

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED  
2017 ANNUAL SHAREHOLDERS' MEETING



Time and Date: 9:00 a.m., June 8, 2017

Place: TSMC's Headquarters at Fab 12A  
(No. 8, Li-Hsin Road 6, Hsinchu Science Park, Hsinchu, Taiwan)

Total outstanding TSMC shares: 25,930,380,458 shares

Total shares represented by shareholders present in person or by proxy: 24,360,332,022 shares

Percentage of shares held by shareholders present in person or by proxy: 93.94%

Directors present: Morris Chang, FC Tseng, Stan Shih, Kok-Choo Chen, Johnsee Lee

Chairman: Dr. Morris Chang, the Chairman of the Board of Directors

Recorder: Sylvia Fang

The aggregate shareholding of the shareholders present in person or by proxy constituted a quorum. The Chairman called the meeting to order.

**A. Chairman's Address (omitted)**

**B. Report Items**

- I. Reported the business of 2016 (see Attachment I)
- II. Audit Committee's review report (see Attachment II)
- III. Reported 2016 employees' profit sharing bonus and directors' compensation

Explanatory Notes: (1) The Board of Directors approved 2016 employees' profit sharing bonus and directors' compensation on February 14, 2017. The employees' profit sharing bonus and directors' compensation are to be distributed in cash.

(2) 2016 employees' total cash bonus and profit sharing bonus is NT\$44,836,678,524, of which NT\$22,418,339,262 has been distributed following each quarter as cash bonus, and NT\$22,418,339,262 will be distributed in July 2017 as profit sharing bonus.

(3) 2016 directors' compensation is NT\$376,432,200.

- IV. Reported TSMC's merger of Chi Cherg Investment Co., Ltd., a wholly-owned subsidiary of TSMC

Explanatory Notes: (1) Chi Cherng Investment Co., Ltd. (“Chi Cherng”), a wholly owned subsidiary of TSMC, became redundant because it had cash as its only asset and no debt. To streamline our investment structure, TSMC’s Board of Directors approved to merge Chi Cherng into TSMC in November 2016. A short-form merger was conducted pursuant to the R.O.C. Business Mergers and Acquisitions Act and the R.O.C. Company Act, with TSMC being the surviving company. The record date of the merger was December 12, 2016.

(2) The merger has been approved by Hsinchu Science Park Bureau, Ministry of Science and Technology on January 11, 2017.

### C. Resolutions

- I. The 2016 Business Report and Financial Statements were submitted at the meeting for acceptance (Proposed by the Board of Directors)

Explanatory Notes: (1) TSMC’s 2016 Financial Statements, including Balance Sheets, Statements of Comprehensive Income, Statements of Changes in Equity, and Statements of Cash Flows, were audited by independent auditors, Ms. Yih-Hsin Kao and Mr. Yu-Feng Huang, of Deloitte & Touche.

(2) 2016 Business Report, Independent Auditors’ Report, and the aforementioned Financial Statements were attached hereto as Attachments I, III and IV.

(Questions raised by the shareholders and the management’s responses were omitted)

#### Voting Results:

Shares represented at the time of voting: 24,360,332,022

Voting Results*		% of the total represented share present
Votes in favor:	20,850,050,855 votes (12,835,902,856 votes)	85.59%
Votes against:	924,053 votes (924,053 votes)	0.00%
Votes invalid:	none	0%
Votes abstained:	3,509,357,114 votes (3,506,735,621 votes)	14.40%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the 2016 Business Report and Financial Statements be and hereby were accepted as submitted.

- II. A proposal to approve the distribution of 2016 earnings was submitted at the meeting for discussion and approval (Proposed by the Board of Directors)

Explanatory Notes: (1) The proposed earnings distribution was allocated from Earnings in 2016 Available for Distribution. Each common share holder would be entitled to receive a cash dividend of NT\$7 per share.

(2) The 2016 Earnings Distribution Proposal was attached hereto as Attachment V.

(Questions raised by the shareholders and the management's responses were omitted)

Voting Results:

Shares represented at the time of voting: 24,360,332,022

Voting Results*		% of the total represented share present
Votes in favor:	20,854,025,006 votes (12,839,878,007 votes)	85.60%
Votes against:	368,383 votes (368,383 votes)	0.00%
Votes invalid:	none	0%
Votes abstained:	3,505,938,633 votes (3,503,316,140 votes)	14.39%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.

III. It was proposed to approve revisions to the Articles of Incorporation (Proposed by the Board of Directors)

Explanatory Notes: (1) In furtherance of TSMC's corporate social responsibility efforts, TSMC plans to recycle chemicals, metals and plastics used in or produced by, and leftover from our manufacturing activities, and, through proper processing, transform them into re-usable materials to reduce waste generation. Also TSMC itself plans to sell such materials that cannot be re-used by TSMC to enhance oversight of the downstream sales channels. According to the regulatory requirements, TSMC must incorporate these proposed activities into its business scope specified in the Articles of Incorporation.

(2) The Comparison Table for the Articles of Incorporation Before and After Revision was attached hereto as Attachment VI.

Voting Results:

Shares represented at the time of voting: 24,360,332,022

Voting Results*		% of the total represented share present
Votes in favor:	20,849,974,815 votes (12,836,154,821 votes)	85.58%
Votes against:	2,368,927 votes (2,368,777 votes)	0.00%
Votes invalid:	none	0%
Votes abstained:	3,507,988,280 votes (3,505,038,932 votes)	14.40%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.



IV. It was proposed to approve revisions to the Procedures for Acquisition or Disposal of Assets (Proposed by the Board of Directors)

Explanatory Notes: (1) The R.O.C. Financial Supervisory Commission recently amended its “Regulation Governing the Acquisition and Disposal of Assets by Public Companies”. TSMC’s “Procedures for Acquisition or Disposal of Assets” needs to be revised to reflect such regulatory amendments. The major revisions included the following:

- (i) raising the disclosure threshold for acquisition or disposal of equipment for operation purpose with non-related parties from NT\$500 million to NT\$1 billion; and
  - (ii) specifying the deadline for correcting any erroneous or incomplete disclosure as “two days from the date the Company becomes aware of such error or incompleteness”.
- (2) The Comparison Table for the Procedures for Acquisition or Disposal of Assets Before and After Revision was attached hereto as Attachment VII.

Voting Results:

Shares represented at the time of voting: 24,360,332,022

Voting Results*		% of the total represented share present
Votes in favor:	20,843,480,509 votes (12,828,701,832 votes)	85.56%
Votes against:	9,814,301 votes (9,814,301 votes)	0.04%
Votes invalid:	none	0%
Votes abstained:	3,507,037,212 votes (3,505,046,397 votes)	14.39%

\* including votes casted electronically (numbers in brackets)

RESOLVED, that the above proposal be and hereby was approved as proposed.

