adopted by the Company starting 2015.

| **New, Revised or Amended Standards and Interpretations** | **Effective Date Issued by IASB (Note )** |
|---|---|
| Included in the 2013 Taiwan-IFRSs version | |
| Amendments to IFRSs Improvements to IFRSs 2009 - Amendment to IAS 39 | January 1, 2009 or January 1, 2010 |
| Amendment to IAS 39 Embedded Derivatives | Effective in fiscal year ended on or after June 30, 2009 |

| | |
|---|---|
| Improvements to IFRSs 2010 | July 1, 2010 or January 1, 2011 |
| Annual Improvements to IFRSs 2009 - 2011 Cycle | January 1, 2013 |

(Continued)

| **New, Revised or Amended Standards and Interpretations** | **Effective Date Issued by IASB (Note )** |
|---|---|
| Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters | July 1, 2010 |
| Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters | July 1, 2011 |
| Amendments to IFRS 1 Government Loans | January 1, 2013 |
| Amendment to IFRS 7 Disclosures-offsetting Financial Assets and Financial Liabilities | January 1, 2013 |
| Amendment to IFRS 7 Disclosures - Transfers of Financial Assets | July 1, 2011 |
| IFRS 11 Joint Arrangements | January 1, 2013 |
| IFRS 12 Disclosure of Interests in Other Entities | January 1, 2013 |
| Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated financial Statements, Joint Arrangements, and Disclosure of Interests in Other Entities: Transition Guidance | January 1, 2013 |
| IFRS 13 Fair Value Measurement | January 1, 2013 |
| Amendment to IAS 1 Presentation of Items of Other Comprehensive Income | July 1, 2012 |
| Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets | January 1, 2012 |
| Amendment to IAS 19 Employee Benefits | January 1, 2013 |
| Amendment to IAS 27 Separate Financial Statements | January 1, 2013 |
| Amendment to IAS 28 Investments in Associates and Joint Ventures | January 1, 2013 |
| Amendment to IAS 32 Offsetting of Financial Assets and Financial Liabilities | January 1, 2014 |
| IFRIC 20 Stripping Costs in the Production Phase of A Surface Mine | January 1, 2013 |
| Not included in the 2013 Taiwan-IFRSs version | |
| Annual Improvements to IFRSs 2010 - 2012 Cycle | July 1, 2014 or transactions on or after July 1, 2014 |
| Annual Improvements to IFRSs 2011 - 2013 Cycle | July 1, 2014 |
| IFRS 9 Financial Instruments | Not yet determined |
| Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date and Transition Disclosure | Not yet determined |
| IFRS 14 Regulatory Deferral Accounts | January 1, 2016 |
| Amendment to IAS 19 Defined Benefit Plans: Employee Contributions | July 1, 2014 |
| Amendment to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets | January 1, 2014 |
| Amendment to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting | January 1, 2014 |
| IFRIC 21 Levies | January 1, 2014 |

(Concluded)

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

b. Significant changes in accounting policy resulted from new and revised standards, amendments and interpretations in issue but not yet effective

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

Under IFRS 9, 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. If the objective of the Company s business model is to hold the financial asset to collect the contractual cash flows which are solely for payments of principal and interest on the principal amount outstanding, such assets are measured at the amortized cost. All other financial assets must be measured at the fair value through profit or loss as of the end of the reporting period.

2) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 is a standard that requires a broader disclosure in an entity s interests in subsidiaries and associates.

3) IFRS 13, Fair Value Measurement

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

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

The amendments to IAS 1 introduce a new disclosure terminology for other comprehensive income, which require additional disclosures in other comprehensive income. The items of other comprehensive income will be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis. The Company expects the aforementioned amendments will change the Company s presentation on the statement of comprehensive income.

5) Amendments to IAS 19, Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans, which require the Company to recognize changes in defined benefit obligations or assets, to disclose the components of the defined benefit costs, to eliminate the corridor approach and to accelerate the recognition of past service cost. According to the amendments, all actuarial gains and losses will be recognized immediately through other comprehensive income; the past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis. In addition, the amendment also requires a broader disclosure in defined benefit plans.

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

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

c. Impact of the application of the new and revised standards, amendments and interpretations in issue but not yet effective on the consolidated financial statements of the Company

As of the date that the accompanying parent company only financial statements were approved and authorized for issue, the Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the above standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying parent company only financial statements are the first annual parent company only financial statements prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended on December 22, 2011.

For the convenience of readers, the accompanying parent company only 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 parent company only financial statements shall prevail.

**Statement of Compliance**

The accompanying parent company only financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers (the Accounting Standards Used in Preparation of the Parent Company Only Financial Statements ).

**Basis of Preparation**

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

When preparing the parent company only financial statements, the Company account for subsidiaries and associates by using the equity method. In order to agree with the amount of net income, other comprehensive income and equity attributable to shareholders of the parent in the consolidated financial statements, the differences of the accounting treatment between the parent company only basis and the consolidated basis are adjusted under the heading of investments accounted for using equity method, share of profits of subsidiaries and associates and share of other comprehensive income of subsidiaries and associates in the parent company only financial statements.

**Foreign Currencies**

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

For the purposes of presenting parent company only financial statements, the assets and liabilities of the Company s foreign operations are translated into NT$ using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

**Classification of Current and Noncurrent Assets and Liabilities**

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

**Cash Equivalents**

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

**Financial Instruments**

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

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. Fair value is determined in the manner described in Note 33.

**Financial Assets**

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

<u>Financial assets at fair value through profit or loss</u>

Derivative financial instruments that do not meet the criteria for hedge accounting are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

<u>Held-to-maturity financial assets</u>

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

Available-for-sale financial assets

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

Stocks held by the Company that are traded in an active market are classified as available-for-sale financial assets and are stated at fair value at the end of each reporting period.

Dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

**Financial Liabilities and Equity Instruments**

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities measured at FVTPL are derivative financial instruments that do not meet the criteria for hedge accounting, and they are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

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

Derecognition of financial liabilities

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

**Derivative Financial Instruments**

The Company enters into a variety of derivative financial instruments to manage its market risk exposure to foreign exchange rate and interest rate, including forward exchange contracts and currency swap contracts.

Derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

**Inventories**

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

**Investments Accounted for Using Equity Method**

Investments accounted for using the equity method include investments in subsidiaries and associates.

Investment in subsidiaries

A subsidiary is an entity that is controlled by the Company.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Company s share of profit or loss and other comprehensive income of the subsidiary as well as the distribution received. The Company also recognized its share in the changes in the equity of subsidiaries.

Changes in the Company s ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amount of the subsidiary and the fair value of the consideration paid or received is recognized directly in equity.

When the Company loses control of a subsidiary, any retained investment of the former subsidiary is measured at the fair value at that date. A gain or loss is recognized in profit or loss and calculated as the difference between (a) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and (b) the previous carrying amount of the investments in such subsidiary. In addition, the Company shall account for all amounts previously recognized in other comprehensive income in relation to the subsidiary on the same basis as would be required if the Company had directly disposed of the related assets and liabilities.

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

When the Company transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Company s parent company only financial statements only to the extent of interests in the subsidiaries that are not owned by the Company.

Investment in associates

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

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

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

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

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

When the Company transacts with an associate, profits and losses resulting from the transactions with the associate are recognized in the Company parent company only financial statements only to the extent of interests in the associate that are not owned by the Company.

**Property, Plant and Equipment**

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

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

Depreciation is recognized so as to write off the cost of the assets less their residual values over their useful lives, and it is computed using the straight-line method over the following estimated useful lives: buildings - 10 to 20 years; machinery and equipment - 5 years; and office equipment - 3 to 5 years. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Land is not depreciated.

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

**Leases**

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

The Company as lessor

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

The Company as lessee

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

**Intangible Assets**

Goodwill

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

Other intangible assets

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

**Impairment of Tangible and Intangible Assets**

Goodwill

Goodwill is not amortized and instead is tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Company s cash-generating units or groups of cash-generating units that are expected to benefit. If the recoverable amount of a cash-generating unit is less than its carrying amount, the difference is allocated first to reduce the carrying amount of any goodwill allocated to such cash-generating unit and then to the other assets of the cash-generating unit pro rata based on the carrying amount of each asset in the cash-generating unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Other tangible and intangible assets

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

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

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

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

**Provision**

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

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

**Revenue Recognition**

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

<u>Sale of goods</u>

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the Company; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In principle, the payment term granted to customers is due 30 days from the invoice date or 30 days from the end of when the month of the invoice is issued. Due to the short term nature of the receivables from sale of goods with the immaterial discounted effect, the Company measures them at the original invoice amounts without discounting.

Royalties, dividend and interest income

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

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

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

**Retirement Benefits**

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial calculations being carried out at year end. Actuarial gains and losses are reported in retained earnings in the period that they are recognized as other comprehensive income.

**Share-based Payment Arrangements**

The Company elected to take the optional exemption according to related guidance for the share-based payment transactions granted and vested before the date of transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements. There were no stock options granted prior to but unvested at the date of transition. Please refer to the description in Note 38a.

**Taxation**

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

Current tax

Income tax on unappropriated earnings at a rate of 10% is expensed in the year the shareholders approved the appropriation of earnings which is the year subsequent to the year the earnings are generated.

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

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

In the application of the Company s accounting policies, which are described in Note 4, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

**Revenue Recognition**

The Company recognizes revenue when the conditions described in Note 4 are satisfied. The Company also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used.

**Impairment of Tangible and Intangible Assets Other than Goodwill**

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

**Impairment of Goodwill**

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

**Impairment Assessment on Investment Using Equity Method**

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

**Realization of Deferred Income Tax Assets**

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

**Valuation of Inventory**

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

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

**Recognition and Measurement of Defined Benefit Plans**

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

**6. CASH AND CASH EQUIVALENTS**

| | **December 31, 2013** | **December 31, 2012** | **January 1, 2012** |
|---|---|---|---|
| Cash and deposits in banks | $ 142,049,643 | $ 105,873,048 | $ 81,467,607 |

| | | | |
|---|---|---|---|
| Repurchase agreements collateralized by short-term commercial paper | 2,395,644 | 349,341 | |
| Repurchase agreements collateralized by corporate bonds | 1,708,603 | 2,660,042 | |
| Repurchase agreements collateralized by government bonds | 284,878 | 268,379 | 3,794,914 |
| | $ 146,438,768 | $ 109,150,810 | $ 85,262,521 |

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Derivative financial assets | | | |
| Forward exchange contracts | $ 64,030 | $ 37,877 | $ 14,925 |
| Cross currency swap contracts | | 947 | |
| | $ 64,030 | $ 38,824 | $ 14,925 |
| Derivative financial liabilities | | | |
| Forward exchange contracts | $ 25,404 | $ 3,572 | $ |
| Cross currency swap contracts | | 2,702 | |
| | $ 25,404 | $ 6,274 | $ |

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

Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|---|---|---|
| December 31, 2013 | | |
| Sell NT$/Buy EUR | January 2014 | NT$4,514,314/EUR110,000 |
| Sell US$/Buy EUR | January 2014 | US$340,134/EUR248,000 |
| Sell US$/Buy JPY | January 2014 | US$341,023/JPY35,754,801 |
| December 31, 2012 | | |
| Sell NT$/Buy EUR | January 2013 | NT$9,417,062/EUR246,000 |
| January 1, 2012 | | |
| Sell EUR/Buy NT$ | January 2012 | EUR38,600/NT$1,528,206 |

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|---|---|---|---|
| December 31, 2012 | | | |
| January 2013 | US$275,000/NT$7,986,190 | 0.14%-0.17% | |

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consisted of investments in foreign publicly traded stocks. In the second quarter of 2012, the Company recognized an impairment loss on such investments in the amount of NT$2,677,529 thousand due to the significant decline in fair value.

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Commercial paper | $ 1,795,949 | $ | $ |
| Corporate bonds | | 701,146 | 1,403,427 |
| | $ 1,795,949 | $ 701,146 | $ 1,403,427 |
| Current portion | $ 1,795,949 | $ 701,146 | $ 701,136 |
| Noncurrent portion | | | 702,291 |
| | $ 1,795,949 | $ 701,146 | $ 1,403,427 |

## 10. NOTES AND ACCOUNTS RECEIVABLE, NET

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Notes and accounts receivable | $ 17,929,379 | $ 15,726,431 | $ 19,894,386 |
| Allowance for doubtful receivables | (483,502) | (474,037) | (485,120) |
| Notes and accounts receivable, net | $ 17,445,877 | $ 15,252,394 | $ 19,409,266 |

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

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

<u>Aging analysis of notes and accounts receivable, net</u>

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Neither past due nor impaired | $ 17,119,920 | $ 13,984,100 | $ 16,975,425 |
| Past due but not impaired | 325,957 | 1,268,294 | 2,433,841 |
| Past due within 30 days | | | |
| | $ 17,445,877 | $ 15,252,394 | $ 19,409,266 |

Movements of the allowance for doubtful receivables

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance, beginning of year | $ 474,037 | $ 485,120 |
| Provision | 9,465 | |
| Write-off | | (11,083) |
| Balance, end of year | $ 483,502 | $ 474,037 |

Aging analysis of accounts receivable that is individually determined to be impaired

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Not past due | $ 38 | $ 160,354 | $ 81,017 |
| Past due 1-30 days | 276 | 2,863 | 24,351 |
| Past due 31-60 days | 80 | | 4,684 |
| Past due 61-120 days | 158 | | |
| Past due over 121 days | 7,824 | | 6,611 |
| | $ 8,376 | $ 163,217 | $ 116,663 |

The Company held bank guarantees and other credit enhancements as collateral for certain impaired accounts receivables. As of December 31, 2013 and 2012 and January 1, 2012, the amount of the bank guarantee and other credit enhancements were US$11 thousand, US$1,000 thousand and US$2,962 thousand, respectively.

## 11. INVENTORIES

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Finished goods | $ 7,049,813 | $ 5,936,018 | $ 3,250,637 |
| Work in process | 24,857,927 | 24,442,123 | 16,971,209 |
| Raw materials | 2,208,291 | 3,666,048 | 1,593,393 |
| Supplies and spare parts | 1,127,030 | 1,252,202 | 1,038,158 |
| | $ 35,243,061 | $ 35,296,391 | $ 22,853,397 |

Write-down of inventories to net realizable value in the amount of NT$526,182 thousand and NT$1,341,041 thousand, respectively, were included in the cost of revenue for the years ended December 31, 2013 and 2012.

**12. FINANCIAL ASSETS CARRIED AT COST**

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Non-publicly traded stocks | $ 337,864 | $ 338,584 | $ 338,584 |
| Mutual funds | 131,514 | 145,175 | 159,251 |
| | $ 469,378 | $ 483,759 | $ 497,835 |

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.

