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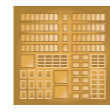
Taiwan Semiconductor Manufacturing Company, Ltd.



Morris Chang, Chairman

Taiwan Semiconductor Manufacturing Company, Ltd.

Annual Report 2013 (I)



TSMC Annual Report 2013 (I)

- Taiwan Stock Exchange Market Observation Post System : <http://mops.twse.com.tw>
- TSMC annual report is available at
http://www.tsmc.com/english/investorRelations/annual_reports.htm



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TSMC Vision, Mission & Core Values

TSMC's Vision

Our vision is to be the most advanced and largest technology and foundry services provider to fabless companies and IDMs, and in partnership with them, to forge a powerful competitive force in the semiconductor industry.

To realize our vision, we must have a trinity of strengths:

- (1) be a technology leader, competitive with the leading IDMs
- (2) be the manufacturing leader
- (3) be the most reputable, service-oriented and maximum-total-benefits silicon foundry

TSMC's Mission

Our mission is to be the trusted technology and capacity provider of the global logic IC industry for years to come.

TSMC's Core Values

Integrity

Integrity is our most basic and most important core value. We tell the truth. We believe the record of our accomplishments is the best proof of our merit. Hence, we do not brag. We do not make commitments lightly. Once we make a commitment, we devote ourselves completely to meeting that commitment. We compete to our fullest within the law, but we do not slander our competitors and we respect the intellectual property rights of others. With vendors, we maintain an objective, consistent, and impartial attitude. We do not tolerate any form of corrupt behavior or politicking. When selecting new employees, we place emphasis on the candidates' qualifications and character, not connections or access.

Commitment

TSMC is committed to the welfare of customers, suppliers, employees, shareholders, and society. These stakeholders all contribute to TSMC's success, and TSMC is dedicated to serving their best interests. In return, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

Innovation

Innovation is the wellspring of TSMC's growth, and is a part of all aspects of our business, from strategic planning, marketing and management, to technology and manufacturing. At TSMC, innovation means more than new ideas, it means putting ideas into practice.

Customer Trust

At TSMC, customers come first. Their success is our success, and we value their ability to compete as we value our own. We strive to build deep and enduring relationships with our customers, who trust and rely on us to be part of their success over the long term.

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1. Letter to Shareholders

TSMC achieved record revenue in 2013, and will continuously invest in R&D and capacity to help customers win market opportunities.

Dear Shareholders,

In 2013, TSMC enjoyed another year of record revenue and profit as we continued to harvest the benefits of a shift in our strategy that began in 2009. Four years ago, we began to invest heavily in research and development as well as capital expenditure when we saw signs that the arrival of mobile computing devices such as smartphones and tablets could present promising opportunities to the semiconductor industry. Today, mobile products are indeed driving a new wave of growth and the most successful ICs in mobile computing come from TSMC customers, enabled by our process technologies and capacity buildup. TSMC's investments in R&D helped our customers to realize their design innovations, and TSMC's capacity buildup paved the way for our customers to maximize their market opportunities. We are now better positioned than any company engaging in the IC foundry business to help IC designers benefit from the worldwide growth in demand for mobile products.

Rapid adoption of TSMC's 28-nanometer process by IC designers seeking superior performance, lower power consumption, and smaller die size for their mobile products drove a nearly threefold increase in shipments and revenue for our 28-nanometer wafers in 2013. Thanks to our differentiated technologies and manufacturing excellence, we enjoyed a segment share of more than 80 percent in the served-available market for 28-nanometer technologies. Other achievements in 2013 include:

- Total wafer shipments reached 15.67 million 8-inch equivalent wafers versus 14.04 million in 2012.
- Advanced technologies (40/45-nanometer and beyond) accounted for 50 percent of total wafer revenue.
- TSMC's market share in the total semiconductor foundry segment rose successively during the last four years and reached 49 percent.

2013 Financial Performance

Consolidated revenue totaled NT\$597.02 billion, an increase of 17.8 percent over NT\$506.75 billion in 2012. Net income was NT\$188.15 billion and diluted earnings per share were NT\$7.26. Both increased 13.1 percent from the 2012 level of NT\$166.32 billion net income and NT\$6.41 diluted EPS.

In US dollars, TSMC generated net income of US\$6.34 billion on consolidated revenue of US\$20.11 billion, compared with net income of US\$5.62 billion on consolidated revenue of US\$17.12 billion for 2012.

Gross profit margin was 47.1 percent compared with 48.2 percent in 2012, and operating profit margin was 35.1 percent compared with 35.8 percent a year earlier. Net profit margin was 31.5 percent, a decrease of 1.3 percentage points from the previous year's 32.8 percent.

Technological Developments

Following the ongoing success of our 28-nanometer technology, our 20-nanometer System-on-Chip (20-SoC) has entered volume production in 2014 after we began accepting customers' product tape-outs in 2013. TSMC's 20-SoC technology possesses the highest gate density of any 20-/22-nanometer process in volume production, and we have received an enthusiastic response from customers with dozens of product tape-outs scheduled in 2014. We expect our 20-nanometer production ramp to be faster than our 28-nanometer, becoming a significant growth driver for TSMC in both 2014 and 2015.

Next in the pipeline is our 16-nanometer process, which features a FinFET transistor structure for better performance. TSMC's 16-nanometer (16-FinFET) entered risk production in November 2013 and is firmly on track to complete manufacturing qualification in early 2014 and to meet our target of volume production in 2015, just one year after 20-nanometer. TSMC's 16-nanometer technology has captured the vast portion of 16-/14-nanometer products in the semiconductor foundry segment. More than 20 product tape-outs already have been scheduled throughout 2014 from multiple customers across a wide range of applications. Meanwhile, we are developing an enhanced transistor version of this technology, 16-FinFET+, that will offer an additional 15% performance improvement and which we believe will be the highest performance technology among all available 16-/14-nanometer technologies in 2014.

In 2013, we also began the development work of our 10-nanometer technology, which is scheduled to enter risk production in 2015 and volume production in 2016. This will be our third generation of FinFET technology, following 16-FinFET and 16-FinFET+, and is expected to deliver the industry's leading performance and density.

TSMC's design ecosystem, the Open Innovation Platform® (OIP) continues to help our customers to rapidly adopt these advanced technologies and shorten their time-to-market. This ecosystem offers an increasingly important advantage to our customers as technologies grow more complex and the need for first-time silicon success and early time-to-market become more critical. In 2013, the libraries and silicon IP portfolio available on TSMC's OIP were expanded to contain more than 6,300 items, representing the world's largest IP portfolio of its kind. Over 60% of new tape-outs by our customers at TSMC adopted one or more libraries or IPs from this platform.

Corporate Developments

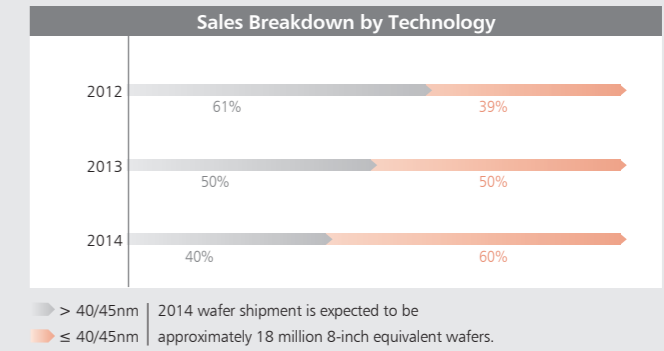
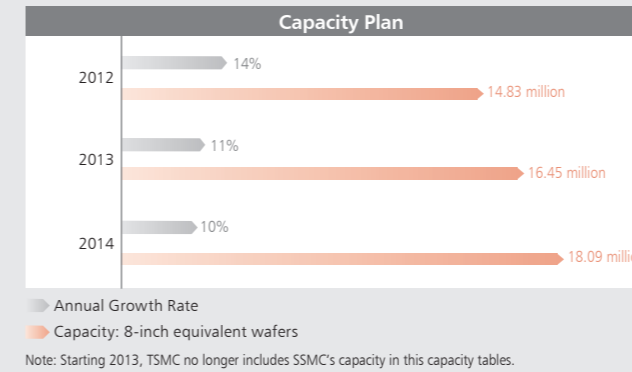
The Board of Directors appointed Dr. Mark Liu and Dr. C.C. Wei as President and Co-Chief Executive Officer of TSMC on November 12. Dr. Liu and Dr. Wei joined TSMC in 1993 and 1998 respectively, and have served TSMC in managerial positions including Operations, R&D, Worldwide Sales and Marketing, and Business Development. They have also demonstrated seamless teamwork in the best traditions of TSMC's corporate culture.

Dr. S.Y. Chiang, formerly Executive Vice President and Co-Chief Operating Officer, retired in October 2013 after 16 years of distinguished service to the Company. Dr. Chiang continues to serve the Company as Adviser to the Chairman of the Board.

I will continue to dedicate my full time and effort to the Company as Chairman of the Board and maintain the ultimate responsibility for the Company.

Honors and Awards

In 2013, TSMC was honored for our achievements in sustainability, corporate governance, management, investor relations and innovation by organizations including *Barron's*, *FinanceAsia*, *Institutional Investor*, *IR Magazine*, *GlobalViews Magazine*, *CommonWealth Magazine*, and *Thomson Reuters*.



The Dow Jones Sustainability Indexes (DJSI) recognized TSMC as the Semiconductors and Semiconductor Equipment Industry Group Leader in 2013, highlighting our leadership and continued progress in sustainability and corporate social responsibility. TSMC is the first Taiwan company, and one of only four Asian companies, to win the highest score among its industry peers in the DJSI's 24 industry groups, made up of 59 industries. In addition, TSMC is one of just two semiconductor companies chosen as index components for 13 consecutive years, and was also named semiconductor industry leader in 2010 and 2012.

Outlook

While world semiconductor market is expected to grow at only 3-5% annually in the next five years, we expect to significantly out-grow the semiconductor market during that period as we have done in 25 of the last 27 years since our founding. We have become the basic technology and capacity supplier to the world semiconductor industry, particularly the strong-growth part of that industry. Our success has continued to contribute to the growth of the information technology industry.

We are well on our way to a very competitive 10-nanometer technology, and have started 7-nanometer development.

The future world of ubiquitous connectivity will require us to integrate our advanced logic technology with many specialty technologies.

We have therefore been working on imaging and MEMS (micro-electro-mechanical system) sensors, power management, radio-frequency, embedded-flash, advanced packaging, and ultra-low-power technologies. We have the experience and ability to integrate all these technologies together to provide SoC (system on chip) or SiP (system in package) solutions which will be key to our future success.

Moreover, as TSMC forges ahead in technology leadership, we play a central role of a Grand Alliance with key suppliers, customers, and our design ecosystem partners, forming the main open technology platform for the widest range of product innovations in the semiconductor industry today. Together with our Grand Alliance, we believe TSMC will continue to capture the opportunities presented by a world that values and rewards innovation.



Morris Chang
Morris Chang
Chairman



2. Company Profile

2.1 An Introduction to TSMC

Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the foundry business model by focusing solely on manufacturing customers' semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers. Today, TSMC is the world's largest pure-play semiconductor foundry, manufacturing more than 8,600 different products using 202 different technologies for over 440 different customers in 2013.

With a diverse global customer base, TSMC-manufactured semiconductors are used in a wide variety of applications covering various segments of the computer, communications, consumer, industrial and standard semiconductor markets.

Annual capacity of the manufacturing facilities managed by TSMC and its subsidiaries totaled 16.4 million 8-inch equivalent wafers in 2013. TSMC's managed manufacturing facilities include three 12-inch wafer GIGAFAB™ facilities, four 8-inch wafer fabs, and one 6-inch wafer fab in Taiwan, as well as two 8-inch wafer fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited.

TSMC is the first foundry to provide 28nm and 20nm production capabilities. It captured 49% of total foundry market segment share in 2013.

TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, South Korea, and India. The Company employed more than 40,000 people worldwide at the end of 2013.

TSMC continued to lead the foundry segment of the semiconductor industry in both advanced and specialty process technologies. By leveraging the experience of 65nm and 40nm, TSMC successfully reached volume production of 28nm with excellent yield performance in 2013 featuring 28HP and 28HPM for high performance and 28LP and 28HPL for low power. Furthermore, TSMC delivered 20nm SoC and 16nm FinFET technology nodes on-schedule and successfully received initial customer tape-outs of 20nm technology. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, Mixed Signal/RF, high voltage, CMOS image sensor, MEMS, silicon germanium technologies and automotive service packages.

TSMC's subsidiaries TSMC Solid State Lighting Ltd. and TSMC Solar Ltd. also engage in researching, developing, designing, manufacturing and selling solid state lighting devices and related products and systems, and solar-related technologies and products, respectively.

The Company is listed on the Taiwan Stock Exchange (TWSE) under ticker number 2330, and its American Depositary Shares trade on the New York Stock Exchange (NYSE) under the symbol "TSM".

2.2 Market/Business Summary

2.2.1 TSMC Achievements

In 2013, TSMC maintained its leading position in the total foundry segment of the global semiconductor industry, with an estimated market segment share of 49%. TSMC achieved this result amid intense competition from both established players and relatively new entrants to the business.

Leadership in advanced process technologies is a key factor in TSMC's strong market position. In 2013, 50% of TSMC's wafer revenue came from manufacturing processes with geometries of 40/45nm and below.

With TSMC's focus on customer trust, the Company strengthened its Open Innovation Platform® (OIP) initiative in 2013 with additional services. During the 2013 Open Innovation Platform® (OIP) Ecosystem Forum, the Company revealed 16nm FinFET Reference Flow (both full-chip and IP Design) and 3D-IC Reference Flow, to highlight the success of design enablement through OIP. The OIP Ecosystem Forum, which was held in October 2013 at San Jose, California, was well attended by both customers and ecosystem partners to demonstrate the value of collaboration through OIP to foster innovations.

TSMC offers the foundry segment's widest technology portfolio and continues to invest in advanced technologies and specialty technologies, which is a key differentiator from our competitors and provides customers more added value.

Technologies which the Company either developed or rolled out in 2013 include:

Advanced Technology

- 10nm FinFET technology is under development to keep TSMC's technology leadership position in the industry. It is expected to be ready for production by end of 2015. 10nm can provide the best density/cost benefit with desired speed/power performance to meet customers' expectations. It can serve customers from all different applications, such as APU (Accelerated Processing Unit), CPU (Central Processing Unit), FPGA (Field-Programmable Gate Array), GPU (Graphics Processing Unit), Networking and mobile computing applications, including smartphones, tablets and high-end SoC devices.
- 16nm FinFET technology (16FF) passed qualification and entered risk production stage on-schedule. It provides the best value in speed/power optimization to meet next generation products requirements in CPU, GPU, APU, FPGA, Networking and mobile computing applications, including smartphones, tablets and high-end SoC devices. Meanwhile, we are developing an enhanced version of this technology, 16-FinFET+, which is expected to offer an additional 15% performance improvement.
- 20nm System-on-Chip technology (20SoC) passed all qualification items and entered into production stage with stable yield performance. It provides better density and power value than 28nm for both performance-driven products and mobile computing applications migration.
- 28nm High Performance (28HP) technology for performance-driven markets like CPU, GPU, APU, FPGA and high-speed networking applications.

- 28nm High Performance Mobile Computing (28HPM) technology for tablets, smartphones, and SoC applications with better power efficiency requirement.
- 28nm Low Power (28LP and 28HPL) and RF (28HPL-RF and 28LP-RF) technology for mainstream smartphones, application processors, tablets, home entertainment and digital consumer applications.
- 40nm general purpose (40G) technology for performance-driven markets like CPU, GPU, FPGA, HDD, Game Console, Network Processor and Gigabit Ethernet applications.
- 40nm Low Power (40LP and 40LP+) and RF technology for smartphones, DTV (Digital Television), STB (Set-Top-Box), game and wireless connectivity applications.
- 55nm low power RF technology for WLAN (Wireless Local Area Network), Bluetooth and other handheld applications.
- 55nm and 85nm ultra-low power technology for mobile relevant applications.

Specialty Technology

- 40nm eFlash is under development for general offerings.
- 55nm eFlash technology passed qualification; production is expected to start in 2014.
- 55nm and 65nm 5V LDMOS (Laterally Diffused Metal Oxide Semiconductor) for power management application.
- 65nm joint developed eFlash technology was qualified and entered into production for smartcard applications.
- 55nm and 80nm high voltage process for high resolution FHD and WQXGA display driver IC, which could support Retina to Super Retina display quality in smartphones.
- 90nm eFlash technology passed automotive qualification; production is expected to start in 2014.
- 0.13 μ m BCD was qualified on 12-inch process in the third quarter of 2013 and achieved one identical SPICE model for both 8-inch and 12-inch processes. It allows TSMC to expand its capacity support to our PMIC customers from 8-inch fab to 12-inch GIGAFAB™ facilities for high volume production.
- 0.18 μ m BCD second generation entered into production with multiple products from multiple customers. The technology also passed automotive process qualification criteria. It offers worldwide competitive power LDMOS Rds(on) performance and with wide voltage spectrum from 6V to 70V for multiple applications in Computing, Communication- Consumer and automotive markets.
- 40nm and 55nm high precision analog processes were released. They offer high speed data conversion applications like audio codec with options to integrate advanced DSP function and 5V amplifier.
- Modular MEMS (Micro Electro Mechanical Systems) Service delivered multiple accelerometer samples successfully for a few customers, and much improved their product time-to-market.

2.2.2 Market Overview

TSMC estimates that the worldwide semiconductor market in 2013 reached US\$322 billion in revenue, a 5% growth compared to 2012. Total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US\$37 billion in 2013, or 11% YoY growth.

2.2.3 Industry Outlook, Opportunities and Threats

Industry Demand and Supply Outlook

Following 16% growth in 2012, foundry segment again posted double-digit growth, to 11% in 2013, mainly driven by fabless market share gains over IDM and process technology advancement.

TSMC forecasts total semiconductor market growth of 5% YoY in 2014. Over the longer term, due to: increasing semiconductor content in electronics devices; continuing market share gain of fabless; and increasing in-house Application-Specific Integrated Circuits (ASIC) from system companies, foundry sales are expected to display much stronger growth than the projected 4% compound annual growth rate (CAGR) for the total semiconductor industry from 2013 through 2018.

As an upstream supplier in the semiconductor supply chain, the condition of the foundry segment is tightly correlated with the market health of the 3Cs: communications, computer and consumer.

● Communications

The communications sector, particularly the handset segment, posted a modest 4% growth in unit shipments for 2013. Smartphones, which have much stronger growth and higher semiconductor content, have been leading the growth of the sector.

The continuing transition to 4G/LTE and LTE-Advanced handsets will bring positive momentum to the market. Smartphones with increasing performance, lower power and more intelligent features will continue to propel the buying interest of new handsets in 2014. The growing popularity of mid- to low-end smartphones in the emerging countries is also a new catalyst driving the growth of the sector.

Low power IC is an essential requirement among handset manufacturers. The SoC design for more optimized cost, power and form-factor (i.e. device footprint), plus the appetite for higher performance to run complicated software, will continue to accelerate the migration to advanced process technologies in which TSMC is already the leader.

● Computer

The computer sector's unit shipments dropped 10% YoY in 2013, after a decline in 2012. Cautious spending in developed countries, lack of innovation, and budget competition from tablets, were among the factors causing the weak demand.

Moving into 2014, Personal Computer (PC) market will continue to decline. Meanwhile, increasing affordability of Ultrabooks, the introduction of new operating systems, and corporate replacement are expected to stimulate PC demand.

Requirements of lower power, higher performance and integration for key computer components such as CPU, GPU, Chipset, etc., should drive product design demand for leading process technologies.

● Consumer

The consumer sector faced the sharpest decline ever in 2013: aggregated unit shipments fell 7% YoY. The sales of handheld consumer electronics, such as digital cameras, MP3 players, and handheld game consoles, were significantly impacted by the growth of mobile computing (e.g. smartphones, tablets, etc.), while the home consumer electronics, such as DTV and DVD player, were reaching the plateau of their sales.

Consumer electronics may start to regain growth momentum in 2014, thanks to the launch of new-generation game consoles and the emerging smart wearable devices. Riding on the strong growth of mobile computing and the support from the world's leading companies, smart wearable devices are expected to leap in the coming years.

Meanwhile, increasing innovations in the consumer sector have also encouraged new usage models, such as integration of touch sensing, motion recognition, high-resolution and 3D display. Besides the need for advanced technologies, specialty technologies such as CMOS Image Sensor (CIS), High-Voltage (HV) drivers, embedded memory, micro-controller and MEMS are becoming prominent requirements. With its comprehensive technology portfolio, TSMC will be able to capitalize on these trends.

Tablets

As a fast-growing application, tablets are increasing their contributions to foundry segment revenue. Led by major OEMs and China tablet makers, around 256 million tablets were shipped in 2013 compared with 165 million units in 2012. The strong sales momentum will continue in 2014, driven by increasing penetration

into emerging countries and more diversified applications of tablets, such as Point-of-Sale (POS), education, and medical. TSMC forecasts the tablet market will grow at a 16% CAGR from 2013 through 2018, and become a strong growth driver for both the semiconductor industry and the foundry segment.

Supply Chain

The electronics industry consists of a long and complex supply chain, the elements of which are highly dependent and correlated with each other. At the upstream IC manufacturing level, it is important for IC vendors to have sufficient and flexible supply to support the dynamic market situation. The foundry vendors are playing an important role to ensure the health of the supply chain. As a leader in the foundry segment, TSMC provides leading technologies and large-scale capacity to complement the innovations created along the downstream chain.

2.2.4 TSMC Position, Differentiation and Strategy

Position

TSMC is the semiconductor foundry leader for both advanced and specialty process technologies. As a result, the Company commanded a 49% market share in 2013. In terms of TSMC's net revenue geographic distribution, 71% came from companies headquartered in North America; 13% from the Asia Pacific region, excluding China and Japan; 7% from Europe; 6% from China; and 3% from Japan. By end product application, 15% of TSMC's net revenue came from the computer sector, 54% from communications, 10% from consumer products, and 21% from industrial and standard products.

Differentiation

TSMC's leadership position is based on three defining strengths and a business strategy rooted in the Company's heritage. TSMC distinguishes itself from the competition through its technology leadership, manufacturing excellence and customer trust.

As a technology leader, TSMC is consistently first among dedicated foundries to develop next-generation leading-edge technologies. The Company has also established its technology leadership on more mature technology nodes by applying the lessons learned on leading-edge technology development to push its specialty technologies to more advanced process nodes. Beyond process technology, TSMC has established front-end and back-end integration capabilities that result in faster time-to-production and creates the best power, performance and area sweet spot.

TSMC has gained manufacturing acclaim for its industry-leading management, and is extending its leadership through the Open Innovation Platform® and Grand Alliance initiatives. The TSMC Open Innovation Platform® initiative hastens the pace of innovation amongst the semiconductor design community, its ecosystem partners and TSMC's IP, design implementation and design for manufacturing capabilities, process technology and backend services. A key element is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that more efficiently empower innovation throughout the supply chain and that drive the creation and sharing of newly-created revenue and profits. The TSMC Grand Alliance is one of the most powerful forces for innovation in the semiconductor industry, bringing together our customers, electronic design automation (EDA) partners, IP partners, and key equipment and materials suppliers at a new, higher level of collaboration. Its objectives are to help our customers, the alliance members and ourselves win business and stay competitive.

The foundation for customer trust is a commitment TSMC made when it first opened for business over a quarter of a century ago: to never compete with our customers. As a result, TSMC has never owned nor marketed a single semiconductor product design, but rather has focused all of its resources on becoming the dedicated manufacturing resource of choice for the semiconductor industry.

Strategy

TSMC is confident that its differentiating strengths will enable it to leverage the foundry segment's attractive growth opportunities. TSMC has invested heavily in leading-edge 20nm and 16nm FinFET technologies, which are in volume production and risk production, respectively. The Company has also invested heavily in the 10nm process node that is currently in technology development. We maintain our technology leadership by collaborating in the technology development process through early engagement and technology definition that provides a smooth transition for our advanced technology customers. At the same time, the Company maintains its leadership in specialty technologies by broadening its offerings and pushing them to more advanced process nodes.

Numerous other efforts are also underway to ensure manufacturing excellence through product grade enhancements and manufacturing technology innovation.

To address challenges inherent in the electronic product life cycle and increased competition from other semiconductor manufacturing companies, TSMC continually strengthens its core competitiveness and deploys both short-term and long-term technology and business development plans to meet Return on Investment (ROI) and growth objectives.

● Short-term Semiconductor Business Development Plan

1. Substantially ramp the business and sustain advanced technology market share through increased capacity investment.
2. Maintain mainstream technology market share by expanding business into new customers and market segments with off-the-shelf technologies.
3. Further expand TSMC's business and service infrastructure into emerging and developing markets.

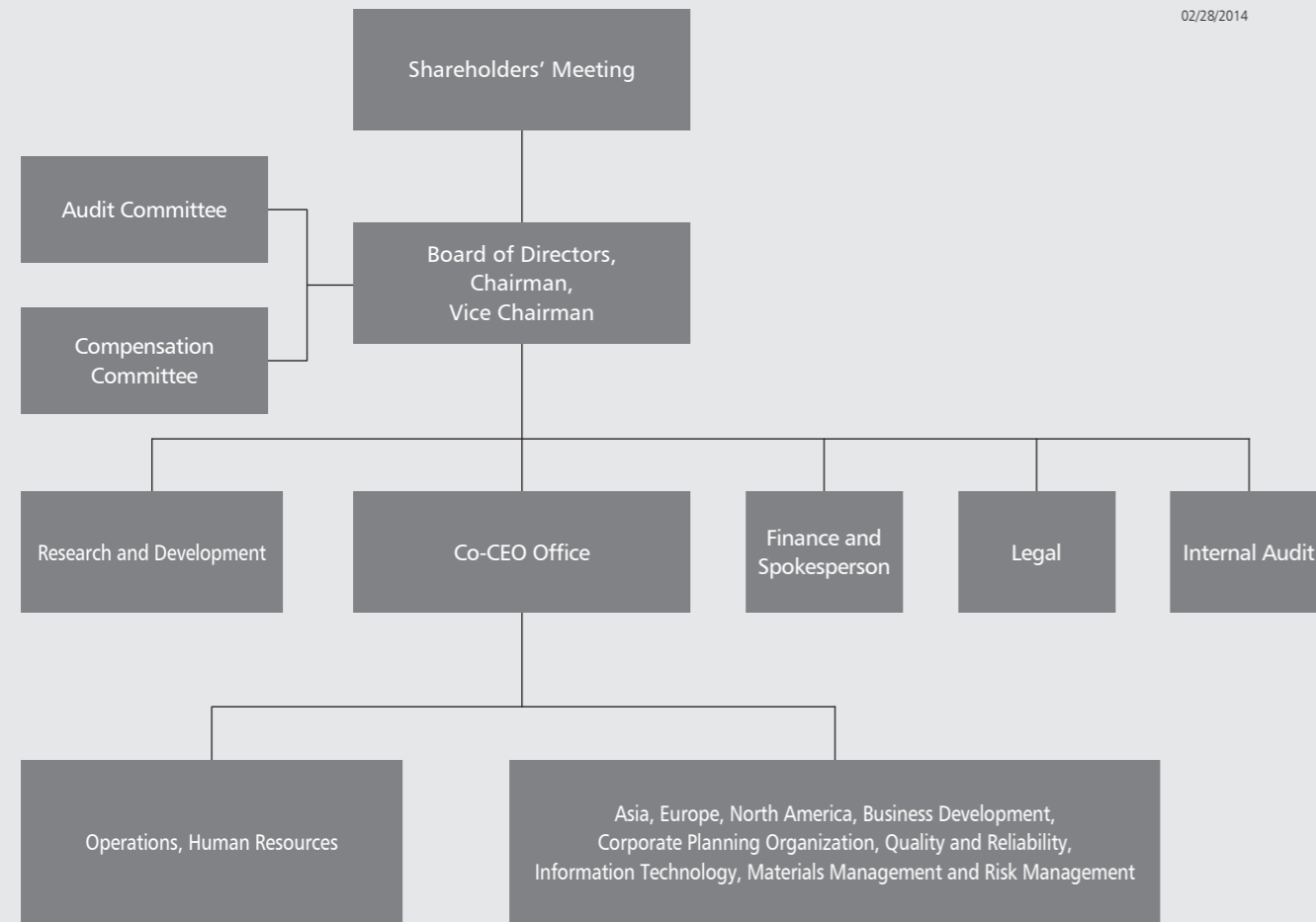
● Long-term Semiconductor Business Development Plan

1. Continue developing leading edge technologies consistent with Moore's law.
2. Broaden specialty business contributions by further developing derivative technologies.
3. Provide more integrated services, beginning with technology definition and design tool preparation then extending through wafer processing to complete backend services.

2.3 Organization

2.3.1 Organization Chart

02/28/2014



2.3.2 Major Corporate Functions

Operations

- Product development, manufacturing technology, mainstream fabs, 300mm fabs, affiliate fabs, and back-end technology and service

Human Resources

- Human resources management and organizational development
- Proprietary information protection (PIP) and physical security management

Asia

- Sales operations, market development, field technical support and service for Asia customers

Europe

- Technical marketing, field technical support and service for Europe customers

North America

- Sales operations, market development, field technical support and service for North America customers

Business Development

- Developing semiconductor foundry business in mobile computing, computer, consumer electronics, communication and industrial related products, identifying new applications and markets, and solidifying customer relationship, brand management, embedded flash business, CIS business

Corporate Planning Organization

- Operation resources planning, production and demand planning, business process integration, corporate pricing and market analysis and forecast

Quality and Reliability

- Quality and reliability management, customer service

Information Technology

- Technology system integration, business system integration, IT infrastructure and communication service, IT security and quality management

Materials Management and Risk Management

- Purchasing, warehousing, import and export, logistics support, environmental protection, industrial safety, occupational health, and risk management

Research and Development

- Advanced and specialty technology development, exploratory research and advanced development, design and technology platform development

Finance and Spokesperson

- Corporate finance, accounting, corporate communication, financial strategy and analysis, and corporate spokesperson

Legal

- Corporate legal affairs, litigation, commercial transactions, patents and other intellectual property management, compliance and regulatory work

Internal Audit

- Internal control risk monitoring and independent assessment of Compliance

2.4 Board Members

2.4.1 Information Regarding Board Members

As of 02/28/2014

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
				Shares	%	Shares	%	Shares	%		
Chairman Morris Chang	06/12/2012	06/11/2015	12/10/1986	123,137,914	0.48%	125,137,914	0.48%	135,217	0.00%	B.S. and M.S. degrees in Mechanical Engineering, MIT Ph.D. in Electrical Engineering, Stanford University Former Group Senior Vice-President, Texas Instruments Inc. Former President & COO, General Instrument Corporation Former Chairman, Industrial Technology Research Institute Former CEO, TSMC Life Member Emeritus of MIT Corporation Member of National Academy of Engineering, U.S.	None
Vice Chairman F.C. Tseng	06/12/2012	06/11/2015	05/13/1997	34,662,675	0.13%	34,472,675	0.13%	132,855	0.00%	Ph.D. in Electrical Engineering, National Chengkung University, Taiwan Former President, Vanguard International Semiconductor Corp. Former President, TSMC Former Deputy CEO, TSMC Chairman, TSMC Education and Culture Foundation Director, National Culture and Arts Foundation, R.O.C.	Chairman of: - TSMC China Company Ltd. - Global Unichip Corp. Vice Chairman, Vanguard International Semiconductor Corp. Director of: - TSMC Solar Ltd. - TSMC Solid State Lighting Ltd. Independent Director, Compensation Committee member & Chairman of the Financial Statement and Internal Control Review Committee, Acer Inc.
Director National Development Fund, Executive Yuan (Note 1) Representative: Johnsee Lee	06/12/2012	06/11/2015	12/10/1986 08/06/2010 (Note 2)	1,653,709,980 -	6.38% -	1,653,709,980 -	6.38% -	- -	- -	Ph.D. in Chemical Engineering, Illinois Institute of Technology MBA, University of Chicago Graduate of Harvard Business School's Advanced Management Program Former Principal Investigator, Argonne National Laboratory Former Senior Manager, Johnson Matthey Inc. Former President, Industrial Technology Research Institute Chairman, Development Center for Biotechnology President, Taiwan Bio Industry Organization	Independent Director of: - Taiwan Polysilicon Corp. - Zhen Ding Technology Holding Ltd. - Far Eastern New Century Corp.
Director Rick Tsai (Resigned on 01/27/2014) (Note 3)	06/12/2012	06/11/2015	06/03/2003	33,665,046	0.13%	31,877,046	0.12%	-	-	Ph.D. in Material Science, Cornell University, U.S. Former President, Vanguard International Semiconductor Corp. Former Executive Vice President, Worldwide Marketing and Sales, TSMC Former COO, TSMC Former President & CEO, TSMC Former President of New Businesses, TSMC Advisor, Executive Yuan, R.O.C.	Chairman & CEO, TSMC Solar Ltd. Chairman & CEO, TSMC Solid State Lighting Ltd. Director, TSMC subsidiary President, TSMC subsidiaries Director, Motech Industries, Inc.
Independent Director Sir Peter Leahy Bonfield	06/12/2012	06/11/2015	05/07/2002	-	-	-	-	-	-	Honours Degree in Engineering, Loughborough University Fellow of the Royal Academy of Engineering Chair of Council and Senior Pro-Chancellor, Loughborough University, UK Former Chairman and CEO, ICL Plc Former CEO and Chairman of the Executive Committee, British Telecommunications Plc Former Vice President, the British Quality Foundation	Chairman, NXP Semiconductors N.V., the Netherlands Director of: - Sony Corporation, Japan - L.M. Ericsson, Sweden - Mentor Graphics Corporation Inc., Oregon, U.S. Member of: - The Longreach Group Advisory Board - The Sony Corporation Advisory Board - New Venture Partners LLP Advisory Board Advisor to Apax Partners LLP Board Mentor, CMI Senior Advisor to Rothschild, London
Independent Director Stan Shih	06/12/2012	06/11/2015	04/14/2000	1,480,286	0.01%	1,480,286	0.01%	16,116	0.00%	BSEE and MSEE in National Chiao Tung University, Taiwan Honorary EE Ph.D. in National Chiao Tung University, Taiwan Honorary Doctor of Technology, The Hong Kong Polytechnic University Honorary Fellowship, University of Wales, Cardiff, UK Honorary Doctor of International Law, Thunderbird, American Graduate School of International Management, U.S. Co-Founder, Chairman Emeritus, Acer Group Former Chairman & CEO, Acer Group Chairman, National Culture and Arts Foundation, R.O.C. Director, Public Television Service Foundation, R.O.C.	Chairman, Acer Inc. Group Chairman, iD SoftCapital Director of: - Qisda Corp. - Wistron Corp. - Nan Shan Life Insurance Co., Ltd.

(Continued)

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
				Shares	%	Shares	%	Shares	%		
Independent Director Thomas J. Engibous	06/12/2012	06/11/2015	06/10/2009	-	-	-	-	-	-	Bachelor Degree in Electrical Engineering, Purdue University Master Degree in Electrical Engineering, Purdue University Honorary Doctorate in Engineering, Purdue University Member, National Academy of Engineering Member, Texas Business Hall of Fame Woodrow Wilson Award Former Executive Vice President and President of the Semiconductor Group, Texas Instruments Inc. Former President and CEO, Texas Instruments Inc. Former Chairman of the Board, Texas Instruments Inc. Former Chairman of the Board of Catalyst Honorary Director of Catalyst Honorary Trustee, Southwestern Medical Foundation	Chairman, J. C. Penney Company Inc.
Independent Director Gregory C. Chow	06/12/2012	06/11/2015	06/09/2011	-	-	-	-	-	-	Bachelor Degree in Economics, Cornell University, 1951 Master Degree in Economics, The University of Chicago, 1952 Ph.D. in Economics, The University of Chicago, 1955 Academician, Academia Sinica, R.O.C. Member, American Philosophical Society Fellow of the American Statistical Association Fellow of the Econometric Society Former President, Society of Economic Dynamics and Control Honorary Doctor's, Sun Yat-Sen University L.L.D., Lingnan University Hon. Dr. of Business Adm, The Hong Kong University of Science and Technology Honorary Professor of Fudan, Guangxi, Hainan, Nankai, Shandong, Remin, Huazhong University of Science and Technology, Graduate University of Management of Chinese Academy of Sciences, Sun Yat-Sen Universities and City University of Hong Kong Assistant Professor, MIT, 1955~1959 Associate Professor, Cornell University, 1959~1962 Research Staff Member and Manager of Economics Research, IBM Thomas Watson Research Center, 1962~1970 Adjunct Professor, Columbia University, 1964~1970 Professor and Director, Econometric Research Program, Princeton University, 1970~2001 (In 2001 Princeton University renamed the Program the Gregory C. Chow Econometric Research Program in his honor.) Class of 1913 Professor of Political Economy, Princeton University, 1976~2001 Chairman of the American Economic Association's Committee on Exchanges in Economics with the People's Republic of China, 1981~1994 Co-chairman of the U.S. Committee on Economics Education and Research in China, 1985~1994 Advisor to Prime Ministers and Chairmen of the Economic Planning and Development Council of the Executive Yuan in Taiwan on economic policy from the mid 1960's to the early 1980's Advisor to the Prime Minister and the State Commission for Restructuring the Economic System on economic reform in China, 1985~1989 Professor of Economics and Class of 1913 Professor of Political Economy, Emeritus, Princeton University, 2001~Present Lecturer with the Rank of Professor, Princeton University	None
Independent Director Kok-Choo Chen	06/12/2012	06/11/2015	06/09/2011	-	-	-	-	5,120	0.00%	Inns of Court School of Law, England Barrister-at-law, England Advocate & Solicitor, Singapore Attorney-at-law, California, U.S. Senior Vice-President & General Counsel, TSMC, 1997~2001 President, National Culture & Arts Foundation, R.O.C., 1995~1997 Vice-President, Echo Publishing, Taiwan, 1992~1995 Partner, Chen & Associates Law Offices, Taiwan, 1988~1992 Partner, Ding & Ding Law Offices, Taiwan, 1975~1988 Lawyer, Heller, Erhman, White & McAuliffe, San Francisco, California, U.S., 1974~1975 Lawyer, Sullivan & Cromwell, New York, U.S., 1971~1974 Lawyer, Tan, Rajah & Cheah, Singapore, 1969~1970 Professor, Soochow University, 2001~2008 Professor, National Chengchi University, 2001~2004 Chair Professor, National Tsing Hua University, 1999~2002 Associate Professor, Soochow University, 1981~1998 Lecturer, Nanyang University, Singapore, 1970~1971 Sponsor and Founder, two Taiwan heritage site museums (Taipei Story House and Futai Street Mansion) Advisor, Executive Yuan, R.O.C. Advisor, Taipei City Government Director of National Culture and Arts Foundation, R.O.C. Director of Republic of China Female Cancer Foundation, R.O.C.	None

Remarks:

1. No member of the Board of Directors held TSMC shares by nominee arrangement.
2. No member of the Board of Directors had a spouse or relative within two degrees of consanguinity serving as a manager or director at TSMC.

Note 1: Major Shareholder of TSMC's Director that is an Institutional Shareholder.

Director that is an Institutional Shareholder of TSMC	Top 10 Shareholders
National Development Fund, Executive Yuan	Not Applicable

Major institutional shareholders of National Development Fund: Not applicable.

Note 2: Mr. Johnsee Lee was appointed as the representative of National Development Fund on August 6, 2010.

Note 3: Dr. Rick Tsai resigned as a director of TSMC effective January 27, 2014 and thereafter as directors and executives of TSMC's subsidiaries. The shareholdings of himself and his spouse and minor were not disclosed after that date.

2.4.2 Remuneration Paid to Directors (Note 1)

Unit: NT\$ thousands

Title/Name	Director's Remuneration								Compensation Earned by a Director Who is an Employee of TSMC or of TSMC's Consolidated Entities										Total Compensation (A+B+C+D+E+F+G) as a % of 2013 Net Income (Note 12)		Compensation Paid to Directors from Non-consolidated Affiliates (J)							
	Base Compensation (A)		Severance Pay and Pensions (B) (Note 5)		Compensation to Directors (C)		Allowances (D) (Note 7)		Total Remuneration (A+B+C+D) as a % of 2013 Net Income		Base Compensation, Bonuses, and Allowances (E) (Note 8)		Severance Pay and Pensions (F) (Note 5)		Employee Profit Sharing (G) (Note 9)				Exercisable Employee Stock Options (H) (Note 10)			Granted Employee Restricted Stock (I) (Note 11)						
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC (Note 6)	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC		From All Consolidated Entities		From TSMC	From All Consolidated Entities		From TSMC	From All Consolidated Entities					
Chairman Morris Chang (Note 2 & 3)																												
Vice Chairman F.C. Tseng																												
Director Rick Tsai (Note 4)																												
Independent Director Sir Peter Leahy Bonfield																												
Independent Director Stan Shih	31,352	31,352	775	775	104,136	104,136	4,090	4,090	0.07%	0.07%	89,110	109,547	-	650	89,067	-	89,067	-	-	-	-	-	-	-	-	0.17%	0.18%	2,720
Independent Director Thomas J. Engibous																												
Independent Director Gregory C. Chow																												
Independent Director Kok-Choo Chen																												
Director National Development Fund, Executive Yuan Representative: Johnsee Lee																												

Note 1: Remuneration policies, standards/packages, procedures, the linkage to operating performance and future risk exposure: The base compensation for the Chairman, Vice-Chairman and directors are determined in accordance with the procedures set forth in TSMC's Articles of Incorporation. The Articles of Incorporation also provides that the compensation to directors shall be no more than 0.3% of earnings available for distribution and directors who also serve as executive officers of TSMC are not entitled to receive compensation to directors. The distribution of compensation to directors shall be made in accordance with TSMC's "Rules for Distribution of Compensation to Directors".

Note 2: Effective November 12, 2013, Chairman and Chief Executive Officer Dr. Morris Chang retired as Chief Executive Officer. Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei assumed the role as Co-Chief Executive Officers.

Note 3: No "Compensation to Directors" was paid to Dr. Morris Chang before November 12, 2013.

Note 4: Dr. Rick Tsai resigned as a director of TSMC effective January 27, 2014 and thereafter as directors and executives of TSMC's subsidiaries.

Note 5: Pensions funded according to applicable law.

Note 6: TSMC Board adopted a proposal that includes 2013 compensation to TSMC's directors in the amount of NT\$104,136 thousand at its meeting on February 18, 2014.

Note 7: The above-mentioned figures include expenses for Company cars and gasoline reimbursement, but do not include compensation paid to Company drivers (totalled NT\$4,855 thousand).

Note 8: The above-mentioned figures include the employees' cash bonuses distributed in May, August, November 2013 and February 2014.

Note 9: The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 24, 2014.

Note 10: Represents the number of cumulative employee stock options exercisable as of the date of this Annual Report.

Note 11: TSMC did not issue employee restricted stock in 2013, and as of the date of this Annual Report.

Note 12: Total remuneration and compensation paid to TSMC's directors in 2012 was NT\$370,823 thousand, accounting for 0.22% of 2012 net income.

Remuneration Paid to Directors

	2013			
	Total Remuneration (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G+J)	
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities and Non-consolidated Affiliates
Under NT\$2,000,000	None	Rick Tsai	None	
NT\$2,000,000 ~ NT\$4,999,999	None		None	
NT\$5,000,000 ~ NT\$9,999,999	National Development Fund, Executive Yuan		National Development Fund, Executive Yuan	
NT\$10,000,000 ~ NT\$14,999,999	Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous, Gregory C. Chow, Kok-Choo Chen		Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous, Gregory C. Chow, Kok-Choo Chen	
NT\$15,000,000 ~ NT\$29,999,999	F.C. Tseng		F.C. Tseng	F.C. Tseng, Rick Tsai
NT\$30,000,000 ~ NT\$49,999,999	None		None	
NT\$50,000,000 ~ NT\$99,999,999	Morris Chang		None	
Over NT\$100,000,000	None		Morris Chang	
Total	9		9	

2.5 Management Team

2.5.1 Information Regarding Management Team

As of 02/28/2014

Title Name (Note 1)	On-board Date (Note 2)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)	Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Shareholding	%	Shareholding	%				Title	Name	Relation
President and Co-Chief Executive Officer Mark Liu (Note 3)	11/15/1993	13,012,114	0.05%	-	-	-	Ph.D., Electrical Engineering & Computer Science, University of California, Berkeley, U.S. Executive Vice President and Co-Chief Operating Officer, TSMC Senior Vice President, Operations, TSMC Senior Vice President, Advanced Technology Business, TSMC Vice President, South Site Operation, TSMC President, Worldwide Semiconductor Manufacturing Corp.	Director, TSMC affiliate	None	None	None
President and Co-Chief Executive Officer C.C. Wei (Note 3)	02/01/1998	8,460,207	0.03%	261	0.00%	-	Ph.D., Electrical Engineering, Yale University, U.S. Executive Vice President and Co-Chief Operating Officer, TSMC Senior Vice President, Business Development, TSMC Senior Vice President, Mainstream Technology Business, TSMC Vice President, South Site Operation, TSMC Senior Vice President, Chartered Semiconductor Manufacturing Ltd.	None	None	None	None
Senior Vice President and Chief Information Officer Information Technology, Materials Management and Risk Management Stephen T. Tso	12/16/1996	13,845,064	0.05%	-	-	-	Ph.D., Materials Science & Engineering, University of California, Berkeley, U.S. President, WaferTech, LLC Senior Vice President, Operations, TSMC General Manager of CVD Products, Applied Material	Director, TSMC subsidiary	None	None	None
Senior Vice President and General Counsel Legal Richard Thurston	01/02/2002	857,602	0.00%	-	-	-	J.D., Rutgers School of Law, State University of New Jersey, U.S. Ph.D., History, University of Virginia, U.S. Partner, Haynes Boone, LLP Vice President Corporate Staff, Assistant General Counsel, Texas Instruments Inc.	Director, TSMC subsidiaries Director, TSMC affiliate	None	None	None
Senior Vice President, Chief Financial Officer and Spokesperson Finance Lora Ho	06/01/1999	6,381,080	0.02%	110,268	0.00%	-	Master, Business Administration, National Taiwan University, Taiwan Senior Director, Accounting, TSMC Vice President & CFO, TI-Acer Semiconductor Manufacturing Corp.	Director and/or Supervisor, TSMC subsidiaries Director, TSMC affiliates President, TSMC subsidiaries	None	None	None
Senior Vice President Research and Development Wei-Jen Lo (Note 4)	07/01/2004	1,600,127	0.01%	-	-	-	Ph.D., Solid State Physics and Surface Chemistry, University of California, Berkeley, U.S. Vice President, Research and Development, TSMC Vice President, Operations/ Manufacturing Technology, TSMC Vice President, Advanced Technology Business, TSMC Vice President, Operation II, TSMC Director, Advanced Technology Development and CTM Plant Manager, Intel	None	None	None	None
Senior Vice President of TSMC and President of TSMC North America Rick Cassidy (Note 4)	11/14/1997	-	-	-	-	-	Bachelor, Engineering Technology, United States Military Academy at West Point, U.S. Vice President of TSMC North America Account Management	Director, TSMC North America	None	None	None
Vice President Operations/Affiliate Fabs M.C. Tzeng	01/01/1987	7,592,595	0.03%	-	-	-	Master, Applied Chemistry, Chungyuan University, Taiwan Vice President, Mainstream Technology Business, TSMC Senior Director, Fab 2 Operation, TSMC	Director, TSMC subsidiaries	Department Manager	M.J. Tzeng	Siblings
Vice President and Chief Technology Officer Research and Development Jack Sun	06/02/1997	4,368,831	0.02%	-	-	-	Ph.D., Electrical Engineering, University of Illinois at Urbana-Champaign, U.S. Vice President, Research and Development, TSMC Senior Director, Logic Technology Division, TSMC Senior Manager of R&D, International Business Machines (IBM)	None	None	None	None
Vice President Operations/Product Development Y.P. Chin	01/01/1987	7,428,122	0.03%	2,194,107	0.01%	-	Master, Electrical Engineering, National Cheng Kung University, Taiwan Vice President, Advanced Technology and Business, TSMC Senior Director, Product Engineering & Services, TSMC	None	None	None	None
Vice President Quality and Reliability N.S. Tsai	03/01/2000	2,051,180	0.01%	1,103,253	0.00%	-	Ph.D., Material Science, Massachusetts Institute of Technology, U.S. Senior Director, Assembly Test Technology & Service, TSMC Vice President, Operations, Vanguard International Semiconductor Corp.	None	None	None	None
Vice President Operations/Mainstream Fabs and Manufacturing Technology J.K. Lin	01/01/1987	12,498,018	0.05%	1,618,036	0.01%	-	Bachelor, Science, National Changhua University of Education, Taiwan Senior Director, Mainstream Fabs, TSMC	Director, TSMC affiliates	None	None	None

(Continued)

Title Name (Note 1)	On-board Date (Note 2)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)	Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Shareholding	%	Shareholding	%				Title	Name	Relation
Vice President Operations/300mm Fabs J.K. Wang	02/11/1987	2,553,947	0.01%	160,844	0.00%	-	Master, Chemical Engineering, National Cheng Kung University, Taiwan Senior Director, 300mm fab operations, TSMC	None	Manager	J.J. Wang	Siblings
Vice President Corporate Planning Organization Irene Sun	10/01/2003	800,709	0.00%	-	-	-	Ph.D., Materials Science and Engineering, Cornell University, U.S. Senior Director, Corporate Planning Organization, TSMC	None	Manager	Thomas T. Sun	Siblings
Vice President Research and Development Burn J. Lin	04/26/2000	2,777,746	0.01%	1,024,933	0.00%	-	Ph.D., Electrical Engineering, Ohio State University, U.S. Senior Director, Nanopatterning Technology Division, TSMC	None	None	None	None
Vice President Research and Development Y.J. Mii	11/14/1994	1,000,419	0.00%	-	-	-	Ph.D., Electrical Engineering, University of California, Los Angeles, U.S. Senior Director, R&D Platform I Division, TSMC	None	None	None	None
Vice President Research and Development Cliff Hou	12/15/1997	652,532	0.00%	60,802	0.00%	-	Ph.D., Electrical Engineering, Syracuse University, U.S. Senior Director, Design and Technology Platform, TSMC	Director, TSMC subsidiaries Director, TSMC affiliate President, TSMC subsidiaries	None	None	None
Vice President Business Development Been-Jon Woo (Note 5)	04/30/2009	115,000	0.00%	42,000	0.00%	-	Ph.D., Chemistry, University of Southern California, U.S. Director of Business Development, TSMC Vice President of R&D, Grace Semiconductor Manufacturing Corp. Director of Technology Integration, Intel Corp.	None	None	None	None

Note 1: - Effective November 12, 2013, Chairman and Chief Executive Officer Dr. Morris Chang retired as Chief Executive Officer. Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei assumed the role as Co-Chief Executive Officers.

- Executive Vice President and Co-Chief Operating Officer Dr. Shang-yi Chiang voluntarily retired, effective November 1, 2013.

- Senior Vice President of Worldwide Sales and Marketing Mr. Jason C.S. Chen resigned as the Executive Officer, effective November 23, 2013.

Note 2: On-board date means the official date joining TSMC.

Note 3: Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei were appointed as President and Co-Chief Executive Officer, effective November 12, 2013.

Note 4: Dr. Wei-Jen Lo and Mr. Rick Cassidy were promoted to Senior Vice President, effective February 18, 2014.

Note 5: Dr. Been-Jon Woo was promoted to Vice President, effective November 12, 2013.

2.5.2 Compensation Paid to CEO, President and Vice Presidents (Note 1)

Unit: NT\$ thousands

Title	Name	Salary (A)		Severance Pay and Pensions (B) (Note 9)		Bonuses and Allowances (C) (Note 10)		Employee Profit Sharing (D) (Note 11)				Total Compensation as a % of 2013 Net Income (A, B, C, D) (Note 12)		Exercisable Employee Stock Options (K shares) (Note 13)		Exercisable Employee Restricted Stock (K shares) (Note 14)		Compensation Received from Non-consolidated Affiliates
		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC		From All Consolidated Entities		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	
								Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)							
Chairman	Morris Chang (Note 2)																	
President and Co-Chief Executive Officer	Mark Liu (Note 3)																	
President and Co-Chief Executive Officer	C.C. Wei (Note 3)																	
Executive Vice President and Co-Chief Operating Officer	Shang-yi Chiang (Note 4)																	
Senior Vice President and Chief Information Officer Information Technology, Materials Management and Risk Management	Stephen T. Tso																	
Senior Vice President and General Counsel Legal	Richard Thurston																	
Senior Vice President, Chief Financial Officer and Spokesperson Finance	Lora Ho																	
Senior Vice President Worldwide Sales and Marketing	Jason C.S. Chen (Note 5)																	
Senior Vice President Research and Development	Wei-Jen Lo (Note 6)																	
Senior Vice President of TSMC and President of TSMC North America	Rick Cassidy (Note 6)																	
Vice President Operations/Affiliate Fabs	M.C. Tzeng	80,452	129,718	7,223	7,639	537,609	581,574	484,811	-	484,811	-	0.59%	0.64%	-	-	-	-	106
Vice President and Chief Technology Officer Research and Development	Jack Sun																	
Vice President Operations/Product Development	Y.P. Chin																	
Vice President Quality and Reliability	N.S. Tsai																	
President of TSMC China	L.C. Tu (Note 7)																	
Vice President Operations/Mainstream Fabs and Manufacturing Technology	J.K. Lin																	
Vice President Operations/300mm Fabs	J.K. Wang																	
Vice President Corporate Planning Organization	Irene Sun																	
Vice President Research and Development	Burn J. Lin																	
Vice President Research and Development	Y.J. Mii																	
Vice President Research and Development	Cliff Hou																	
Vice President Business Development	Been-Jon Woo (Note 8)																	

Note 1: Compensation Policy: The cash compensation and profit sharing paid to Chief Executive Officer and each executive officer are also reviewed by the Compensation Committee individually based on their job responsibility, contribution, and projected future risks facing the Company before the compensation and profit sharing proposals are submitted to the Board of Directors for approval.

Note 2: Effective November 12, 2013, Chairman and Chief Executive Officer Dr. Morris Chang retired as Chief Executive Officer. Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei assumed the role as Co-Chief Executive Officers.

Note 3: Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei were appointed as President and Co-Chief Executive Officer, effective November 12, 2013.

Note 4: Executive Vice President and Co-Chief Operating Officer Dr. Shang-yi Chiang voluntarily retired, effective November 1, 2013.

Note 5: Senior Vice President of Worldwide Sales and Marketing Mr. Jason C.S. Chen resigned as the Executive Officer, effective November 23, 2013.

Note 6: Dr. Wei-Jen Lo and Mr. Rick Cassidy were promoted to Senior Vice President, effective February 18, 2014.

Note 7: Vice President of Human Resources Mr. L.C. Tu was appointed as President of TSMC China, effective March 15, 2013.

Note 8: Dr. Been-Jon Woo was promoted to Vice President, effective November 12, 2013.

Note 9: Pensions funded according to applicable law.