**D. Directors Election**

Election of two additional Directors (Proposed by the Board of Directors)

Election Result: Two directors were elected by the shareholders present. The term of office of the newly elected directors shall expire on the same date as the term of the existing directors, commencing from June 8, 2017 to June 8, 2018. The list of the newly elected directors with votes received as below:

Name	Votes Received
Mark Liu	19,520,997,207
C.C. Wei	19,520,992,654

**E. Special Motion**

(Questions raised by the shareholders and the management's responses were omitted)

There being no other business and special motion, upon a motion duly made and seconded, the meeting was adjourned.



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Morris Chang  
Chairman of the Board of Directors



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Sylvia Fang  
Recorder

## **Business Report**

2016 was a good year for TSMC as we delivered another year of record revenue and earnings. Our revenue grew double-digit outpacing a relatively flat global semiconductor industry. We also achieved our highest gross and operating margin in the last twenty years, which is a direct result of our ongoing and unrelenting company-wide focus on driving productivity improvement, higher operating efficiency, and across-the-board cost reduction efforts.

TSMC's growth is propelled by our ability to earn a premium to the overall semiconductor industry's growth by being a trusted provider of technology and capacity to the world logic IC industry. This position allowed us to participate actively in the growth of the faster-growing segments, such as the strong demand from 4G+ smartphones in the China market, the replacement and upgrade of Gaming, and the emergence of AI (Artificial Intelligence) in 2016. These applications require the use of technologies over a wide spectrum, and TSMC holds a leading position over this spectrum. Our strong position in technology leadership and our commitment to invest in both R&D and in Capex are what enabled us to continually gain foundry market segment share.

We made significant advances in leading-edge process technologies in 2016. Revenue from 16-nanometer grew more than five-fold in 2016 and reached above 20% of total wafer revenue. Our 10-nanometer successfully began volume production for customers' products in 2016, while 7-nanometer is on schedule to complete technology qualification in early 2017. Our 5-nanometer development is also well-underway and will see use of EUV (extreme ultraviolet) lithography. Our proprietary InFO (integrated fan-out) advanced packaging solution was adopted by a major customer for a significant mobile product in 2016 while we were working on the next generation of InFO solution for 2017 volume production.

Highlights of TSMC's accomplishments in 2016:

- Total wafer shipments increased 9.6 percent from 2015 to reach 9.6 million 12-inch equivalent wafers.
- Advanced technologies (28-nanometer and beyond) accounted for 54 percent of total wafer revenue, up from 48 percent in 2015.
- We deployed 249 process technologies, and manufactured 9,275 products for 449 customers.

- TSMC's market share in the total semiconductor foundry segment rose successively during the last seven years and reached 56 percent in 2016.

## **2016 Financial Performance**

Consolidated revenue totaled NT\$947.94 billion, an increase of 12.4 percent over NT\$843.50 billion in 2015. Net income was NT\$334.25 billion and diluted earnings per share were NT\$12.89. Both increased 9 percent from the 2015 level of NT\$306.57 billion net income and NT\$11.82 diluted EPS. Excluding major one-off items, namely share disposal gains and the closure of TSMC Solar operations in 2015 and the negative impact from the earthquake in 2016, our EPS would have grown 17.4 percent year-on-year in 2016.

In US dollars, TSMC generated net income of US\$10.38 billion on consolidated revenue of US\$29.43 billion, compared with net income of US\$9.67 billion on consolidated revenue of US\$26.61 billion in 2015.

Gross profit margin was 50.1 percent compared with 48.7 percent in 2015, and operating profit margin was 39.9 percent compared with 37.9 percent a year earlier. Net profit margin was 35.3 percent, a decrease of 1.0 percentage points from the prior year's 36.3 percent.

TSMC raised its cash dividend payment to NT\$6.0 per share for 2015 earnings distribution from NT\$4.5 a year ago to reflect continued rising free cash flow generation. We remain confident in our ability to maintain and steadily improve our free cash flow in the next few years, and will consider increasing the cash dividends when appropriate.

## **Technological Developments**

Thanks to continuous innovation and improvement, TSMC's 28-nanometer technology remained robust with rising revenue in 2016, its sixth year of volume production. We will continue to roll out differentiated and cost-effective solutions and expect our strength in this significant node to persist for many more years.

We continued to reduce defect density and improve cycle time in our 16-nanometer FinFET technology. In addition to mobile processors, this node has gained strong acceptance for many other applications including cellular baseband, graphic processors for video games, augmented reality and virtual reality devices, and artificial intelligence systems. We further pushed the envelope of performance, die size and power consumption to roll out our 12-nanometer technology, which will

enter volume production in the second half of 2017. Both 16-nanometer and 12-nanometer technologies can serve customers in mainstream and ultra-low power market segments, including low-to-mid-end mobile phones, consumer electronics, digital TV, automotive, and Internet of Things (IoT), as well as high-end applications, including high-end mobile and networking.

10-nanometer FinFET technology began production ramp in the fourth quarter of 2016 with shipments commencing in the first quarter of 2017. We expect a healthy ramp throughout 2017. With its aggressive geometric shrinkage, our 10-nanometer technology provides excellent density and is well positioned to serve the premium mobile market segment.

During the year, we collaborated with major customers and IP vendors to complete the IP design for our 7-nanometer technology and started silicon validation. We are on plan to start risk production in the spring of 2017. Meanwhile, development activities for our 5-nanometer node continued with risk production targeted for first half of 2019. We plan to use EUV lithography extensively at 5-nanometer to reduce process complexity. In addition, intensive early development efforts focusing on new transistors and technology definition were on-going for the technologies beyond 5-nanometer.

In the area of advanced packaging technologies, TSMC's proprietary InFO began volume production in 2016 while we also successfully qualified the next generation InFO solution with volume production expected in 2017. We extended our interposer CoWoS<sup>®</sup> (chip-on-wafer-on substrate) technology to 16-nanometer and led the industry with volume production of super high-end accelerators that integrate multiple second generation high bandwidth memory chips (HBM2) and GPUs (Graphics Processing Unit) for the high performance computing market segment of artificial intelligence and deep learning.

TSMC's ecosystem, the Open Innovation Platform<sup>®</sup> (OIP), continued to expand in 2016 with more than 12,000 items contained in our libraries and silicon IP portfolio. More than 8,200 technology files and over 270 process design kits were available to customers via TSMC-Online which saw more than 100,000 customer downloads in 2016.