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Subsidiaries | $ 144,139,436 | $ 121,818,063 | $ 111,718,691 |
| Associates | 20,936,345 | 17,332,378 | 16,424,565 |
| | $ 165,075,781 | $ 139,150,441 | $ 128,143,256 |

a. Investments in subsidiaries

Subsidiaries consisted of the following:

| Subsidiaries | Principal Activities | Place of Incorporation and Operation | Carrying Amount December 31, 2013 | Carrying Amount December 31, 2012 | Carrying Amount January 1, 2012 | % of Ownership and Voting Rights Held by the Company December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|---|---|---|---|---|
| TSMC Global Ltd. (TSMC Global) | Investment activities | Tortola, British Virgin Islands | $ 64,953,489 | $ 49,954,386 | $ 44,071,845 | 100% | 100% | 100% |
| TSMC Partners, Ltd. (TSMC Partners) | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | Tortola, British Virgin Islands | 42,861,788 | 38,635,129 | 34,986,964 | 100% | 100% | 100% |
| TSMC China Company Limited (TSMC | Manufacturing and selling of integrated circuits at the order of and | Shanghai, China | 23,845,371 | 17,828,683 | 13,542,181 | 100% | 100% | 100% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| China) | pursuant to product design specifications provided by customers | | | | | | | |
| TSMC Solar Ltd. (TSMC Solar) | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | Tai-Chung, Taiwan | 4,551,318 | 6,011,397 | 10,136,237 | 99% | 99% | 100% |
| TSMC North America | Selling and marketing of integrated circuits and semiconductor devices | San Jose, California, U.S.A. | 3,763,194 | 3,209,288 | 2,981,639 | 100% | 100% | 100% |
| TSMC Solid State Lighting Ltd. (TSMC SSL) | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | Hsin-Chu, Taiwan | 2,154,913 | 2,389,541 | 1,725,514 | 92% | 95% | 100% |
| VentureTech Alliance Fund III, L.P. (VTAF III) | Investing in new start-up technology companies | Cayman Islands | 892,439 | 1,047,285 | 1,311,044 | 50% | 50% | 53% |
| VentureTech Alliance Fund II, L.P. (VTAF II) | Investing in new start-up technology companies | Cayman Islands | 441,763 | 563,056 | 762,135 | 98% | 98% | 98% |
| TSMC Europe B.V. (TSMC Europe) | Marketing and engineering supporting activities | Amsterdam, the Netherlands | 290,838 | 235,761 | 205,171 | 100% | 100% | 100% |
| Emerging Alliance Fund, L.P. | Investing in new start-up technology | Cayman Islands | 144,924 | 167,359 | 213,235 | 99.5% | 99.5% | 99.5% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Emerging Alliance) | companies | | | | | | | |
| TSMC Japan Limited (TSMC Japan) | Marketing activities | Yokohama, Japan | 124,762 | 142,412 | 161,601 | 100% | 100% | 100% |
| TSMC Guang Neng Investment, Ltd. (TSMC GN) | Investment activities | Taipei, Taiwan | 85,162 | 65,007 | | 100% | 100% | |
| TSMC Korea Limited (TSMC Korea) | Customer service and technical supporting activities | Seoul, Korea | 29,475 | 26,935 | 23,448 | 100% | 100% | 100% |
| Xintec Inc. (Xintec) | Wafer level chip size packaging service | Taoyuan, Taiwan | | 1,541,824 | 1,597,677 | | 40% | 40% |
| | | | $ 144,139,436 | $ 121,818,063 | $ 111,718,691 | | | |

Starting June 2013, the Company has no power to govern the financial and operating policies of Xintec due to the loss of power to cast the majority of votes at meetings of the Board of Directors, but over which the Company still retains significant influence. Accordingly, Xintec is reclassified as an associate. Please refer to Note 31.

In January 2012, the Company invested NT$100,000 thousand and established a wholly-owned subsidiary, TSMC GN, which engages mainly in investment activities. In May 2013 and in February 2012, the Company participated directly or through TSMC GN in the issuance of new shares by TSMC SSL and TSMC Solar for cash. As of December 31, 2013, the Company s percentages of ownership in TSMC SSL and TSMC Solar were 92% and 99%, respectively.

b. Investments in associates

Associates consisted of the following:

| Name of Associate | Principal Activities | Place of Incorporation and Operation | Carrying Amount December 31, 2013 | Carrying Amount December 31, 2012 | Carrying Amount January 1, 2012 | % of Ownership and Voting Rights Held by the Company December 31, 2013 | % of Ownership and Voting Rights Held by the Company December 31, 2012 | % of Ownership and Voting Rights Held by the Company January 1, 2012 |
|---|---|---|---|---|---|---|---|---|
| Vanguard International Semiconductor Corporation (VIS) | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | Hsinchu, Taiwan | $ 10,556,348 | $ 9,406,597 | $ 8,985,340 | 39% | 40% | 39% |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | Fabrication and supply of integrnated circuits | Singapore | 7,457,733 | 6,710,956 | 6,289,429 | 39% | 39% | 39% |
| Xintec | Wafer level chip size packaging service | Taoyuan, Taiwan | 1,866,123 | | | 40% | | |
| Global Unichip Corporation (GUC) | Researching, developing, manufacturing, testing and marketing of integrated circuits | Hsinchu, Taiwan | 1,056,141 | 1,214,825 | 1,149,796 | 35% | 35% | 35% |
| | | | $ 20,936,345 | $ 17,332,378 | $ 16,424,565 | | | |

The summarized financial information in respect of the Company s associates is set out below. The summarized financial information below represents amounts shown in the associates financial statements prepared in accordance with the Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, which is also adjusted by the Company using the equity method of accounting.

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Total assets | $ 62,946,717 | $ 49,240,451 | $ 46,033,229 |
| Total liabilities | (12,103,610) | (7,755,433) | (6,117,893) |
| Net assets | $ 50,843,107 | $ 41,485,018 | $ 39,915,336 |
| The Company s share of net assets of associates | $ 20,936,345 | $ 17,332,378 | $ 16,424,565 |

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Net revenue | $ 46,268,485 | $ 40,583,794 |
| Net income | $ 9,946,540 | $ 7,255,006 |
| Other comprehensive loss | $ (4,148) | $ (12,969) |
| The Company s share of profits of associates | $ 3,827,244 | $ 2,853,322 |
| The Company s share of other comprehensive loss of associates | $ (2,190) | $ (8,624) |

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:

| Name of Associate | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| VIS | $ 22,239,112 | $ 12,658,703 | $ 6,627,758 |
| GUC | $ 3,454,902 | $ 4,692,130 | $ 4,645,442 |

## 14. PROPERTY, PLANT AND EQUIPMENT

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Land | $ 3,212,000 | $ | $ |
| Buildings | 94,121,508 | 73,699,762 | 59,268,448 |
| Machinery and equipment | 393,907,564 | 388,186,195 | 280,093,649 |
| Office equipment | 7,423,200 | 5,974,732 | 4,242,921 |
| Equipment under installation and construction in progress | 271,779,222 | 118,775,347 | 110,815,752 |
| | $ 770,443,494 | $ 586,636,036 | $ 454,420,770 |

| | Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Balance, Beginning of Year | Additions | Disposals | Reclassification | Balance, End of Year |
| Cost | | | | | |
| Land | $ | $ 3,212,000 | $ | $ | $ 3,212,000 |
| Buildings | 173,442,106 | 31,812,949 | | 3,797 | 205,258,852 |
| Machinery and equipment | 1,203,400,605 | 139,527,643 | (2,400,908) | | 1,340,527,340 |
| Office equipment | 16,683,484 | 3,631,477 | (508,592) | | 19,806,369 |
| | 1,393,526,195 | $ 178,184,069 | $ (2,909,500) | $ 3,797 | 1,568,804,561 |
| Accumulated depreciation and impairment | | | | | |
| Buildings | 99,742,344 | $ 11,395,000 | $ | $ | 111,137,344 |
| Machinery and equipment | 815,214,410 | 133,688,815 | (2,283,449) | | 946,619,776 |
| Office equipment | 10,708,752 | 2,183,010 | (508,593) | | 12,383,169 |

| | | | | | |
|---|---|---|---|---|---|
| | 925,665,506 | $ 147,266,825 | $ (2,792,042) | $ | 1,070,140,289 |
| Equipment under installation and construction in progress | 118,775,347 | $ 153,007,821 | $ (3,946) | $ | 271,779,222 |
| | $ 586,636,036 | | | | $ 770,443,494 |

| | Year Ended December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | **Balance, Beginning of Year** | **Additions** | **Disposals** | **Impairment** | **Reclassification** | **Balance, End of Year** |
| Cost | | | | | | |
| Buildings | $ 149,620,319 | $ 23,886,199 | $ (53,338) | $ | $ (11,074) | $ 173,442,106 |
| Machinery and equipment | 985,232,851 | 219,868,105 | (1,711,425) | | 11,074 | 1,203,400,605 |
| Office equipment | 13,824,434 | 3,348,864 | (489,814) | | | 16,683,484 |
| | 1,148,677,604 | $ 247,103,168 | $ (2,254,577) | $ | $ | 1,393,526,195 |
| Accumulated depreciation and impairment | | | | | | |
| Buildings | 90,351,871 | 9,434,868 | (44,231) | | (164) | 99,742,344 |
| Machinery and equipment | 705,139,202 | 111,325,894 | (1,669,180) | 418,330 | 164 | 815,214,410 |
| Office equipment | 9,581,513 | 1,617,053 | (489,814) | | | 10,708,752 |
| | 805,072,586 | $ 122,377,815 | $ (2,203,225) | $ 418,330 | $ | 925,665,506 |
| Equipment under installation and construction in progress | 110,815,752 | $ 8,004,900 | $ (45,305) | $ | $ | 118,775,347 |
| | $ 454,420,770 | | | | | $ 586,636,036 |

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

For the year ended December 31, 2012, the Company recognized impairment loss of NT$418,330 thousand related to property, plant and equipment of the foundry reportable segment since the carrying amount of some of property, plant and equipment is expected to be unrecoverable.

## 15. INTANGIBLE ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Goodwill | $ 1,567,756 | $ 1,567,756 | $ 1,567,756 |
| Technology license fees | 980,685 | 1,226,587 | 1,617,310 |
| Software and system design costs | 3,620,028 | 2,914,613 | 2,316,571 |
| Patent and others | 900,987 | 740,881 | 785,363 |
| | $ 7,069,456 | $ 6,449,837 | $ 6,287,000 |

| | Year Ended December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Balance, Beginning of Year | Additions | Disposals | Reclassification | Balance, End of Year |
| Cost | | | | | |
| Goodwill | $ 1,567,756 | $ | $ | $ | $ 1,567,756 |
| Technology license fees | 4,186,558 | | | | 4,186,558 |
| Software and system design costs | 14,880,058 | 2,130,713 | (2,373) | (110,745) | 16,897,653 |
| Patent and others | 2,646,738 | 565,901 | | 101,007 | 3,313,646 |
| | 23,281,110 | $ 2,696,614 | $ (2,373) | $ (9,738) | 25,965,613 |
| Accumulated amortization | | | | | |
| Technology license fees | 2,959,971 | $ 245,902 | $ | $ | 3,205,873 |
| Software and system design costs | 11,965,445 | 1,320,222 | (2,101) | (5,941) | 13,277,625 |
| Patent and others | 1,905,857 | 506,802 | | | 2,412,659 |
| | 16,831,273 | $ 2,072,926 | $ (2,101) | $ (5,941) | 18,896,157 |
| | $ 6,449,837 | | | | $ 7,069,456 |

| | Year Ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Balance, Beginning | Additions | Disposals | Reclassification | Balance, |

| | of Year | | | | End of Year |
|---|---|---|---|---|---|
| Cost | | | | | |
| Goodwill | $ 1,567,756 | $ | $ | $ | $ 1,567,756 |
| Technology license fees | 4,186,558 | | | | 4,186,558 |
| Software and system design costs | 13,227,136 | 1,772,958 | (26,046) | (93,990) | 14,880,058 |
| Patent and others | 2,140,805 | 411,943 | | 93,990 | 2,646,738 |
| | 21,122,255 | $ 2,184,901 | $ (26,046) | $ | 23,281,110 |
| Accumulated amortization | | | | | |
| Technology license fees | 2,569,248 | $ 390,723 | $ | $ | 2,959,971 |
| Software and system design costs | 10,910,565 | 1,117,478 | (26,046) | (36,552) | 11,965,445 |
| Patent and others | 1,355,442 | 513,863 | | 36,552 | 1,905,857 |
| | 14,835,255 | $ 2,022,064 | $ (26,046) | $ | 16,831,273 |
| | $ 6,287,000 | | | | $ 6,449,837 |

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

For the years ended December 31, 2013 and 2012, the Company did not recognize any impairment loss on goodwill.

## 16. OTHER ASSETS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Tax receivable | $ 1,547,706 | $ 1,382,392 | $ 569,223 |
| Prepaid expenses | 837,425 | 714,937 | 1,156,502 |
| Long-term receivable | 820,000 | 767,800 | 785,400 |
| Others | 900 | 116,477 | 236,960 |
| | $ 3,206,031 | $ 2,981,606 | $ 2,748,085 |
| Current portion | $ 2,386,031 | $ 2,097,329 | $ 1,725,736 |
| Noncurrent portion | 820,000 | 884,277 | 1,022,349 |
| | $ 3,206,031 | $ 2,981,606 | $ 2,748,085 |

## 17. SHORT-TERM LOANS

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Unsecured loans | | | |
| Amount | $ 15,645,000 | $ 34,714,929 | $ 25,926,528 |
| Original loan content | | | |
| US$ (in thousands) | $ 525,000 | $ 1,195,500 | $ 856,000 |
| Annual interest rate | 0.38%-0.42% | 0.39%-0.58% | 0.45%-1.00% |
| Maturity date | Due in January 2014 | Due in January 2013 | Due by February 2012 |

## 18. PROVISIONS

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| Balance, beginning of year | $ 5,732,738 | $ 4,887,879 |
| Provision made | 6,187,344 | 6,825,851 |
| Payment | (4,702,751) | (5,980,992) |
| Balance, end of year | $ 7,217,331 | $ 5,732,738 |

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

## 19. BONDS PAYABLE

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Domestic unsecured bonds | $ 166,200,000 | $ 80,000,000 | $ 22,500,000 |
| Current portion | $ | $ | $ 4,500,000 |
| Noncurrent portion | 166,200,000 | 80,000,000 | 18,000,000 |
| | $ 166,200,000 | $ 80,000,000 | $ 22,500,000 |

The major terms of domestic unsecured bonds are as follows:

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

| | | | | |
|---|---|---|---|---|
| 102-2 | A | July 2013 to July 2020 | 10,200,000 | 1.50% |
| | B | July 2013 to July 2023 | 3,500,000 | 1.70% |
| 102-3 | A | August 2013 to August 2017 | 4,000,000 | 1.34% |
| | B | August 2013 to August 2019 | 8,500,000 | 1.52% |

(Continued)

| Issuance | Tranche | Issuance Period | Total Amount | Coupon Rate | Repayment and Interest Payment |
|---|---|---|---|---|---|
| 102-4 | A | September 2013 to September 2016 | $ 1,500,000 | 1.35% | Bullet repayment; interest payable annually |
| | B | September 2013 to September 2017 | 1,500,000 | 1.45% | |
| | C | September 2013 to March 2019 | 1,400,000 | 1.60% | Bullet repayment; interest payable annually (interest for the six months prior to maturity will accrue on the basis of actual days and be repayable at maturity) |
| | D | September 2013 to March 2021 | 2,600,000 | 1.85% | |
| | E | September 2013 to March 2023 | 5,400,000 | 2.05% | |
| | F | September 2013 to September 2023 | 2,600,000 | 2.10% | Bullet repayment; interest payable annually |
| Domestic 5th | C | January 2002 to January 2012 | 4,500,000 | 3.00% | |

(Concluded)

**20. RETIREMENT BENEFIT PLANS**

a. Defined contribution plans

The plan under the Labor Pension Act (the Act ) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee s monthly salary to employees pension accounts. Accordingly, the Company recognized expenses of NT$1,355,947 thousand and NT$1,205,642 thousand in the parent company only statements of comprehensive income for the years ended December 31, 2013 and 2012, respectively.

b. Defined benefit plans

The Company has defined benefit plans under the Labor Standards Law that provide benefits based on an employee s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee s name in the Bank of Taiwan. The Company revised its defined benefit plan in the fourth quarter of 2013 to set the employee s mandatory retirement age. Such plan changes have reflected in the actuarial results as of December 31, 2013.

