

Financial Highlights and Analysis

6.1 Financial Highlights

6.1.1 Condensed Balance Sheet

Condensed Balance Sheet from 2012 to 2016 (Consolidated) (Note 1)

Unit: NT\$ thousands

Item	2012	2013	2014 (Adjusted)	2015	2016
Current Assets	250,325,436	358,486,654	626,565,639	746,743,991	817,729,126
Long-term Investments (Note 2)	65,717,240	89,183,810	30,056,279	34,993,583	46,153,916
Property, Plant and Equipment	617,562,188	792,665,913	818,198,801	853,470,392	997,777,687
Intangible Assets	10,959,569	11,490,383	13,531,510	14,065,880	14,614,846
Other Assets (Note 3)	16,790,075	11,228,217	6,696,857	8,244,452	10,179,727
Total Assets	961,354,508	1,263,054,977	1,495,049,086	1,657,518,298	1,886,455,302
Current Liabilities					
Before Distribution	148,473,947	189,777,934	201,013,629	212,228,594	318,239,273
After Distribution	226,247,254	267,563,785	317,697,110	367,810,877	(Note 4)
Noncurrent Liabilities	89,786,655	225,501,958	247,707,125	222,655,225	178,164,903
Total Liabilities					
Before Distribution	238,260,602	415,279,892	448,720,754	434,883,819	496,404,176
After Distribution	316,033,909	493,065,743	565,404,235	590,466,102	(Note 4)
Equity Attributable to Shareholders of the Parent					
Capital Stock	259,244,357	259,286,171	259,296,624	259,303,805	259,303,805
Capital Surplus	55,675,340	55,858,626	55,989,922	56,300,215	56,272,304
Retained Earnings					
Before Distribution	408,411,468	518,193,152	705,165,274	894,293,586	1,072,008,169
After Distribution	330,638,161	440,407,301	588,481,793	738,711,303	(Note 4)
Others	(2,780,485)	14,170,306	25,749,291	11,774,113	1,663,983
Equity Attributable to Shareholders of the Parent					
Before Distribution	720,550,680	847,508,255	1,046,201,111	1,221,671,719	1,389,248,261
After Distribution	642,777,373	769,722,404	929,517,630	1,066,089,436	(Note 4)
Noncontrolling Interests	2,543,226	266,830	127,221	962,760	802,865
Total Equity					
Before Distribution	723,093,906	847,775,085	1,046,328,332	1,222,634,479	1,390,051,126
After Distribution	645,320,599	769,989,234	929,644,851	1,067,052,196	(Note 4)

Note 1: 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP. Adjustments include a decrease of NT\$84,759 thousand in total assets, a decrease of NT\$737,344 thousand in total liabilities before distribution and an increase of NT\$652,585 thousand in total equity before distribution.

Note 2: Long-term investments consist of noncurrent available-for-sale financial assets, held-to-maturity financial assets, financial assets carried at cost and investments accounted for using equity method.

Note 3: Other assets consist of deferred income tax assets, refundable deposits, and other noncurrent assets.

Note 4: Pending for shareholders' approval.

Condensed Balance Sheet from 2012 to 2016 (Unconsolidated) (Note 1)

Unit: NT\$ thousands

Item	2012	2013	2014 (Adjusted)	2015	2016
Current Assets	205,819,614	257,623,763	370,949,497	426,913,080	443,781,164
Long-term Investments (Note 2)	139,634,200	165,545,159	242,395,596	326,330,737	397,290,976
Property, Plant and Equipment	586,636,036	770,443,494	796,684,361	831,784,912	979,401,337
Intangible Assets	6,449,837	7,069,456	8,996,810	9,391,418	10,047,991
Other Assets (Note 3)	13,597,966	7,897,131	3,935,389	5,265,368	6,816,676
Total Assets	952,137,653	1,208,579,003	1,422,961,653	1,599,685,515	1,837,338,144
Current Liabilities					
Before Distribution	144,528,616	187,195,744	178,261,092	194,299,278	308,177,214
After Distribution	222,301,923	264,981,595	294,944,573	349,881,561	(Note 4)
Noncurrent Liabilities	87,058,357	173,875,004	198,499,450	183,714,518	139,912,669
Total Liabilities					
Before Distribution	231,586,973	361,070,748	376,760,542	378,013,796	448,089,883
After Distribution	309,360,280	438,856,599	493,444,023	533,596,079	(Note 4)
Equity					
Capital Stock	259,244,357	259,286,171	259,296,624	259,303,805	259,303,805
Capital Surplus	55,675,340	55,858,626	55,989,922	56,300,215	56,272,304
Retained Earnings					
Before Distribution	408,411,468	518,193,152	705,165,274	894,293,586	1,072,008,169
After Distribution	330,638,161	440,407,301	588,481,793	738,711,303	(Note 4)
Others	(2,780,485)	14,170,306	25,749,291	11,774,113	1,663,983
Total Equity					
Before Distribution	720,550,680	847,508,255	1,046,201,111	1,221,671,719	1,389,248,261
After Distribution	642,777,373	769,722,404	929,517,630	1,066,089,436	(Note 4)

Note 1: 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP. Adjustments include a decrease of NT\$82,771 thousand in total assets, a decrease of NT\$735,381 thousand in total liabilities before distribution and an increase of NT\$652,610 thousand in total equity before distribution.

Note 2: Long-term investments consist of held-to-maturity financial assets, financial assets carried at cost and investments accounted for using equity method.

Note 3: Other assets consist of deferred income tax assets, refundable deposits, and other noncurrent assets.

Note 4: Pending for shareholders' approval.

6.1.2 Condensed Statement of Comprehensive Income

Condensed Statement of Comprehensive Income from 2012 to 2016 (Consolidated) (Note 1)

Unit: NT\$ thousands (Except EPS: NT\$)

Item	2012	2013	2014 (Adjusted)	2015	2016
Net Revenue	506,745,234	597,024,197	762,806,465	843,497,368	947,938,344
Gross Profit	244,137,107	280,945,507	377,722,016	410,394,893	474,832,098
Income from Operations	181,176,868	209,429,363	295,870,309	320,047,775	377,957,778
Non-operating Income and Expenses	499,588	6,057,759	6,208,048	30,381,136	8,001,602
Income before Income Tax	181,676,456	215,487,122	302,078,357	350,428,911	385,959,380
Net Income	166,123,802	188,018,937	263,763,958	306,556,167	334,338,236
Other Comprehensive Income for the Year, Net of Income Tax	4,252,632	16,352,248	11,805,021	(14,714,182)	(11,067,189)
Total Comprehensive Income for the Year	170,376,434	204,371,185	275,568,979	291,841,985	323,271,047
Net Income (Loss) Attributable to:					
Shareholders of the Parent	166,318,286	188,146,790	263,881,771	306,573,837	334,247,180
Noncontrolling Interests	(194,484)	(127,853)	(117,813)	(17,670)	91,056
Total Comprehensive Income (Loss) Attributable to:					
Shareholders of the Parent	170,521,543	204,505,782	275,670,991	291,867,757	323,186,736
Noncontrolling Interests	(145,109)	(134,597)	(102,012)	(25,772)	84,311
Basic Earnings Per Share (Note 2)	6.42	7.26	10.18	11.82	12.89

Note 1: 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP. Adjustments include a decrease of NT\$12,359 thousand in gross profit, a decrease of NT\$19,984 thousand in income from operations, a decrease of NT\$16,911 thousand in net income and a decrease of NT\$46,054 thousand in total comprehensive income for the year.

Note 2: Based on weighted average shares outstanding in each year.

Condensed Statement of Comprehensive Income from 2012 to 2016 (Unconsolidated) (Note 1)

Unit: NT\$ thousands (Except EPS: NT\$)

Item	2012	2013	2014 (Adjusted)	2015	2016
Net Revenue	500,369,525	591,087,600	757,152,389	837,046,888	936,387,291
Gross Profit	234,850,311	271,644,860	366,899,120	397,708,840	461,808,296
Income from Operations	176,820,141	204,653,892	290,640,302	313,408,698	369,730,533
Non-operating Income and Expenses	6,932,246	11,062,658	10,363,515	36,579,970	15,458,427
Income before Income Tax	183,752,387	215,716,550	301,003,817	349,988,668	385,188,960
Net Income	166,318,286	188,146,790	263,881,771	306,573,837	334,247,180
Other Comprehensive Income for the Year, Net of Income Tax	4,203,257	16,358,992	11,789,220	(14,706,080)	(11,060,444)
Total Comprehensive Income for the Year	170,521,543	204,505,782	275,670,991	291,867,757	323,186,736
Basic Earnings Per Share (Note 2)	6.42	7.26	10.18	11.82	12.89

Note 1: 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version, 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version. Financial statements of 2014 were adjusted to retrospectively apply newly effected GAAP. Adjustments include a decrease of NT\$12,583 thousand in gross profit, a decrease of NT\$19,356 thousand in income from operations, a decrease of NT\$17,023 thousand in net income and a decrease of NT\$46,150 thousand in total comprehensive income for the year.