### **Corporate Developments**

In March 2016, TSMC and the municipal government of Nanjing, China signed an agreement affirming that TSMC will make an investment to establish TSMC



Nanjing Co. Ltd., a wholly-owned subsidiary of TSMC that will own and operate a 12-inch wafer fab and a design service center. The purpose is to provide closer support to customers as we expand our business opportunities in China. The facility is scheduled to commence production of 16-nanometer process technology in the second half of 2018.

## **Honors and Awards**

TSMC received recognitions for achievements in innovation, business information disclosure, corporate governance, sustainability, investor relations and overall excellence in management from organizations including *Newsweek*, *CommonWealth Magazine*, PricewaterhouseCoopers, *GlobalViews Magazine*, *Channel NewsAsia*, RobecoSAM and the Taiwan Stock Exchange. TSMC received multiple awards from *Institutional Investor Magazine* and was ranked number one in IR Magazine's Global Top Fifty Awards. TSMC was also selected as a component of the Dow Jones Sustainability Indices for a 16th consecutive year, reflecting our ongoing commitment to sustainability and corporate social responsibility. In 2016, TSMC was included as the largest component in the newly-launched FTSE4Good Emerging Index by the London Stock Exchange, and we remained a major component in MSCI Global Sustainability Indexes, an important global benchmark for CSR.

## **Outlook**

Entering our fourth decade, TSMC has advanced into the forefront of semiconductor technology and has grown to become the world's largest wafer capacity provider for logic ICs. TSMC's innovative foundry business model has flourished and placed us at the center of a comprehensive ecosystem of IC designers, IP providers, and equipment suppliers with unmatched ability to unleash innovation. ICs manufactured by TSMC formed the backbone of information technology today.

As silicon becomes pervasive and computing is ubiquitous, the intelligent future requires continued advancement and innovation in semiconductor process technologies. As our technology development collecting pace, we now can provide our customers the most competitive leading-edge technology to develop their product. Combined with their innovative algorithm, customized architecture and strength in designs, our customers are able to provide the most competitive products in the applications where they were not used to compete before. Through our customers, we are expanding our footprint into the global high performance computing market as well.

TSMC has evolved over the last three decades, but our core values of integrity, commitment, innovation, and customer trust remain unchanged. We remain committed to creating value and generating strong returns to shareholders who have placed their trust with us. As we carry our heritage of excellence forward into an exciting future, we look forward to prospering together with our shareholders.

## Audit Committee's Review Report

The Board of Directors has prepared the Company's 2016 Business Report, Financial Statements, and proposal for allocation of earnings. The CPA firm of Deloitte & Touche was retained to audit TSMC's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and earnings allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Taiwan Semiconductor Manufacturing Company Limited. According to relevant requirements of the Securities and Exchange Act and the Company Law, we hereby submit this report.

### Taiwan Semiconductor Manufacturing Company Limited

Chairman of the Audit Committee:



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Sir Peter Leahy Bonfield

February 14, 2017

**Independent Auditors' Report  
(Consolidated Financial Statements)**

The Board of Directors and Shareholders  
Taiwan Semiconductor Manufacturing Company Limited

**Opinion**

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

**Basis for Opinion**

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year

ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

#### Provision of sales returns and allowances

In consideration of business volume and market conditions, the Company provides a variety of business incentives to specific customers or products. The provision of sales returns and allowance is based on historical experience and the varying contractual terms by management's judgment. Please refer to Notes 4, 5 and 19 to the consolidated financial statements for the details of the information about provision of sales returns and allowances. Since the provision of sales returns and allowances is subject to management's judgment, which has significant uncertainty, and the result could also affect the net revenue in the consolidated financial statements, it has been identified as a key audit matter.

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

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

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

The Company continues to invest in capital expenditures to develop and build capacity in leading-edge technologies to meet customers' demand. Please refer to Notes 4 and 15 to the consolidated financial statements for the details of the information and accounting policy about the depreciation of PP&E. According to IAS 16, depreciation of PP&E should commence when the assets are available for their intended use. Due to the significant capital expenditures incurred by the Company, the appropriateness of the timing to commence depreciation of PP&E



could have a material impact on its financial performance. Consequently, the validity of the timing to commence depreciation of PP&E is identified as a key audit matter.

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

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

### **Other Matter**

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as

applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
The Republic of China

*Deloitte & Touche*

February 14, 2017

Notice to Readers

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

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

# Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

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

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



## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

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

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

(Continued)



## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

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

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

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

# Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

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

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

(Continued)

# Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

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

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

(Continued)



## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

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

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

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

(Concluded)

**Independent Auditors' Report  
(Parent Company Only Financial Statements)**

The Board of Directors and Shareholders  
Taiwan Semiconductor Manufacturing Company Limited

**Opinion**

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

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2016 and 2015, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

**Basis for Opinion**

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

**Key Audit Matters**

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

matters.

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

Provision of sales returns and allowances

In consideration of business volume and market conditions, the Company provides a variety of business incentives to specific customers or products. The provision of sales returns and allowance is based on historical experience and the varying contractual terms by management's judgment. Please refer to Notes 4, 5 and 16 to the parent company only financial statements for the details of the information about provision of sales returns and allowances. Since the provision of sales returns and allowances is subject to management's judgment, which has significant uncertainty, and the result could also affect the net revenue in the parent company only financial statements, it has been identified as a key audit matter.

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

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

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

The Company continues to invest in capital expenditures to develop and build capacity in leading-edge technologies to meet customers' demand. Please refer to Notes 4 and 12 to the parent company only financial statements for the details of the information and accounting policy about the depreciation of PP&E.

According to International Accounting Standards 16, depreciation of PP&E should commence when the assets are available for their intended use. Due to the significant capital expenditures incurred by the Company, the appropriateness of the timing to commence depreciation of PP&E could have a material impact on its financial performance. Consequently, the validity of the timing to commence

depreciation of PP&E is identified as a key audit matter.