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

| | Measurement Date | | |
|---|---|---|---|
| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Discount rate | 2.15% | 1.75% | 1.75% |
| Future salary rate increase | 3.00% | 3.00% | 3.00% |
| Expected rate of return on plan assets | 1.25% | 2.00% | 2.00% |

The pension costs of the defined benefit plans recognized in profit or loss were as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Current service cost | $ 129,749 | $ 125,895 |
| Interest cost | 172,486 | 156,773 |
| Expected return on plan assets | (66,001) | (61,664) |
| Past service cost | (7,126) | (7,126) |
| | $ 229,108 | $ 213,878 |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Cost of revenue | $ 148,787 | $ 135,841 |
| Research and development expenses | 59,518 | 56,014 |
| General and administrative expenses | 16,766 | 17,877 |
| Marketing expenses | 4,037 | 4,146 |
| | $ 229,108 | $ 213,878 |

For the years ended December 31, 2013 and 2012, the pre-tax actuarial loss recognized in other comprehensive income were NT$671,774 thousand and NT$677,413 thousand, respectively. As of December 31, 2013 and 2012, the pre-tax accumulated actuarial loss recognized in other comprehensive income were NT$1,349,187 thousand and NT$677,413 thousand, respectively.

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

| | December 31, | | January 1, |
|---|---|---|---|

| | 2013 | December 31, 2012 | 2012 |
|---|---|---|---|
| Present value of defined benefit obligation | $ 10,176,332 | $ 9,931,695 | $ 9,026,683 |
| Fair value of plan assets | (3,471,478) | (3,264,786) | (3,039,871) |
| Funded status | 6,704,854 | 6,666,909 | 5,986,812 |
| Unrecognized prior service cost | 786,186 | 138,133 | 145,259 |
| Accrued pension cost | $ 7,491,040 | $ 6,805,042 | $ 6,132,071 |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance, beginning of year | $ 9,931,695 | $ 9,026,683 |
| Current service cost | 129,749 | 125,895 |
| Interest cost | 172,486 | 156,773 |
| Benefits paid from plan assets | (50,508) | (26,119) |
| Effect of plan changes | (655,179) | |
| Actuarial loss | 648,089 | 648,463 |
| Balance, end of year | $ 10,176,332 | $ 9,931,695 |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Balance, beginning of year | $ 3,264,786 | $ 3,039,871 |
| Expected return on plan assets | 66,001 | 61,664 |
| Actuarial loss | (23,685) | (28,950) |
| Contributions from employer | 214,884 | 218,320 |
| Benefits paid from plan assets | (50,508) | (26,119) |
| Balance, end of year | $ 3,471,478 | $ 3,264,786 |

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

| | Fair Value of Plan Assets (%) | | |
|---|---|---|---|
| | December 31, | December 31, | January 1, |
| | 2013 | 2012 | 2012 |
| Cash | 23 | 25 | 24 |
| Equity instruments | 45 | 38 | 41 |
| Debt instruments | 32 | 37 | 35 |
| | 100 | 100 | 100 |

The overall expected rate of return on plan assets was based on the historical return trends, analysts predictions of the market over the life of related obligation, reference to the performance of the Funds operated by the Committee and the consideration of the effect that the minimum return should not be less than the average interest rate on a two-year time deposit published by the local banks. For the years ended December 31, 2013 and 2012, the actual return on plan assets were NT$42,316 thousand and NT$32,714 thousand, respectively.

The Company elects to disclose the historical information of experience adjustments from the adoption of Accounting Standards Used in Preparation of Parent Company Only Financial Statements, which is as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Experience adjustments on plan liabilities | $ 1,298,932 | $ 391,826 | $ |
| Experience adjustments on plan assets | $ (23,685) | $ (28,950) | $ |

The Company expects to make contributions of NT$221,330 thousand to the defined benefit plans in the next year starting from December 31, 2013.

## 21. EQUITY

a. Capital stock

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| 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) | 25,928,617 | 25,924,435 | 25,916,222 |
| Issued capital | $ 259,286,171 | $ 259,244,357 | $ 259,162,226 |

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

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

As of December 31, 2013, 1,082,959 thousand ADSs of the Company were traded on the NYSE. The 5 number of common shares represented by the ADSs was 5,414,794 thousand shares (one ADS represents five common shares).

b. Capital surplus

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Additional paid-in capital | $ 24,017,363 | $ 23,934,607 | $ 23,774,250 |

| | | | |
|---|---|---|---|
| From merger | 22,804,510 | 22,804,510 | 22,804,510 |
| From convertible bonds | 8,892,847 | 8,892,847 | 8,892,847 |
| From differences between equity purchase price and carrying amount arising from acquisition or disposal of subsidiaries | 100,827 | 40,733 | |
| From share of changes in equities of subsidiaries and associates | 43,024 | 2,588 | |
| Donations | 55 | 55 | 55 |
| | $ 55,858,626 | $ 55,675,340 | $ 55,471,662 |

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

c. Retained earnings and dividend policy

The Company s Articles of Incorporation provide that, when allocating the net profits for each fiscal year, the Company 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 the Company s paid-in capital;

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

3) Bonus to directors and profit sharing to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors. The Company may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;

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

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

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

The Company accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT$12,634,665 thousand and NT$11,115,240 thousand for the years ended December 31, 2013 and 2012, respectively. Bonuses to members of the Board of Directors were expensed based on estimated amount payable. If the actual amounts subsequently approved by the shareholders differ from the amounts estimated, the differences are recorded in the year such bonuses are approved by the shareholders as a change in accounting estimate. If profit sharing approved for distribution to employees is in the form of common shares, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders meeting.

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

Pursuant to existing regulations, the Company is required to set aside additional special capital reserve equivalent to the net debit balance of the other components of stockholders equity, such as the accumulated balance of foreign currency translation reserve, unrealized valuation gain/loss on 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 2012 and 2011 earnings have been approved by the Company s shareholders in its meetings held on June 11, 2013 and on June 12, 2012, respectively. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings** | | **Dividends Per Share (NT$)** | |
|---|---|---|---|---|
| | **For Fiscal Year 2012** | **For Fiscal Year 2011** | **For Fiscal Year 2012** | **For Fiscal Year 2011** |
| Legal capital reserve | $ 16,615,880 | $ 13,420,128 | | |
| Special capital reserve | (4,820,483) | 1,172,350 | | |
| Cash dividends to shareholders | 77,773,307 | 77,748,668 | $ 3.00 | $ 3.00 |
| | $ 89,568,704 | $ 92,341,146 | | |

The Company s profit sharing to employees and bonus to members of the Board of Directors in the amounts of NT$11,115,240 thousand and NT$71,351 thousand in cash for 2012, respectively, and profit sharing to employees and bonus to members of the Board of Directors in the amounts of NT$8,990,026 thousand and NT$62,324 thousand in cash for 2011, respectively, had been approved by the shareholders in its meeting held on June 11, 2013 and June 12, 2012, respectively. The aforementioned approved amount is the same as the one approved by the Board of Directors in its meetings held on February 5, 2013 and February 14, 2012, respectively, and the same amount had been charged against earnings for the years ended December 31, 2012 and 2011, respectively.

The appropriations of earnings, payment of profit sharing to employees and bonus to members of the Board of Directors for the year ended December 31, 2012 approved by the Board of Directors of the Company were based on the financial statements for the year ended December 31, 2012 prepared under the R.O.C. GAAP and in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by the FSC before amendment.

The Company s appropriations of earnings for 2013 had been approved in the meeting of the Board of Directors held on February 18, 2014. The appropriations and dividends per share were as follows:

| | **Appropriation of Earnings For Fiscal Year 2013** | **Dividends Per Share (NT$) For Fiscal Year 2013** |
|---|---|---|
| Legal capital reserve | $ 18,814,679 | |
| Special capital reserve | (2,785,741) | |
| Cash dividends to shareholders | 77,785,851 | $ 3.00 |
| | $ 93,814,789 | |

The Board of Directors of the Company also approved the profit sharing to employees and bonus to members of the Board of Directors in the amounts of NT$12,634,665 thousand and NT$104,136 thousand in cash for payment in 2013, respectively. There is no significant difference between the aforementioned approved amounts and the amounts charged against earnings of 2013.

The appropriations of earnings, profit sharing to employees and bonus to members of the Board of Directors for 2013 are to be presented for approval in the TSMC s shareholders meeting to be held on June 24, 2014 (expected).

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

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

d. Others

Changes in others were as follows:

| | Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of year | $ (10,753,806) | $ 7,973,321 | $ | $ (2,780,485) |
| Exchange differences arising on translation of foreign operations | 3,655,675 | | | 3,655,675 |
| Changes in fair value of available-for-sale financial assets | | (1,061,644) | | (1,061,644) |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | | 846,709 | | 846,709 |
| Share of other comprehensive income of subsidiaries and associates | (42,930) | 13,515,899 | (113) | 13,472,856 |
| The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates | 699 | (43) | | 656 |
| Income tax effect | | 36,539 | | 36,539 |
| Balance, end of year | $ (7,140,362) | $ 21,310,781 | $ (113) | $ 14,170,306 |

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Balance, beginning of year | $ (6,433,364) | $ (1,172,762) | $ (93) | $ (7,606,219) |
| Exchange differences arising on translation of foreign operations | (4,317,386) | | | (4,317,386) |

| | | |
|---|---|---|
| Changes in fair value of available-for-sale financial assets | (159,248) | (159,248) |

(Continued)

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | Foreign Currency Translation Reserve | Unrealized Gain/Loss from Available-for-sale Financial Assets | Cash Flow Hedges Reserve | Total |
| Cumulative loss reclassified to profit or loss upon impairment of available-for-sale financial assets | $ | $ 2,677,529 | $ | $ 2,677,529 |
| Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets | | (110,634) | | (110,634) |
| Share of other comprehensive income of subsidiaries and associates | (3,056) | 7,147,736 | 93 | 7,144,773 |
| Income tax effect | | (409,300) | | (409,300) |
| Balance, end of year | $ (10,753,806) | $ 7,973,321 | $ | $ (2,780,485) |

(Concluded)

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

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

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

**22. SHARE-BASED PAYMENT**

The Company elected to take the optional exemption from applying related guidance retrospectively for shared-based payment transactions granted and vested before January 1, 2012. The plans are described as follows:

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

TWSE on the grant date.

Stock options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2013.

Information about the Company s outstanding stock options for the years ended December 31, 2013 and 2012 was as follows:

| | Number of Stock Options (In Thousands) | Weighted-average Exercise Price (NT$) |
|---|---|---|
| Year ended December 31, 2013 | | |
| Balance, beginning of year | 5,945 | $ 34.6 |
| Stock options exercised | (4,182) | 29.8 |
| Balance, end of year | 1,763 | 45.9 |
| Year ended December 31, 2012 | | |
| Balance, beginning of year | 14,293 | $ 31.4 |
| Stock options exercised | (8,213) | 29.5 |
| Stock options canceled | (135) | 34.6 |
| Balance, end of year | 5,945 | 34.6 |

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

Information about the Company s outstanding stock options was as follows:

| December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|
| Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) | Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) | Range of Exercise Price (NT$) | Weighted-average Remaining Contractual Life (Years) |
| $43.2-$47.2 | 1.0 | $20.2-$28.3 | 0.4 | $20.9-$29.3 | 1.2 |
| | | $38.0-$50.1 | 2.0 | $38.0-$50.1 | 2.9 |

As of December 31, 2013, all of the above outstanding stock options were exercisable.

## 23. NET REVENUE

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

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Net revenue from sale of goods | $ 590,564,728 | $ 499,871,887 |
| Net revenue from royalties | 522,872 | 497,638 |
| | $ 591,087,600 | $ 500,369,525 |

## 24. OTHER OPERATING INCOME AND EXPENSES, NET

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Income (expenses) of rental assets | | |
| Rental income | $ 13,385 | $ 469 |
| Depreciation of rental assets | (25,120) | (6,656) |
| | (11,735) | (6,187) |
| Loss on disposal of property, plant and equipment and intangible assets, net | (64,753) | (125,488) |
| Impairment loss on property, plant and equipment | | (418,330) |
| Others | 9,874 | 918 |
| | $ (66,614) | $ (549,087) |

## 25. OTHER INCOME

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Interest income | | |
| Bank deposits | $ 996,995 | $ 836,580 |
| Held-to-maturity financial assets | 14,306 | 30,647 |
| | 1,011,301 | 867,227 |
| Dividend income | 71,125 | 69,676 |
| | $ 1,082,426 | $ 936,903 |

## 26. FINANCE COSTS

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Interest expense | | |
| Corporate bonds | $ 1,991,519 | $ 758,204 |
| Bank loans | 99,722 | 182,040 |
| Others | 995 | 4,870 |
| | $ 2,092,236 | $ 945,114 |

## 27. OTHER GAINS AND LOSSES

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Gain (loss) on disposal of financial assets, net | | |
| Available-for-sale financial assets | $ 846,709 | $ 110,634 |
| Financial assets carried at cost | 42,664 | (269) |
| Gain on deconsolidation of subsidiary | 293,578 | |
| Settlement income | 899,745 | 883,845 |
| Other gains | 138,612 | 286,266 |
| Net gain (loss) on financial instruments at FVTPL | | |
| Held for trading | 54,766 | (152,814) |
| Impairment loss of financial assets Available-for-sale financial assets | | (2,677,529) |
| Other losses | (14,027) | (12,810) |
| | $ 2,262,047 | $ (1,562,677) |