Note 2: Based on weighted average shares outstanding in each year.

6.1.3 Financial Analysis

Financial Analysis from 2012 to 2016 (Consolidated) (Note 1)

		2012	2013	2014 (Adjusted)	2015	2016
Capital Structure Analysis	Debts Ratio (%)	24.78	32.88	30.01	26.24	26.31
	Long-term Fund to Property, Plant and Equipment (%)	131.63	135.40	158.16	169.34	157.17
Liquidity Analysis	Current Ratio (%)	168.60	188.90	311.70	351.86	256.95
	Quick Ratio (%)	142.39	168.57	278.03	319.58	241.34
	Times Interest Earned (Times)	177.92	82.41	94.34	110.84	117.74
Operating Performance Analysis	Average Collection Turnover (Times)	9.64	9.11	8.12	8.37	8.78
	Days Sales Outstanding	37.86	40.06	44.95	43.61	41.57
	Average Inventory Turnover (Times)	8.38	8.39	7.42	6.49	8.18
	Average Inventory Turnover Days	43.56	43.49	49.19	56.24	44.62
	Average Payment Turnover (Times)	19.38	20.01	19.39	20.10	20.11
	Property, Plant and Equipment Turnover (Times)	0.91	0.85	0.95	1.01	1.02
	Total Assets Turnover (Times)	0.58	0.54	0.55	0.54	0.53
Profitability Analysis	Return on Total Assets (%)	19.19	17.11	19.33	19.62	19.03
	Return on Equity attributable to Shareholders of the Parent (%)	24.68	24.00	27.86	27.04	25.60
	Operating Income to Paid-in Capital Ratio (%)	69.89	80.77	114.10	123.43	145.76
	Pre-tax Income to Paid-in Capital Ratio (%)	70.08	83.11	116.50	135.14	148.84
	Net Margin (%)	32.78	31.49	34.58	36.34	35.27
	Basic Earnings Per Share (NT\$)	6.42	7.26	10.18	11.82	12.89
	Diluted Earnings Per Share (NT\$)	6.41	7.26	10.18	11.82	12.89
	Cash Flow	Cash Flow Ratio (%)	191.93	183.05	209.70	249.67
Cash Flow Adequacy Ratio (%)	94.71	88.35	92.15	103.82	108.57	
Cash Flow Reinvestment Ratio (%)	11.46	12.16	13.04	13.76	11.51	
Leverage	Operating Leverage	2.32	2.40	2.15	2.26	2.15
	Financial Leverage	1.01	1.01	1.01	1.01	1.01
Industry Specific Key Performance Indicator	Billing Utilization Rate (%) (Note 3)	91	91	97	93	92
	Advanced Technologies (28-nanometer and below) Percentage of Wafer Sales (%)	12	30	42	48	55
	Sales Growth (%)	18.70	17.82	27.77	10.58	12.38
	Net Income Growth (%)	23.90	13.12	40.25	16.18	9.03

Analysis of deviation of 2016 vs. 2015 over 20%:

1. Current ratio (%) decreased by 27% mainly due to increase in payables to contractors and equipment suppliers and short-term loans.
2. Quick ratio (%) decreased by 24% mainly due to increase in payables to contractors and equipment suppliers and short-term loans.
3. Average inventory turnover (Times) increased by 26% and average inventory turnover days decreased by 21% mainly due to strong shipments of leading edge wafers during the year and improving cycle time.
4. Cash flow ratio (%) decreased by 32% mainly due to increase in payables to contractors and equipment suppliers and short-term loans.

Note 1: Before 2012, financial statements were prepared in accordance with R.O.C. GAAP. 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version. 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version.

Note 2: Capacity includes wafers committed by Vanguard and SSMC.

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (6) Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
- (7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
- (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
- (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
- (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
- (5) Net Margin = Net Income / Net Sales
- (6) Earnings Per Share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

Financial Analysis from 2012 to 2016 (Unconsolidated) (Note)

		2012	2013	2014 (Adjusted)	2015	2016
Capital Structure Analysis	Debt Ratio (%)	24.32	29.88	26.48	23.63	24.39
	Long-term Fund to Property, Plant and Equipment Ratio (%)	137.67	132.57	156.24	168.96	156.13
Liquidity Analysis	Current Ratio (%)	142.41	137.62	208.09	219.72	144.00
	Quick Ratio (%)	117.49	118.35	171.82	186.00	128.65
	Times Interest Earned (Times)	195.42	104.10	120.82	144.41	146.73
Operating Performance Analysis	Average Collection Turnover (Times)	9.87	9.26	8.29	8.58	8.89
	Days Sales Outstanding	36.98	39.40	44.02	42.54	41.07
	Average Inventory Turnover (Times)	9.13	9.06	7.90	6.87	8.56
	Average Inventory Turnover Days	39.97	40.30	46.18	53.11	42.63
	Average Payment Turnover (Times)	18.22	18.55	18.64	19.73	19.04
	Property, Plant and Equipment Turnover (Times)	0.96	0.87	0.97	1.03	1.03
	Total Assets Turnover (Times)	0.58	0.55	0.58	0.55	0.54
Profitability Analysis	Return on Total Assets (%)	19.45	17.58	20.22	20.42	19.58
	Return on Equity (%)	24.68	24.00	27.86	27.04	25.60
	Operating Income to Paid-in Capital Ratio (%)	68.21	78.93	112.09	120.87	142.59
	Pre-tax Income to Paid-in Capital Ratio (%)	70.88	83.20	116.08	134.97	148.55
	Net Margin (%)	33.24	31.83	34.85	36.63	35.70
	Basic Earnings Per Share (NT\$)	6.42	7.26	10.18	11.82	12.89
	Diluted Earnings Per Share (NT\$)	6.41	7.26	10.18	11.82	12.89
Cash Flow	Cash Flow Ratio (%)	189.88	179.11	230.29	264.94	172.81
	Cash Flow Adequacy Ratio (%)	93.23	86.78	90.72	102.35	107.06
	Cash Flow Reinvestment Ratio (%)	11.36	12.32	13.30	13.85	11.74
Leverage	Operating Leverage	2.37	2.46	2.19	2.31	2.19
	Financial Leverage	1.01	1.01	1.01	1.01	1.01

Analysis of deviation of 2016 vs. 2015 over 20%:

1. Current ratio (%) decreased by 34% mainly due to increase in payables to contractors and equipment suppliers and short-term loans.
2. Quick ratio (%) decreased by 31% mainly due to increase in payables to contractors and equipment suppliers and short-term loans.
3. Average inventory turnover (Times) increased by 25% and average inventory turnover days decreased by 20% mainly due to strong shipments of leading edge wafers during the year and improving cycle time.
4. Cash flow ratio (%) decreased by 35% mainly due to increase in payables to contractors and equipment suppliers and short-term loans.

Note: Before 2012, financial statements were prepared in accordance with R.O.C. GAAP. 2012-2013 financial statements were prepared in accordance with 2010 Taiwan-IFRSs version. 2014-2016 financial statements were prepared in accordance with 2013 Taiwan-IFRSs version.

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (6) Fixed Assets Turnover = Net Sales / Average Net Fixed Assets
- (7) Total Assets Turnover = Net Sales / Average Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
- (2) Return on Equity = Net Income / Average Shareholders' Equity
- (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
- (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
- (5) Net Margin = Net Income / Net Sales
- (6) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash Flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

6.1.4 Auditors' Opinions from 2012 to 2016

Year	CPA	Audit Opinion
2012	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion
2013	Yih-Hsin Kao, Hung-Wen Huang	An Unqualified Opinion
2014	Yih-Hsin Kao, Hung-Wen Huang	An Unqualified Opinion
2015	Yih-Hsin Kao, Hung-Wen Huang	An Unqualified Opinion
2016	Yih-Hsin Kao, Yu-Feng Huang	An Unmodified Opinion (Note)

Note: Starting in 2016, the new auditing standard of the Republic of China requires "An Unqualified Opinion" be replaced by "An Unmodified Opinion".

Deloitte & Touche
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6.1.5 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: Sir Peter Leahy Bonfield



February 14, 2017

6.1.6 Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2016 and as of the date of this Annual Report: None.

6.1.7 Consolidated Financial Statements and Independent Auditors' Report along with Parent Company Only Financial Statements and Independent Auditors' Report

Please refer to Annual Report section (II), Financial Statements.