Note 10: The above-mentioned figures include the expense for the employees' cash bonuses distributed in May, August, November 2013 and February 2014, Company cars and gasoline reimbursement, but does not include compensation paid to Company drivers (totalled NT\$5,851 thousand).

Note 11: The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 24, 2014.

Note 12: Total compensation paid to TSMC's Chief Executive Officer and Executive Officers in 2012 was NT\$1,261,465 thousand, accounting for 0.76% of 2012 net income.

Note 13: Represents cumulative employee stock options exercisable as of the date of this Annual Report.

Note 14: TSMC did not issue employee restricted stock in 2013, and as of the date of this Annual Report.

Compensation Paid to CEO, President and Vice Presidents

	2013	
	From TSMC	From All Consolidated Entities and Non-consolidated Affiliates
Under NT\$2,000,000	Rick Cassidy	None
NT\$2,000,000 ~ NT\$4,999,999	Been-Jon Woo	Been-Jon Woo
NT\$5,000,000 ~ NT\$9,999,999	L.C. Tu	L.C. Tu
NT\$10,000,000 ~ NT\$14,999,999	None	None
NT\$15,000,000 ~ NT\$29,999,999	Jason C.S. Chen, Cliff Hou	Jason C.S. Chen, Cliff Hou
NT\$30,000,000 ~ NT\$49,999,999	M.C. Tzeng, Y.P. Chin, N.S. Tsai, J.K. Lin, Irene Sun, Burn J. Lin, Y.J. Mii, J.K. Wang	M.C. Tzeng, Y.P. Chin, N.S. Tsai, J.K. Lin, Irene Sun, Burn J. Lin, Y.J. Mii, J.K. Wang
NT\$50,000,000 ~ NT\$99,999,999	Mark Liu, C.C. Wei, Shang-yi Chiang, Stephen T. Tso, Richard Thurston, Lora Ho, Wei-Jen Lo, Jack Sun	Mark Liu, C.C. Wei, Shang-yi Chiang, Stephen T. Tso, Richard Thurston, Lora Ho, Wei-Jen Lo, Jack Sun, Rick Cassidy
Over NT\$100,000,000	Morris Chang	Morris Chang
Total	22	22

2.5.3 Employee Profit Sharing Granted to Management Team (Note 1)

Unit: NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of 2013 Net Income
Chairman	Morris Chang (Note 2)				
President and Co-Chief Executive Officer	Mark Liu (Note 3)				
President and Co-Chief Executive Officer	C.C. Wei (Note 3)				
Executive Vice President and Co-Chief Operating Officer	Shang-yi Chiang (Note 4)				
Senior Vice President and Chief Information Officer Information Technology, Materials Management and Risk Management	Stephen T. Tso				
Senior Vice President and General Counsel Legal	Richard Thurston				
Senior Vice President, Chief Financial Officer and Spokesperson Finance	Lora Ho				
Senior Vice President Worldwide Sales and Marketing	Jason C.S. Chen (Note 5)				
Senior Vice President Research and Development	Wei-Jen Lo (Note 6)				
Senior Vice President of TSMC and President of TSMC North America	Rick Cassidy (Note 6)				
Vice President Operations/Affiliate Fabs	M.C. Tzeng				
Vice President and Chief Technology Officer Research and Development	Jack Sun	-	484,811	484,811	0.26%
Vice President Operations/Product Development	Y.P. Chin				
Vice President Quality and Reliability	N.S. Tsai				
President of TSMC China	L.C. Tu (Note 7)				
Vice President Operations/Mainstream Fabs and Manufacturing Technology	J.K. Lin				
Vice President Operations/300mm Fabs	J.K. Wang				
Vice President Corporate Planning Organization	Irene Sun				
Vice President Research and Development	Burn J. Lin				
Vice President Research and Development	Y.J. Mii				
Vice President Research and Development	Cliff Hou				
Vice President Business Development	Been-Jon Woo (Note 8)				

Note 1: The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 24, 2014.

Note 2: Effective November 12, 2013, Chairman and Chief Executive Officer Dr. Morris Chang retired as Chief Executive Officer. Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei assumed the role as Co-Chief Executive Officers.

Note 3: Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei were appointed as President and Co-Chief Executive Officer, effective November 12, 2013.

Note 4: Executive Vice President and Co-Chief Operating Officer Dr. Shang-yi Chiang voluntarily retired, effective November 1, 2013.

Note 5: Senior Vice President of Worldwide Sales and Marketing Mr. Jason C.S. Chen resigned as the Executive Officer, effective November 23, 2013.

Note 6: Dr. Wei-Jen Lo and Mr. Rick Cassidy were promoted to Senior Vice President, effective February 18, 2014.

Note 7: Vice President of Human Resources Mr. L.C. Tu was appointed as President of TSMC China, effective March 15, 2013.

Note 8: Dr. Been-Jon Woo was promoted to Vice President, effective November 12, 2013.

3. Corporate Governance

TSMC acts upon the principles of operational transparency and respect for shareholder rights. Over half of our Board of Directors is made up of Independent Directors.

3.1 Overview

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that one basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, the TSMC Board delegates various responsibilities and authority to two Board Committees, Audit Committee and Compensation Committee. Each Committee has a written charter approved by the Board. Each Committee's chairperson regularly reports to the Board on the activities and actions of the relevant committee. The Audit Committee and Compensation Committee consist solely of independent directors.

2013 Corporate Governance Awards

Organization	Awards
FinanceAsia	Asia's Best Managed Companies in Hong Kong, Korea and Taiwan Best Managed Company - Ranked No.1 in Taiwan Best Corporate Governance Company - Ranked No.1 in Taiwan
EUROMONEY	Asia Best Managed Companies - IT/software/technology
IR Magazine	2013 Greater China Awards - Best corporate governance and disclosure
BARRON'S	Top 100 World's Most Respected Companies
CommonWealth Magazine	Most Admired Company - Ranked No.1 in Taiwan
R.O.C. Securities & Futures Institute	10th Information Disclosure of Public Companies Ranking - Ranked A+

3.2 Board of Directors

Board Structure

TSMC's Board of Directors consists of nine^{Note} distinguished members with a great breadth of experience as world-class business leaders or scholars. TSMC relies on them for their diverse knowledge, personal perspectives, and solid business judgment. Five of the nine members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; Acer Inc. Chairman, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; Professor of Princeton University, Gregory C. Chow; and advisor to the Taiwan Executive Yuan and the Taipei City Government, Ms. Kok-Choo Chen. The number of Independent Directors is more than 50% of the total number of Directors.

Note: TSMC's Board of Directors originally consisted of nine directors. Since Dr. Rick Tsai resigned as a director of TSMC effective January 27, 2014, currently the number of Directors is eight.

Board Responsibilities

Under the leadership of Chairman Morris Chang, TSMC's Board of Directors takes a serious and forthright approach to its duties and is a dedicated, competent and independent Board.

In the spirit of Chairman Chang's approach to corporate governance, a board of directors' primary duty is to supervise. The Board should supervise the Company's: compliance with relevant laws and regulations; financial transparency; timely disclosure of material information, and maintaining of the highest integrity within the Company.

TSMC's Board of Directors strives to perform these responsibilities through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, and coordination with the Internal Audit department.

The second duty of the Board of Directors is to provide guidance to the management team of the Company. Quarterly, TSMC's management reports to the Board on a variety of subjects. The management also reviews the Company's business strategies with the Board, and updates TSMC's Board on the progress of those strategies, obtaining Board guidance as appropriate.

The third duty of the Board of Directors is to evaluate the management's performance and to dismiss officers of the Company when necessary. TSMC's management has maintained a healthy and functional communication with the Board of Directors, has been devoted in executing guidance of the Board, and is dedicated in running the business operations, all to achieve the best interests for TSMC shareholders.

Directors' Compensation

TSMC's Articles of Incorporation restricts the amount of compensation payable to its directors that the Company may make from its distributable earnings (defined as net income after required regulatory provisions). Over the years, TSMC directors' compensation declined from 1% of TSMC's distributable earnings to 0.3%, before being capped to no more than 0.3% of its distributable compensation. In addition, directors who also serve as executive officers of the Company are not entitled to receive any director compensation.

Directors' Professional Qualifications and Independent Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Board members are listed in the table below.

Name/Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note 1)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director	
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10		
Morris Chang Chairman			✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	-
F.C. Tseng Vice Chairman			✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	1
Johnsee Lee Director	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Rick Tsai (Note 2) Director			✓				✓	✓	✓	✓	✓	✓	✓	✓	-
Sir Peter Leahy Bonfield Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Stan Shih Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Thomas J. Engibous Independent Director			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Gregory C. Chow Independent Director	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Kok-Choo Chen Independent Director	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

Note 1: Directors, during the two years before being elected and during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

- Not an employee of the company or any of its affiliates;
- Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50 percent of the voting shares;
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
- Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders;
- Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof, provided that this restriction does not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the GTSM";
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
- Not been a person of any conditions defined in Article 30 of the Company Law; and
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note 2: Dr. Rick Tsai resigned as a director of TSMC, effective January 27, 2014.

3.2.1 Audit Committee

The Audit Committee assists the Board in fulfilling its oversight of the quality and integrity of the accounting, auditing, reporting, and financial control practices of the Company. The Audit Committee is responsible to review the Company's: financial reports; auditing and accounting policies and procedures; internal control systems; material asset or derivatives transactions; material lending funds, endorsements or guarantees; offering or issuance of any equity-type securities; legal compliance; related-party transactions and potential conflicts of interests involving executive officers and directors; Ombudsman reports; fraud investigation reports; corporate risk management; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers.

Under R.O.C. law, the membership of the Audit Committee shall consist of all independent Directors. TSMC's Audit Committee satisfies this statutory requirement. The Committee also engaged a financial expert consultant in accordance with the rules of the U.S. Securities and Exchange Commission. The Audit Committee annually conducts self-evaluation to assess the Committee's performance and identify areas for further attention.

TSMC's Audit Committee is empowered by its Charter to conduct any study or investigation it deems appropriate to fulfill its responsibilities. It has direct access to TSMC's internal auditors, the Company's independent auditors, and all employees of the Company. The Committee is authorized to retain and oversee special legal, accounting, or other consultants as it deems appropriate to fulfill its mandate. The Audit Committee Charter is available on TSMC's corporate website.

3.2.2 Compensation Committee

The Compensation Committee assists the Board in discharging its responsibilities related to TSMC's compensation and benefits policies, plans and programs, and in the evaluation and compensation of TSMC's directors of the Board and executives.

The members of the Compensation Committee are appointed by the Board as required by R.O.C. law. According to TSMC's Compensation Committee Charter, the Committee shall consist of no fewer than three independent directors of the Board. Currently, the Compensation Committee is comprised of all five independent directors; the Chairman of the Board, Dr. Morris Chang, is invited by the Committee to attend all meetings and is excused from the Committee's discussion of his own compensation.

TSMC's Compensation Committee is authorized by its Charter to retain an independent consultant to assist in the evaluation of CEO, or executive officer compensation. The Compensation Committee Charter is available on TSMC's corporate website.

Compensation Committee Members' Professional Qualifications and Independent Analysis

According to the relevant requirements set by Taiwan's Securities and Futures Bureau, the professional qualifications and independence status of the Company's Compensation Committee members are listed in the table below.

Name Title/Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)								Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialists Who Has Passed a National Examination and Been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Area of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	
Stan Shih Independent Director			▼	▼	▼	▼	▼	▼	▼	▼	▼	-
Sir Peter Leahy Bonfield Independent Director			▼	▼	▼	▼	▼	▼	▼	▼	▼	-
Thomas J. Engibous Independent Director			▼	▼	▼	▼	▼	▼	▼	▼	▼	-
Gregory C. Chow Independent Director	▼			▼	▼	▼	▼	▼	▼	▼	▼	-
Kok-Choo Chen Independent Director	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	-

Note:

Compensation Committee Members, during the two years before being elected or during the term of office, meet any of the following situations, please tick the appropriate corresponding boxes:

- Not an employee of the company or any of its affiliates;
- Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50 percent of the voting shares;
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
- Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders;
- Not a director, supervisor, officer, or shareholder holding five percent or more of the shares of a specified company or institution that has a financial or business relationship with the company;
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
- Not been a person of any conditions defined in Article 30 of the Company Law.

3.2.3 Directors and Committees Members' Attendance

Each Director is expected to attend every Board meeting and the committees meeting on which he or she serves. In 2013, the average Board Meeting attendance rate was 97% and the attendance rate for the Audit Committee and Compensation Committee's Meetings were 95%.

Board of Directors Meeting Status

Dr. Morris Chang, the Chairman of the Board of Directors, convened four regular meetings in 2013. The directors' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Morris Chang	4	-	100%	None
Vice Chairman	F.C. Tseng	4	-	100%	None
Director	National Development Fund, Executive Yuan Representative: Johnsee Lee	4	-	100%	None
Director	Rick Tsai	4	-	100%	None
Independent Director	Sir Peter Leahy Bonfield	4	-	100%	None
Independent Director	Stan Shih	4	-	100%	None
Independent Director	Thomas J. Engibous	3	1	75%	None
Independent Director	Gregory C. Chow	4	-	100%	None
Independent Director	Kok-Choo Chen	4	-	100%	None

Annotations:

- There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2013.
- Recusals of Directors due to conflicts of interests in 2013: Directors recused themselves from the discussion and voting of their compensation resolutions.
- Measures taken to strengthen the functionality of the Board: We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors has established an Audit Committee and a Compensation Committee to assist the Board in carrying out its various duties.

Audit Committee Meeting Status

Sir Peter Bonfield, Chairman of the Audit Committee, convened four regular meetings in 2013. The Committee members and consultant's attendance status is shown in the following table. In addition to these meetings, the Committee members and consultant participated in five telephone conferences to discuss the Company's Annual Report to be filed with the Taiwan and U.S. authorities and investor conference materials with management.

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Sir Peter Leahy Bonfield	4	-	100%	None
Member	Stan Shih	4	-	100%	None
Member	Thomas J. Engibous	3	1	75%	None
Member	Gregory C. Chow	4	-	100%	None
Member	Kok-Choo Chen	4	-	100%	None
Financial Expert	J.C. Lobbezoo	4	-	100%	None

Annotations:

- There was no Securities and Exchange Act §14-5 resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2013.
- There were no recusals of independent directors due to conflicts of interests in 2013.
- Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2013 (e.g. the channels, items and/or results of the audits on the corporate finance and/or operations, etc.):
 - The internal auditors have sent the audit reports to the members of the Audit Committee periodically, and presented the findings of all audit reports in the quarterly meetings of the Audit Committee. The head of Internal Audit will immediately report to the members of the Audit Committee any material matters. During 2013, the head of Internal Audit did not report any such material matters. The communication channel between the Audit Committee and the internal auditor functioned well.
 - The Company's independent auditors have presented the findings of their quarterly review or audits on the Company's financial results. Under applicable laws and regulations, the independent auditors are also required to immediately communicate to the Audit Committee any material matters that they have discovered. During 2013, the Company's independent auditors did not report any irregularity. The communication channel between the Audit Committee and the independent auditors functioned well.

Compensation Committee Meeting Status

Mr. Stan Shih, Chairman of the Compensation Committee, convened four regular meetings in 2013. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Stan Shih	4	-	100%	None
Member	Sir Peter Leahy Bonfield	4	-	100%	None
Member	Thomas J. Engibous	3	1	75%	None
Member	Gregory C. Chow	4	-	100%	None
Member	Kok-Choo Chen	4	-	100%	None

Annotation:

- There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors in 2013.
- There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

3.3 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.1 Major Resolutions of Shareholders' Meeting and Implementation Status

TSMC's 2013 Annual Shareholders' Meeting was held in Hsinchu, Taiwan on June 11, 2013. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1) The 2012 Business Report and Financial Statements;
- (2) The distribution of 2012 profits;
- (3) The revisions to the following internal rules:
 - Procedures for Acquisition or Disposal of Assets
 - Procedures for Lending Funds to Other Parties
 - Procedures for Endorsement and Guarantee

Implementation Status

All of the resolutions of the Shareholders' Meeting have been fully implemented in accordance with the resolutions.

3.3.2 Major Resolutions of Board Meetings

During the 2013 calendar year, and as of the date of this Annual Report, major resolutions approved at Board meetings are summarized below:

- (1) Regular Board Meeting of February 4 & 5, 2013:
 - approving 2012 business report and financial statements;
 - approving distribution of 2012 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$2,714.76 million;
 - approving R&D capital appropriation of US\$103.6 million;
 - approving the provision of a loan guarantee to wholly-owned subsidiary TSMC Global for its issuance of US dollar-denominated senior unsecured corporate bonds for an amount not to exceed US\$1.5 billion; and
 - convening the 2013 Annual Shareholders' Meeting.
- (2) Regular Board Meeting of May 13 & 14, 2013:
 - approving capital appropriations of US\$4,901.9 million (including R&D capital appropriation); and
 - approving the issuance of an unsecured straight corporate bond in the domestic market for an amount not exceeding NT\$45 billion.
- (3) Regular Board Meeting of August 12 & 13, 2013:
 - approving capital appropriations of US\$1.925 billion; and
 - approving R&D capital appropriation of US\$37.8 million.
- (4) Regular Board Meeting of November 11 & 12, 2013:
 - approving capital appropriations of US\$829.2 million;
 - approving R&D capital appropriation and sustaining capital appropriation totaling US\$178.4 million;
 - approving the appointment of Drs. Mark Liu and C.C. Wei (in alphabetical order) as President and Co-Chief Executive Officer of TSMC. The Presidents and the Co-Chief Executive Officers shall report to and perform such duties as designated by the Chairman of the Board. After such appointment, Finance and Legal organizations continue to report to the Chairman;
 - approving the promotion of Dr. Been-Jon Woo as Vice President; and
 - approving the revision of TSMC's "Procedure of Retirement" and set the mandatory retirement age to 67.
- (5) Regular Board Meeting of February 17 & 18, 2014:
 - approving 2013 business report and financial statements;
 - approving distribution of 2013 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$257.1 million (including upgrading specialty technology capacity, R&D capital investments and sustaining capital expenditures);
 - approving the promotion of Mr. Rick Cassidy and Dr. Wei-Jen Lo as Senior Vice President; and
 - convening the 2014 Annual Shareholders' Meeting.

3.3.3 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors during the 2013 Calendar Year and as of the Date of this Annual Report: None.

3.4 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Non-implementation and Its Reason(s)
1. Shareholding Structure and Shareholders' Rights (1) Method of handling shareholder suggestions or complaints	TSMC has designated appropriate departments, such as Corporate Communication Division, the SEC Compliance Department, Legal Department, etc., to handle shareholder suggestions or complaints.	None
(2) The company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders	TSMC tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of TSMC.	
(3) Risk management mechanism and "firewall" between the company and its affiliates	TSMC has established appropriate guidelines in its "Internal Control System" and "TSMC Invested Entity Governance and Management Policy".	
2. Composition and Responsibilities of the Board of Directors (1) Independent Directors	Sir Peter Leahy Bonfield, Mr. Stan Shih, Mr. Thomas J. Engibous, Mr. Gregory C. Chow and Ms. Kok-Choo Chen are the independent directors of TSMC.	None
(2) Regular evaluation of external auditors' independence	The TSMC Audit Committee regularly evaluates the independence of external auditors.	
3. Communication Channel with Stakeholders	TSMC has designated appropriate departments, such as Corporate Communication Division, the SEC Compliance Department, etc., to communicate with stakeholders on a case by case basis, as needed. Furthermore, the contact information providing access to the Company's spokesperson and relevant departments is available on TSMC's website.	None
4. Information Disclosure (1) Establishment of a corporate website to disclose information regarding the company's financials, business and corporate governance status	TSMC discloses information through its website (in both Chinese and English) http://www.tsmc.com . Since TSMC is a foreign private issuer with American Depositary Receipts listed on the New York Stock Exchange (NYSE), TSMC is subject to various NYSE regulations, one of which requires TSMC to disclose the significant ways in which its corporate governance practices differ from those followed by U.S. domestic companies under NYSE listing standards. Such disclosure information may be found at the following web address: http://www.tsmc.com/download/english/e03_governance/NYSE_section_303A.pdf	None
(2) Other information disclosure channels (e.g. maintaining an English-language website, designating people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)	TSMC has designated appropriate departments (e.g. Corporate Communication Division, the SEC Compliance Department, etc.) to handle the collection and disclosure of information as required by the relevant laws and regulations of Taiwan and other jurisdictions. TSMC has designated spokespersons as required by relevant regulations. TSMC webcasts live investor conferences.	
5. Operations of the company's Nomination Committee or other committees of the Board of Directors	TSMC's Board of Directors has established an Audit Committee and a Compensation Committee. Please refer to "3. Corporate Governance" on page 28-43 of this Annual Report for details.	None
6. If the company has established corporate governance policies based on TSE Corporate Governance Best Practice Principles, please describe any discrepancy between the policies and their implementation.	TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors established an Audit Committee in 2002 and a Compensation Committee in 2003. For the status of TSMC's corporate governance, please refer to "3. Corporate Governance" on page 28-43 of this Annual Report.	
7. Other important information to facilitate better understanding of the company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors):	(1) Status of employee rights and employee wellness: Please refer to "5.5 Employees" on page 71-74 of this Annual Report. (2) Status of investor relations, supplier relations and rights of stakeholders: Please refer to "7. Corporate Social Responsibility" on page 92-109 of this Annual Report. (3) Directors' training records: Please refer to page 36 of this Annual Report for details. (4) Status of Risk Management Policies and Risk Evaluation Measures: Please refer to "6.2 Risk Management" on page 81-91 of this Annual Report. (5) Status of Customer Relations Policies: Please refer to "5.4 Customer Trust" on page 69-71 of this Annual Report. (6) TSMC maintains D&O Insurance for its directors and officers.	
8. If the company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None	TSMC's corporate governance won international recognitions in 2013: FinancialAsia honored TSMC with its "Best Corporate Governance Company - Ranked No.1 in Taiwan"; IR Magazine honored TSMC with its "2013 Greater China Awards - Best corporate governance and disclosure"; Commonwealth Magazine honored TSMC with its "Most Admired Company in Taiwan"; Securities & Futures Institute's 10th Information Disclosure of Public Companies Ranking ranked TSMC "A+".	

Continuing Education/Training of Directors in 2013

Name	Date	Host by	Training/Speech Title	Duration
Morris Chang (Note)	12/05	National Science Council Science and Technology Development Council	Speech: International Technical Cooperation and Talents Exchange Strategy Forum	1 hour
F.C. Tseng	05/09	Securities & Future Institute	Directors and Supervisors Practice Advanced Seminar: Strategy and Key Performance Indicators	3 hours
Stan Shih (Note)	07/30	The American Chamber of Commerce in Taipei	Speech: Wangdao & Corporate Social Responsibility	1 hour
	09/10	Asia Pacific City Summit, APCS	Speech: Wangdao and Social Enterprise	3.5 hours
	11/04	The Institute of Internal Auditors, R.O.C.	Speech: Wangdao Governance	1 hour
Kok-Choo Chen	04/30	Taiwan Corporate Governance Association	Functions of Compensation Committee	3 hours
Johnsee Lee	05/10	Council for Economic Planning and Development	Free Economic Pilot Zones Forum	2.5 hours
	06/21	National Development Fund, Executive Yuan	Directors and Supervisors Practice Seminar – Principle on the Recusal of Conflict of Interest for Government Functionary	3 hours

- From time to time, TSMC provides directors with information concerning regulatory requirements and developments as related to directors' activities. TSMC management also regularly presents updates on the Company's business and other information to directors.
- Regular regulatory update reports are provided by TSMC's General Counsel and by the Company's independent auditors at the Audit Committee meetings such as:
 - Conflict-free Minerals
 - Taiwan "Personal Information Protection Act"
 - Fraud Detection Procedures

Note: Selected speeches on corporate governance and related topics.

Continuing Education/Training of Management in 2013

Name/Title	Date	Host by	Training	Duration
Jessica Chou Director, Accounting Division	06/18	Accounting Research and Development Foundation	The Risk, Legal Responsibility, and Awareness of Economic Crime in Judicial Cases, from The Perspective of Chief Accounting Officer	3 hours
	06/18		The Law and Practice of Contest Over Corporate Control	3 hours
	09/10		Introduction of "Illustrative International Financial Reporting Standards (IFRS)"	3 hours
	09/13		The Case Study of Significant Economic Crime and Related Legal Responsibilities	3 hours
John Liang Director, Internal Audit	12/16	The Institute of Internal Auditors, R.O.C.	Audit Practice of Enterprise Bribery	6 hours
	12/20	Accounting Research and Development Foundation	Major Financial Fraud and Legal Risk	6 hours

In addition, various training programs and speech presentations were also provided by TSMC's Legal Organization for Management and the relevant divisions, such as:

- Insider Trading
- Protecting of TSMC's Trade Secrets
- PIP and Handling "Indirect Customers"
- New Export Control Enhancement

3.5 Code of Ethics and Business Conduct

Ethics Values

Integrity is the most important core value of TSMC's culture. TSMC is committed to acting ethically in all aspects of our business; constantly and vigilantly promoting integrity, honesty, fairness, accuracy, and transparency in all that we say and do.

At the heart of our corporate governance culture is TSMC's Code of Ethics and Business Conduct (the "Code") that applies to TSMC and its subsidiaries, and this Code requires that each employee bears a heavy personal responsibility to preserve and to protect TSMC's ethical values and reputation and to comply with various applicable laws and regulations.

In so doing, each of us:

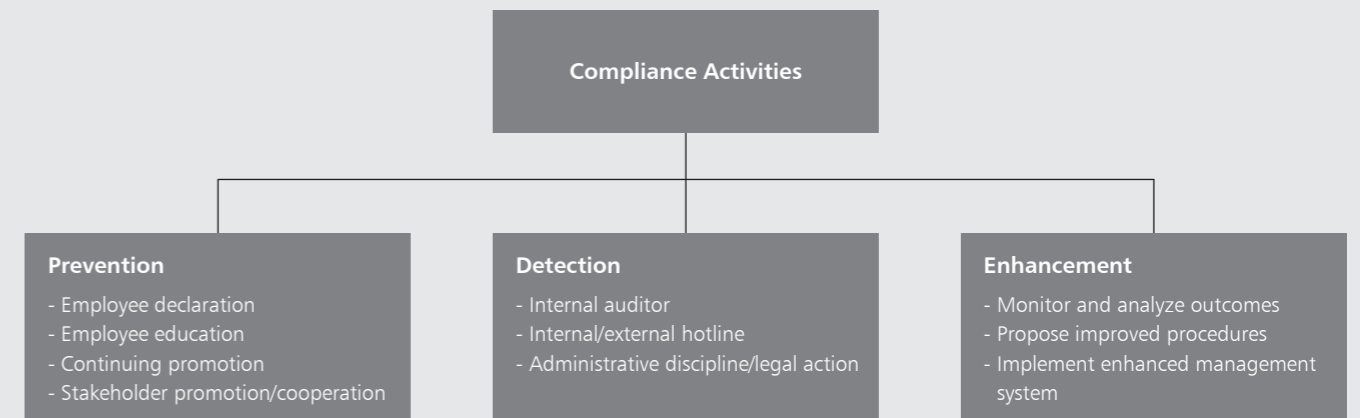
- must not advance our personal interests at the expense of, or in conflict with the Company;
- must refrain from corruption, unfair competition, fraud, waste and abuse;

- must not undertake any practices detrimental to TSMC, the environment and to society;
- must procure all of our raw materials from socially responsible sources;
- must abide by both the spirit and letter of all applicable laws, rules and regulations; and
- must avoid any efforts improperly to influence the decisions of anyone, including government officials, agencies, and courts, as well as our customers, suppliers, and vendors.

In order to continue to build an environment of innovation, technology leadership, and sustainable profitable growth, the Code requires that we must promote business relationships founded upon an unwavering respect for the intellectual property rights, proprietary information and trade secrets of TSMC, our customers, and others; and the proper use of the Company's assets, not for personal use, but for achieving TSMC's vision for many years to come.

All employees, officers and Board members must whole-heartedly embrace and practice the Code. TSMC's management must set the best example of integrity and ethical conduct. TSMC's officers, especially our CEO, CFO, and General Counsel, with oversight from our Board, are responsible for the full, fair, accurate, timely, and understandable financial accounting and financial disclosure in reports and documents filed by the Company with securities authorities and in all TSMC public communications and disclosures.

Code Administration and Disciplinary Action



All employees, officers and managers must comply with the Code and the other Company policies, procedures, and regulations based on the Code. TSMC expects our customers, suppliers, vendors, advisors and others with which we come into contact to understand and respect the Company's ethics standards and culture.

As part of our ethics compliance program, all employees must disclose any matters that have, or may have, the appearance of undermining the Code (such as any actual or potential conflict of interest). Key employees and senior officers must periodically declare their compliance status with the Code. To encourage an open culture of ethics compliance, we also have implemented several related policies that allow employees or any whistleblowers with relevant evidence to report any financial, legal, or ethical irregularities through the "Complaint Policy and Procedures for Certain Accounting and Legal Matters" or "Procedures for Ombudsman System". When an employee finds or suspects a breach of this Code, he/she should report it immediately to any of the following persons: their supervisor; the Function Head of Human Resources; the Company's Ombudsman; or to the Chairman of the Company's Audit Committee, depending on the nature of the suspected breach.

In order to promote a culture of awareness, we have made all of our various policies available through easy access on our intranet and require all employees to be trained on our core values and compliance regime. Our compliance program for all employees includes regular live seminars and online training on various topics on ethics, including the requirements to prevent bribery and to protect our intellectual property. Our intranet website posts various guidelines and informative articles on ethics and honorable business conduct. We also require our stakeholders such as our suppliers, vendors and other partners to accept and abide by the same high ethical standard to which we hold all of our officers and employees. For example, we require all of our suppliers, vendors and partners to declare in writing that they will not engage in any fraud or any unethical conduct when dealing with us or our officers and employees. We also promote our ethical culture to our business partners through regular live seminars to prevent any unethical conduct. We have established an online "hotline" that any relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC.

The internal auditors of TSMC regularly audit the compliance by the Company, our vendors, suppliers, and customers, of relevant rules and regulations.

TSMC Internal Audit assists the Board of Directors and Management in inspecting and reviewing whether TSMC's internal control system is adequate and effective in its design and operation to ensure that:

- Financial, managerial, and operating information is accurate, reliable, and timely.
- Legislative or regulatory issues impacting the organization are recognized and addressed properly.
- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.

To achieve the above objectives, Internal Audit submits an annual audit plan incorporating the regulatory compliance audit projects to the Board of Directors for approval. Subsequent to the audits, Internal Audit reports the audit findings along with issue follow-up to the Board and Management on a regular basis.

We have a "zero tolerance" rule for any violation of any ethics rule. Simply put, any officer or employee, regardless of their seniority, will be severely punished (including immediate dismissal and judicial prosecution as appropriate) to the full extent of our policies and the law, for violations of our ethical standards. For example, in 2013, there are two ongoing legal actions filed by the Company against former employees for misappropriation of the Company's intellectual property and violating other ethics rules. Additionally, the Company took severe disciplinary action against 7 employees who committed major violations of our Proprietary Information Protection ("PIP") rules, and terminated 1 employee for violating other ethics rules.

3.5.1 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Non-implementation and Its Reason(s)
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures (1) The company's guidelines on corporate conduct and ethics are provided in internal policies and disclosed publicly. The Board of Directors and the management team demonstrate their commitments to implement the policies. (2) The company establishes relevant policies for preventing any unethical conduct. The implementation of the relevant procedures, guidelines and training mechanism are provided in the policies. (3) The company establishes appropriate measures for preventing bribery and illegal political contribution for higher potential unethical conduct in the relevant policies.	Integrity is the most important core value of TSMC's culture. TSMC is committed to acting ethically in all aspects of our business. TSMC has established the Code of Ethics and Business Conduct (the "Code") to require that each employee bears a heavy personal responsibility to uphold TSMC's ethics value. All details of the Code and the measures that the Board and the management team take to ensure compliance of the Code are reported in TSMC's annual report and the Corporate Responsibility Report. In order to promote a culture of awareness, we have made available through easy access all of our various policies on our intranet and require all employees to be trained periodically on our core values and compliance regime. We also require our stakeholders such as our suppliers, vendors and other partners to accept and abide by the same high ethical standard to which we hold all of our officers and employees. The internal auditors of TSMC regularly audit compliance by the Company, our vendors, suppliers, and customers, of relevant rules and regulations. In order to prevent any unethical conduct, all employees must disclose any matters that have or may have the appearance of undermining the Code, such as any actual or potential conflict of interest. Key employees and senior officers must periodically declare their compliance status with the Code. TSMC requires all of our suppliers, vendors and partners to declare in writing that they will not engage in any fraud or provide unethical conduct when dealing with us or our officers and employees. We have established internal and external online "hotline" that any relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC.	None

(Continued)

Item	Implementation Status	Non-implementation and Its Reason(s)
2. Corporate Conduct and Ethics Compliance Practice (1) The company shall prevent doing business with whomever has unethical records and include business conduct and ethics related clauses in the business contracts. (2) The company sets up dedicated unit in charge of promotion and execution of the company's corporate conduct and ethics. The board of directors supervises such execution and compliance of the policies. (3) The company establishes policies to prevent conflicts of interest and provides appropriate communication and complaint channels. (4) The company establishes effective accounting and internal control systems for the implementation of policies, and the internal auditors audit such execution and compliance.	TSMC requires our stakeholders such as our suppliers, vendors and other partners to accept and abide by the same high ethical standard to which we hold all of our officers and employee. For example, we require all of our suppliers, vendors and partners to declare in writing that they will not engage in any fraud or provide unethical conduct when dealing with us or our officers and employees. We also promote our ethical culture to our business partners through regular live seminars to prevent any unethical conduct. Integrity is the most important core value of TSMC's culture. TSMC's Board, under the leadership of the Chairman, the Company's Ombudsman and other internal functions of the Company including Legal Department, Human Resources and Internal Auditors fully promote the code values of the Company from the various perspectives. All employees, officers, and Board members must whole-heartedly embrace and practice the Code. TSMC's management must set the best example of integrity and ethical conduct. TSMC's officers, especially our CEO, CFO, and General Counsel, with oversight from our Board, are responsible for the full, fair, accurate, timely, and understandable financial accounting and financial disclosure in reports/documents filed by the Company with securities authorities and in all TSMC public communications/disclosures. TSMC requires each newly hired employee to declare if there is any conflict of interest, and asks all employees to disclose any matters that have, or may have, the appearance of undermining the Code (such as any actual or potential conflict of interest). Key employees and senior officers must periodically declare their compliance status with the Code. TSMC requires all of our suppliers, vendors and partners to declare in writing that they will not engage in any fraud or provide unethical conduct when dealing with us or our officers and employees. We have established an internal and external online "hotline" that any employee or relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC. TSMC continues maintaining the integrity of its financial reporting processes and controls and establishes appropriate internal control systems for preventing higher potential unethical conduct. The internal auditors formulate annual audit plans based on the results of the risk assessment and report to the Board its audit report.	None
3. The company establishes the channels for reporting any ethical irregularities and sets up punishment for violations of the policies.	TSMC has established internal and external online "hotline" that any employee or relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC. Any officer or employee will be severely punished (including immediate dismissal and judicial prosecution as appropriate) and prosecuted to the full extent of our policies and the law, for any violation of our ethical standards. For example, in 2013, there are two ongoing legal actions filed by the Company against former employees for misappropriation of the Company's intellectual property and violating other ethics rules. Additionally, the Company took severe disciplinary action against 7 employees who committed major violations of our Proprietary Information Protection ("PIP") rules and terminated 1 employee for violating other ethics rules.	None
4. Information Disclosure (1) To set up a corporate website that publishes information relating to company's corporate conduct and ethics. (2) Other information disclosure channels (e.g. maintaining an English website, designating personnel to handle information collection and disclosure)	Our intranet website posts various guidelines and informative articles on ethics and honorable business conduct for employees' reference (in both Chinese and English). TSMC discloses the relevant information in its' Annual Report and Corporate Responsibility Report which are available in TSMC external website (http://www.tsmc.com , in both Chinese and English)	None
5. If the company has established corporate governance policies based on TSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation. TSMC has established the Code of Ethics and Business Conduct (the "Code") which requires that all employees, officers and board members comply with the Code and the other Company policies, procedures and regulations based on the Code. For details on the implementation of TSMC's Corporate Conduct and Ethics, please refer to "3.5 Code of Ethics and Business Conduct" on page 36-39 of this Annual Report.		
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., promote and demonstrate the company's commitment to ethical standard and provide training to its business partners; review the company's corporate conduct and ethics policy). For details on the implementation of TSMC's Corporate Conduct and Ethics, please refer to "3.5 Code of Ethics and Business Conduct" on page 36-39 of this Annual Report.		

3.6 Regulatory Compliance

TSMC is committed to conducting business honestly and ethically. This commitment to integrity, our most basic and most important core value, has been the cornerstone of TSMC’s robust compliance efforts, which is comprised of legislation monitoring, compliance policies, training and an open reporting environment.

TSMC operates in many countries. Therefore, in order to achieve compliance with governing legislation, applicable laws, regulations and regulatory expectations, we closely monitor domestic and foreign government policies and regulatory developments that could have a material impact on TSMC’s business and financial operations. We are also a proactive advocate for local legislative and regulatory reform and have achieved remarkable results in strengthening trade secret protection in Taiwan. TSMC is increasingly dedicated to identifying regulatory issues and will continue to be involved in advocating public policy changes that foster a positive and fair business environment.

In addition to TSMC’s Code of Ethics and Business Conduct, TSMC has also established policies, guidelines and procedures in other policy areas, including: Anti-bribery/corruption, Anti-harassment/discrimination, Antitrust (unfair competition), Environment, Export Control, Financial Reporting/Internal Controls, Insider Trading, Intellectual Property, Proprietary Information Protection (“PIP”), Privacy, Record Retention and Disposal, as well as procuring raw materials from socially responsible sources (“Conflict-free Minerals”). With respect to PIP, it is one of the six key corporate strategies of TSMC (as announced in June 2010). TSMC and its employees are expected to comply with all laws and regulations that govern our businesses.

Training is a major component of our compliance program, conducted throughout the year to refresh TSMC’s employees’ commitment to ethical conduct, and to get updated information on any changes to the law. Highlights of our compliance training program include the following:

- A wide range of on-line learning programs are designed to provide employees with an understanding of the law and key compliance issues. Topics available via on-line learning including Antitrust, Anti-harassment, Insider Trading, Export Control Management, PIP, to name just a few. The Antitrust course addresses common elements in antitrust and competition law that apply in the major jurisdictions in which we operate. It was updated in 2013 to

add summaries of recent international antitrust investigations, enforcement trend and court rulings. In combination with promotional campaigns, we have successfully raised awareness of improper behavior associated with antitrust laws in 2013.

- Live seminars are also offered for a variety of topics related to: Anti-bribery/corruption; Anti-harassment and discrimination; PIP; Insider Trading; Export Control; Financial Reporting; Contract Management; Intellectual Property; Conflict-free Minerals; and Privacy Law. A series of Export Control courses was introduced in 2013 to give an overview to TSMC’s export management system (“EMS”) and to introduce TSMC’s updated export control policy. The above courses are mandatory to managers and certain employees depending on the nature of the business activities they perform.
- As directed by our General Counsel, members of TSMC’s legal team regularly attend outside training in Taiwan and abroad to receive legal updates and stay current with new laws and regulatory developments. External legal professionals and industry experts are constantly invited to lecture on new areas of knowledge and the latest developments on industry-specific compliance matters. Licensed lawyers, including the General Counsel, maintain compliance with continuing legal education requirements of their licensing jurisdictions.
- To enhance compliance and risk management for our subsidiaries and affiliates, we regularly hold compliance meetings with them to ensure that all of our subsidiaries and affiliates (as appropriate) are aligned with the compliance standards of TSMC headquarters.

In addition to the above programs, a variety of resources and compliance campaigns are made available to our employees. For example, compliance education and articles on different topics are published regularly on TSMC’s Legal Organization website. Furthermore, employees can familiarize themselves with TSMC’s internal policies through easy access to our intranet channels.

To ensure that our conduct meets the highest legal and ethical standards, TSMC provides multiple resources for reporting business conduct concerns. We encourage employees to report suspected wrongdoing within the organization or any parties with whom we do business. The system is also open to external reporting. Auditing employees for PIP policy compliance is conducted regularly to ensure protection of TSMC’s proprietary information, including information that suppliers, customers and others have entrusted to us. Disciplinary actions are taken against employees who have violated the policy. Below is a summary of the Number of Reported Incidents:

	FY 2012	FY 2013
Incidents Submitted to the Ombudsman System (Note 1)	20	35
Incidents Submitted to the Audit Committee Whistleblower System	-	-
Incidents Reported to the “Hotline”	8	19
which were treated as plausible	3	1
Sexual Harassment Investigation Committee	6	7
which were found after investigations	-	5
PIP Violations	108	84
which resulted in warnings (Note 2)	104	84
which resulted in dismissals	4	-

Note 1: There is no case for ethics, finance and accounting matters.

Note 2: More than one-third of the cases reported were for minor errors or noncompliance with our PIP Policy.

3.6.1 Major Accomplishments

In 2013, TSMC’s excellence in regulatory compliance achieved several major accomplishments, including:

- In addition to rigorously fulfilling our obligations to regulatory compliance matters, TSMC has discharged its civic duties as a responsible corporate citizen by advising the local government on law and policy reform. TSMC regularly urged the Government to amend any outdated laws and regulations, which may be inconsistent with global practice to improve our investment environment and economic development. For example, after Taiwan’s legislature accepted TSMC’s advice of imposing criminal liability on trade secret misappropriation in 2012, TSMC continued to be a strong advocate for heightening trade secret protection in 2013. We have been working closely with the relevant authorities, and provided our recommendations to subsequent reinforcement of relevant laws and regulations.
- Throughout 2013, TSMC offered a wide range of education courses on various compliance topics, including 19 topics via on-line education and 36 topics via live seminars. These courses were developed and conducted by compliance and legal professionals. TSMC will regularly review and update our training programs and identify additional areas of training if necessary.
- In order to prevent any unauthorized export of controlled items, a formal system, namely EMS, has existed for a number of years and continuously updated and sustained to reinforce TSMC’s internal compliance measures, which measures are taken to ensure compliance by TSMC and all of its subsidiaries with all applicable regulations covering the export of information, technologies, products, materials and equipment. TSMC’s EMS allows TSMC to streamline its complicated SHTC (Strategic High-Tech Commodities) export process and creates efficiency for both TSMC and its customers. TSMC’s EMS was certified in September 2012 by the Bureau of Foreign Trade, the Taiwan regulator, as a qualified ICP (Internal Control Program) exporter. The successful implementation of TSMC’s EMS also earned recognition by Dutch export control authority as best in class during its audit of TSMC’s European subsidiary in March 2013.
- To reflect and reinforce TSMC’s values of integrity, globalization, caring for employees and shareholders, and being a good corporate citizen, TSMC took measures to comply with the Personal Information Protection Act of Taiwan that became effective in 2012. We prepared a privacy policy that provides TSMC and its worldwide subsidiaries with global standards for handling personal data and respecting personal privacy in the workplace. Furthermore, to educate TSMC individuals about the restrictions and procedures applicable to handling personal data and respecting personal privacy in the workplace, TSMC rolled out several privacy awareness initiatives. For example, TSMC developed a variety of training programs, including seminars, in-person training programs, and e-learning courses, which describe the policies and guidelines for individuals to follow when handling personal data. Through its assertive privacy promotional campaigns, TSMC is dedicated to bring awareness of the issues surrounding data protection and privacy to its employees and to create a culture whereby an individual’s personal data and privacy are protected and handled in line with global standards.

3.7 Internal Control System Execution Status

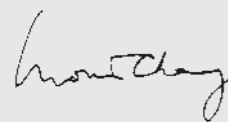
Taiwan Semiconductor Manufacturing Company Limited
Statement of Internal Control System

Date: February 18, 2014

Based on the findings of a self-assessment, Taiwan Semiconductor Manufacturing Company Limited (TSMC) states the following with regard to its internal control system during the year 2013:

1. TSMC's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and TSMC takes immediate remedial actions in response to any identified deficiencies.
3. TSMC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.
4. TSMC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, TSMC believes that, on December 31, 2013, we have maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of TSMC's Annual Report for the year 2013 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on February 18, 2014, with none of the eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

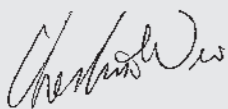
Taiwan Semiconductor Manufacturing Company Limited



Morris Chang,
Chairman



Mark Liu,
President and Co-Chief Executive Officer



C.C. Wei
President and Co-Chief Executive Officer

3.8 Status of Personnel Responsible for the Company's Financial and Business Operation

3.8.1 Resignation or Dismissal of Chairman, President, and Heads of Accounting, Finance, Internal Audit and R&D during the 2013 Calendar Year and as of the Date of this Annual Report

Title	Name	Date Effective	Date Resigned/Dismissed	Reasons for Resignation or Dismissal
Chairman & CEO	Morris Chang	12/10/1986	11/12/2013 (retired as CEO of TSMC)	The Board of Directors approved the appointment of Drs. Mark Liu and C. C. Wei (in alphabetical order) as President and Co-Chief Executive Officer of TSMC at its meeting of November 12, 2013. Dr. Morris Chang remains as the Chairman of TSMC. The Presidents and the Co-Chief Executive Officers shall report to and perform such duties as designated by the Chairman of the Board. Finance and Legal organizations will continue to report to the Chairman.
Executive Vice President and Co-Chief Operating Officer	Shang-yi Chiang	11/10/2009	11/01/2013	Dr. Chiang departs his position to enjoy retirement life, but will continue to serve as advisor to the Chairman of TSMC, sit in on Board of Directors' meetings, and take on other special assignments from time to time.

3.8.2 Certification Details of Employees Whose Jobs are Related to the Release of the Company's Financial Information

Certification	Number of Employees	
	Internal Audit	Finance
Certified Public Accountants (CPA)	2	28
US Certified Public Accountants (US CPA)	2	12
The Chartered Institute of Management Accountants (CIMA)	-	1
Certified Internal Auditor (CIA)	10	5
Chartered Financial Analyst (CFA)	-	1
Certified Management Accountant (CMA)	-	2
Financial Risk Manager (FRM)	-	1
Certificate in Financial Management (CFM)	-	1
Certification in Control Self-Assessment (CCSA)	4	-
Certification in Risk Management Assurance (CRMA)	3	-
Certified Information Systems Auditor (CISA)	3	-
BS7799/ISO 27001 Lead Auditor	1	-

3.9 Information Regarding TSMC's Independent Auditor

3.9.1 Audit Fees

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Whether the CPA's Audit Period Covers an Entire Fiscal Year			Note
			System Design	Company Registration	Human Resource	Others (Note 2)	Subtotal	Yes	No	Audit Period	
Deloitte & Touche	Yi-Hsin Kao, Hung-Wen Huang, and others	69,369	-	235	-	3,354	3,589	V			Note 1

Note 1: Article 10-4 of Regulation Governing Information to be published in Annual Report of Public Companies was not applicable to TSMC.

Note 2: Fees mainly related to IFRS adoption project.

3.9.2 Due to relevant regulatory requirements on rotation, Deloitte & Touche has rotated audit partners for TSMC in 2013.

3.9.3 TSMC's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations did not hold any positions within TSMC's independent audit firm or its affiliates during 2013.

3.10 Material Information Management Procedure

TSMC has established relevant procedures for managing and disclosing material information. The responsible departments regularly remind all officers and employees about the need to comply with these procedures and other applicable regulations when they become aware of any potential material information and the possible need to publicly disclose such information. To ensure that our employees, managers and board directors are aware of and comply with these relevant regulations, TSMC has also established an "Insider Trading Policy". To reduce the risk of insider trading, on-line training programs and live seminars are conducted regularly. In addition, employees can familiarize themselves with relevant internal policies and training articles by easily accessing TSMC's intranet website.

4. Capital and Shares

90% of TSMC's share capital comes from self-generated funds.

4.1 Capital and Shares

4.1.1 Capitalization

Unit: Share/NT\$

As of 02/28/2014

Month/Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
03/2013	10	28,050,000,000	280,500,000,000	25,924,435,668	259,244,356,680	Exercise of Employee Stock Options: NT\$23,880,900	None	03/11/2013 Yuan Shang Tzu No.1020007200
06/2013	10	28,050,000,000	280,500,000,000	25,928,232,685	259,282,326,850	Exercise of Employee Stock Options: NT\$37,970,170	None	06/06/2013 Yuan Shang Tzu No.1020016352
09/2013	10	28,050,000,000	280,500,000,000	25,928,305,829	259,283,058,290	Exercise of Employee Stock Options: NT\$731,440	None	09/03/2013 Yuan Shang Tzu No.1020026632
11/2013	10	28,050,000,000	280,500,000,000	25,928,390,990	259,283,909,900	Exercise of Employee Stock Options: NT\$851,610	None	11/29/2013 Yuan Shang Tzu No.1020037052

4.1.2 Capital and Shares

Unit: Share

As of 02/28/2014

Type of Stock	Authorized Share Capital				Total
	Issued Shares			Unissued Shares	
	Listed	Non-listed	Total		
Common Stock	25,929,049,937	-	25,929,049,937	2,120,950,063	28,050,000,000

Shelf Registration: None.

4.1.3 Composition of Shareholders

Common Share As of 07/09/2013 (last record date)

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	10	234	1,023	3,341	359,899	364,507
Shareholding	1,653,712,458	738,531,978	1,127,435,779	20,023,387,265	2,385,238,349	25,928,305,829
Holding Percentage (%)	6.38%	2.85%	4.35%	77.22%	9.20%	100.00%

Distribution Profile of Share Ownership

Common Share As of 07/09/2013 (last record date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	171,105	38,623,504	0.15%
1,000 ~ 5,000	130,752	284,996,435	1.10%
5,001 ~ 10,000	28,306	200,375,733	0.77%
10,001 ~ 15,000	11,294	136,512,854	0.53%
15,001 ~ 20,000	4,922	85,892,113	0.33%
20,001 ~ 30,000	5,565	134,811,854	0.52%
30,001 ~ 40,000	2,644	91,015,467	0.35%
40,001 ~ 50,000	1,621	72,830,364	0.28%
50,001 ~ 100,000	3,222	223,963,582	0.86%
100,001 ~ 200,000	1,702	234,597,317	0.90%
200,001 ~ 400,000	1,096	308,623,163	1.19%
400,001 ~ 600,000	430	209,759,142	0.81%
600,001 ~ 800,000	258	181,133,766	0.70%
800,001 ~ 1,000,000	205	184,443,995	0.71%
Over 1,000,001	1,385	23,540,726,540	90.80%
Total	364,507	25,928,305,829	100.00%

Preferred Share: None.

4.1.4 Major Shareholders

Common Share As of 07/09/2013 (last record date)

Shareholders	Total Shares Owned	Ownership (%)
ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	5,456,754,818	21.05%
National Development Fund, Executive Yuan	1,653,709,980	6.38%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	854,162,727	3.29%
Government of Singapore	540,394,959	2.08%
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	425,265,136	1.64%
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	329,478,439	1.27%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	274,910,515	1.06%
iShares MSCI Emerging Markets Index Fund	246,339,000	0.95%
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	235,633,845	0.91%
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	232,312,361	0.90%

4.1.5 Net Change in Shareholding and Shares Pledged by Directors, Management and Shareholders with 10% Shareholdings or More

Unit: Share

Title Name	2013		01/01/2014 ~ 02/28/2014	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Chairman Morris Chang	-	-	2,000,000	-
Vice Chairman F.C. Tseng	(190,000)	-	-	-
Director National Development Fund, Executive Yuan Representative: Johnsee Lee	-	-	-	-
Director Rick Tsai (Note 2)	(930,000)	-	(50,000)	-
Independent Director Sir Peter Leahy Bonfield	-	-	-	-
Independent Director Stan Shih	-	-	-	-
Independent Director Thomas J. Engibous	-	-	-	-
Independent Director Gregory C. Chow	-	-	-	-
Independent Director Kok-Choo Chen	-	-	-	-
President and Co-Chief Executive Officer Mark Liu (Note 3)	(125,000)	-	(25,000)	-
President and Co-Chief Executive Officer C.C. Wei (Note 3)	276,882	-	-	-
Executive Vice President and Co-Chief Operating Officer Shang-yi Chiang (Note 4)	(50,000)	-	N/A	N/A
Senior Vice President and Chief Information Officer Information Technology, Materials Management and Risk Management Stephen T. Tso	(570,000)	-	(140,000)	-
Senior Vice President and General Counsel Legal Richard Thurston	(12,290)	-	-	-
Senior Vice President, Chief Financial Officer and Spokesperson Finance Lora Ho	-	-	-	-

(Continued)

Title Name	2013		01/01/2014 ~ 02/28/2014	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Senior Vice President Worldwide Sales and Marketing Jason C.S. Chen (Note 5)	(105,000)	-	N/A	N/A
Senior Vice President Research and Development Wei-Jen Lo (Note 6)	(381,000)	-	(8,000)	-
Senior Vice President of TSMC and President of TSMC North America Rick Cassidy (Note 6)	-	-	-	-
Vice President Operations/Affiliate Fabs M.C. Tzeng	(26,000)	-	-	-
Vice President and Chief Technology Officer Research and Development Jack Sun	(34,000)	-	-	-
Vice President Operations/Product Development Y.P. Chin	(175,000)	-	(17,000)	-
Vice President Quality and Reliability N.S. Tsai	-	-	-	-
Vice President Human Resources L.C. Tu (Note 7)	(24,000)	-	N/A	N/A
Vice President Operations/Mainstream Fabs and Manufacturing Technology J.K. Lin	(9,000)	-	-	-
Vice President Operations/300mm Fabs J.K. Wang	-	-	-	-
Vice President Corporate Planning Organization Irene Sun	(179,000)	-	(70,000)	-
Vice President Research and Development Burn J. Lin	(244,000)	-	-	-
Vice President Research and Development Y.J. Mii	-	-	-	-
Vice President Research and Development Cliff Hou	(100,000)	-	-	-
Vice President Business Development Been-Jon Woo (Note 8)	20,000	-	15,000	-

Note 1: This refers to the creation of security interest over TSMC shares in favor of creditors, usually in connection with a shareholder's own financing activities.

Note 2: Dr. Rick Tsai resigned as a director of TSMC, effective January 27, 2014. His shareholding was not disclosed after that date.

Note 3: Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei were appointed as President and Co-Chief Executive Officer, effective November 12, 2013.

Note 4: Executive Vice President and Co-Chief Operating Officer Dr. Shang-yi Chiang voluntarily retired, effective November 1, 2013. His shareholding was not disclosed after that date.

Note 5: Senior Vice President of Worldwide Sales and Marketing Mr. Jason C.S. Chen resigned as the Executive Officer, effective November 23, 2013. His shareholding was not disclosed after that date.

Note 6: Dr. Wei-Jen Lo and Mr. Rick Cassidy were promoted to Senior Vice President, effective February 18, 2014.

Note 7: Vice President of Human Resources Mr. L.C. Tu was appointed as President of TSMC China, effective March 15, 2013. His shareholding was not disclosed after that date.