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

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

### **Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements**

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements**

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

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

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



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

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
The Republic of China



February 14, 2017

Notice to Readers

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

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

# Taiwan Semiconductor Manufacturing Company Limited

## PARENT COMPANY ONLY BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 249,878,563	14	\$ 264,493,583	16
Financial assets at fair value through profit or loss (Note 7)	151,070	-	6,026	-
Available-for-sale financial assets	2,843,952	-	706,924	-
Held-to-maturity financial assets (Note 8)	11,447,538	1	9,166,523	1
Notes and accounts receivable, net (Note 9)	40,017,297	2	25,636,123	2
Receivables from related parties (Note 31)	86,845,570	5	57,282,682	4
Other receivables from related parties (Note 31)	948,800	-	455,327	-
Inventories (Notes 5, 10 and 34)	46,504,346	2	64,338,188	4
Other financial assets (Notes 34)	2,139,366	-	1,766,573	-
Other current assets (Note 14)	<u>3,004,662</u>	-	<u>3,061,131</u>	-
Total current assets	<u>443,781,164</u>	<u>24</u>	<u>426,913,080</u>	<u>27</u>
<b>NONCURRENT ASSETS</b>				
Held-to-maturity financial assets (Note 8)	-	-	1,621,424	-
Financial assets carried at cost	435,268	-	343,721	-
Investments accounted for using equity method (Notes 5 and 11)	396,855,708	22	324,365,592	20
Property, plant and equipment (Notes 5 and 12)	979,401,337	53	831,784,912	52
Intangible assets (Notes 5 and 13)	10,047,991	1	9,391,418	1
Deferred income tax assets (Notes 5 and 26)	6,446,781	-	4,506,675	-
Refundable deposits	369,895	-	398,693	-
Other noncurrent assets (Note 14)	<u>-</u>	-	<u>360,000</u>	-
Total noncurrent assets	<u>1,393,556,980</u>	<u>76</u>	<u>1,172,772,435</u>	<u>73</u>
<b>TOTAL</b>	<u>\$ 1,837,338,144</u>	<u>100</u>	<u>\$ 1,599,685,515</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Note 15)	\$ 57,958,200	3	\$ 39,474,000	2
Financial liabilities at fair value through profit or loss (Note 7)	62,441	-	45,254	-
Accounts payable	24,533,924	1	16,702,970	1
Payables to related parties (Note 31)	4,840,001	-	3,759,631	-
Salary and bonus payable	11,570,505	1	9,603,908	1
Accrued profit sharing bonus to employees and compensation to directors (Notes 20 and 28)	22,794,771	1	20,913,074	1
Payables to contractors and equipment suppliers	62,449,143	4	25,346,206	2
Income tax payable (Notes 5 and 26)	40,256,148	2	32,975,435	2
Provisions (Notes 5 and 16)	16,991,612	1	9,011,863	1
Long-term liabilities - current portion (Note 17)	38,100,000	2	12,000,000	1
Accrued expenses and other current liabilities (Note 19)	<u>28,620,469</u>	<u>2</u>	<u>24,466,937</u>	<u>2</u>
Total current liabilities	<u>308,177,214</u>	<u>17</u>	<u>194,299,278</u>	<u>13</u>
<b>NONCURRENT LIABILITIES</b>				
Bonds payable (Note 17)	116,100,000	6	154,200,000	10
Deferred income tax liabilities (Notes 5 and 26)	141,183	-	31,271	-
Net defined benefit liability (Notes 5 and 18)	8,551,408	-	7,448,026	-
Guarantee deposits (Note 19)	14,666,542	1	21,554,374	1
Others (Note 16)	<u>453,536</u>	-	<u>480,847</u>	-
Total noncurrent liabilities	<u>139,912,669</u>	<u>7</u>	<u>183,714,518</u>	<u>11</u>
Total liabilities	<u>448,089,883</u>	<u>24</u>	<u>378,013,796</u>	<u>24</u>
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>				
Capital stock (Note 20)	<u>259,303,805</u>	<u>14</u>	<u>259,303,805</u>	<u>16</u>
Capital surplus (Note 20)	<u>56,272,304</u>	<u>3</u>	<u>56,300,215</u>	<u>3</u>
Retained earnings (Note 20)				
Appropriated as legal capital reserve	208,297,945	12	177,640,561	11
Unappropriated earnings	<u>863,710,224</u>	<u>47</u>	<u>716,653,025</u>	<u>45</u>
	<u>1,072,008,169</u>	<u>59</u>	<u>894,293,586</u>	<u>56</u>
Others (Note 20)	<u>1,663,983</u>	-	<u>11,774,113</u>	<u>1</u>
Total equity	<u>1,389,248,261</u>	<u>76</u>	<u>1,221,671,719</u>	<u>76</u>
<b>TOTAL</b>	<u>\$ 1,837,338,144</u>	<u>100</u>	<u>\$ 1,599,685,515</u>	<u>100</u>

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)

	2016		2015	
	Amount	%	Amount	%
NET REVENUE (Notes 5, 22 and 31)	\$ 936,387,291	100	\$ 837,046,888	100
COST OF REVENUE (Notes 5, 10, 28, 31 and 34)	<u>474,552,913</u>	<u>51</u>	<u>439,356,165</u>	<u>52</u>
GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO SUBSIDIARIES AND ASSOCIATES	461,834,378	49	397,690,723	48
REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO SUBSIDIARIES AND ASSOCIATES	<u>(26,082)</u>	<u>-</u>	<u>18,117</u>	<u>-</u>
GROSS PROFIT	<u>461,808,296</u>	<u>49</u>	<u>397,708,840</u>	<u>48</u>
OPERATING EXPENSES (Notes 5, 28 and 31)				
Research and development	70,366,179	8	64,831,860	8
General and administrative	18,697,463	2	16,138,095	2
Marketing	<u>3,098,086</u>	<u>-</u>	<u>2,983,080</u>	<u>-</u>
Total operating expenses	<u>92,161,728</u>	<u>10</u>	<u>83,953,035</u>	<u>10</u>
OTHER OPERATING INCOME AND EXPENSES, NET (Notes 12 and 28)	<u>83,965</u>	<u>-</u>	<u>(347,107)</u>	<u>-</u>
INCOME FROM OPERATIONS	<u>369,730,533</u>	<u>39</u>	<u>313,408,698</u>	<u>38</u>
NON-OPERATING INCOME AND EXPENSES				
Share of profits of subsidiaries and associates (Note 11)	14,941,372	2	33,694,186	4
Other income (Note 23)	1,816,803	-	1,839,862	-
Foreign exchange gain, net (Note 35)	609,345	-	2,698,396	-
Finance costs (Note 24)	(2,643,193)	-	(2,440,459)	-
Other gains and losses (Note 25)	<u>734,100</u>	<u>-</u>	<u>787,985</u>	<u>-</u>
Total non-operating income and expenses	<u>15,458,427</u>	<u>2</u>	<u>36,579,970</u>	<u>4</u>
INCOME BEFORE INCOME TAX	385,188,960	41	349,988,668	42
INCOME TAX EXPENSE (Notes 5 and 26)	<u>50,941,780</u>	<u>5</u>	<u>43,414,831</u>	<u>5</u>
NET INCOME	<u>334,247,180</u>	<u>36</u>	<u>306,573,837</u>	<u>37</u>

(Continued)