6.2 Financial Status and Operating Results

6.2.1 Financial Status

Consolidated

Unit: NT\$ thousands

Item	2016	2015	Difference	%
Current Assets	817,729,126	746,743,991	70,985,135	10%
Long-term Investments (Note 1)	46,153,916	34,993,583	11,160,333	32%
Property, Plant and Equipment	997,777,687	853,470,392	144,307,295	17%
Intangible Assets	14,614,846	14,065,880	548,966	4%
Other Assets (Note 2)	10,179,727	8,244,452	1,935,275	23%
Total Assets	1,886,455,302	1,657,518,298	228,937,004	14%
Current Liabilities	318,239,273	212,228,594	106,010,679	50%
Noncurrent Liabilities	178,164,903	222,655,225	(44,490,322)	-20%
Total Liabilities	496,404,176	434,883,819	61,520,357	14%
Capital Stock	259,303,805	259,303,805	0	0%
Capital Surplus	56,272,304	56,300,215	(27,911)	0%
Retained Earnings	1,072,008,169	894,293,586	177,714,583	20%
Others	1,663,983	11,774,113	(10,110,130)	-86%
Equity Attributable to Shareholders of the Parent	1,389,248,261	1,221,671,719	167,576,542	14%
Total Equity	1,390,051,126	1,222,634,479	167,416,647	14%

Note 1: Long-term investments consist of noncurrent available-for-sale financial assets, held-to-maturity financial assets, financial assets carried at cost and investments accounted for using equity method.
Note 2: Other assets consist of deferred income tax assets, refundable deposits, and other noncurrent assets.

• Analysis of Deviation over 20%

Increase in long-term investments: The increase was mainly due to increase in held-to-maturity financial assets.

Increase in other assets: The increase was mainly due to increase in deferred income tax assets.

Increase in current liabilities: The increase was mainly due to increase in payables to contractors and equipment suppliers and short-term loans.

Decrease in noncurrent liabilities: The decrease was mainly due to reclassification of bonds payable due in 1 year to current liabilities and decrease in guarantee deposits.

Increase in retained earnings: The increase was mainly due to net income of 2016, partially offset by distribution of 2015 earnings.

Decrease in others: The decrease was mainly due to decrease in currency exchange differences arising from translation of foreign operations in 2016.

• Major Impact on Financial Position

The above deviations had no major impact on TSMC's financial position.

• Future Plan on Financial Position: Not applicable.

Unconsolidated

Unit: NT\$ thousands

Item	2016	2015	Difference	%
Current Assets	443,781,164	426,913,080	16,868,084	4%
Long-term Investments (Note 1)	397,290,976	326,330,737	70,960,239	22%
Property, Plant and Equipment	979,401,337	831,784,912	147,616,425	18%
Intangible Assets	10,047,991	9,391,418	656,573	7%
Other Assets (Note 2)	6,816,676	5,265,368	1,551,308	29%
Total Assets	1,837,338,144	1,599,685,515	237,652,629	15%
Current Liabilities	308,177,214	194,299,278	113,877,936	59%
Noncurrent Liabilities	139,912,669	183,714,518	(43,801,849)	-24%
Total Liabilities	448,089,883	378,013,796	70,076,087	19%
Capital Stock	259,303,805	259,303,805	0	0%
Capital Surplus	56,272,304	56,300,215	(27,911)	0%
Retained Earnings	1,072,008,169	894,293,586	177,714,583	20%
Others	1,663,983	11,774,113	(10,110,130)	-86%
Total Equity	1,389,248,261	1,221,671,719	167,576,542	14%

Note 1: Long-term investments consist of held-to-maturity financial assets, financial assets carried at cost and investments accounted for using equity method.

Note 2: Other assets consist of deferred income tax assets, refundable deposits, and other noncurrent assets.

• Analysis of Deviation over 20%

Increase in long-term investments: The increase was mainly due to increase in investments accounted for using equity method in 2016.

Increase in other assets: The increase was mainly due to increase in deferred income tax assets.

Increase in current liabilities: The increase was mainly due to increase in payables to contractors and equipment suppliers and short-term loans.

Decrease in noncurrent liabilities: The decrease was mainly due to reclassification of bonds payable due in 1 year to current liabilities and decrease in guarantee deposits.

Increase in retained earnings: The increase was mainly due to net income of 2016, partially offset by distribution of 2015 earnings.

Decrease in others: The decrease was mainly due to decrease in currency exchange differences arising from translation of foreign operations in 2016.

• Major Impact on Financial Position

The above deviations had no major impact on TSMC's financial position.

• Future Plan on Financial Position: Not applicable.

6.2.2 Financial Performance

Consolidated

Unit: NT\$ thousands

Item	2016	2015	Difference	%
Net Revenue	947,938,344	843,497,368	104,440,976	12%
Cost of Revenue	473,077,173	433,117,601	39,959,572	9%
Gross Profit before Realized (Unrealized) Gross Profit on Sales to Associates	474,861,171	410,379,767	64,481,404	16%
Realized (Unrealized) Gross Profit on Sales to Associates	(29,073)	15,126	(44,199)	-292%
Gross Profit	474,832,098	410,394,893	64,437,205	16%
Operating Expenses	96,904,133	88,466,500	8,437,633	10%
Other Operating Income and Expenses, Net	29,813	(1,880,618)	1,910,431	NM
Income from Operations	377,957,778	320,047,775	57,910,003	18%
Non-operating Income and Expenses	8,001,602	30,381,136	(22,379,534)	-74%
Income before Income Tax	385,959,380	350,428,911	35,530,469	10%
Income Tax Expenses	51,621,144	43,872,744	7,748,400	18%
Net Income	334,338,236	306,556,167	27,782,069	9%
Other Comprehensive Income, Net of Income Tax	(11,067,189)	(14,714,182)	3,646,993	25%
Total Comprehensive Income for the Year	323,271,047	291,841,985	31,429,062	11%
Total Net Income Attributable to Shareholders of the Parent	334,247,180	306,573,837	27,673,343	9%
Total Comprehensive Income Attributable to Shareholders of the Parent	323,186,736	291,867,757	31,318,979	11%

• Analysis of Deviation over 20%

Decrease in realized (unrealized) gross profit on sales to associates: The decrease was mainly due to higher sales to associates and defer recognition of gain in the fourth quarter of 2016.

Decrease in non-operating income and expenses: The decrease was mainly due to lower gain on disposal of available-for-sale financial assets.

Increase in other comprehensive income, net of income tax: The increase was mainly due to unrealized gain from available-for-sale financial assets was realized to profit or loss upon disposal in 2015, partially offset by decrease in currency exchange differences arising from translation of foreign operations in 2016.

• Sales Volume Forecast and Related Information

For additional details, please refer to "1. Letter to Shareholders" on pages 8-11 of this Annual Report.

• Major Impact on Financial Performance

The above deviations had no major impact on TSMC's financial performance.

• Future Plan on Financial Performance: Not applicable.

Unconsolidated

Unit: NT\$ thousands

Item	2016	2015	Difference	%
Net Revenue	936,387,291	837,046,888	99,340,403	12%
Cost of Revenue	474,552,913	439,356,165	35,196,748	8%
Gross Profit before Realized (Unrealized) Gross Profit on Sales to Subsidiaries and Associates	461,834,378	397,690,723	64,143,655	16%
Realized (Unrealized) Gross Profit on Sales to Subsidiaries and Associates	(26,082)	18,117	(44,199)	-244%
Gross Profit	461,808,296	397,708,840	64,099,456	16%
Operating Expenses	92,161,728	83,953,035	8,208,693	10%
Other Operating Income and Expenses, Net	83,965	(347,107)	431,072	NM
Income from Operations	369,730,533	313,408,698	56,321,835	18%
Non-operating Income and Expenses	15,458,427	36,579,970	(21,121,543)	-58%
Income before Income Tax	385,188,960	349,988,668	35,200,292	10%
Income Tax Expenses	50,941,780	43,414,831	7,526,949	17%
Net Income	334,247,180	306,573,837	27,673,343	9%
Other Comprehensive Income, Net of Income Tax	(11,060,444)	(14,706,080)	3,645,636	25%
Total Comprehensive Income for the Year	323,186,736	291,867,757	31,318,979	11%

• Analysis of Deviation over 20%

Decrease in realized (unrealized) gross profit on sales to subsidiaries and associates: The decrease was mainly due to higher sales to subsidiaries and associates and defer recognition of gain in the fourth quarter of 2016.

Decrease in non-operating income and expenses: The decrease was mainly due to lower share of profits of subsidiaries and associates in 2016.