Note 8: Dr. Been-Jon Woo was promoted to Vice President, effective November 12, 2013. Her shareholding was disclosed starting from that date.

4.1.6 Stock Trade with Related Party: None.

4.1.7 Stock Pledge with Related Party: None.

4.1.8 Related Party Relationship among Our 10 Largest Shareholders

Common Share

As of 07/09/2013 (last record date)

Name	Current Shareholding		Spouse & Minor Shareholding		TSMC Shareholding by Nominee Arrangement		Name and Relationship between TSMC's Shareholders	
	Shares	%	Shares	%	Shares	%	Name	Relationship
ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	5,456,754,818	21.05%	N/A	N/A	N/A	N/A	None	None
National Development Fund, Executive Yuan Representative: Johnsee Lee	1,653,709,980	6.38%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	-	-	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Government of Singapore	854,162,727	3.29%	N/A	N/A	N/A	N/A	None	None
Government of Singapore	540,394,959	2.08%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	425,265,136	1.64%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	329,478,439	1.27%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Norges Bank	274,910,515	1.06%	N/A	N/A	N/A	N/A	None	None
iShares MSCI Emerging Markets Index Fund	246,339,000	0.95%	N/A	N/A	N/A	N/A	None	None
Vanguard Emerging Markets Stock Index Fund, a Series of Vanguard International Equity Index Funds	235,633,845	0.91%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depository APG Emerging Markets Equity Pool	232,312,361	0.90%	N/A	N/A	N/A	N/A	None	None

4.1.9 Long-term Investment Ownership

As of 12/31/2013

Long-term Investment	Ownership by TSMC (1)		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Equity Method:						
TSMC Partners, Ltd.	988,268,244	100%	-	-	988,268,244	100%
TSMC Global Ltd.	1,284	100%	-	-	1,284	100%
TSMC North America	11,000,000	100%	-	-	11,000,000	100%
TSMC Europe B.V.	200	100%	-	-	200	100%
TSMC Japan Limited	6,000	100%	-	-	6,000	100%
TSMC Korea Limited	80,000	100%	-	-	80,000	100%
TSMC China Company Limited	Not Applicable (Note 1)	100%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	100%
TSMC Guang Neng Investment, Ltd.	Not Applicable (Note 1)	100%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	100%
TSMC Solar Ltd.	1,118,000,000	98.58%	6,749,800	0.60%	1,124,749,800	99.18%
TSMC Solid State Lighting Ltd.	554,674,437	92.32%	9,181,173	1.53%	563,855,610	93.85%
Systems on Silicon Manufacturing Co. Pte. Ltd.	313,603	38.79%	-	-	313,603	38.79%
Vanguard International Semiconductor Corp.	628,223,493	39.36%	278,100,295	17.42% (Note 2)	906,323,788	56.78%
Xintec Inc.	94,950,005	40.16%	-	-	94,950,005	40.16%
Global UniChip Corporation	46,687,859	34.84%	-	-	46,687,859	34.84%
Emerging Alliance Fund, L.P.	Not Applicable (Note 1)	99.50%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	99.50%
VentureTech Alliance Fund II, L.P.	Not Applicable (Note 1)	98.00%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	98.00%
VentureTech Alliance Fund III, L.P.	Not Applicable (Note 1)	50.35%	Not Applicable (Note 1)	48.63%	Not Applicable (Note 1)	98.98%

Note 1: Not applicable. These firms do not issue shares. TSMC's investment is measured as a percentage of ownership.

Note 2: TSMC's Director, National Development Fund of Executive Yuan, holds 17.17% while other Directors and Management hold 0.25%.

4.1.10 Share Information

TSMC's earnings per share increased 13.3% in 2013 to NT\$7.26 per share. The following table details TSMC's net worth, earnings, dividends and market price per common share, as well as other data regarding return on investment.

Net Worth, Earnings, Dividends, and Market Price Per Common Share

Unit: NT\$, except for weighted average shares and return on investment ratios

Item	2012	2013	01/01/2014 ~ 02/28/2014
Market Price Per Share (Note 1)			
Highest Market Price	99.20	115.50	108.50
Lowest Market Price	74.30	94.40	100.50
Average Market Price	84.08	104.09	105.34
Net Worth Per Share			
Before Distribution	27.79	32.69	-
After Distribution	24.79	(Note 5)	-
Earnings Per Share			
Weighted Average Shares (thousand shares)	25,927,936	25,929,603	-
Diluted Earnings Per Share	6.41	7.26 (Note 5)	-
Dividends Per Share			
Cash Dividends	3.00	3.00 (Note 5)	-
Accumulated Undistributed Dividend	-	-	-
Return on Investment			
Price/Earnings Ratio (Note 2)	13.12	(Note 5)	-
Price/Dividend Ratio (Note 3)	28.03	(Note 5)	-
Cash Dividend Yield (Note 4)	4%	(Note 5)	-

Note 1: Referred to TWSE website

Note 2: Price/Earnings Ratio = Average Market Price/ Diluted Earnings Per Share

Note 3: Price/Dividend Ratio = Average Market Price/Cash Dividends Per Share

Note 4: Cash Dividend Yield = Cash Dividends Per Share/Average Market Price

Note 5: Pending for shareholders' approval

4.1.11 Dividend Policy

TSMC's profits may be distributed by way of cash dividend and/or stock dividend. The preferred method of distributing profits is by way of an annual cash dividend. Under TSMC's Articles of Incorporation, stock dividends shall not exceed 50% of the total dividend distribution in any given fiscal year. TSMC does not pay dividends when there is no profit or retained earnings. TSMC has distributed cash dividends every year to its shareholders since 2004 and maintained dividends per share (DPS) at NT\$3.0 every year since 2007. TSMC intends to maintain a stable dividend policy, and will consider raising DPS when the free cash flow significantly exceeds NT\$3.0 per share.

4.1.12 Distribution of Profit

The Board adopted a proposal for 2013 profit distribution at its meeting on February 18, 2013. The proposal will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 24, 2014.

In addition, according to the Company's Articles of Incorporation, TSMC shall allocate no more than 0.3% of earnings available for distribution (net income after a regulatory required deduction for prior years' losses and contributions to legal and special reserves) as compensation to directors, and not less than 1% as a bonus to employees. Profit sharing to employees, to be distributed after the 2014 Annual Shareholders' Meeting, was recorded as a charge to earnings of approximately 6.7% of net income in year 2013; compensation to directors was expensed based on the estimated amount of payment. The proposal will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 24, 2014. If the actual amounts subsequently resolved by the shareholders differ from the above estimated amounts, the differences will be recorded in the year of shareholders' resolution as a change in accounting estimate.

Proposal to Distribute 2013 Profits

Unit: NT\$

Cash Dividends to Common Shareholders (NT\$3.0 per share)	77,785,851,420
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Note: Employees' cash bonus and profit sharing and compensation to directors for the year 2013 which have been expensed under the Company's income statements are listed below:

- NT\$12,634,664,804 distributed employees' cash bonus
- NT\$12,634,664,804 employees' cash profit sharing to be distributed after 2014 Annual Shareholders' Meeting
- NT\$104,136,580 directors' compensation

2012 Directors' Compensation and Employee Profit Sharing

	Board Resolution (02/05/2013)	Actual Result (Note)
	Amount (NT\$)	Amount (NT\$)
Directors' Compensation (Cash)	71,351,700	71,351,700
Employee's Cash Profit Sharing	11,115,239,772	10,859,687,110
Total	11,186,591,472	10,931,038,810

Note: The above Directors' Compensation and Employee's Cash Profit Sharing were expensed under the Company's 2012 income statements and the same amounts were approved by the Board of Directors at its meeting on February 5, 2013. The Employee's Cash Profit Sharing was distributed after the approval of the same by shareholders at 2013 Annual Shareholders' Meeting on June 11, 2013. Due to employee turnover, Employee's Cash Profit Sharing in the amount of NT\$255,552,662 was undistributed, and related expense was reversed in 2013.

4.1.13 Impact to 2014 Business Performance and EPS Resulting from Stock Dividend Distribution: Not applicable.

4.1.14 Buyback of Common Stock: None.

4.2 Issuance of Corporate Bonds

4.2.1 Corporate Bonds

NTD Corporate Bonds

As of 02/28/2014

Issuance	Domestic Unsecured Bond (100-1)	Domestic Unsecured Bond (100-2)	Domestic Unsecured Bond (101-1)	Domestic Unsecured Bond (101-2)	Domestic Unsecured Bond (101-3)	Domestic Unsecured Bond (101-4)	Domestic Unsecured Bond (102-1)	Domestic Unsecured Bond (102-2)	Domestic Unsecured Bond (102-3)	Domestic Unsecured Bond (102-4)
Issuing Date	09/28/2011	01/11/2012	08/02/2012	09/26/2012	10/09/2012	01/04/2013	02/06/2013	07/16/2013	08/09/2013	09/25/2013
Denomination	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000
Offering Price	Par	Par	Par	Par	Par	Par	Par	Par	Par	Par
Total Amount	NT\$18,000,000,000	NT\$17,000,000,000	NT\$18,900,000,000	NT\$21,700,000,000	NT\$4,400,000,000	NT\$23,600,000,000	NT\$21,400,000,000	NT\$13,700,000,000	NT\$12,500,000,000	NT\$15,000,000,000
Coupon	Tranche A: 1.40% p.a. Tranche B: 1.63% p.a.	Tranche A: 1.29% p.a. Tranche B: 1.46% p.a.	Tranche A: 1.28% p.a. Tranche B: 1.40% p.a.	Tranche A: 1.28% p.a. Tranche B: 1.39% p.a.	1.53% p.a.	Tranche A: 1.23% p.a. Tranche B: 1.35% p.a. Tranche C: 1.49% p.a.	Tranche A: 1.23% p.a. Tranche B: 1.38% p.a. Tranche C: 1.50% p.a.	Tranche A: 1.50% p.a. Tranche B: 1.70% p.a.	Tranche A: 1.34% p.a. Tranche B: 1.52% p.a.	Tranche A: 1.35% p.a. Tranche B: 1.45% p.a. Tranche C: 1.60% p.a. Tranche D: 1.85% p.a. Tranche E: 2.05% p.a. Tranche F: 2.10% p.a.
Tenor and Maturity Date	Tranche A: 5 years Maturity: 09/28/2016 Tranche B: 7 years Maturity: 09/28/2018	Tranche A: 5 years Maturity: 01/11/2017 Tranche B: 7 years Maturity: 01/11/2019	Tranche A: 5 years Maturity: 08/02/2017 Tranche B: 7 years Maturity: 08/02/2019	Tranche A: 5 years Maturity: 09/26/2017 Tranche B: 7 years Maturity: 09/26/2019	Tenor: 10 years Maturity: 10/09/2022	Tranche A: 5 years Maturity: 01/04/2018 Tranche B: 7 years Maturity: 01/04/2020 Tranche C: 10 years Maturity: 01/04/2023	Tranche A: 5 years Maturity: 02/06/2018 Tranche B: 7 years Maturity: 02/06/2020 Tranche C: 10 years Maturity: 02/06/2023	Tranche A: 7 years Maturity: 07/16/2020 Tranche B: 10 years Maturity: 07/16/2023	Tranche A: 4 years Maturity: 08/09/2017 Tranche B: 6 years Maturity: 08/09/2019	Tranche A: 3 years Maturity: 09/25/2016 Tranche B: 4 years Maturity: 09/25/2017 Tranche C: 5.5 years Maturity: 03/25/2019 Tranche D: 7.5 years Maturity: 03/25/2021 Tranche E: 9.5 years Maturity: 03/25/2023 Tranche F: 10 years Maturity: 09/25/2023
Guarantor	None	None	None	None	None	None	None	None	None	None
Trustee	Mega International Commercial Bank	Mega International Commercial Bank	Mega International Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank
Underwriter	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Legal Counsel	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office
Auditor	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Repayment	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet	Bullet
Outstanding	NT\$18,000,000,000	NT\$17,000,000,000	NT\$18,900,000,000	NT\$21,700,000,000	NT\$4,400,000,000	NT\$23,600,000,000	NT\$21,400,000,000	NT\$13,700,000,000	NT\$12,500,000,000	NT\$15,000,000,000
Redemption or Early Repayment Clause	None	None	None	None	None	None	None	None	None	None
Covenants	None	None	None	None	None	None	None	None	None	None
Credit Rating	twAAA (Taiwan Ratings Corporation, 08/24/2011)	twAAA (Taiwan Ratings Corporation, 12/06/2011)	twAAA (Taiwan Ratings Corporation, 07/02/2012)	twAAA (Taiwan Ratings Corporation, 08/23/2012)	twAAA (Taiwan Ratings Corporation, 09/04/2012)	twAAA (Taiwan Ratings Corporation, 11/29/2012)	twAAA (Taiwan Ratings Corporation, 12/18/2012)	twAAA (Taiwan Ratings Corporation, 05/16/2013)	twAAA (Taiwan Ratings Corporation, 07/15/2013)	twAAA (Taiwan Ratings Corporation, 08/06/2013)
Other Rights of Bondholders	Conversion Right	None	None	None	None	None	None	None	None	None
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Dilution Effect and Other Adverse Effects on Existing Shareholders	None	None	None	None	None	None	None	None	None	None
Custodian	None	None	None	None	None	None	None	None	None	None

USD Corporate Bonds

As of 02/28/2014

Issuance	Senior Unsecured Notes (Note)
Issuing Date	04/03/2013
Denomination	US\$200,000 and integral multiples of US\$1,000 in excess thereof
Listing	Singapore Exchange
Offering Price	2016 Notes: 99.988% 2018 Notes: 99.933%
Total Amount	US\$1,500,000,000
Coupon	2016 Notes: 0.950% p.a. 2018 Notes: 1.625% p.a.
Tenor and Maturity Date	2016 Notes: 3 years Maturity: 04/03/2016 2018 Notes: 5 years Maturity: 04/03/2018
Guarantor	TSMC
Trustee	Citicorp International Limited
Underwriter	Goldman Sachs International

(Continued)

Legal Advisor	Jones Day Maples and Calder	
Auditor	Deloitte & Touche	
Repayment	Bullet	
Outstanding	US\$1,500,000,000	
Redemption or Early Repayment Clause	At issuer's option	
Covenants	Limitations on (1) liens and (2) sale and leaseback transactions	
Credit Rating	A1 (Moody's Investors Service, 03/15/2013) A+ (Standard & Poor's Rating Services, 03/15/2013)	
Other Rights of Bondholders	Conversion Right	None
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities	Not Applicable
Dilution Effect and Other Adverse Effects on Existing Shareholders	None	
Custodian	None	

Note: Issued by TSMC's wholly-owned subsidiary, TSMC Global Ltd., and unconditionally and irrevocably guaranteed by TSMC.

4.2.2 Convertible Bond: None.

4.2.3 Exchangeable Bond: None.

4.2.4 Shelf Registration: None.

4.2.5 Bond with Warrants: None.

4.3 Preferred Shares

4.3.1 Preferred Share: None.

4.3.2 Preferred Share with Warrants: None.

4.4 Issuance of American Depositary Shares

Issuing Date	10/08/1997	11/20/1998	01/12/1999 - 01/14/1999	07/15/1999	08/23/1999 - 09/09/1999	02/22/2000 - 03/08/2000	04/17/2000	06/07/2000 - 06/15/2000	05/14/2001 - 06/11/2001	06/12/2001	11/27/2001	02/07/2002 - 02/08/2002	11/21/2002 - 12/19/2002	07/14/2003 - 07/21/2003	11/14/2003	08/10/2005 - 09/08/2005	05/23/2007	
Issuance and Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	
Total Amount (US\$)	594,720,000	184,554,440	35,500,000	296,499,641	158,897,089	379,134,599	224,640,000	1,167,873,850	240,999,660	297,649,640	320,600,000	1,001,650,000	160,097,914	908,514,880	1,077,000,000	1,402,036,500	2,563,200,000	
Offering Price Per ADS (US\$)	24.78	15.26	17.75	24.516	28.964	57.79	56.16	35.75	20.63	20.63	16.03	16.75	8.73	10.40	10.77	8.6	10.68	
Units Issued	24,000,000	12,094,000	2,000,000	12,094,000	5,486,000	6,560,000	4,000,000	32,667,800	11,682,000	14,428,000	20,000,000	59,800,000	18,348,000	87,357,200	100,000,000	163,027,500	240,000,000	
Underlying Securities	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	Cash Offering and TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	
Common Shares Represented	120,000,000	60,470,000	10,000,000	60,470,000	27,430,000	32,800,000	20,000,000	163,339,000	58,410,000	72,140,000	100,000,000	299,000,000	91,740,000	436,786,000	500,000,000	815,137,500	1,200,000,000	
Rights and Obligations of ADS Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	
Trustee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Depository Bank	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	
Custodian Bank (Note 1)	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	
ADs Outstanding (Note 2)	24,000,000	46,222,650	48,222,650	71,407,859	76,893,859	83,453,859	87,453,859	144,608,739	156,290,739	170,718,739	259,006,235	318,806,235	369,019,413	485,898,166	585,898,166	864,210,597	1,128,739,639	
Apportionment of Expenses for Issuance and Maintenance	(Note 3)							(Note 4)							(Note 3)			
Terms and Conditions in the Deposit Agreement and Custody Agreement	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	
Closing Price Per ADS (US\$)	2013	High	19.66															
		Low	15.75															
		Average	17.55															
	01/01/2014 - 02/28/2014	High	18.15															
		Low	16.46															
		Average	17.36															

Note 1: Citibank, N.A., Taipei Branch has changed its name to "Citibank Taiwan Limited" on August 1, 2009.

Note 2: TSMC has in aggregate issued 813,544,500 ADSs since 1997, which, if taking into consideration stock dividends distributed over the period, would amount to 1,147,835,205 ADSs. Stock dividends distributed in 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009 were 45%, 23%, 28%, 40%, 10%, 8%, 14.08668%, 4.9971%, 2.99903%, 0.49991%, 0.50417% and 0.49998%, respectively. As of February 28, 2014, total number of outstanding ADSs was 1,077,494,287 after 70,340,918 ADSs were redeemed.

Note 3: All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of ADSs were borne by the selling shareholders, while maintenance expenses such as annual listing fees and accountant fees were borne by TSMC.

Note 4: All fees and expenses such as underwriting fees, legal fees, listing fees and other expenses related to issuance of ADSs were borne by TSMC and the selling shareholders, while maintenance expenses such as annual listing fees and accountant fees were borne by TSMC.

4.5 Status of Employee Stock Option Plan

4.5.1 Issuance of Employee Stock Options

As of 02/28/2014

ESOP Granted	First Grant	Second Grant	Third Grant	Fourth Grant	Fifth Grant	Sixth Grant	Seventh Grant	Eighth Grant	Ninth Grant
Approval Date by The Securities & Futures Bureau	06/25/2002	06/25/2002	06/25/2002	06/25/2002	10/29/2003	10/29/2003	10/29/2003	10/29/2003	01/06/2005
Issue (Grant) Date	08/22/2002	11/08/2002	03/07/2003	06/06/2003	12/03/2003	02/19/2004	05/11/2004	08/11/2004	05/17/2005
Number of Options Granted	18,909,700	1,085,000	6,489,514	23,090,550	842,900	15,720	11,167,817	135,300	10,742,350
Percentage of Shares Exercisable to Outstanding Common Shares	0.10154%	0.00583%	0.03485%	0.12399%	0.00416%	0.00008%	0.05510%	0.00058%	0.04620%
Option Duration	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share
Vesting Schedule	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
Shares Exercised	20,585,621	1,416,203	7,584,554	24,838,979	583,111	15,416	10,143,247	128,014	7,087,842
Value of Shares Exercised (NT\$)	696,435,850	45,875,186	174,820,504	849,375,434	29,807,359	744,182	449,012,664	4,982,968	371,734,875
Shares Unexercised	-	-	-	-	-	-	201,281	-	1,129,240
Original Grant Price Per Share (NT\$)	NT\$53.0	NT\$51.0	NT\$41.6	NT\$58.5	NT\$66.5	NT\$63.5	NT\$57.5	NT\$43.8	NT\$54.3
Adjusted Exercise Price Per Share (NT\$)	NT\$25.6	NT\$24.6	NT\$20.2	NT\$28.3	NT\$50.1	NT\$47.8	NT\$43.2	NT\$38.0	NT\$47.2
Percentage of Shares Unexercised to Outstanding Common Shares	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%	0.00078%	0.00000%	0.00436%
Impact to Shareholders' Equity	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited

4.5.2 Employee Stock Options Granted to Management Team and to Top 10 Employees

As of 02/28/2014

	Title	Name	Number of Options Granted (Note 6)	% of Shares Exercisable to Outstanding Common Shares	Exercised				Unexercised			
					Shares Exercised	Exercise Price Per Share	Value of Shares Exercised (NT\$)	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share	Value of Shares Unexercised (NT\$)	% of Shares Unexercised to Outstanding Common Shares
Officers	Chairman	Morris Chang (Note 1 & 2)	5,610,424	0.02164%	5,610,424	24.8	139,177,343	0.02164%	-	-	-	0.00000%
	President and Co-Chief Executive Officer	Mark Liu (Note 1 & 3)										
	President and Co-Chief Executive Officer	C.C. Wei (Note 1 & 3)										
	Senior Vice President and Chief Information Officer	Stephen T. Tso (Note 1)										
	Senior Vice President and General Counsel	Richard Thurston (Note 1)										
	Senior Vice President of TSMC and President of TSMC North America	Rick Cassidy (Note 4)										
	Vice President and Chief Technology Officer	Jack Sun (Note 1)										
	President of TSMC China	L.C. Tu (Note 1 & 5)										
	Vice President	J.K. Lin (Note 1)										
Employees	Vice President	Burn J. Lin (Note 1)	7,674,288	0.02960%	7,232,603	43.7	316,303,631	0.02789%	441,685	47.2	20,847,555	0.00170%
	Director	Jessica Chou										
	Director	Lie-Szu Juang										
	Sr. Vice President of TSMC North America	Pan-Wei Lai										
	Sr. Vice President of TSMC North America	Bradford Paulsen										
	Sr. Vice President of TSMC North America	David Keller										
	Vice President of TSMC North America	Sajiv Dalal										
	President of WaferTech	Kuo Chin Hsu										
	Director of WaferTech	Charlton Ku										
Director of WaferTech	Wayne Yeh											
Deputy Fab Manager of WaferTech	Tsung Kuo											

Note 1: TSMC granted options to certain of its officers (as listed above) as a result of their voluntary selection to exchange part of their profit sharing for stock options in 2003. This includes a voluntary exchange by Chairman Morris Chang in his capacity as Chief Executive Officer.

Note 2: Effective November 12, 2013, Chairman and Chief Executive Officer Dr. Morris Chang retired as Chief Executive Officer. Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei assumed the role as Co-Chief Executive Officers.

Note 3: Executive Vice Presidents and Co-Chief Operating Officers Drs. Mark Liu and C.C. Wei were appointed as President and Co-Chief Executive Officer, effective November 12, 2013.

Note 4: Mr. Rick Cassidy was promoted to Senior Vice President, effective February 18, 2014.

Note 5: Vice President of Human Resources Mr. L.C. Tu was appointed as President of TSMC China, effective March 15, 2013.

Note 6: Number of options granted includes the additional shares due to stock dividends distributed in 2004, 2005, 2006, 2007, 2008 and 2009.

4.6 Status of Employee Restricted Stock

TSMC did not issue employee restricted stock in 2013, and as of the date of this Annual Report.

4.6.1 Status of Employee Restricted Stock: Not applicable.

4.6.2 Employee Restricted Stock Granted to Management Team and to Top 10 Employees: Not applicable.

4.7 Status of New Share Issuance in Connection with Mergers and Acquisitions

TSMC neither issued new shares in connection with mergers or acquisitions during 2013, nor as of the date of this Annual Report.

4.8 Financing Plans and Implementation: Not applicable.

5. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

As the founder and a leader of the dedicated semiconductor foundry segment, TSMC has built its reputation by offering advanced and specialty wafer production processes and unparalleled manufacturing efficiency. TSMC strives to provide the best overall value to its customers, and the success of TSMC's business is manifested in the success of its customers.

TSMC provides a full range of integrated semiconductor foundry services that fulfill the increasing variety of customer needs. In the process, it has experienced strong growth by building close relationships with customers. Semiconductor suppliers from around the world trust TSMC with their manufacturing needs, thanks to its unique integration of cutting-edge process technologies, pioneering design services, manufacturing productivity and product quality.

In May 2009, TSMC established the New Businesses organization to explore non-foundry related business opportunities. In August 2011, the New Businesses organization was formally separated from the main TSMC organization as two subsidiaries, TSMC Solid State Lighting Ltd. and TSMC Solar Ltd., responsible for solid state lighting and solar business activities, respectively.

5.1.2 Customer Applications

TSMC manufactured more than 8,600 different products for over 440 different customers in 2013. These chips are used across the entire spectrum of electronic applications, including computers and peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, consumer electronics such as DVDs, digital TVs, game consoles, digital still cameras (DSCs), and many other applications.

The rapid evolution of end products drives our customers to utilize TSMC's innovative technologies and services, while at the same time spurring TSMC's own development of technology. As always, success depends on leading rather than following industry trends.

TSMC manufactured over 8,600 products for over 440 customers in 2013. TSMC significantly outgrew the semiconductor market in 25 of the last 27 years since its founding.

5.1.3 Consolidated Shipments and Net Revenue in 2013 and 2012

Unit: Shipments (8-inch equivalent wafers) / Net Revenue (NT\$ thousands)

		2013		2012	
		Shipments	Net Revenue	Shipments	Net Revenue
Wafer	Domestic (Note 1)	2,810,456	79,982,833	2,392,978	65,782,349
	Export	12,855,511	480,702,380	11,651,318	397,188,087
Others (Note 2)	Domestic (Note 1)	N/A	5,118,245	N/A	4,764,100
	Export	N/A	31,220,739	N/A	39,010,698
Total	Domestic (Note 1)	2,810,456	85,101,078	2,392,978	70,546,449
	Export	12,855,511	511,923,119	11,651,318	436,198,785

Note 1: Domestic means sales to Taiwan.

Note 2: Others majorly include revenue associated with mask making, design, and royalty income.

5.1.4 Production in 2013 and 2012

Unit: Capacity / Output (8-inch equivalent wafers) / Amount (NT\$ thousands)

Year	Wafers		
	Capacity	Output	Amount
2013	16,446,779	15,197,701	301,305,826
2012	14,832,671	13,643,678	267,104,646

Note: Starting 2013, TSMC no longer includes SSMC's capacity in this capacity tables.

5.2 Technology Leadership

5.2.1 R&D Organization and Investment

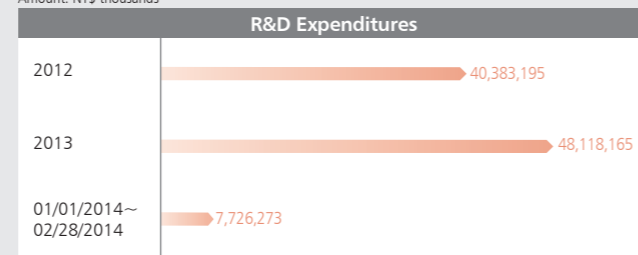
In 2013, TSMC continued to invest in R&D with total R&D expenditure amounting to 8% of revenue, a level that equals or exceeds the R&D investment of many other high technology leaders. Along with the increase in budget, R&D staffing increased by 11%.

TSMC recognizes that the technology challenge required to extend Moore's Law, the business law behind CMOS scaling, is becoming increasingly complex. The efforts of the R&D organization are focused on enabling the Company to continuously offer its customers first-to-market, leading edge technologies and design solutions that contribute to their product success in today's complex and challenging market environment. In 2013 the R&D organization met these challenges by introducing into manufacture the industry-leading 20nm technology. The 16nm technology, which is the first integrated technology platform to make use of 3D FinFET transistors, has also met its development goals and is now in risk production. The R&D organization continues to strengthen the pipeline of technology innovations that are required to maintain technology leadership. The 10nm technology advanced development was completed, and entered full development, while the 7nm technology is in the early development stage.

In addition to CMOS logic, TSMC conducts research and development on a wide range of other semiconductor technologies that provide the functionality our customers require for mobile SoC and other applications. Highlights achieved in 2013 include: production ramp of the CoWoS™ (Chip on Wafer on Substrate) 3D packaging technology; extension of the 28nm technology for RF and embedded flash technologies; the first industry introduction of the BCD power technology into a 12-inch fab environment and, manufacturing readiness of TSMC's first wide band gap Gallium Nitride (GaN) semiconductor technology for high frequency power applications.

TSMC maintains a network of important external R&D partnerships and alliances with world-class research institutions such as IMEC, the respected European R&D consortium, where TSMC is a core partner. TSMC also provides funding for nanotechnology research at leading universities worldwide to promote innovation and the advancement of nanoelectronic technology. In 2013, TSMC announced the formation of collaborative research centers with National Taiwan University and National Chiao Tung University in Taiwan, and anticipates announcing the establishment of additional research centers in Taiwan in 2014.

Amount: NT\$ thousands



5.2.2 R&D Accomplishments in 2013

R&D Highlights

• 28nm Technology

TSMC delivered the world's first 28nm High-k/Metal Gate triple gate oxide technology (28HPT). This technology provides 10% faster speed compared to the 28HPM technology while keeping the same leakage power. 28HPT is qualified for production in both Fab 12 and Fab 15 with equivalent yield to 28HPM.

• 20nm Technology

TSMC's 20nm technology was successfully qualified for volume manufacture.

• 16nm Technology

The 16nm technology features FinFET transistors with a third generation High-k/Metal Gate process, a fifth generation of transistor strain process, and advanced 193nm lithography. FinFET transistors offer substantial power reduction at the same chip performance compared to transistors built with the traditional planar structure, which is essential for advanced mobile applications. In 2013, the R&D organization successfully verified the process development test vehicle (TV1R), provided customers with version 1.0 design kits (design rules and SPICE models) and offered two public cyber shuttles. More than 10 customers and IP vendors took the shuttles and verified their IP. The 16nm technology has completed manufacturing qualification with good yield.

• 10nm Technology

2013 saw the introduction of 10nm technology into development. The 10nm technology will offer substantial power reduction for the same chip performance compared to earlier technology generations. Development activities in 2014 will focus on manufacturing baseline process setup, yield learning, transistor performance improvement, and reliability evaluation. TSMC plans to enter 10nm risk production in 2015 and volume production in 2016.

• Lithography

2013 was a productive year in 16nm lithography development with the technology reaching the risk production stage. Several novel patterning techniques were developed for 48nm pitch Fin patterning. These techniques overcame the challenge of high aspect ratio topography of 3D device structures. Besides patterning challenges, defect reduction on the high aspect ratio topography also required special engineering efforts. Several key solutions were developed in 2013, such as improvement in tool and process recipe co-optimization, and enhanced defect-monitoring methodology. The development of optimum automation and Advanced Process Control systems, including enhanced tool control and stability, resulted in significant reduction of rework rate and cycle time, helping to drive faster learning in both defect reduction and yield improvement.

Several new techniques were introduced during 2013 to enable the successful launch of 10nm development. While the immersion lithography process will be extended to the 10nm node, the double patterning technique that was developed for the 20nm and 16nm nodes is insufficient to meet 10nm requirements. Multiple patterning becomes essential to enable high yield manufacturing. To further stretch the patterning capability of optical lithography, significant learning in material processing, image modeling, and defect control has been achieved to make the 10nm process viable.

In 2013, TSMC took delivery of a NXE3300 extreme ultraviolet (EUV) scanner, and exposed its first wafers after successful installation. While we see a clear advantage in process simplification by the use of EUV as opposed to multiple patterning with optical immersion lithography, insufficient power of the EUV light source is our major concern.

Multiple e-beam direct-write lithography (MEB DW) not only has the potential for economical imaging critical layers, but it also may offer cost reduction potential for non-critical layers and 450-mm wafers. It is being developed to meet the need of 7nm node imaging and beyond. A TSMC team from the design, CMOS, MEMS, and packaging areas is jointly developing and fabricating the digital pattern generation (DPG) module for the Reflective E-Beam Lithography (REBL) system of KLA-Tencor. The first DPG test chip, which was a collaborative effort between TSMC and KLA-Tencor, was taped out in the third quarter of 2013.

• Mask Technology

Mask technology is an integral part of our advanced lithography. In 2013, we completed the development of mask technology for the 16nm node and made solid progress on development for the 10nm node. In the meantime, continued progress is being made on the mask technology for EUV lithography. Working with suppliers, we continue to drive down counts of native defects on mask blanks. In addition TSMC continues to work with several industrial consortia in developing the infrastructure of EUV mask technology.

Integrated Interconnect and Packaging

• 3D IC

TSMC achieved a new industry landmark in 2013 with the ramp up to volume production of a new turnkey system integration solution called CoWoS™. The CoWoS™ solution is integrated with TSMC's advanced silicon technologies to provide customers with alternatives for system level integration compared to the traditional SoC approach. The technology has passed customer product qualifications with 28nm FPGA products. At 20nm, development continues and we expect customer tape outs in the first half of 2014. We successfully demonstrated 3D IC stacking of an application processor and wide I/O DRAM in 28HPM technology through transistor stacking (TTS) TSV technology, and completed 16nm TSV process development.

● Advanced Package Development

TSMC offers a wide variety of lead-free flip chip packaging technologies. In 2013, TSMC qualified for manufacture at 20nm an innovative Bump-on-Trace (BoT) packaging technology with an ultra-fine pitch (80 μ m) copper (Cu) bump that is suitable for mobile/handheld devices. Additionally, lead-free flip chip packaging was enhanced for ultra large die size ($\geq 600\text{mm}^2$) for high performance applications (GPU/CPU/FPGA/Networking Processor).

● Advanced Interconnect

Development of low resistance Cu and low capacitance dielectric continued to be the primary focus in 2013. At the 16nm node, a novel dielectric scheme has been developed that reduces the capacitance between copper lines. For the 10nm node and beyond, we have developed a new spacer-patterning scheme that allows copper line width and spacing to be reduced and minimizes signal delay. The effective resistivity of copper lines developed with these advanced processes is highly competitive and is lower than that projected by the International Technology Roadmap for Semiconductors (ITRS).

Advanced Transistor Research

The increased performance and lower power requirements of advanced logic technologies require constant innovation in transistor architecture and materials. TSMC is at the forefront of research in these areas, with particular focus on non-silicon channel materials such as germanium and III-V compounds because of their desirable performance and power characteristics. As an example of the progress being made in this area, our research team recently announced at the 2013 International Electron Devices Meeting world record-breaking transistor performance for both Germanium (Ge) channel PMOS FinFET and Indium Arsenide (InAs) (III-V) channel NMOS. New concepts of transistor structures employing innovative nanotechnology are also under intensive investigation.

Specialty Technologies

TSMC offers a broad mix of technologies to address the wide range of applications that customers are engaged in. The Company enhanced its SoC roadmap to address the needs of specialty applications in mixed-signal, RF markets, high voltage power management IC, high voltage IC's for display, MEMS and embedded memory.

● Mixed Signal/Radio Frequency (MS/RF) Technology

TSMC has successfully verified customer products in the 28nm technology for RF CMOS applications (28LP-RF) that are aimed at next generation RF transceivers (e.g. 4G LTE). Higher performance analog and RF solutions are also in development at the 20nm node.

TSMC developed and transferred to manufacturing a first generation 0.18 μ m Complementary Bipolar Complementary MOS (CBCMOS) technology.

● Power IC/BCD Technology/Panel Drivers

TSMC released the 0.13BCD technology, the first BCD technology to be implemented in a 12-inch fab. The R&D team also completed development and qualified for manufacture the wide band gap material GaN in a high electron mobility transistor (HEMT) configuration for high power, high frequency applications. The 55HV technology was qualified targeting high quality mobile displays, while C015HV was released targeted at the large panel market. TSMC has also developed a 0.18 μ m HV embedded flash technology for touch panel applications.

● Micro-electromechanical Systems (MEMS) Technology

A variety of products were qualified for manufacturing ramp in 2013, including products aimed at: giga-level pixel display density; BioMEMS applications such human genome sequencing; second generation motion sensor products; and high-resolution noise cancellation microphones.

● Flash/Embedded Flash Technology

TSMC achieved several important milestones in embedded flash technologies. At the more mature 65nm/55nm node, NOR based cell technologies including 1-T cell and Split-Gate cell successfully completed customer qualification. At the 40nm node, the split-gate cell technology has been shipped for both automotive and consumer applications. Embedded flash development for the 28LP and 28HPM platforms is underway for low leakage applications such as smartcard, MCU and Automobile.

5.2.3 Technology Platform

TSMC provides our customers with advanced technology platforms that include the comprehensive design infrastructure required to optimize design productivity and cycle time. These include: design flows for electronic design automation (EDA); silicon-proven IP building blocks, such as libraries; and simulation and verification design kits, i.e., process design kits (PDK) and technology files.

To ensure the OIP ecosystem delivers to our customers the highest quality design experience with newly introduced technologies, TSMC has collaborated with our EDA partners to certify EDA tool readiness. In particular, since 16nm is the first FinFET technology for our customers, TSMC and ecosystem partners improved the tool certification process to cover point tool enhancement as well as integrated, cross-tool certification using an advanced CPU core as the vehicle (EDA tool certification results can be found on TSMC-Online).

Given the ever-increasing need for first-time silicon success and early time-to-market for highly integrated circuits, in 2013 TSMC also extended its IP quality program (TSMC9000) to allow IP audits to be performed either at TSMC or at TSMC-certified laboratories. The extended IP quality program currently includes standard interface IP such as MIPI, HDMI and LVDS. Further IP types will be included in the upcoming year. TSMC also donated its IP Tag format to the industry to extend IP quality tracking coverage beyond our IP Alliance partners. To help customers plan new product tape-outs incorporating TSMC certified IP, the OIP ecosystem now features a portal to connect customers to an ecosystem of more than 40 solution providers.

5.2.4 Design Enablement

TSMC's technology platforms provide a solid foundation for design enablement. Customers can design directly using the Company's internally developed IP and tools, or using those that are available via our OIP partners.

Tech File and PDK

TSMC provides a broad range of process design kits (PDK) for digital logic, mix-signal, radio frequency (RF), high-voltage driver, CMOS Image Sensor (CIS) and embedded flash technologies across a range of technology nodes from 0.5 μ m to 16nm. In addition, TSMC provides technology files for: DRG; LVS; RC extraction; automatic place and route; and a layout editor to ensure process technology information is accurately represented in EDA tools. There are more than 100,000 customer downloads of these files every year.

Library and IP

TSMC and its alliance partners offer our customers a rich portfolio of reusable IP, which are essential building blocks for many circuit designs. In 2013, over 60% of new tape-outs at TSMC adopted one or more libraries or IP from TSMC and/or our IP partners. In 2013, TSMC expanded its library and silicon IP portfolio to contain more than 6,300 items, a 16% increase over 2012.

Design Methodology and Flow

In 2013 TSMC addressed the critical design challenges associated with the new 16nm FinFET technology for digital and SoC applications, as well as 3D IC chip stacking technology by announcing the readiness of reference flows through our Open Innovation Platform® (OIP) collaboration.

The 16nm reference flow features FinFET-specific design solutions and methodologies for performance, power, and area optimization. The flow covers place-and-route, RC extraction, timing analysis, electromigration, IR-drop, and physical verification. In addition, it includes analysis capability for layout-dependent-effects (LDE) and voltage-dependent rule checking (VDRC) to improve custom design accuracy and productivity.

The 3D IC Reference Flow is an extension of our previously announced CoWoS™ Reference Flow that addresses true 3D chip stacking. The 3D IC flow provides a complete solution for through-silicon via (TSV) modeling, power integrity, thermal analysis, chip-package-board switching noise analysis, and design for test (DFT) for memory integration through a Wide IO interface. These tools allow customers to fully explore the new system integration opportunities made possible by 3D IC technology.

5.2.5 Intellectual Property

A strong portfolio of intellectual property rights strengthens TSMC's technology leadership and protects our advanced and leading edge technologies. In 2013, TSMC received a record breaking 940 U.S. patents, as well as 500+ issued patents in Taiwan and the PRC, and other patents issued in various other countries. In 2013, TSMC ranked #35 in the "Top 50" U.S. patent grants. TSMC's patent portfolio now exceeds 20,000 patents worldwide (including patent applications in queue). We continue to implement a unified strategic plan for TSMC's intellectual capital management. Strategic considerations and close alignment with the business objectives drive the timely creation, management and use of our intellectual property.

At TSMC, we have built a process to extract value from our intellectual property by aligning our intellectual property strategy with our R&D, operations, business objectives, marketing, and corporate development strategies. Intellectual property rights protect our freedom to operate, enhance our competitive position, and give us leverage to participate in many profit-generating activities.

We have worked continuously to improve the quality of our intellectual property portfolio and to reduce the costs of maintaining it. We plan to continue investing in our intellectual property portfolio and intellectual property management system to ensure that we protect our technology leadership and receive maximum business value from our intellectual property rights.

5.2.6 TSMC University Collaboration Programs

TSMC University Research Centers in Taiwan

TSMC has significantly expanded its interaction with universities in Taiwan with the establishment of several new research centers located at the nation's most prestigious universities. The mission of these centers is twofold: to increase the number of highly qualified students who are suitable for employment at TSMC, and to inspire university professors to initiate research programs that focus on the frontiers of semiconductor device, process and materials technology; semiconductor manufacturing and engineering science; and specialty technologies of relevance to the semiconductor industry. Two of these research centers were established in 2013 at National Taiwan University and National Chiao Tung University, and two additional centers will be established at National Cheng Kung University and

National Tsing Hua University in 2014. These centers are funded jointly by governmental agencies together with a commitment from TSMC of several hundred million Taiwan dollars and in-kind university shuttles. In 2013, about three hundred high caliber students across Electronics, Physics, Materials Engineering, Chemistry, Chemical Engineering and Mechanical Engineering disciplines joined the research centers.

TSMC University Shuttle Program

The TSMC University Shuttle Program was established to provide professors at leading research universities worldwide with access to the advanced silicon process technologies that are needed to research and develop innovative circuit design concepts. This program links motivated professors and graduate students with enthusiastic managers at TSMC with the goals of promoting excellence in the development of advanced silicon design technologies, and the nurturing of new generations of engineering talent in the semiconductor field.

The program provides access to silicon process technologies including the 65nm and 40nm nodes for digital, analog/mixed-signal circuits and RF design, and the 0.11 μ m/0.18 μ m process nodes for micro-electromechanical system designs. Select research projects utilize the 28nm technology node. Participants in the TSMC University Shuttle Program include major university research groups in the U.S.: M.I.T.; Stanford University; UC Berkeley; UCLA; University of Texas at Austin; and University of Michigan. In Taiwan, participants are: National Taiwan University; National Chiao Tung University; and National Tsing Hua University. Other participants include: Tsing Hua University in Beijing; The Hong Kong University of Science and Technology; and Singapore's Nanyang Technological University.

TSMC's University Shuttle Program participants recognize the importance of the program in allowing their graduate students to implement exciting designs ranging from: low-power memories; analog-to-digital converters; and advanced radio-frequency and mixed-signal bio-medical systems. This is truly a "win-win" collaboration. In 2013, TSMC received specific letters of appreciation from professors at M.I.T., Stanford University, UC Berkeley, UCLA, University of Michigan, National Taiwan University and National Chiao Tung University.

5.2.7 Future R&D Plans

In light of the significant accomplishments of TSMC's advanced technologies in 2013, the Company plans to continue to grow its R&D investments. The Company plans to reinforce its exploratory development work on new transistors and technologies, such as 3D

structures, strained-layer CMOS, high mobility materials and novel 3D IC devices. These studies of the fundamental physics of nanometer CMOS transistors are core aspects of our efforts to improve the understanding and guide the design of transistors at advanced nodes. The findings of these studies are being applied to ensure our continued industry leadership at the 28nm and 20nm nodes and to extend our leadership to the 10nm and 7nm nodes. One of TSMC's goals is to extend Moore's Law through both innovative in-house work and by collaborating with industry leaders and academia. We seek to push the envelope in finding cost-effective technologies and manufacturing solutions.

TSMC intends to continue working closely with international consortia and lithography equipment suppliers to ensure the timely development of 193nm high-NA scanner technology, EUV lithography, and multiple- e-beam direct-write technologies. These technologies are increasingly important to TSMC's process development efforts at the 10nm, 7nm, and smaller nodes.

Similarly, TSMC continues to work with mask writing, inspection, and repair equipment suppliers to develop viable mask-making technology to help ensure that the Company maintains its leadership position in mask quality and cycle time and continues to meet aggressive R&D, prototyping, and production requirements.

With a highly competent and dedicated R&D team and its unwavering commitment to innovation, TSMC is confident of its ability to deliver the best and most cost-effective SoC technologies for its customers, thereby supporting the Company's business growth and profitability.

TSMC R&D Future Major Project Summary

Project Name	Description	Risk Production (Estimated Target Schedule)
10nm logic platform technology and applications	3rd generation FinFET technology for both digital and analog products	2015
7nm logic platform technology and applications	CMOS platform technology for SoC	2017
3D IC	Cost-effective solution with better form factor and performance for SIP	2014 ~ 2016
Next-generation lithography	EUV and multiple e-beam to extend Moore's Law	2014 ~ 2019
Long-term research	Special SoC technology (including new NVM, MEMS, RF, analog) and 5nm transistors	2014 ~ 2019

The above plans accounted for roughly 70% of the total R&D budget in 2014. The total R&D budget is currently estimated to be around 8% of 2014 revenue.

5.3 Manufacturing Excellence

5.3.1 GIGAFAB™ Facilities

TSMC's 12-inch fabs are a key part of its manufacturing strategy. TSMC currently operates three 12-inch GIGAFAB™ facilities – Fab 12, Fab 14, and Fab 15 – the combined capacity of which reached 4,619,000 12-inch wafers in 2013. Production within these three facilities supports 0.13 μ m, 90nm, 65nm, 40nm, 28nm, and 20nm process technologies, and their sub-nodes. Part of the capacity is reserved for research and development work and currently supports 16nm, 10nm and beyond technology development. TSMC has developed a centralized fab manufacturing management for the customers' benefit of consistent quality and reliability performance, greater flexibility of demand fluctuations, faster yield learning and time-to-volume, and minimized costly product re-qualification. It enabled Fab 15 to fast ramp 28nm capacity from 50,000 to around 100,000 wafers output per month in 2013 to satisfy customers' demand.

5.3.2 Engineering Performance Optimization

Highly sophisticated information technology (IT) solutions, such as advanced equipment control, fault detection and diagnosis, engineering big data mining, and centralized operation platforms, are implemented to optimize TSMC equipment, process and yield performance. They also improve production efficiency, effectiveness, and engineering capability via information integration, workflow optimization and automation.

Advanced analytical methods identify critical equipment and process parameters that are linked to device performance. Methodologies such as virtual metrology, yield dissection and management integrate Advanced Process Control (APC), Fault Detection Classification (FDC), Statistical Process Control (SPC), and Circuit Probe data in order to optimize equipment performance to match device performance.

Accurate modeling and control at each process stage drives intelligent module loop control. The process control hierarchy dispatched via sophisticated computer-integrated manufacturing systems enables optimization from equipment to end product, which achieves precision and lean operation in a high product mix semiconductor manufacturing environment.

5.3.3 Precision and Lean Operations

TSMC's unique manufacturing infrastructure is tailored for a high product mix foundry environment. Following its commitment to manufacturing excellence, TSMC has equipped a sophisticated scheduling and dispatching system, implemented industry-leading automated materials handling systems, and employed Lean Manufacturing approaches to provide customers with on-time-delivery and best-in-class cycle time. Real-time equipment performance and productivity monitoring, analysis, diagnosis and control minimize production interruption and maximize cost effectiveness.

5.3.4 450mm Wafer Manufacturing Transition

TSMC joined the Global 450mm Consortium (G450C) located in the College of Nanoscale Science and Engineering (CNSE) of New York University at Albany, New York. The consortium includes five IC makers and CNSE (which represents New York State and provides the clean room facility), as well as key 450mm tool suppliers as associate members.

Currently, TSMC has 16 experienced employees working in the consortium. TSMC has assumed the Operation General Manager position in the consortium and commits to lead the industry for a cost-effective 450mm transition. The clean room of G450C in Albany has been ready for tool installation since the first quarter of 2013. Most of the tools will be installed by 2015.

Besides 450mm tool readiness, TSMC is also developing novel 450mm operations to bring the maximum value of semiconductor wafer fabrication to customers, including advanced quality and the most competitive cycle time in advanced technology. 450mm will be a new era of semiconductor manufacturing with new manufacturing capability advanced from today's leading edge technology.

5.3.5 Raw Materials and Supply Chain Risk Management

In 2013, TSMC continued Supply Chain Risk Management review meetings periodically with business teams to proactively identify and manage risk of supply capacity insufficiency and supply chain interruption. TSMC also worked with its suppliers to enhance the performance of quality, delivery, risk management, and to support green procurement, environmental protection and safety.

Raw Materials Supply

Major Materials	Major Suppliers	Market Status	Procurement Strategy
Raw Wafers	F.S.T. S.E.H. Siltronic SUMCO SunEdison	These five suppliers together provide over 90% of the world's wafer supply. Each supplier has multiple manufacturing sites in order to meet customer demand, including plants in North America, Asia, and Europe.	<ul style="list-style-type: none"> TSMC's suppliers of silicon wafers are required to pass stringent quality certification procedures. TSMC procures wafers from multiple sources to ensure adequate supplies for volume manufacturing and to appropriately manage supply risk. TSMC maintains competitive price and service agreements with its wafer suppliers, and, when necessary, enters into strategic and collaborative agreements with key suppliers. TSMC regularly reviews the quality, delivery, cost and service performance of its wafer suppliers. The results of these reviews are incorporated into TSMC's subsequent purchasing decisions. A periodic audit of each wafer supplier's quality assurance systems ensures that TSMC can maintain the highest quality in its own products.
Chemicals	Air Products ATMI BASF Dow SAFC KANTO-PPC MGC	These seven companies are the major suppliers for bulk and specialty chemicals.	<ul style="list-style-type: none"> Most suppliers have relocated many of their operations closer to TSMC's major manufacturing facilities, thereby significantly improving procurement logistics. The suppliers' products are regularly reviewed to ensure that TSMC's specifications are met and product quality is satisfactory.
Litho Materials	AZ Dow JSR Nissan Shin-Etsu Chemical Sumitomo T.O.K.	These seven companies are the major suppliers for worldwide litho materials.	<ul style="list-style-type: none"> TSMC works closely with its suppliers to develop materials able to meet application and cost requirements. TSMC and suppliers periodically conducts improvement programs of their quality, delivery, sustainability and green policy, to ensure continuous progress of TSMC's supply chain.
Gases	Air Liquide Air Products Linde Taiyo Nippon Sanso	These four companies are the major suppliers of specialty gases.	<ul style="list-style-type: none"> The majority of the four suppliers are located in different geographic locations, minimizing supply risk to TSMC. TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.
Slurry, Pad, Disk	Air Products Asahi Glass Cabot Microelectronics Dow Chemical Fujifilm Planar Solutions Fujimi Hitachi Chemical Kinik 3M	These nine companies are the major suppliers for CMP materials.	<ul style="list-style-type: none"> TSMC works closely with its suppliers to develop materials able to meet application and cost requirements. TSMC and suppliers periodically conducts improvement programs of their quality, delivery, sustainability and green policy, to ensure continuous progress of TSMC's supply chain.

Suppliers Accounted for at Least 10% of Annual Consolidated Net Procurement

Unit: NT\$ thousands

Supplier	2013			2012		
	Procurement Amount	As % of 2013 Total Net Procurement	Relation to TSMC	Procurement Amount	As % of 2012 Total Net Procurement	Relation to TSMC
VIS	6,993,964	17%	Investee accounted for using equity method	4,475,674	11%	Investee accounted for using equity method
Company A	4,925,966	12%	None	6,708,942	16%	None
Company B	4,812,417	11%	None	5,846,449	14%	None
Company C	4,401,215	11%	None	3,954,602	9%	None
Others	20,773,685	49%		20,394,725	50%	
Total Net Procurement	41,907,247	100%		41,380,392	100%	

5.3.6 Quality and Reliability

A characteristic of TSMC's industry reputation is its commitment to providing customers with the best quality wafers and service for their products. Quality and Reliability (Q&R) services aim to achieve "quality on demand" to fulfill customers' needs regarding time-to-market, reliable quality, and market competition over a broad range of products.

Q&R technical services assist customers in the technology development and product design stage to design-in their product reliability requirements. Since 2008, Q&R has worked with R&D to successfully establish and implement new qualification methodology for High-k/Metal Gate (HKMG) as well as for FinFET structures in 2013. Q&R had been collaborating with SEMI, the Semiconductor Equipment and Material International, to establish an IC Quality Committee since May 2012 in order to enhance product quality of the semiconductor supply chain. For backend technology development, Q&R worked with R&D and the Backend Technology and Service Division to complete the Cu Bump technology development and production transfer of both CuBoL (Copper Bump on Lead) and CuBoT (Copper Bump on Trace) as lead free bump solutions for fine bump pitch products. To extend product package reliability validation, Q&R established in-house system-level temperature cycling, bending, drop and vibration test capabilities in 2013.

In 2013, Q&R completed a new audit of incoming material suppliers for advanced technology. Q&R also implemented innovative statistical matching methodologies to achieve the goal of enlarging the manufacturing window with better quality control. The scope of the methodology includes facility, metrology and process tools, wafer acceptance test (WAT) data and reliability performance. Since 2011, Q&R tightened the post-fab outgoing visual inspection criteria for wafer quality improvement to AQL 0.4% from AQL 0.65%.

To sustain production quality, and to minimize risk to customers when deviations occur, manufacturing quality monitoring and event management span all critical stages – from raw material supply, mask making, and real-time in-process monitoring, to bumping, wafer sort and reliability performance. Advanced failure and materials analysis techniques are also developed and effectively deployed in process development, customer product development and product manufacturing. In recent years, due to continuous shrinking of device features, laboratory tools have been adapted to complement traditional metrology tools that have run into their physical limits. Furthermore, state-of-the-art materials analysis, chemical analysis and fault isolation equipment are continuously being added to support development activities of the 20nm, 16nm and 10nm technology nodes.

In compliance with the electronic industry's lead-free and green IC package policy, Q&R qualified and released lead-free bumping to satisfy customer demands, and made lead-free bump package possible for 0.13 μ m, 45nm, 40nm, 28nm and 20-SoC technology products by collaborating with the major outsource assembly and testing subcontractors. This enabled TSMC customers to introduce and ramp lead-free products with excellent assembly quality. In 2013, TSMC Q&R ramped wafer-level Chip Scale Package (CSP) to 21K per month and lead-free to 60K per month without major quality issues. For mainstream technologies, Q&R qualified ultra, extreme low leakage and high endurance embedded Flash IP, IPD (Integrated Passive Device), hybrid of Copper, and Copper-Aluminum technology with customers. Q&R continues to build reliability testing and monitoring to ensure excellent manufacturing quality of specialty technologies on automotive, high-voltage products, CMOS image sensors and embedded-Flash memory products.