# Taiwan Semiconductor Manufacturing Company Limited

## PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 11, 18, 20 and 26)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	\$ (1,057,220)	-	\$ (827,703)	-
Share of other comprehensive loss of subsidiaries and associates	(19,961)	-	(2,523)	-
Income tax benefit related to items that will not be reclassified subsequently	<u>126,867</u>	<u>-</u>	<u>99,324</u>	<u>-</u>
	<u>(950,314)</u>	<u>-</u>	<u>(730,902)</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	(9,439,776)	(1)	6,525,608	1
Changes in fair value of available-for-sale financial assets	47,506	-	94,064	-
Share of other comprehensive loss of subsidiaries and associates	(656,684)	-	(20,578,859)	(3)
Income tax expense related to items that may be reclassified subsequently	<u>(61,176)</u>	<u>-</u>	<u>(15,991)</u>	<u>-</u>
	<u>(10,110,130)</u>	<u>(1)</u>	<u>(13,975,178)</u>	<u>(2)</u>
Other comprehensive loss for the year, net of income tax	<u>(11,060,444)</u>	<u>(1)</u>	<u>(14,706,080)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 323,186,736</u>	<u>35</u>	<u>\$ 291,867,757</u>	<u>35</u>
EARNINGS PER SHARE (NT\$, Note 27)				
Basic earnings per share	<u>\$ 12.89</u>		<u>\$ 11.82</u>	
Diluted earnings per share	<u>\$ 12.89</u>		<u>\$ 11.82</u>	

The accompanying notes are an integral part of the 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)

	Capital Stock - Common Stock		Capital Surplus	Legal Capital Reserve	Retained Earnings Unappropriated Earnings	Others			Total Equity
	Shares (In Thousands)	Amount				Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	
BALANCE, JANUARY 1, 2015	25,929,662	\$ 259,296,624	\$ 55,989,922	\$ 151,250,682	\$ 555,914,592	\$ 4,502,113	\$ 21,247,483	\$ 25,749,291	\$ 1,046,201,111
Appropriations of prior year's earnings	-	-	-	-	(26,389,879)	-	-	-	-
Legal capital reserve	-	-	-	26,389,879	(116,683,481)	-	-	-	(116,683,481)
Cash dividends to shareholders - NT\$4.5 per share	-	-	-	26,389,879	(143,073,360)	-	-	-	(116,683,481)
Total	-	-	-	-	306,573,837	-	-	-	306,573,837
Net income in 2015	-	-	-	-	(730,902)	6,537,836	(20,512,712)	(302)	(13,975,178)
Other comprehensive income (loss) in 2015, net of income tax	-	-	-	-	305,842,935	6,537,836	(20,512,712)	(302)	(14,706,080)
Total comprehensive income (loss) in 2015	-	-	-	-	-	-	-	-	291,867,757
Issuance of stock from exercise of employee stock options	718	7,181	130,974	177,640,561	-	-	-	-	138,155
Disposal of investments accounted for using equity method	-	-	(26,537)	-	-	-	-	-	(26,537)
Adjustments to share of changes in equities of associates	-	-	209,430	-	-	-	-	-	209,430
From differences between equity purchase price and carrying amount arising from actual acquisition or disposal of subsidiaries	-	-	-	-	(31,142)	-	-	-	(31,142)
From share of changes in equities of subsidiaries	-	-	(3,574)	-	-	-	-	-	(3,574)
BALANCE, DECEMBER 31, 2015	25,930,380	259,303,805	56,300,215	177,640,561	716,653,025	11,039,949	734,771	11,774,113	1,221,671,719
Appropriations of prior year's earnings	-	-	-	30,657,384	(30,657,384)	-	-	-	-
Legal capital reserve	-	-	-	30,657,384	(155,582,283)	-	-	-	(155,582,283)
Cash dividends to shareholders - NT\$6.0 per share	-	-	-	30,657,384	(186,239,667)	-	-	-	(155,582,283)
Total	-	-	-	-	334,247,180	-	-	-	334,247,180
Net income in 2016	-	-	-	-	(950,314)	(9,378,712)	(732,130)	712	(10,110,130)
Other comprehensive income (loss) in 2016, net of income tax	-	-	-	-	333,296,866	(9,378,712)	(732,130)	712	(10,110,130)
Total comprehensive income (loss) in 2016	-	-	-	-	-	-	-	-	(56,169)
Disposal of investments accounted for using equity method	-	-	(56,169)	-	-	-	-	-	(56,169)
Adjustments to share of changes in equities of associates	-	-	21,221	-	-	-	-	-	21,221
From share of changes in equities of subsidiaries	-	-	7,037	-	-	-	-	-	7,037
BALANCE, DECEMBER 31, 2016	25,930,380	\$ 259,303,805	\$ 56,272,304	\$ 208,297,945	\$ 863,710,224	\$ 1,661,237	\$ 2,641	\$ 1,663,983	\$ 1,389,248,261

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)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	\$ 385,188,960	\$ 349,988,668
Adjustments for:		
Depreciation expense	213,977,324	213,293,810
Amortization expense	3,724,066	3,159,437
Finance costs	2,643,193	2,440,459
Share of profits of subsidiaries and associates	(14,941,372)	(33,694,186)
Interest income	(1,683,150)	(1,726,503)
Gain on disposal of property, plant and equipment, net	(100,503)	(21,569)
Impairment loss on property, plant and equipment	-	228,037
Impairment loss on financial assets	4,537	21,437
Gain on disposal of available-for-sale financial assets, net	(101,411)	(51)
Loss (gain) on disposal of investments accounted for using equity method, net	296,065	(2,419,785)
Unrealized (realized) gross profit on sales to subsidiaries and associates	26,082	(18,117)
Loss (gain) on foreign exchange, net	(2,656,406)	2,548,291
Dividend income	(133,653)	(113,359)
Changes in operating assets and liabilities:		
Financial instruments at fair value through profit or loss	(127,857)	(249,322)
Notes and accounts receivable, net	(20,448,337)	(6,375,554)
Receivables from related parties	(29,562,888)	31,322,516
Other receivables from related parties	(493,473)	108,834
Inventories	17,833,842	(759,653)
Other financial assets	(22,662)	823,847
Other current assets	18,337	(142,763)
Accounts payable	7,639,380	(1,916,970)
Payables to related parties	1,108,002	(1,024,427)
Salary and bonus payable	1,966,597	595,592
Accrued profit sharing bonus to employees and compensation to directors	1,881,697	2,860,254
Accrued expenses and other current liabilities	3,891,345	(2,788,099)
Provisions	7,961,632	(948,176)
Net defined benefit liability	46,163	73,473
Cash generated from operations	577,935,510	555,266,121
Income taxes paid	(45,387,724)	(40,493,290)
Net cash generated by operating activities	<u>532,547,786</u>	<u>514,772,831</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale financial assets	(172)	(3,628)
Held to maturity financial assets	(11,242,766)	(23,074,925)
Investments accounted for using equity method	(445,012)	-