Increase in other comprehensive income, net of income tax: The increase was mainly due to unrealized gain from available-for-sale financial assets of the subsidiary was realized to profit or loss upon disposal in 2015, partially offset by decrease in currency exchange differences arising from translation of foreign operations in 2016.

• Sales Volume Forecast and Related Information

For additional details, please refer to "1. Letter to Shareholders" on pages 8-11 of this Annual Report.

• Major Impact on Financial Performance

The above deviations had no major impact on TSMC's financial performance.

• Future Plan on Financial Performance: Not applicable.

6.2.3 Cash Flow

Consolidated

Unit: NT\$ thousands

Cash Balance 12/31/2015	Net Cash Provided by Operating Activities in 2016	Net Cash Used in Investing and Financing Activities in 2016	Cash Balance 12/31/2016	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
562,688,930	539,834,592	(561,269,689)	541,253,833	None	None

• Analysis of Cash Flow

NT\$539.8 billion net cash generated by operating activities: mainly from net income and depreciation and amortization expenses. NT\$395.4 billion net cash used in investing activities: primarily for capital expenditures and net purchase of marketable financial instruments.

NT\$165.8 billion net cash used in financing activities: primarily for cash dividend payment and repayment of corporate bonds, partially offset by the increase in short-term loans.

• **Remedial Actions for Liquidity Shortfall:** As a result of positive operating cash flows and cash on-hand, remedial actions are not required.

• **Cash Flow Projection for Next Year:** Not applicable.

Unconsolidated

Unit: NT\$ thousands

Cash Balance 12/31/2015	Net Cash Provided by Operating Activities in 2016	Net Cash Used in Investing and Financing Activities in 2016	Cash Balance 12/31/2016	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
264,493,583	532,547,786	(547,162,806)	249,878,563	None	None

• Analysis of Cash Flow

NT\$532.5 billion net cash generated by operating activities: mainly from net income and depreciation and amortization expenses. NT\$321.9 billion net cash used in investing activities: primarily for capital expenditures.

NT\$225.2 billion net cash used in financing activities: primarily for cash dividend payment and capital injection in subsidiaries.

• **Remedial Actions for Liquidity Shortfall:** As a result of positive operating cash flows and cash on-hand, remedial actions are not required.

• **Cash Flow Projection for Next Year:** Not applicable.

6.2.4 Recent Years Major Capital Expenditures and Impact on Financial and Business

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Total Amount for 2016 and 2015	Actual Use of Capital	
			2016	2015
Production Facilities, R&D and Production Equipment	Cash flow generated from operations	578,773,185	325,471,832	253,301,353
Others	Cash flow generated from operations	6,788,920	2,573,438	4,215,482
Total		585,562,105	328,045,270	257,516,835

Based on capital expenditures listed above, TSMC's annual production capacity increased by approximately 1 million 12-inch equivalent wafers in 2016.

6.2.5 Long-term Investment Policy and Results

TSMC's long-term investments, accounted for under the equity method, were all made for strategic purposes. However, when an investment is no longer of strategic value, it may be considered a financial investment. In 2016, the investment gain from these investments amounted to NT\$14,941,372 thousand (NT\$3,495,600 thousand on a consolidated basis), decreasing from previous year mainly due to the disposal gain of ASML shares recognized in 2015. For future investments, TSMC will continue to focus on strategic purposes through prudent assessments.

6.3 Risk Management

The board of directors plays a key role in helping the Company identify and manage economic risks. The risk management organization periodically briefs the audit committee on the ever-changing risk environment facing TSMC, the focus of the Company's enterprise risk management, and risk assessment and mitigation efforts. The audit committee's chairperson also briefs the board on the risk environment and risk mitigation actions to be taken.

TSMC and its subsidiaries are committed to proactively and cost effectively integrating and managing strategic, operational, financial and hazardous risks together with potential consequences to operations and financial results. TSMC operates an enterprise risk management (ERM) program based on both its corporate vision and its long-term sustainability, as well as on its responsibility to both industry and society. ERM seeks to provide the appropriate management of risks by TSMC on behalf of all stakeholders. A risk MAP that considers likelihood and impact severity is used to identify and prioritize corporate risks. Various risk treatment strategies are also adopted in response to identified corporate risks. The Company's risk management focuses on strategic risks, operational risks, financial risks, hazardous risks, and risks associated with climate change and non-compliance with environmental and climate related laws and regulations, and other international laws, regulations and accords, etc.

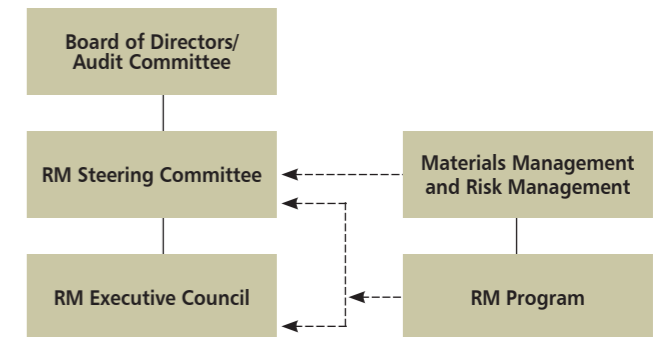
To mitigate the operational impacts of crisis events, for critical crisis scenarios, ERM conducts pre-crisis risk assessment and identifies feasible strategies for crisis prevention. Corresponding to different scenarios, response procedures and recovery plans have been compiled. For specific severe crisis events involving multiple TSMC's manufacturing sites, the cross-functional central crisis command center composed of operations and support functions is responsible for internal

coordination to speed up response time and proactively communicate with related stakeholders. To increase risk awareness and strengthen a risk management culture in TSMC, top management completed a series of crisis management workshops in 2016. The scenario-based crisis response drills involving cross-functional crisis management teams also started in 2016. In order to continuously mitigate corporate risks, drills are used to examine the integrity and risk-control effectiveness of ERM.

To reduce supply chain risks, TSMC created a cross-functional taskforce comprised of members from fab operations, material management, risk management and quality system management to work with suppliers to develop business continuity plans and enhance supply chain resilience to effectively manage the risks faced by its suppliers. Partly as a result of these efforts, there was no interruption in TSMC's supply chain in 2016.

As TSMC continued to expand production capacity with advanced technology in 2016, seismic protection engineering design, risk treatment practices and green factory projects were initiated and implemented, beginning in the design phase for all new fabs.

6.3.1 Risk Management (RM) Organization Chart



Organization Functions

• RM steering committee

Consists of functional heads (with internal audit head sitting as an observer)

Reports to audit committee

Reviews risk control progress

Identifies and approves the prioritized risk lists

• RM executive council

Consists of representatives from each function

Identifies and assesses risks

Implements risk control program and ensures effectiveness

Improves transparency and how risks are managed

6.2.3 Cash Flow

Consolidated

Unit: NT\$ thousands

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Unconsolidated

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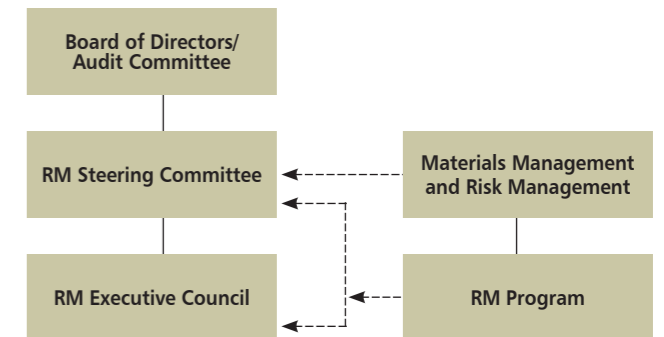
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Consists of representatives from each function

Identifies and assesses risks

Implements risk control program and ensures effectiveness

Improves transparency and how risks are managed

●RM program

Coordinates and facilitates functional risk management activities
Initiates cross-functional communication for risk mitigation
Consolidates ERM reports into the RM steering committee

6.3.2 Strategic Risks

Risks Associated with Changes in Technology and Industry

●Industry Developments

The electronics industries and semiconductor markets are cyclical and subject to significant and often rapid fluctuations in product demand, which could impact TSMC's foundry business. Variations in order levels from customers may result in volatility in the Company's revenue and earnings.

From time to time, the electronics and semiconductor industries have experienced significant, occasionally prolonged periods of downturn and overcapacity. Because TSMC is, and will continue to be, dependent on the requirements of electronics and semiconductor companies, periods of downturn and overcapacity in the general electronics and semiconductor industries could lead to reduced demand for semiconductor foundry services, including TSMC's services. If TSMC cannot take appropriate actions such as reducing its costs to sufficiently offset declines in demand, the Company's revenue, margins, and earnings will likely suffer during these periods.