TSMC Q&R is also responsible for leading the Company towards the ultimate goal of zero-defect production through the use of continuous improvement programs. Periodic customer feedback indicates that products shipped from TSMC have consistently met or exceeded their field quality and reliability requirements. In 2013, a third-party audit verified the effectiveness of the TSMC quality management system in compliance with ISO/TS 16949:2009 and IECQ QC 080000:2012 certificates requirements.

5.4 Customer Trust

5.4.1 Customers

TSMC's worldwide customers have diverse product specialties and excellent performance records in various segments of the semiconductor industry. Fabless customers include: Advanced Micro Devices, Inc., Broadcom Corporation, Marvell Semiconductor Inc., MediaTek Inc., NVIDIA Corporation, OmniVision Technologies and Qualcomm Inc. IDM customers include: Analog Devices Inc., STMicroelectronics and Texas Instruments Inc. etc.

Customer Service

TSMC believes that providing superior customer service is critical to enhancing customer satisfaction and loyalty, which is very important to retaining existing customers, attracting new customers, and strengthening customer relationships. With a dedicated customer service team as a main contact window for coordination and facilitation, TSMC strives to provide world-class, high-quality, efficient and professional services in design support, mask making, manufacturing, and backend to achieve optimum experience for our customers and, in return, to gain customer's trust and sustain Company profitability.

To facilitate customer interaction and information access on a real-time basis, TSMC-Online services offer a suite of web-based applications that provide a more active role in design, engineering, and logistics collaborations. Customers have 24-hour a day, seven-day-a-week access to critical information and are able to subscribe customized reports through TSMC-Online services. Design Collaboration focuses on content availability and accessibility, with close attention to complete, accurate, and current information at each level of the wafer design life cycle. Engineering Collaboration includes online access to engineering lots, wafer yields, wafer acceptance test (WAT) analysis, and quality reliability data. Logistics Collaboration provides access to data updated three times a day on any given wafer lot's status in order, fabrication, assembly and testing, and shipping.

Customer Satisfaction

To assess customer satisfaction and to ensure that of our customers' needs are appropriately understood, TSMC conducts an annual customer satisfaction survey (ACSS) with most active customers, either by web or interview, through an independent consultancy.

Complementary with the survey, quarterly business reviews (QBRs) are also conducted by the customer service team so that customers can give feedback to TSMC on a regular basis. Through both surveys and intensive interaction with customers by our account teams, TSMC is able to maintain close touch with customers for better service and collaboration.

Customer feedback is routinely reviewed and considered by executives and then developed into appropriate improvement plans, all-in-all becoming an integral part of the customer satisfaction process with a complete closed loop. TSMC has maintained a focus on customer survey data as one of our key indicators of corporate performance – not just of past performance, but also as a leading indicator of future performance. TSMC has acted on the belief that customer satisfaction leads to loyalty, and customer loyalty leads to higher levels of retention and expansion.

Customers Accounted for at Least 10% of Annual Consolidated Net Revenue

Unit: NT\$ thousands

Customer	2013			2012		
	Net Revenue	As % of 2013 Total Net Revenue	Relation to TSMC	Net Revenue	As % of 2012 Total Net Revenue	Relation to TSMC
Customer A	130,563,982	22%	None	85,880,132	17%	None
Others	466,460,215	78%		420,865,102	83%	
Total Net Revenue	597,024,197	100%		506,745,234	100%	

5.4.2 Open Innovation Platform® (OIP) Initiative

Innovation has long been both an exciting and challenging proposition. Competition among semiconductor companies is becoming more active and intense in the face of increasing customer consolidation, and the commoditization of technology at more mature, conventional levels. Companies must find ways to continue innovating in order to prosper further. Companies innovating openly from the "outside in" as well as from the "inside out" accelerate innovation through active collaborations with external partners. This active collaboration of TSMC with external partners is known as Open Innovation. TSMC has adopted this path to innovate via the Open Innovation Platform® (OIP) initiative. OIP is a key part of the TSMC Grand Alliance.

The TSMC Open Innovation Platform® (OIP) initiative is a comprehensive design technology infrastructure that encompasses all critical IC implementation areas to reduce design barriers and improve first-time silicon success. OIP promotes the speedy implementation of innovation amongst the semiconductor design community and its ecosystem partners with TSMC's IP, design implementation and DFM capabilities, process technology and backend services.

A key element of OIP is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that more efficiently empowers innovation throughout the supply chain and, in turn, drives the creation and sharing of newly created revenue and profits. TSMC's Active Accuracy Assurance (AAA) initiative is critical to OIP, providing the accuracy and quality required by the ecosystem interfaces and collaborative components.

TSMC's Open Innovation model brings together the innovative thinking of customers and partners under the common goal of shortening design time, minimizing time-to-volume and speeding time-to-market and, ultimately, time-to-revenue:

- The foundry segment's earliest and most comprehensive EDA certification program delivering timely design tool enhancement required by new process technologies; and
- The foundry segment's largest, most comprehensive and robust silicon-proven intellectual properties (IPs) and library portfolio; and
- Comprehensive design ecosystem alliance programs covering market-leading EDA, library, IPs, and design service partners.

TSMC's OIP Alliance consists of 28 electronic design automation (EDA) partners, 41 IP partners, and 25 design service partners. TSMC and its partners proactively work together, and engage much earlier and deeper than before in order to address mounting design challenges at advanced technology nodes. Through this early and intensive collaboration effort, TSMC OIP is able to deliver the needed design infrastructure with timely enhancement of EDA tools, early availability of critical IPs and quality design services when customers need them. This is critical to success for the customers to take full advantage of the process technologies once they reach production-ready maturity.

In October 2013, TSMC hosted an OIP Ecosystem Forum at the San Jose Convention Center in California, with keynote addresses from TSMC executives as well as OIP ecosystem partners. The forum was well attended by both customers and ecosystem partners and demonstrated the value of collaboration through OIP to nurture innovations.

TSMC's OIP Partner Management Portal facilitates communication with our ecosystem partners for efficient business productivity. This portal is designed with an intuitive interface and can be linked directly from TSMC-Online.

5.5 Employees

5.5.1 Human Capital

Human capital is one of the most important assets of TSMC. The Company is committed to providing quality jobs with good compensation, challenging work, and comfortable work environment for its employees, and it is dedicated to foster a dynamic and fun work environment. In 2013, TSMC was named the "Most Admired Company in Taiwan" by *CommonWealth Magazine* for the 17th consecutive year.

At the end of 2013, TSMC and its subsidiaries had over 40,483 employees worldwide, including 4,078 managers, 17,205 professionals, 3,236 assistants, and 15,964 technicians. The following table summarized TSMC workforce at the end of February, 2014:

TSMC Workforce Structure

		12/31/2012 (Note 1)	12/31/2013 (Note 2)	02/28/2014 (Note 2)
Job	Managers	3,865	4,078	4,105
	Professionals	15,844	17,205	17,225
	Assistant Engineer/Clerical	3,079	3,236	3,277
	Technician	16,479	15,964	16,156
Total		39,267	40,483	40,763
Gender	Male (%)	55.5%	57.5%	57.5%
	Female (%)	44.5%	42.5%	42.5%
Education	Ph.D.	3.6%	4.0%	4.0%
	Master's	34.5%	37.4%	37.2%
	Bachelor's	25.9%	25.8%	26.1%
	Other Higher Education	12.9%	11.9%	11.8%
	High School	23.1%	20.9%	20.8%
Average Age (years)		33.2	33.5	33.6
Average Years of Service (years)		6.2	6.6	6.7

Note 1: On a consolidated basis and includes employees of our non-wholly owned subsidiaries, Xintec Inc. and Mutual-Pak Technology Co., Ltd., since 2012.

Note 2: The data shown no longer includes Xintec Inc. as Xintec Inc. was deconsolidated in June 2013.

5.5.2 Recruitment

TSMC is an equal employment opportunity employer, and its practices center on the principles of open-and-fair recruitment. The Company evaluates all candidates according to their qualification as related to the requirement of each position, rather than race, gender, age, religion, nationality, or political affiliation.

Although facing a softer global economy, TSMC's continuous growth requires constant talent sourcing and recruitment activities to support its business. The Company recruited over 3,300 managers, professionals, and administrative staffs, as well as over 1,300 assistants and technicians in 2013.

In addition, the Company, through its University Program Office, established two university-level research centers in National Taiwan University (NTU) and National Chiao Tung University (NCTU) in 2013. Two other centers with National Cheng Kung University and National Tsing Hua University will be established in 2014. The mission of the centers is two-fold: to develop top graduate students for future employment and encourage selected academics to consolidate different research domains under one umbrella for more effective synergy. TSMC provides hundred of millions of NT dollars in seed money for leveraging funding from the National Science Council.

In 2013, the two centers in NTU and NCTU sponsored more than 50 faculty and 250 students across the fields of Electronics, Material Engineering, Physics, Chemistry, Chemical Engineering and Mechanical Engineering. These centers also help advance novel or innovative academic semiconductor research.

In order to cultivate a young talent pipeline for recruitment both locally and around the world, TSMC deploys a number of recruiting activities and university programs, including Joint Development Programs, University Shuttle Program, Summer Internship, Job Fairs in Taiwan, U.S., Singapore and India, as well as a series of Fresh Graduate Career Symposium for soon-to-be graduates.

5.5.3 People Development

TSMC is committed to cultivating a continuous and diversified learning environment. Under this mission, the Company initiated "TSMC Employee Training and Education Procedure" to ensure the Company's and individuals' development objectives can be achieved through internal and external training resources.

Based on the nature of the individual's job, work performance and career development path, the Company provides employees a comprehensive network of learning resources, including on-the-job training, classroom training, e-learning, coaching, mentoring, and job rotation.

For each employee, a tailor-made Individual Development Plan (IDP) is provided.

The Company provides employees with a wide range of on-site general, professional, and management training programs. In addition to engaging external experts as trainers, hundreds of TSMC employees are trained as qualified instructors to deliver their valuable know-how in internal training courses. In 2013, TSMC conducted 1,549 internal training sessions, which translated to a company-wide total of nearly 890,000 training hours with the participation of over 530,000 attendees. Employees on average attended over 22 hours of training and the total training expenses reached NT\$83 million.

TSMC's training programs include:

- **New Employee Training:** includes basic training and job orientation for new employees. Furthermore, newcomers' managers and the Company's well-established Buddy System are in place to support the newcomers in their assimilation process.
- **General Training:** refers to training required by government regulations and/or Company policies, as well as trainings on general subjects for all employees or employees of different job functions. Such training includes subjects of industry-specific safety, workplace health and safety, quality, fab emergency response, languages, and personal effectiveness.
- **Professional/Functional Training:** provides technical and professional training required by different functions within the Company. TSMC offers training courses on equipment engineering, process engineering, accounting, information technology, and so forth.
- **Management Training:** programs are tailored to the needs of managers at all levels, including new, experienced, and senior managers; optional courses are also available.

- **Direct Labor (DL) Training:** enables employees of the production line in acquiring the knowledge, skills and attitudes they need to perform their jobs well and to pass the certification for operating equipment. Training includes DL Skill Training, Technician "Train-the-Trainer" Training, and Manufacturing Leader Training.

Apart from internal training resources, our employees are also subsidized when taking external short-term courses, credit courses and degrees.

5.5.4 Compensation

TSMC provides a diversified compensation program that is competitive externally, fair internally, and adapted locally. TSMC upholds the philosophy of sharing wealth with employees in order to attract, retain, develop, motivate and reward talented employees. With excellent operating performance, employment at TSMC entitles employees to a comprehensive compensation and benefits program above the industry average.

TSMC's compensation program includes a monthly salary, an employee cash bonus based on quarterly business results, and employee profit sharing when the Company distributes its profit each year.

The purpose of the employee cash bonus and profit sharing programs is to reward employee contributions appropriately, to encourage employees to work consistently toward ensuring the success of TSMC, and to link employees' interests with those of TSMC's shareholders. The Company determines the amount of the cash bonus and profit sharing based on operating results and industry practice in the Republic of China. The amount and form of the employee cash bonus and profit sharing are determined by the Board of Directors based on the Compensation Committee's recommendation, and the employee profit sharing is subject to shareholders' approval at the Annual Shareholders' Meeting. Individual awards are based on each employee's job responsibility, contribution and performance.

In addition to providing employees of TSMC's overseas subsidiaries with a locally competitive base salary, the Company grants annual bonuses as a part of total compensation. The annual bonuses are granted in line with local regulations, market practices, and the overall operating performance of each subsidiary, to encourage employees' commitment and development within the Company.

5.5.5 Employee Satisfaction

TSMC is committed to providing quality jobs with good compensation, challenging work, and comfortable work environment for its employees, and it is dedicated to foster a dynamic and fun work environment. The Company encourages employees to maintain a healthy and well-balanced life, apart from their time spent working.

TSMC's commitment in providing employees with a sustainable career with its continuous growth, as well as its unceasing efforts as an advocate for employees' work-life balance, has earned it the aforementioned "Most Admired Company in Taiwan" awarded by *CommonWealth Magazine*.

To enrich employees' work experience, the Company continuously implements programs to enhance their well-being, benefit, recognition, rewards and communication. The various initiatives include the following:

Employee Benefit Programs

- **Diverse employee welfare programs:** including 77 hobby clubs, 52 speeches covering diverse topics (in 2013), Sports Day, and Family Day. In addition, holiday bonuses, marriage bonuses, condolence allowances and emergency subsidies are also available to cater for employees' needs.
- **Convenient on-site services:** cafeterias, dry-cleaning, convenience stores, travel, banking, housing, and commuting assistance are accessible for employees in the fabs.
- **Comprehensive health enhancement programs:** physical care and psychological consultation services. Five free counseling sessions are offered to TSMC employees on an annual basis, with extension available depending on the individual's needs. Other programs include weight control, medical check-up, smoking secession, exercise promotion campaign, massage service, abdominal and neck x-ray, female care, blood donation, liver disease prevention, as well as seminars to raise awareness of personal health.
- **Premium Sports Center:** a variety of workout facilities available to all employees and their families, as well as exercise sessions conducted by professional instructors.
- **Flexible Preschool Service:** the childcare service, operated to meet employees' work schedules, is available in a total of three fabs in Hsinchu and Tainan.

Employee Recognition

TSMC sponsors various internal award programs to recognize employees' outstanding achievement, both as a team or on the individual level. With these award programs, TSMC aims to encourage employees' sustainable development that in turn adds to the Company's competitive advantage.

The award programs include:

- **TSMC Medal of Honor,** presented exclusively by the Chairman, recognizes those who contribute to the Company's business performance significantly.
- **TSMC Academy** recognizes outstanding TSMC scientists and engineers whose individual technical capabilities make significant contributions to the Company.
- **Outstanding Engineer Award** for each fab and **Total Quality Excellence Award** recognize employees' continuous efforts in creating value for the Company.

- **Service Award** represents TSMC's appreciation toward senior employees' dedication and commitment to the Company.
- **Excellent Instructor Award** praises the outstanding performance and contribution of the Company's internal instructors in training courses for employees.

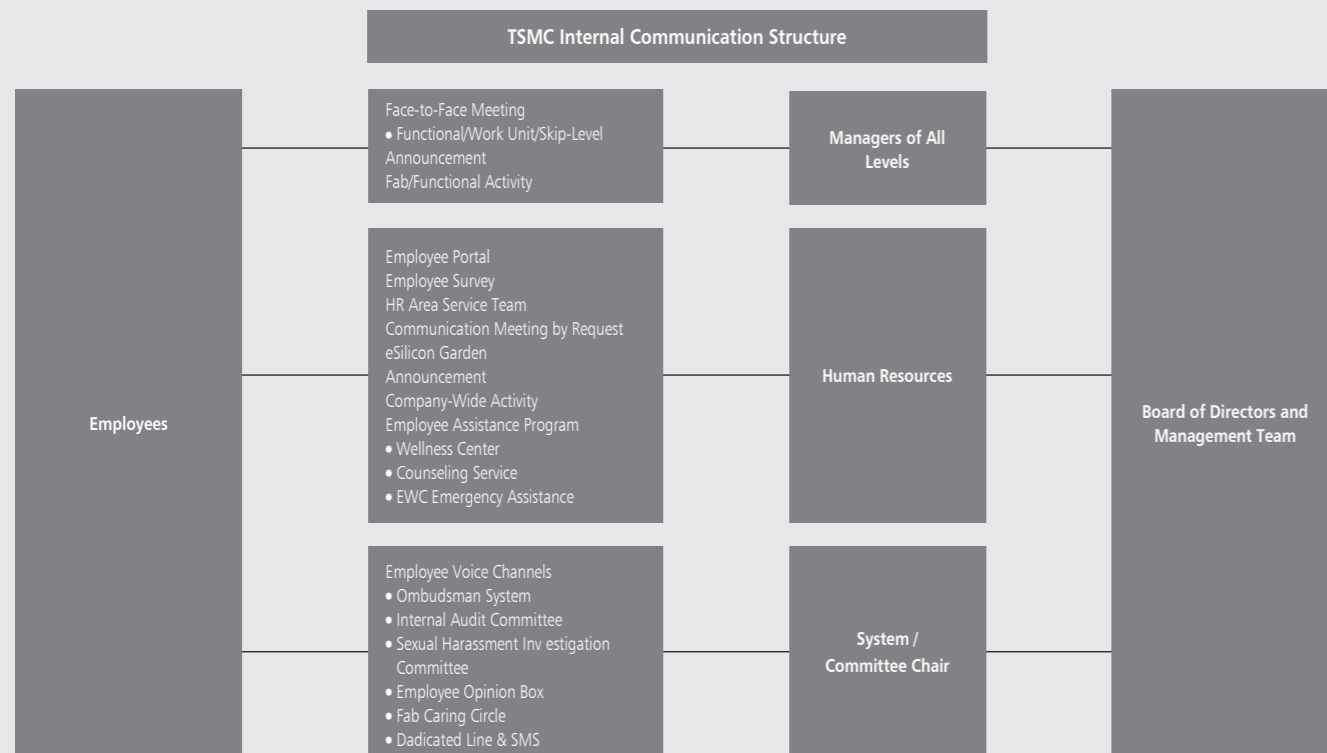
In 2013, TSMC employees continued to be recognized through a host of prestigious external awards, including National Outstanding Managers Award, Outstanding Young Engineer Award, National Model Worker Award, and National Industrial Innovation Award.

Employee Communication

TSMC values two-way communication and is committed to keeping the communication channels between the management level and their subordinates, as well as among peers, open and transparent. To ensure that employees' opinions and voices are heard, and their issues are addressed effectively, impartial submission mechanisms, including quarterly labor-management communication meetings, are in place to provide timely support. Our continuous efforts lie in reinforcing mutual and timely employee communication, based on multiple channels and platforms, which in turn fosters harmonious labor relations and creates a win-win situation for the Company and the employees. In 2013 and as of the date of this Annual Report, there had been no loss resulting from labor disputes.

A host of two-way communication channels are leveraged to maintain the unobstructed flow of information between the managers and the employees, including:

- **Regular communication meetings** are held for the various levels of managers and employees.
- **Periodic employee satisfaction surveys** are conducted, with follow-up actions based on the survey findings.
- **The corporate intranet, *myTSMC*:** the website features Chairman's Talk, corporate messages, Executive interviews, and other activities of interest to employees.
- ***eSilicon Garden*:** the website hosting TSMC's internal electronic publication is updated on a bi-weekly basis with inspirational content featuring outstanding teams and individuals, as well as major activities of the Company.
- **Complaints regarding major management, financial, and auditing issues** are handled by the following channels with high level of confidentiality:
 - The independent Audit Committee; and
 - Ombudsman system led by an appointed Vice President.
- **Employee Opinion Box** provides a channel for employees to express their opinions regarding their work and the overall work environment.
- **Fab Caring Circle** in each fab takes care of the issues related to employees' work and personal life. In 2013, the system dedicated mainly to the direct labors (DL) of the Company won the CSR Award presented by *GlobalView Magazine* with its quality and effective services.



5.5.6 Retention

From the employee's initial adaptation to professional and career development, TSMC works proactively to retain outstanding employees through good compensation and through an innovative, challenging and fun work environment. All these efforts contributed to a healthy turnover rate of 5.3% for 2013.

5.5.7 Retirement Policy

TSMC's retirement policy is set according to the Labor Standards Act and Labor Pension Act of the Republic of China. With the Company's sound financial system, TSMC ensures employees a solid pension contribution and payments, which encourages employees to set long-term career plans and raises their commitment to TSMC.

5.6 Material Contracts

Shareholders Agreement

Term of Agreement:

Effective as of 03/30/1999 and may be terminated as provided in the agreement

Contracting Parties:

Koninklijke Philips Electronics N.V. (Philips) and EDB Investments Pte Ltd. (EDBI)

(In September 2006, Philips assigned its rights and obligations under this agreement to Philips Semiconductors International B.V. which has now been renamed NXP B.V. In November 2006, NXP B.V. and TSMC purchased all SSMC shares owned by EDBI; EDBI is no longer a contracting party to this agreement.)

Summary:

TSMC, Philips and EDBI had formed a Singapore joint venture "Systems on Silicon Manufacturing Company Pte Ltd." (SSMC) for providing semiconductor foundry services. Philips Semiconductor (now NXP B.V.) and TSMC are committed to purchasing a certain percentage of SSMC's capacity.

Technology Cooperation Agreement

Term of Agreement:

03/30/1999 - 03/29/2004, automatically renewable for successive five-year terms until and unless either party gives written notice to terminate one year before the end of then existing term

Contracting Party:

Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)

Summary:

TSMC agreed to transfer certain process technologies to SSMC, and SSMC agreed to pay TSMC a certain percentage of the net selling price of SSMC products.

Patent License Agreement

Term of Agreement:

12/20/2007 - 12/31/2017

Contracting Party:

A multinational company

Summary:

The parties entered into a cross licensing arrangement for certain semiconductor patents. TSMC pays license fees to the contracting company.

Manufacturing, License, and Technology Transfer Agreement

Term of Agreement:

04/01/2004 - 03/31/2006, automatically renewable for successive one-year terms until and unless both parties decide otherwise by mutual consent in writing

Contracting Party:

Vanguard International Semiconductor Corporation (VIS)

Summary:

VIS reserves certain capacity to manufacture TSMC products on mutually agreed terms. TSMC may also transfer certain technologies to VIS, for which it will in return receive royalties from VIS.

Investment Agreement and Shareholder Agreement

Term of Investment Agreement:

Effective as of 08/05/2012

Term of Shareholder Agreement:

Effective as of 10/31/2012 and may be terminated as provided in the agreement

Contracting Party:

ASML Holding N.V. (ASML)

Summary:

TSMC joined the Customer Co-Investment Program of ASML Holding N.V. (ASML) and entered into the investment agreement and shareholder agreement. The agreements include an investment of EUR837,815,664 by TSMC Global to acquire a non-voting 5% in ASML's equity with a lock-up period of 2.5 years.

Research and Development Funding Agreement

Term of Agreement:

10/31/2012 - 12/31/2017

Contracting Party:

ASML Holding N.V. (ASML)

Summary:

TSMC shall provide EUR276 million to ASML's research and development programs from 2013 to 2017.

Note: TSMC is not currently party to any other material contract, other than contracts entered into in the ordinary course of its business. The Company's "Significant Contingent Liabilities and Unrecognized Commitments" are disclosed in Annual Report (II), Financial Information, page 51.

6. Financial Highlights

6.1 Financial Status and Operating Results

6.1.1 Financial Status

Consolidated

Unit: NT\$ thousands

Item	2013	2012	Difference	%
Current Assets	358,486,654	250,325,436	108,161,218	43%
Long-term Investments (Note 1)	89,183,810	65,717,240	23,466,570	36%
Property, Plant and Equipment	792,665,913	617,562,188	175,103,725	28%
Intangible Assets	11,490,383	10,959,569	530,814	5%
Other Assets (Note 2)	11,228,217	16,790,075	(5,561,858)	-33%
Total Assets	1,263,054,977	961,354,508	301,700,469	31%
Current Liabilities	189,777,934	148,473,947	41,303,987	28%
Noncurrent Liabilities	225,501,958	89,786,655	135,715,303	151%
Total Liabilities	415,279,892	238,260,602	177,019,290	74%
Capital Stock	259,286,171	259,244,357	41,814	0%
Capital Surplus	55,858,626	55,675,340	183,286	0%
Retained Earnings	518,193,152	408,411,468	109,781,684	27%
Equity Attributable to Shareholders of the Parent	847,508,255	720,550,680	126,957,575	18%
Total Equity	847,775,085	723,093,906	124,681,179	17%

Note 1: Long-term investments consist of noncurrent available-for-sale 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%

The increase in current assets was mainly due to increase in cash and cash equivalents in 2013.

The increase in long-term investments was mainly due to increase in fair value of available-for-sale financial assets in 2013.

The increase in property, plant and equipment was mainly due to acquisition of advanced technology equipment during 2013.

The decrease in other assets was mainly due to decrease in deferred income tax assets.

The increase in total assets was mainly due to increase in cash and cash equivalents and property, plant and equipment.

The increase in current liabilities was mainly due to increase in payables to contractors and equipment suppliers and income tax payable, partially offset by decrease in short-term loans.

The increase in noncurrent liabilities was mainly due to issuance of corporate bonds of NT\$130.8 billion in 2013.

The increase in total liabilities was mainly due to increase in noncurrent liabilities.

The increase in retained earnings was mainly due to net income of 2013, partially offset by distribution of 2012 earnings.

• Major Impact on Financial Position

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

• Future Plan on Financial Position: Not applicable.

In 2013, net income registered a record level of NT\$188.1 billion with EPS of NT\$7.26.

Unconsolidated

Unit: NT\$ thousands

Item	2013	2012	Difference	%
Current Assets	257,623,763	205,819,614	51,804,149	25%
Long-term Investments (Note 1)	165,545,159	139,634,200	25,910,959	19%
Property, Plant and Equipment	770,443,494	586,636,036	183,807,458	31%
Intangible Assets	7,069,456	6,449,837	619,619	10%
Other Assets (Note 2)	7,897,131	13,597,966	(5,700,835)	-42%
Total Assets	1,208,579,003	952,137,653	256,441,350	27%
Current Liabilities	187,195,744	144,528,616	42,667,128	30%
Noncurrent Liabilities	173,875,004	87,058,357	86,816,647	100%
Total Liabilities	361,070,748	231,586,973	129,483,775	56%
Capital Stock	259,286,171	259,244,357	41,814	0%
Capital Surplus	55,858,626	55,675,340	183,286	0%
Retained Earnings	518,193,152	408,411,468	109,781,684	27%
Total Equity	847,508,255	720,550,680	126,957,575	18%

Note 1: Long-term investments consist of 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%

The increase in current assets was mainly due to increase in cash and cash equivalents in 2013.

The increase in property, plant and equipment was mainly due to acquisition of advanced technology equipment during 2013.

The decrease in other assets was mainly due to decrease in deferred income tax assets.

The increase in total assets was mainly due to increase in cash and cash equivalents and property, plant and equipment.

The increase in current liabilities was mainly due to increase in payables to contractors and equipment suppliers and income tax payable, partially offset by decrease in short-term loans.

The increase in noncurrent liabilities was mainly due to issuance of corporate bonds of NT\$86.2 billion in 2013.

The increase in total liabilities was mainly due to increase in noncurrent liabilities.

The increase in retained earnings was mainly due to net income of 2013, partially offset by distribution of 2012 earnings.

• Major Impact on Financial Position

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

• **Future Plan on Financial Position:** Not applicable.

6.1.2 Financial Performance

Consolidated

Unit: NT\$ thousands

Item	2013	2012	Difference	%
Net Revenue	597,024,197	506,745,234	90,278,963	18%
Cost of Revenue	316,057,820	262,583,098	53,474,722	20%
Gross Profit before Unrealized Gross Profit on Sales to Associates	280,966,377	244,162,136	36,804,241	15%
Unrealized Gross Profit on Sales to Associates	(20,870)	(25,029)	4,159	-17%
Gross Profit	280,945,507	244,137,107	36,808,400	15%
Operating Expenses	71,563,234	62,510,875	9,052,359	14%
Other Operating Income and Expenses, Net	47,090	(449,364)	496,454	NM (Note)
Income from Operations	209,429,363	181,176,868	28,252,495	16%
Non-operating Income and Gains	6,057,759	499,588	5,558,171	1113%
Income before Income Tax	215,487,122	181,676,456	33,810,666	19%
Income Tax Expenses	27,468,185	15,552,654	11,915,531	77%
Net Income	188,018,937	166,123,802	21,895,135	13%
Other Comprehensive Income, Net of Income Tax	16,352,248	4,252,632	12,099,616	285%
Total Comprehensive Income for the Year	204,371,185	170,376,434	33,994,751	20%
Total Net Income Attributable to Shareholders of the Parent	188,146,790	166,318,286	21,828,504	13%
Total Comprehensive Income Attributable to Shareholders of the Parent	204,505,782	170,521,543	33,984,239	20%

Note: NM stands for non-meaningful.

• Analysis of Deviation over 20%

Increase in cost of revenue: The increase was mainly due to higher sales.

Increase in other operating income and expenses, net: The increase was mainly due to impairment loss related to property, plant and equipment recognized in 2012.

Increase in non-operating income and gains: The increase was primarily due to increase in earnings of equity method investees, lower impairment loss of financial assets recognized in 2013, partially offset by higher interest expenses for corporate bonds in 2013.

Increase in income tax expenses: The increase was mainly due to higher taxable income, the AMT tax rate changed from 10% to 12% and increase in income tax on unappropriated earnings.

Increase in other comprehensive income, net of income tax: The increase was mainly due to exchange rate differences arising from translation of foreign operations and the increase in fair value of available-for-sale financial assets in 2013.

Increase in total comprehensive income and total comprehensive income attributable to shareholders of the parent: The increase was mainly due to higher net income and other comprehensive income in 2013.

• Sales Volume Forecast and Related Information

For additional details, please refer to "1. Letter to Shareholders" on pages 2-5 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	2013	2012	Difference	%
Net Revenue	591,087,600	500,369,525	90,718,075	18%
Cost of Revenue	319,407,163	265,494,185	53,912,978	20%
Gross Profit before Unrealized Gross Profit on Sales to Subsidiaries and Associates	271,680,437	234,875,340	36,805,097	16%
Unrealized Gross Profit on Sales to Subsidiaries and Associates	(35,577)	(25,029)	(10,548)	42%
Gross Profit	271,644,860	234,850,311	36,794,549	16%
Operating Expenses	66,924,354	57,481,083	9,443,271	16%
Other Operating Income and Expenses, Net	(66,614)	(549,087)	482,473	-88%
Income from Operations	204,653,892	176,820,141	27,833,751	16%
Non-operating Income and Gains	11,062,658	6,932,246	4,130,412	60%
Income before Income Tax	215,716,550	183,752,387	31,964,163	17%
Income Tax Expenses	27,569,760	17,434,101	10,135,659	58%
Net Income	188,146,790	166,318,286	21,828,504	13%
Other Comprehensive Income, Net of Income Tax	16,358,992	4,203,257	12,155,735	289%
Total Comprehensive Income for the Year	204,505,782	170,521,543	33,984,239	20%

• Analysis of Deviation over 20%

Increase in cost of revenue: The increase was mainly due to higher sales.

Increase in unrealized gross profit on sales to subsidiaries and associates: The increase was mainly due to higher sales to subsidiaries and associates in the fourth quarter 2013.

Decrease in other operating income and expenses, net: The decrease was mainly due to property, plant and equipment impairment loss during 2012.

Increase in non-operating income and gains: The increase was primarily due to increase in earnings of equity method, less impairment loss of financial assets recognized in 2013, partially offset by higher interest expenses for corporate bonds in 2013.

Increase in income tax expenses: The increase was mainly due to higher taxable income, the AMT tax rate changed from 10% to 12% and income tax on unappropriated earnings.

Increase in other comprehensive income, net of income tax: The increase was mainly due to exchange rate differences arising from translation of foreign operations and the increase in other comprehensive income of subsidiaries and associates in 2013.

Increase in total comprehensive income: The increase was mainly due to higher net income and other comprehensive income in 2013.

• **Sales Volume Forecast and Related Information**

For additional details, please refer to "1. Letter to Shareholders" on pages 2-5 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.

6.1.3 Cash Flow

Consolidated

Unit: NT\$ thousands

Cash Balance 12/31/2012	Net Cash Provided by Operating Activities in 2013	Net Cash Used in Investing and Financing Activities in 2013	Cash Balance 12/31/2013	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
143,410,588	347,383,537	(248,098,678)	242,695,447	None	None

• **Analysis of Cash Flow**

NT\$347.4 billion net cash generated by operating activities: mainly from net income and depreciation/amortization.

NT\$281.1 billion net cash used in investing activities: primarily for capital expenditures.

NT\$33 billion net cash generated by financing activities: mainly from issuance of corporate bonds, partially offset by payment of cash dividends and decrease 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 12/31/2012	Net Cash Provided by Operating Activities in 2013	Net Cash Used in Investing and Financing Activities in 2013	Cash Balance 12/31/2013	Remedy for Liquidity Shortfall	
				Investment Plan	Financing Plan
109,150,810	335,283,326	(297,995,368)	146,438,768	None	None

• **Analysis of Cash Flow**

NT\$335.3 billion net cash generated by operating activities: mainly from net income and depreciation/amortization.

NT\$284.4 billion net cash used in investing activities: primarily for capital expenditures.

NT\$13.6 billion net cash used in financing activities: mainly from payment of cash dividends and decrease in short-term loans, partially offset by issuance of corporate bonds.

• **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.

6.1.4 Major Capital Expenditures and Impact on Financial and Business

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Total Amount as of 12/31/2013	Actual Use of Capital	
			2013	2012
Production Facilities, R&D and Production Equipment	Cash flow generated from operations and issuance of corporate bonds	527,715,597	283,822,265	243,893,332
Others	Cash flow generated from operations	6,016,537	3,772,508	2,244,029
Total		533,732,134	287,594,773	246,137,361

Based on capital expenditures listed above and projected for 2014, it is estimated that TSMC's annual production capacity will increase by approximately 1.64 million 8-inch equivalent wafers in 2014.

6.1.5 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 2013, the investment gain from these investments amounted to NT\$9,530,933 thousand (NT\$3,972,031 thousand on a consolidated basis), increasing significantly compared to 2012 mainly due to the high growth of mobile computing products and the recovery of solar market. For future investments, TSMC will continue to focus on strategic purposes through prudent assessments.

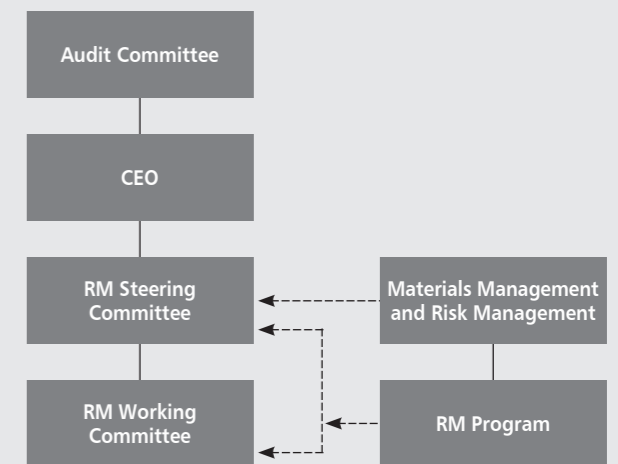
6.2 Risk Management

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 revenue. TSMC operates an Enterprise Risk Management (ERM) program based on both its corporate vision and its long-term sustainability and 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 applied for identifying and prioritizing corporate risks. Various risk treatment strategies are also adopted in response to identified corporate risks.

To reduce TSMC's supply chain risks, a cross-function taskforce comprised of members from fab operations, material management, risk management and quality system management worked with TSMC's primary suppliers to develop business continuity plans, and enhance supply chain resilience capability through effectively manage the risks faced by its suppliers. As a result of those efforts, there was no interruption in TSMC's supply lines in 2013.

As TSMC continued to expand production capacity with advanced technology in 2013, seismic protection engineering design, risk treatment practices and green factory projects were initiated and implemented, beginning in the design phase for all new fabs.

6.2.1 Risk Management (RM) Organization Chart



• **RM Steering Committee**

Reports to Audit Committee;
Is composed of functional heads;
Reviews risk control progress; and
Identifies and approves the prioritized risk lists.

• **RM Working Committee**

Is composed of representatives from each function;
Periodically reviews risk control associated with business or manufacturing process changes;
Aligns functional ERM activities; and,
Follows up the risk control action plan

• **RM Program**

Coordinates the RM Working Committee activities;
Facilitates functional risk management activities;
Initiates cross function communication for risk mitigation; and,
Consolidates ERM reports into the RM Steering Committee

6.2.2 Strategic Risks

Risks Associated with Changes in Technology and Industry

• **Industry Developments**

The electronics industries and semiconductor market are cyclical and subject to significant, and often rapid, increases and decreases in product demand. TSMC's semiconductor foundry business is affected by the market conditions of the highly cyclical electronics and semiconductor industries in which most of its customers operate. Variations in order levels from customers result in volatility in the Company's revenues and earnings.

From time to time, the electronics and semiconductor industries have experienced significant, and sometimes prolonged, periods of downturns and overcapacity. Because TSMC is, and will continue to be, dependent on the requirements of electronics and semiconductor companies for its services, periods of downturn and overcapacity in the general electronics and semiconductor industries could lead to reduced demand for overall 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 revenues, margins and earnings will suffer during periods of downturn and overcapacity. Furthermore, due to the increasingly complex technological nature of our foundry services, the amount of our accounting provisions may also need to be provided and adjusted for potential sales returns and allowances to customers that may adversely affect the results of our operations.

● Changes in Technology

The semiconductor industry and its technologies are constantly changing. TSMC competes by developing process technologies using increasingly advanced nodes and with manufacturing products with more functions. TSMC also competes by developing new derivative technologies. If TSMC does not anticipate these changes in technologies or fails to rapidly develop new and innovative technologies, or if the Company's competitors unforeseeably 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 launched into the market. If TSMC is unable to meet these shorter product times-to-market, TSMC risks losing these customers. These factors have also been intensified by the shift of the global technology market to consumer driven products such as mobile devices, and increasing concentration of customers and competition (all further discussed among these risk factors). These challenges also place greater demands on its research and development capabilities. If TSMC is unable to innovate new technologies that meet the demands of its customers or overcome the above factors, its revenues 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, or to obtain access to advanced technologies or processes developed by others, 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 pages 10-11 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 significant decrease in the demand for any one of these products may decrease the demand for such other products as well as overall global semiconductor foundry services, including TSMC's services, and may adversely affect the Company's revenues. Further, a significant portion of TSMC's operating costs is fixed because the Company owns most of its manufacturing capacities. 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. Additionally, the historical and current trend of declining average selling prices of end-use applications places downward pressure on the prices of the components that go into such applications. If the average selling prices of end-use applications continue to decrease, the pricing pressure on components produced by the Company may lead to a reduction of TSMC's revenues, margin and earnings.

Risks Associated with Competition

The markets for our foundry services are highly competitive. We compete with other foundry service providers, as well as integrated device manufacturers that 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 and other resources than TSMC, such as the possibility of receiving direct or indirect government bailout/economic stimulus funds or other incentives that are unavailable to us. The Company's competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Increases in these competitive activities may decrease TSMC's customer base, TSMC's average selling prices, or both.

For example, over the past few years, TSMC has seen the rise of certain companies with the capability of providing foundry services. These companies are committed to trying to attract TSMC's customers. If TSMC is unable to compete with any and each of these new competitors with better technologies and manufacturing capacity and capabilities, it risks losing customers to these new contenders.

The Company competes primarily on the basis of process technology, manufacturing quality and service. The level of competition differs according to the process technology involved. For example, in more mature technologies, competitors tend to be more numerous and specialized. Some companies compete with TSMC in selected geographic regions or in application end markets. In recent years, substantial investments have been made by others to establish new pure-play foundry companies in mainland China and elsewhere, or to spin off the manufacturing operations of integrated device manufacturers (IDMs) and transform them into a pure-play foundry company.

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, 2014, the following changes or developments in governmental policies and regulations may influence the Company's business operations:

The Taiwan Financial Supervisory Commission (FSC) requires listed companies, starting from January 1, 2013, to prepare their consolidated financial statements in accordance with Taiwan's "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" (the "Financial Reporting Guideline") and the following FSC endorsed standards and interpretations: "International Financial Reporting Standards," "International Accounting Standards," and relevant Interpretations (collectively, "Taiwan-IFRSs"). TSMC has already prepared its 2013 annual and interim consolidated financial statements in accordance with the Financial Reporting Guideline and Taiwan-IFRSs.

The Taiwan "National Health Insurance Act" was amended in January 2011, to create an obligation for employers and employees to pay an extra 2% "supplementary premium," effective from January 1, 2013. TSMC pays such extra 2% "supplementary premium" when TSMC distributes employees' profit sharing and variable bonus.

According to the "Income Basic Tax Act" (i.e., Alternative Minimum Tax, "AMT") amended in August, 2012, effective on January 1, 2013, the corporate income tax rate of AMT will be increased from 10% to 12%. TSMC has evaluated the impact of these amendments on its financial statements and implemented such amendments according to the relevant laws.

The "Labor Safety and Health Act" of Taiwan was amended and renamed as the "Occupational Safety and Health Act" in July, 2013. Highlights of the amendment include: expanding the applicability of the Act to employees of all occupations; building a comprehensive occupational disease prevention system; strengthening the protection of the mental and physical health of workers; stipulating maternity protection and employment equality; and requiring high-risk business to regularly implement safety assessments. TSMC over the years has been consistently maintaining a robust safe and healthy work environment and protective measures in place, and will continue to maintain the safety and health of its workplace in compliance with applicable laws and regulations. In addition, the Taiwan legislative authority has been studying relevant laws relating to environmental protection and employee safety and health protection (e.g. "Greenhouse Gas Reduction Act" and "Energy Tax Act"). Though the "Greenhouse Gas Reduction Act" has not been passed, TSMC

has been implementing various long-term energy saving and carbon reduction programs since 2000. As to the proposed "Energy Tax Act," there has been no concrete guidance or law issuing from the Taiwan government as of yet, so the impacts of such law are indeterminable at the moment. However, it is very likely that such law may increase the operating costs of the Company.

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.

6.2.3 Operational Risks

Risks Associated with Capacity Expansion

TSMC performs long-term market demand forecasts to estimate market and general economic conditions for its products and services. Based upon these estimates, TSMC manages its overall capacity in accordance with market demand. Because market conditions may vary significantly and unexpectedly, our market demand forecast may change significantly at any time. Further, since certain manufacturing lines or tools in some of TSMC's manufacturing facilities may be suspended or shut down temporarily during periods of decreased demand, the Company may not be able to ramp up in a timely manner during periods of increased demand. During periods of continued decline in demand, our operating facilities may not be able to absorb and complete in a timely manner outstanding orders re-directed from shuttered facilities.

Recently, TSMC has been adding capacity to its 12-inch wafer fabs in the Hsinchu Science Park, Southern Taiwan Science Park and Central Taiwan Science Park, based on our market demand forecasts taking into account the demand forecasts of our customers. As a result, the total monthly capacity of the Company's 12-inch wafer fabs was increased from 366,800 wafers as of December 31, 2012 to 414,700 wafers as of December 31, 2013. Expansion and modification of the Company's production facilities will, among other factors, increase TSMC's costs. For example, the Company will need to purchase additional equipment, train personnel to operate the new equipment, or hire additional personnel. If TSMC cannot increase its net revenue accordingly, in order to offset these higher costs, TSMC's financial performance may be adversely affected.

TSMC has established systems and processes to evaluate and forecast market demand and refers to these forecasts and evaluations when considering whether to expand or reduce capacity. As of the date of this Annual Report, the benefits brought about by such capacity expansion were in line with TSMC's expectations.

Risks Associated with Sales Concentration

Over the years, TSMC's customer profile and the nature of its customers' business have changed dramatically. While it generates revenue from hundreds of customers worldwide, TSMC's ten largest customers accounted for approximately 60% and 62% of net revenue in 2012 and 2013, respectively, and the Company's largest customer accounted for approximately 17% and 22% of net revenue in 2012 and 2013, respectively.

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. There are only a limited number of customers who are successfully exploiting this new business model paradigm.

Also, in order to respond to the new business model paradigm, TSMC has seen the nature of its customers' business models change. For example, there is a growing trend toward the rise of system houses that operate in a manner that makes their products and services more marketable to the changing consumer market. 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, industrial 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 may adversely affect TSMC's results of operations and financial condition.

We will keep a close watch on these trends and work closely with our customers to respond to these changes and to strengthen our market position.

Risks Associated with Purchase Concentration

• Raw Materials

TSMC's production operations require that it obtain adequate supplies of raw materials, such as silicon wafers, gases, chemicals and photoresist, on a timely basis. 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. Also, since TSMC procures some of its raw materials from sole-source suppliers, there is a risk that its need for such raw materials may not be met when needed or that back-up supplies may not be readily available. The Company's revenue and earnings could decline if it 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 it cannot pass on to its 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 encourages its suppliers to reduce their supply chain risk by decentralizing production plants, and to intensify their cost competitiveness by moving their production site to Taiwan from high-cost areas. The Company believes this benefits both suppliers and TSMC. Moreover, the Company continually refines its planning system and monitors its inventory and replenishment on a daily basis so as to sustain an optimal level at rational cost.

• 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. TSMC also provides its projected demand for various items to many of its equipment suppliers to help them plan their production in advance. The Company has purchased used tools and continues to seek opportunities to acquire relevant used tools. 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' orders, 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 obtain, preserve, enforces, defend 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, trade secrets, software or know-how. Also, the Company cannot assure that, as its business or business models expand into new areas, or otherwise, it will be able to develop independently the technologies, trade secrets, patents, software 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 increasingly on 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 its technologies, manufacturing processes, the design of the integrated circuits made by TSMC or the use by its customers of semiconductors made by TSMC may infringe upon 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. In some instances, these disputes have resulted in litigation. Recently, there has been a notable increase in the number of claims or lawsuits initiated by certain patent assertion entities and these entities are also becoming more aggressive in their monetary demands and requests for court-issued injunctions. Such lawsuits or claims may increase TSMC's cost of doing business and may potentially be extremely disruptive if the plaintiffs succeed in blocking the trade of its products and services. If TSMC fails to obtain or maintain certain government, technologies or intellectual property licenses and, if litigation related to alleged intellectual property matters occurs, it could prevent it from manufacturing or selling particular products or applying particular technologies, which could reduce its opportunities to generate revenues.

TSMC has taken other measures to minimize potential loss of shareholder value arising from intellectual property claims and litigation filed against the Company. These measures include: obtaining licenses from certain semiconductor and other technology companies; timely securing of intellectual property rights for defensive and/or offensive protection of TSMC technology and business; aggressively defending against frivolous litigation; and acquiring or licensing strategic intellectual property rights necessary to protect its technologies and business offerings.

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, manufacturing processes, the design of the integrated circuits made by it or the use by its customers of semiconductors made by it may infringe upon patents or other intellectual property rights of others. In some instances, these disputes have resulted in litigation by or against the Company and certain settlement payments by it in some cases. 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 are invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. In February 2014, the Court entered a final judgment in favor of TSMC, dismissing all of Keranos' claims against TSMC with prejudice.

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

In December 2013, Tela Innovations, Inc. filed complaints in the U.S. District Court for the District of Delaware and in the United States International Trade Commission accusing TSMC and TSMC North America of infringing one U.S. patent. The Delaware case had been stayed since February 2014. In January 2014, TSMC filed a lawsuit in the U.S. District Court for the District of North California against Tela for trade secret misappropriation and breach of contract. The outcome cannot be determined at this time.

Other than the matters described above, TSMC was not involved in any other material litigation in 2013 and are not currently involved in any material litigation.

Risks Associated with Mergers and Acquisitions

As of the date of this Annual Report, there were no such risks for TSMC.

Risks Associated with Recruiting and Retaining Qualified Personnel

The Company depends on the continued services and contributions of its executive officers, skilled technical personnel, personnel of other expertise and direct labors. TSMC's business could suffer if it loses, for whatever reasons, the services and contributions of some of these personnel and it cannot adequately replace them. The Company 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 its products and services. Since there is intense competition for the recruitment of these personnel, the Company cannot ensure it will be able to fulfill its personnel requirements in a timely manner during an economic upturn. However, no such incident has happened to TSMC as of the date of this annual report.

TSMC provides a varied and competitive compensation programs, and is generous in sharing the Company's long-term business achievements with its employees. Furthermore, in order to attract and retain talents, the Company is dedicated to providing a timely distribution of employees' cash bonus from its profits. TSMC believes that by rewarding employees' hard work in a timely fashion, it not only encourages employees to contribute consistently to ensure the success of the Company, but also links their interests with those of TSMC's shareholders.

Future R&D Plans and Expected R&D Spending

For additional details, please refer to "5.2.7 Future R&D Plans" on page 66 of this Annual Report.

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

TSMC has established an excellent corporate image 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 corporate social responsibility to pursue sustainable development, equality and justice, and a harmonious society to live and work.

TSMC was honored with awards for its achievements in operations, corporate governance, innovation, profit growth, investor relations, and corporate social responsibility and other fields in 2013, further strengthening the Company's public reputation. In addition to being selected as a component of the Dow Jones Sustainability Index (DJSI) for a 13th consecutive year, TSMC was also recognized by DJSI as the Semiconductors and Semiconductor Equipment Industry Group Leader. TSMC is the first Taiwan company, and one of just four Asian companies, to win the highest score out of its industry peers in the DJSI's 24 industry groups.

In addition, in 2013 TSMC received the R.O.C. Executive Yuan National Sustainable Development Award, National Industrial Innovation Award, Environmental Protection Administration (EPA) National Enterprise Environmental Protection Award, the EPA Energy Conservation and Carbon Reduction Action Mark, the Science Park Low-Carbon Enterprise Achievement Award, the Science Park Labor Health and Safety Achievement Award, and the Taiwan Institute for Sustainable Energy 2013 Taiwan Corporate Sustainability Award. TSMC was also recognized as the Most Admired Company in Taiwan by *CommonWealth Magazine*, won the CommonWealth Corporate Citizenship Award, and placed number one in the magazine's ranking of the most profitable manufacturing companies in Taiwan.

TSMC took the first prize in the Occupational Health category for the *GlobalViews Magazine* Corporate Social Responsibility Award, was ranked number one in net profit and profitability in the China Credit Information Service poll of major corporations in Taiwan, and also ranked first in the *Business Next Magazine* "Infotech 100" for Taiwan and Asia. TSMC was one of *Barron's Magazine's* "Top 100 World's Most Respected Companies" in 2013, and received the "Best-Managed Company in Asia," "Best Corporate Governance, Taiwan," and "Best Corporate Social Responsibility, Taiwan" Awards from *FinanceAsia*.

TSMC has always endeavored to act as a positive force in society, and maintains departments such as Brand Management, Customer Service, Public Relations, Employee Relations, Investor Relations, Risk Management, Fab Industrial Safety and Environmental Protection, Internal Audit, and the TSMC Foundation to coordinate the Company's resources and further enhance TSMC's positive corporate image.

To address potential events that may affect the Company's public image, including natural disasters, fires, workplace accidents, power outages, water shortages and workplace injuries, 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 emergencies, rapid deployment of emergency response reduces casualties and minimizes impact on the surrounding environment, company property, and manufacturing operations. The Public Relations Department's involvement at the first stage of response also ensures smooth channels of communications to maintain the Company's image.

Risks Associated with Change in Management

The Board of Directors approved the appointment of Drs. Mark Liu and C.C. Wei (in alphabetical order) as President and Co-Chief Executive Officer of TSMC at its meeting of November 12, 2013. Dr. Morris Chang remains as the Chairman of TSMC. The Presidents and the Co-Chief Executive Officers shall report to and perform such duties as designated by the Chairman of the Board. Finance and Legal organizations will continue to report to the Chairman.

6.2.4 Financial Risks

Internal Management of Economic Risks

● Interest Rate Fluctuation

TSMC's exposure to interest rate risks derives primarily from short-term borrowing and long-term debt obligations incurred in the normal course of business. In order to limit its exposure to interest rate risks, TSMC finances its funding needs primarily through internal generation of cash and the issuance of long-term, fixed-rate debt. On the asset side, we place our cash on hand mainly in very short tenor time deposits. Furthermore, the primary objective of TSMC's cash investments in fixed income securities is to preserve principal in highly liquid markets. In order to maintain the Company's liquidity profile, the majority of fixed income securities are at the short end of the yield curve.

● Foreign Exchange Volatility

More than 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 2013, more than 90% of the Company's sales were 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, during the period from September 1, 2010 to December 30, 2010, the US dollar depreciated 8.9% against the NT dollar, which had a negative impact on the Company's results of operations. Specifically, based on TSMC's 2013 results, every 1% depreciation of the US dollar against the NT dollar exchange rate may result in approximately 0.4 percentage point decrease in TSMC's operating margin. TSMC utilizes short-term debt denominated in foreign currencies and derivative financial instruments, including currency forward contracts and cross currency swaps, to hedge our 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 and Deflation

The world economy is becoming more vulnerable to sudden unexpected fluctuations in inflationary and deflationary market expectations and conditions. For example, certain structural changes that resulted from the global financial crisis in 2008~2009 and EU sovereign debt crises, such as highly accommodative monetary policies by major central banks worldwide, may cause variations

in the expectation of inflation or deflation. Both high inflation and deflation adversely affect an economy, at both the macro and micro levels, by reducing economic efficiency, disrupting saving and investment decisions and reducing the efficiency of the market prices as a mechanism to allocate resources. Such fluctuations 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 macro and micro economy. Therefore, the demand for TSMC's products and services could unexpectedly fluctuate severely in accordance with market and consumer expectations of inflation or deflation.

Risks Associated with External Financing

Capital requirements are difficult to plan in the highly dynamic, cyclical and rapidly changing semiconductor industry. From time to time – and increasingly so for the foreseeable next few years – TSMC will continue to need significant capital to fund its operations and manage its capacity in accordance with market demand. TSMC's continued ability to obtain sufficient external financing is subject to a variety of uncertainties, including:

- its future financial condition, results of operations and cash flow;
- general market conditions for financing activities;
- market conditions for financing activities of semiconductor companies; and,
- social, economic, financial, political and other conditions in Taiwan and elsewhere.

Sufficient external financing may not be available to the Company on a timely basis, on reasonable market terms, or at all. As a result, 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/high-leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

TSMC did not make high-risk or high-leveraged financial investments during 2013 and up to the date of this 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 of US\$1,500 million in April 2013. As of February 28, 2014, TSMC had an intercompany loan of US\$100 million arranged among the Company's subsidiaries, which was in compliance with relevant rules and regulations.