(Continued)

# Taiwan Semiconductor Manufacturing Company Limited

## PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	2016	2015
Equity interest in subsidiary	\$ (1,630,700)	\$ (394,674)
Property, plant and equipment	(323,009,940)	(249,921,656)
Intangible assets	(4,207,065)	(4,269,815)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	126,289	3,679
Held-to-maturity financial assets	10,550,000	16,800,000
Financial assets carried at cost	-	8,000
Investments accounted for using equity method	-	3,962,848
Equity interest in subsidiary	2,325	806,807
Property, plant and equipment	104,020	347,840
Proceeds from return of capital of financial assets carried at cost	7,493	-
Interest received	1,748,570	1,636,497
Other dividends received	133,653	113,359
Dividends received from investments accounted for using equity method	5,469,549	3,001,834
Refundable deposits paid	(138,204)	(404,253)
Refundable deposits refunded	169,464	348,283
Decrease (increase) in receivables for temporary payments	47,924	(47,924)
Cash inflow (outflow) from incorporation of subsidiary	<u>396,262</u>	<u>(3,725,916)</u>
Net cash used in investing activities	<u>(321,918,310)</u>	<u>(254,813,644)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	18,968,936	3,138,680
Repayment of bonds	(12,000,000)	-
Interest paid	(2,644,187)	(2,456,299)
Guarantee deposits received	420,719	747,108
Guarantee deposits refunded	(421,002)	(740,829)
Cash dividends	(155,582,283)	(116,683,481)
Proceeds from exercise of employee stock options	-	33,891
Payment of partial acquisition of interests in subsidiaries	(74,130,714)	(64,744,242)
Proceeds from partial disposal of interests in subsidiaries	<u>144,035</u>	<u>380,336</u>
Net cash used in financing activities	<u>(225,244,496)</u>	<u>(180,324,836)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(14,615,020)</b>	<b>79,634,351</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>264,493,583</u>	<u>184,859,232</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 249,878,563</u>	<u>\$ 264,493,583</u>

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

(Concluded)



**Taiwan Semiconductor Manufacturing Company Limited**  
**Earnings Distribution Proposal**  
**December 31, 2016**

Unit: NT\$

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<b>Net Income of 2016</b>	<b>334,247,180,167</b>
<b>Less:</b>	
- 10% Legal Reserve	-33,424,718,017
<b>Earnings in 2016 Available for Distribution</b>	<b>300,822,462,150</b>
<b>Plus:</b>	
- Unappropriated retained earnings of previous years	530,413,358,646
<b>Less:</b>	
- Remeasurement of defined benefit obligation	-950,314,634
<b>Retained Earnings Available for Distribution as of December 31, 2016</b>	<b>830,285,506,162</b>
 <b>Distribution Item:</b>	
- Cash Dividends to Common Share Holders (NT\$7 per share)	-181,512,663,206
<b>Unappropriated Retained Earnings</b>	<b>648,772,842,956</b>

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**Comparison Table for the Articles of Incorporation  
Before and After Revision**

<b>Before the Version</b>	<b>After the Version</b>
<p><b>Article 2</b></p> <p>The scope of business of the Corporation shall be as follows:</p> <p>1. Manufacturing and sales of integrated circuits and assembly of other semiconductor devices in wafer form at the order of and pursuant to product design specifications provided by customers. Provision of packaging and testing services related to the above services. Providing computer assisted design services and technology for integrated circuits. Providing mask making and mask design services. (CC01080 Electronic Parts and Components Manufacturing)</p> <p>2. Researching, developing, designing, manufacturing and selling LED lighting devices and related applications products and systems. (CC01080 Electronic Parts and Components Manufacturing) (CC01040 Electric Wires and Cables Manufacturing)</p> <p>3. Researching, developing, designing, manufacturing and selling renewable energy and efficiency related technologies and products, including solar cells, solar photovoltaic</p>	<p><b>Article 2</b></p> <p>The scope of business of the Corporation shall be as follows:</p> <p>1. Manufacturing and sales of integrated circuits and assembly of other semiconductor devices in wafer form at the order of and pursuant to product design specifications provided by customers. Provision of packaging and testing services related to the above services. Providing computer assisted design services and technology for integrated circuits. Providing mask making and mask design services. (CC01080 Electronic Parts and Components Manufacturing)</p> <p>2. Researching, developing, designing, manufacturing and selling LED lighting devices and related applications products and systems. (CC01080 Electronic Parts and Components Manufacturing) (CC01040 Electric Wires and Cables Manufacturing)</p> <p>3. Researching, developing, designing, manufacturing and selling renewable energy and efficiency related technologies and products, including solar cells, solar photovoltaic</p>

<b>Before the Version</b>	<b>After the Version</b>
<p>modules and their related systems and applications.  (CC01080 Electronic Parts and Components Manufacturing)  (IG03010 Energy Technical Services)  (CC01090 Batteries Manufacturing)</p>	<p>modules and their related systems and applications.  (CC01080 Electronic Parts and Components Manufacturing)  (IG03010 Energy Technical Services)  (CC01090 Batteries Manufacturing)</p> <p><u><a href="#">4. Selling recycled and processed chemical, metal, and plastic materials and products derived from the Corporation’s manufacturing activities.</a></u>  <u><a href="#">(C801990 Other Chemical Materials Manufacturing)</a></u>  <u><a href="#">(C802990 Other Chemical Products Manufacturing)</a></u>  <u><a href="#">(CA02990 Other Fabricated Metal Products Manufacturing)</a></u>  <u><a href="#">(C805990 Other Plastic Products Manufacturing)</a></u></p>
<p><b>Article 36</b></p> <p>These Articles of Incorporation are agreed to and signed on December 10, 1986 by all the promoters of the Corporation, and the first Amendment was approved by the shareholders’ meeting on April 28, 1987, the second Amendment on November 27, 1989, the third Amendment on May 28, 1991, the fourth Amendment on May 18, 1993, the fifth Amendment on January 28, 1994, the sixth Amendment on May 12, 1995, the seventh Amendment on April 8, 1996, the eighth Amendment on May 13, 1997, the ninth Amendment on May 12, 1998, the tenth Amendment on May 11, 1999, the eleventh Amendment on April 14, 2000, the twelfth Amendment on September 5, 2000, the thirteenth Amendment on May 15, 2001, the fourteenth</p>	<p><b>Article 36</b></p> <p>These Articles of Incorporation are agreed to and signed on December 10, 1986 by all the promoters of the Corporation, and the first Amendment was approved by the shareholders’ meeting on April 28, 1987, the second Amendment on November 27, 1989, the third Amendment on May 28, 1991, the fourth Amendment on May 18, 1993, the fifth Amendment on January 28, 1994, the sixth Amendment on May 12, 1995, the seventh Amendment on April 8, 1996, the eighth Amendment on May 13, 1997, the ninth Amendment on May 12, 1998, the tenth Amendment on May 11, 1999, the eleventh Amendment on April 14, 2000, the twelfth Amendment on September 5, 2000, the thirteenth Amendment on May 15, 2001, the fourteenth</p>