●Changes in Technology

The semiconductor industry and its technologies are constantly evolving. TSMC competes by developing process technologies using increasingly advanced nodes and by manufacturing products with more functions. TSMC also competes by developing new derivative technologies. If TSMC does not anticipate the changes in technologies and rapidly develop new and innovative technologies, or if the Company's competitors unexpectedly gain sudden access to additional technologies, TSMC may not be able to provide foundry services on competitive terms. In addition, TSMC's customers have significantly decreased the time in which their products or services are brought to the market. If TSMC is unable to meet the requirement for shorter product time-to-market, it risks losing customers. These factors have also been intensified by the shift of the global technology market to consumer-driven products such as mobile devices, and the increasing concentration of customers and competition (all further discussed among these risk factors). If TSMC is unable to innovate new technologies that meet the demands of its

customers or overcome the above factors, its revenue may decline significantly. Although TSMC has concentrated on maintaining a competitive edge in research and development, if TSMC fails to achieve advances in technologies or processes, it may become less competitive.

Regarding the response measures for the above-mentioned risks, please refer to "2.2.4 TSMC Position, Differentiation and Strategy" on page 18-19 of this annual report.

Risks Associated with Decrease in Demand and Average Selling Price

A vast majority of the Company's revenue is derived from customers who use TSMC's services in communication devices, personal computers, consumer electronics products and industrial/standard products. Any decrease in the demand for any one of these products may decrease the demand for overall global semiconductor foundry services, including TSMC's services, and may adversely affect the Company's revenues. Further, semiconductor manufacturing facilities require substantial investment to construct and are largely fixed cost assets once they are in operation. Because the Company owns most of its manufacturing capacities, a significant portion of TSMC's operating costs is fixed. In general, these costs do not decline when customer demand or TSMC's capacity utilization rates drop, and thus declines in customer demand, among other factors, may significantly decrease margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which can improve TSMC's margins. In addition, the historical and current trend of declining average selling prices ("ASP") of end use applications places downward pressure on the prices of the components that go into such applications. If the ASP of end use applications continues decreasing, the pricing pressure on components produced by the Company may lead to a reduction of TSMC's revenue, margin and earnings.

Risks Associated with Competition

The markets for TSMC's foundry services are highly competitive. TSMC competes with other foundry service providers, as well as integrated device manufacturers who devote a significant portion of their manufacturing capacity to foundry operations. Some of these companies may have access to more advanced technologies and greater financial resources than TSMC, including the possibility of receiving direct or indirect government aid, economic stimulus funds, or other incentives that may be unavailable to TSMC. For example, China companies are expected to be the key drivers of new semiconductor fab development and fab equipment spending

through 2020. In 2016 alone, it was reported that over twenty new semiconductor fab projects have been announced or being developed within China due to various incentives provided by China government.

Further, the Company's competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or several technology nodes. Increases in these competitive activities may reduce TSMC's customer base, its ASP (average selling price), or both. If TSMC is unable to compete with these new competitors with better technologies and manufacturing capacity and capabilities for customer satisfaction, it risks losing customers to these new contenders.

Risks Associated with Changes in the Government Policies and Regulatory Environment

TSMC management closely monitors all domestic and foreign governmental policies and regulations that might impact TSMC's business and financial operations. As of February 28, 2017, the following changes or developments in governmental policies and regulations may influence the Company's business operations:

To comply with the Labor Standards Act amended on December 21, 2016, TSMC made certain changes to its relevant internal rules, including adjusting overtime pay for work on days of rest as well as increasing employees' annual leave entitlements. These changes will increase the operating costs of the Company.

With respect to environmental laws, the "Greenhouse Gas Reduction and Management Act" was published in July 2015 in Taiwan in response to climate change, and some of the related regulations have been released. In 2016, among others, the "Greenhouse Gases Inventory Verification and Registration Regulations" was published and TSMC has taken proper measures in compliance with the requirements. We will keep track of regulatory updates to ensure our compliance with these laws and regulations. In addition, the amendment to "Waste Disposal Act" became effective in January 2017. The key changes define and broaden the scope of "waste" and increase the responsibilities of waste generating companies. TSMC has spent great effort on waste management. We will continue our emphasis on this topic to ensure compliance with the law.

Other than the above laws and regulations, it is not expected that other governmental policies or regulatory changes would materially impact TSMC's operations and financial condition.

6.3.3 Operational Risks

Risks Associated with Capacity Expansion

TSMC performs long-term market demand forecast for its products and services to manage its overall capacity. Because market conditions are dynamic, its market demand forecast may change significantly at any time. During periods of decreased demand, certain manufacturing lines or tools in some of its manufacturing facilities may be suspended or shut down temporarily. However, if subsequent demand increases rapidly in a short period of time, TSMC may not be able to restore the capacity in a timely manner.

Recently, according to the market demand forecast, TSMC has been adding capacity in its 300mm wafer fabs to fulfill market needs for its products and services. Expansion of the Company's capacity will increase its costs. For example, the Company will need to purchase additional equipment, hire additional personnel and train personnel to operate the new equipment. If TSMC does not increase its net revenue accordingly, TSMC's financial performance may be adversely affected by these increased costs.

In order to mitigate the risk associated with capacity expansion, TSMC continuously watches for changes in market conditions and works closely with its customers. When market demand is not as expected, the Company will adjust its capacity plans in a timely manner to reduce the impact on its financial performance.

Risks Associated with Sales Concentration

Over the years, TSMC's customer profile and the nature of its customers' businesses have changed dramatically. While it generates revenue from hundreds of customers worldwide, TSMC's ten largest customers accounted for approximately 63% and 69% of net revenue in 2015 and 2016, respectively. The Company's largest customer accounted for approximately 16% and 17% of net revenue in 2015 and 2016, respectively. The Company's second largest customer accounted for approximately 16% and 11% of net revenue in 2015 and 2016, respectively.

A more concentrated customer base will subject our revenue to seasonal demand fluctuations from our large customers, and cause different seasonal patterns of our business. This customer concentration results in part from the changing dynamics of the electronics industry with the structural shift to mobile devices and applications and software that provide the content for such devices. Only a limited number of customers are successfully exploiting this new business model paradigm.

In order to respond to the new paradigm, TSMC has seen the change of nature in its customers' business models. For example, there is a growing trend toward more system houses that operate in a manner that makes their products and services more marketable in a changing consumer market. Also, since the global semiconductor industry is becoming increasingly competitive, some customers have engaged in industry consolidations in order to remain competitive. Such consolidations have taken the form of mergers and acquisitions. If more of major customers consolidate, this will further decrease the overall number of the customer pool. TSMC's operating results and financial condition could be adversely affected by the loss of, or significant curtailment of, purchases by one or more of the Company's top customers, including curtailment due to increased competitive pressures, industry consolidation, a change in their designs, or change in their manufacturing sourcing policies, or practices of these customers, or the timing of customer or distributor inventory adjustments, or change in its major customers' business models.

TSMC maintains a close watch on these trends and works closely with its customers to respond to these changes and to strengthen the Company's market position.

Risks Associated with Purchase Concentration

• Raw Materials

TSMC's production operations require that TSMC obtains adequate supplies of raw materials, such as silicon wafers, gases, chemicals and photoresist, on a timely basis and at commercially reasonable prices. In the past, shortages in the supply of some materials, whether by specific vendors or by the semiconductor industry generally, have resulted in occasional industry-wide price adjustments and delivery delays. For example, the recent increase in silicon wafer prices due to increased demand for such wafers across industry is expected to negatively impact our gross margin in 2017. In addition, major natural disasters, political or economic turmoil occurring within the country of origin of such raw materials may also significantly disrupt the availability of such raw materials or increase their prices. Also, since TSMC procures some raw materials from sole-source suppliers, there is a risk that the need for such raw materials may not be met or that back-up supplies may not be readily available. TSMC's revenue and earnings could decline if the Company is unable to obtain adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that the Company cannot pass on to customers. To reduce the supply chain risk and to manage the cost actively, TSMC is committing resources toward developing new supply sources. In addition, the Company continually encourages its suppliers to reduce their supply chain risk by decentralizing production

plants and to improve their cost competitiveness by moving their production facilities to Taiwan from higher-cost areas.