The financial transactions of a “derivative” nature that TSMC entered into were strictly for hedging purposes and not for any trading or speculative purpose. For more information, please refer to pages 27 and 28 of the Annual Report section (II), Financial Information. The fair market value of our trading and available-for-sale financial securities are 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 that serve two major purposes. First, some of TSMC’s major strategic investments were, or will be, made to help the Company open new sources of revenues and innovate alternative business models that target to generate additional shareholders’ value going forward in the future. For example, in order to help the Company grow into next generation business areas, TSMC has invested to develop potential businesses in solid state lighting, solar power and other renewable sources of energy. The Company believes these investments into these areas will generate new sources of revenues as a gradual transition into consuming cleaner sources of power is generally expected. For further information on these investments, please refer to “8. *Subsidiary Information and Other Special Notes*” on pages 110-115 of this Annual Report. Second, some of TSMC’s significant strategic investments were, or will be, made to help the Company grow its existing business by augmenting key technology development. For example, to accelerate the development of next-generation lithographic technology, in August 2012, TSMC, along with other major technology firms, joined the ASML Holding N.V. Customer Co-Investment Program. The program’s scope includes development of extreme ultraviolet (EUV) lithography technology and 450-millimeter (450mm) lithography tools. Under the agreement with ASML, TSMC invested EUR838 million to acquire 5% of ASML’s equity and has committed EUR276 million, to be spread over five years, toward ASML’s research and development program. As a result, the Company is exposed to share price fluctuations arising from its investment in ASML. In the future, TSMC may make more strategic investments in various forms, whether through stock

purchases, assets purchases, licensing of major intellectual property rights, joint investments or research and development projects, outright mergers and acquisitions, private equity transactions and other similar transactions. Any such investment will incur risks, which may result in losses if not carefully managed. Any such loss resulting from such investments may result in significant impairment charges, lower profit margin and ultimately lower distributable earnings.

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. For example, TSMC holds investments in certain publicly listed and private companies, some of which have incurred certain impairment charges disclosed in the “Financial Information” of Annual Report (II), pages 28-30.

The determination of an impairment charge at any given time is based on the expected results of the Company’s operations over a number of years subsequent to that time. As a result, 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.

6.2.5 Hazardous Risks

TSMC maintains a comprehensive risk management system dedicated to the conservation of natural resources, the safety of people, 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. TSMC 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 after 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 and unexpected disruptions to the supply of raw materials or water, electricity, and other public utilities. TSMC has established a company-wide task force dedicated to managing the risk of water shortage that might arise due to climate change. This task force keeps watch on the external supply and internal demand for water. Cross-company consolidations and external collaborations with public agencies are also ongoing in the 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 task forces 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 task force 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 placement. For the year 2013, and up to the date of this Annual Report, there have been no reportable material events that have necessitated the activation of such contingency plans.

The Company has also conducted a continuous improvement project, including evaluating building anti-seismic capability, holding earthquake emergency response drills, enhancing tool anchorage or seismic isolation facilities, training and preparedness for tool salvage, and has improved TSMC business continuity procedures with reference to ISO 22301 business continuity management.

TSMC and many of its suppliers use highly combustible and toxic materials in its manufacturing processes and are therefore subject to the risk of loss arising from explosion, fire, or environmental influences which cannot be completely eliminated. Although the

Company maintains many overlapping risk prevention and protection systems, as well as comprehensive fire and casualty insurance, including insurance for loss of property and loss of profit resulting from business interruption, TSMC’s risk management and insurance coverage may not 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 influences, it could reduce the Company’s manufacturing capacity and may cause it to lose important customers, thereby having a potentially adverse and material impact on TSMC’s financial performance. In addition to periodic fire protection system inspection and firefighting drills, the Company has also carried out a corporate-wide fire risk mitigation project focused on management and hardware improvements.

Changes may cause unpredictable interruption to production. In order to reduce such uncertainty, TSMC has adopted a number of standards to maintain operational continuity, ranging from design, procurement and construction of facilities, to operation and decommission.

6.2.6 Risks Associated with Climate Change and Non-compliance with Environmental and Climate Related Laws and Regulations, and Other International Laws, Regulations and Accords

The manufacturing, assembling and testing of our 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. For example, the U.S. SEC implemented the final rule mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act to require companies to publicly disclose their use of conflict minerals (i.e. Gold, Cassiterite, Coltan and Wolframite) that originated in the Democratic Republic of the Congo (DRC) or an adjoining country. The final applicable legal rule as well as non-binding guidelines on conflict minerals imposes substantial supply chain verification requirements in the event that conflict minerals originates from the Democratic Republic of the Congo, adjoining countries or any geographic territory that may be specified by the relevant authorities at a future date. These new rules and verification requirements, which apply to our activities in 2013 and beyond, impose additional costs on us and on our suppliers and may limit the sources or increase the prices of materials used in our products. Further, if we are unable to certify that our products are conflict free under applicable law or non-binding guidelines or if we are unable to comply with any material provisions of such laws or guidelines, we may face challenges with our customers that place us at a significant competitive disadvantage, and our goodwill and

reputation may be irreparably damaged. Often times, our customers have imposed upon us legally non-binding conditions or guidelines on sourcing conflict minerals that exceed those imposed under relevant legal requirements. For example, many of our customers have been asking us to apply the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals in Conflict-Affected and High-Risk Areas. These guidelines while legally non-binding may impose requirements that well exceed those mandated by applicable law. If we agree to apply these guidelines as requested by our customers, there is the risk that the prices we charge for our products and services will increase (to reflect the added cost in complying with such conditions or guidelines), resulting in the loss of actual and potential customers. Conversely, any failure on our part to comply with such customer-imposed legally non-binding conditions or guidelines may result in us suffering significant competitive harms such as the loss of actual or potential customers that will likely have a material adverse impact on our financial statements.

Although TSMC may be eligible for various exemptions and/or extensions of time for compliance, our failure to comply with any of these applicable laws or regulations could result in:

- significant penalties and legal liabilities, such as the denial of import permits;
- the temporary or permanent suspension of production of the affected products;
- unfavorable alterations in our manufacturing, fabrication and assembly and test processes;
- loss of actual or potential sales contracts in case we are unable to satisfy the conditions regarding conflict-free minerals sourcing laws or requirements by our customers; and
- restrictions on our operations or sales

Existing and future environmental and climate related laws and regulations as well as applicable international accords to which TSMC are subject, could also require it, among other things, to do the following: (a) purchase, use or install expensive pollution control, reduction or remediation equipment; (b) implement climate change mitigation programs and “abatement or reduction of greenhouse gas emissions” programs, or “carbon credit trading” programs; (c) modify our product designs and manufacturing processes, or incur other significant expenses associated with such laws and regulations such as obtaining substitute raw materials or chemicals that may cost more or be less available for our operations. It is unclear whether such necessary actions would affect the reliability or efficiency of our products and services.

Any of the above contingencies resulting from the actual and potential impact of local or international laws and regulations, as well as international accords on environmental or climate change, could harm the Company’s business and operational results by increasing expenses or requiring TSMC to alter its manufacturing, assembly and test processes.

Increasing climate change and environmental concerns could affect the results of our operations if any of our customers request that we provide products and services that exceed any existing standard(s) of environmental compliance. For example, TSMC has been working on an on-going basis with our suppliers, customers, and several industry consortia to develop and provide products that are compliant with the European Union Restriction of Hazardous Substances Directive (RoHS). Even though TSMC is entitled to rely on various exemptions under RoHS, some of our customers may request that we provide products that exceed the legal standard set by RoHS without using any of the exemptions still permitted under RoHS. If TSMC is unable to offer such products or offer products that are compliant, but are not as reliable due to the lack of reasonably available alternative technologies or materials, it may lose market share to our competitors.

Further, energy costs in general could increase significantly due to climate change and other regulations. Therefore, TSMC’s energy costs may increase significantly if utility or power companies pass on their costs, either fully or partially, such as those associated with carbon taxes, emission caps and carbon credit trading programs.

TSMC believes that climate change should be regarded as an important corporate risk, which must be controlled to improve our competitiveness. Climate change risks include legal risk, physical risk and other risks. TSMC’s control measures are as follows:

• Climate Regulatory Risk Control

The greenhouse gas (GHG) control regulations and agreements of countries around the world are becoming more and more stringent. Enterprises are legally required to regularly disclose GHG-related information, and also limit GHG emissions. The cost of production, including materials and energy, may also grow along with future legal requirements such as carbon or energy taxes. 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 Risk Control

For additional details, please refer to the section of “Supplier and Contractor Management” of “7.2.3 Safety and Health” on pages 102-104 of this Annual Report.

• Climate Disaster Risk Control

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 adaption, and this requires cooperation between industry and government to reduce risk. To ensure electricity and raw water supplies, therefore, in addition to water-saving measures at our own facilities and those of our 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 Risk Controls

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, and voluntary perfluorinated compounds (PFC) emission reduction projects and conducting GHG inventory and verification every year. TSMC has publicly disclosed climate change information every year 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.

- Since 2005, TSMC has been participating in an annual survey held by the nonprofit Carbon Disclosure Project (CDP), which includes GHG emission and reduction information for all TSMC fabs, subsidiaries, joint ventures, and overseas offices.
- Since 2006, TSMC follows the ISO 14064-1 standard to conduct a GHG inventory and acquire verification by an accreditation agency every year. TSMC also voluntarily reports GHG inventory data to the Taiwan Environmental Protection Administration (EPA) and the Taiwan Semiconductor Industry Association (TSIA).

6.2.7 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 the 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, 2014, has from time to time in the past sold our shares in the form of ADSs in several transactions.

Currently no shareholder owns 10% or more of TSMC’s total outstanding shares.

Other Material Risks

During 2013 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.



7. Corporate Social Responsibility

TSMC was named *Semiconductors and Semiconductor Industry Group Leader* by Dow Jones Sustainability Index in 2013.

7.1 Overview

CSR Guidelines

TSMC believes a company's corporate social responsibility is to uplift society. As an important part of the technology industry, looking to the future, we not only aim to maintain our leadership in worldwide competition and promote Taiwan's globalization and economic growth, but we will also continue to carry out our corporate social responsibility and do our utmost to be good corporate citizens.

Our 10 principles for practicing corporate social responsibility are important standards for continuing to support positive change in society:

1. We insist on honesty and integrity. We are honest to our shareholders, employees, customers, and to the public alike.
2. We respect the rule of law and always obey the law.
3. We abhor cronyism. We do not seek favoritism from the government or any government official, and we do not bribe.
4. We practice good corporate governance, and balance the interests of shareholders, employees, and all stakeholders in the Company.
5. We do not engage in politics.
6. We provide good job opportunities with a safe, comfortable, and intellectually challenging environment to give our employees both physical comfort and mental stimulation.
7. We do our part to control climate change and place great importance on the protection of the environment.
8. We emphasize and reward innovation, and actively manage the risks that innovation may bring.
9. We invest in green businesses such as solid state lighting and solar to contribute to a greener world.
10. We support educational and cultural activities, and care for our communities over the long term.

TSMC fulfills its social responsibilities to all stakeholders. As we carry out the principles listed above, it is our firm belief that customers will trust us more because of our honesty and integrity, respect for the law, and good corporate governance. Investors will be more willing to invest over the long term because of our clear core values, and employees will feel closer to the Company as they identify with those values. Carrying out TSMC's social responsibilities brings us greater competitive advantage, creates greater value for shareholders, and benefits all of our stakeholders.

The following table shows TSMC's view of CSR. TSMC's social responsibility is to "uplift society", and on the vertical axis are matters that TSMC considers its responsibilities. The horizontal axis lists areas where TSMC believes its values can affect society.

Corporate Social Responsibility: Uplift Society

TSMC	Society	Morality	Business Ethics	Economy	Rule of Law	Sustainability	Work/Life Balance Happiness	Philanthropy
Integrity		▼	▼					
Law Compliance					▼			
Anti-Corruption Anti-Bribery Anti-Cronyism		▼	▼		▼			
Environmental Protection Climate Control Energy Conservation					▼	▼		
Corporate Governance			▼	▼	▼			
Provide Well-paying Jobs				▼			▼	
Good Shareholder Return				▼				
Employees' Work-life Balance							▼	
Encourage Innovation			▼	▼				
Good Work Environment							▼	
Volunteers Organization						▼	▼	▼
Education and Culture Foundation								▼

CSR Management Approach

TSMC's decision-making and operations in corporate social responsibility (CSR) are led by the Company's Chief Financial Officer, who was appointed by the Chairman to act as an overall coordinator for the entire Company's CSR activities. To better carry out and coordinate sustainability efforts, the Company founded the "Corporate Social Responsibility Committee" in 2011, which brings together representatives from all of TSMC's CSR-related business segments, including Customer Service, Human Resources, Investor Relations, the Legal Department, Material and Supply Chain Management, Operations, Public Relations, Quality and Reliability, R&D, Risk Management, the Environment, Safety & Hygiene Department, the independent TSMC Education & Culture Foundation and the TSMC Volunteer Association. Since 2012, CSR has been a topic on TSMC's Board meeting agenda. Annual CSR performance is reported to the Board.

The CSR Committee holds quarterly meetings to discuss related topics, led by the CFO and the President of the Volunteer Program. The quarterly CSR meeting systematically and effectively carries out our corporate social responsibilities by following a "Plan-Do-Check-Act" cycle to regularly review interaction with stakeholders and the issues that concern them, discuss progress in CSR activities and set future plans. Through close cooperation between organizations, CSR is now an integral part of TSMC's daily operations.

DJSI Industry Group Leader

In 2013, TSMC was recognized by the Dow Jones Sustainability Indexes (DJSI) as the Semiconductors and Semiconductor Equipment Industry Group Leader, setting a milestone for the Company's achievements in sustainability and corporate social responsibility. TSMC is the first Taiwan company, and one of just four Asian companies, to win the highest score out of its industry peers in the DJSI's 24 industry groups, made up of 59 industries and the 2,500 largest companies in the world. Moreover, TSMC is one of only two semiconductor companies chosen as index components for 13 consecutive years.

2013 CSR Awards and Recognitions

Category	Organization	Awards and Recognitions	
Overall CSR	Dow Jones Sustainability Index (DJSI)	•First Taiwan company to be recognized as the DJSI Semiconductors and Semiconductor Equipment "Industry Group Leader" (i.e. the company with the highest sustainability score out of its industry peers in the DJSI's 24 industry groups, made up of 59 industries and the 2,500 largest companies in the world) •RobecoSAM Sustainability Award "Gold Class" •Membership in the Dow Jones Sustainability World Index for a 13th consecutive year	
	Goldman Sachs	•Membership on the GS SUSTAIN Focus List, which incorporates 59 global industry leaders	
	CommonWealth Magazine	•Most Admired Company Rank No.1 in Taiwan •Excellence in Corporate Social Responsibility Award	
	Globalviews Magazine	•Excellence in Corporate Social Responsibility, Occupational Health First Prize	
	Taiwan Institute for Sustainable Energy	•Award for Corporate Sustainability Reports - Excellent for Manufacturing Industry •Model Award for Corporate Sustainability Development Performances - Category of Transparency and Integrity	
	FinanceAsia	•Best Corporate Social Responsibility - Ranked No.2 in Taiwan	
	R.O.C. Ministry of Culture	"Wenxin Award" for the 10th consecutive year	
Economy, Governance	Institutional Investor	•Best CEO (Technology/Semiconductors) - 1st Place (buy-side) •Best CEO (Technology/Semiconductors) - 1st Place (sell-side) •Best CFO (Technology/Semiconductors) - 1st Place (buy-side) •Best CFO (Technology/Semiconductors) - 2nd Place (sell-side) •Best IR Team (Technology/Semiconductors) - 1st Place (buy-side) •Best IR Team (Technology/Semiconductors) - 1st Place (sell-side) •Best IR Professional (Technology/Semiconductors) - 1st Place (buy-side) •Best IR Professional (Technology/Semiconductors) - 1st Place (sell-side)	
	IR Magazine	•Best corporate governance and disclosure •Best overall IR by a Taiwanese company •Best IRO - Taiwan	
	EUROMONEY	•Asia Best Managed Companies 2013 - IT/software/technology	
	FinanceAsia	•Asia's Best Managed Companies: Hong Kong, Korea and Taiwan •Best Managed Company - Ranked No.1 in Taiwan •Best Corporate Governance Company - Ranked No.1 in Taiwan •Best CEO - Ranked No.1 in Taiwan •Best CFO - Ranked No.2 in Taiwan •Most Committed to a strong Dividend Policy - Ranked No.1 in Taiwan •Best Investor Relations - Ranked No.1 in Taiwan	
	Global IR Awards	•Global Top 50 Gold: Ranked No.12	
	International Law Office	•Asia-Pacific Counsel Awards 2013 - General Counsel of the Year	
	R.O.C. Securities & Futures Institute	•10th Information Disclosure of Public Companies Ranking - Ranked A+	
	Environment, Safety and Wellness	U.S. Green Building Council Leadership in Energy and Environmental Design (LEED) certification	•"Gold" certification in LEED-Existing Building: Operation and Maintenance (LEED-EB O&M) - Fab 14 Phase 1 Office Building, Fab 14 Phase 1/2 Manufacturing Facility •"Gold" certification in LEED - NB - Fab 12 Phase 6 Manufacturing Facility, Fab 15 Phase 1/2 Manufacturing Facility Note: Up to the end of 2013, TSMC received 11 U.S. LEED certifications (1 "Platinum" class, 10 "Gold" class)
		R.O.C. Ministry of the Interior "Ecology, Energy Saving, Waste Reduction and Health (EEWH)" certification	•Diamond class "Green Building" certification - Fab 12 Phase 6 Manufacturing Facility, Fab 14 Phase 3 Office Building Note: Up to the end of 2013, TSMC received 1 Taiwan EEWH Diamond class "Intelligent Green Building," 6 Taiwan EEWH Diamond class "Green Building" certifications.
		R.O.C. Ministry of Economic Affairs Industrial Development Bureau	•"Green Factory Label" - Fab 12 Phase 5
ISO 50001 Energy Management System certification		Fab 12 Phase 6, Fab 15	
R.O.C. Environmental Protection Administration		•"Annual Enterprise Environmental Protection Award" - Fab 15 •"Energy Conservation and Carbon Reduction Action Mark" - Fab 6, Fab 8, Fab 12 Phase 6, Advanced Backend Fab 2 •"Excellence in Toxic Substance Management Award" - Fab 14B •"Enterprise Green Procurement Award" - Headquarter	
R.O.C. Ministry of Economic Affairs		•"Excellence in Carbon Reduction Award" - Fab 8, Fab 12 Phase 4/5 •"Water Conservation Award" - Fab 3, Fab 12 Phase 4/5, Fab 15 •"National Sustainable Development Award" - Fab 3	
Hsinchu Science Park Administration		•"Low Carbon Enterprise Award" - Fab 12 Phase 6 •"Excellence in Environmental Protection" - Fab 12 Phase 1/2 •"Excellence in Labor Safety and Hygiene Award" - Fab 3 and Fab 12A (Note)	
Southern Taiwan Science Park Administration		•"Excellence in Environmental Protection" - Fab 14A	
Hsinchu County Environmental Protection Bureau		•"Enterprise Green Procurement Award" - Fab 2 and 5 •"Mobile Pollution Sources Control" - Fab 2 and 5	
Hsinchu City Environmental Protection Bureau		•"Mobile Pollution Sources Control" - Fab 12 Phase 1/2 •"Environmental Education Award" - Fab 12 Phase 1/2	
Employees	Council of Labor Affairs, Executive Yuan	•Large Enterprise Award of National TrainQuali Prize (NTQP)	
	Health Promotion Administration, Ministry of Health and Welfare	•Health Management Award •Healthy Weight Management Award •Pioneering Weight Management Award	
	GlobalView Magazine	•First place in CSR Award for Workplace Health	

Note: Fab 12A includes Fab 12 Phase 1/2/3.

7.2 Environmental, Safety and Health (ESH) Management

TSMC believes its environmental, safety and health practices must not only comply with legal requirements, but also measure up to or exceed recognized international practices. TSMC's ESH policy aims to reach the goals of "zero incident" and "sustainable development," and to make TSMC a world-class company in environmental, safety and health management. The Company's strategies for reaching these goals are to comply with regulations, promote safety and health, strengthen recycling and pollution prevention, manage ESH risks, instill an ESH culture, establish a green supply chain, and fulfill its related corporate social responsibilities.

All TSMC manufacturing facilities have received ISO 14001:2004 certification for environmental management systems and OHSAS 18001:2007 certification for occupational safety and health management systems. All fabs in Taiwan have also been TOSHMS (Taiwan Occupational Safety and Health Management System) certified since 2009.

TSMC strives for continuous improvement and actively seeks to enhance pollution prevention, power and resource conservation, waste reduction, safety and health management, fire and explosion prevention and minimize the impact of other risks, such as climate change, earthquakes, in order to reduce the overall environmental, safety and health risk.

In 2006, in order to meet regulatory and customer needs for the management of hazardous materials, TSMC began to adopt the IECQ QC 080000 Hazardous Substance Process Management (HSPM) System. All TSMC manufacturing facilities have been QC 080000 certified since 2007. By practicing QC 080000, TSMC ensures that its products comply with regulatory and customer requirements, including the European Union's Restriction of Hazardous Substances (RoHS) Directive, EU Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), the Montreal Protocol on substances that deplete the ozone layer, the halogen free in electronic products initiative, and Perfluorooctane Sulfonates (PFOS) restriction standards.

Since 2011, TSMC adopted ISO 50001 Energy Management System for the continuous improvement of energy conservation. TSMC Fab 12 Phase 4 data center is Taiwan's first facility to earn the ISO 50001 certification for a high density computing data center. As of early

2014, TSMC has three fabs – Fab 12 Phase 4/5/6, Fab 14 Phase 3/4 and Fab 15 – that earned the ISO 50001 certifications. Other TSMC fabs also implement energy management measures consistent with ISO 50001.

TSMC regularly communicates with suppliers and contractors regarding environmental, safety and health issues and encourages them to improve their ESH performance. In line with this policy, TSMC uses priority work management and self-management to govern work performed by contractors. TSMC requires contractors performing high-risk operations to complete certification for technicians, and to establish their own OHSAS 18001 safety and health management system before bidding on contracts. This self-management is aimed at increasing the sense of responsibility of TSMC's contractors, with the goal of promoting safety awareness and technical improvement for all contractors in the industry.

TSMC collaborates with suppliers to improve the sustainability of the Company's supply chain regarding ESH-related issues such as carbon and water footprinting, and conflict mineral management. TSMC not only performs on-site ESH audits at its suppliers manufacturing sites, but also proactively assists them with improving ESH performance.

Reducing the carbon and water footprints of TSMC's supply chain is essential to the Company's green supply chain ideals. Since 2009, TSMC has required suppliers to set up their carbon inventory procedures. Since 2010, TSMC collaborated with selected suppliers to set up product carbon footprints and has received PAS2050 certifications for 6-inch, 8-inch and 12-inch finished wafer.

TSMC also monitors potential water shortages in the supply chain and investigates the supply chain's water inventory. TSMC is also preparing to work with suppliers on water footprinting and conservation plans. The ESH management programs of TSMC suppliers are tied to a sustainability index that includes three components: the Green Index, the Social Index and the Risk Index. The "Green Index" includes environmental management systems, regulatory compliance, hazardous substance management, conflict mineral investigation, greenhouse gas inventory, carbon footprinting, water footprinting and other green activities. The "Social Index" includes labor and ethical conduct and participation in social activities. Both of the "Green" and "Social" indexes are consistent with the Electronic Industry Citizenship Coalition (EICC) code of conduct. The "Risk Index" includes safety and health management, fire prevention, natural disaster mitigation, IT interruption recovery,

transportation reliability, supply chain management, pandemic response planning and a business continuity plan. This sustainability index is applied to TSMC's critical suppliers.

7.2.1 Environmental Protection

Greenhouse Gas (GHG) Emission Reduction

TSMC is an active participant in international environmental regulatory and protection programs. TSMC achieved its voluntary PFC emissions reduction goal as per its commitment to the World Semiconductor Council (WSC) and the Taiwan Environmental Protection Administration (EPA) in 2010.

In 2005, TSMC was Taiwan's first semiconductor company to make a complete inventory of its GHG emissions and to gain ISO 14064 certification for its processes and outputs. The purpose of the inventory was to serve as a baseline reference for TSMC's strategy to reduce GHG emissions, to meet future domestic regulatory requirements, and to prepare for carbon trading and corporate carbon asset management. All TSMC facilities conduct an annual GHG. The inventory result shows that the major direct GHG emissions are perfluorinated compounds (PFCs), which are used in the semiconductor manufacturing process. The primary indirect GHG emission is electricity consumption.

TSMC is taking measures to reduce its emission of GHGs. TSMC endorsed a memorandum of understanding between the Taiwan Semiconductor Industry Association, the Taiwan EPA, and the WSC, whereby TSMC committed to reducing PFC emissions to 10% below the average of 1997 and 1999 by 2010, a commitment that it was proud to achieve. This emissions target remains fixed as TSMC continues to grow and expand its manufacturing facilities.

TSMC is active in WSC's activities to set up a global voluntary PFC emissions reduction goal for the next 10 years, and has integrated past experience to develop best practices. The implementation of best practices for new semiconductor fabs has been adopted by WSC for the major element of the 2020 goal. In 2013, according to the "EPA Early Actions for Carbon Credit of Greenhouse Gases Reduction" regulation, TSMC applied for the recognition of greenhouse reduction that committed to the WSC and EPA, and has received carbon credits from 2005 to 2011. Those carbon credits can be used to offset greenhouse gas emissions of new manufacturing facilities regulated by Environmental Impact Assessment (EIA) Act. It will mitigate climate change risk to support the Company's sustainable operation.

Coal-fired power generators are the major source of electricity in Taiwan and emit large amounts of carbon dioxide (CO₂). TSMC has not only adopted energy-conserving designs for both its manufacturing fabs and offices, but has also continuously improved the energy efficiency of facilities during operation. These efforts simultaneously reduce both carbon dioxide gas emissions and costs.

Air and Water Pollution Control

TSMC has installed effective air and water pollution control equipment in each wafer fab to meet regulatory emissions standards. In addition, TSMC maintains backup pollution control systems, including emergency power supplies, to lower the risk of pollutant emission in the event of equipment breakdown. TSMC centrally monitors the operations of air and water pollution control equipment around the clock and tracks system effectiveness to ensure the quality of emitted air and discharged water.

To make the most effective use of Taiwan's limited water resources, all TSMC fabs make an effort to increase water reclamation rates by adjusting the water usage of manufacturing equipment and improving wastewater reclamation systems. New fabs are able to reclaim more than 85% of process water, meeting or exceeding the standards of the each Science Park Administration and outperforming most semiconductor fabs around the world. TSMC also strives to reduce non-manufacturing-related water consumption, including water used in air conditioning systems, sanitary facilities, cleaning, landscaping and kitchens. TSMC uses an intranet website to collect and measure water recycling volumes company wide.

Since water resources are inherently local, TSMC shares its water saving experiences with other semiconductor companies through the Association of Science-Based Industrial Park to promote water conservation. At the same time, TSMC collaborates with the Science Park Administrations to assist small facilities in each Science Park with water resource management in order to achieve the Science Park's goals and ensure a long-term balance of supply and demand.

Waste Management and Recycling

TSMC has established a designated unit responsible for waste recycling and disposal. To meet the goal of sustainable resource utilization, TSMC's first priority is to reduce process waste before considering recycling or disposal. TSMC carefully selects waste disposal and recycling contractors and performs annual audits of certification documents, site operations and transportation routes to ensure the legal and proper disposal of waste. TSMC achieved a 92.41% waste recycling rate in 2013, surpassing its goal of 90%. The Company's landfill rate has remained at less than 1% since 2008.

Environmental Accounting

The purpose of TSMC's environmental accounting system is to identify and calculate environmental costs for internal management. At the same time, we can also evaluate the cost reduction or economic benefits of environmental protection programs so as to promote economically efficient programs. With environmental costs expected to continue growing, environmental accounting can help us manage more effectively. TSMC's environmental accounting measures define the various environmental costs and set up independent environmental account codes, then provide these to all units for use in annual budgeting. This online system can output data for environmental cost statistics.

Our economic benefit evaluation calculates cost savings for reduction of energy, water or wastes and waste recycling benefits according to our environmental protection programs.

The environmental benefits disclosed in this report include real income from projects such as waste recycling and savings from major environmental projects. In 2013, 92 environmental projects were completed and the total benefits including waste recycling are more than NT\$1,451 million.

2013 Environmental Cost of TSMC Fabs in Taiwan

Unit: NT\$ thousands

Classification	Description	Investment	Expense
1. Direct Cost for Reducing Environmental Impact			
(1) Pollution Control	Fees for air pollution control, water pollution control, and others	4,303,659	3,139,691
(2) Resource Conservation	Costs for resource (e.g. water) conservation	1,904,749	106,175
(3) Waste Disposal and Recycling	Costs for waste treatment (including recycling, incineration and landfill)	-	426,887
2. Indirect Cost for Reducing Environmental Impact (Managerial Cost)			
	(1) Cost of training (2) Environmental management system and certification expenditures (3) Environmental measurement and monitoring fees (4) Environmental protection product costs (5) Environmental protection organization fees	306,030	190,105
3. Other Environment-related Costs			
	(1) Costs for decontamination and remediation (2) Environmental damage insurance and environmental taxes (3) Costs related to environmental settlement, compensations, penalties and lawsuits	-	-
Total		6,514,438	3,862,858

2013 Environmental Efficiency of TSMC Fabs in Taiwan

Unit: NT\$ thousands

Category	Description	Efficiency
1. Cost Saving of Environmental Protection Projects		
	Energy saving: completed 35 projects	665,300
	Water saving: completed 11 projects	95,900
	Waste reduction: completed 5 projects	10,100
	Material reduction: completed 41 projects	499,000
2. Real Income of Industrial Waste Recycling		
	Recycling of used chemicals, wafers, targets, batteries, lamps, packaging materials, paper cardboard, metals, plastics, and other wastes	181,000
Total		1,451,300

Other Environmental Protection Programs

TSMC conducts "Product Life Cycle Assessments" (Product LCA), collecting and analyzing data from the entire semiconductor manufacturing chain from raw materials suppliers to finished products, including statistics for such items as energy, raw material consumption, and pollution. The Product LCA study has established "Eco-Profiles" for all TSMC fabs and helps the Company to meet international regulations, such as the European Union's "Energy-Using Product" directive. These "Eco-Profiles" can also be provided to customers who require such documentation.

TSMC also maintains "green procurement" procedures, requiring raw materials suppliers to declare that the materials they supply to TSMC do not contain any prohibited substances. This ensures that products manufactured by TSMC comply with customer requirements and the regulatory requirements of the European Union's RoHS Directive. TSMC also encourages employees to use "Green Mark" products in offices, such as recycled paper, desktop PCs, LCD monitors, and batteries. In 2013, TSMC received the Best Green Procurement Company Award from Taiwan EPA.

TSMC has adopted both the Taiwan "Green Building" and the U.S. Leadership in Energy and Environmental Design (LEED) standards for new fab and office building designs since 2006 to achieve better energy and resource efficiency than conventional designs. At the same time, TSMC continues to upgrade existing office buildings to comply with the LEED standard each year. From 2008 to 2013, eleven of TSMC's fabs and office buildings achieved LEED certifications (one Platinum, ten Gold class). Six of them also won Taiwan's EEWB Diamond class certification.

TSMC believes that manufacturing companies should convert their facilities into green factories to effectively improve the environment and lower construction costs. Therefore, TSMC freely shares its practical experience with industry, government, and academia. As of the end of 2013, more than 6,297 visitors from 159 different industry, government, academia and general community groups contacted TSMC to gain understanding on the Company's green factory practices. TSMC led industry to support the Taiwan government to establish "Green Factory Labeling System" from 2009, a system that included "Clean Production Evaluation System" and "Green Factory Evaluation System". TSMC received Taiwan's first "Green Factory Label" from the government and four labels in total for Fab 12 Phase 4, Fab 14 Phase 3, Fab 14 Phase 4, and Fab 12 Phase 5.

Environmental Compliance Record

As of 2014, TSMC had not received any environmental penalties or fines during or related to 2013 and early 2014.

7.2.2 Green Products

TSMC collaborates with upstream material suppliers and downstream assembly and testing service providers to reduce environmental impact. We reduce the resources and energy consumed for each unit of production to provide more advanced, efficient and ecologically sound products. In addition to helping customers design low-power, high-performance products to reduce resource consumption over the product's life cycle, TSMC implements clean manufacturing practices that provide additional "green value" to our customers and our other stakeholders.

TSMC-manufactured ICs are used in a broad variety of applications covering various segments of the computer, communications, consumer, industrial and other electronics markets. Through our manufacturing technologies, our customers' designs are realized and incorporated into peoples' lives. These chips make significant contributions to the progress of modern society. TSMC works hard to achieve profitable growth while providing products that add environmental and social value. We have listed below several examples of how TSMC-manufactured products significantly contribute to society and the environment.

Environmental Contribution by TSMC Foundry Services

1. Providing New Process Technology to Achieve Lower Power Consumption

- The continuous development of TSMC's advanced semiconductor process technologies follows Moore's law, which holds that process technology moves forward one generation every 24 months. In each new generation circuitry line widths shrink, making circuits smaller and lowering the energy and raw materials consumed per unit area. At the same time, the smaller IC die size consumes less power. TSMC's 28nm technology, for example, can accommodate approximately four times the number of electronic components as the 55nm technology. ICs made with 28nm technology in active or standby mode consume roughly one third the power of 55nm products, according to our internal test results. The Company continuously provides process simplification and new design methodology based upon its manufacturing excellence to help customers reduce design and process waste.

- TSMC continues to lead the foundry segment in technology, having achieved volume production at the 28nm node. TSMC's 28nm processes include 28nm High Performance (28HP), 28nm High Performance Low Power (28HPL), 28nm Low Power (28LP), and 28nm High Performance Mobile Computing (28HPM). Customer 28nm production tape-outs are more than double the number of 40nm customer tape-outs. The TSMC 28nm process also has surpassed the previous generation's production ramp and product yield at the same point in time due, in part, to closer and earlier collaboration with customers. TSMC will continue to encourage customer designs that result in the most advanced, energy-saving, and environmentally friendly products.

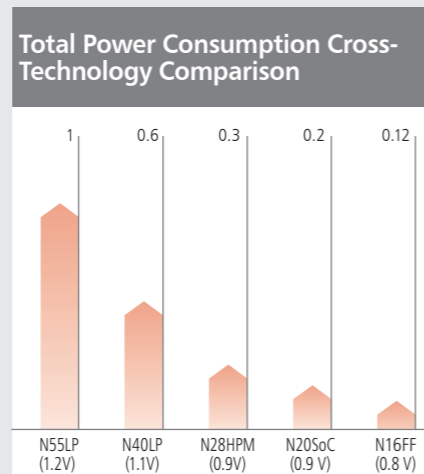
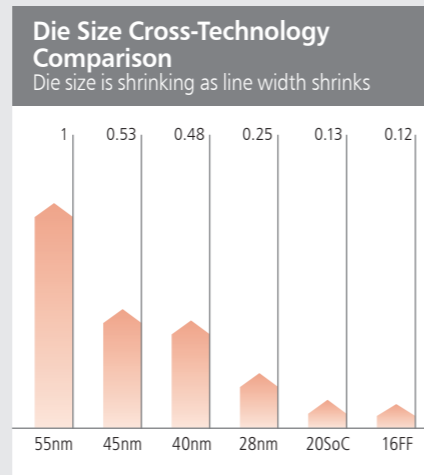
- TSMC quickly ramped its 28nm technology in 2013. The 28nm contribution to revenue grew significantly from 12% in 2012 to 30% in 2013, representing approximately NT\$180 billion, or US\$6 billion. This reflects the fact that TSMC's advanced manufacturing process technology helps the Company achieve both profitable growth and energy savings.

28nm Contribution to Total Revenue

Unit: %

2009	2010	2011	2012	2013
-	-	1	12	30

- TSMC continues to deliver performance-per-watt scaling in its 20nm SoC and 16nm FinFET process technologies. With energy-efficient transistors and interconnects, the 20nm SoC process can reduce total power consumption of the 28nm process by one third, and by migrating from planar to FinFET technology, the 16nm FinFET process can further reduce total power consumption to about 40% of 28nm technology. The 20nm SoC process was qualified in 2013 and produced first silicon success on multiple customer production tape-outs. The 16nm FinFET process entered risk production in 2013.



2. Manufacturing Power Management ICs with the Highest Efficiency

- TSMC's leading manufacturing technology helps its customers design and manufacture green products. Power management ICs are the most notably green IC products. Power management ICs are the key components that regulate power consumption in all electronic devices. TSMC's analog power technology research and development team uses 6-inch and 8-inch wafer fabs to develop Bipolar-CMOS-DMOS and Ultra-High Voltage technology, producing industry-leading power management chips with more stable and efficient power supplies and lower energy consumption for broad-based applications in the consumer, communication, and computer markets.
- TSMC also provides power-efficient design platforms. Customers use these platforms to develop energy-saving products.
- Power management ICs generate material revenue to TSMC's industrial market segment. In 2013, TSMC's HV/Power technologies collectively shipped more than 1.3 million customer wafers. In total, the Power management ICs manufactured by TSMC for our customers accounted for more than one-third of global computer, communication and consumer (3C) systems.

HV/Power Technologies Shipments

Unit: 8-inch equivalent wafer

2009	2010	2011	2012	2013
>400K	>700K	>800K	>1,000K	>1,300K

3. Green Manufacturing that Lowers Energy Consumption

- TSMC continues to develop manufacturing technologies that provide more advanced and efficient manufacturing services. Improvements reduce per-unit energy consumption, resource consumption and pollutant generation. They also lower energy consumption and reduce pollution during product use. To see the total energy savings benefits realized through TSMC's green manufacturing, please refer to page 98, "Environmental Accounting".

Social Contribution by TSMC Foundry Services

1. Providing Mobile and Wireless Chips that Enhance Mobility and Convenience

- The rapid growth of smartphones and tablets in recent years reflects strong demand for mobile devices. Mobile devices offer remarkable convenience and TSMC contributes significant value to these devices. For example: (1) new process technology helps chips provide faster computing speeds in a smaller die area, leading to smaller form factors for these electronic devices. In addition, SoC technology integrates more functions into one chip, reducing the total number of chips in electronic devices, which also leads to a smaller system form factor; (2) new process technology helps chips consume less energy. People can therefore use mobile devices for a longer period of time, increasing their convenience; and (3) with more convenient wireless connectivity, such as 3G/4G and WLAN/Bluetooth, people communicate more efficiently with each other, can "work anytime and anywhere," significantly improving the mobility of modern society.
- Mobile-related products, such as Baseband, RF Transceiver, AP (Application Processors), WLAN (Wireless Local Area network), NFC (Near Field Communication), Bluetooth, GPS (Global Positioning System) and others, represent more than 36% of TSMC annual revenue, reaching more than NT\$213 billion or US\$7.2 billion in revenue in 2013. TSMC's growth in recent years was largely driven by the growing global demand for these mobile IC products.

Contribution of Mobile-related Products to TSMC Total Revenue

Unit: %

2009	2010	2011	2012	2013
25	27	31	33	36

2. Enhancing Human Health and Safety with MEMS (Micro Electro Mechanical Systems)

- TSMC-manufactured ICs are widely used in medical treatment and health care applications. Through the Company's advanced manufacturing technology, more and more IC products are providing major contributions to modern medicine. Customers' MEMS products are used in a number of advanced medical treatments. MEMS are also widely used in preventative health care, such as early warning systems that limit the number of injuries to the elderly resulting from falls, systems that detect physiology changes, car safety system and other applications that greatly enhance human health and safety.

7.2.3 Safety and Health

Safety and Health Management

TSMC's safety and health management is built on the framework of the OHSAS 18001 system, and adheres to the management principle of "Plan, Do, Check, Act" to prevent accidents and protect employee safety and health as well as Company assets. TSMC fabs in Taiwan have also received TOSHMS (Taiwan Occupational Safety and Health Management System) certification.

Besides accident prevention, TSMC has established emergency response procedures to protect the lives of employees and contractors if disasters should occur, as well as to minimize the negative impact on society and the environment. TSMC continually communicates with its suppliers to ensure that potential risk in the operation of production equipment is minimized, and rigorously follows safety control procedures when installing production equipment. The Company places stringent controls on high-risk operations and also evaluates the seismic tolerance of its facilities and equipment to reduce the risk of earthquake damage.

TSMC believes that employees' physical and mental health is not only fundamental to maintaining normal business operations but also part of a corporation's responsibility.

In 2013, TSMC collaborated with government and academia to hold the third Labor Health Forum. The theme of the 2013 forum is "industry, government, and university collaboration to improve occupational health," a response to the new Occupational Safety and Health Act signed in July, 2013. This legislation introduces new requirements in corporate occupational health risk management and also strengthens corporate responsibility to protect the physical and mental health of employees.

The Labor Health Forum was founded in 2011 by TSMC and the NTU College of Public Health for the business community to discuss occupational health issues, and has become a major annual event in this field for enterprises in Taiwan. In 2013, China Steel Corp., CPC Corp., LCY Chemical Corp., Uni-President Enterprises, and Chimei Innolux Corp. were invited to join as co-sponsors of the event. We specially added the form of a "global citizen café," a brainstorming session between business, universities, and government to discuss how to collaborate and adopt the most up-to-date knowledge and methods in occupational health, and fulfill the spirit of the Occupational Health and Safety Act. Through enthusiastic discussion, the six participating industries each collected points of consensus to serve as guidelines for future action in occupational health.

TSMC also developed occupational management tools tailored for TSMC by industry-academic cooperation, including the promotion of personnel stress management and the measurement of radio frequency (RF) exposure to wireless network antennas and mobile phone in the offices. TSMC offers annual employee health examinations and consultation services as well as on-site clinics and a dental clinic for a better access to medical assistance.

In order to avoid infectious disease epidemics, TSMC has established company-level prevention committees and procedures for emergency response to infectious diseases outbreak.

Working Environment and Employee Safety Protection

TSMC's ESH policy is focused on establishing a safe working environment, preventing occupational injury and illness, keeping employees healthy, enhancing every employee's awareness and sense of accountability to ESH, and building an ESH culture. TSMC safety and health management operations apply to:

• Hardware Equipment Safety and Health Management

In addition to meeting regulatory requirements and internal standards, as well as mitigating ESH-related risks when building or rebuilding facilities, TSMC also maintains procedures governing new equipment and raw materials, safety approvals for bringing new tools online, updating safety rules, seismic protection measures, and other safety measures.

• Environmental, Safety and Health Evaluation of New Tools and New Chemical Substances

TSMC, as a technology leader in the worldwide semiconductor industry, operates many diversified process tools and new chemicals in the R&D stage. Before using those new tools and new chemicals, they are reviewed carefully by the "New tools and new Chemical Review Committee". The purpose is to ensure that new tools are compliant with semiconductor industry's safety standards (such as SEMI S2) and that new chemicals' environmental, safety and health concerns can be well controlled, including engineering controls, application of personal protection equipment, and operational safety training during storage, transportation, usage, and disposal.

• General Safety Management, Training and Audit

All TSMC manufacturing facilities hold environmental, safety and health committee meetings on a monthly basis. TSMC takes preventive measures such as controls on high-risk work, contractor management, chemical safety management, personal protective equipment requirements, and safety audit management. In addition, TSMC also maintains detailed disaster response procedures and

performs regular drills designed to minimize harm to employees and property, as well as the impact on society and the environment in the event of a disaster.

• Working Environment Measurement

TSMC conducts workplace hazard assessment and interventions to provide a comfortable and safe workplace to Company employees. TSMC also requires employees to use personal protective equipment (PPE) to prevent hazard exposures.

As office work is primarily performed on computers, TSMC launched an office ergonomics program to adjust the height of office chairs and desks to meet the needs of taller or shorter employees. Whenever new employees of significantly above or below-average height enter the Company, the assessment and intervention will be initiated proactively by site ESH professionals.

TSMC requires that all new tools meet SEMI-S8 requirements and that appropriate supplementary control measures be taken to reduce ergonomic risk. Moreover, TSMC endeavors to automate 300mm front-opening unified pod (FOUP) transportation to prevent accumulative damage caused by long-term manual handling of 300mm FOUPs. TSMC 300mm fabs have achieved 99.9% in automatic transportation control.

TSMC performs semi-annual workplace environment assessments of physical and chemical hazards, including CO₂ concentration, illumination, noise, and hazardous chemical substances regulated by domestic laws. When abnormal measurements or events happen, site ESH professionals will conduct onsite observation and interventions to ensure exposure risk acceptable. TSMC also conducts Indoor Air Quality Program to set up indoor air quality standard, measurement, and control measures to continuously provide a safer and more comfortable workplace.

• Emerging Infectious Disease Response

TSMC has a dedicated corporate ESH organization which monitors emerging infectious diseases around the world, assesses any potential impact on the workplace and provides a strategic response plan. In previous outbreaks (such as SARS in 2003 and the H1N1 influenza outbreak in 2009), TSMC convened the Corporate Influenza Response Committee to develop the Company's strategies. These strategies include educating employees in prevention and response, publishing guidelines for managers, establishing guidelines for employee sick leave due to flu, and installing alcohol-based hand sanitizers at appropriate locations. The Committee also monitors the status of

employee leave due to illness and, at the same time, develops a continuous plan to address manpower shortages as well as minimize business impact.

• Emergency Response

The planning and execution of an effective emergency response requires big-picture thinking, continuous improvement and practice drills. TSMC's emergency response plans include procedures for rapid response to accidents and disaster recovery as well as establishing response procedures for potential disasters.

All TSMC fabs conduct major annual emergency response exercises and evacuation drills. TSMC's Tainan-site fabs initiated quarterly spot drills, which have been recognized as good practices. TSMC's on-site service contractors also participate in emergency response planning and exercises to ensure cooperation in handling accidents and to effectively minimize any damage caused by disasters.

In addition to the regular emergency response drills held by engineering and facilities departments each quarter, the Company's laboratory, canteen, dormitory, and shuttle bus personnel also hold emergency response drills to prepare for events such as earthquakes, chemical leakage, ammonia release, fires and automobile accidents.

• Employee Health Enhancement

Workplace stress and employee health have recently become new topics of concern for the government, society, employers, and employees as areas that require further attention and effort. The TSMC Employee Assistance Program (EAP) provides free individual counseling sessions, group sharing, workshops, and mental assessment, as well as lectures on personal and family issues to take care of employees' well-being.

Health promotion activities for employees include fitness programs, women's health care programs, mother's rooms, body weight control programs, sleep problem management, massage and chiropractic services, hepatitis and flu vaccinations, and health lectures. TSMC believes employees who are physically and mentally fit can enjoy a better quality of life and be more productive.

Supplier and Contractor Management

• Supplier Management

As a means of enhancing its supply chain management, TSMC is committed to communicating with and encouraging its contractors and suppliers to improve their quality, cost effectiveness, delivery performance and sustainability on environmental protection, safety

and health. By means of communication between senior managers, site audits and experience sharing, TSMC collaborates with major suppliers and contractors to enhance partnership and ensure continual improvement for better performance and increased joint contributions to society. Contractors performing high-risk activities must lay out clearly defined safety precautions and preventative measures. In addition, contractors working on high-risk engineering projects must establish OHSAS 18001 systems and the workers must successfully complete work skill training.

● Supply Chain Sustainability

TSMC has been working together with our suppliers in several fields of sustainable development, such as greening our supply chain, carbon management for climate change, mitigation of fire risk, ESH management and business continuity plans for natural disasters. In 2013, TSMC announced our sustainability standard for suppliers through benchmarking with EICC Code of Conduct standard as operating principles and encouraged our suppliers to create sustainable value in these fields. To enhance the supply chain sustainability and partnership with our suppliers, TSMC also shared its experience and practice to assist suppliers in the field of anti-quake engineering, hazardous chemical management etc.

TSMC is subject to the new U.S. SEC disclosure rule on conflict minerals released under Rule 13p-1 of the U.S. Securities Exchange Act of 1934. As a recognized global leader in the hi-tech supply-chain, we at TSMC acknowledge our corporate social responsibility to procure our minerals from conflict-free areas.

TSMC is one of the strongest supporters of the Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI), which will help our suppliers source conflict-free materials. TSMC in general supports the humanitarian and ethical principles contained in the OECD's Model Supply Chain Policy for a Responsible Global Supply Chain of Minerals from Conflict-Affected and High Risk Areas issued in 2011. The Company encourages suppliers to source from facilities or smelters that have received a "conflict-free" designation by a recognized industry group, such as the EICC, and also requires suppliers to disclose information on smelters and mines in 2013. TSMC adopts and follows global semiconductor industry conflict minerals procurement practices such as sourcing from the same suppliers used by other semiconductor companies. To date, TSMC is conflict-free for gold, tantalum, tin and tungsten because according to the results of our reasonable inquiry into the country of origin of these minerals as defined under relevant law, TSMC has not used any of these conflict minerals from the Democratic Republic of Congo and/or its surrounding countries. It is TSMC's goal to strive use tantalum, tin, tungsten and gold in our products that are DRC conflict-free. TSMC will continue to renew its supplier survey annually

and require suppliers to improve and expand their disclosure to fulfill regulatory and customer requirements.

7.3 TSMC Education and Culture Foundation

The TSMC Education and Culture Foundation, established in 1998 to coordinate the Company's sponsorship as part of its efforts in corporate social responsibility, devotes its resources towards education, promotion of art and culture events, community building, and the employee volunteer program.

In 2013, the TSMC Foundation contributed over NT\$73.5 million to its long-term projects of promoting education, culture, and arts. In 2013, the Foundation infused more resources in science education. In addition to supporting a long-term science educational project, The Foundation for the first time in 2013 sponsored the Center for the Advancement of Science Education at National Taiwan University (CASE) to hold "TSMC Cup – Competition of Scientific Story Telling," which target young people aged 15 to 18 nationwide in order to inspire their interest for science, and to train short talks by incorporating the four major capacities of listening, speaking, reading and writing into this innovative contest.

In continuing to promote arts and Chinese Culture, the TSMC Foundation sponsored the National Symphony Orchestra to produce the stage version of Wagner's Die Walküre for the very first time in Taiwan. Following "The Analects of Confucius" and "The Writings of Chung-tzu," Professor Hsin Yih-yun, invited by the Foundation, launched the broadcasting program "Mo-tzu in Hsin's View" to lead the audience to understand Mo-tzu's philosophy. TSMC's six-year consecutive support of the broadcasting program shows the commitment and endeavors toward the Classical Chinese Philosophy.

Aside from financial sponsorships of culture and educational projects, the TSMC Foundation supports TSMC Volunteer Society, organizing employees to devote themselves to the caring of the underprivileged of the communities.

Commitment to Education – Supporting Educational Programs to Target the Needs at Different Age Levels

Talents are essential to the development of the society. As a leader of Taiwan's knowledge-based industry, TSMC regards cultivating talented people for society as a core responsibility. Thus the TSMC Foundation tailors various programs to target a whole range of education needs at different age levels.

At the primary-school level, the TSMC Foundation is concerned about the unbalanced development between urban and rural education. To bridge the urban-rural gap, the "TSMC Aesthetic Tour" and "TSMC Science Tour" takes children from remote townships to visit National

Palace Museum, Taipei Fine Arts Museum, National Taiwan Science Education Center, National Museum of Natural Science and National Science and Technology Museum. Over the last 11 years, more than 87,000 students from remote townships have participated in the tour to cultivate their appreciation of art and experience the charisma of science. The Foundation also continued to support *CommonWealth Magazine's* highly successful "Hope Reading Project". Through the project, the Foundation offers 200 primary schools of remote townships 20,000 books every year. By providing 190,000 good books with children in remote and underprivileged areas of Taiwan since 2004, the Foundation hopes to promote literacy and inspire interest in reading among these children so that they will have the opportunity to open the window of hope. In addition to sponsoring these activities, the TSMC Foundation supports the Taipei Fine Arts Museum's expansion of the "TSMC Children's Art Education Center," due for completion and inauguration in 2014. The center will be an important cradle for cultivating children's art appreciation.

At the high school level, to enhance teenagers' full development to knowledge of science and humanity, the Foundation supported and organized scientific camps, contests, and humanity activities. In 2013, the TSMC Foundation for the first time sponsored the Center for the Advancement of Science Education at National Taiwan University to hold "TSMC Cup – Competition of Scientific Story Telling". Racing through the different stages of the Competition, students will cultivate the capacity of logical thinking, argumentation and presentation skills. Together with the dynamics of teamwork, the Competition provides a complete scientific experience and training, and gained overwhelmingly responses from teachers and students. In 2013, 188 teams across the nation participated. The Foundation also continued to support three science talent camps – Wu Chien-Shiung Science Camp, Wu Ta-Yu Science Camp and Madame Curie Senior High School Chemistry Camps – to provide talented students with the opportunity to hold discussions with world-class scientists with the goal of inspiring students and helping them realize their potential. "Senior High School Academic Train," organized by National Tsing hua University, invited professors from the University to introduce senior high school students to the latest knowledge of technology and common knowledge for daily life and science. The courses will be held in 12 senior high schools located in northern, central, southern, eastern and Kinmen areas. The TSMC Foundation also collaborates with the Wu Chien-Shiung Foundation to work on "Lifting the Ability of High School Physics Experiments," providing professional development for 282 science teachers.

In the humanities, "the TSMC Youth Literature Award" has for 10 years encouraged talented young writers to create new works. AS

being the most important stage for the youth of Taiwan to inspire their interest and talents to literacy, in addition to the writing competition and lectures, the activity also created the special editorial pages of United Daily for the former winners, who were invited to create new works, showing their talents and progress. The sixth "TSMC Youth Calligraphy Contest" held three workshops at three high schools to inspire students to appreciate the beauty and cultural richness of calligraphy. The Foundation arranged the former winners and the calligraphy devotees to visit Taiwan Calligraphy master Professor Chung-Kao Du. Professor Du, who shared his 50-year experience of calligraphic writings with the participants and encouraged them to keep on pursuing the art of calligraphy.

At the college and society level, the TSMC Foundation held the 2nd TSMC Literature Award to encourage under-40-year-old writers to create Chinese novels between 60,000 words and 80,000 words. Winners not only received big cash prizes but also a contract with the book publisher, INK. This competition offers young writers an excellent forum to showcase their talent and opportunity to be published, underscoring TSMC's commitment to supporting literature. The TSMC Foundation continued "TSMC Scholarship" to support and encourage underprivileged students attending National Tsing Hua University and National Central University. Also, the Foundation continued to endow chair professorships to enhance academic research of Taiwan universities.

Promotion of Arts and Culture – Sponsoring Taiwan Arts Groups and Promoting the Chinese Classics

The TSMC Education and Culture Foundation has, for years, devoted its efforts to promoting Taiwan Art Groups. In 2013, the TSMC Foundation supported National Symphony Orchestra to produce the stage version of Wagner's Die Walküre for the very first time in Taiwan. Under the leadership of Maestro Shao-Chia Lü, Die Walküre gathered together the prestigious director Hans-Peter Lehmann, who for years has served as assistant director at the Bayreuth Festival Theatre, along with Taiwan art groups and top vocal singers from Taiwan and abroad, all of whom showed marvelous creativity and performance levels. The production indeed set a milestone of Taiwan Opera Performing Art history.