## 28. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Current income tax expense (benefit) | | |
| Current tax expense recognized in the current year | $ 22,297,945 | $ 14,609,220 |
| Income tax adjustments on prior years | (603,321) | 48,609 |
| Other income tax adjustments | 19,589 | 194,660 |
| | 21,714,213 | 14,852,489 |
| Deferred income tax expense (benefit) | | |
| Effect of tax rate changes | | (543,611) |
| The origination and reversal of temporary differences | 506,563 | 588,318 |
| Investment tax credits | 5,348,984 | 2,536,905 |
| | 5,855,547 | 2,581,612 |
| Income tax expense recognized in profit or loss | $ 27,569,760 | $ 17,434,101 |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Income before tax | $ 215,716,550 | $ 183,752,387 |
| Income tax expense at the statutory rate (17%) | $ 36,671,813 | $ 31,237,906 |
| Tax effect of adjusting items: | | |
| Nondeductible (deductible) items in determining taxable income | (2,369,323) | (2,873,123) |
| Tax-exempt income | (7,716,747) | (8,360,834) |
| Additional income tax on unappropriated earnings | 7,659,010 | 4,186,013 |
| Effect of tax rate changes on deferred income tax | | (543,611) |
| Income tax credits | (3,136,942) | (2,828,300) |
| The origination and reversal of temporary differences | 506,563 | 588,318 |
| Remeasurement of investment tax credits | (3,460,882) | (4,215,537) |
| | 28,153,492 | 17,190,832 |
| Income tax adjustments on prior years | (603,321) | 48,609 |
| Other income tax adjustments | 19,589 | 194,660 |

| | | |
|---|---|---|
| Income tax expense recognized in profit or loss | $ 27,569,760 | $ 17,434,101 |

b. Income tax expense recognized in other comprehensive income

| | Years Ended December 31 2013 | 2012 |
|---|---|---|
| Deferred income tax expense (benefit) | | |
| Related to unrealized gain/loss on available-for-sale financial assets | $ (36,539) | $ 409,300 |
| Related to actuarial gain/loss from defined benefit plans | (80,613) | (81,290) |
| | $ (117,152) | $ 328,010 |

c. Deferred income tax balance

The analysis of deferred income tax in the parent company only balance sheets was as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Investment tax credits | $ 1,955,980 | $ 7,304,964 | $ 9,841,869 |
| Temporary differences | | | |
| Depreciation | 366,912 | 819,231 | 2,044,680 |
| Provision for sales returns and allowance | 866,080 | 687,929 | 488,788 |
| Accrued pension cost | 900,795 | 818,502 | 457,667 |
| Available-for-sale financial assets | 6,361 | 224,694 | 308,929 |
| Unrealized loss on inventories | 387,227 | 359,823 | |
| Others | 97,113 | 103,720 | 86,552 |
| | $ 4,580,468 | $ 10,318,863 | $ 13,228,485 |

| | Balance, Beginning of Year | Profit or Loss | Recognized in Other Comprehensive Income | Balance, End of Year |
|---|---|---|---|---|
| <u>Year Ended December 31, 2013</u> | | | | |
| Investment tax credits | $ 7,304,964 | $ (5,348,984) | $ | $ 1,955,980 |
| Temporary differences | | | | |
| Depreciation | 819,231 | (452,319) | | 366,912 |
| Provision for sales returns and allowance | 687,929 | 178,151 | | 866,080 |
| Accrued pension cost | 818,502 | 1,680 | 80,613 | 900,795 |
| | 224,694 | (254,872) | 36,539 | 6,361 |

| | | | | |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| Unrealized loss on inventories | 359,823 | 27,404 | | 387,227 |
| Others | 103,720 | (6,607) | | 97,113 |
| Deferred income tax assets | $ 10,318,863 | $ (5,855,547) | $ 117,152 | $ 4,580,468 |

(Continued)

| | Balance, Beginning of Year | Profit or Loss | Recognized in Other Comprehensive Income | Balance, End of Year |
|---|---|---|---|---|
| Year Ended December 31, 2012 | | | | |
| Investment tax credits | $ 9,841,869 | $ (2,536,905) | $ | $ 7,304,964 |
| Temporary differences | | | | |
| Depreciation | 2,044,680 | (1,225,449) | | 819,231 |
| Provision for sales returns and allowance | 488,788 | 199,141 | | 687,929 |
| Accrued pension cost | 457,667 | 279,545 | 81,290 | 818,502 |
| Available-for-sale financial assets | 308,929 | 325,065 | (409,300) | 224,694 |
| Unrealized loss on inventories | | 359,823 | | 359,823 |
| Others | 86,552 | 17,168 | | 103,720 |
| Deferred income tax assets | $ 13,228,485 | $ (2,581,612) | $ (328,010) | $ 10,318,863 |

(Concluded)

d. The investment tax credits and deductible temporary differences for which no deferred income tax assets have been recognized in the parent company only financial statements

The information of the investment tax credits for which no deferred income tax assets have been recognized was as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Expiry year | | | |
| 2013 | $ | $ | $ 5,456,991 |
| 2014 | 3,015,705 | 5,807,110 | 4,881,100 |
| | $ 3,015,705 | $ 5,807,110 | $ 10,338,091 |

As of December 31, 2013 and 2012 and January 1, 2012, the aggregate deductible temporary differences for which no deferred income tax assets have been recognized amounted to NT$8,673,160 thousand, NT$13,589,292 thousand and NT$14,893,317 thousand, respectively.

e. Unused investment tax credits and tax-exemption information

As of December 31, 2013, the investment tax credits of the Company consisted of the following:

| Law/Statute | Item | Remaining Creditable Amount | Expiry Year |
|---|---|---|---|
| Statute for Upgrading Industries | Purchase of machinery and equipment | $ 4,489,334 | 2014 |
| | | 482,351 | 2015 |
| | | $ 4,971,685 | |

As of December 31, 2013, the profits generated from the following projects of the Company are exempt from income tax for a five-year period:

| | Tax-exemption Period |
|---|---|
| Construction and expansion of 2005 | 2010 to 2014 |
| Construction and expansion of 2006 | 2011 to 2015 |
| Construction and expansion of 2007 | 2014 to 2018 |

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

As of December 31, 2013 and 2012 and January 1, 2012, the aggregate taxable temporary differences associated with investments in subsidiaries not unrecognized as deferred income tax liabilities amounted to NT$28,035,340 thousand, NT$20,516,999 thousand and NT$15,074,593 thousand, respectively.

g. Integrated income tax information

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Balance of the Imputation Credit Account | $ 15,242,724 | $ 8,130,060 | $ 4,003,228 |

The estimated and actual creditable ratio for distribution of the Company s earnings of 2013 and 2012 were 9.80% and 7.75%, respectively.

Under the Rule No.10204562810 issued by the Ministry of Finance, when calculating the creditable ratio in the year of first-time adoption of Accounting Standards Used in Preparation of Parent Company Only Financial Statements, the Company has included the adjustments to retained earnings from the effect of transition to Parent Company Only Financial Statements Accounting Standards in the accumulated unappropriated earnings.

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

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

h. Income tax examination

The tax authorities have examined income tax returns of the Company through 2010. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

**29. EARNINGS PER SHARE**

| | Years Ended December 31 | |
|---|---|---|
| | **2013** | **2012** |
| Basic EPS | $ 7.26 | $ 6.42 |
| Diluted EPS | $ 7.26 | $ 6.41 |

EPS is computed as follows:

| | Amounts (Numerator) | Number of Shares (Denominator) (In Thousands) | EPS (NT$) |
|---|---|---|---|
| Year ended December 31, 2013 | | | |
| Basic EPS | | | |
| Net income available to common shareholders | $ 188,146,790 | 25,927,778 | $ 7.26 |
| Effect of dilutive potential common shares | | 1,825 | |
| Diluted EPS | | | |
| Net income available to common shareholders (including effect of dilutive potential common shares) | $ 188,146,790 | 25,929,603 | $ 7.26 |
| Year ended December 31, 2012 | | | |
| Basic EPS | | | |
| Net income available to common shareholders | $ 166,318,286 | 25,920,735 | $ 6.42 |
| Effect of dilutive potential common shares | | 7,201 | |
| Diluted EPS | | | |
| Net income available to common shareholders (including effect of dilutive potential common shares) | $ 166,318,286 | 25,927,936 | $ 6.41 |

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

## 30. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net income included the following items:

| | Years Ended December 31 2013 | 2012 |
|---|---|---|
| a. Depreciation of property, plant and equipment | | |
| Recognized in cost of revenue | $ 134,545,283 | $ 111,929,312 |
| Recognized in operating expenses | 12,696,422 | 10,441,847 |
| Recognized in other operating income and expenses | 25,120 | 6,656 |
| | $ 147,266,825 | $ 122,377,815 |
| b. Amortization of intangible assets | | |
| Recognized in cost of revenue | $ 1,099,542 | $ 1,273,689 |
| Recognized in operating expenses | 973,384 | 748,375 |
| | $ 2,072,926 | $ 2,022,064 |
| c. Research and development costs expensed as incurred | $ 46,922,471 | $ 38,769,956 |
| d. Employee benefits expenses | | |
| Post-employment benefits (Note 20) | | |
| Defined contribution plans | $ 1,355,947 | $ 1,205,642 |
| Defined benefit plans | 229,108 | 213,878 |
| | 1,585,055 | 1,419,520 |
| Other employee benefits | 56,622,215 | 50,788,680 |
| | $ 58,207,270 | $ 52,208,200 |
| Employee benefits expense summarized by function | | |
| Recognized in cost of revenue | $ 35,791,556 | $ 31,066,533 |
| Recognized in operating expenses | 22,415,714 | 21,141,667 |
| | $ 58,207,270 | $ 52,208,200 |

## 31. LOSS OF CONTROL IN SUBSIDIARY

Starting June 2013, the Company has no power to govern the financial and operating policies of Xintec due to the loss of power to cast the majority of votes at meetings of the Board of Directors, but over which the Company still retains significant influence. Accordingly, Xintec is reclassified as an associate. For more information on deconsolidation of subsidiary, please refer to Note 34 to the consolidated financial statements for the year ended December 31, 2013.

**32. CAPITAL MANAGEMENT**

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

## 33. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Financial assets | | | |
| FVTPL | | | |
| Held for trading derivatives | $ 64,030 | $ 38,824 | $ 14,925 |
| Available-for-sale financial assets (Note) | 1,115,780 | 2,328,811 | 3,114,969 |
| Held-to-maturity financial assets | 1,795,949 | 701,146 | 1,403,427 |
| Loans and receivables | | | |
| Cash and cash equivalents | 146,438,768 | 109,150,810 | 85,262,521 |
| Notes and accounts receivables (including related parties) | 70,415,680 | 56,239,838 | 44,186,800 |
| Other receivables | 1,453,842 | 1,218,024 | 1,095,438 |
| Refundable deposits | 2,496,663 | 2,394,826 | 4,491,735 |
| | $ 223,780,712 | $ 172,072,279 | $ 139,569,815 |
| Financial liabilities | | | |
| FVTPL | | | |
| Held for trading derivatives | $ 25,404 | $ 6,274 | $ |
| Amortized cost | | | |
| Short-term loans | 15,645,000 | 34,714,929 | 25,926,528 |
| Accounts payable (including related parties) | 17,812,654 | 16,622,563 | 12,515,270 |
| Payables to contractors and equipment suppliers | 89,555,814 | 44,371,108 | 33,811,970 |
| Accrued expenses and other current liabilities | 13,035,795 | 8,689,543 | 7,112,898 |
| Bonds payable | 166,200,000 | 80,000,000 | 22,500,000 |
| Other long-term payables | 54,000 | 113,000 | |
| Guarantee deposits | 147,964 | 199,315 | 439,032 |
| | $ 302,476,631 | $ 184,716,732 | $ 102,305,698 |

Note: Including financial assets carried at cost.

b. Financial risk management objectives

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

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

c. Market risk

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

Foreign currency risk

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

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

The Company s sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges against the New Taiwan dollar, the net income for the years ended December 31, 2013 and 2012 would have decreased by NT$156,590 thousand and NT$707,926 thousand, respectively, after taking into consideration of the hedging contracts and the hedged items.

Interest rate risk

The Company is exposed to interest rate risk arising from borrowing at fixed interest rates. All of the Company s long-term bonds have fixed interest rates and are measured at amortized cost. As such, changes in interest rates would not affect the future cash flows.

Other price risk

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

Assuming a hypothetical decrease of 5% in equity prices of the equity investments at the end of the reporting period, the net income for the years ended December 31, 2013 and 2012 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the years ended December 31, 2013 and 2012 would have decreased by NT$47,150 thousand and NT$97,492 thousand, respectively.

d. Credit risk management

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

Business related credit risk

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

As of December 31, 2013 and 2012 and January 1, 2012, the Company s ten largest customers accounted for 56%, 55% and 59% of accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

Financial credit risk

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

e. Liquidity risk management

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

As of December 31, 2013 and 2012 and January 1, 2012, the unused of financing facilities of the Company amounted to NT$67,437,805 thousand, NT$46,273,762 thousand and NT$55,424,367 thousand, respectively.

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

| | Less Than 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|
| December 31, 2013 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | $ 15,646,783 | $ | $ | $ | $ 15,646,783 |
| Accounts payable (including related parties) | 17,812,654 | | | | 17,812,654 |
| Payables to contractors and equipment suppliers | 89,555,814 | | | | 89,555,814 |
| Accrued expenses and other current liabilities | 13,035,795 | | | | 13,035,795 |
| Bonds payable | 2,380,157 | 16,720,430 | 65,859,591 | 94,360,103 | 179,320,281 |
| Other long-term payables | 18,000 | 36,000 | | | 54,000 |
| Guarantee deposits | | 147,964 | | | 147,964 |
| | 138,449,203 | 16,904,394 | 65,859,591 | 94,360,103 | 315,573,291 |

| | | | | | |
|---|---|---|---|---|---|
| Derivative financial instruments | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 24,812,803 | | | | 24,812,803 |
| Inflows | (24,810,910) | | | | (24,810,910) |
| | 1,893 | | | | 1,893 |
| | $ 138,451,096 | $ 16,904,394 | $ 65,859,591 | $ 94,360,103 | $ 315,575,184 |

(Continued)

| | Less Than 1 Year | 2-3 Years | 4-5 Years | 5+ Years | Total |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | $ 34,721,003 | $ | $ | $ | $ 34,721,003 |
| Accounts payable (including related parties) | 16,622,563 | | | | 16,622,563 |
| Payables to contractors and equipment suppliers | 44,371,108 | | | | 44,371,108 |
| Accrued expenses and other current liabilities | 8,689,543 | | | | 8,689,543 |
| Bonds payable | 1,108,150 | 2,216,300 | 44,911,191 | 37,834,474 | 86,070,115 |
| Other long-term payables | 59,000 | 36,000 | 18,000 | | 113,000 |
| Guarantee deposits | | 199,315 | | | 199,315 |
| | 105,571,367 | 2,451,615 | 44,929,191 | 37,834,474 | 190,786,647 |
| Derivative financial instruments | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 9,417,062 | | | | 9,417,062 |
| Inflows | (9,443,940) | | | | (9,443,940) |
| | (26,878) | | | | (26,878) |
| Cross currency swap contracts | | | | | |
| Outflows | 7,985,450 | | | | 7,985,450 |
| Inflows | (7,986,190) | | | | (7,986,190) |
| | (740) | | | | (740) |
| | $ 105,543,749 | $ 2,451,615 | $ 44,929,191 | $ 37,834,474 | $ 190,759,029 |
| January 1, 2012 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | $ 25,933,177 | $ | $ | $ | $ 25,933,177 |
| Accounts payable (including related parties) | 12,515,270 | | | | 12,515,270 |
| Payables to contractors and equipment suppliers | 33,811,970 | | | | 33,811,970 |
| Accrued expenses and other current liabilities | 7,112,898 | | | | 7,112,898 |
| Bonds payable | 4,775,081 | 538,500 | 11,000,933 | 7,713,258 | 24,027,772 |
| Guarantee deposits | | 439,032 | | | 439,032 |
| | 84,148,396 | 977,532 | 11,000,933 | 7,713,258 | 103,840,119 |
| Derivative financial instruments | | | | | |
| Forward exchange contracts | | | | | |
| Outflows | 1,515,822 | | | | 1,515,822 |
| Inflows | (1,528,206) | | | | (1,528,206) |

| | | | | | |
|---|---|---|---|---|---|
| | (12,384) | | | | (12,384) |
| | $ 84,136,012 | $ 977,532 | $ 11,000,933 | $ 7,713,258 | $ 103,827,735 |

(Concluded)

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

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

| | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | | | |
| Held-to-maturity financial assets | | | | | | |
| Commercial paper | $ 1,795,949 | $ 1,795,612 | $ | $ | $ | $ |
| Corporate bonds | | | 701,146 | 708,973 | 1,403,427 | 1,426,474 |
| Financial liabilities | | | | | | |
| Measured at amortized cost | | | | | | |
| Bonds payable | 166,200,000 | 165,476,545 | 80,000,000 | 80,343,413 | 22,500,000 | 22,597,115 |

2) Fair value measurements recognized in the parent company only balance sheets

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

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

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

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

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial instruments | $ | $ 64,030 | $ | $ 64,030 |
| Available-for-sale financial assets | | | | |
| Publicly traded stocks | $ 646,402 | $ | $ | $ 646,402 |
| Financial liabilities at FVTPL | | | | |
| Derivative financial instruments | $ | $ 25,404 | $ | $ 25,404 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial instruments | $ | $ 38,824 | $ | $ 38,824 |

| | | | | |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| Publicly traded stocks | $ 1,845,052 | $ | $ | $ 1,845,052 |
| | | | | |
| Financial liabilities at FVTPL | | | | |
| Derivative financial instruments | $ | $ 6,274 | $ | $ 6,274 |

| | January 1, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | | | | |
| Derivative financial instruments | $ | $ 14,925 | $ | $ 14,925 |
| Available-for-sale financial assets | | | | |
| Publicly traded stocks | $ 2,617,134 | $ | $ | $ 2,617,134 |

There were no transfers between Level 1 and 2 for the years ended December 31, 2013 and 2012, respectively.