In the meantime, aware of the risk posed by fewer back-up suppliers, TSMC is engaging early and deeply with primary suppliers on managing quality and capacity issues to be prepared for any unexpected need to ramp up production, which could leave the Company with insufficient time to re-tune its production process. For leading technology nodes, TSMC uses world-class processes at world-class facilities but also requires world-class material quality. To streamline supply chain risk management, the Company intensifies supplier site audits and extends supply chain best practices to suppliers to mitigate capacity and quality risks. Moreover, TSMC continually refines its planning system and enhances demand forecast alignments with critical suppliers for more accurate supply capacity planning, especially for steep ramping up of new nodes. The Company has developed a supply chain risk assessment for critical suppliers that fulfills requirements on labor and ethics, ESH (environmental, safety and health) and single supply risk management. To ultimately empower them to take responsibility for their supply chain, on-site audits are regularly conducted. Any regulatory violations or any adverse environmental impact event, as well as a failure to meet TSMC's expectations in sustainability requirements, may result in business reduction or termination.

• Equipment

The Company's operations and ongoing expansion plans depend on its ability to obtain an appropriate amount of equipment and related services from a limited number of suppliers in a market that is characterized from time to time by limited supply and long delivery cycles. During such times, supplier-specific or industry-wide lead times for delivery can be as long as six months or more. To better manage its supply chain, the Company has implemented various business models and risk management contingencies with suppliers to shorten the procurement lead time. Further, the growing complexities, especially in next-generation lithographic technologies may delay the timely availability of the equipment and parts needed to exploit time-sensitive business opportunities and also increase the market price for such equipment and parts. If TSMC is unable to obtain equipment in a timely manner to fulfill its customers' demands on technology and production capacity, or at a reasonable cost, its financial condition and results of operations could be negatively impacted.

Risks Associated with Intellectual Property Rights

The Company's ability to compete successfully and to achieve future growth will depend in part on the continued strength of its intellectual property portfolio. While TSMC actively

enforces and protects its intellectual property rights, there can be no assurance that its efforts will be adequate to prevent the misappropriation or improper use of its proprietary technologies, software, trade secrets or know-how. Also, the Company cannot assure that, as its business or business models expand into new areas, it will be able to develop independently the technologies, patents, software, trade secrets or know-how necessary to conduct its business or that it can do so without unknowingly infringing the intellectual property rights of others. As a result, TSMC may have to rely on, to a certain degree, licensed technologies and patent licenses from others. To the extent that the Company relies on licenses from others, there can be no assurance that it will be able to obtain any or all of the necessary licenses in the future on terms it considers reasonable or at all. The lack of necessary licenses could expose TSMC to claims for damages and/or injunctions from third parties, as well as claims for indemnification by its customers in instances where it has contractually agreed to indemnify its customers against damages resulting from infringement claims.

TSMC has received, from time-to-time, communications from third parties asserting that TSMC's technologies, its manufacturing processes, or the design of the semiconductors made by TSMC or the use of those semiconductors by its customers may infringe their patents or other intellectual property rights. Because of the nature of the industry, the Company may continue to receive such communications in the future. These assertions have at times resulted in litigation. Recently, there has been a notable increase in the number of assertions made and lawsuits initiated by certain litigious, non-practicing entities and these litigious, non-practicing entities are also becoming more aggressive in their monetary demands and requests for court-issued injunctions. Such lawsuits or assertions may increase TSMC's cost of doing business and may potentially be extremely disruptive if these non-practicing entities succeed in blocking the trade of products and services offered by TSMC.

The Company has expended or is expanding its manufacturing operations into certain offshore jurisdictions. To mitigate the risk of intellectual property misappropriation, TSMC has implemented heightened safeguards against such misappropriation.

If TSMC fails to obtain or maintain certain technologies or intellectual property licenses (or fails to prevent our intellectual property from being misappropriated) and, if litigation relating to such intellectual property matters occurs, it (i) could prevent the Company from manufacturing particular products or selling particular services or applying particular technologies; and

(ii) reduce our ability to compete effectively against entities benefiting from our misappropriated intellectual property, which could reduce its opportunities to generate revenue.

TSMC has taken related measures to minimize potential loss of shareholder value arising from intellectual property claims and litigation filed against the Company. These measures include: strategically obtaining licenses from certain semiconductor and other technology companies as needed; timely securing intellectual property rights for defensive and/or offensive protection of TSMC technology and business; and aggressively defending against baseless litigation.

Risks Associated with Litigation

As is the case with many companies in the semiconductor industry, TSMC has received from time-to-time communications from third parties asserting that its technologies, its manufacturing processes, or the design of the semiconductors made by TSMC or the use of those semiconductors by its customers may infringe upon their patents or other intellectual property rights. These assertions have at times resulted in litigation by or against the Company and settlement payments by the Company. Irrespective of the validity of these claims, TSMC could incur significant costs in the defense thereof or could suffer adverse effects on its operations.

In June 2010, Keranos, LLC, filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents were invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. In February 2014, the Court entered a final judgment in favor of TSMC and TSMC North America, dismissing all of Keranos's claims against TSMC and TSMC North America with prejudice. Keranos appealed the final judgment to the U.S. Court of Appeals for the Federal Circuit, and in August 2015, the Federal Circuit remanded the case back to the Texas court for further proceedings. In January 2017, the Texas court dismissed all of Keranos's claims against TSMC and TSMC North America with prejudice, and dismissed TSMC's and TSMC North America's counterclaims without prejudice. The case is over as to TSMC and TSMC North America.

In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. In September 2014, the Court granted summary judgment of noninfringement in favor of TSMC and TSMC North America. Ziptronix, Inc. could appeal the Court's order. In August 2015, Tessera Technologies, Inc. announced it had acquired Ziptronix. In February 2017, the Court dismissed all of Ziptronix's claims against TSMC and TSMC North America with prejudice.

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

Other than the matters described above, TSMC was not involved in any other material litigation in 2016 and is not currently involved in any other material litigation.

Risks Associated with Mergers and Acquisitions

During 2016 and as of the date of this annual report, there were no such risks for TSMC.

Risks Associated with Recruiting Qualified Personnel

The Company relies on the continued services and contributions of its executive officers and skilled technical and other personnel. TSMC's business could suffer if the Company lost, for whatever reasons, the services and contributions of some of these personnel and could not adequately replace them. TSMC may be required to increase or reduce the number of employees in connection with any business expansion or contraction, in accordance with market demand for the Company's products and services. Since there is intense competition for the recruitment of these personnel, it cannot

ensure that TSMC will always be able to fulfill its personnel requirements in a timely manner.

Future R&D Plans and Expected R&D Spending

For additional details, please refer to "5.2.7 Future R&D Plans" on page 81 of this Annual Report.

Changes in Corporate Reputation and Impact on Company's Crisis Management

TSMC has established an excellent corporate reputation around the world based on its core values of integrity, commitment, innovation and customer trust, as well as its outstanding operations, rigorous corporate governance, and dedication to social responsibility by serving as a good corporate citizen and continuing to pursue innovation in the economic, environmental and social dimensions of CSR.

In 2016, TSMC was honored with awards for achievements in operations, corporate governance, innovation, profit growth, investor relations, environmental protection and in other fields as well. These included the R.O.C. Presidential Innovation Award; the Taiwan Institute for Sustainable Energy 2016 Taiwan Corporate Sustainability Awards No.1 for Domestic Corporates, Gold Medal For Sustainability Report, Sustainable Water Management Award, and Climate Leader Award; the R.O.C. Ministry of Economic Affairs Bureau of Foreign Trade "Outstanding Trade Contribution Award"; ranked top 5% in the Taiwan Stock Exchange Corporate Governance Evaluation; ranked No.1 in profit for the China Credit Information Services' ranking of large Taiwan companies; the R.O.C. Ministry of Economic Affairs Industrial Development Bureau "Green Factory Label"; the R.O.C. Environmental Protection Administration "National Environmental Education Award" and "Enterprise Green Procurement Award"; the R.O.C. Ministry of Economic Affairs' "Excellence in Water Conservation Award" and "Excellence in Energy Conservation Award", ranked No.1 in Taiwan by PricewaterhouseCoopers 2016 Global Innovation 1000 Study; ranked No.1 in *Cheers* Magazines' "Most Admired Companies for the New Generation"; named *CommonWealth* Magazine's "Most Admired Company in Taiwan"; and the CSR Model Award for the *Global Views* Magazine Annual Corporate Social Responsibility Survey. In addition, TSMC was selected as a component of the Dow Jones Sustainability Indices for the 16th consecutive year, further strengthening the Company's reputation.

As an important member of the technology industry, TSMC has always endeavored to act as a positive force in society. The Company maintains departments including legal, customer service, materials management, quality & reliability, R&D, risk management, finance, investor relations, operations, ESH

(environment, safety and health), human resources, the TSMC Foundation, the TSMC Volunteer Association, and public relations to coordinate the Company's resources and further enhance TSMC's positive corporate reputation.