In addition to support Taiwan Art Groups, the TSMC Foundation commits to promote Chinese Traditional Classics in the long term. Through presenting lectures, producing broadcasting programs and publishing audio books, the Foundation relives the Classics and enables audiences to easily understand traditional Chinese philosophy and wisdom. Among these projects, since 2008 the Foundation and IC broadcasting company collaborated to invite Professor Hsin

Yih-yun to produce the Chinese Classics broadcasting program, which are extremely popular and gained huge attention from Chinese audiences all over the world. Following *The Analects by Confucius* and *The Writings of Chuang-tzu*, in 2013, Professor Hsin introduced *Mo-tzu*, whose thought was as important as Confucius' at Chinese Spring and Autumn Period. Through Professor Hsin Yih-yun's rich knowledge and vivid examples, Professor Hsin delivered Mo-tzu's philosophy of promoting diligent and thrifty and comprehensive love to the public.

Noting the importance of preserving historic sites, the Foundation continued to sponsor the Taipei Story House's Literature Salon. Cultural activities such as regular author readings on the site gave the old building a new life and attracted the general public to this cultural heritage site. The Foundation also donated NT\$10,000,000 to the revitalization of Dr. Sun Yun-suan's residence, in memory of Dr. Sun Yun-suan, who was former premier and known for his contribution to the economic development of Taiwan.

Community Building by Arts – Organizing Hsinchu Arts Festival to Cultivate the Public's Art Appreciation

The foundation has long played the role of "fine art planter" and hopes to spread the seeds of fine art to the community through continuous art activities. At TSMC's site communities, Hsinchu, Taichung and Tainan, the Foundation annually organizes "Hsinchu Arts Festival" to present a broad spectrum of performances for the inhabitants' interests in art. Presented annually for the past 11 years, "Hsinchu Arts Festival" has become a main art event gaining a huge nationwide attention. International artists presented by the Festival include Cho-liang Lin, Midori, Ann-Sophie Mutter, Shlomo Mintz, Yun-di Li, Kun Woo Paik, Garrick Ohlsson, Jean-Yves Thibaudet and Sir James Galway. The Festival also gathered the Chinese theatre masters, including Pai Hsien-yung, Wu Hsing-kuo, Wei Hai-ming, and Li Bao-chun, to present phenomenal performances at the communities.

During 2013, the Foundation again invited the most prestigious artists to join the Festival, such as the winner of 2010 International Chopin Piano Competition, the Russian pianist Yulianna A. Avdeeva, who fascinated the Hsinchu classical music lovers with her great technique and depth of music interpretation. The classical new star, British violinist Charlie Siem, played Sarasate's Zigeunerweisen and Hubay's Carman Fantasy etc. The wonderful concert fascinated the students of National Cheng Kung University at Tainan. For an audience of more than 6,000, the Festival arranged an interactive concert, the Piano Battle, at Taichung Outdoor Arena. The Piano Battle, organized and performed by Paul Cibiss and Andreas Kern,

sees the duo go head-to-head on stage, charming and enchanting the audience with a variety of classical pieces. The foundation, during the three-month Art Festival, arranged in total over 40 activities, from concerts, traditional operas and lectures, to family-oriented activities, attracting more than 25,000 people from local communities.

7.4 TSMC Volunteer Program

Corporate social responsibility is an integral part of TSMC's culture since its founding. TSMC Foundation launched the first employee volunteer program, Volunteer Docent Program, in 2003 as a channel through which the Company's most valuable asset, high-tech professional employees, give to the society.

TSMC Volunteer Program is dedicated to promoting education and culture, providing aid for the underprivileged, advocating energy saving, and caring for the community. Now, employees and their family members can take part in a variety of programs as follows:

- TSMC Volunteer Docent Program
- TSMC Book Reading Volunteer Program
- TSMC Energy-saving Volunteer Program
- TSMC Community Volunteer Program
- TSMC Ecology Volunteer Program
- TSMC Fab/Division Volunteer Program (2013 new initiative)

TSMC Volunteer Docent Program

An important way through which a corporation can serve and return to the community in which it operates is to share its expertise. The spread of knowledge furthers people's understanding of their environment and may inspire the future generations and bring forth change in society.

To promote science education and to enhance people's understanding of the IC industry, TSMC made a donation to the National Museum of Natural Science in Taichung in 1997 to set up an exhibition hall – The World of the Integrated Circuits. In 2003 and 2011, TSMC sponsored the renovation of the hall, adding interactive displays that explain semiconductor principles, the development of integrated circuits, and the important role IC industry plays in one's daily life. In 2004, TSMC Foundation started to recruit employees and their family members to serve as volunteer docents at the exhibition hall on weekends and holiday.

As many as 194 people volunteered in 2004. Youth volunteers were added in 2006, allowing employees to invite their children (high school and above) to join the Volunteer Docent Program. In 2007, the program was expanded to recruit new blood from

TSMC-affiliated companies, including Vanguard, VisEra, Xintec, and Global Unichip. The docents' enthusiasm and professionalism were highly praised by visitors; the group has continuously been recognized as the "Outstanding Volunteer Team" by the National Museum of Science.

When "The World of Semiconductor" exhibition opened in 2011, TSMC recruited around 500 volunteers as tour guides for visitors on weekends and holidays. In 2013, the number grew to 935 volunteers, translating to a dedication of 10,752 service hours. As of December 2013, the cumulative service hour totaled to more than 58,152 hours.

TSMC Book Reading Volunteer Program

TSMC believes the future hope and competitiveness of Taiwan lie in children of the next generation, and education is the key to the development of these children. Hoping to help reduce the disparity of educational resources between rural and urban schools, TSMC Foundation has been sponsoring the "Hope Reading Program" organized by *CommonWealth Magazine* since 2004. Besides donating 20,000 books annually to 200 schools in remote and rural areas, the Foundation recruited employees and their family members to form volunteer teams and read to underprivileged children of remote areas in hope of sparking their interest in reading.

In 2004, 49 volunteers joined the Program and started serving two elementary schools in the remote townships in Hsinchu. Now, more than 100 people travel to the remote schools to read stories to the children on a regular basis. With increased numbers of participants, the program was extended to Tainan in 2006. Currently, volunteers serve in five schools, encouraging children to read and make use of the books donated through the Hope Reading Program.

The selfless service of Book Reading Volunteer Program participants is greatly valued by the schools and the children. This program has become a great model frequently reported by the mass media, which helps to spread the spirit of encouraging reading through reading aloud.

In 2012, TSMC expanded its service scope to eight schools from five. Today, 465 volunteers read books with children in Hsinchu, Taichung and Tainan. They have served for nine consecutive years and will continue to help pave the road leading to a brighter future for the underprivileged children. In 2013, volunteers dedicated 6,678 hours to read books for children. As of December 2013, the cumulative service hour is more than 30,478 hours.

TSMC Energy Saving Volunteer Program

With global warming and the depletion of limited natural resources and fuel, saving energy has become a critical issue for both individuals and corporations around the world. In 2008, TSMC recruited employees with expertise in energy conservation to start the Energy Saving Volunteer Program, and since, the Company has been providing schools in the Hsinchu and Tainan areas with professional consulting service. The team helps to come up with plans for schools to improve power efficiency and reduce carbon emissions.

Beginning with 25 TSMC employees, the Energy Saving Volunteer Program initially served only neighborhood schools. Two high schools in Hsinchu were chosen, and a team was sent to each school to assist in lowering water, electricity and telecommunication bills, as well as improving environmental safety and air-conditioning. After assessing the facilities, collecting data, and evaluating power efficiency, the teams proposed energy-saving plans and ways to reduce carbon emissions to the schools.

The Energy Saving Volunteers not only endeavor to save energy for the Company and Taiwan but also wish to do what they can to preserve the earth. The program expanded its service to Taichung in 2011 to fulfill its promise: "Where TSMC is, its volunteers will be". In 2013, these volunteers input 1,000 hours in Hsinchu, Taichung, Tainan and Penghu areas.

TSMC Community Volunteer Program

When the TSMC Community Volunteer Program started recruiting employees, its central focus was to continually deploy their expertise to help those who need them the most.

When Typhoon Morakot struck Southern Taiwan in 2009, TSMC employees, deeply saddened by the suffering it caused, immediately established Typhoon Morakot Project Team and provided assistance and relief measures to the typhoon victims. The experience prompted TSMC employees to ponder what else could be done to help the community and, consequently, Typhoon Morakot Project Team became the Community Volunteer Program in 2010, aiming to reach out to the ones in need.

Both the elderly and children are the joint focus of TSMC Community Volunteers partly because Taiwan is an aging society with more than two million people over the age of 65, among whom one fifth need nursing care. Moreover, with the rapid changes in society, it is critical for children – the future of the country – to build their characters at an early age. It is especially important for children of dysfunctional families to have productive interactions and experience the warmth, care and company of others.

The TSMC Community Volunteer Program mainly serves the elderly at Hsinchu Veterans Home and the children at St. Teresa Children Center. At Hsinchu Veterans Home, art workshops allow volunteers and veterans to create art works such as rock-painting. The veterans get to enjoy the beauty of art; volunteers and veterans get to understand each other more through chatting. At St. Teresa Children Center, volunteers conduct one-on-one companionship. During the monthly family day at the Center, volunteers spend a wonderful weekend going on an outing with the children or reading to them in the Center.

Two Holiday Volunteer activities were held in 2013. In July, TSMC Community Volunteers invited the elderly and children they served to "Window on China" theme park and spent a wonderful Saturday together. In December, the volunteers held the second holiday activity for the year at Hsinchu City Zoo. During this event, a roundtable banquet was held for the elderly and children to celebrate an early Chinese New Year. In 2013, there were 349 volunteers. The elderly, the children, and the volunteers are closely linked with one another through regular activities.

TSMC Ecology Volunteer Program

In 2012, TSMC launched a new volunteer initiative: the Ecology Volunteer Program. Two groups of employees who are interested in natural ecology donated their time to environmental protection service at ecology parks in Taichung and Tainan. Volunteers were trained as ecology docents to share natural ecology concepts with school children and the public visiting the two parks.

- **Hsinchu Fab 12B ecology park docent:** In 2013, a new venue was added to provide docent service. With 88 employees joining the group, the Company invited more than 120 students and teachers from four elementary schools to visit TSMC's ecology park in Hsinchu.
- **Taichung Fab 15 ecology park docent:** In 2013, 92 employees joined the group, and the Company invited more than 150 students and teachers from five elementary schools to visit TSMC's ecology park in Taichung.
- **Tainan Jacana ecology education park docent:** TSMC Volunteer Program recruited 134 employees and their family members to serve as volunteer docents at the Jacana ecology education park on weekends and holidays.

TSMC Fab/Division Volunteer Program

With the enthusiastic support from Senior Managers, TSMC employees are dedicated to give to the society in return. Employees have devoted to various welfare activities on the Fab/Division level for causes such as environment protection, promotion of energy consumption reduction, and caring of the disadvantaged.

● Environmental Protection

The Company is dedicated to protecting the environment of Taiwan in collaboration with charities. For instance, TSMC employees volunteered to maintain the Hsinchu venue of The National Lantern Festival 2013. In addition, invited by TSMC volunteers, students of Jinshan Elementary School participated in the street cleaning activity as one of their graduating events. The activity not only contributed to the community, but also helped plant the seed of environmental protection in the mind of the younger generation.

● Energy Consumption Reduction

With the long-term collaboration between TSMC's fabs in Tainan and Zengwum Dam, the Company organized interactive and interesting field trips for students from the schools near downstream of the watershed to promote the idea of water consumption reduction. Through interactive learning activities, the students realized the importance of water saving.

Despite high competition in the technology industry, the Company never forgets to cherish the environment. With the summoning of Volunteer Club's President, Mrs. Sophie Shu-fen Chang, seminars concerning energy consumption and power reduction were held to share the knowledge and technology of the green buildings and energy saving accomplishments. Through those efforts, the Company hopes to root the green power deeply into the minds of other corporations.

● Caring for the Disadvantaged

Charity bazaars and group-buying were held in fabs from time to time and, in the belief that even a small donation will make a difference, the accumulated profits were donated to charities. Furthermore, when the employees saw people in need, such as solitary elders, destitute children, and economically disadvantaged individuals, they called for enthusiastic support from their fellow employees to repair and maintain the old houses of the ones in need, provided daily supplies and necessities, and offered warm accompany. Employees of the Company are devoted to give a hand to helpless people for them to move toward a brighter future with dignity.

7.5 Social Responsibility Implementation Status as Required by the Taiwan Financial Supervisory Commission

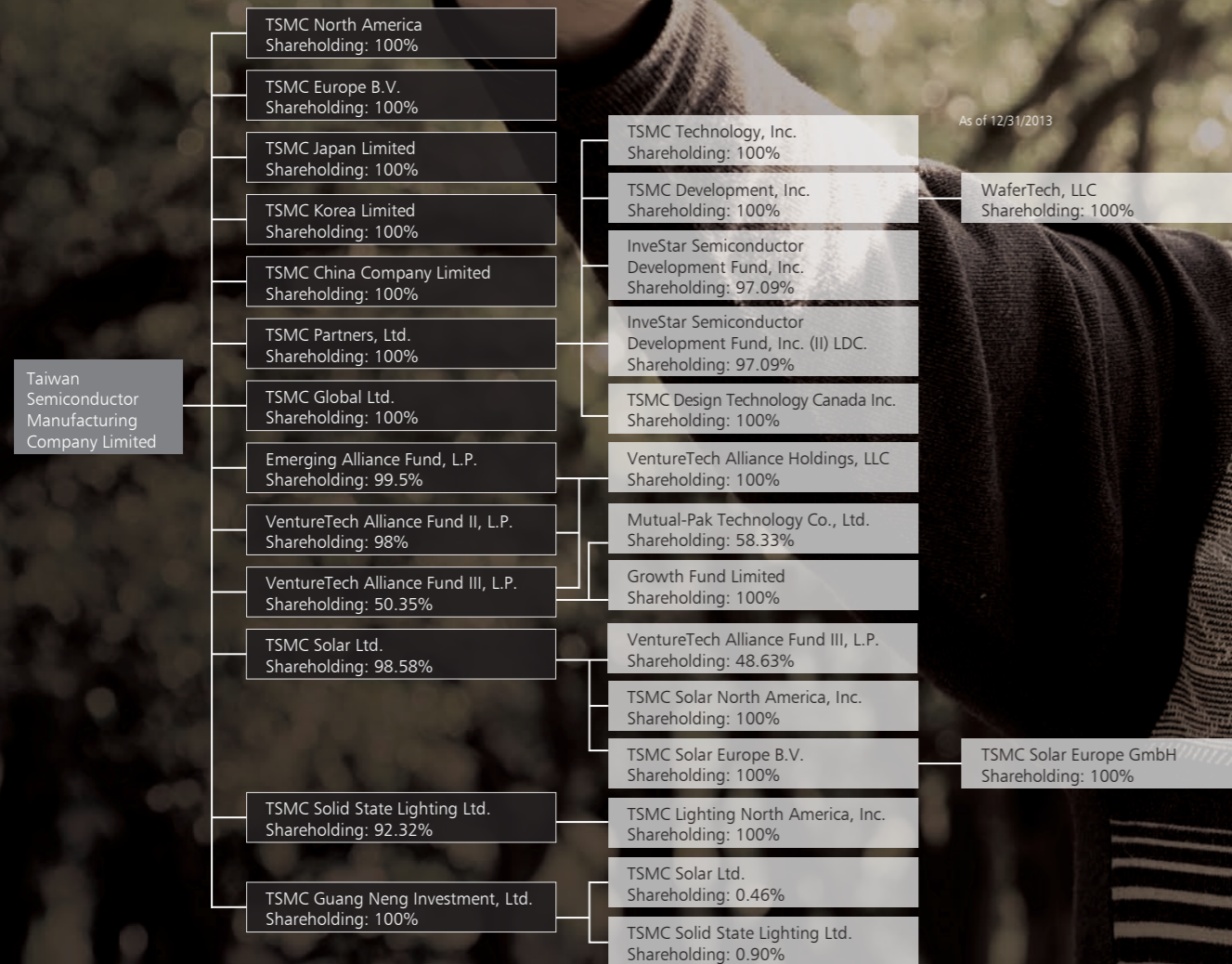
Item	Implementation Status	Non-implementation and Its Reason(s)
1. Implementation of Corporate Governance (1) Corporate social responsibility policy and performance evaluation (2) Dedicated organization for the promotion and execution of corporate social responsibility (3) Regular training and promotion of corporate ethics among employees and the Board of Directors, and integration with the employee performance appraisal system	(1) Please refer to "7. Corporate Social Responsibility" on pages 92-109 of this Annual Report. (2) Please refer to "7. Corporate Social Responsibility" on pages 92-109 of this Annual Report. (3) Please refer to "3.5 Code of Ethics and Business Conduct" on pages 36-39 of this Annual Report.	None
2. Sustainable Environment Development (1) Commitment to improving resources utilization and the use of renewable materials (2) Environmental management system designed to industry characteristics (3) Dedicated environmental management unit or personnel (4) Company strategy for climate change, energy conservation and greenhouse gas reduction	Please refer to "7.2.1 Environmental Protection" on pages 97-99 of this Annual Report.	None
3. Promotion of social welfare (1) Compliance with labor regulations, international recognized human right principles, protection of employee rights and employment fairness, and appropriate management measures and procedures (2) Safety and health in working environment, and the condition for providing periodical safety and health training to employees (3) Mechanism of periodical communication with employees, and reasonable notice measures regarding significant operational changes which might cause significant impacts to employees. (4) Disclosure of consumer rights policy, and official channel for consumer complaints (5) Collaboration with suppliers (6) Participation in community development and charities through commercial activities, donations, volunteers or other free professional services	(1) Please refer to "5.5 Employees" on pages 71-74 of this Annual Report. (2) Please refer to "7.2.3 Safety and Health" on pages 102-104 of this Annual Report. (3) Please refer to "5.5 Employees" on pages 71-74 of this Annual Report. (4) Please refer to "5.4 Customer Trust" on pages 69-71 of this Annual Report. (5) Please refer to "Supply Chain Sustainability" in "7. Corporate Social Responsibility" on page 104 of this Annual Report. (6) Please refer to "7. Corporate Social Responsibility" on pages 92-109 of this Annual Report.	None
4. Enhancement of Information Disclosure (1) Disclosure of corporate social responsibility related information with significance and reliability. (2) Published corporate responsibility report and disclosure of implementation of corporate social responsibility	TSMC has published "Corporate Responsibility Report" since 2008, which has been verified by third party in compliance with the requirements of Global Reporting Initiative (GRI) G3.1 level A+ and AA1000AS: 2008 standard.	None
5. If the company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice," please describe the operational status and differences. TSMC follows the ten principles of corporate social responsibility set by the Chairman, Dr. Morris Chang. For our corporate social responsibility operational status, please refer to "7. Corporate Social Responsibility" on pages 92-109 of this Annual Report and our corporate social responsibility related information in our website: http://www.tsmc.com/english/csr/index.htm		
6. Other important information to facilitate better understanding of the company's implementation of corporate social responsibility (e.g., environmental protection, community participation, social contribution, social services, social welfare, consumers' rights, human rights and safety and health): Please refer to TSMC's website for our corporate social responsibility implementation status: http://www.tsmc.com/english/csr/index.htm		
7. Other information regarding products or "Corporate Responsibility Report" which are verified by certification bodies: (1) TSMC obtained Integrated Circuit carbon footprint and Type 3 Environmental Product Label verification, which comply with PAS2050 and ISO14025 standards. (2) TSMC Corporate Responsibility Report is compliant with the requirements of Global Reporting Initiative (GRI) G3.1 level A+ and AA1000AS:2008 standard.		

8. Subsidiary Information and Other Special Notes

TSMC is the world's largest dedicated semiconductor foundry with capacity of 16.45 million 8-inch equivalent wafers in 2013.

8.1 Subsidiaries

8.1.1 TSMC Subsidiaries Chart



8.1.2 Business Scope of TSMC and Its Subsidiaries

TSMC and its subsidiaries strive to provide the best foundry services in the industry. Subsidiaries in North America, Europe, Japan, China, and South Korea are dedicated to servicing TSMC customers worldwide. WaferTech in the United States and TSMC China provide additional 8-inch wafer capacity. Other subsidiaries support the Company's core foundry business with related services such as design service and invest in start-up companies involved in design, manufacturing, and other related businesses in the semiconductor industry. Beginning in 2010, certain TSMC's subsidiaries also engage in researching, developing, designing, manufacturing and selling of solid state lighting devices and related products and systems, and solar-related technologies and products.

8.1.3 TSMC Subsidiaries

Unit: NT\$(USD, EUR, JPY, KRW, RMB, CAD)\$ thousands

As of 12/31/2013

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
TSMC North America	Jan. 18, 1988	San Jose, California, U.S.	US\$ 11,000	Selling and marketing of integrated circuits and semiconductor devices
TSMC Europe B.V.	Mar. 04, 1994	Amsterdam, The Netherlands	EUR 100	Marketing and engineering supporting activities
TSMC Japan Limited	Sep. 10, 1997	Yokohama, Japan	JPY 300,000	Marketing activities
TSMC Korea Limited	May 02, 2006	Seoul, Korea	KRW 400,000	Customer service and technical supporting activities
TSMC China Company Limited	Aug. 04, 2003	Shanghai, China	RMB 4,502,080	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers
TSMC Technology, Inc.	Feb. 20, 1996	Delaware, U.S.	US\$ 0.001	Engineering support activities
InveStar Semiconductor Development Fund, Inc.	Sep. 10, 1996	Cayman Islands	US\$ 811	Investing in new start-up technology companies
InveStar Semiconductor Development Fund, Inc. (II) LDC.	Aug. 25, 2000	Cayman Islands	US\$ 14,578	Investing in new start-up technology companies
TSMC Development, Inc.	Feb. 16, 1996	Delaware, U.S.	US\$ 0.001	Investment activities
WaferTech, LLC	Jun. 03, 1996	Washington, U.S.	US\$ 80,000	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices
TSMC Partners, Ltd.	Mar. 26, 1998	Tortola, British Virgin Islands	US\$ 988,268	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry
TSMC Design Technology Canada Inc.	May 28, 2007	Ontario, Canada	CAD 2,434	Engineering support activities
TSMC Global Ltd.	Jul. 13, 2006	Tortola, British Virgin Islands	US\$ 1,284,000	Investment activities
Mutual-Pak Technology Co., Ltd.	Mar. 22, 2006	Taipei, Taiwan	NT\$ 268,184	Manufacturing and selling of electronic parts and researching, developing and testing of RFID
Emerging Alliance Fund, L.P.	Jan. 10, 2001	Cayman Islands	US\$ 24,155	Investing in new start-up technology companies
VentureTech Alliance Fund II, L.P.	Feb. 27, 2004	Cayman Islands	US\$ 14,511	Investing in new start-up technology companies
VentureTech Alliance Fund III, L.P.	Mar. 25, 2006	Cayman Islands	US\$ 115,679	Investing in new start-up technology companies
Growth Fund Limited	May 30, 2007	Cayman Islands	US\$ 2,130	Investing in new start-up technology companies
VentureTech Alliance Holdings, LLC	Apr. 25, 2007	Delaware, U.S.	N/A	Investing in new start-up technology companies
TSMC Solar Ltd.	Aug. 16, 2011	Taichung, Taiwan	NT\$ 11,341,000	Researching, developing, designing, manufacturing and selling renewable energy and energy saving related technologies and products
TSMC Solar North America, Inc.	Sep. 03, 2010	Delaware, U.S.	US\$ 1	Selling and marketing of solar related products
TSMC Solar Europe B.V.	Sep. 29, 2010	Amsterdam, the Netherlands	EUR 100	Investing in solar related business
TSMC Solar Europe GmbH	Dec. 17, 2010	Hamburg, Germany	EUR 100	Selling of solar related products and providing customer service
TSMC Solid State Lighting Ltd.	Aug. 16, 2011	Hsinchu, Taiwan	NT\$ 6,008,000	Researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems
TSMC Lighting North America, Inc.	Sep. 03, 2010	Delaware, U.S.	US\$ 1	Selling and marketing of solid state lighting related products
TSMC Guang Neng Investment, Ltd.	Jan. 19, 2012	Taipei, Taiwan	NT\$ 150,000	Investment activities

8.1.4 Shareholders in Common of TSMC and Its Subsidiaries with Deemed Control and Subordination: None.

8.1.5 Rosters of Directors, Supervisors, and Presidents of TSMC's Subsidiaries

Unit: NT\$(USD/EUR), except shareholding

As of 12/31/2013

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding%)
TSMC North America	Director	Dick Thurston	-	-
	Director	Rick Cassidy	-	-
	President	Rick Cassidy	-	-
			TSMC holds 11,000,000 shares	100%
TSMC Europe B.V.	Director	Wendell Huang	-	-
	Director	Maria Marced	-	-
	President	Maria Marced	-	-
			TSMC holds 200 shares	100%
TSMC Japan Limited	Director	Chih-Chun Tsai	-	-
	Director	Makoto Onodera	-	-
	Supervisor	Lora Ho	-	-
	President	Makoto Onodera	-	-
			TSMC holds 6,000 shares	100%
TSMC Korea Limited	Director	Shing-Wha Lin	-	-
	Director	Chih-Chun Tsai	-	-
	Director	Wendell Huang	-	-
			TSMC holds 80,000 shares	100%
TSMC China Company Limited	Chairman	F.C. Tseng	-	-
	Director	M.C. Tzeng	-	-
	Director	L.C. Tu	-	-
	Supervisor	Lora Ho	-	-
	President	L.C. Tu	-	-
			(TSMC's investment US\$596,000,000)	(100%)
TSMC Technology, Inc.	Chairman	Lora Ho	-	-
	Director	Richard Thurston	-	-
	Director	Cliff Hou	-	-
	President	Cliff Hou	-	-
			TSMC Partners, Ltd. holds 10 shares	100%
InveStar Semiconductor Development Fund, Inc.	Director	Wendell Huang	-	-
			TSMC Partners, Ltd. holds 786,907 shares	97.09%
InveStar Semiconductor Development Fund, Inc. (II) LDC	Director	Wendell Huang	-	-
			TSMC Partners, Ltd. holds 14,152,996 shares	97.09%
TSMC Development, Inc.	Chairman	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Lora Ho	-	-
			TSMC Partners, Ltd. holds 10 shares	100%
WaferTech, LLC	Director	M.C. Tzeng	-	-
	Director	Steve Tso	-	-
	President	Kuo-Chin Hsu	-	-
			TSMC Development, Inc. holds 293,636,833 shares	100%
TSMC Partners, Ltd.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Lora Ho	-	-
			TSMC holds 988,268,244 shares	100%
TSMC Design Technology Canada Inc.	Director	Cliff Hou	-	-
	Director	Cormac Michael O'Connell	-	-
	Director	Richard Thurston	-	-
	President	Cliff Hou	-	-
			TSMC Partners, Ltd. holds 2,300,000 shares	100%

(Continued)

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding%)
TSMC Global, Ltd.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
			TSMC holds 1,284 shares	100%
Mutual-Pak Technology Co., Ltd.	Chairman	Hsu-Tung Chen	1,107,010 shares	4.13%
	Director	Lewis Hwang	2,508,000 shares	9.35%
	Director	Representative of VentureTech Alliance Fund III, L.P.: Juine-Kai Tseng	15,643,347 shares	58.33%
	Supervisor	Wei-Pong Lin	30,000 shares	0.11%
	President	Lewis Hwang	2,508,000 shares	9.35%
Emerging Alliance Fund, L.P.	None	None	(TSMC's investment US\$24,034,590)	(99.50%)
VentureTech Alliance Fund II, L.P.	None	None	(TSMC's investment US\$14,221,019)	(98.00%)
VentureTech Alliance Fund III, L.P.	None	None	(TSMC's investment US\$58,240,732) (TSMC Solar Ltd.'s investment US\$56,250,001)	(50.35%) (48.63%)
Growth Fund Limited	None	None	(VentureTech Alliance Fund III, L.P.'s investment US\$2,130,000)	(100%)
VentureTech Alliance Holdings, LLC	None	None	None	(100%)
TSMC Solar Ltd.	Chairman	Rick Tsai (Note 1)	-	-
	Director	F.C. Tseng	-	-
	Director	Richard Thurston	-	-
	Supervisor	Lora Ho	-	-
		President	Ying-Chen Chao	TSMC holds 1,118,000,000 shares TSMC Guang Neng Investment, Ltd. holds 5,249,800 shares 1,200,000 shares
TSMC Solar North America, Inc.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Rick Tsai (Note 2)	-	-
			TSMC Solar Ltd. holds 1,000 shares	100%
TSMC Solar Europe B.V.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
			TSMC Solar Ltd. holds 200 shares	100%
TSMC Solar Europe GmbH	Director	Rick Tsai (Note 3)	-	-
	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	Director	Stephen McKenery	-	-
	Director	Ying-Chen Chao	-	-
			TSMC Solar Europe B.V. holds 200 shares	100%
TSMC Solid State Lighting Ltd.	Chairman	Rick Tsai (Note 1)	-	-
	Director	F.C. Tseng	-	-
	Director	Richard Thurston	-	-
	Supervisor	Lora Ho	-	-
		President	Jacob Tarn (Note 4)	TSMC holds 554,674,437 shares TSMC Guang Neng Investment, Ltd. holds 5,435,878 shares 2,457,415 shares
TSMC Lighting North America, Inc.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Rick Tsai (Note 5)	-	-
			TSMC Solid State Lighting Ltd. holds 1,000 shares	100%
TSMC Guang Neng Investment, Ltd.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
			(TSMC's investment NT\$150,000,000)	100%

Note 1: Dr. Rick Tsai resigned as a director on January 27, 2014, succeeded by Dr. Stephen T. Tso.
Note 2: Dr. Rick Tsai resigned as President on January 27, 2014, succeeded by Mr. Ying-Chen Chao.
Note 3: Dr. Rick Tsai resigned as a director on January 27, 2014.
Note 4: Dr. Jacob Tarn resigned as President on February 20, 2014, succeeded by Mr. C.H. Chen.
Note 5: Dr. Rick Tsai resigned as President on January 27, 2014, succeeded by Mr. C.H. Chen.

8.1.6 Operational Highlights of TSMC Subsidiaries (Note)

Unit: NT\$ thousands, except EPS (\$)

As of 12/31/2013

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenue	Income (Loss) from Operation	Net Income (Loss)	Basic Earnings (Loss) Per Share
TSMC North America	327,800	59,095,156	55,331,962	3,763,194	418,065,923	97,185	468,309	42.57
TSMC Europe B.V.	4,100	389,587	98,749	290,838	446,714	47,317	37,659	188,294.17
TSMC Japan Limited	85,020	171,807	47,045	124,762	237,267	10,791	4,717	786.16
TSMC Korea Limited	11,320	31,714	2,239	29,475	20,993	1,925	1,296	16.20
TSMC China Company Limited	22,015,171	26,389,517	2,362,958	24,026,559	17,047,495	4,917,422	5,192,936	N/A
TSMC Technology, Inc.	0.03	528,148	141,177	386,971	852,391	40,590	37,518	3,751,830.90
InveStar Semiconductor Development Fund, Inc.	24,153	297,024	41,168	255,857	226,292	191,163	190,339	234.84
InveStar Semiconductor Development Fund, Inc. (II) LDC	434,412	333,283	1,098	332,185	97,291	73,178	73,175	5.02
TSMC Development, Inc.	0.03	20,614,259	-	20,614,259	2,612,431	2,611,740	2,593,196	259,319,585.23
WaferTech, LLC	2,384,000	8,515,086	808,506	7,706,580	8,495,239	2,512,407	2,558,757	8.71
TSMC Partners, Ltd.	29,450,394	42,862,161	-	42,862,161	3,516,600	3,516,560	3,516,560	3.56
TSMC Design Technology Canada Inc.	68,197	169,884	27,116	142,768	217,842	19,804	15,493	6.74
TSMC Global Ltd.	38,263,200	115,161,390	50,207,901	64,953,489	928,232	(107,256)	(172,392)	(134,261.45)
Mutual-Pak Technology Co., Ltd.	268,184	98,622	59,017	39,605	60,934	(18,454)	(19,129)	(0.71)
Emerging Alliance Fund, L.P.	719,830	145,652	-	145,652	13,413	4,025	(10,806)	N/A
VentureTech Alliance Fund II, L.P.	432,435	450,222	5,817	444,405	84,352	32,391	(3,662)	N/A
VentureTech Alliance Fund III, L.P.	3,447,244	888,020	298	887,722	37,833	(1,510,174)	(1,510,174)	N/A
Growth Fund Limited	63,474	18,075	-	18,075	-	(3,286)	(1,839)	N/A
VentureTech Alliance Holdings, LLC	-	-	-	-	-	-	-	N/A
TSMC Solar North America, Inc.	30	22,608	14,303	8,305	439	(37,126)	(36,733)	(36,732.98)
TSMC Lighting North America, Inc.	30	2,980	107	2,873	-	(65)	(65)	(65.19)
TSMC Solar Europe B.V.	4,100	89,407	211	89,196	-	(282)	(93,795)	(468,973.40)
TSMC Solar Europe GmbH	4,100	124,034	38,171	85,863	151,344	(51,325)	(93,917)	(469,587.03)
TSMC Solar Ltd.	11,341,000	7,213,235	2,635,931	4,577,304	259,158	(962,460)	(1,530,526)	(1.35)
TSMC Solid State Lighting Ltd.	6,008,000	3,008,574	674,396	2,334,178	178,335	(1,671,706)	(1,659,745)	(2.76)
TSMC Guang Neng Investment, Ltd.	150,000	86,412	1,250	85,162	-	(106)	(22,899)	N/A

Note: Foreign exchange rates for balance sheet amounts are as follows: \$1 USD = \$29.800 NT, \$1 EUR = \$41.00 NT, \$1 JPY = \$0.2834 NT, \$1 RMB = \$4.89 NT, \$1 KRW = \$0.0283 NT, \$1 CAD = \$28.02 NT
Foreign exchange rates for income statement amounts are as follows: \$1 USD = \$29.675 NT, \$1 EUR = \$39.54 NT, \$1 JPY = \$0.3068 NT, \$1 RMB = \$4.83 NT, \$1 KRW = \$0.0272 NT, \$1 CAD = \$28.89 NT

8.2 Status of TSMC Common Shares and ADRs Acquired, Disposed of, and Held by Subsidiaries: None.

8.3 Special Notes

8.3.1 Private Placement Securities in 2013 and as of the Date of this Annual Report: None.

8.3.2 Regulatory Authorities' Legal Penalties to the Company or Its Employees, and the Company's Resulting Punishment on Its Employees for Violations of Internal Control System Provisions, Principal Deficiencies, and the State of Any Efforts to Make Improvements in 2013 and as of the Date of this Annual Report

The competent authorities fined a minor fine totaling NT\$27,433 for very few isolated incidents of administrative errors. TSMC has been implementing relevant remedial measures.

8.3.3 Any Events in 2013 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

8.3.4 Other Necessary Supplement: None.

CONTACT INFORMATION

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Fab 3

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Fab 15

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TSMC North America

2585 Junction Avenue, San Jose, CA 95134, U.S.A.
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TSMC Japan Limited

21F, Queen's Tower C, 2-3-5, Minatomirai, Nishi-ku, Yokohama
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Tel: 613-576-1990
Fax: 613-576-1999

TSMC Spokesperson

Name: Lora Ho
Title: Senior Vice President & CFO
Tel: 886-3-5054602 Fax: 886-3-5637000
Email: cyhsu@tsmc.com

Deputy Spokesperson/Corporate Communications

Name: Elizabeth Sun
Title: Director, TSMC Corporate Communication Division
Tel: 886-3-5682085 Fax: 886-3-5637000
Email: elizabeth_sun@tsmc.com

Auditors

Company: Deloitte & Touche
Auditors: Yi-Hsin Kao, Hung-Wen Huang
Address: 12F, 156, Sec. 3, Min-Sheng E. Rd., Taipei 105-96, Taiwan R.O.C.
Tel: 886-2-25459988 Fax: 886-2-25459966
Website: <http://www.deloitte.com.tw>

Common Share Transfer Agent and Registrar

Company: The Transfer Agency Department of Chinatrust
Commercial Bank
Address: 5F, 83, Sec. 1, Chung-Ching S. Rd., Taipei 100-08, Taiwan R.O.C.
Tel: 886-2-21811911 Fax: 886-2-23116723
Website: <http://www.chinatrust.com.tw>

ADR Depository Bank

Company: Citibank, N.A.
Depository Receipts Services
Address: 388 Greenwich Street, New York, NY 10013, U.S.A.
Website: <http://www.citi.com/dr>
Tel: 1-877-2484237 (toll free)
Tel: 1-781-5754555 (out of US)
Fax: 1-201-3243284
E-mail: citibank@shareholders-online.com
TSMC's depository receipts of the common shares are listed on New York
Stock Exchange (NYSE) under the symbol TSM. The information relating
to TSM is available at <http://www.nyse.com> and <http://mops.twse.com.tw>

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TSMC Design Technology Canada Inc.

535 Legget Dr., Suite 600, Kanata, ON K2K 3B8, Canada
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Fax: 613-576-1999

TSMC Spokesperson

Name: Lora Ho
Title: Senior Vice President & CFO
Tel: 886-3-5054602 Fax: 886-3-5637000
Email: cyhsu@tsmc.com

Deputy Spokesperson/Corporate Communications

Name: Elizabeth Sun
Title: Director, TSMC Corporate Communication Division
Tel: 886-3-5682085 Fax: 886-3-5637000
Email: elizabeth_sun@tsmc.com

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Fax: 1-201-3243284
E-mail: citibank@shareholders-online.com
TSMC's depository receipts of the common shares are listed on New York
Stock Exchange (NYSE) under the symbol TSM. The information relating to
TSM is available at <http://www.nyse.com> and <http://mops.twse.com.tw>

An aerial photograph of a city grid, showing streets and buildings, overlaid with a semi-transparent red color. The grid pattern is prominent, with some buildings appearing as bright white rectangles against the red background.

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1. Condensed Balance Sheet

1.1 Condensed Balance Sheet from 2012 to 2013 (Consolidated)

Unit: NT\$ thousands

Item	2012	2013
Current Assets	250,325,436	358,486,654
Long-term Investments (Note 1)	65,717,240	89,183,810
Property, Plant and Equipment	617,562,188	792,665,913
Intangible Assets	10,959,569	11,490,383
Other Assets (Note 2)	16,790,075	11,228,217
Total Assets	961,354,508	1,263,054,977
Current Liabilities		
Before Distribution	148,473,947	189,777,934
After Distribution	226,247,254	(Note 3)
Noncurrent Liabilities	89,786,655	225,501,958
Total Liabilities		
Before Distribution	238,260,602	415,279,892
After Distribution	316,033,909	(Note 3)
Equity Attributable to Shareholders of the Parent		
Capital Stock	259,244,357	259,286,171
Capital Surplus	55,675,340	55,858,626
Retained Earnings		
Before Distribution	408,411,468	518,193,152
After Distribution	330,638,161	(Note 3)
Others	(2,780,485)	14,170,306
Equity Attributable to Shareholders of the Parent		
Before Distribution	720,550,680	847,508,255
After Distribution	642,777,373	(Note 3)
Noncontrolling Interests	2,543,226	266,830
Total Equity		
Before Distribution	723,093,906	847,775,085
After Distribution	645,320,599	(Note 3)

Note 1: Long-term investments consists of noncurrent available-for-sale financial assets, financial assets carried at cost and investments accounted for using equity method.

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

Note 3: Pending for shareholders' approval.

1.2 Condensed Balance Sheet from 2009 to 2011 (Consolidated) - ROC GAAP

Unit: NT\$ thousands

Item	2009	2010	2011
Current Assets	259,803,748	261,519,317	225,260,396
Long-term Investments	37,845,503	39,775,528	34,458,504
Fixed Assets	273,674,787	388,444,023	490,374,916
Other Assets	23,372,182	29,190,036	24,171,126
Total Assets	594,696,220	718,928,904	774,264,942
Current Liabilities			
Before Distribution	79,133,288	123,191,113	117,006,687
After Distribution	156,841,408	200,921,349	194,755,355
Long-term Liabilities	11,388,479	12,050,755	20,458,493
Other Liabilities	5,125,905	4,982,631	4,756,211
Total Liabilities			
Before Distribution	95,647,672	140,224,499	142,221,391
After Distribution	173,355,792	217,954,735	219,970,059
Capital Stock	259,027,066	259,100,787	259,162,226
Capital Surplus	55,486,010	55,698,434	55,846,357
Retained Earnings			
Before Distribution	181,882,682	265,779,571	322,191,155
After Distribution	104,174,562	188,049,335	244,442,487
Cumulative Transaction Adjustments	(1,766,667)	(6,543,163)	(6,433,369)
Unrealized Gain/Loss on Financial Instruments	453,621	109,289	(1,172,855)
Equity Attributable to Shareholders of the Parent			
Before Distribution	495,082,712	574,144,918	629,593,514
After Distribution	417,374,592	496,414,682	551,844,846
Minority Interests	3,965,836	4,559,487	2,450,037
Total Equity			
Before Distribution	499,048,548	578,704,405	632,043,551
After Distribution	421,340,428	500,974,169	554,294,883

1.3 Condensed Balance Sheet from 2012 to 2013 (Unconsolidated)

Unit: NT\$ thousands

Item	2012	2013
Current Assets	205,819,614	257,623,763
Long-term Investments (Note 1)	139,634,200	165,545,159
Property, Plant and Equipment	586,636,036	770,443,494
Intangible Assets	6,449,837	7,069,456
Other Assets (Note 2)	13,597,966	7,897,131
Total Assets	952,137,653	1,208,579,003
Current Liabilities		
Before Distribution	144,528,616	187,195,744
After Distribution	222,301,923	(Note 3)
Noncurrent Liabilities	87,058,357	173,875,004
Total Liabilities		
Before Distribution	231,586,973	361,070,748
After Distribution	309,360,280	(Note 3)
Equity		
Capital Stock	259,244,357	259,286,171
Capital Surplus	55,675,340	55,858,626
Retained Earnings		
Before Distribution	408,411,468	518,193,152
After Distribution	330,638,161	(Note 3)
Others	(2,780,485)	14,170,306
Total Equity		
Before Distribution	720,550,680	847,508,255
After Distribution	642,777,373	(Note 3)

Note 1: Long-term investments consists of financial assets carried at cost and investments accounted for using equity method.

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

Note 3: Pending for shareholders' approval.

1.4 Condensed Balance Sheet from 2009 to 2011 (Unconsolidated) - ROC GAAP

Unit: NT\$ thousands

Item	2009	2010	2011
Current Assets	185,831,537	192,234,282	158,563,352
Long-term Investments	118,427,813	117,913,756	129,400,844
Fixed Assets	254,751,526	366,854,299	454,373,533
Other Assets	18,415,746	24,237,329	19,070,145
Total Assets	577,426,622	701,239,666	761,407,874
Current Liabilities			
Before Distribution	72,571,095	118,022,260	109,514,430
After Distribution	150,279,215	195,752,496	187,263,098
Long-term Liabilities	4,916,390	4,500,000	18,000,000
Other Liabilities	4,856,425	4,572,488	4,299,930
Total Liabilities			
Before Distribution	82,343,910	127,094,748	131,814,360
After Distribution	160,052,030	204,824,984	209,563,028
Capital Stock	259,027,066	259,100,787	259,162,226
Capital Surplus	55,486,010	55,698,434	55,846,357
Retained Earnings			
Before Distribution	181,882,682	265,779,571	322,191,155
After Distribution	104,174,562	188,049,335	244,442,487
Cumulative Transaction Adjustments	(1,766,667)	(6,543,163)	(6,433,369)
Unrealized Gain/Loss on Financial Instruments	453,621	109,289	(1,172,855)
Total Equity			
Before Distribution	495,082,712	574,144,918	629,593,514
After Distribution	417,374,592	496,414,682	551,844,846

2. Condensed Statement of Comprehensive Income / Condensed Statement of Income

2.1 Condensed Statement of Comprehensive Income from 2012 to 2013 (Consolidated)

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

Item	2012	2013
Net Revenue	506,745,234	597,024,197
Gross Profit	244,137,107	280,945,507
Income from Operations	181,176,868	209,429,363
Non-operating Income and Expenses	499,588	6,057,759
Income before Income Tax	181,676,456	215,487,122
Net Income	166,123,802	188,018,937
Other Comprehensive Income for the Year, Net of Income Tax	4,252,632	16,352,248
Total Comprehensive Income for the Year	170,376,434	204,371,185
Net Income (Loss) Attributable to:		
Shareholders of the Parent	166,318,286	188,146,790
Noncontrolling Interests	(194,484)	(127,853)
Total Comprehensive Income (Loss) Attributable to:		
Shareholders of the Parent	170,521,543	204,505,782
Noncontrolling Interests	(145,109)	(134,597)
Basic Earnings Per Share	6.42*	7.26*

* Based on weighted average shares outstanding in each year

2.2 Condensed Statement of Income from 2009 to 2011 (Consolidated) - ROC GAAP

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

Item	2009	2010	2011
Net Sales	295,742,239	419,537,911	427,080,645
Gross Profit	129,328,611	207,053,591	194,069,228
Income from Operations	91,961,886	159,175,335	141,557,418
Non-operating Income and Gains	5,653,548	13,136,072	5,358,527
Non-operating Expenses and Losses	2,152,787	2,041,012	1,768,268
Interest Revenue	2,600,925	1,665,193	1,479,514
Interest Expense	391,479	425,356	626,725
Income before Income Tax	95,462,647	170,270,395	145,147,677
Net Income	89,466,223	162,281,930	134,453,260
Net Income Attributable to Shareholders of the Parent	89,217,836	161,605,009	134,201,279
Basic Earnings Per Share	3.45*	6.24*	5.18*

* Based on weighted average shares outstanding in each year

2.3 Condensed Statement of Comprehensive Income from 2012 to 2013 (Unconsolidated)

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

Item	2012	2013
Net Revenue	500,369,525	591,087,600
Gross Profit	234,850,311	271,644,860
Income from Operations	176,820,141	204,653,892
Non-operating Income and Expenses	6,932,246	11,062,658
Income before Income Tax	183,752,387	215,716,550
Net Income	166,318,286	188,146,790
Other Comprehensive Income for the Year, Net of Income Tax	4,203,257	16,358,992
Total Comprehensive Income for the Year	170,521,543	204,505,782
Basic Earnings Per Share	6.42*	7.26*

* Based on weighted average shares outstanding in each year

2.4 Condensed Statement of Income from 2009 to 2011 (Unconsolidated) - ROC GAAP

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

Item	2009	2010	2011
Net Sales	285,742,868	406,963,312	418,245,493
Gross Profit	126,475,970	196,989,302	185,560,865
Income from Operations	94,522,353	154,846,508	138,905,763
Non-operating Income and Gains	4,121,509	15,907,968	7,287,046
Non-operating Expenses and Losses	3,662,840	1,464,272	1,484,965
Interest Revenue	1,117,374	764,027	697,196
Interest Expense	142,026	214,641	445,887
Income before Income Tax	94,981,022	169,290,204	144,707,844
Net Income	89,217,836	161,605,009	134,201,279
Basic Earnings Per Share	3.45*	6.24*	5.18*

* Based on weighted average shares outstanding in each year

3. Financial Analysis

3.1 Financial Analysis from 2012 to 2013 (Consolidated)

		2012	2013
Capital Structure Analysis	Debts Ratio (%)	24.78	32.88
	Long-term Fund to Property, Plant and Equipment (%)	131.63	135.40
Liquidity Analysis	Current Ratio (%)	168.60	188.90
	Quick Ratio (%)	142.39	168.57
	Times Interest Earned (Times)	177.92	82.41
Operating Performance Analysis	Average Collection Turnover (Times)	9.64	9.11
	Days Sales Outstanding	37.86	40.06
	Average Inventory Turnover (Times)	8.38	8.39
	Average Inventory Turnover Days	43.56	43.49
	Average Payment Turnover (Times)	19.38	20.01
	Property, Plant and Equipment Turnover (Times)	0.91	0.85
	Total Assets Turnover (Times)	0.58	0.54
Profitability Analysis	Return on Total Assets (%)	19.19	17.11
	Return on Equity Attributable to Shareholders of the Parent (%)	24.68	24.00
	Operating Income to Paid-in Capital Ratio (%)	69.89	80.77
	Pre-tax Income to Paid-in Capital Ratio (%)	70.08	83.11
	Net Margin (%)	32.78	31.49
	Basic Earnings Per Share (NT\$)	6.42	7.26
	Diluted Earnings Per Share (NT\$)	6.41	7.26
Cash Flow	Cash Flow Ratio (%)	191.93	183.05
	Cash Flow Adequacy Ratio (%) (Note 1)	94.71	88.35
	Cash Flow Reinvestment Ratio (%)	11.46	12.16
Leverage	Operating Leverage	2.32	2.40
	Financial Leverage	1.01	1.01
Industry Specific Key Performance Indicator	Billing Utilization Rate (%) (Note 2)	91	91
	Advanced Technologies (40/45-nanometer and below) Percentage of Wafer Sales (%)	39	50
	Sales Growth (%)	18.7 (Note 3)	17.82
	Net Income Growth (%)	23.9 (Note 3)	13.12
Analysis of deviation of 2013 vs. 2012 over 20%:			
1. The debt ratio increased by 33% as a result of increase in bonds payable.			
2. The times interest earned decreased by 54%, primarily due to increase in interest expense.			

Note 1: 2008-2011 operating cash flow are based on ROC GAAP.

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

Note 3: 2011 net sales and net income are based on ROC GAAP.

*Glossary

- Capital Structure Analysis
 - Debt Ratio = Total Liabilities / Total Assets
 - Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment
- Liquidity Analysis
 - Current Ratio = Current Assets / Current Liabilities
 - Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
 - Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses
- Operating Performance Analysis
 - Average Collection Turnover = Net Sales / Average Trade Receivables
 - Days Sales Outstanding = 365 / Average Collection Turnover
 - Average Inventory Turnover = Cost of Sales / Average Inventory
 - Average Inventory Turnover Days = 365 / Average Inventory Turnover
 - Average Payment Turnover = Cost of Sales / Average Trade Payables
 - Property, Plant and Equipment Turnover = Net Sales / Average Net Property, Plant and Equipment
 - Total Assets Turnover = Net Sales / Average Total Assets
- Profitability Analysis
 - Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
 - 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
 - Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
 - Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
 - Net Margin = Net Income / Net Sales
 - Earnings Per Share = (Net income attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
- Cash Flow
 - Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
 - Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
 - Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)
- Leverage
 - Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
 - Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

3.2 Financial Analysis from 2009 to 2011 (Consolidated) - ROC GAAP

		2009	2010	2011
Capital Structure Analysis	Debts Ratio (%)	16.08	19.50	18.37
	Long-term Fund to Fixed Assets (%)	186.51	152.08	133.06
Liquidity Analysis	Current Ratio (%)	328.31	212.29	192.52
	Quick Ratio (%)	300.15	187.57	170.06
	Times Interest Earned (Times)	244.85	401.30	229.27
Operating Performance Analysis	Average Collection Turnover (Times)	10.78	10.57	10.06
	Days Sales Outstanding	33.86	34.54	36.29
	Average Inventory Turnover (Times)	9.30	8.62	8.75
	Average Inventory Turnover Days	39.25	42.36	41.70
	Average Payment Turnover (Times)	18.77	17.23	18.77
	Fixed Assets Turnover (Times)	1.14	1.27	0.97
	Total Assets Turnover (Times)	0.51	0.64	0.57
Profitability Analysis	Return on Total Assets (%)	15.57	24.77	18.08
	Return on Equity (%)	18.37	30.23	22.30
	Operating Income to Paid-in Capital Ratio (%)	35.50	61.43	54.62
	Pre-tax Income to Paid-in Capital Ratio (%)	36.85	65.72	56.01
	Net Margin (%)	30.25	38.68	31.48
	Basic Earnings Per Share (NT\$)	3.45	6.24	5.18
	Diluted Earnings Per Share (NT\$)	3.44	6.23	5.18
Cash Flow	Cash Flow Ratio (%)	202.15	186.28	211.60
	Cash Flow Adequacy Ratio (%)	126.39	113.91	101.93
	Cash Flow Reinvestment Ratio (%)	6.90	11.13	11.12
Leverage	Operating Leverage	2.53	2.12	2.50
	Financial Leverage	1.00	1.00	1.00
Industry Specific Key Performance Indicator	Billing Utilization Rate (%) (Note)	75	101	91
	Advanced Technologies (40/45-nanometer and below) Percentage of Wafer Sales (%)	4	17	26
	Sales Growth (%)	-11.2	41.9	1.8
	Net Income Growth (%)	-10.7	81.1	-17.0

Note: Capacity includes wafers committed by VIS and SSMC.

*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)

3.3 Financial Analysis from 2012 to 2013 (Unconsolidated)

		2012	2013
Capital Structure Analysis	Debt Ratio (%)	24.32	29.88
	Long-term fund to Property, Plant and Equipment Ratio (%)	137.67	132.57
Liquidity Analysis	Current Ratio (%)	142.41	137.62
	Quick Ratio (%)	117.49	118.35
	Times Interest Earned (Times)	195.42	104.10
Operating Performance Analysis	Average Collection Turnover (Times)	9.87	9.26
	Days Sales Outstanding	36.98	39.40
	Average Inventory Turnover (Times)	9.13	9.06
	Average Inventory Turnover Days	39.97	40.30
	Average Payment Turnover (Times)	18.22	18.55
	Property, Plant and Equipment Turnover (Times)	0.96	0.87
	Total Assets Turnover (Times)	0.58	0.55
Profitability Analysis	Return on Total Assets (%)	19.45	17.58
	Return on Equity (%)	24.68	24.00
	Operating Income to Paid-in Capital Ratio (%)	68.21	78.93
	Pre-tax Income to Paid-in Capital Ratio (%)	70.88	83.20
	Net Margin (%)	33.24	31.83
	Diluted Earnings Per Share (NT\$)	6.41	7.26
Cash Flow	Cash Flow Ratio (%)	189.88	179.11
	Cash Flow Adequacy Ratio (%) (Note)	93.23	86.78
	Cash Flow Reinvestment Ratio (%)	11.36	12.32
Leverage	Operating Leverage	2.37	2.46
	Financial Leverage	1.01	1.01
Analysis of deviation of 2013 vs. 2012 over 20%:			
1. The debt ratio increased by 23% as a result of increase in bonds payable.			
2. The times interest earned decreased by 47%, primarily due to increase in interest expense.			

Note: 2008-2011 operating cash flow are based on ROC GAAP.