There were no purchases and disposals for assets on Level 3 for the years ended December 31, 2013 and 2012, respectively.

3) Valuation techniques and assumptions used in fair value measurement

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

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

Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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

**34. RELATED PARTY TRANSACTIONS**

The transactions between the Company and its related parties, other than those disclosed in other notes, are summarized as follows:

a. Net revenue

| | Net Revenue from Sale of Goods | | Net Revenue from Royalties | |
|---|---|---|---|---|
| | Years Ended December 31 | | Years Ended December 31 | |
| | 2013 | 2012 | 2013 | 2012 |
| Related Party Categories | | | | |
| Subsidiaries | $ 414,108,019 | $ 326,784,542 | $ 15,624 | $ 984 |
| Associates | 2,167,467 | 4,548,173 | 497,020 | 479,239 |
| | 119,067 | | | |

| | | | | |
|---|---|---|---|---|
| Associates of the Company s subsidiaries | | | | |
| Joint venture of the Company s subsidiaries | 1,677 | 3,410 | | |
| | $ 416,396,230 | $ 331,336,125 | $ 512,644 | $ 480,223 |

b. Purchases

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Related Party Categories | | |
| Subsidiaries | $ 25,422,634 | $ 23,734,561 |
| Associates | 10,052,170 | 8,114,307 |
| | $ 35,474,804 | $ 31,848,868 |

c. Receivables from related parties

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Related Party Categories | | | |
| Subsidiaries | $ 52,750,047 | $ 40,748,905 | $ 24,661,104 |
| Associates | 219,424 | 238,380 | 116,218 |
| Joint venture of the Company s subsidiaries | 332 | 159 | 212 |
| | $ 52,969,803 | $ 40,987,444 | $ 24,777,534 |

d. Payables to related parties

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Related Party Categories | | | |
| Subsidiaries | $ 2,503,578 | $ 2,485,560 | $ 1,664,623 |
| Associates | 1,679,184 | 742,705 | 1,325,791 |
| Joint venture of the Company s subsidiaries | 1,217 | 2,077 | 2,168 |
| | $ 4,183,979 | $ 3,230,342 | $ 2,992,582 |

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

| | Purchase Price Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Related Party Categories | | |

| | | |
|---|---|---|
| Subsidiaries | $ 120,499 | $ 230,532 |
| Associates | 21,135 | 47,051 |
| Joint venture of the Company s subsidiaries | | 1,224 |
| | $ 141,634 | $ 278,807 |

f. Disposal of property, plant and equipment

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Proceeds | Gains (Losses) | Proceeds | Gains (Losses) |
| Related Party Categories | | | | |
| Subsidiaries | $ 94,152 | $ 2,570 | $ 46,951 | $ (18,697) |
| Associates | 58,265 | 2,787 | 14,531 | (132) |
| Joint venture of the Company s subsidiaries | | 948 | 9,000 | 213 |
| | $ 152,417 | $ 6,305 | $ 70,482 | $ (18,616) |

| | Deferred Gains (Losses) from Disposal of Property, Plant and Equipment | | |
|---|---|---|---|
| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Related Party Categories | | | |
| Subsidiaries | $ 46,235 | $ 17,279 | $ (1,493) |
| Associates | | (7,806) | |
| Joint venture of the Company s subsidiaries | | 948 | |
| | $ 46,235 | $ 10,421 | $ (1,493) |

g. Others

| | Manufacturing Expenses Years Ended December 31 | | Research and Development Expenses Years Ended December 31 | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Related Party Categories | | | | |
| Subsidiaries | $ 122,068 | $ 180,998 | $ 1,107,059 | $ 975,455 |
| Associates | 908,977 | | 903 | 4,644 |
| Joint venture of the Company s subsidiaries | 5,187 | 14,586 | 6,340 | 8,254 |
| | $ 1,036,232 | $ 195,584 | $ 1,114,302 | $ 988,353 |

| | Marketing Expenses - Commission Years Ended December 31 | Non-operating Income Years Ended December 31 |
|---|---|---|

| | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| Related Party Categories | | | | |
| Subsidiaries | $ 736,937 | $ 716,296 | $ 18,636 | $ 12,292 |
| Associates | | | | 5,990 |
| | $ 736,937 | $ 716,296 | $ 18,636 | $ 18,282 |

| | Other Receivables from Related Parties | | |
|---|---|---|---|
| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
| Related Party Categories | | | |
| Subsidiaries | $ 351,169 | $ 95,271 | $ 65,736 |
| Associates | 220,831 | 179,692 | 121,767 |
| Joint venture of the Company s subsidiaries | | | 525 |
| | $ 572,000 | $ 274,963 | $ 188,028 |

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

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

The Company deferred the disposal gain/loss derived from sales of property, plant and equipment to related parties using equity method, and then recognized such gain/loss over the depreciable lives of the disposed assets.

h. Compensation of key management personnel

The compensation to directors and other key management personnel were as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |
| Short-term employee benefits | $ 1,242,451 | $ 1,293,052 |
| Post-employment benefits | 7,998 | 3,009 |
| | $ 1,250,449 | $ 1,296,061 |

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

## 35. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of land from the Science Park Administration. These operating leases expire between February 2014 and December 2032 and can be renewed upon expiration.

The Company expensed the lease payments as follows:

| | Years Ended December 31 | |
|---|---|---|
| | 2013 | 2012 |

| | | |
|---|---|---|
| Minimum lease payments | $ 671,371 | $ 484,603 |

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

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Not later than 1 year | $ 666,791 | $ 485,963 | $ 453,868 |
| Later than 1 year and not later than 5 years | 2,426,891 | 1,783,197 | 1,642,683 |
| Later than 5 years | 5,110,098 | 3,655,825 | 3,255,047 |
| | $ 8,203,780 | $ 5,924,985 | $ 5,351,598 |

**36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

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

a. Under a technical cooperation agreement with Industrial Technology Research Institute ,the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company s capacity provided the Company s outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. In 2013 and 2012, the R.O.C. Government did not involve such right.

b. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company s equity interest in SSMC was 32%. Nevertheless, in September 2006, Philips spun-off its semiconductor subsidiary which was renamed as NXP B.V. Further, the Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares, respectively. The Company and NXP B.V. are required, in the aggregate, to purchase at least 70% of SSMC s capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs. There was no default from the aforementioned commitment as of December 31, 2013.

c. In June 2010, Keranos, LLC. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

d. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

e. The Company joined the Customer Co-Investment Program of ASML and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML s equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity on October 31, 2012. Both parties also signed the research and development funding agreement whereby the Company shall provide EUR276,000 thousand to ASML s research and development programs from 2013 to 2017. For the year ended December 31, 2013, the Company paid EUR55,078 thousand to ASML under the research and development funding agreement.

f. In December 2013, Tela Innovations, Inc. filed complaints in the U.S. District Court for the District of Delaware and in the United States International Trade Commission accusing the Company and TSMC North America of infringing one U.S. patent. In January 2014, the Company filed a lawsuit against Tela for trade secret misappropriation and breach of contract. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

g. As of December 31, 2013, the Company provided financial guarantees of NT$44,700,000 thousand to its subsidiary, TSMC Global, in respect of the issuance of unsecured corporate bonds.

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

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

| | Foreign Currencies (In Thousands) | Exchange Rate (Note) | Carrying Amount |
|---|---|---|---|
| December 31, 2013 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 2,601,226 | 29.800 | $ 77,516,527 |
| EUR | 450,273 | 41.00 | 18,461,200 |
| JPY | 41,327,283 | 0.2834 | 11,712,152 |
| Non-monetary items | | | |
| HKD | 168,334 | 3.84 | 646,402 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 1,926,813 | 29.800 | 57,419,016 |
| EUR | 810,174 | 41.00 | 33,217,114 |
| JPY | 71,828,809 | 0.2834 | 20,356,284 |

(Continued)

| | Foreign Currencies (In Thousands) | Exchange Rate (Note) | Carrying Amount |
|---|---|---|---|
| December 31, 2012 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 2,255,391 | 29.038 | $ 65,492,054 |
| EUR | 117,136 | 38.39 | 4,496,863 |
| JPY | 35,290,837 | 0.3352 | 11,829,489 |
| Non-monetary items | | | |
| HKD | 492,014 | 3.75 | 1,845,052 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 2,171,316 | 29.038 | 63,050,668 |
| EUR | 245,237 | 38.39 | 9,414,653 |
| JPY | 43,052,403 | 0.3352 | 14,431,165 |
| January 1, 2012 | | | |
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 1,566,212 | 30.288 | $ 47,437,444 |
| EUR | 124,425 | 39.27 | 4,886,187 |
| JPY | 33,073,336 | 0.3897 | 12,888,679 |
| Non-monetary items | | | |
| HKD | 671,060 | 3.90 | 2,617,134 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 1,626,129 | 30.288 | 49,252,192 |
| EUR | 106,931 | 39.27 | 4,199,185 |
| JPY | 34,942,421 | 0.3897 | 13,617,061 |

(Concluded)

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

## 38. FIRST-TIME ADOPTION OF PARENT COMPANY ONLY FINANCIAL STATEMENTS ACCOUNTING STANDARDS

The transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements was on January 1, 2012 (the transition date). The effects on the Company s parent company only balance sheets as of December 31, 2012 and January 1, 2012 as well as the parent company only statements of comprehensive income for the year ended December 31, 2012, were as follows:

a. Exemptions

Except for optional exemptions and mandatory exceptions, the Company retrospectively applied Accounting Standards Used in Preparation of the Parent Company Only Financial Statements in its opening balance sheet at the date of transition, January 1, 2012.

1) Business combinations. The Company elected not to apply related guidance retrospectively to business combinations that occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations was the same as the carrying amount of goodwill under R.O.C. GAAP as of January 1, 2012.

2) Employee benefits. The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of the transition date. In addition, the Company elected to apply the exemption disclosure requirement provided by related guidance, in which the amounts of present value of defined benefit obligations, the fair value of plan assets, the surplus or deficit in the plan and the experience adjustments are determined for each accounting period prospectively from the transition date.

3) Share-based payment. The Company elected to take the optional exemption from applying related guidance retrospectively for the shared-based payment transactions granted and vested before the transition date.

b. Reconciliation of parent company only balance sheet as of December 31, 2012

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements: Recognition and Measurement Difference | Effect of Transition: Presentation Difference | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements: Amount | Accounting Standards: Item | Note |
|---|---|---|---|---|---|---|
| Current assets | | | | | | |
| Cash and cash equivalents | $ 109,150,810 | $ | $ | $ 109,150,810 | Cash and cash equivalents | |
| Financial assets at fair value through profit or loss | 38,824 | | | 38,824 | Financial assets at fair value through profit or loss | |
| Available-for-sale financial assets | 1,845,052 | | | 1,845,052 | Available-for-sale financial assets | |
| Held-to-maturity financial assets | 701,146 | | | 701,146 | Held-to-maturity financial assets | |
| Notes and accounts receivable | 15,726,431 | | (474,037) | 15,252,394 | Notes and accounts receivable, net | |
| | 40,987,444 | | | 40,987,444 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Receivables from related parties | | | | | Receivables from related parties | |
| Allowance for doubtful receivables | (474,037) | | 474,037 | | | |
| Allowance for sales returns and others | (5,732,738) | | 5,732,738 | | | a) |
| Other receivables from related parties | 274,963 | | | 274,963 | Other receivables from related parties | |
| Other financial assets | 175,261 | | | 175,261 | Other financial assets | |
| Inventories | 35,296,391 | | | 35,296,391 | Inventories | |
| Deferred income tax assets | 7,728,464 | | (7,728,464) | | | b) |
| Prepaid expenses and other current assets | 2,097,329 | | | 2,097,329 | Other current assets | |
| Total current assets | 207,815,340 | | (1,995,726) | 205,819,614 | Total current assets | |
| Long-term investments | | | | | | |
| Investments accounted for using equity method | 139,264,161 | (113,720) | | 139,150,441 | Investments accounted for using equity method | e) |
| Financial assets carried at cost | 483,759 | | | 483,759 | Financial assets carried at cost | |
| Total long-term investments | 139,747,920 | (113,720) | | 139,634,200 | | |
| Net property, plant and equipment | 586,603,294 | | 32,742 | 586,636,036 | Property, plant and equipment | c) |
| Intangible assets | 6,449,837 | | | 6,449,837 | Intangible assets | |

(Continued)