To address potential events that may affect the Company's public reputation, including fires and workplace accidents, TSMC maintains an emergency response procedure manual, and health and safety supervisors for each fab hold meetings of the "Environment, Health, and Safety Technical Board" every month. In addition, relevant departments hold regular drills and continuously improve their emergency response and notification procedures. At the same time, TSMC has established communications criteria for all types of stakeholders, and the public relations department is responsible for external communications. In the event of the above emergencies, all departments immediately deploy emergency response measures to reduce casualties and minimize the impact on the surrounding environment, Company property and manufacturing operations. Responders also alert the public relations department at the first stage of response to ensure smooth channels of communications as well as clear and consistent disclosure regarding the situation to maintain the Company's reputation.

Risks Associated with Change in Management

During 2016 and as of the date of this annual report, there were no such risks for TSMC.

6.3.4 Financial Risks

Economic Risks

• Interest Rate Fluctuation

TSMC is exposed to interest rate risks primarily related to its outstanding debt issuances and investment portfolio. TSMC's interest income and expenses are most sensitive to fluctuations in R.O.C. and U.S. interest rates. Changes in R.O.C. and U.S. interest rates affect the interest earned on the Company's cash, cash equivalents, marketable securities and the fair value of those securities, as well as interest paid on and the fair value of its outstanding debt.

TSMC's investment policy is to achieve a return that will allow the Company to preserve capital and maintain liquidity requirements. Such policy requires the Company's investments generally made in investment grade securities, with the primary objective of minimizing the potential risk of principal loss. TSMC uses a combination of internal and external management to execute its investment strategy. TSMC typically invests in investment grade fixed income securities across various sectors, and limits the amount of credit exposure to

any one issuer. The Company's investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Majority of the Company's fixed rate securities are classified as available-for-sale, and may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. TSMC has entered, and may enter in the future, into interest rate futures to partially hedge the interest rate risk on its fixed income investments. These hedges may reduce only a portion of, but do not eliminate, the financial impact from movements in interest rates.

• Foreign Exchange Volatility

Over one-half of TSMC's capital expenditures and manufacturing costs are denominated in currencies other than NT dollars, primarily in US dollars, Japanese yen and Euros. In 2016, more than 90% of the Company's revenue was denominated in US dollars and currencies other than NT dollars. Therefore, any significant fluctuation to its disadvantage in such exchange rates would have an adverse effect on TSMC's financial condition. For example, because TSMC's functional currency is denominated in NT dollars, every 1 percent depreciation of the US dollar against the NT dollar may result in approximately 0.4 percentage point decrease in TSMC's operating margin based on TSMC's 2016 results.

Conversely, if the US dollar appreciates significantly versus other major currencies, the demand for the products and services of TSMC's customers and for its goods and services will likely decrease, which will negatively affect the Company's revenue.

TSMC utilizes short-term debt denominated in foreign currencies and derivative financial instruments, including currency forward contracts and cross-currency swaps, to partially hedge its currency exposure.

Fluctuations in the exchange rate between the US dollar and the NT dollar may affect the US dollar value of the Company's common shares and the market price of the Company's American Depositary Shares (ADSs) and of any cash dividends paid in NT dollars on TSMC's common shares represented by ADSs.

• Inflation, Deflation and Resulting Market Volatility

The global economy is becoming more vulnerable to sudden unexpected fluctuations in inflationary and deflationary expectations and conditions. Expectations of high inflation and deflation each adversely affects the economy, at both macro and micro levels, by reducing economic efficiency and disrupting investment decisions. Recently, political

uncertainty and negative interest rate policies adopted by some major world economies have exacerbated global fluctuations in inflationary and deflationary expectations. These macro-economic changes have also resulted in market volatility. Such fluctuations and volatility may negatively affect the costs of TSMC's operations and the business operations of its customers who may be forced to plan their purchases of TSMC's goods and services within an uncertain economy. Therefore, the demand for TSMC's products and services could unexpectedly fluctuate severely in accordance with expectations of inflation or deflation as affected by market volatility.

Risks Associated with External Financing

In times of market instability, sufficient external financing may not be available to the Company on a timely basis, on reasonable market terms, or at all. If sufficient external financing is not available, when TSMC needs such financing to meet its capital requirements, TSMC may be forced to curtail its expansion and modification plans or delay the deployment of new or expanded services until it obtains such financing.

Risks Associated with High-Risk/Highly Leveraged Investments; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

TSMC did not make high-risk or highly leveraged financial investments in 2016 nor up to the date of this annual report.

TSMC provided a guarantee to TSMC Global, a wholly-owned subsidiary of TSMC, for its issuance of US dollar-denominated senior unsecured corporate bonds in April 2013. As of February 28, 2017, TSMC had an intercompany loan of RMB\$900 million arranged among the Company's subsidiaries, which was in compliance with relevant rules and regulations.

In 2016, the financial transactions of a derivative nature that TSMC entered into were strictly for hedging and not for any trading or speculative purposes. For more information, please refer to page 36 of the annual report section (II), Financial Statements. The fair market value of TSMC's trading and available-for-sale financial securities is subject to prevailing market conditions and may fluctuate from TSMC's carrying value from time to time, which may impact the returns of those securities.

To control various types of financial transactions, the Company has established internal policies and procedures based on sound financial and business practices, all in compliance with the relevant rules and regulations issued by the Taiwan Securities and Futures Bureau. TSMC policies and procedures include "Policies and Procedures for Financial Derivative

Transactions," "Procedures for Lending Funds to Other Parties," "Procedures for Acquisition or Disposal of Assets," and "Procedures for Endorsement and Guarantee".

Risks Associated with Strategic Investments

From time to time, TSMC has made or will make a series of strategic investments. There is no guarantee that any of these investments will be successful commercially. Any such investment will incur risks, which may result in losses even with careful management. Any loss resulting from such investments may result in significant impairment charges, lower profit margin and ultimately lower distributable earnings. For further information on these investments, please refer to 8. Subsidiary Information and Other Special Notes on pages 136-141 of this annual report.

Risks Associated with Impairment Charges

Under Taiwan-IFRSs, TSMC is required to evaluate its investments, tangible and intangible assets for impairment whenever triggering events or changes in circumstances indicate that the asset may be impaired. If certain criteria are met, TSMC is required to record an impairment charge. TSMC is also required under Taiwan-IFRSs to evaluate goodwill for impairment at least on an annual basis or more frequently whenever triggering events or changes in circumstances indicate that goodwill may be impaired and the carrying value may not be recoverable. TSMC holds investments in certain publicly listed and private companies, some of which have incurred certain impairment charges disclosed in Annual Report section (II), Financial Statements.

The determination of an impairment charge at any given time is based significantly on the projected results of the Company's operations over a number of years subsequent to that time. Consequently, an impairment charge is more likely to occur during a period when the Company's operating results are otherwise already depressed.

TSMC has established the process and system to closely monitor and assess the risk of any impairment charge. However, the management is unable to estimate the extent or timing of any impairment charge for future years, or whether such impairment charge required may have a material adverse effect on the Company's net income.

6.3.5 Hazardous Risks

TSMC maintains a comprehensive risk management system dedicated to the safety of people, the conservation of natural resources, and the protection of property. In order to

effectively handle emergencies and natural disasters, at each facility management has developed comprehensive plans and procedures that focus on risk prevention, emergency response, crisis management and business continuity. The Company has adopted local and international standards for environmental, safety and health (ESH) management. All TSMC manufacturing fabs have been ISO 14001 certified (Environmental Management System), OHSAS 18001 certified (Occupational Health and Safety Management System), and QC 080000 certified (Hazardous Substance Process Management System). All manufacturing fabs in Taiwan have also been TOSHMS (Taiwan Occupational Safety and Health Management System) certified. The new fabs will also acquire the above certificates within 18 months of the start of volume production.

The Company pays special attention to preparedness for emergencies or disasters, such as typhoons, floods, droughts caused by climate change, earthquakes, environmental contamination, large-scale product returns, service disruption of IT systems, strikes, pandemics (such as H1N1 influenza), and sudden, unexpected disruptions to the supply of raw materials, water, electricity and other public utilities. TSMC has established a company-wide taskforce dedicated to managing the risk of a water shortage that might arise due to climate change. This taskforce monitors the external supply and internal demand for water. Cross-company consolidations and external collaborations with public agencies are also ongoing in industrial parks to ensure and sustain a stable water supply.