*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 = 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 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)

3.4 Financial Analysis from 2009 to 2011 (Unconsolidated) - ROC GAAP

		2009	2010	2011
Capital Structure Analysis	Debt Ratio (%)	14.26	18.12	17.31
	Long-term Fund to Fixed Assets Ratio (%)	196.27	157.73	142.52
Liquidity Analysis	Current Ratio (%)	256.07	162.88	144.79
	Quick Ratio (%)	228.94	140.07	122.41
	Times Interest Earned (Times)	669.76	789.71	325.54
Operating Performance Analysis	Average Collection Turnover (Times)	11.17	10.93	10.40
	Days Sales Outstanding	32.66	33.40	35.09
	Average Inventory Turnover (Times)	10.06	9.44	9.61
	Average Inventory Turnover Days	36.29	38.67	37.97
	Average Payment Turnover (Times)	18.46	16.89	18.17
	Fixed Assets Turnover (Times)	1.21	1.31	1.02
	Total Assets Turnover (Times)	0.51	0.64	0.57
Profitability Analysis	Return on Total Assets (%)	15.98	25.31	18.40
	Return on Equity (%)	18.37	30.23	22.30
	Operating Income to Paid-in Capital Ratio (%)	36.49	59.76	53.60
	Pre-tax Income to Paid-in Capital Ratio (%)	36.67	65.34	55.84
	Net Margin (%)	31.22	39.71	32.09
	Basic Earnings Per Share (NT\$)	3.45	6.24	5.18
	Diluted Earnings Per Share (NT\$)	3.44	6.23	5.18
Cash Flow	Cash Flow Ratio (%)	214.83	188.12	217.99
	Cash Flow Adequacy Ratio (%)	122.02	109.98	99.13
	Cash Flow Reinvestment Ratio (%)	6.99	11.20	11.07
Leverage	Operating Leverage	2.46	2.17	2.54
	Financial Leverage	1.00	1.00	1.00

*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)

4. Auditors' Opinions from 2009 to 2013

Year	CPA	Audit Opinion
2009	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion with explanatory paragraph referring to adoption of new accounting standards
2010	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion
2011	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion
2012	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion
2013	Yi-Hsin Kao, Hung-Wen Huang	An Unqualified Opinion

Deloitte & Touche
12F, No. 156, Sec. 3, Min-Sheng E. Rd., Taipei, Taiwan, R.O.C.
Tel: 886-2-2545-9988

5. Audit Committee's Review Report

The Board of Directors has prepared the Company's 2013 Business Report, Financial Statements, and proposal for allocation of profits. 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 profit 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 Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Taiwan Semiconductor Manufacturing Company Limited

Chairman of the Audit Committee: Sir Peter Leahy Bonfield



February 18, 2014

6. Financial Difficulties

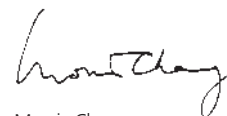
The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2013 and as of the date of this Annual Report: None

7. Consolidated Financial Statements for the Years Ended December 31, 2013 and 2012 and Independent Auditors' Report

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2013, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Accounting Standard 27, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,
Taiwan Semiconductor Manufacturing Company Limited
By



Morris Chang
Chairman

February 18, 2014

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

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

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

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

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



February 18, 2014

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012		LIABILITIES AND EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Note 6)	\$ 242,695,447	19	\$ 143,410,588	15	\$ 143,472,277	18	Short-term loans (Note 18)	\$ 15,645,000	1	\$ 34,714,929	4	\$ 25,926,528	3
Financial assets at fair value through profit or loss (Note 7)	90,353	-	39,554	-	15,360	-	Financial liabilities at fair value through profit or loss (Note 7)	33,750	-	15,625	-	13,742	-
Available-for-sale financial assets (Note 8)	760,793	-	2,410,635	-	3,308,770	-	Hedging derivative financial liabilities (Note 10)	-	-	-	-	232	-
Held-to-maturity financial assets (Note 9)	1,795,949	-	5,056,973	1	3,825,680	1	Accounts payable	14,670,260	1	14,490,429	2	10,530,487	1
Notes and accounts receivable, net (Note 11)	71,649,926	6	57,777,586	6	45,830,288	6	Payables to related parties (Note 37)	1,688,456	-	748,613	-	1,328,521	-
Receivables from related parties (Note 37)	291,708	-	353,811	-	185,764	-	Salary and bonus payable	8,330,956	1	7,535,296	1	6,148,499	1
Other receivables from related parties (Note 37)	221,576	-	185,550	-	122,292	-	Accrued profit sharing to employees and bonus to directors and supervisors (Note 24)	12,738,801	1	11,186,591	1	9,081,293	1
Inventories (Notes 5 and 12)	37,494,893	3	37,830,498	4	24,840,582	3	Payables to contractors and equipment suppliers	89,810,160	7	44,831,798	5	35,540,526	5
Other financial assets (Note 38)	501,785	-	473,833	-	617,142	-	Income tax payable (Note 31)	22,563,286	2	15,635,594	2	10,656,124	1
Other current assets (Note 17)	2,984,224	-	2,786,408	-	2,174,014	-	Provisions (Notes 5 and 19)	7,603,781	1	6,038,003	-	5,068,263	1
							Accrued expenses and other current liabilities (Notes 15 and 22)	16,693,484	1	13,148,944	1	13,218,235	2
Total current assets	358,486,654	28	250,325,436	26	224,392,169	28	Current portion of bonds payable and long-term bank loans (Notes 20 and 21)	-	-	128,125	-	4,562,500	1
NONCURRENT ASSETS							Total current liabilities	189,777,934	15	148,473,947	16	122,074,950	16
Available-for-sale financial assets (Note 8)	58,721,959	5	38,751,245	4	-	-	NONCURRENT LIABILITIES						
Held-to-maturity financial assets (Note 9)	-	-	-	-	5,243,167	1	Hedging derivative financial liabilities (Note 10)	5,481,616	-	-	-	-	-
Financial assets carried at cost (Note 13)	2,145,591	-	3,605,077	-	4,315,005	1	Bonds payable (Note 20)	210,767,625	17	80,000,000	8	18,000,000	3
Investments accounted for using equity method (Notes 5 and 14)	28,316,260	2	23,360,918	3	24,886,931	3	Long-term bank loans (Note 21)	40,000	-	1,359,375	-	1,587,500	-
Property, plant and equipment (Notes 5 and 15)	792,665,913	63	617,562,188	64	490,422,153	63	Provisions (Note 19)	10,452	-	4,891	-	2,889	-
Intangible assets (Notes 5 and 16)	11,490,383	1	10,959,569	1	10,861,563	1	Other long-term payables (Note 22)	36,000	-	54,000	-	-	-
Deferred income tax assets (Notes 5 and 31)	7,239,609	1	13,128,219	2	13,604,218	2	Obligations under finance leases (Note 15)	776,230	-	748,115	-	870,993	-
Refundable deposits (Note 37)	2,519,031	-	2,426,712	-	4,518,863	1	Accrued pension cost (Notes 5 and 23)	7,589,926	1	6,921,234	1	6,241,024	1
Other noncurrent assets (Note 17)	1,469,577	-	1,235,144	-	1,306,746	-	Guarantee deposits	151,660	-	203,890	-	443,983	-
							Others	648,449	-	495,150	-	400,831	-
Total noncurrent assets	904,568,323	72	711,029,072	74	555,158,646	72	Total noncurrent liabilities	225,501,958	18	89,786,655	9	27,547,220	4
							Total liabilities	415,279,892	33	238,260,602	25	149,622,170	20
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT							EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
Capital stock (Note 24)	259,286,171	21	259,244,357	27	259,162,226	33	Capital stock (Note 24)	259,286,171	21	259,244,357	27	259,162,226	33
Capital surplus (Note 24)	55,858,626	4	55,675,340	6	55,471,662	7	Capital surplus (Note 24)	55,858,626	4	55,675,340	6	55,471,662	7
Retained earnings (Note 24)							Retained earnings (Note 24)						
Appropriated as legal capital reserve	132,436,003	11	115,820,123	12	102,399,995	13	Appropriated as legal capital reserve	132,436,003	11	115,820,123	12	102,399,995	13
Appropriated as special capital reserve	2,785,741	-	7,606,224	1	6,433,874	1	Appropriated as special capital reserve	2,785,741	-	7,606,224	1	6,433,874	1
Unappropriated earnings	382,971,408	30	284,985,121	29	211,630,458	27	Unappropriated earnings	382,971,408	30	284,985,121	29	211,630,458	27
	518,193,152	41	408,411,468	42	320,464,327	41		518,193,152	41	408,411,468	42	320,464,327	41
Others (Note 24)	14,170,306	1	(2,780,485)	-	(7,606,219)	(1)	Others (Note 24)	14,170,306	1	(2,780,485)	-	(7,606,219)	(1)
Equity attributable to shareholders of the parent	847,508,255	67	720,550,680	75	627,491,996	80	Equity attributable to shareholders of the parent	847,508,255	67	720,550,680	75	627,491,996	80
NONCONTROLLING INTERESTS (Note 24)							NONCONTROLLING INTERESTS (Note 24)						
	266,830	-	2,543,226	-	2,436,649	-		266,830	-	2,543,226	-	2,436,649	-
Total equity	847,775,085	67	723,093,906	75	629,928,645	80	Total equity	847,775,085	67	723,093,906	75	629,928,645	80
TOTAL	\$ 1,263,054,977	100	\$ 961,354,508	100	\$ 779,550,815	100	TOTAL	\$ 1,263,054,977	100	\$ 961,354,508	100	\$ 779,550,815	100

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF 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						
	Shares (In Thousands)	Amount	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total	Total		
BALANCE, JANUARY 1, 2012	25,916,222	\$ 259,162,226	\$ 55,471,662	\$ 102,399,995	\$ 6,433,874	\$ 211,630,458	\$ 320,464,327	\$ (6,433,364)	\$ (1,172,762)	\$ (93)	\$ (7,606,219)	\$ 627,491,996	\$ 2,436,649	\$ 629,928,645
Appropriations of prior year's earnings														
Legal capital reserve	-	-	-	13,420,128	-	(13,420,128)	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	1,172,350	(1,172,350)	-	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,748,668)	(77,748,668)	-	-	-	-	(77,748,668)	-	(77,748,668)
Total	-	-	-	13,420,128	1,172,350	(92,341,146)	(77,748,668)	-	-	-	-	(77,748,668)	-	(77,748,668)
Net income in 2012	-	-	-	-	-	166,318,286	166,318,286	-	-	-	-	166,318,286	(194,484)	166,123,802
Other comprehensive income in 2012, net of income tax	-	-	-	-	-	(622,477)	(622,477)	(4,320,442)	9,146,083	93	4,825,734	4,203,257	49,375	4,252,632
Total comprehensive income in 2012	-	-	-	-	-	165,695,809	165,695,809	(4,320,442)	9,146,083	93	4,825,734	170,521,543	(145,109)	170,376,434
Issuance of stock from exercise of employee stock options	8,213	82,131	160,357	-	-	-	-	-	-	-	-	242,488	-	242,488
Stock option compensation cost of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	6,219	6,219
Adjustments to share of changes in equity of associates and joint venture	-	-	2,588	-	-	-	-	-	-	-	-	2,588	-	2,588
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	40,733	-	-	-	-	-	-	-	-	40,733	(40,733)	-
Increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	286,200	286,200
BALANCE, DECEMBER 31, 2012	25,924,435	259,244,357	55,675,340	115,820,123	7,606,224	284,985,121	408,411,468	(10,753,806)	7,973,321	-	(2,780,485)	720,550,680	2,543,226	723,093,906
Appropriations of prior year's earnings														
Legal capital reserve	-	-	-	16,615,880	-	(16,615,880)	-	-	-	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	(4,820,483)	4,820,483	-	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,773,307)	(77,773,307)	-	-	-	-	(77,773,307)	-	(77,773,307)
Total	-	-	-	16,615,880	(4,820,483)	(89,568,704)	(77,773,307)	-	-	-	-	(77,773,307)	-	(77,773,307)
Net income in 2013	-	-	-	-	-	188,146,790	188,146,790	-	-	-	-	188,146,790	(127,853)	188,018,937

(Continued)

	Equity Attributable to Shareholders of the Parent												Noncontrolling Interests	Total Equity
	Capital Stock - Common Stock		Capital Surplus	Retained Earnings				Others				Total		
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total			
Other comprehensive income in 2013, net of income tax	-	\$ -	\$ -	\$ -	\$ -	\$ (591,799)	\$ (591,799)	\$ 3,613,444	\$ 13,337,460	\$ (113)	\$ 16,950,791	\$ 16,358,992	\$ (6,744)	\$ 16,352,248
Total comprehensive income in 2013	-	-	-	-	-	187,554,991	187,554,991	3,613,444	13,337,460	(113)	16,950,791	204,505,782	(134,597)	204,371,185
Issuance of stock from exercise of employee stock options	4,182	41,814	82,756	-	-	-	-	-	-	-	-	124,570	-	124,570
Stock option compensation cost of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	5,312	5,312
Adjustments to share of changes in equity of associates and joint venture	-	-	38,084	-	-	-	-	-	-	-	-	38,084	-	38,084
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	62,446	-	-	-	-	-	-	-	-	62,446	(62,446)	-
Increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	-	188,488	188,488
Effect of deconsolidation of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(2,273,153)	(2,273,153)
BALANCE, DECEMBER 31, 2013	25,928,617	\$ 259,286,171	\$ 55,858,626	\$ 132,436,003	\$ 2,785,741	\$ 382,971,408	\$ 518,193,152	\$ (7,140,362)	\$ 21,310,781	\$ (113)	\$ 14,170,306	\$ 847,508,255	\$ 266,830	\$ 847,775,085

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 215,487,122	\$ 181,676,456
Adjustments for:		
Depreciation expense	153,979,847	129,168,514
Amortization expense	2,202,022	2,180,775
Stock option compensation cost of subsidiary	5,312	6,219
Finance costs	2,646,776	1,020,422
Share of profits of associates and joint venture	(3,972,031)	(2,073,729)
Interest income	(1,835,980)	(1,645,036)
Gain on disposal of property, plant and equipment and intangible assets, net	(48,848)	(103)
Impairment loss on property, plant and equipment	-	444,505
Impairment loss of financial assets	352,214	4,231,602
Gain on disposal of available-for-sale financial assets, net	(1,267,086)	(399,598)
Gain on disposal of financial assets carried at cost, net	(44,721)	(141,491)
Loss (gain) on disposal of investments in associates	733	(4,977)
Gain on deconsolidation of subsidiary	(293,578)	-
Unrealized gross profit on sales to associates	20,870	25,029
Loss (gain) on foreign exchange, net	317,547	(3,219,144)
Dividend income	(506,143)	(71,057)
Income from receipt of equity securities in settlement of trade receivables	(9,977)	(886)
Loss on hedging instruments	5,602,779	-
Gain on arising from changes in fair value of available-for-sale financial assets in hedge effective portion	(5,071,118)	-
Changes in operating assets and liabilities:		
Derivative financial instruments	(32,189)	(22,311)
Notes and accounts receivable, net	(14,131,066)	(11,947,191)
Receivables from related parties	(204,278)	(168,047)
Other receivables from related parties	50,589	(63,258)
Inventories	122,472	(12,989,916)
Other financial assets	18,578	53,182
Other current assets	(312,251)	648,051
Accounts payable	346,401	3,656,358
Payables to related parties	850,094	(605,182)
Salary and bonus payable	883,925	1,386,797
Accrued profit sharing to employees and bonus to directors and supervisors	1,552,210	2,105,298
Accrued expenses and other current liabilities	3,531,017	2,051,785
Provisions	1,595,810	977,901
Accrued pension cost	9,554	(5,769)
Cash generated from operations	361,846,606	296,275,199
Income taxes paid	(14,463,069)	(11,312,039)
Net cash generated by operating activities	347,383,537	284,963,160
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	(21,303)	(31,525,876)
Held-to-maturity financial assets	(1,795,949)	-
Financial assets carried at cost	(27,165)	(56,512)
Property, plant and equipment	(287,594,773)	(246,137,361)
Intangible assets	(2,750,361)	(1,782,299)

(Continued)

	2013	2012
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	\$ 2,418,578	\$ 964,367
Held-to-maturity financial assets	5,145,850	2,711,440
Financial assets carried at cost	67,986	353,656
Property, plant and equipment	173,554	157,484
Other assets	-	26,688
Costs from entering into hedging transactions	(143,982)	-
Interest received	1,790,725	1,719,026
Other dividends received	506,143	71,057
Dividends received from associates	2,141,881	2,088,472
Refundable deposits paid	(98,888)	(517,162)
Refundable deposits refunded	113,399	2,609,313
Net cash outflow from deconsolidation of subsidiary (Note 34)	(979,910)	-
Net cash used in investing activities	(281,054,215)	(269,317,707)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	130,844,821	62,000,000
Repayment of bonds	-	(4,500,000)
Increase (decrease) in short-term loans	(19,636,240)	9,747,094
Increase in long-term bank loans	690,000	50,000
Repayment of long-term bank loans	(62,500)	(212,500)
Repayment of other long-term payables	(853,788)	(2,367,866)
Interest paid	(1,330,886)	(736,607)
Guarantee deposits received	41,519	15,671
Guarantee deposits refunded	(113,087)	(255,764)
Decrease in obligations under finance leases	(27,796)	(108,863)
Proceeds from exercise of employee stock options	124,570	242,488
Cash dividends	(77,773,307)	(77,748,668)
Increase in noncontrolling interests	202,619	286,200
Net cash generated by (used in) financing activities	32,105,925	(13,588,815)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	849,612	(2,118,327)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99,284,859	(61,689)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	143,410,588	143,472,277
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 242,695,447	\$ 143,410,588

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

1. GENERAL

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

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

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

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

1) IFRS 9, "Financial Instruments"

Under IFRS 9, all recognized financial assets currently in the scope of IAS 39, "Financial Instruments: Recognition and Measurement," will be subsequently measured at either the amortized cost or the fair value. If the objective of the Company's business model is to hold the financial asset to collect the contractual cash flows which are solely for payments of principal and interest on the principal amount outstanding, such assets are measured at the amortized cost. All other financial assets must be measured at the fair value through profit or loss as of the end of the reporting period.

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

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

2) IFRS 12, "Disclosure of Interests in Other Entities"

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

3) IFRS 13, "Fair Value Measurement"

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

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

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

5) Amendments to IAS 19, "Employee Benefits"

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Statement of Compliance

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

Basis of Preparation

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

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

Basis of Consolidation

The basis for the consolidated financial statements

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

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

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

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

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

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

- a. the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost; and
- b. the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any noncontrolling interest.

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

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

The subsidiaries in the consolidated financial statements

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

Name of Investor	Name of Investee	Main Businesses and Products	Establishment and Operating Location	Percentage of Ownership			Note
				December 31, 2013	December 31, 2012	January 1, 2012	
TSMC	TSMC North America	Selling and marketing of integrated circuits and semiconductor devices	San Jose, California, U.S.A.	100%	100%	100%	-
	TSMC Japan Limited (TSMC Japan)	Marketing activities	Yokohama, Japan	100%	100%	100%	a)
	TSMC Partners, Ltd. (TSMC Partners)	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	Tortola, British Virgin Islands	100%	100%	100%	-
	TSMC Korea Limited (TSMC Korea)	Customer service and technical supporting activities	Seoul, Korea	100%	100%	100%	a)
	TSMC Europe B.V. (TSMC Europe)	Marketing and engineering supporting activities	Amsterdam, the Netherlands	100%	100%	100%	a)
	TSMC Global, Ltd. (TSMC Global)	Investment activities	Tortola, British Virgin Islands	100%	100%	100%	-
	TSMC China Company Limited (TSMC China)	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	Shanghai, China	100%	100%	100%	-
	VentureTech Alliance Fund III, L.P. (VTAF III)	Investing in new start-up technology companies	Cayman Islands	50%	50%	53%	-
	VentureTech Alliance Fund II, L.P. (VTAF II)	Investing in new start-up technology companies	Cayman Islands	98%	98%	98%	-
	Emerging Alliance Fund, L.P. (Emerging Alliance)	Investing in new start-up technology companies	Cayman Islands	99.5%	99.5%	99.5%	a)
	Xintec Inc. (Xintec)	Wafer level chip size packaging service	Taoyuan, Taiwan	b)	40%	40%	-
	TSMC Solid State Lighting Ltd. (TSMC SSL)	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	Hsin-Chu, Taiwan	92%	95%	100%	TSMC and TSMC GN aggregately have a controlling interest of 93% in TSMC SSL.
	TSMC Solar Ltd. (TSMC Solar)	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	Tai-Chung, Taiwan	99%	99%	100%	TSMC and TSMC GN aggregately have a controlling interest of 99% in TSMC Solar.
	TSMC Guang Neng Investment, Ltd. (TSMC GN)	Investment activities	Taipei, Taiwan	100%	100%	-	-
TSMC Partners	TSMC Design Technology Canada Inc. (TSMC Canada)	Engineering support activities	Ontario, Canada	100%	100%	100%	a)
	TSMC Technology, Inc. (TSMC Technology)	Engineering support activities	Delaware, U.S.A.	100%	100%	100%	a)
	TSMC Development, Inc. (TSMC Development)	Investment activities	Delaware, U.S.A.	100%	100%	100%	-
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Investing in new start-up technology companies	Cayman Islands	97%	97%	97%	a)
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Investing in new start-up technology companies	Cayman Islands	97%	97%	97%	a)
TSMC Development	WaferTech, LLC (WaferTech)	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	Washington, U.S.A.	100%	100%	100%	-
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak Growth Fund Limited (Growth Fund)	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	Taipei, Taiwan	58%	58%	57%	a)
VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, LLC (VTA Holdings)	Investing in new start-up technology companies	Cayman Islands	100%	100%	100%	a)
		Investing in new start-up technology companies	Delaware, U.S.A.	100%	100%	100%	a)
TSMC SSL	TSMC Lighting North America, Inc. (TSMC Lighting NA)	Selling and marketing of solid state lighting related products	Delaware, U.S.A.	100%	100%	100%	a)
TSMC Solar	TSMC Solar North America, Inc. (TSMC Solar NA)	Selling and marketing of solar related products	Delaware, U.S.A.	100%	100%	100%	a)
	TSMC Solar Europe B.V. (TSMC Solar Europe)	Investing in solar related business	Amsterdam, the Netherlands	100%	100%	100%	a)
	VentureTech Alliance Fund III, L.P. (VTAF III)	Investing in new start-up technology companies	Cayman Islands	49%	49%	46%	-
TSMC Solar Europe	TSMC Solar Europe GmbH	Selling of solar related products and providing customer service	Hamburg, Germany	100%	100%	100%	a)

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

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

Foreign Currencies

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

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

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Instruments

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

Financial assets and liabilities are initially recognized at fair values. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of

the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss. Fair value is determined in the manner described in Note 36.

Financial Assets

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

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

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

Financial Liabilities and Equity Instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

Derivative Financial Instruments

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

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

designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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

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

Inventories

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

Investments Accounted for Using Equity Method

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

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

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

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

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

Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

Leases

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

The Company as lessor

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

The Company as lessee

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

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

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

Intangible Assets

Goodwill

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

Other intangible assets

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

Impairment of Tangible and Intangible Assets

Goodwill

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

Other tangible and intangible assets

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

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

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

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

Provision

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

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

Revenue Recognition

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

Sale of goods

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Royalties, dividend and interest income

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

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

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

Retirement Benefits

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

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

Share-based Payment Arrangements

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

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

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

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

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

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

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

Revenue Recognition

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

Impairment of Tangible and Intangible Assets Other than Goodwill

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

Impairment of Goodwill

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

Impairment Assessment on Investment Using Equity Method

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

Realization of Deferred Income Tax Assets

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

Valuation of Inventory

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

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

Recognition and Measurement of Defined Benefit Plans

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

6. CASH AND CASH EQUIVALENTS

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

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

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

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

Outstanding forward exchange contracts consisted of the following:

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

Outstanding cross currency swap contracts consisted of the following:

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

9. HELD-TO-MATURITY FINANCIAL ASSETS

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

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Financial liabilities</u>			
Current			
Cash flow hedges			
Interest rate swap contracts	\$ -	\$ -	\$ 232
<u>Financial liabilities</u>			
Noncurrent			
Fair value hedges			
Stock forward contracts	\$ 5,481,616	\$ -	\$ -

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

The outstanding stock forward contracts consisted of the following:

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

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

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

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

11. NOTES AND ACCOUNTS RECEIVABLE, NET

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

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

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

Aging analysis of notes and accounts receivable, net

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

Movements of the allowance for doubtful receivables

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

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

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

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

12. INVENTORIES

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

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

13. FINANCIAL ASSETS CARRIED AT COST

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

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

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

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

a. Investments in associates

Associates consisted of the following:

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

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

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

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

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

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

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

The market prices of the investments accounted for using the equity method in publicly traded stocks calculated by the closing price at the end of the reporting period are summarized as follows:

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

b. Investments in jointly controlled entities

Jointly controlled entities consisted of the following:

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
Current assets	\$ 2,335,612	\$ 1,887,122	\$ 1,616,916
Noncurrent assets	\$ 1,564,485	\$ 1,780,903	\$ 1,732,247
Current liabilities	\$ 407,184	\$ 631,803	\$ 495,066
Noncurrent liabilities	\$ 460	\$ 581	\$ 733

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

15. PROPERTY, PLANT AND EQUIPMENT

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

	Year Ended December 31, 2013						
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Deconsolidation of Subsidiary	Effect of Exchange Rate Changes	Balance, End of Year
Cost							
Land and land improvements	\$ 1,527,124	\$ 3,212,000	\$ -	\$ -	\$ (772,029)	\$ 19,814	\$ 3,986,909
Buildings	197,411,851	31,869,046	-	3,797	(986,205)	884,247	229,182,736
Machinery and equipment	1,279,893,177	140,223,121	(2,925,145)	360	(5,630,854)	2,359,135	1,413,919,794
Office equipment	20,067,943	3,791,109	(788,080)	-	(1,055,809)	46,869	22,062,032
Assets under finance leases	766,732	-	-	-	-	37,698	804,430
	<u>1,499,666,827</u>	<u>\$ 179,095,276</u>	<u>\$ (3,713,225)</u>	<u>\$ 4,157</u>	<u>\$ (8,444,897)</u>	<u>\$ 3,347,763</u>	<u>1,669,955,901</u>
Accumulated depreciation and impairment							
Land improvements	367,369	\$ 27,069	\$ -	\$ -	\$ -	\$ 9,754	404,192
Buildings	111,801,731	13,183,558	-	-	(226,908)	475,785	125,234,166
Machinery and equipment	875,510,879	138,314,235	(2,809,185)	-	(3,656,326)	1,854,086	1,009,213,689
Office equipment	13,160,567	2,413,652	(786,464)	-	(599,483)	37,499	14,225,771
Assets under finance leases	328,069	41,333	-	-	-	16,561	385,963
	<u>1,001,168,615</u>	<u>\$ 153,979,847</u>	<u>\$ (3,595,649)</u>	<u>\$ -</u>	<u>\$ (4,482,717)</u>	<u>\$ 2,393,685</u>	<u>1,149,463,781</u>
Equipment under installation and construction in progress	<u>119,063,976</u>	<u>\$ 154,706,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,632,860)</u>	<u>\$ 35,819</u>	<u>272,173,793</u>
	<u>\$ 617,562,188</u>						<u>\$ 792,665,913</u>

	Year Ended December 31, 2012						
	Balance, Beginning of Year	Additions	Disposals	Impairment	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Cost							
Land and land improvements	\$ 1,541,128	\$ 18,500	\$ -	\$ -	\$ -	\$ (32,504)	\$ 1,527,124
Buildings	172,997,391	25,183,927	(54,456)	-	(11,074)	(703,937)	197,411,851
Machinery and equipment	1,057,926,529	226,497,664	(2,104,900)	-	11,040	(2,437,156)	1,279,893,177
Office equipment	17,041,306	3,680,707	(563,454)	-	34	(90,650)	20,067,943
Assets under finance leases	791,480	-	-	-	-	(24,748)	766,732
	<u>1,250,297,834</u>	<u>\$ 255,380,798</u>	<u>\$ (2,722,810)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,288,995)</u>	<u>1,499,666,827</u>
Accumulated depreciation and impairment							
Land improvements	355,555	\$ 26,983	\$ -	\$ -	\$ -	\$ (15,169)	367,369
Buildings	101,081,651	11,154,790	(44,354)	-	(164)	(390,192)	111,801,731
Machinery and equipment	763,112,148	116,070,821	(1,966,751)	422,323	158	(2,127,820)	875,510,879
Office equipment	11,892,768	1,875,785	(555,485)	22,182	6	(74,689)	13,160,567
Assets under finance leases	297,535	40,135	-	-	-	(9,601)	328,069
	<u>876,739,657</u>	<u>\$ 129,168,514</u>	<u>\$ (2,566,590)</u>	<u>\$ 444,505</u>	<u>\$ -</u>	<u>\$ (2,617,471)</u>	<u>1,001,168,615</u>
Equipment under installation and construction in progress	<u>116,863,976</u>	<u>\$ 2,308,355</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,525)</u>	<u>\$ (99,830)</u>	<u>119,063,976</u>
	<u>\$ 490,422,153</u>						<u>\$ 617,562,188</u>

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

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

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

Future minimum lease gross payments were as follows:

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

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

16. INTANGIBLE ASSETS

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

	Year Ended December 31, 2013						Balance, End of Year
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Deconsolidation of Subsidiary	Effect of Exchange Rate Changes	
<u>Cost</u>							
Goodwill	\$ 5,523,707	\$ -	\$ -	\$ -	\$ -	\$ 103,810	\$ 5,627,517
Technology license fees	4,590,548	-	-	(29,564)	(113,340)	(2,816)	4,444,828
Software and system design costs	15,095,421	2,140,675	(18,246)	(111,105)	(25,335)	5,395	17,086,805
Patent and others	3,094,664	578,901	(23,549)	101,007	(42,089)	20,462	3,729,396
	<u>28,304,340</u>	<u>\$ 2,719,576</u>	<u>\$ (41,795)</u>	<u>\$ (39,662)</u>	<u>\$ (180,764)</u>	<u>\$ 126,851</u>	<u>30,888,546</u>
<u>Accumulated amortization</u>							
Technology license fees	\$ 3,128,655	\$ 282,414	\$ -	\$ -	\$ (66,587)	\$ (2,815)	\$ 3,341,667
Software and system design costs	12,126,479	1,344,339	(17,974)	(5,941)	(12,661)	4,893	13,439,135
Patent and others	2,089,637	575,269	(23,549)	-	(25,195)	1,199	2,617,361
	<u>17,344,771</u>	<u>\$ 2,202,022</u>	<u>\$ (41,523)</u>	<u>\$ (5,941)</u>	<u>\$ (104,443)</u>	<u>\$ 3,277</u>	<u>19,398,163</u>
	<u>\$ 10,959,569</u>						<u>\$ 11,490,383</u>

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

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

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

17. OTHER ASSETS

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

18. SHORT-TERM LOANS

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

19. PROVISIONS

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

	Sales Returns and Allowances	Warranties	Total
<u>Year ended December 31, 2013</u>			
Balance, beginning of year	\$ 6,038,003	\$ 4,891	\$ 6,042,894
Provision made	6,633,290	6,162	6,639,452
Payment	(5,042,752)	(890)	(5,043,642)
Effect of deconsolidation of subsidiary	(37,748)	-	(37,748)
Effect of exchange rate changes	12,988	289	13,277
	<u>\$ 7,603,781</u>	<u>\$ 10,452</u>	<u>\$ 7,614,233</u>
<u>Year ended December 31, 2012</u>			
Balance, beginning of year	\$ 5,068,263	\$ 2,889	\$ 5,071,152
Provision made	7,187,023	2,048	7,189,071
Payment	(6,211,170)	-	(6,211,170)
Effect of exchange rate changes	(6,113)	(46)	(6,159)
	<u>\$ 6,038,003</u>	<u>\$ 4,891</u>	<u>\$ 6,042,894</u>

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

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

20. BONDS PAYABLE

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

The major terms of domestic unsecured bonds are as follows:

Issuance	Tranche	Issuance Period	Total Amount	Coupon Rate	Repayment and Interest Payment
100-1	A	September 2011 to September 2016	\$ 10,500,000	1.40%	Bullet repayment; interest payable annually
	B	September 2011 to September 2018	7,500,000	1.63%	"
100-2	A	January 2012 to January 2017	10,000,000	1.29%	"
	B	January 2012 to January 2019	7,000,000	1.46%	"
101-1	A	August 2012 to August 2017	9,900,000	1.28%	"
	B	August 2012 to August 2019	9,000,000	1.40%	"
101-2	A	September 2012 to September 2017	12,700,000	1.28%	"
	B	September 2012 to September 2019	9,000,000	1.39%	"
101-3	-	October 2012 to October 2022	4,400,000	1.53%	"
101-4	A	January 2013 to January 2018	10,600,000	1.23%	"
	B	January 2013 to January 2020	10,000,000	1.35%	"
	C	January 2013 to January 2023	3,000,000	1.49%	"
102-1	A	February 2013 to February 2018	6,200,000	1.23%	"
	B	February 2013 to February 2020	11,600,000	1.38%	"
	C	February 2013 to February 2023	3,600,000	1.50%	"
102-2	A	July 2013 to July 2020	10,200,000	1.50%	"
	B	July 2013 to July 2023	3,500,000	1.70%	"
102-3	A	August 2013 to August 2017	4,000,000	1.34%	"
	B	August 2013 to August 2019	8,500,000	1.52%	"
102-4	A	September 2013 to September 2016	1,500,000	1.35%	"
	B	September 2013 to September 2017	1,500,000	1.45%	"
	C	September 2013 to March 2019	1,400,000	1.60%	Bullet repayment; interest payable annually (interest for the six months prior to maturity will accrue on the basis of actual days and be repayable at maturity)
	D	September 2013 to March 2021	2,600,000	1.85%	"
	E	September 2013 to March 2023	5,400,000	2.05%	"
	F	September 2013 to September 2023	2,600,000	2.10%	Bullet repayment; interest payable annually
Domestic 5 th	C	January 2002 to January 2012	4,500,000	3.00%	"

The major terms of foreign unsecured bonds are as follows:

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

21. LONG-TERM BANK LOANS

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

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

22. OTHER LONG-TERM PAYABLES

	December 31, 2013	December 31, 2012	January 1, 2012
Payables for software and system design costs	\$ 54,000	\$ 113,000	\$ -
Payables for acquisition of property, plant and equipment	-	825,447	3,399,855
Payables for technology transfer	-	29,038	-
	<u>\$ 54,000</u>	<u>\$ 967,485</u>	<u>\$ 3,399,855</u>
Current portion (classified under accrued expenses and other current liabilities)	\$ 18,000	\$ 913,485	\$ 3,399,855
Noncurrent portion	<u>36,000</u>	<u>54,000</u>	<u>-</u>
	<u>\$ 54,000</u>	<u>\$ 967,485</u>	<u>\$ 3,399,855</u>

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

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

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

b. Defined benefit plans

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

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

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

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

	Years Ended December 31	
	2013	2012
Current service cost	\$ 134,762	\$ 129,217
Interest cost	175,563	160,018
Expected return on plan assets	(67,324)	(63,279)
Past service cost	(7,240)	(7,239)
	<u>\$ 235,761</u>	<u>\$ 218,717</u>

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

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

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

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

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

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

	Years Ended December 31	
	2013	2012
Balance, beginning of year	\$ 10,133,361	\$ 9,214,125
Current service cost	134,762	129,217
Interest cost	175,563	160,018
Effect of plan changes	(655,179)	-
Benefits paid from plan assets	(50,508)	(26,119)
Benefits paid directly by the Company	(7,011)	-
Actuarial loss	638,071	656,120
Effect of deconsolidation of subsidiary	(39,549)	-
Balance, end of year	<u>\$ 10,329,510</u>	<u>\$ 10,133,361</u>

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

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

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

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

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

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

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

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

24. EQUITY

a. Capital stock

	December 31, 2013	December 31, 2012	January 1, 2012
Authorized shares (in thousands)	28,050,000	28,050,000	28,050,000
Authorized capital	<u>\$ 280,500,000</u>	<u>\$ 280,500,000</u>	<u>\$ 280,500,000</u>
Issued and paid shares (in thousands)	25,928,617	25,924,435	25,916,222
Issued capital	<u>\$ 259,286,171</u>	<u>\$ 259,244,357</u>	<u>\$ 259,162,226</u>

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

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

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

b. Capital surplus

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

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

c. Retained earnings and dividend policy

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

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

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

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

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

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

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

The appropriations of 2012 and 2011 earnings have been approved by TSMC's shareholders in its meetings held on June 11, 2013 and on June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2012	For Fiscal Year 2011	For Fiscal Year 2012	For Fiscal Year 2011
Legal capital reserve	\$ 16,615,880	\$ 13,420,128		
Special capital reserve	(4,820,483)	1,172,350		
Cash dividends to shareholders	<u>77,773,307</u>	<u>77,748,668</u>	\$ 3.00	\$ 3.00
	<u>\$ 89,568,704</u>	<u>\$ 92,341,146</u>		

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

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

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

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

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

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

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

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

d. Others

Changes in others were as follows:

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

	Year Ended December 31, 2012			
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of year	\$ (6,433,364)	\$ (1,172,762)	\$ (93)	\$ (7,606,219)
Exchange differences arising on translation of foreign operations	(4,375,597)	-	-	(4,375,597)
Changes in fair value of hedging instruments for cash flow hedges	-	-	2	2
Changes in fair value of hedging instruments for cash flow hedges reclassified to profit or loss	-	-	91	91
Changes in fair value of available-for-sale financial assets	-	7,255,261	-	7,255,261
Cumulative loss reclassified to profit or loss upon impairment of available-for-sale financial assets	-	2,677,529	-	2,677,529
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets	-	(394,857)	-	(394,857)
Share of other comprehensive income of associates and joint venture	55,155	17,450	-	72,605
Income tax effect	-	(409,300)	-	(409,300)
Balance, end of year	\$ (10,753,806)	\$ 7,973,321	\$ -	\$ (2,780,485)

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

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

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

e. Noncontrolling interests

	Years Ended December 31	
	2013	2012
Balance, beginning of year	\$ 2,543,226	\$ 2,436,649
Share of noncontrolling interests		
Net loss	(127,853)	(194,484)
Exchange differences arising on translation of foreign operations	852	52,900
Changes in fair value of available-for-sale financial assets	2,776	1,077
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets	(10,805)	(4,741)
Changes in fair value of hedging instruments for cash flow hedges	-	3
Changes in fair value of hedging instruments for cash flow hedges reclassified to profit or loss	-	136
Stock option compensation cost of subsidiary	5,312	6,219
Share of other comprehensive income of associates and joint venture	177	-
The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates	1	-
Actuarial gain/loss from defined benefit plans	299	-
Income tax expense related to actuarial gain/loss from defined benefit plans	(44)	-
Adjustments arising from changes in percentage of ownership in subsidiaries	(62,446)	(40,733)
Increase in noncontrolling interests	188,488	286,200
Effect of deconsolidation of subsidiary	(2,273,153)	-
Balance, end of year	\$ 266,830	\$ 2,543,226

25. SHARE-BASED PAYMENT

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

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

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

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

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

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

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

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

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

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

b. Application of IFRS 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26. NET REVENUE

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

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

27. OTHER OPERATING INCOME AND EXPENSES, NET

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

28. OTHER INCOME

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

29. FINANCE COSTS

	Years Ended December 31	
	2013	2012
Interest expense		
Corporate bonds	\$ 2,501,820	\$ 758,204
Bank loans	110,716	200,907
Finance leases	19,539	20,773
Others	14,701	46,753
	2,646,776	1,026,637
Loss reclassified to profit or loss arising from effective portion for cash flow hedges	-	227
Capitalized interest	-	(6,442)
	<u>\$ 2,646,776</u>	<u>\$ 1,020,422</u>

30. OTHER GAINS AND LOSSES

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

31. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	Years Ended December 31	
	2013	2012
Current income tax expense (benefit)		
Current tax expense recognized in the current year	\$ 22,501,143	\$ 15,201,438
Income tax adjustments on prior years	(1,021,688)	55,313
Other income tax adjustments	(10,623)	201,119
	<u>21,468,832</u>	<u>15,457,870</u>
Deferred income tax expense (benefit)		
Effect of tax rate changes	-	(543,611)
The origination and reversal of temporary differences	674,231	(865,386)
Investment tax credits and operating loss carryforward	5,325,122	1,503,781
	<u>5,999,353</u>	<u>94,784</u>
Income tax expense recognized in profit or loss	<u>\$ 27,468,185</u>	<u>\$ 15,552,654</u>

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

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

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

b. Income tax expense recognized in other comprehensive income

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

c. Deferred income tax balance

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

	December 31, 2013	December 31, 2012	January 1, 2012
Investment tax credits	\$ 1,955,980	\$ 7,324,263	\$ 9,869,024
Temporary differences			
Depreciation	644,824	1,502,736	2,056,421
Provision for sales returns and allowance	900,354	717,889	494,914
Accrued pension cost	908,022	824,052	618,336
Available-for-sale financial assets	6,154	224,618	308,929
Unrealized loss on inventories	438,423	404,656	2,757
Goodwill from business combination	373,682	329,766	-
Deferred compensation cost	267,416	132,286	101,639
Others	684,585	624,609	131,424
Operating loss carryforward	<u>1,060,169</u>	<u>1,043,344</u>	<u>20,774</u>
	<u>\$ 7,239,609</u>	<u>\$ 13,128,219</u>	<u>\$ 13,604,218</u>

	Balance, Beginning of Year	Recognized in		Effect of Deconsolidation of Subsidiary	Effect of Exchange Rate Changes	Balance, End of Year
		Profit or Loss	Other Comprehensive Income			
<u>Year Ended December 31, 2013</u>						
Investment tax credits	\$ 7,324,263	\$ (5,348,982)	\$ -	\$ (19,301)	\$ -	\$ 1,955,980
Temporary differences						
Depreciation	1,502,736	(865,021)	-	(15,387)	22,496	644,824
Provision for sales returns and allowance	717,889	188,198	-	(6,417)	684	900,354
Accrued pension cost	824,052	5,813	78,629	(472)	-	908,022
Available-for-sale financial assets	224,618	(255,003)	36,539	-	-	6,154
Unrealized loss on inventory	404,656	32,665	-	-	1,102	438,423
Goodwill from business combination	329,766	35,115	-	-	8,801	373,682
Deferred compensation cost	132,286	131,107	-	-	4,023	267,416
Others	624,609	52,895	-	(3,987)	11,068	684,585
Operating loss carryforward	<u>1,043,344</u>	<u>23,860</u>	<u>-</u>	<u>(32,910)</u>	<u>25,875</u>	<u>1,060,169</u>
Deferred income tax assets	<u>\$ 13,128,219</u>	<u>\$ (5,999,353)</u>	<u>\$ 115,168</u>	<u>\$ (78,474)</u>	<u>\$ 74,049</u>	<u>\$ 7,239,609</u>
<u>Year Ended December 31, 2012</u>						
Investment tax credits	\$ 9,869,024	\$ (2,544,761)	\$ -	\$ -	\$ -	\$ 7,324,263
Temporary differences						
Depreciation	2,056,421	(545,820)	-	-	(7,865)	1,502,736
Provision for sales returns and allowance	494,914	223,435	-	-	(460)	717,889
Accrued pension cost	618,336	123,358	82,358	-	-	824,052
Available-for-sale financial assets	308,929	324,989	(409,300)	-	-	224,618
Unrealized loss on inventory	2,757	402,707	-	-	(808)	404,656
Goodwill from business combination	-	335,921	-	-	(6,155)	329,766
Deferred compensation cost	101,639	35,492	-	-	(4,845)	132,286
Others	131,424	508,915	-	-	(15,730)	624,609
Operating loss carryforward	<u>20,774</u>	<u>1,040,980</u>	<u>-</u>	<u>-</u>	<u>(18,410)</u>	<u>1,043,344</u>
Deferred income tax assets	<u>\$ 13,604,218</u>	<u>\$ (94,784)</u>	<u>\$ (326,942)</u>	<u>\$ -</u>	<u>\$ (54,273)</u>	<u>\$ 13,128,219</u>

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

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

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

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

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

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

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

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

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

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

Remaining Creditable Amount	Remaining Creditable Amount
Expiry Year	
2014 - 2018	\$ 41,894
2019 - 2023	<u>9,052,631</u>
	<u>\$ 9,094,525</u>

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

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

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

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

g. Integrated income tax information

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

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

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

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

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

h. Income tax examination

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

32. EARNINGS PER SHARE

	Years Ended December 31	
	2013	2012
Basic EPS	<u>\$ 7.26</u>	<u>\$ 6.42</u>
Diluted EPS	<u>\$ 7.26</u>	<u>\$ 6.41</u>

EPS is computed as follows:

	Amounts (Numerator)	Number of Shares (Denominator) (In Thousands)	EPS (NT\$)
<u>Year ended December 31, 2013</u>			
Basic EPS			
Net income available to common shareholders of the parent	\$ 188,146,790	25,927,778	<u>\$ 7.26</u>
Effect of dilutive potential common shares	-	<u>1,825</u>	
Diluted EPS			
Net income available to common shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 188,146,790</u>	<u>25,929,603</u>	<u>\$ 7.26</u>
<u>Year ended December 31, 2012</u>			
Basic EPS			
Net income available to common shareholders of the parent	\$ 166,318,286	25,920,735	<u>\$ 6.42</u>
Effect of dilutive potential common shares	-	<u>7,201</u>	
Diluted EPS			
Net income available to common shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 166,318,286</u>	<u>25,927,936</u>	<u>\$ 6.41</u>

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

33. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net income included the following items:

	Years Ended December 31	
	2013	2012
a. Depreciation of property, plant and equipment		
Recognized in cost of revenue	\$ 141,002,263	\$ 118,313,581
Recognized in operating expenses	12,952,464	10,848,277
Recognized in other operating income and expenses	25,120	6,656
	<u>\$ 153,979,847</u>	<u>\$ 129,168,514</u>
b. Amortization of intangible assets		
Recognized in cost of revenue	\$ 1,154,698	\$ 1,344,819
Recognized in operating expenses	1,047,324	835,956
	<u>\$ 2,202,022</u>	<u>\$ 2,180,775</u>
c. Research and development costs expensed as incurred	<u>\$ 48,118,165</u>	<u>\$ 40,383,195</u>
d. Employee benefits expenses		
Post-employment benefits (Note 23)		
Defined contribution plans	\$ 1,590,414	\$ 1,403,507
Defined benefit plans	235,761	218,717
	1,826,175	1,622,224
Equity-settled share-based payments	5,312	6,219
Other employee benefits	65,514,082	59,668,232
	<u>\$ 67,345,569</u>	<u>\$ 61,296,675</u>
Employee benefits expense summarized by function		
Recognized in cost of revenue	\$ 40,245,628	\$ 35,561,523
Recognized in operating expenses	27,099,941	25,735,152
	<u>\$ 67,345,569</u>	<u>\$ 61,296,675</u>

34. DECONSOLIDATION OF SUBSIDIARY

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

a. Consideration received

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

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

	June 30, 2013
Current assets	
Cash and cash equivalents	\$ 979,910
Accounts receivable	564,364
Inventories	213,133
Others	110,766
Noncurrent assets	
Property, plant and equipment	5,595,040
Others	164,311
Current liabilities	
Accounts payable	(1,571,289)
Others	(291,715)
Noncurrent liabilities	
Loans	(1,940,625)
Others	(27,472)
Net assets deconsolidated	<u>\$ 3,796,423</u>

c. Gain on deconsolidation of subsidiary

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

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

d. Net cash outflow arising from deconsolidation of the subsidiary

	Six Months Ended June 30, 2013
The balance of cash and cash equivalents deconsolidated	<u>\$ 979,910</u>

35. CAPITAL MANAGEMENT

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

36. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets			
FVTPL			
Held for trading derivatives	\$ 90,353	\$ 39,554	\$ 15,360
Available-for-sale financial assets (Note)	61,628,343	44,766,957	7,623,775
Held-to-maturity financial assets	1,795,949	5,056,973	9,068,847
Loans and receivables			
Cash and cash equivalents	242,695,447	143,410,588	143,472,277
Notes and accounts receivables (including related parties)	71,941,634	58,131,397	46,016,052
Other receivables	1,422,795	1,307,473	1,403,694
Refundable deposits	2,519,031	2,426,712	4,518,863
	<u>\$ 382,093,552</u>	<u>\$ 255,139,654</u>	<u>\$ 212,118,868</u>
Financial liabilities			
FVTPL			
Held for trading derivatives	\$ 33,750	\$ 15,625	\$ 13,742
Derivative financial instruments in designated hedge accounting relationships	5,481,616	-	232
Amortized cost			
Short-term loans	15,645,000	34,714,929	25,926,528
Accounts payable (including related parties)	16,358,716	15,239,042	11,859,008
Payables to contractors and equipment suppliers	89,810,160	44,831,798	35,540,526
Accrued expenses and other current liabilities	13,649,615	9,316,232	7,796,538
Bonds payable	210,767,625	80,000,000	22,500,000
Long-term bank loans	40,000	1,487,500	1,650,000
Other long-term payables	54,000	967,485	3,399,855
Guarantee deposits	151,660	203,890	443,983
	<u>\$ 351,992,142</u>	<u>\$ 186,776,501</u>	<u>\$ 109,130,412</u>

Note: Including financial assets carried at cost.

b. Financial risk management objectives

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

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

c. Market risk

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

Foreign currency risk

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

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

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

Interest rate risk

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

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

Other price risk

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

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

d. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company is exposed to credit risk from operating activities, primarily trade receivables, and from financing activities, primarily deposits, fixed-income investments and other

financial instruments with banks. Credit risk is managed separately for business related and financial related exposures. As of the end of the reporting period, the Company's maximum credit risk exposure is mainly from the carrying amount of financial assets recognized in the consolidated balance sheet.

Business related credit risk

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

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

Financial credit risk

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

e. Liquidity risk management

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

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

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

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
<u>December 31, 2013</u>					
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 15,646,783	\$ -	\$ -	\$ -	\$ 15,646,783
Accounts payable (including related parties)	16,358,716	-	-	-	16,358,716
Payables to contractors and equipment suppliers	89,810,160	-	-	-	89,810,160
Accrued expenses and other current liabilities	13,649,615	-	-	-	13,649,615
Bonds payable	3,036,130	28,388,887	100,830,341	94,360,103	226,615,461
Long-term bank loans	1,450	10,275	21,571	12,746	46,042
Other long-term payables	18,000	36,000	-	-	54,000
Obligations under finance leases	28,376	56,752	793,951	-	879,079
Guarantee deposits	-	151,660	-	-	151,660
	<u>138,549,230</u>	<u>28,643,574</u>	<u>101,645,863</u>	<u>94,372,849</u>	<u>363,211,516</u>

(Continued)

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	\$ 29,608,952	\$ -	\$ -	\$ -	\$ 29,608,952
Inflows	(29,605,246)	-	-	-	(29,605,246)
	<u>3,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,706</u>
Cross currency swap contracts					
Outflows	1,639,215	-	-	-	1,639,215
Inflows	(1,641,384)	-	-	-	(1,641,384)
	<u>(2,169)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,169)</u>
Stock forward contracts					
Outflows	-	37,431,626	-	-	37,431,626
Inflows	-	(37,431,626)	-	-	(37,431,626)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 138,550,767</u>	<u>\$ 28,643,574</u>	<u>\$ 101,645,863</u>	<u>\$ 94,372,849</u>	<u>\$ 363,213,053</u>
<u>December 31, 2012</u>					
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 34,721,003	\$ -	\$ -	\$ -	\$ 34,721,003
Accounts payable (including related parties)	15,239,042	-	-	-	15,239,042
Payables to contractors and equipment suppliers	44,831,798	-	-	-	44,831,798
Accrued expenses and other current liabilities	9,316,232	-	-	-	9,316,232
Bonds payable	1,108,150	2,216,300	44,911,191	37,834,474	86,070,115
Long-term bank loans	146,571	745,174	637,580	-	1,529,325
Other long-term payables	913,485	36,000	18,000	-	967,485
Obligations under finance leases	27,042	54,084	54,084	729,566	864,776
Guarantee deposits	-	203,890	-	-	203,890
	<u>106,303,323</u>	<u>3,255,448</u>	<u>45,620,855</u>	<u>38,564,040</u>	<u>193,743,666</u>
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	11,030,154	-	-	-	11,030,154
Inflows	(11,059,396)	-	-	-	(11,059,396)
	<u>(29,242)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,242)</u>
Cross currency swap contracts					
Outflows	9,068,589	-	-	-	9,068,589
Inflows	(9,068,727)	-	-	-	(9,068,727)
	<u>(138)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(138)</u>
	<u>\$ 106,273,943</u>	<u>\$ 3,255,448</u>	<u>\$ 45,620,855</u>	<u>\$ 38,564,040</u>	<u>\$ 193,714,286</u>
<u>January 1, 2012</u>					
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 25,933,177	\$ -	\$ -	\$ -	\$ 25,933,177
Accounts payable (including related parties)	11,859,008	-	-	-	11,859,008
Payables to contractors and equipment suppliers	35,540,526	-	-	-	35,540,526
Accrued expenses and other current liabilities	7,796,538	-	-	-	7,796,538
Bonds payable	4,775,081	538,500	11,000,933	7,713,258	24,027,772

(Continued)

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
Long-term bank loans	\$ 79,558	\$ 778,190	\$ 849,021	\$ -	\$ 1,706,769
Other long-term payables	3,399,855	-	-	-	3,399,855
Obligations under finance leases	-	167,472	55,824	780,962	1,004,258
Guarantee deposits	-	443,983	-	-	443,983
	<u>89,383,743</u>	<u>1,928,145</u>	<u>11,905,778</u>	<u>8,494,220</u>	<u>111,711,886</u>
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	7,736,197	-	-	-	7,736,197
Inflows	(7,726,584)	-	-	-	(7,726,584)
	<u>9,613</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,613</u>
Cross currency swap contracts					
Outflows	420,431	-	-	-	420,431
Inflows	(420,397)	-	-	-	(420,397)
	<u>34</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34</u>
Interest rate swap contracts					
Outflows	706	-	-	-	706
Inflows	(442)	-	-	-	(442)
	<u>264</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>264</u>
	<u>\$ 89,393,654</u>	<u>\$ 1,928,145</u>	<u>\$ 11,905,778</u>	<u>\$ 8,494,220</u>	<u>\$ 111,721,797</u>

(Concluded)

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

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

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

2) Fair value measurements recognized in the consolidated balance sheets

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 90,353	\$ -	\$ 90,353
<u>Available-for-sale financial assets</u>				
Publicly traded stocks	\$ 59,481,569	\$ -	\$ -	\$ 59,481,569
Money market funds	1,183	-	-	1,183
	<u>\$ 59,482,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,482,752</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 33,750	\$ -	\$ 33,750
<u>Hedging derivative financial liabilities</u>				
Stock forward contract	\$ -	\$ 5,481,616	\$ -	\$ 5,481,616

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

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

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

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

3) Valuation techniques and assumptions used in fair value measurement

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks and money market funds).
- Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts; interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and stock forward contracts are measured at the difference between the present value of stock forward price discounted based on the applicable yield curve derived from quoted interest rates and the stock spot price.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

37. RELATED PARTY TRANSACTIONS

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

a. Net Revenue

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

b. Purchases

	Years Ended December 31	
	2013	2012
<u>Related Party Categories</u>		
Associates	\$ 10,052,359	\$ 8,114,307

c. Receivables from related parties

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Related Party Categories</u>			
Associates	\$ 291,376	\$ 353,652	\$ 185,552
Joint venture	332	159	212
	<u>\$ 291,708</u>	<u>\$ 353,811</u>	<u>\$ 185,764</u>

d. Payables to related parties

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Related Party Categories</u>			
Associates	\$ 1,687,239	\$ 746,532	\$ 1,325,791
Joint venture	1,217	2,081	2,730
	<u>\$ 1,688,456</u>	<u>\$ 748,613</u>	<u>\$ 1,328,521</u>

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

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

f. Disposal of property, plant and equipment

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

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

g. Others

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

	Non-operating Income	
	Years Ended December 31	
	2013	2012
<u>Related Party Categories</u>		
Associates	\$ -	\$ 6,046

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

	Refundable Deposits		
	December 31, 2013	December 31, 2012	January 1, 2012
<u>Related Party Categories</u>			
Associates	\$ 5,813	\$ 5,813	\$ -
Joint venture	-	4	-
	<u>\$ 5,813</u>	<u>\$ 5,817</u>	<u>\$ -</u>

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

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

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

h. Compensation of key management personnel

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

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

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

38. PLEDGED ASSETS

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

39. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

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

The Company expensed the lease payments as follows:

	Years Ended December 31	
	2013	2012
Minimum lease payments	\$ 902,439	\$ 689,198

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

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

40. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity provided TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. In 2013 and 2012, the R.O.C. Government did not involve such right.
- b. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. TSMC's equity interest in SSMC was 32%. Nevertheless, in September 2006, Philips spun-off its semiconductor subsidiary which was renamed as NXP B.V. Further, TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares, respectively. TSMC and NXP B.V. are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs. There was no default from the aforementioned commitment as of December 31, 2013.