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements: Recognition and Measurement Difference | Presentation Difference | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Amount | Item | Note |
|---|---|---|---|---|---|---|
| Other assets | | | | | | |
| Deferred income tax assets | $ 2,244,947 | $ 345,452 | $ 7,728,464 | $ 10,318,863 | Deferred income tax assets | b), d) |
| Refundable deposits | 2,394,826 | | | 2,394,826 | Refundable deposits | |
| Others | 917,019 | | (32,742) | 884,277 | Other noncurrent assets | c) |
| Total other assets | 5,556,792 | 345,452 | 7,695,722 | 13,597,966 | | |
| Total | $ 946,173,183 | $ 231,732 | $ 5,732,738 | $ 952,137,653 | Total | |
| Current liabilities | | | | | | |
| Short-term loans | $ 34,714,929 | $ | $ | $ 34,714,929 | Short-term loans | |
| Financial liabilities at fair value through profit or loss | 6,274 | | | 6,274 | Financial liabilities at fair value through profit or loss | |
| Accounts payable | 13,392,221 | | | 13,392,221 | Accounts payable | |
| Payables to related parties | 3,230,342 | | | 3,230,342 | Payables to related parties | |
| Income tax payable | 15,196,399 | | | 15,196,399 | Income tax payable | |
| Accrued profit sharing to employees and bonus to directors | 11,186,591 | | | 11,186,591 | Accrued profit sharing to employees and bonus to directors | |
| Payables to contractors and equipment suppliers | 44,371,108 | | | 44,371,108 | Payables to contractors and equipment suppliers | |
| Accrued expenses and other current liabilities | 16,698,014 | | | 16,698,014 | Accrued expenses and other current liabilities | |
| | | | 5,732,738 | 5,732,738 | Provisions | a) |
| Total current liabilities | 138,795,878 | | 5,732,738 | 144,528,616 | Total current liabilities | |
| Long-term liabilities | | | | | | |
| Bonds payable | 80,000,000 | | | 80,000,000 | Bonds payable | |
| Other long-term payables | 54,000 | | | 54,000 | Other long-term payables | |
| Total long-term liabilities | 80,054,000 | | | 80,054,000 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other liabilities | | | | | | |
| Accrued pension cost | 3,926,276 | 2,878,766 | | 6,805,042 | Accrued pension cost | d) |
| Guarantee deposits | 199,315 | | | 199,315 | Guarantee deposits | |
| Total other liabilities | 4,125,591 | 2,878,766 | | 7,004,357 | | |
| Total liabilities | 222,975,469 | 2,878,766 | 5,732,738 | 231,586,973 | Total liabilities | |
| Capital stock | 259,244,357 | | | 259,244,357 | Capital stock | |
| Capital surplus | 56,137,809 | (462,469) | | 55,675,340 | Capital surplus | e) |
| Retained earnings | | | | | Retained earnings | |
| Appropriated as legal capital reserve | 115,820,123 | | | 115,820,123 | Appropriated as legal capital reserve | |
| Appropriated as special capital reserve | 7,606,224 | | | 7,606,224 | Appropriated as special capital Reserve | |
| Unappropriated earnings | 287,174,942 | (2,189,821) | | 284,985,121 | Unappropriated earnings | d), e) |
| | 410,601,289 | (2,189,821) | | 408,411,468 | | |
| Others | | | | | | |
| Cumulative translation adjustments | (10,753,763) | (43) | | (10,753,806) | Foreign currency translation reserve | e) |
| Net loss not recognized as pension cost | (5,299) | 5,299 | | | | e) |
| Unrealized gain/loss on financial instruments | 7,973,321 | | | 7,973,321 | Unrealized gain/loss from available-for-sale financial assets | |
| | (2,785,741) | 5,256 | | (2,780,485) | | |
| Total shareholders equity | 723,197,714 | (2,647,034) | | 720,550,680 | Total equity | |
| Total | $ 946,173,183 | $ 231,732 | $ 5,732,738 | $ 952,137,653 | Total | |

(Concluded)

c. Reconciliation of parent company only balance sheet as of January 1, 2012

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements: Recognition and Measurement Difference | Effect of Transition: Presentation Difference | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Amount | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Item | Note |
|---|---|---|---|---|---|---|
| Current assets | | | | | | |
| Cash and cash equivalents | $ 85,262,521 | $ | $ | $ 85,262,521 | Cash and cash equivalents | |
| Financial assets at fair value through profit or loss | 14,925 | | | 14,925 | Financial assets at fair value through profit or loss | |
| Available-for-sale financial assets | 2,617,134 | | | 2,617,134 | Available-for-sale financial assets | |
| Held-to-maturity financial assets | 701,136 | | | 701,136 | Held-to-maturity financial assets | |
| Notes and accounts receivable | 19,894,386 | | (485,120) | 19,409,266 | Notes and accounts receivable, net | |
| Receivables from related parties | 24,777,534 | | | 24,777,534 | Receivables from related Parties | |
| Allowance for doubtful receivables | (485,120) | | 485,120 | | | |
| Allowance for sales returns and others | (4,887,879) | | 4,887,879 | | | a) |
| Other receivables from related parties | 188,028 | | | 188,028 | Other receivables from related parties | |
| Other financial assets | 122,010 | | | 122,010 | Other financial assets | |
| Inventories | 22,853,397 | | | 22,853,397 | Inventories | |
| Deferred income tax assets | 5,779,544 | | (5,779,544) | | | b) |
| Prepaid expenses and other current assets | 1,725,736 | | | 1,725,736 | Other current asset | |
| Total current assets | 158,563,352 | | (891,665) | 157,671,687 | Total current assets | |
| Long-term investments | | | | | | |
| Investments accounted for using equity method | 128,200,718 | (57,462) | | 128,143,256 | Investments accounted for using equity method | e) |
| Held-to-maturity financial assets | 702,291 | | | 702,291 | Held-to-maturity financial assets | |
| Financial assets carried at cost | 497,835 | | | 497,835 | Financial assets carried at cost | |
| | 129,400,844 | (57,462) | | 129,343,382 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total long-term investments | | | | | | |
| Net property, plant and equipment | 454,373,533 | | 47,237 | 454,420,770 | Property, plant and equipment | c) |
| Intangible assets | 6,287,000 | | | 6,287,000 | Intangible assets | |
| Other assets | | | | | | |
| Deferred income tax assets | 7,221,824 | 227,117 | 5,779,544 | 13,228,485 | Deferred income tax assets | b), d) |
| Refundable deposits | 4,491,735 | | | 4,491,735 | Refundable deposits | |
| Others | 1,069,586 | | (47,237) | 1,022,349 | Other noncurrent assets | c) |
| Total other assets | 12,783,145 | 227,117 | 5,732,307 | 18,742,569 | | |
| Total | $ 761,407,874 | $ 169,655 | $ 4,887,879 | $ 766,465,408 | Total | |
| Current liabilities | | | | | | |
| Short-term loans | $ 25,926,528 | $ | $ | $ 25,926,528 | Short-term loans | |
| Accounts payable | 9,522,688 | | | 9,522,688 | Accounts payable | |
| Payables to related parties | 2,992,582 | | | 2,992,582 | Payables to related parties | |
| Income tax payable | 10,647,797 | | | 10,647,797 | Income tax payable | |
| Accrued profit sharing to employees and bonus to directors | 9,055,704 | | | 9,055,704 | Accrued profit sharing to employees and bonus to directors | |
| Payables to contractors and equipment suppliers | 33,811,970 | | | 33,811,970 | Payables to contractors and equipment suppliers | |
| Accrued expenses and other current liabilities | 13,057,161 | | | 13,057,161 | Accrued expenses and other current liabilities | |
| Current portion of bonds payable | 4,500,000 | | | 4,500,000 | Current portion of bonds payable | |
| | | | 4,887,879 | 4,887,879 | Provisions | a) |
| Total current liabilities | 109,514,430 | | 4,887,879 | 114,402,309 | Total current liabilities | |
| Long-term liabilities | | | | | | |
| Bonds payable | 18,000,000 | | | 18,000,000 | Bonds payable | |
| Other liabilities | | | | | | |
| Accrued pension cost | 3,860,898 | 2,271,173 | | 6,132,071 | Accrued pension cost | d) |
| Guarantee deposits | 439,032 | | | 439,032 | Guarantee deposits | |
| Total other liabilities | 4,299,930 | 2,271,173 | | 6,571,103 | | |
| Total liabilities | 131,814,360 | 2,271,173 | 4,887,879 | 138,973,412 | Total liabilities | |

| | | | | | |
|---|---|---|---|---|---|
| Capital stock | 259,162,226 | | 259,162,226 | Capital stock | |
| Capital surplus | 55,846,357 | (374,695) | 55,471,662 | Capital surplus | e) |

(Continued)

| R.O.C. GAAP | | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements | | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements | | |
|---|---|---|---|---|---|---|
| Item | Amount | Recognition and Measurement Difference | Presentation Difference | Amount | Item | Note |
| Retained earnings | | | | | Retained earnings | |
| Appropriated as legal capital reserve | $ 102,399,995 | $ | $ | $ 102,399,995 | Appropriated as legal capital reserve | |
| Appropriated as special capital reserve | 6,433,874 | | | 6,433,874 | Appropriated as special capital reserve | |
| Unappropriated earnings | 213,357,286 | (1,726,828) | | 211,630,458 | Unappropriated earnings | d), e) |
| | 322,191,155 | (1,726,828) | | 320,464,327 | | |
| Others | | | | | | |
| Cumulative translation adjustments | (6,433,369) | 5 | | (6,433,364) | Foreign currency translation reserve | e) |
| Unrealized gain/loss on financial instruments | (1,172,855) | | 93 | (1,172,762) | Unrealized gain/loss from available-for-sale financial assets | |
| | | | (93) | (93) | Cash flow hedges reserve | |
| | (7,606,224) | 5 | | (7,606,219) | | |
| Total shareholders equity | 629,593,514 | (2,101,518) | | 627,491,996 | Total equity | |
| Total | $ 761,407,874 | $ 169,655 | $ 4,887,879 | $ 766,465,408 | Total | |

(Concluded)

d. Reconciliation of parent company only statement of comprehensive income for the year ended December 31, 2012

| | | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements | | Accounting Standards |
|---|---|---|---|---|

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Recognition and Measurement Difference | Presentation Difference | Used in Preparation of the Parent Company Only Financial Statements Amount | Used in Preparation of the Parent Company Only Financial Statements Item | Note |
|---|---|---|---|---|---|---|
| Net sales | $ 499,871,887 | $ | $ 497,638 | $ 500,369,525 | Net revenue | f) |
| Cost of sales | 265,538,540 | (44,355) | | 265,494,185 | Cost of revenue | d) |
| Gross profit before affiliates elimination | 234,333,347 | 44,355 | 497,638 | 234,875,340 | Gross profit before unrealized gross profit on sales to associates | |
| Unrealized gross profit from affiliates | (25,029) | | | (25,029) | Unrealized gross profit on sales to associates | |
| Gross profit | 234,308,318 | 44,355 | 497,638 | 234,850,311 | Gross profit | |
| Operating expenses | | | | | | |
| Research and development | 38,788,245 | (18,289) | | 38,769,956 | Research and development | d) |
| General and administrative | 16,330,060 | (5,822) | | 16,324,238 | General and administrative | d) |
| Marketing | 2,388,243 | (1,354) | | 2,386,889 | Marketing | d) |
| Total operating expenses | 57,506,548 | (25,465) | | 57,481,083 | | |
| | | | (549,087) | (549,087) | Other operating income and expenses, net | f) |
| Income from operations | 176,801,770 | 69,820 | (51,449) | 176,820,141 | Income from operations | |
| Non-operating income and gains | | | | | | |
| Equity in earnings of equity method investees, net | 8,127,748 | 47,642 | | 8,175,390 | Share of profits of subsidiaries and associates | e) |
| Interest income | 867,227 | | (867,227) | | | f) |
| Settlement income | 883,845 | | (883,845) | | | f) |
| | | | 327,744 | 327,744 | Foreign exchange gain, net | f) |
| Technical service income | 497,638 | | (497,638) | | | f) |
| Others | 811,619 | | (811,619) | | | f) |
| | | | 936,903 | 936,903 | Other income | f) |
| | | 4,977 | (1,567,654) | (1,562,677) | Other gains and losses | e), f) |
| Total non-operating income and gains | 11,188,077 | 52,619 | (3,363,336) | 7,877,360 | | |

(Continued)

| R.O.C. GAAP Item | R.O.C. GAAP Amount | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Recognition and Measurement Difference | Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Presentation Difference | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Amount | Accounting Standards Used in Preparation of the Parent Company Only Financial Statements Item | Note |
|---|---|---|---|---|---|---|
| Non-operating expenses and losses | | | | | | |
| Impairment of financial assets | $ 2,677,529 | $ | $ (2,677,529) | $ | | f) |
| Interest expense | 945,114 | | | 945,114 | Finance costs | |
| Impairment loss on idle assets | 418,330 | | (418,330) | | | f) |
| Loss on disposal of property, plant and equipment | 146,647 | | (146,647) | | | f) |
| Others | 172,279 | | (172,279) | | | f) |
| Total non-operating expenses and losses | 4,359,899 | | (3,414,785) | 945,114 | | |
| Income before income tax | 183,629,948 | 122,439 | | 183,752,387 | Income before income tax | |
| Income tax expense | 17,471,146 | (37,045) | | 17,434,101 | Income tax expense | d) |
| Net income | $ 166,158,802 | $ 159,484 | $ | 166,318,286 | Net income | |
| | | | | (4,317,386) | Exchange differences arising on translation of foreign operations | |
| | | | | 2,407,647 | Changes in fair value of available-for-sale financial assets | |
| | | | | 7,118,419 | Share of other comprehensive income of subsidiaries and associates | e) |
| | | | | (677,413) | Actuarial loss from defined benefit plans | d) |
| | | | | (328,010) | Income tax expense related to components of other comprehensive income | d) |
| | | | | 4,203,257 | | |

| | |
|---|---|
| | Other comprehensive income for the year, net of income tax |
| $ 170,521,543 | Total comprehensive income for the year |

(Concluded)

e. Significant reconciliation differences in statement of cash flows for the year ended December 31, 2012

For the year ended December 31, 2012, the Company partially disposed and acquired its interests in subsidiaries without the loss of control with the cash inflows and cash outflows of NT$587,902 thousand and NT$2,259,244 thousand, respectively. Under R.O.C. GAAP, such cash flows were classified as investing activities. However, under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, such cash flows were classified as financing activities.

The Company prepared the statement of cash flows using the indirect method under R.O.C. GAAP, in which the interest received is not required to be disclosed separately; instead, the interest received and the interest paid are included within the operating activities in the statement of cash flows. However, according to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements for the year ended December 31, 2012, the interest received of NT$834,314 thousand should be disclosed separately in the investing activities; and the interest paid of NT$670,165 thousand should be disclosed in the financing activities based on their nature, respectively.

Except for the above differences, there are no other significant differences between R.O.C. GAAP and Accounting Standards Used in Preparation of the Parent Company Only Financial Statements in the parent company only statement of cash flows.

f. Notes to the reconciliation of the significant differences:

a) Allowance for sales returns and others

Under R.O.C. GAAP, provisions for estimated sales returns and others are recognized as a reduction in revenue in the year the related revenue is recognized based on historical experience. The corresponding allowance for sales returns and others is presented as a reduction in accounts receivable. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, the allowance for sales returns and others is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions in accordance with the related guidance.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provisions were NT$5,732,738 thousand and NT$4,887,879 thousand, respectively.

b) Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, a deferred tax asset and liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the parent company only financial statements, it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, a deferred tax asset and liability is classified as noncurrent asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. In accordance with the related guidance, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to noncurrent assets were NT$7,728,464 thousand and NT$5,779,544 thousand, respectively.

c) The classification of assets leased to others and idle assets

Under R.O.C. GAAP, assets leased to others and idle assets are classified under other assets. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, the aforementioned items are classified as property, plant and equipment according to their nature. In accordance with the related guidance, investment properties are defined as properties held to earn rentals or for capital appreciation; however, the Company s assets leased to others are mainly housing facilities leased to employees and manufacturing facilities leased to suppliers. The housing facilities leased to employees are not classified as investment properties; and manufacturing facilities leased to suppliers are not considered as investment properties since they cannot be sold separately and comprise only an insignificant portion of the entire facility.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from assets leased to others and idle assets to property, plant and equipment were NT$32,742 thousand and NT$47,237 thousand, respectively.

d) Employee benefits

The Company had recognized the pension cost and retirement benefit obligation under its defined benefit plans based on actuarial valuations performed in conformity with R.O.C. GAAP. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, the Company should carry out actuarial valuation on defined benefit obligation in accordance with the related guidance.

In addition, under R.O.C. GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of such actuarial gains and losses. When using the corridor approach, actuarial gains and losses is amortized over the expected average remaining working lives of the participating employees.

Under the related guidance, the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

At the transition date, the Company performed the actuarial valuation under the related guidance and recognized the valuation difference directly to retained earnings. For the year ended December 31, 2012, total actuarial gains and losses were also recognized to other comprehensive income in accordance with actuarial valuation carried out in 2012.