TSMC has further strengthened its business continuity plans, which include periodic risk assessment, risk mitigation, and implementation through the establishment of emergency taskforces when necessary, combined with the preparation of a thorough analysis of the emergency, its impact, alternative actions, and solutions for each possible scenario together with appropriate precautionary and/or recovery measures. Each taskforce is given the responsibility of ensuring TSMC's ability to conduct business while minimizing personal injury, business disruption and financial impact under the circumstances. TSMC's business continuity plan is periodically reviewed according to results of test scenarios or practical implementation for ensuring effective and successful business continuity. Customers are informed of TSMC's strong business continuity capability in order to establish resilience and flexibility in both their supply chain and insurance needs.

In response to the impact of the earthquake that occurred in southern Taiwan on February 6, 2016, TSMC conducted a continuous improvement project, including enhancing earthquake emergency response, enhancing tool anchorage

and seismic isolation facilities, preparedness for speeding up tool salvage and production recovery, and improved TSMC procedures with reference to ISO 22301 business continuity management.

TSMC and many of its suppliers use combustible and toxic materials in their manufacturing processes and are therefore subject to the risk of loss arising from explosion, fire, or environmental influences that cannot be completely eliminated. Although the Company maintains many overlapping risk prevention and protection systems, as well as fire and casualty insurance, TSMC's risk management and insurance coverage may not always be sufficient to cover all of the Company's potential losses. If any of TSMC's fabs or vendor facilities were to be damaged, or cease operations as a result of an explosion, fire or environmental causes, it could reduce the Company's manufacturing capacity and may lead to the loss of important customers, thereby having a potentially adverse and material impact on TSMC's financial performance. In addition to periodic fire-protection inspections and firefighting drills, the Company has also carried out a corporate-wide fire risk mitigation project focused on managerial and hardware improvements.

6.3.6 Risks Associated with Non-Compliance with Environmental and Climate Related Laws and Regulations, and Other International Laws, Regulations and Accords

Because TSMC engages in manufacturing activities in multiple jurisdictions and conduct business with its customers located worldwide, such activities are subject to a myriad of governmental regulations. For example, the manufacturing, assembling and testing of TSMC's products require the use of metals, chemicals and materials that are subject to environmental, climate-related, health and safety, and humanitarian conflict-free sourcing laws, regulations and guidelines issued worldwide.

Although TSMC may be eligible for various exemptions and/or extensions of time for compliance, the Company's failure to comply with any applicable laws or regulations that materially affect our business and operations could result in:

- significant penalties and legal liabilities, such as the denial of import permits or third party private lawsuits, criminal or administrative proceedings;
- the temporary or permanent suspension of production of the affected products;
- unfavorable alterations in TSMC manufacturing, fabrication and assembly and test processes;

- challenges from customers that place TSMC at a significant competitive disadvantage, such as the loss of actual or potential sales contracts in case the Company is unable to satisfy applicable legal standard or customer requirement;
- restrictions on TSMC operations or sales;
- loss of tax benefits, including termination of current tax incentives, disqualification of tax credit application and repayment of the tax benefits that we are not entitled to; and
- damages to TSMC goodwill and reputation.

Complying with applicable laws and regulations, such as environmental and climate related laws and regulations, could also require us, among other things, to do the following: (a) purchase, use or install remedial equipments; (b) implement remedial programs such as climate change mitigation programs; (c) modify our product designs and manufacturing processes, or incur other significant expenses such as obtaining substitute raw materials or chemicals that may cost more or be less available for our operations.

Our inability to timely obtain approvals necessary for the conduct of our business could impair our operational and financial results. For example, if we are unable to timely obtain environmental related approvals needed to undertake the development and construction of a new fab or expansion project, then such inability may delay, limit, or increase the cost of our expansion plans that could also in turn adversely affect our business and operational results. In light of increased public interest in environmental issues, our operations and expansion plans may be adversely affected or delayed responding to public concern and social environmental pressures even if we comply with all applicable laws and regulations.

TSMC believes that climate change should be regarded as a significant corporate risk that must be controlled to improve our competitiveness. Climate change has the potential to create legal, physical and other risks. TSMC's control measures are as follows:

• Climate regulatory risks

Greenhouse gas (GHG) control regulations and agreements in countries around the world are becoming increasingly stringent. Enterprises are legally required to regularly disclose GHG-related information as well as limit GHG emissions. Future legal requirements, such as carbon or energy taxes and carbon emission cap-and-trade may drive up production costs, including material and energy costs. TSMC China is subject to the Shanghai carbon emission cap-and-trade regulation, which has had a cost impact starting in 2016. TSMC continues

to monitor legislative trends and communicate with various governments through industrial organizations and associations to set reasonable and feasible legal requirements.

• Conflict minerals risks

For additional details, please refer to the Supplier and Contractor Management section under 7.2.3 Safety and Health on pages 129-130 of this annual report.

• Climate disaster risks

Abnormal climate caused by the greenhouse effect has increased the frequency and severity of climate disasters – storms, floods, drought, and water shortages – causing considerable impacts on business operations and supply chains. TSMC believes that climate change control should take into account both mitigation and adaptation, and this requires cooperation among government, society and industry to reduce risk. To ensure electricity and raw water supplies, therefore, in addition to water-saving measures at the Company's own facilities and those of upstream and downstream partners, TSMC participates in the Taiwan Science Park Industrial Union Experts Committee platform, and is actively involved in regular meetings with Taipower Company and the Taiwan Water Corporation to discuss supply and allocation for response issues.

• Other climate risks

Climate change is a concern to the global supply chain, necessitating energy conservation, carbon reduction, and disaster prevention. For example, The Electronic Industry Citizenship Coalition (EICC) has also required members' suppliers to disclose GHG emissions information. TSMC not only discloses its own GHG emissions information each year, but it also assists and requires its suppliers to establish a GHG inventory system and conduct reduction programs. TSMC's suppliers are required by TSMC to submit GHG emissions and reduction information as an important index of sustainability scoring in its procurement strategy.

To mitigate risks resulting from climate change, TSMC continues to actively carry out energy conservation measures, participate in voluntary emission reduction projects for perfluorinated compounds (PFC), and conduct GHG inventory and verification on an annual basis. TSMC has publicly disclosed climate change information annually through the following channels:

- TSMC has disclosed GHG emissions and reduction-related information for evaluation by the Dow Jones Sustainability Index every year since 2001.

- TSMC's GHG-related information has been disclosed in its CSR report on the Company website annually since 2008. TSMC also provides information to customers and investors upon request.
- TSMC has been participating in an annual survey held by the nonprofit Carbon Disclosure Project (CDP) since 2005, which includes GHG emission and reduction information for all TSMC fabs and subsidiaries.
- TSMC has followed the ISO 14064-1 standard to conduct a GHG inventory and acquire verification by an accrediting agency since 2006. TSMC also reports GHG inventory data to the Taiwan Environmental Protection Administration (EPA) and the Taiwan Semiconductor Industry Association (TSIA).

6.3.7 Other Risks

Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by TSMC's Directors, and/or Major Shareholders Who Own 10% or more of TSMC's Total Outstanding Shares

The value of TSMC shareholders' investment may be reduced by possible future sales of TSMC shares owned by major shareholders.

One or more of our existing shareholders may, from time to time, dispose of significant numbers of our common shares or ADSs. For example, the National Development Fund, which owned 6.38% of TSMC's outstanding shares as of February 28, 2017, has from time to time in the past sold TSMC shares in the form of ADSs in several transactions.

As of the date of this annual report, no shareholder owns 10% or more of TSMC's total outstanding shares.

Risks Associated with Cyber Attacks

Even though TSMC has established a comprehensive internet and computing security network, it cannot guarantee that the Company's computing systems which control or maintain vital corporate functions like its manufacturing operations and enterprise accounting would be completely immune to crippling cyber viral attacks launched by third party to gain unauthorized access to its internal network systems to sabotage its operations and goodwill. In the event of a serious cyber attack, TSMC's systems may lose important corporate data and its production lines may be shutdown indefinitely pending the resolution of such attack. These cyber attacks may also attempt to steal TSMC's trade secrets and other intellectual properties and other sensitive information, such as proprietary information of the Company's customers and other stakeholders and personal information of the Company's

employees. Malicious hackers may also try to introduce computer viruses, corrupted software or ransomware into the Company's network systems to disrupt its operations, blackmail it for regaining control of its computing systems or spy for sensitive information. These attacks may result in TSMC having to pay damages for its delayed or disrupted orders or incur significant expenses in attempting to re-establish control over the Company's network. If TSMC is not able to timely resolve the technical difficulties caused by such cyber attacks, or ensure the integrity and availability of its data or control of its computing systems, the Company's financial results as well as commitments to its customers and other stakeholders may be materially impaired.

Other Material Risks

During 2016 and as of the date of this Annual Report, TSMC's management is not aware of any other risk event that could impart a potentially material impact on the financial status of the Company.