<b>Before the Version</b>	<b>After the Version</b>
<p>Amendment on May 7, 2002, the fifteenth Amendment on June 3, 2003, the sixteenth Amendment on December 21, 2004, the seventeenth Amendment on May 10, 2005, the eighteenth Amendment on May 16, 2006, the nineteenth Amendment on May 7, 2007, the twentieth Amendment on June 15, 2010, the twenty-first Amendment on June 12, 2012, and the twenty-second Amendment on June 7, 2016.</p>	<p>Amendment on May 7, 2002, the fifteenth Amendment on June 3, 2003, the sixteenth Amendment on December 21, 2004, the seventeenth Amendment on May 10, 2005, the eighteenth Amendment on May 16, 2006, the nineteenth Amendment on May 7, 2007, the twentieth Amendment on June 15, 2010, the twenty-first Amendment on June 12, 2012, <del>and</del> the twenty-second Amendment on June 7, 2016, <a href="#"><u>and the twenty-third Amendment on June 8, 2017.</u></a></p>

## Comparison Table for the Procedures for Acquisition or Disposal of Assets Before and After Revisions

Before the Revision	After the Revision
<p><b>Article 4</b></p> <p>Should any of the following conditions relating to the Company's acquisition or disposal of assets occurs, filing and public announcement shall be made according to the relevant regulations within two days commencing immediately from the Date of the Event:</p> <ol style="list-style-type: none"> <li>1. acquisition or disposal of real estate from or to a related party, or acquisition or disposal of assets other than real estate from or to a related party where the transaction amount reaches 20% of this Company's paid-in capital, 10% of this Company's total assets, or NT\$300 million; provided, this shall not apply to buying or selling of government bonds or bonds under repurchase and resale agreements, nor subscription or redemption of domestic money market funds;</li> <li>2. merger, spin-off, acquisition or share swap;</li> <li>3. the assets acquisition or disposal other than those mentioned above, of which one of the following amounts reaches 20% of the Company's paid-in capital or exceeds NT\$300 million:</li> </ol>	<p><b>Article 4</b></p> <p>Should any of the following conditions relating to the Company's acquisition or disposal of assets occurs, filing and public announcement shall be made according to the relevant regulations within two days commencing immediately from the Date of the Event:</p> <ol style="list-style-type: none"> <li>1. acquisition or disposal of real estate from or to a related party, or acquisition or disposal of assets other than real estate from or to a related party where the transaction amount reaches 20% of this Company's paid-in capital, 10% of this Company's total assets, or NT\$300 million; provided, this shall not apply to buying or selling of government bonds or bonds under repurchase and resale agreements, nor subscription or redemption of domestic money market funds <u>issued by securities investment trusts</u>;</li> <li>2. merger, spin-off, acquisition or share swap;</li> <li>3. the <del>assets</del>-acquisition or disposal <u>of</u> other <del>than those mentioned above,</del> <u>of which one of</u> <del>assets where the following amounts</del> <u>transaction amount</u> reaches 20% of the Company's paid-in capital or exceeds NT\$300 million<del>.</del></li> </ol>

Before the Revision	After the Revision
<ul style="list-style-type: none"> <li>- the amount of each single transaction for acquisition or disposal of assets;</li> <li>- the accumulated amount of several transactions with the same party for acquisition or disposal of the same kind of assets within one year;</li> <li>- the accumulated amount for acquisition or disposal (acquisition and disposal should be cumulated separately) of real estate under the same development project within one year; or</li> <li>- the accumulated amount for acquisition or disposal (acquisition and disposal should be cumulated separately) of the same security within one year.</li> </ul> <p>The following situations should not be subject to the above filing/publishing requirements:</p> <ol style="list-style-type: none"> <li>1. buying or selling government bonds;</li> <li>2. buying or selling bonds under repurchase and resale agreements, or subscribing or redeeming domestic money market funds;</li> <li>3. acquisition or disposal of operation-purpose equipment with non-related parties in an amount not exceeding NT\$ 500 million;</li> <li>4. acquisition of real estate by way of contracting third parties to construct on land owned or rented by this Company, distribution of building under joint construction project, distribution of profit</li> </ol>	<ul style="list-style-type: none"> <li><del>—the amount of each single transaction for acquisition or disposal of assets;</del></li> <li><del>—the accumulated amount of several transactions with the same party for acquisition or disposal of the same kind of assets within one year;</del></li> <li><del>—the accumulated amount for acquisition or disposal (acquisition and disposal should be cumulated separately) of real estate under the same development project within one year; or</del></li> <li><del>—the accumulated amount for acquisition or disposal (acquisition and disposal should be cumulated separately) of the same security within one year.</del></li> </ul> <p>The following situations should not be subject to the above filing/publishing requirements:</p> <ol style="list-style-type: none"> <li>1. buying or selling government bonds;</li> <li>2. buying or selling bonds under repurchase and resale agreements, or subscribing or redeeming domestic money market funds <u>issued by securities investment trusts</u>;</li> <li>3. acquisition or disposal of operation-purpose equipment with non-related parties in an amount not exceeding NT\$ <del>500 million</del> <u>1 billion</u>;</li> <li>4. acquisition of real estate by way of contracting third parties to construct on land owned or rented by this Company, distribution of building under joint construction project, distribution of profit</li> </ol>

<b>Before the Revision</b>	<b>After the Revision</b>
<p>under joint construction project, or selling building under joint construction project, and the amount of transaction not exceeding NT\$ 500 million (based on the amount this Company plans to contribute).</p> <p>“Within one year” as used in the preceding paragraph refers to one year preceding the Date of the Event of the subject acquisition or disposal of assets. Transactions that have been previously published in accordance with the Procedures should be excluded.</p>	<p>under joint construction project, or selling building under joint construction project, and the amount of transaction not exceeding NT\$ 500 million (based on the amount this Company plans to contribute).</p> <p><u>The “transaction amount” referred to above shall be calculated as follows:</u></p> <ol style="list-style-type: none"> <li><u>1. the amount of each single transaction for acquisition or disposal of assets;</u></li> <li><u>2. the accumulated amount of several transactions with the same party for acquisition or disposal of the same kind of assets within one year;</u></li> <li><u>3. the accumulated amount for acquisition or disposal (acquisition and disposal should be cumulated separately) of real estate under the same development project within one year; or</u></li> <li><u>4. the accumulated amount for acquisition or disposal (acquisition and disposal should be cumulated separately) of the same security within one year.</u></li> </ol> <p>“Within one year” as used in the preceding paragraph refers to one year preceding the Date of the Event of the subject acquisition or disposal of assets. Transactions that have been previously published in accordance with the Procedures should be excluded.</p>