In addition, under R.O.C. GAAP, a minimum pension liability should be recognized in the balance sheet. If the accrued pension cost is less than the minimum pension liability, the difference should be recognized as an additional liability. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, there is no aforementioned requirement to recognize minimum pension liability.

As of December 31, 2012 and January 1, 2012, accrued pension cost of the Company was adjusted for an increase of NT$2,878,766 thousand and NT$2,271,173 thousand, respectively; deferred income tax assets were adjusted for an increase of NT$345,452 thousand and NT$227,117 thousand, respectively. For the year ended December 31, 2012, pension cost and income tax expense of the Company were adjusted for a decrease of NT$69,820 thousand and NT$37,045 thousand, respectively; actuarial loss from defined benefit plans and income tax benefit related to components of other comprehensive income were recognized in the amount of NT$677,413 thousand and NT$81,290 thousand, respectively.

e) Investments accounted for using the equity method

The Company has evaluated significant differences between current accounting policies and Accounting Standards Used in Preparation of the Parent Company Only Financial Statements for the Company s subsidiaries and associates accounted for using the equity method. The significant difference is mainly due to the adjustment to employee benefits.

In addition, if the investor subscribes to additional shares of associates and joint ventures that is disproportionate to its existing ownership percentage and results in a decrease in the investor s ownership percentage in the associate and joint venture, the resulting carrying amount of the investment differs from the amount of the investor s share in the equity of the associates and joint venture. Under R.O.C. GAAP, the investor records such a difference as an adjustment to the carrying amount of the investment with the corresponding amount charged or credited to capital surplus. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, such a difference is still adjusted to carrying amount of the investment and capital surplus. If the investor s ownership interest in an associate and joint venture decreases, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate and joint venture had directly disposed of the related assets or liabilities.

As of December 31, 2012 and January 1, 2012, as a result of the differences mentioned above, investment accounted for using the equity method was adjusted for a decrease of NT$113,720 thousand and NT$57,462 thousand, respectively; foreign currency translation reserve was adjusted for a decrease of NT$43 thousand and an increase of NT$5 thousand, respectively; capital surplus was adjusted for a decrease of NT$462,469 thousand and NT$374,695 thousand, respectively. As of December 31, 2012, net loss not recognized as pension cost was adjusted for a decrease of NT$5,299 thousand. In addition, equity in earnings of equity method investees and share of other comprehensive income of subsidiaries and associates were adjusted for an increase of NT$47,642 thousand and decrease of NT$26,402 thousand respectively for the year ended December 31, 2012; other gains and losses was adjusted for a gain of NT$4,977 thousand for the year ended December 31, 2012.

f) The reclassification of line items in the parent company only statement of comprehensive income

In accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers before its amendment due to the adoption of Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, income from operations in the income statement only includes net revenue, cost of revenue and operating expenses. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, based on the nature of operating transactions, technical service income is reclassified under net revenue; rental revenue, depreciation of rental assets, net gain or loss on disposal of property, plant and equipment and other assets, and impairment loss on idle assets, are reclassified under other operating income and expenses, which are included in income from operations.

Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, based on the nature of operating transactions, for the year ended December 31, 2012, the Company also reclassified technical service income of NT$497,638 thousand to net revenue, rental revenue of NT$469 thousand, net loss on disposal of property, plant and equipment and other assets of NT$125,488 thousand, other income of NT$918 thousand, depreciation of rental assets of NT$6,656 thousand and impairment loss on idle assets of NT$418,330 thousand to other operating income and expenses; other income of NT$327,744 thousand was reclassified to net foreign exchange gain. In addition, interest income of NT$867,227 thousand and dividend income of NT$69,676 thousand were also reclassified to other income; settlement income of NT$883,845 thousand, net gain on disposal of financial assets of NT$110,365 thousand, others of NT$286,266 thousand (under non-operating income and gains), net valuation loss on financial instruments of NT$152,814 thousand, impairment loss of financial assets of NT$2,677,529 thousand as well as others of NT$17,787 thousand (under non-operating expenses and losses) were reclassified to other gains and losses for the year ended December 31, 2012.

## 39. ADDITIONAL DISCLOSURES

a. Financings provided: None;

b. Endorsement/guarantee provided: Please see Table 1 attached;

c. Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): Please see Table 2 attached;

d. Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital: Please see Table 3 attached;

e. Acquisition of individual real estate properties at costs of at least NT$300 million or 20% of the paid-in capital: Please see Table 4 attached;

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

g. Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Please see Table 5 attached;

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Please see Table 6 attached;

i. Information about the derivative financial instruments transaction: Please see Note 7;

j. Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;

k. Information on investment in Mainland China

1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.

2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 34.

**TABLE 1**

**Taiwan Semiconductor Manufacturing Company Limited**

**ENDORSEMENTS/GUARANTEES PROVIDED**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| Guaranteed Party: Name | Guaranteed Party: Nature of Relationship | Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2) | Maximum Balance for the Period (US$ in Thousands) (Note 3) | Ending Balance (US$ in Thousands) (Note 3) | Amount Actually Drawn (US$ in Thousands) | Amount of Endorsement/ Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements | Maximu Endorsem Guarant Amour Allowab (Note 2 |
|---|---|---|---|---|---|---|---|---|
| TSMC Global | Subsidiary | $ 211,877,064 | $ 44,700,000 (US$ 1,500,000) | $ 44,700,000 (US$ 1,500,000) | $ 44,700,000 (US$ 1,500,000) | $ | 5.3% | $ 211,877 |

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

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

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

**TABLE 2**

**Taiwan Semiconductor Manufacturing Company Limited**

**MARKETABLE SECURITIES HELD**

**DECEMBER 31, 2013**

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

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2013 Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Fair Value (Foreign Currencies in Thousands) | Note |
|---|---|---|---|---|---|---|---|---|
| The Company | Commercial paper | | | | | | | |
| | CPC Corporation, Taiwan | | Held-to-maturity financial assets | 100 | $ 998,018 | N/A | $ 997,608 | |
| | Taiwan Power Company | | | 80 | 797,931 | N/A | 798,004 | |
| | Stock | | | | | | | |
| | Semiconductor Manufacturing International Corporation | | Available-for-sale financial assets | 275,957 | 646,402 | 1 | 646,402 | Note |
| | United Industrial Gases Co., Ltd. | | Financial assets carried at cost | 21,230 | 193,584 | 10 | 437,105 | |
| | Shin-Etsu Handotai Taiwan Co., Ltd. | | | 10,500 | 105,000 | 7 | 340,108 | |
| | W.K. Technology Fund IV | | | 4,000 | 39,280 | 2 | 34,919 | |
| | Fund | | | | | | | |
| | Horizon Ventures Fund | | Financial assets carried at cost | | 78,303 | 12 | 78,303 | |
| | Crimson Asia Capital | | | | 53,211 | 1 | 53,211 | |

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

**TABLE 3**

**Taiwan Semiconductor Manufacturing Company Limited**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| s | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance Shares/Units (In Thousands) | Beginning Balance Amount (Foreign Currencies in Thousands) | Acquisition Shares/Units (In Thousands) | Acquisition Amount (Foreign Currencies in Thousands) | Disposal Shares/Units (In Thousands) | Disposal Amount (Foreign Currencies in Thousands) | Carryi Valu (Forei Curren in Thous |
|---|---|---|---|---|---|---|---|---|---|---|
| | Available-for-sale financial assets | | | 1,277,958 | $ 1,845,052 | | $ | 1,002,001 | $ 1,830,424 | $ 983,7 |
| | Investments accounted for using equity method | Note 2 | Subsidiary | 430,400 | 2,389,541 | 124,274 | 1,242,744 | | | |
| | Held-to-maturity financial assets | | | | | 100 | 998,018 | | | |
| | | | | | | 80 | 797,931 | | | |

Note 1: The ending balance includes unrealized gains/losses on financial assets, share of profits/losses of investees and other related adjustment to equity.

Note 2: The acquisition is primarily consisted of cash injection.

**TABLE 4**

**Taiwan Semiconductor Manufacturing Company Limited**

**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(Amounts in Thousands of New Taiwan Dollars)**

| | | | | Prior Transaction of Related Counter-party | | | |
|---|---|---|---|---|---|---|---|
| **Transaction Amount** | **Payment Term** | **Counter-party** | **Nature of Relationships** | **Owner** | **Relationships** | **Transfer Date** | **Amount** |
| $2,248,400 | By the contract | Miaoli County Government | | N/A | N/A | N/A | N/A |
| 3,561,600 | By the construction progress | Fu Tsu Construction Co., Ltd. | | N/A | N/A | N/A | N/A |
| 4,373,205 | By the construction progress | Da Cin Construction Co., Ltd. | | N/A | N/A | N/A | N/A |
| 338,948 | By the construction progress | I Domain Industrial Co., Ltd. | | N/A | N/A | N/A | N/A |
| 2,615,744 | By the construction progress | China Steel Structure Co., Ltd. | | N/A | N/A | N/A | N/A |
| 615,038 | By the construction progress | Tasa Construction Corporation | | N/A | N/A | N/A | N/A |

**TABLE 5**

**Taiwan Semiconductor Manufacturing Company Limited**

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| | | | Transaction Details | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ompany Name | Related Party | Nature of Relationships | Purchases/Sales | Amount (Foreign Currencies in Thousands) | % to Total | Payment Terms | Unit Price (Note 1) | Payment Terms (Note 1) | Ending Balance (Foreign Currencies in Thousands) | % to Total | Not |
| SMC | TSMC North America | Subsidiary | Sales | $ 414,087,565 | 69 | Net 30 days from invoice date | | | $ 52,750,047 | 74 | |
| | GUC | Associate | Sales | 1,970,934 | 1 | Net 30 days from the end of the month of when invoice is issued | | | 219,424 | | |
| | VIS | Associate | Sales | 195,101 | | Net 30 days from the end of the month of when invoice is issued | | | | | |
| | Mcube Inc. (Mcube) | Associate of the Company s subsidiary (Note 2) | Sales | 119,067 | | Net 30 days from invoice date | | | | | |
| | TSMC China | Subsidiary | Purchases | 16,902,114 | 27 | Net 30 days | | | (1,509,508) | 8 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | from the end of the month of when invoice is issued | | |
| WaferTech | Indirect subsidiary | Purchases | 8,520,337 | 14 | Net 30 days from the end of the month of when invoice is issued | (685,906) | 4 |
| VIS | Associate | Purchases | 6,993,964 | 11 | Net 30 days from the end of the month of when invoice is issued | (731,587) | 4 |
| SSMC | Associate | Purchases | 3,056,372 | 5 | Net 30 days from the end of the month of when invoice is issued | (382,007) | 2 |

Note 1: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

Note 2: TSMC Partners, the subsidiary of the Company, did not exercise significant influence over Mcube starting the third quarter of 2013, and therefore, Mcube is no longer a related party to the Company.

**TABLE 6**

**Taiwan Semiconductor Manufacturing Company Limited**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**DECEMBER 31, 2013**

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

| Company Name | Related Party | Nature of Relationships | Ending Balance (Foreign Currencies in Thousands) | Turnover Days (Note 1) | Overdue Amount | Overdue Action Taken | Amounts Received in Subsequent Period | Allowance fo Bad Debts |
|---|---|---|---|---|---|---|---|---|
| TSMC | TSMC North America | Subsidiary | $ 53,078,207 | 41 | $ 16,627,236 | | $ 18,782,230 | $ |
| | GUC | Associate | 219,424 | 42 | | | | |
| | VIS | Associate | 105,881 | (Note 2) | | | | |

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

Note 2: The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

**TABLE 7**

**Taiwan Semiconductor Manufacturing Company Limited**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| | | Original Investment Amount | | Balance as of December 31, 2013 | | |
|---|---|---|---|---|---|---|
| Location | Main Businesses and Products | December 31, 2013 (Foreign Currencies in Thousands) | December 31, 2012 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) |
| ortola, British Virgin Islands | Investment activities | $ 42,327,245 | $ 42,327,245 | 1 | 100 | $ 64,953,489 |
| ortola, British Virgin Islands | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | 31,456,130 | 31,456,130 | 988,268 | 100 | 42,861,788 |
| sin-Chu, Taiwan | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 13,232,288 | 13,232,288 | 628,223 | 39 | 10,556,348 |
| ingapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 7,457,733 |
| ai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | 11,180,000 | 11,180,000 | 1,118,000 | 99 | 4,551,318 |
| an Jose, California, U.S.A. | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 3,763,194 |
| sin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 5,546,744 | 4,304,000 | 554,674 | 92 | 2,154,913 |
| aoyuan, Taiwan | Wafer level chip size packaging service | 1,357,890 | 1,357,890 | 94,950 | 40 | 1,866,123 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Hsin-Chu, Taiwan | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,056,141 |
| Cayman Islands | Investing in new start-up technology companies | 1,908,912 | 1,896,914 | | 50 | 892,439 |
| Cayman Islands | Investing in new start-up technology companies | 596,514 | 704,447 | | 98 | 441,763 |
| Amsterdam, the Netherlands | Marketing and engineering supporting activities | 15,749 | 15,749 | | 100 | 290,838 |
| Cayman Islands | Investing in new start-up technology companies | 841,757 | 852,258 | | 99.5 | 144,924 |
| Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 124,762 |
| Taipei, Taiwan | Investment activities | 150,000 | 100,000 | | 100 | 85,162 |
| Seoul, Korea | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 29,475 |

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

Note 2: Please refer to Table 10 for information on investment in Mainland China.

**TABLE 8**

**Taiwan Semiconductor Manufacturing Company Limited**

**INFORMATION ON INVESTMENT IN MAINLAND CHINA**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

| | | | | Investment Flows | | | | |
|---|---|---|---|---|---|---|---|---|
| **lain Businesses and Products** | **Total Amount of Paid-in Capital (Foreign Currencies in Thousands)** | **Method of Investment** | **Accumulated Outflow of Investment from Taiwan as of January 1, 2013 (US$ in Thousands)** | **Outflow** | **Inflow** | **Accumulated Outflow of Investment from Taiwan as of December 31, 2013 (US$ in Thousands)** | **Percentage of Ownership** | **Share of Profits/ Losses** |
| anufacturing and selling of tegrated circuits at the order and pursuant to product esign specifications provided customers | $ 18,939,667 (RMB 4,502,080) | (Note 1) | $ 18,939,667 (US$ 596,000) | $ | $ | $ 18,939,667 (US$ 596,000) | 100% | $ 5,111,975 (Note 2 |

| **Accumulated Investment in Mainland China as of December 31, 2013 (US$ in Thousands)** | **Investment Amounts Authorized by Investment Commission, MOEA (US$ in Thousands)** | **Upper Limit on Investment (US$ in Thousands)** |
|---|---|---|
| $ 18,939,667 (US$ 596,000) | $ 18,939,667 (US$ 596,000) | $ 18,939,667 (US$ 596,000) |

Note 1: TSMC directly invested US$596,000 thousand in TSMC China.
Note 2: Amount was recognized based on the audited financial statements.