Before the Revision	After the Revision
<p data-bbox="205 219 347 253"><b>Article 8</b></p> <p data-bbox="205 304 815 427">The procedures for acquisition or disposal of assets by this Company from or to a related party are as follows:</p> <ol data-bbox="205 488 815 1906" style="list-style-type: none"> <li data-bbox="205 488 815 987">1. When this Company engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring the compliance with the provision of Article 6, if the transaction amount reaches 10% of this Company's total assets, this Company shall also obtain an appraisal report from a professional appraiser or an opinion by the certified public accountant in accordance with Article 6.</li> <li data-bbox="205 1066 815 1906">2. If this Company intends to acquire or dispose of real estate from or to a related party, or when it intends to acquire or dispose of assets other than real estate from or to a related party and the transaction amount reaches 20% of this Company's paid-in capital, 10% of this Company's total assets, or NT\$300 million, except for buying or selling government bonds, bonds under repurchase and resale agreements and subscribing or redeeming domestic money market funds, this Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Audit Committee and then submitted to the Board for a resolution:</li> </ol>	<p data-bbox="850 219 992 253"><b>Article 8</b></p> <p data-bbox="850 304 1460 427">The procedures for acquisition or disposal of assets by this Company from or to a related party are as follows:</p> <ol data-bbox="850 488 1460 1982" style="list-style-type: none"> <li data-bbox="850 488 1460 987">1. When this Company engages in any acquisition or disposal of assets from or to a related party, in addition to ensuring the compliance with the provision of Article 6, if the transaction amount reaches 10% of this Company's total assets, this Company shall also obtain an appraisal report from a professional appraiser or an opinion by the certified public accountant in accordance with Article 6.</li> <li data-bbox="850 1055 1460 1982">2. If this Company intends to acquire or dispose of real estate from or to a related party, or when it intends to acquire or dispose of assets other than real estate from or to a related party and the transaction amount reaches 20% of this Company's paid-in capital, 10% of this Company's total assets, or NT\$300 million, except for buying or selling government bonds, bonds under repurchase and resale agreements and subscribing or redeeming domestic money market funds <u>issued by securities investment trusts</u>, this Company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the Audit Committee and then submitted to the Board for a resolution:</li> </ol>



<b>Before the Revision</b>	<b>After the Revision</b>
<p>(1) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.</p> <p>(2) The reason for choosing the related party as a trading counterparty.</p> <p>(3) With respect to the acquisition of real estate from a related party, information regarding the evaluation of the reasonableness of the preliminary transaction terms in accordance with applicable regulations.</p> <p>(4) The date and price at which the related party originally acquired the real estate, the original trading counterparty, and that trading counterparty's relationship to this Company and the related party.</p> <p>(5) Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>(6) An appraisal report from a professional appraiser or an opinion by the certified public accountant obtained in compliance with the preceding subparagraph 1.</p> <p>(7) Restrictive covenants and other important stipulations associated with the transaction.</p> <p>3. With respect to the acquisition or disposal of operation-purpose</p>	<p>(1) The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.</p> <p>(2) The reason for choosing the related party as a trading counterparty.</p> <p>(3) With respect to the acquisition of real estate from a related party, information regarding the evaluation of the reasonableness of the preliminary transaction terms in accordance with applicable regulations.</p> <p>(4) The date and price at which the related party originally acquired the real estate, the original trading counterparty, and that trading counterparty's relationship to this Company and the related party.</p> <p>(5) Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>(6) An appraisal report from a professional appraiser or an opinion by the certified public accountant obtained in compliance with the preceding subparagraph 1.</p> <p>(7) Restrictive covenants and other important stipulations associated with the transaction.</p> <p>3. With respect to the acquisition or disposal of operation-purpose</p>

<b>Before the Revision</b>	<b>After the Revision</b>
<p>equipment between this Company and its subsidiaries, the Board may delegate the Chairman to decide such matters when the transaction is within the amount of NT\$500 million and have the decisions subsequently submitted to and ratified at the next Board meeting.</p> <p>4. When a matter is submitted for discussion by the Board pursuant to the preceding paragraph, the Board shall take into full consideration each independent director’s opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board meeting.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 4, paragraph 1, subparagraph 3 herein, and “within one year” refers to one year preceding the Date of Event of the current transaction. Items that have been previously approved by the Board need not be counted toward the transaction amount.</p>	<p>equipment between this Company and its subsidiaries, the Board may delegate the Chairman to decide such matters when the transaction is within the amount of NT\$500 million and have the decisions subsequently submitted to and ratified at the next Board meeting.</p> <p>4. When a matter is submitted for discussion by the Board pursuant to the preceding paragraph, the Board shall take into full consideration each independent director’s opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board meeting.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 4, paragraph <del>1</del> <sup>2</sup>, <del>subparagraph 3</del> herein, and “within one year” refers to one year preceding the Date of Event of the current transaction. Items that have been previously approved by the Board need not be counted toward the transaction amount.</p>
<p><b>Article 11</b></p> <p>All items should be published again if any item required to be disclosed is missing during the original publication.</p> <p>Should any of the following conditions occur after the filing and public</p>	<p><b>Article 11</b></p> <p>All items should be published again <del>if any item required to be disclosed is missing during the original publication</del> <u>within two days from the date the Company becomes aware of any error or incompleteness therein.</u></p> <p>Should any of the following conditions occur after the filing and public</p>

<b>Before the Revision</b>	<b>After the Revision</b>
<p>announcement of transactions, this Company needs to file and make public announcement accordingly within two days commencing immediately from the Date of the Event:</p> <ol style="list-style-type: none"> <li>1. amendment, termination or cancellation of the original agreement;</li> <li>2. merger, spin-off, acquisition or share swap not completed as scheduled in the agreement;</li> <li>3. change to the originally publicly announced and reported information.</li> </ol>	<p>announcement of transactions, this Company needs to file and make public announcement accordingly within two days commencing immediately from the Date of the Event:</p> <ol style="list-style-type: none"> <li>1. amendment, termination or cancellation of the original agreement;</li> <li>2. merger, spin-off, acquisition or share swap not completed as scheduled in the agreement;</li> <li>3. change to the originally publicly announced and reported information.</li> </ol>