**THE CONTENTS OF STATEMENTS OF MAJOR**

**ACCOUNTING ITEMS**

**STATEMENT 1**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF CASH AND CASH EQUIVALENTS**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Item | Description | Amount |
|---|---|---|
| Cash | | |
| Petty cash | | $ 530 |
| Cash in banks | | |
| Checking accounts and demand deposits | | 3,390,420 |
| Foreign currency deposits | Including US$206,545 thousand @29.800, JPY94 thousand @0.2834, EUR54 thousand @41.00 | 6,157,302 |
| Time deposits | From 2013.09.25 to 2014.04.30, interest rates at 0.35%-1.10%, including NT$ 105,214,460 thousand, US$5,400 thousand @29.800, JPY40,981,458 thousand @0.2834 and EUR378,338 thousand @41.00 | 132,501,391 |
| Cash equivalents | | |
| Repurchase agreements collateralized by corporate bonds | Expired by 2014.01.23, interest rates at 0.65%-0.70% | 1,708,603 |
| Repurchase agreements collateralized by short-term commercial paper | Expired by 2014.02.26, interest rates at 0.64%-0.66% | 2,395,644 |
| Repurchase agreements collateralized by government bonds | Expired by 2014.01.23, interest rates at 0.65%-0.66% | 284,878 |
| Total | | $ 146,438,768 |

**STATEMENT 2**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF NOTES AND ACCOUNTS RECEIVABLE, NET**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Client Name | Amount |
|---|---|
| MediaTek Inc. | $ 2,066,935 |
| Spreadtrum Communications, Inc. | 1,380,840 |
| NXP Semiconductors N.V. | 1,185,287 |
| STMicroelectronics Pte Ltd. | 928,011 |
| Others (Note 1) | 12,368,306 |
| | 17,929,379 |
| Less: Allowance for doubtful accounts | 483,502 |
| Total | $ 17,445,877 |

Note 1: The amount of individual client included in others does not exceed 5% of the account balance.

Note 2: The accounts receivable past due over one year amounted to NT$20 thousand for which the Company has recognized appropriate allowance for doubtful accounts.

**STATEMENT 3**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF RECEIVABLES FROM RELATED PARTIES**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Client Name | Amount |
|---|---|
| TSMC North America | $ 52,750,047 |
| Others (Note) | 219,756 |
| Total | $ 52,969,803 |

Note: The amount of individual client included in others does not exceed 5% of the account balance.

**STATEMENT 4**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF INVENTORIES**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| | Amount | |
|---|---|---|
| **Item** | **Cost** | **Net Realizable Value** |
| Finished goods | $ 7,049,813 | $ 14,607,068 |
| Work in process | 24,857,927 | 68,937,287 |
| Raw materials | 2,208,291 | 2,195,941 |
| Supplies and spare parts | 1,127,030 | 1,315,950 |
| Total | $ 35,243,061 | $ 87,056,246 |

**STATEMENT 5**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Additions | | Decrease | | Increase (Decrease) in Using the Equity Method | Adjustments Share of Changes in Equity of Subsidiaries and Associates | Adjustments Arising from Changes in Percentage of Ownership in Subsidiaries | Adjustments Resulting from the Transactions with Subsidiaries and Associates | Balance, December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shares (in Thousands) | Amount | Shares (In Thousands) | Amount | Amount (Note 3) | Amount | Amount | Amount | Shares (in Thousands) | % | Amount | Un |
| | $ | | $ | $ 14,999,103 | $ | $ | $ | 1 | 100 | $ 64,953,489 | |
| | | | | 4,226,405 | | 254 | | 988,268 | 100 | 42,861,788 | |
| | | | | 1,110,938 | 38,813 | | | 628,223 | 39 | 10,556,348 | |
| | | | | 746,777 | | | | 314 | 39 | 7,457,733 | |
| | | | | (1,454,686) | (2,740) | (2,647) | (6) | 1,118,000 | 99 | 4,551,318 | |
| | | | | 553,906 | | | | 11,000 | 100 | 3,763,194 | |
| 124,274 | 1,242,744 | | | (1,547,898) | | 70,526 | | 554,674 | 92 | 2,154,913 | |
| | 293,578 (Note 4) | | | 28,926 | 1,967 | (172) | | 94,950 | 40 | 1,866,123 | |
| | | | | (38,801) | 44 | | (119,927) | 46,688 | 35 | 1,056,141 | |
| | | | | 55,077 | | | | | 100 | 290,838 | |
| | | | | (17,650) | | | | 6 | 100 | 124,762 | |
| | | | | 2,540 | | | | 80 | 100 | 29,475 | |
| | 1,536,322 | | | 18,664,637 | 38,084 | 67,961 | (119,933) | | | 139,666,122 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | 6,059,284 | | | (42,596) | 100 | 23,845,371 |
| 46,945 | (34,947) | (168,451) | | 1,607 | | 50 | 892,439 |
| 14,578 | (122,511) | (13,360) | | | | 98 | 441,763 |
| 2,955 | (13,456) | (11,934) | | | | 99.5 | 144,924 |
| 50,000 | | (22,723) | | (7,122) | | 100 | 85,162 |
| 114,478 | (170,914) | 5,842,816 | | (5,515) | (42,596) | | 25,409,659 |
| $ 1,650,800 | $ (170,914) | $ 24,507,453 | $ 38,084 | $ 62,446 | $ (162,529) | | $ 165,075,781 |

Note 1: The unit price is calculated by closing price of Gre Tai Securities Market as of December 31, 2013.

Note 2: The unit price is calculated by closing price of the Taiwan Stock Exchange as of December 31, 2013.

Note 3: Including share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and cash dividends received from subsidiaries and associates.

Note 4: Please refer to Note 31 for gain on deconsolidation of subsidiary.

**STATEMENT 6**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF SHORT-TERM LOANS**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Type | Balance, End of Year | Contract Period | Range of Interest Rates (%) | Loan Commitments | Collateral | Remark |
|---|---|---|---|---|---|---|
| Unsecured loans | | | | | | |
| JPMorgan Chase Bank N.A. | $ 4,321,000 | 2013.12.26-2014.01.07 | 0.38 | US$ 200,000 | Nil | |
| The Bank Of Nova Scotia | 3,337,600 | 2013.12.16-2014.01.24 | 0.38 | $ 3,500,000 | Nil | |
| Credit Agricole Corporate & Investment Bank | 2,384,000 | 2013.12.16-2014.01.15 | 0.38 | US$ 100,000 | Nil | |
| BNP Paribas | 2,235,000 | 2013.12.16-2014.01.06 | 0.42 | US$ 75,000 | Nil | |
| Citibank Taiwan, Limited | 1,788,000 | 2013.12.06-2014.01.03 | 0.40 | US$ 110,000 | Nil | |
| Citibank | 1,579,400 | 2013.12.06-2014.01.03 | 0.40 | US$ 395,000 | Nil | |
| | $ 15,645,000 | | | | | |

**STATEMENT 7**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF PAYABLES TO RELATED PARTIES**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|---|---|
| TSMC China | $ 1,509,508 |
| VIS | 731,587 |
| WaferTech, LLC | 685,906 |
| Xintec | 565,590 |
| SSMC | 382,007 |
| Others (Note) | 309,381 |
| Total | $ 4,183,979 |

Note: The amount of individual vendor in others does not exceed 5% of the account balance.

**STATEMENT 8**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF PAYABLES TO CONTRACTORS AND EQUIPMENT SUPPLIERS**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Vendor Name | Amount |
|---|---|
| ASML Hong Kong Ltd. | $ 31,688,679 |
| Applied Materials South East Asia Pte Ltd. | 15,960,433 |
| TOKYO Electron Ltd. | 7,240,498 |
| Others (Note) | 34,666,204 |
| Total | $ 89,555,814 |

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

**STATEMENT 9**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Salary and bonus payable | $ 6,834,181 |
| Utilities | 2,043,803 |
| Receipts in advance | 1,653,999 |
| Interest expense | 1,300,609 |
| Joint development project expenses | 1,153,472 |
| Others (Note) | 8,647,345 |
| Total | $ 21,633,409 |

Note: The amount of each item in others does not exceed 5% of the account balance.

**STATEMENT 10**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF BONDS PAYABLE**

**DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Trustee | Issuance Date | Interest Payment Date | Coupon Rate (%) | Total Amount | Repayment paid | Amount Balance, End of Year | Unamortized Premiums (Discounts) | Carrying Value | Repaym |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | |
| Mega International Commercial Bank Co., Ltd. | 2011.09.28 | on 09.28 annually | 1.40 | $ 10,500,000 | $ | $ 10,500,000 | $ | $ 10,500,000 | Bullet repa |
| Mega International Commercial Bank Co., Ltd. | 2011.09.28 | on 09.28 annually | 1.63 | 7,500,000 | | 7,500,000 | | 7,500,000 | Bullet repa |
| | | | | | | | | | |
| Mega International Commercial Bank Co., Ltd. | 2012.01.11 | on 01.11 annually | 1.29 | 10,000,000 | | 10,000,000 | | 10,000,000 | Bullet repa |
| Mega International Commercial Bank Co., Ltd. | 2012.01.11 | on 01.11 annually | 1.46 | 7,000,000 | | 7,000,000 | | 7,000,000 | Bullet repa |
| | | | | | | | | | |
| Mega International Commercial Bank Co., Ltd. | 2012.08.02 | on 08.02 annually | 1.28 | 9,900,000 | | 9,900,000 | | 9,900,000 | Bullet repa |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Mega International Commercial Bank Co., Ltd. | 2012.08.02 | on 08.02 annually | 1.40 | 9,000,000 | 9,000,000 | 9,000,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2012.09.26 | on 09.26 annually | 1.28 | 12,700,000 | 12,700,000 | 12,700,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2012.09.26 | on 09.26 annually | 1.39 | 9,000,000 | 9,000,000 | 9,000,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2012.10.09 | on 10.09 annually | 1.53 | 4,400,000 | 4,400,000 | 4,400,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.01.04 | on 01.04 annually | 1.23 | 10,600,000 | 10,600,000 | 10,600,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.01.04 | on 01.04 annually | 1.35 | 10,000,000 | 10,000,000 | 10,000,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.01.04 | on 01.04 annually | 1.49 | 3,000,000 | 3,000,000 | 3,000,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.02.06 | on 02.06 annually | 1.23 | 6,200,000 | 6,200,000 | 6,200,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.02.06 | on 02.06 annually | 1.38 | 11,600,000 | 11,600,000 | 11,600,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.02.06 | on 02.06 annually | 1.50 | 3,600,000 | 3,600,000 | 3,600,000 | Bullet repa |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.07.16 | on 07.16 annually | 1.50 | 10,200,000 | | 10,200,000 | | 10,200,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.07.16 | on 07.16 annually | 1.70 | 3,500,000 | | 3,500,000 | | 3,500,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.08.09 | on 08.09 annually | 1.34 | 4,000,000 | | 4,000,000 | | 4,000,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.08.09 | on 08.09 annually | 1.52 | 8,500,000 | | 8,500,000 | | 8,500,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.09.25 | on 09.25 annually | 1.35 | 1,500,000 | | 1,500,000 | | 1,500,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.09.25 | on 09.25 annually | 1.45 | 1,500,000 | | 1,500,000 | | 1,500,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.09.25 | on 09.25 annually | 1.60 | 1,400,000 | | 1,400,000 | | 1,400,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.09.25 | on 09.25 annually | 1.85 | 2,600,000 | | 2,600,000 | | 2,600,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.09.25 | on 09.25 annually | 2.05 | 5,400,000 | | 5,400,000 | | 5,400,000 | Bullet repa |
| Taipei Fubon Commercial Bank Co., Ltd. | 2013.09.25 | on 09.25 annually | 2.10 | 2,600,000 | | 2,600,000 | | 2,600,000 | Bullet repa |
| | | | | $ 166,200,000 | $ | $ 166,200,000 | $ | $ 166,200,000 | |

**STATEMENT 11**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF NET REVENUE**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Item | Shipments (Piece) (Note) | Amount |
|---|---|---|
| Sales of goods | | |
| Wafer | 15,664,497 | $ 557,314,791 |
| Other | | 33,249,937 |
| | | 590,564,728 |
| Royalty | | 522,872 |
| Net revenue | | $ 591,087,600 |

Note: 8-inch equivalent wafers.

**STATEMENT 12**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF COST OF REVENUE**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Item | Amount |
|---|---|
| Raw materials used | |
| Balance, beginning of year | $ 3,666,048 |
| Raw material purchased | 26,515,240 |
| Raw materials, end of year | (2,208,291) |
| Transferred to manufacturing or operating expenses | (7,359,525) |
| Others | (70,385) |
| Subtotal | 20,543,087 |
| Direct labor | 10,581,290 |
| Manufacturing expenses | 261,349,482 |
| Manufacturing cost | 292,473,859 |
| Work in process, beginning of year | 24,442,123 |
| Work in process, end of year | (24,857,927) |
| Transferred to manufacturing or operating expenses | (5,653,705) |
| Cost of finished goods | 286,404,350 |
| Finished goods, beginning of year | 5,936,018 |
| Finished goods purchased | 35,468,500 |
| Finished goods, end of year | (7,049,813) |
| Transferred to manufacturing or operating expenses | (3,449,307) |
| Scrapped | (216,998) |
| Subtotal | 317,092,750 |
| Others | 2,314,413 |
| Total | $ 319,407,163 |

**STATEMENT 13**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF OPERATING EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(In thousands of New Taiwan Dollars)**

| Item | Research and Development Expenses | General and Administrative Expenses | Selling Expenses |
|---|---|---|---|
| Payroll and related expense | $ 15,998,678 | $ 5,021,640 | $ 1,395,396 |
| Depreciation expense | 11,925,017 | 769,735 | 1,670 |
| Consumables | 6,706,174 | 61,371 | 1,718 |
| Repair and maintenance expense | 2,672,805 | 1,863,742 | 1,108 |
| Joint development project expenses | 2,562,711 | | |
| Utilities | 819,391 | 1,971,997 | |
| Management fees of the Science Park Administration | | 1,139,662 | |
| Patents | | 893,054 | |
| Commission | | | 736,889 |
| Others (Note) | 6,237,695 | 5,976,210 | 167,691 |
| Total | $ 46,922,471 | $ 17,697,411 | $ 2,304,472 |

Note: The amount of each item in others does not exceed 5% of the account balance.

**STATEMENT 14**

**Taiwan Semiconductor Manufacturing Company Limited**

**STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012**

**(In thousands of New Taiwan Dollars)**

| | Year Ended December 31, 2013 | | | | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Classified as Cost of Revenue | Classified as Operating Expenses | Classified as Other Operating Income and Expenses | Total | Classified as Cost of Revenue | Classified as Operating Expenses | Classified as Other Operating Income and Expenses | Total |
| Labor cost | | | | | | | | |
| Salary and bonus | $ 31,781,705 | $ 20,201,521 | $ | $ 51,983,226 | $ 27,681,298 | $ 19,198,385 | $ | $ 46,879,683 |
| Labor and health insurance | 1,829,180 | 1,070,653 | | 2,899,833 | 1,509,487 | 920,024 | | 2,429,511 |
| Pension | 1,029,341 | 555,714 | | 1,585,055 | 901,762 | 517,758 | | 1,419,520 |
| Others | 1,151,330 | 587,826 | | 1,739,156 | 973,986 | 505,500 | | 1,479,486 |
| | $ 35,791,556 | $ 22,415,714 | $ | $ 58,207,270 | $ 31,066,533 | $ 21,141,667 | $ | $ 52,208,200 |
| Depreciation | $ 134,545,283 | $ 12,696,422 | $ 25,120 | $ 147,266,825 | $ 111,929,312 | $ 10,441,847 | $ 6,656 | $ 122,377,815 |
| Amortization | $ 1,099,542 | $ 973,384 | $ | $ 2,072,926 | $ 1,273,689 | $ 748,375 | $ | $ 2,022,064 |