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

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

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

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

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

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

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

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount
<u>December 31, 2013</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 2,756,090	29.800	\$ 82,131,493
EUR	451,162	41.00	18,497,657
JPY	41,386,551	0.2834	11,728,949
Non-monetary items			
HKD	168,334	3.84	646,402

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 2,026,958	29.800	\$ 60,403,358
EUR	811,202	41.00	33,259,299
JPY	71,931,749	0.2834	20,385,458
<u>December 31, 2012</u>			
<u>Financial assets</u>			
Monetary items			
USD	2,442,184	29.038	70,916,125
EUR	117,535	38.39-38.49	4,512,154
JPY	35,381,976	0.3352-0.3364	11,860,041
Non-monetary items			
HKD	492,014	3.75	1,845,053
<u>Financial liabilities</u>			
Monetary items			
USD	2,388,832	29.038	69,366,903
EUR	245,481	38.39-38.49	9,424,022
JPY	43,292,238	0.3352-0.3364	14,511,562
<u>January 1, 2012</u>			
<u>Financial assets</u>			
Monetary items			
USD	1,566,212	30.288	47,437,429
EUR	125,490	39.18-39.27	4,927,977
JPY	33,242,609	0.3897-0.3906	12,954,665
Non-monetary items			
HKD	671,060	3.90	2,617,134
<u>Financial liabilities</u>			
Monetary items			
USD	1,772,583	30.288	53,688,005
EUR	109,782	39.18-39.27	4,311,133
JPY	35,364,089	0.3897-0.3906	13,781,403

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

(Concluded)

42. OPERATING SEGMENTS INFORMATION

a. Operating segments

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

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

b. Segment revenue and operating results

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

c. Geographic information

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

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

d. Production information

Production	Years Ended December 31	
	2013	2012
Wafer	\$ 560,685,213	\$ 462,970,436
Others	36,338,984	43,774,798
	<u>\$ 597,024,197</u>	<u>\$ 506,745,234</u>

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

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

43. FIRST-TIME ADOPTION OF TAIWAN-IFRSs

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

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

b. Exemptions from IFRS 1

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

- 1) Business combinations. The Company elected not to apply IFRS 3, "Business Combinations," retrospectively to business combinations that occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations was the same as the carrying amount of goodwill under R.O.C. GAAP as of January 1, 2012.
- 2) Employee benefits. The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2012. In addition, the Company elected to apply the exemption disclosure requirement provided by IFRS 1, in which the amounts of present value of defined benefit obligations, the fair value of plan assets, the surplus or deficit in the plan and the experience adjustments are determined for each accounting period prospectively from the transition date.
- 3) Share-based payment. The Company elected to take the optional exemption from applying IFRS 2 retrospectively for the share-based payment transactions granted and vested before January 1, 2012.

c. Effect of transition to Taiwan-IFRSs

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

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

Item	R.O.C. GAAP		Effect of Transition to Taiwan-IFRSs		Taiwan-IFRSs		Note
	Amount		Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Current assets							
Cash and cash equivalents	\$ 143,410,588	\$ -	\$ -	\$ -	\$ 143,410,588	Cash and cash equivalents	
Financial assets at fair value through profit or loss	39,554	-	-	-	39,554	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	2,410,635	-	-	-	2,410,635	Available-for-sale financial assets	
Held-to-maturity financial assets	5,056,973	-	-	-	5,056,973	Held-to-maturity financial assets	
Notes and accounts receivable	58,257,798	-	(480,212)		57,777,586	Notes and accounts receivable, net	
Receivables from related parties	353,811	-	-		353,811	Receivables from related parties	
Allowance for doubtful receivables	(480,212)	-	480,212		-		
Allowance for sales returns and others	(6,038,003)	-	6,038,003		-		a)
Other receivables from related parties	185,550	-	-		185,550	Other receivables from related parties	
Other financial assets	473,833	-	-		473,833	Other financial assets	
Inventories	37,830,498	-	-		37,830,498	Inventories	
Deferred income tax assets	8,001,202	-	(8,001,202)		-		b)
Prepaid expenses and other current assets	2,786,408	-	-		2,786,408	Other current assets	
Total current assets	252,288,635	-	(1,963,199)		250,325,436	Total current assets	
Long-term investments							
Investments accounted for using equity method	23,430,020	(69,102)	-		23,360,918	Investments accounted for using equity method	e)
Available-for-sale financial assets	38,751,245	-	-		38,751,245	Available-for-sale financial assets	
Financial assets carried at cost	3,605,077	-	-		3,605,077	Financial assets carried at cost	
Total long-term investments	65,786,342	(69,102)	-		65,717,240		
Net property, plant and equipment	617,529,446	-	32,742		617,562,188	Property, plant and equipment	c)
Intangible assets	10,959,569	-	-		10,959,569	Intangible assets	
Other assets							
Deferred income tax assets	4,776,015	351,002	8,001,202		13,128,219	Deferred income tax assets	b), d)
Refundable deposits	2,426,712	-	-		2,426,712	Refundable deposits	
Others	1,267,886	-	(32,742)		1,235,144	Other noncurrent assets	c)
Total other assets	8,470,613	351,002	7,968,460		16,790,075		
Total	\$ 955,034,605	\$ 281,900	\$ 6,038,003		\$ 961,354,508	Total	
Current liabilities							
Short-term loans	\$ 34,714,929	\$ -	\$ -		\$ 34,714,929	Short-term loans	
Financial liabilities at fair value through profit or loss	15,625	-	-		15,625	Financial liabilities at fair value through profit or loss	
Accounts payable	14,490,429	-	-		14,490,429	Accounts payable	
Payables to related parties	748,613	-	-		748,613	Payables to related parties	
Income tax payable	15,635,594	-	-		15,635,594	Income tax payable	
Salary and bonus payable	7,535,296	-	-		7,535,296	Salary and bonus payable	
Accrued profit sharing to employees and bonus to directors and supervisors	11,186,591	-	-		11,186,591	Accrued profit sharing to employees and bonus to directors and supervisors	
Payables to contractors and equipment suppliers	44,831,798	-	-		44,831,798	Payables to contractors and equipment suppliers	

(Continued)

R.O.C. GAAP		Effect of Transition to Taiwan-IFRSs		Taiwan-IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Accrued expenses and other current liabilities	\$ 13,148,944	\$ -	\$ -	\$ 13,148,944	Accrued expenses and other current liabilities	a)
Current portion of bonds payable and long-term bank loans	128,125	-	-	128,125	Current portion of bonds payable and long-term bank loans	
-	-	-	6,038,003	6,038,003	Provisions	
Total current liabilities	142,435,944	-	6,038,003	148,473,947	Total current liabilities	
Long-term liabilities						
Bonds payable	80,000,000	-	-	80,000,000	Bonds payable	
Long-term bank loans	1,359,375	-	-	1,359,375	Long-term bank loans	
Other long-term payables	54,000	-	-	54,000	Other long-term payables	
Obligations under capital leases	748,115	-	-	748,115	Obligations under finance leases	
Total long-term liabilities	82,161,490	-	-	82,161,490	Total long-term liabilities	
Other liabilities						
Accrued pension cost	3,979,541	2,941,693	-	6,921,234	Accrued pension cost	d)
Guarantee deposits	203,890	-	-	203,890	Guarantee deposits	
-	-	-	4,891	4,891	Provisions	
Others	500,041	-	(4,891)	495,150	Others	
Total other liabilities	4,683,472	2,941,693	-	7,625,165	Total other liabilities	
Total liabilities	229,280,906	2,941,693	6,038,003	238,260,602	Total liabilities	
Equity attributable to shareholders of the parent						
Capital stock	259,244,357	-	-	259,244,357	Capital stock	e)
Capital surplus	56,137,809	(462,469)	-	55,675,340	Capital surplus	
Retained earnings					Retained earnings	
Appropriated as legal capital reserve	115,820,123	-	-	115,820,123	Appropriated as legal capital reserve	
Appropriated as special capital reserve	7,606,224	-	-	7,606,224	Appropriated as special capital Reserve	
Unappropriated earnings	287,174,942	(2,189,821)	-	284,985,121	Unappropriated earnings	d), e)
Others	410,601,289	(2,189,821)	-	408,411,468	Others	
Cumulative translation adjustments	(10,753,763)	(43)	-	(10,753,806)	Foreign currency translation reserve	e)
Net loss not recognized as pension cost	(5,299)	5,299	-	-	-	d), e)
Unrealized gain/loss on financial instruments	7,973,321	-	-	7,973,321	Unrealized gain/loss from available-for-sale financial assets	
	(2,785,741)	5,256	-	(2,780,485)		
Equity attributable to shareholders of the parent	723,197,714	(2,647,034)	-	720,550,680	Equity attributable to shareholders of the parent	
Minority interests	2,555,985	(12,759)	-	2,543,226	Noncontrolling interests	d)
Total shareholders' equity	725,753,699	(2,659,793)	-	723,093,906	Total equity	
Total	\$ 955,034,605	\$ 281,900	\$ 6,038,003	\$ 961,354,508	Total	

(Concluded)

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

R.O.C. GAAP		Effect of Transition to Taiwan-IFRSs		Taiwan-IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Current assets						
Cash and cash equivalents	\$ 143,472,277	\$ -	\$ -	\$ 143,472,277	Cash and cash equivalents	
Financial assets at fair value through profit or loss	15,360	-	-	15,360	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	3,308,770	-	-	3,308,770	Available-for-sale financial assets	
Held-to-maturity financial assets	3,825,680	-	-	3,825,680	Held-to-maturity financial assets	
Notes and accounts receivable	46,321,240	-	(490,952)	45,830,288	Notes and accounts receivable, net	
Receivables from related parties	185,764	-	-	185,764	Receivables from related Parties	
Allowance for doubtful receivables	(490,952)	-	490,952	-	-	
Allowance for sales returns and others	(5,068,263)	-	5,068,263	-	-	a)
Other receivables from related parties	122,292	-	-	122,292	Other receivables from related parties	
Other financial assets	617,142	-	-	617,142	Other financial assets	
Inventories	24,840,582	-	-	24,840,582	Inventories	
Deferred income tax assets	5,936,490	-	(5,936,490)	-	-	b)
Prepaid expenses and other current assets	2,174,014	-	-	2,174,014	Other current asset	
Total current assets	225,260,396	-	(868,227)	224,392,169	Total current assets	
Long-term investments						
Investments accounted for using equity method	24,900,332	(13,401)	-	24,886,931	Investments accounted for using equity method	e)
Held-to-maturity financial assets	5,243,167	-	-	5,243,167	Held-to-maturity financial assets	
Financial assets carried at cost	4,315,005	-	-	4,315,005	Financial assets carried at cost	
Total long-term investments	34,458,504	(13,401)	-	34,445,103	Total long-term investments	
Net property, plant and equipment	490,374,916	-	47,237	490,422,153	Property, plant and equipment	c)
Intangible assets	10,861,563	-	-	10,861,563	Intangible assets	
Other assets						
Deferred income tax assets	7,436,717	231,011	5,936,490	13,604,218	Deferred income tax assets	b), d)
Refundable deposits	4,518,863	-	-	4,518,863	Refundable deposits	
Others	1,353,983	-	(47,237)	1,306,746	Other noncurrent assets	c)
Total other assets	13,309,563	231,011	5,889,253	19,429,827	Total other assets	
Total	\$ 774,264,942	\$ 217,610	\$ 5,068,263	\$ 779,550,815	Total	
Current liabilities						
Short-term loans	\$ 25,926,528	\$ -	\$ -	\$ 25,926,528	Short-term loans	
Financial liabilities at fair value through profit or loss	13,742	-	-	13,742	Financial liabilities at fair value through profit or loss	
Hedging derivative financial liabilities	232	-	-	232	Hedging derivative financial liabilities	
Accounts payable	10,530,487	-	-	10,530,487	Accounts payable	
Payables to related parties	1,328,521	-	-	1,328,521	Payables to related parties	
Income tax payable	10,656,124	-	-	10,656,124	Income tax payable	
Salary and bonus payable	6,148,499	-	-	6,148,499	Salary and bonus payable	
Accrued profit sharing to employees and bonus to directors and supervisors	9,081,293	-	-	9,081,293	Accrued profit sharing to employees and bonus to directors and supervisors	

(Continued)

R.O.C. GAAP		Effect of Transition to Taiwan-IFRSs		Taiwan-IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Payables to contractors and equipment suppliers	\$ 35,540,526	\$ -	\$ -	\$ 35,540,526	Payables to contractors and equipment suppliers	a)
Accrued expenses and other current liabilities	13,218,235	-	-	13,218,235	Accrued expenses and other current liabilities	
Current portion of bonds payable and long-term bank loans	4,562,500	-	-	4,562,500	Current portion of bonds payable and long-term bank loans	
-	-	-	5,068,263	5,068,263	Provisions	
Total current liabilities	117,006,687	-	5,068,263	122,074,950	Total current liabilities	
Long-term liabilities						
Bonds payable	18,000,000	-	-	18,000,000	Bonds payable	
Long-term bank loans	1,587,500	-	-	1,587,500	Long-term bank loans	
Obligations under capital leases	870,993	-	-	870,993	Obligations under finance leases	
Total long-term liabilities	20,458,493	-	-	20,458,493	Total long-term liabilities	
Other liabilities						d)
Accrued pension cost	3,908,508	2,332,516	-	6,241,024	Accrued pension cost	
Guarantee deposits	443,983	-	-	443,983	Guarantee deposits	
-	-	-	2,889	2,889	Provisions	
Others	403,720	-	(2,889)	400,831	Others	
Total other liabilities	4,756,211	2,332,516	-	7,088,727	Total other liabilities	
Total liabilities	142,221,391	2,332,516	5,068,263	149,622,170	Total liabilities	e)
Equity attributable to shareholders of the parent						
Capital stock	259,162,226	-	-	259,162,226	Capital stock	
Capital surplus	55,846,357	(374,695)	-	55,471,662	Capital surplus	
Retained earnings					Retained earnings	
Appropriated as legal capital reserve	102,399,995	-	-	102,399,995	Appropriated as legal capital reserve	
Appropriated as special capital reserve	6,433,874	-	-	6,433,874	Appropriated as special capital reserve	
Unappropriated earnings	213,357,286	(1,726,828)	-	211,630,458	Unappropriated earnings	
-	322,191,155	(1,726,828)	-	320,464,327	-	
Equity attributable to shareholders of the parent	629,593,514	(2,101,518)	-	627,491,996	Equity attributable to shareholders of the parent	
Minority interests	2,450,037	(13,388)	-	2,436,649	Noncontrolling interests	d)
Total shareholders' equity	632,043,551	(2,114,906)	-	629,928,645	Total equity	
Total	\$ 774,264,942	\$ 217,610	\$ 5,068,263	\$ 779,550,815	Total	

(Concluded)

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

R.O.C. GAAP		Effect of Transition to Taiwan-IFRSs		Taiwan-IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Net sales	\$ 506,248,580	\$ -	\$ 496,654	\$ 506,745,234	Net revenue	f)
Cost of sales	262,628,681	(45,583)	-	262,583,098	Cost of revenue	d)
Gross profit before affiliates elimination	243,619,899	45,583	496,654	244,162,136	Gross profit before unrealized gross profit on sales to associates	
Unrealized gross profit from affiliates	(25,029)	-	-	(25,029)	Unrealized gross profit on sales to associates	
Gross profit	243,594,870	45,583	496,654	244,137,107	Gross profit	
Operating expenses						
Research and development	40,402,138	(18,943)	-	40,383,195	Research and development	d)
General and administrative	17,638,088	(6,394)	-	17,631,694	General and administrative	d)
Marketing	4,497,451	(1,465)	-	4,495,986	Marketing	d)
Total operating expenses	62,537,677	(26,802)	-	62,510,875	Total operating expenses	
-	-	-	(449,364)	(449,364)	Other operating income and expenses, net	f)
Income from operations	181,057,193	72,385	47,290	181,176,868	Income from operations	
Non-operating income and gains						
Equity in earnings of equity method investees, net	2,028,611	45,118	-	2,073,729	Share of profits of associates and joint venture	e)
Interest income	1,645,036	-	(1,645,036)	-	Interest income	f)
Settlement income	883,845	-	(883,845)	-	Settlement income	f)
Foreign exchange gain, net	582,498	-	-	582,498	Foreign exchange gain, net	
Gain on settlement and disposal of financial assets, net	541,089	-	(541,089)	-	Gain on settlement and disposal of financial assets, net	f)
Technical service income	496,654	-	(496,654)	-	Technical service income	f)
Others	604,304	-	(604,304)	-	Others	f)
-	-	-	1,716,093	1,716,093	-	f)
-	-	4,977	(2,857,287)	(2,852,310)	-	f)
Total non-operating income and gains	6,782,037	50,095	(5,312,122)	1,520,010	Total non-operating income and gains	e), f)
Non-operating expenses and losses						
Impairment of financial assets	4,231,602	-	(4,231,602)	-	Impairment of financial assets	f)
Interest expense	1,020,422	-	-	1,020,422	Interest expense	
Impairment loss on idle assets	444,505	-	(444,505)	-	Impairment loss on idle assets	f)
Loss on disposal of property, plant and equipment	31,816	-	(31,816)	-	Loss on disposal of property, plant and equipment	f)
Others	556,909	-	(556,909)	-	Others	f)
Total non-operating expenses and losses	6,285,254	-	(5,264,832)	1,020,422	Total non-operating expenses and losses	
Income before income tax	181,553,976	122,480	-	181,676,456	Income before income tax	
Income tax expense	15,590,287	(37,633)	-	15,552,654	Income tax expense	d)

(Continued)

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

(Concluded)

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

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

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

d. Notes to the reconciliation of the significant differences:

1) Allowance for sales returns and others

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

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

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

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

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

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

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

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

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

4) Employee benefits

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

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

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

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

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

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

5) Investments accounted for using the equity method

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

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

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

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

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

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

44. ADDITIONAL DISCLOSURES

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

- a. Financings provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: Please see Table 2 attached;
- c. Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): Please see Table 3 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Please see Table 4 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Please see Table 5 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 7 attached;
- i. Information about the derivative financial instruments transaction: Please see Notes 7 and 10;
- j. Others: The business relationship between the parent and the subsidiaries and between each subsidiary, and significant transactions between them: Please see Table 8 attached;

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

l. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 10 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 8 attached.

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2013

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

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period (US\$ in Thousands) (Note 3)	Ending Balance (US\$ in Thousands) (Note 3)	Amount Actually Drawn (US\$ in Thousands)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company	Financing Company's Total Financing Amount Limits (Note 2)
													Item	Value		
1	TSMC Partners	TSMC China	Other receivables from related parties	Yes	\$ 3,874,000 (US\$ 130,000)	\$ -	\$ -	-	The need for short-term financing	-	Purchase equipment	\$ -	-	\$ -	\$ 42,862,161 (Note 1)	\$ 42,862,161
		TSMC Solar	Other receivables from related parties	Yes	2,682,000 (US\$ 90,000)	2,682,000 (US\$ 90,000)	2,100,900 (US\$ 70,500)	0.37%- 0.3805%	The need for short-term financing	-	Operating capital	-	-	-	17,144,864 (Note 1)	42,862,161
		TSMC SSL	Other receivables from related parties	Yes	1,788,000 (US\$ 60,000)	1,788,000 (US\$ 60,000)	298,000 (US\$ 10,000)	0.37%	The need for short-term financing	-	Operating capital	-	-	-	17,144,864 (Note 1)	42,862,161
2	TSMC Development	TSMC Solar	Other receivables from related parties	Yes	2,384,000 (US\$ 80,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	6,503,905 (Notes 1 and 4)	16,259,762 (Note 4)
		TSMC SSL	Other receivables from related parties	Yes	2,682,000 (US\$ 90,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	6,503,905 (Notes 1 and 4)	16,259,762 (Note 4)

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners and TSMC Development, respectively. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. The above restriction does not apply to the offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC (offshore 100% owned subsidiaries) or the subsidiaries whose voting shares are 90% and up owned, directly or indirectly, by TSMC (90% and up owned subsidiaries). However, the respective lending limit for offshore 100% owned subsidiaries shall not exceed the net worth of TSMC Partners and TSMC Development, respectively, and the aggregate amounts lendable to 90% and up owned subsidiaries and the total amount lendable to one such borrower in 90% and up owned subsidiaries shall not exceed forty percent (40%) of the net worth of TSMC Partners and TSMC Development, respectively.

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

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

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

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

ENDORSEMENTS/GUARANTEES PROVIDED FOR THE YEAR ENDED DECEMBER 31, 2013

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

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2)	Maximum Balance for the Period (US\$ in Thousands) (Note 3)	Ending Balance (US\$ in Thousands) (Note 3)	Amount Actually Drawn (US\$ in Thousands)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
0	TSMC	TSMC Global	Subsidiary	\$ 211,877,064	\$ 44,700,000 (US\$ 1,500,000)	\$ 44,700,000 (US\$ 1,500,000)	\$ 44,700,000 (US\$ 1,500,000)	\$ -	5.3%	\$ 211,877,064	Yes	No	No

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

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

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

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES HELD

DECEMBER 31, 2013

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2013				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Fair Value (Foreign Currencies in Thousands)	
TSMC	Commercial paper	-	Held-to-maturity financial assets	100	\$ 998,018	N/A	\$ 997,608	Note 1
	CPC Corporation, Taiwan	-	"	80	797,931	N/A	798,004	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation	-	Available-for-sale financial assets	275,957	646,402	1	646,402	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	21,230	193,584	10	437,105	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	340,108	
	W.K. Technology Fund IV	-	"	4,000	39,280	2	34,919	
	<u>Fund</u>							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	78,303	12	78,303	
	Crimson Asia Capital	-	"	-	53,211	1	53,211	
TSMC Global	<u>Stock</u>							Note 2
	ASML	-	Available-for-sale financial assets	20,993	US\$ 1,970,536	5	US\$ 1,970,536	
	<u>Money market fund</u>							
	Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	40	US\$ 40	N/A	US\$ 40	
TSMC North America	<u>Stock</u>							
	Spansion Inc.	-	Available-for-sale financial assets	274	US\$ 3,799	-	US\$ 3,799	
TSMC Partners	<u>Stock</u>							
	Mcube	-	Financial assets carried at cost	6,333	-	17	-	
	<u>Fund</u>							
	Shanghai Walden Venture Capital Enterprise	-	Financial assets carried at cost	-	US\$ 5,000	6	US\$ 5,000	
Emerging Alliance	<u>Common stock</u>							
	Global Investment Holding Inc.	-	Financial assets carried at cost	11,124	US\$ 3,065	6	US\$ 3,065	
	RichWave Technology Corp.	-	"	4,074	US\$ 1,545	10	US\$ 1,545	
	<u>Preferred stock</u>							
	Next IO, Inc.	-	Financial assets carried at cost	8	-	-	-	
	QST Holdings, LLC	-	"	-	US\$ 141	4	US\$ 141	
ISDF	<u>Preferred stock</u>							
	Sonics, Inc.	-	Financial assets carried at cost	230	US\$ 497	2	US\$ 497	
ISDF II	<u>Common stock</u>							
	Alchip Technologies Limited	-	Financial assets carried at cost	7,520	US\$ 3,664	14	US\$ 3,664	
	Sonics, Inc.	-	"	278	US\$ 10	3	US\$ 10	
	Goyatek Technology, Corp.	-	"	745	US\$ 163	6	US\$ 163	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2013				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Fair Value (Foreign Currencies in Thousands)	
VTAF II	Preferred stock Sonics, Inc.	-	Financial assets carried at cost	264	US\$ 456	3	US\$ 456	
	Common stock Sentelic	-	Financial assets carried at cost	1,806	US\$ 2,607	8	US\$ 2,607	
	Aether Systems, Inc.	-	"	2,600	US\$ 2,243	28	US\$ 2,243	
	RichWave Technology Corp.	-	"	1,267	US\$ 1,036	3	US\$ 1,036	
VTAF III	Preferred stock 5V Technologies, Inc.	-	Financial assets carried at cost	963	US\$ 2,168	3	US\$ 2,168	
	Aquantia	-	"	4,556	US\$ 4,316	2	US\$ 4,316	
	Cresta Technology Corporation	-	"	92	US\$ 28	-	US\$ 28	
	Impinj, Inc.	-	"	711	US\$ 1,100	-	US\$ 1,100	
	Next IO, Inc.	-	"	179	-	1	-	Note 4
	QST Holdings, LLC	-	"	-	US\$ 588	13	US\$ 588	
	Common stock Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$ 315	6	US\$ 315	
	Preferred stock BridgeLux, Inc.	-	Financial assets carried at cost	7,522	US\$ 9,379	3	US\$ 9,379	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
Neoconix, Inc.	-	"	4,147	US\$ 170	-	US\$ 170	Note 5	
Powervation, Ltd.	-	"	527	US\$ 8,238	15	US\$ 8,238		
Stion Corp.	-	"	8,152	-	15	-	Note 6	
Tilera, Inc.	-	"	3,890	US\$ 3,025	2	US\$ 3,025		
Validity Sensors, Inc.	-	"	11,192	US\$ 4,197	4	US\$ 4,197		

Note 1: The carrying value represents carrying amount less accumulated impairment of NT\$412,901 thousand.

Note 2: In October 2012, TSMC Global acquired 5% of the outstanding equity of ASML with a lock-up period of 2.5 years starting from the acquisition date.

Note 3: The carrying value represents carrying amount less accumulated impairment of US\$500 thousand.

Note 4: The carrying value represents carrying amount less accumulated impairment of US\$1,219 thousand.

Note 5: The carrying value represents carrying amount less accumulated impairment of US\$4,672 thousand.

Note 6: The carrying value represents carrying amount less accumulated impairment of US\$55,474 thousand.

(Concluded)

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2013

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance (Note 1)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain/Loss on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
TSMC	<u>Stock</u> Semiconductor Manufacturing International Corporation	Available-for-sale financial assets	-	-	1,277,958	\$ 1,845,052	-	\$ -	1,002,001	\$ 1,830,424	\$ 983,715	\$ 846,709	275,957	\$ 646,402
	TSMC SSL	Investments accounted for using equity method	Note 2	Subsidiary	430,400	2,389,541	124,274	1,242,744	-	-	-	-	554,674	2,154,913
	<u>Commercial Paper</u> CPC Corporation, Taiwan	Held-to-maturity financial assets	-	-	-	-	100	998,018	-	-	-	-	100	998,018
	Taiwan Power Company	"	-	-	-	-	80	797,931	-	-	-	-	80	797,931
TSMC Global	<u>Corporate bond</u> Aust + Nz Banking Group	Held-to-maturity financial assets	-	-	20,000	US\$ 19,999	-	-	20,000	US\$ 20,000	US\$ 20,000	-	-	-
	Commonwealth Bank of Australia	"	-	-	25,000	US\$ 25,000	-	-	25,000	US\$ 25,000	US\$ 25,000	-	-	-
	Commonwealth Bank of Australia	"	-	-	25,000	US\$ 25,000	-	-	25,000	US\$ 25,000	US\$ 25,000	-	-	-
	Deutsche Bank AG London	"	-	-	20,000	US\$ 19,999	-	-	20,000	US\$ 20,000	US\$ 20,000	-	-	-
	JP Morgan Chase + Co.	"	-	-	35,000	US\$ 35,006	-	-	35,000	US\$ 35,000	US\$ 35,000	-	-	-
	Westpac Banking Corp.	"	-	-	25,000	US\$ 25,000	-	-	25,000	US\$ 25,000	US\$ 25,000	-	-	-
TSMC Development	<u>Stock</u> WaferTech	Investments accounted for using equity method	Note 3	Subsidiary	293,637	US\$ 262,053	-	-	-	-	US\$ 100,000	-	293,637	US\$ 248,252

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

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

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

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2013

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
TSMC	Land	January 3, 2013	\$ 2,248,400	By the contract	Miaoli County Government	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 22, 2013 to August 29, 2013	3,561,600	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2013 to June 21, 2013	4,373,205	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 3, 2013 to October 25, 2013	338,948	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	April 3, 2013 to May 15, 2013	2,615,744	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	May 27, 2013 to June 19, 2013	615,038	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2013

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

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount (Foreign Currencies in Thousands)	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance (Foreign Currencies in Thousands)	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 414,087,565	69	Net 30 days from invoice date	-	-	\$ 52,750,047	74	
	GUC	Associate	Sales	1,970,934	1	Net 30 days from the end of the month of when invoice is issued	-	-	219,424	-	
	VIS	Associate	Sales	195,101	-	Net 30 days from the end of the month of when invoice is issued	-	-	-	-	
	Mcube	Associate of the Company's subsidiary (Note 2)	Sales	119,067	-	Net 30 days from invoice date	-	-	-	-	
	TSMC China	Subsidiary	Purchases	16,902,114	27	Net 30 days from the end of the month of when invoice is issued	-	-	(1,509,508)	8	
	WaferTech	Indirect subsidiary	Purchases	8,520,337	14	Net 30 days from the end of the month of when invoice is issued	-	-	(685,906)	4	
	VIS	Associate	Purchases	6,993,964	11	Net 30 days from the end of the month of when invoice is issued	-	-	(731,587)	4	
	SSMC	Associate	Purchases	3,056,372	5	Net 30 days from the end of the month of when invoice is issued	-	-	(382,007)	2	
TSMC Solar	TSMC Solar Europe GmbH	Subsidiary	Sales	146,866	57	Net 30 days from the end of the month of when invoice is issued	-	-	16,287	43	
TSMC North America	GUC	Associate of TSMC	Sales	1,714,625 (US\$ 57,780)	-	Net 30 days from invoice date	-	-	71,952 (US\$ 2,414)	-	

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

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

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2013**

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

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

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

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

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS FOR THE YEAR ENDED DECEMBER 31, 2013

(Amounts in Thousands of New Taiwan Dollars)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets
0	TSMC	TSMC North America	1	Net revenue from sale of goods	\$ 414,087,565	-	69%
				Receivables from related parties	52,750,047	-	4%
				Other receivables from related parties	328,160	-	-
				Payables to related parties	7,675	-	-
		TSMC China	1	Net revenue from sale of goods	7,798	-	-
				Net revenue from royalty	15,624	-	-
				Purchases	16,902,114	-	3%
				Marketing expenses - commission	89,129	-	-
				Disposal of property, plant and equipment	67,174	-	-
				Gain on disposal of property, plant and equipment	2,682	-	-
				Purchases of property, plant and equipment	100,298	-	-
				Other receivables from related parties	15,409	-	-
				Payables to related parties	1,509,508	-	-
		TSMC Japan	1	Marketing expenses - commission	240,268	-	-
				Payables to related parties	37,906	-	-
		TSMC Europe	1	Marketing expenses - commission	385,931	-	-
				Research and development expenses	62,070	-	-
				Payables to related parties	55,482	-	-
		TSMC Korea	1	Marketing expenses - commission	21,609	-	-
				Payables to related parties	2,327	-	-
		TSMC Technology	1	Research and development expenses	826,291	-	-
				Payables to related parties	170,332	-	-
		WaferTech	1	Net revenue from sale of goods	12,525	-	-
				Purchases	8,520,337	-	1%
Other receivables from related parties	3,009			-	-		
Payables to related parties	685,906			-	-		
TSMC Canada	1	Research and development expenses	217,031	-	-		
		Payables to related parties	17,096	-	-		
Xintec	1	Manufacturing expenses	106,290	-	-		
		Research and development expenses	1,418	-	-		
		Disposal of property, plant and equipment	26,978	-	-		

(Continued)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Net Revenue or Total Assets
0	TSMC	TSMC SSL	1	Manufacturing expenses	\$ 12,956	-	-
				Other gains and losses	8,550	-	-
				Other receivables from related parties	2,160	-	-
				Payables to related parties	3,292	-	-
		TSMC Solar	1	Manufacturing expenses	2,822	-	-
				General and administrative expenses	2,257	-	-
				Other gains and losses	10,086	-	-
		TSMC Solar	1	Purchases of property, plant and equipment	20,201	-	-
				Other receivables from related parties	2,431	-	-
Payables to related parties	14,054			-	-		
1	TSMC Development	WaferTech	1	Other receivables from related parties	40,485	-	-
2	TSMC North America	TSMC Technology	3	Other receivables from related parties	8,307	-	-
3	TSMC Solar	TSMC Solar Europe GmbH	1	Net revenue from sale of goods	146,866	-	-
				Receivables from related parties	16,287	-	-
		TSMC Development	3	Finance costs	2,613	-	-
		TSMC Partners	3	Finance costs	2,043	-	-
Other payables to related parties	2,102,953			-	-		
4	TSMC SSL	TSMC Partners	3	Other receivables from related parties	298,025	-	-
5	TSMC China	Xintec	3	Disposal of property, plant and equipment	48,193	-	-
		TSMC Partners	3	Finance costs	2,788	-	-

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

No. 3 represents the transactions between subsidiaries.

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

(Concluded)

TABLE 9

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2013

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2013			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Share of Profits/Losses of Investee (Note 1) (Foreign Currencies in Thousands)	Note	
				December 31, 2013 (Foreign Currencies in Thousands)	December 31, 2012 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)				
TSMC	TSMC Global TSMC Partners	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 64,953,489	\$ (172,392)	\$ (172,392)	Subsidiary	
		Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	42,861,788	3,516,560	3,516,667	Subsidiary	
		VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	39	10,556,348	4,370,988	1,724,819	Associate
		SSMC TSMC Solar	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	7,457,733	5,039,563	1,954,847	Associate
	Tai-Chung, Taiwan		Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	11,180,000	1,118,000	99	4,551,318	(1,554,038)	(1,516,235)	Subsidiary	
		TSMC North America	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	3,763,194	468,309	468,309	Subsidiary
		TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	5,546,744	4,304,000	554,674	92	2,154,913	(1,663,137)	(1,550,850)	Subsidiary
		Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,950	40	1,866,123	288,881	37,942	Associate
		GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,056,141	289,204	100,746	Associate
		VTAF III	Cayman Islands	Investing in new start-up technology companies	1,908,912	1,896,914	-	50	892,439	(1,509,593)	(151,326)	Subsidiary
		VTAF II	Cayman Islands	Investing in new start-up technology companies	596,514	704,447	-	98	441,763	(3,662)	(3,589)	Subsidiary
		TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	290,838	37,659	37,659	Subsidiary
		Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	841,757	852,258	-	99.5	144,924	(10,806)	(10,753)	Subsidiary
		TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	124,762	4,717	4,717	Subsidiary
		TSMC GN	Taipei, Taiwan	Investment activities	150,000	100,000	-	100	85,162	(22,899)	(22,899)	Subsidiary
		TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	29,475	1,296	1,296	Subsidiary
TSMC Solar	Motech	Taipei, Taiwan	Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems	6,228,661	6,228,661	87,480	20	3,887,462	251,864	Note 2	Associate	
		Cayman Islands	Investing in new start-up technology companies	1,806,693	1,801,918	-	49	597	(1,509,593)	Note 2	Associate	
		Amsterdam, the Netherlands	Investing in solar related business	504,107	504,107	-	100	89,196	(93,795)	Note 2	Subsidiary	
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	205,772	205,772	1	100	8,305	(36,733)	Note 2	Subsidiary	
TSMC SSL	TSMC Lighting NA	Delaware, U.S.A.	Selling and marketing of solid state lighting related products	3,133	3,133	1	100	2,873	(65)	Note 2	Subsidiary	
TSMC Partners	TSMC Development	Delaware, U.S.A.	Investment activities	\$ 0.03 (US\$ 0.001)	\$ 0.03 (US\$ 0.001)	-	100	\$ 20,614,259 (US\$ 691,754)	\$ 2,593,196 (US\$ 87,387)	Note 2	Subsidiary	
		Cayman Islands	Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	1,281,400 (US\$ 43,000)	1,281,400 (US\$ 43,000)	43,000	49	3,492,453 (US\$ 117,196)	922,947 (US\$ 31,102)	Note 2	Jointly controlled entity	
	TSMC Technology	Delaware, U.S.A.	Engineering support activities	0.03 (US\$ 0.001)	0.03 (US\$ 0.001)	-	100	386,971 (US\$ 12,986)	37,518 (US\$ 1,264)	Note 2	Subsidiary	
	ISDF II	Cayman Islands	Investing in new start-up technology companies	421,759 (US\$ 14,153)	421,759 (US\$ 14,153)	14,153	97	322,518 (US\$ 10,823)	73,175 (US\$ 2,466)	Note 2	Subsidiary	

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2013			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Share of Profits/Losses of Investee (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2013 (Foreign Currencies in Thousands)	December 31, 2012 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
	ISDF	Cayman Islands	Investing in new start-up technology companies	\$ 23,453 (US\$ 787)	\$ 23,453 (US\$ 787)	787	97	\$ 248,411 (US\$ 8,336)	\$ 190,339 (US\$ 6,414)	Note 2	Subsidiary
	TSMC Canada	Ontario, Canada	Engineering support activities	68,540 (US\$ 2,300)	68,540 (US\$ 2,300)	2,300	100	142,773 (US\$ 4,791)	15,493 (US\$ 522)	Note 2	Subsidiary
TSMC Development	WaferTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	2,384,000 (US\$ 80,000)	8,344,000 (US\$ 280,000)	293,637	100	7,397,902 (US\$ 248,252)	2,558,757 (US\$ 86,226)	Note 2	Subsidiary
VTAF III	Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	155,318 (US\$ 5,212)	155,318 (US\$ 5,212)	15,643	58	36,404 (US\$ 1,222)	(19,129) (US\$ 645)	Note 2	Subsidiary
	Growth Fund	Cayman Islands	Investing in new start-up technology companies	63,474 (US\$ 2,130)	54,534 (US\$ 1,830)	-	100	18,075 (US\$ 607)	(1,839) (US\$ 62)	Note 2	Subsidiary
	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	62	-	-	Note 2	Subsidiary
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	31	-	-	Note 2	Subsidiary
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	7	-	-	Note 2	Subsidiary
TSMC Solar Europe	TSMC Solar Europe GmbH	Hamburg, Germany	Selling of solar related products and providing customer service	508,400 (EUR 12,400)	508,400 (EUR 12,400)	-	100	85,863 (EUR 2,094)	(93,917) (EUR 2,375)	Note 2	Subsidiary
TSMC GN	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	52,498	42,945	5,250	-	21,056	(1,554,038)	Note 2	Associate
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	54,359	34,266	5,436	1	21,011	(1,663,137)	Note 2	Associate

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

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

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

(Concluded)

TABLE 10

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INFORMATION ON INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2013

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2013 (US\$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2013 (US\$ in Thousands)
					Outflow	Inflow	
TSMC China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 18,939,667 (RMB 4,502,080)	(Note 1)	\$ 18,939,667 (US\$ 596,000)	\$ -	\$ -	\$ 18,939,667 (US\$ 596,000)

Investee Company	Percentage of Ownership	Share of Profits/Losses	Carrying Amount as of December 31, 2013	Accumulated Inward Remittance of Earnings as of December 31, 2013
TSMC China	100%	\$ 5,111,975 (Note 2)	\$ 23,845,371	\$ -

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

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

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

8. Parent Company Only Financial Statements for the Years Ended December 31, 2013 and 2012 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

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

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

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

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



February 18, 2014

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited

PARENT COMPANY ONLY BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012		LIABILITIES AND EQUITY	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and cash equivalents (Note 6)	\$ 146,438,768	12	\$ 109,150,810	12	\$ 85,262,521	11	Short-term loans (Note 17)	\$ 15,645,000	1	\$ 34,714,929	4	\$ 25,926,528	3
Financial assets at fair value through profit or loss (Note 7)	64,030	-	38,824	-	14,925	-	Financial liabilities at fair value through profit or loss (Note 7)	25,404	-	6,274	-	-	-
Available-for-sale financial assets (Note 8)	646,402	-	1,845,052	-	2,617,134	1	Accounts payable	13,628,675	1	13,392,221	1	9,522,688	1
Held-to-maturity financial assets (Note 9)	1,795,949	-	701,146	-	701,136	-	Payables to related parties (Note 34)	4,183,979	-	3,230,342	-	2,992,582	-
Notes and accounts receivable, net (Note 10)	17,445,877	2	15,252,394	2	19,409,266	3	Accrued profit sharing to employees and bonus to directors (Note 21)	12,738,801	1	11,186,591	1	9,055,704	1
Receivables from related parties (Note 34)	52,969,803	4	40,987,444	4	24,777,534	3	Payables to contractors and equipment suppliers	89,555,814	8	44,371,108	5	33,811,970	5
Other receivables from related parties (Note 34)	572,000	-	274,963	-	188,028	-	Income tax payable (Note 28)	22,567,331	2	15,196,399	1	10,647,797	1
Inventories (Notes 5 and 11)	35,243,061	3	35,296,391	4	22,853,397	3	Provisions (Notes 5 and 18)	7,217,331	1	5,732,738	1	4,887,879	1
Other financial assets	61,842	-	175,261	-	122,010	-	Accrued expenses and other current liabilities	21,633,409	2	16,698,014	2	13,057,161	2
Other current assets (Note 16)	2,386,031	-	2,097,329	-	1,725,736	-	Current portion of bonds payable (Note 19)	-	-	-	-	4,500,000	1
Total current assets	257,623,763	21	205,819,614	22	157,671,687	21	Total current liabilities	187,195,744	16	144,528,616	15	114,402,309	15
NONCURRENT ASSETS							NONCURRENT LIABILITIES						
Held-to-maturity financial assets (Note 9)	-	-	-	-	702,291	-	Bonds payable (Note 19)	166,200,000	14	80,000,000	8	18,000,000	2
Financial assets carried at cost (Note 12)	469,378	-	483,759	-	497,835	-	Other long-term payables	36,000	-	54,000	-	-	-
Investments accounted for using equity method (Notes 5 and 13)	165,075,781	14	139,150,441	15	128,143,256	17	Accrued pension cost (Notes 5 and 20)	7,491,040	-	6,805,042	1	6,132,071	1
Property, plant and equipment (Notes 5 and 14)	770,443,494	64	586,636,036	61	454,420,770	59	Guarantee deposits	147,964	-	199,315	-	439,032	-
Intangible assets (Notes 5 and 15)	7,069,456	1	6,449,837	1	6,287,000	1	Total noncurrent liabilities	173,875,004	14	87,058,357	9	24,571,103	3
Deferred income tax assets (Notes 5 and 28)	4,580,468	-	10,318,863	1	13,228,485	2	Total liabilities	361,070,748	30	231,586,973	24	138,973,412	18
Refundable deposits	2,496,663	-	2,394,826	-	4,491,735	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT						
Other noncurrent assets (Note 16)	820,000	-	884,277	-	1,022,349	-	Capital stock (Note 21)	259,286,171	21	259,244,357	27	259,162,226	34
Total noncurrent assets	950,955,240	79	746,318,039	78	608,793,721	79	Capital surplus (Note 21)	55,858,626	5	55,675,340	6	55,471,662	7
							Retained earnings (Note 21)						
							Appropriated as legal capital reserve	132,436,003	11	115,820,123	12	102,399,995	13
							Appropriated as special capital reserve	2,785,741	-	7,606,224	1	6,433,874	1
							Unappropriated earnings	382,971,408	32	284,985,121	30	211,630,458	28
							Others (Note 21)	518,193,152	43	408,411,468	43	320,464,327	42
							Total equity	847,508,255	70	720,550,680	76	627,491,996	82
TOTAL	\$ 1,208,579,003	100	\$ 952,137,653	100	\$ 766,465,408	100	TOTAL	\$ 1,208,579,003	100	\$ 952,137,653	100	\$ 766,465,408	100

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

Taiwan Semiconductor Manufacturing Company Limited

PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME

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

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

(Continued)

	2013		2012	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 13, 20, 21 and 28)				
Exchange differences arising on translation of foreign operations	\$ 3,655,675	1	\$ (4,317,386)	(1)
Changes in fair value of available-for-sale financial assets	(214,935)	-	2,407,647	1
Share of other comprehensive income of subsidiaries and associates	13,472,874	2	7,118,419	1
Actuarial loss from defined benefit plans	(671,774)	-	(677,413)	-
Income tax benefit (expense) related to components of other comprehensive income	<u>117,152</u>	<u>-</u>	<u>(328,010)</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>16,358,992</u>	<u>3</u>	<u>4,203,257</u>	<u>1</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 204,505,782</u>	<u>35</u>	<u>\$ 170,521,543</u>	<u>34</u>
EARNINGS PER SHARE (NT\$, Note 29)				
Basic earnings per share	<u>\$ 7.26</u>		<u>\$ 6.42</u>	
Diluted earnings per share	<u>\$ 7.26</u>		<u>\$ 6.41</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	Retained Earnings				Others				Total Equity
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total	
BALANCE, JANUARY 1, 2012	25,916,222	\$ 259,162,226	\$ 55,471,662	\$ 102,399,995	\$ 6,433,874	\$ 211,630,458	\$ 320,464,327	\$ (6,433,364)	\$ (1,172,762)	\$ (93)	\$ (7,606,219)	\$ 627,491,996
Appropriations of prior year's earnings												
Legal capital reserve	-	-	-	13,420,128	-	(13,420,128)	-	-	-	-	-	-
Special capital reserve	-	-	-	-	1,172,350	(1,172,350)	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,748,668)	(77,748,668)	-	-	-	-	(77,748,668)
Total	-	-	-	13,420,128	1,172,350	(92,341,146)	(77,748,668)	-	-	-	-	(77,748,668)
Net income in 2012	-	-	-	-	-	166,318,286	166,318,286	-	-	-	-	166,318,286
Other comprehensive income in 2012, net of income tax	-	-	-	-	-	(622,477)	(622,477)	(4,320,442)	9,146,083	93	4,825,734	4,203,257
Total comprehensive income in 2012	-	-	-	-	-	165,695,809	165,695,809	(4,320,442)	9,146,083	93	4,825,734	170,521,543
Issuance of stock from exercise of employee stock options	8,213	82,131	160,357	-	-	-	-	-	-	-	-	242,488
Adjustments to share of changes in equity of subsidiaries and associates	-	-	2,588	-	-	-	-	-	-	-	-	2,588
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	40,733	-	-	-	-	-	-	-	-	40,733
BALANCE, DECEMBER 31, 2012	25,924,435	259,244,357	55,675,340	115,820,123	7,606,224	284,985,121	408,411,468	(10,753,806)	7,973,321	-	(2,780,485)	720,550,680
Appropriations of prior year's earnings												
Legal capital reserve	-	-	-	16,615,880	-	(16,615,880)	-	-	-	-	-	-
Reversal of special capital reserve	-	-	-	-	(4,820,483)	4,820,483	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,773,307)	(77,773,307)	-	-	-	-	(77,773,307)
Total	-	-	-	16,615,880	(4,820,483)	(89,568,704)	(77,773,307)	-	-	-	-	(77,773,307)
Net income in 2013	-	-	-	-	-	188,146,790	188,146,790	-	-	-	-	188,146,790
Other comprehensive income in 2013, net of income tax	-	-	-	-	-	(591,799)	(591,799)	3,613,444	13,337,460	(113)	16,950,791	16,358,992
Total comprehensive income in 2013	-	-	-	-	-	187,554,991	187,554,991	3,613,444	13,337,460	(113)	16,950,791	204,505,782
Issuance of stock from exercise of employee stock options	4,182	41,814	82,756	-	-	-	-	-	-	-	-	124,570
Adjustments to share of changes in equity of subsidiaries and associates	-	-	38,084	-	-	-	-	-	-	-	-	38,084
Adjustments arising from changes in percentage of ownership in subsidiaries	-	-	62,446	-	-	-	-	-	-	-	-	62,446
BALANCE, DECEMBER 31, 2013	25,928,617	\$ 259,286,171	\$ 55,858,626	\$ 132,436,003	\$ 2,785,741	\$ 382,971,408	\$ 518,193,152	\$ (7,140,362)	\$ 21,310,781	\$ (113)	\$ 14,170,306	\$ 847,508,255

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

Taiwan Semiconductor Manufacturing Company Limited

PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 215,716,550	\$ 183,752,387
Adjustments for:		
Depreciation expense	147,266,825	122,377,815
Amortization expense	2,072,926	2,022,064
Finance costs	2,092,236	945,114
Share of profits of subsidiaries and associates	(9,530,933)	(8,175,390)
Interest income	(1,011,301)	(867,227)
Loss on disposal of property, plant and equipment and intangible assets, net	64,753	125,488
Impairment loss on property, plant and equipment	-	418,330
Impairment loss of financial assets	-	2,677,529
Gain on disposal of available-for-sale financial assets, net	(846,709)	(110,634)
Loss (gain) on disposal of financial assets carried at cost, net	(42,664)	269
Loss (gain) on disposal of investments in associates	656	(4,977)
Gain on deconsolidation of subsidiary	(293,578)	-
Unrealized gross profit on sales to associates	35,577	25,029
Loss (gain) on foreign exchange, net	315,098	(3,143,506)
Dividend income	(71,125)	(69,676)
Changes in operating assets and liabilities:		
Derivative financial instruments	(6,076)	(17,625)
Notes and accounts receivable, net	(2,193,483)	4,156,872
Receivables from related parties	(11,982,359)	(16,209,910)
Other receivables from related parties	(257,810)	(89,347)
Inventories	53,330	(12,442,994)
Other current assets	(266,929)	(363,366)
Other financial assets	68,313	(18,057)
Accounts payable	182,965	3,565,949
Payables to related parties	961,579	(67,770)
Accrued profit sharing to employees and bonus to directors	1,552,210	2,130,887
Accrued expenses and other current liabilities	4,269,512	3,281,875
Provisions	1,484,593	844,859
Accrued pension cost	14,224	(4,442)
Cash generated from operations	349,648,380	284,739,546
Income taxes paid	(14,365,054)	(10,312,114)
Net cash generated by operating activities	335,283,326	274,427,432
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Held to maturity financial assets	(1,795,949)	-
Financial assets carried at cost	(2,177)	(1,093)
Property, plant and equipment	(285,889,575)	(242,063,668)
Intangible assets	(2,727,399)	(1,743,043)

(Continued)

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

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the "Company" or "TSMC"), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. On September 5, 1994, the Company's shares were listed on the Taiwan Stock Exchange (TWSE). On October 8, 1997, the Company listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs). The address of its registered office and principal place of business is No. 8, Li-Hsin Rd. 6, Hsinchu Science Park, Taiwan.

2. THE AUTHORIZATION OF FINANCIAL STATEMENTS

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note)
<u>Included in the 2013 Taiwan-IFRSs version</u>	
Amendments to IFRSs Improvements to IFRSs 2009 - Amendment to IAS 39 Amendment to IAS 39 Embedded Derivatives	January 1, 2009 or January 1, 2010 Effective in fiscal year ended on or after June 30, 2009
Improvements to IFRSs 2010 Annual Improvements to IFRSs 2009 - 2011 Cycle	July 1, 2010 or January 1, 2011 January 1, 2013
Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	July 1, 2011

(Continued)

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

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

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

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

1) IFRS 9, "Financial Instruments"

Under IFRS 9, all recognized financial assets currently in the scope of IAS 39, "Financial Instruments: Recognition and Measurement," will be subsequently measured at either the amortized cost or the fair value. If the objective of the Company's business model is to hold the financial asset to collect the contractual cash flows which are solely for payments of principal and interest on the principal amount outstanding, such assets are measured at the amortized cost. All other financial assets must be measured at the fair value through profit or loss as of the end of the reporting period.

2) IFRS 12, "Disclosure of Interests in Other Entities"

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

3) IFRS 13, "Fair Value Measurement"

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

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

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

5) Amendments to IAS 19, "Employee Benefits"

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Statement of Compliance

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

Basis of Preparation

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

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

Foreign Currencies

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

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Instruments

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

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

Financial Assets

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

Financial assets at fair value through profit or loss

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

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

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

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Derecognition of financial assets

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

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

Financial Liabilities and Equity Instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

Derivative Financial Instruments

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

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

Inventories

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

Investments Accounted for Using Equity Method

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

Investment in subsidiaries

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

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

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

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

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

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

Investment in associates

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

Leases

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

The Company as lessor

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

The Company as lessee

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

Intangible Assets

Goodwill

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

Other intangible assets

Other separately acquired intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized using the straight-line method over the following estimated useful lives: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 3 years; patent and others

- the economic life or contract period. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of Tangible and Intangible Assets

Goodwill

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

Other tangible and intangible assets

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

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

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

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

Provision

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

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

Revenue Recognition

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

Sale of goods

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

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

Royalties, dividend and interest income

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

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

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

Retirement Benefits

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

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

Share-based Payment Arrangements

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

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

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

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

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

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

Revenue Recognition

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

Impairment of Tangible and Intangible Assets Other than Goodwill

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

Impairment of Goodwill

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

Impairment Assessment on Investment Using Equity Method

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

Realization of Deferred Income Tax Assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax

assets requires the Company's subjective judgment and estimate, including the future revenue growth and profitability, tax holidays, the amount of tax credits can be utilized and feasible tax planning strategies. Any changes in the global economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

Valuation of Inventory

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

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

Recognition and Measurement of Defined Benefit Plans

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

6. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012	January 1, 2012
Cash and deposits in banks	\$ 142,049,643	\$ 105,873,048	\$ 81,467,607
Repurchase agreements collateralized by short-term commercial paper	2,395,644	349,341	-
Repurchase agreements collateralized by corporate bonds	1,708,603	2,660,042	-
Repurchase agreements collateralized by government bonds	284,878	268,379	3,794,914
	<u>\$ 146,438,768</u>	<u>\$ 109,150,810</u>	<u>\$ 85,262,521</u>

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

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

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

Outstanding forward exchange contracts consisted of the following:

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

Outstanding cross currency swap contracts consisted of the following:

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

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

9. HELD-TO-MATURITY FINANCIAL ASSETS

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

10. NOTES AND ACCOUNTS RECEIVABLE, NET

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

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

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

Aging analysis of notes and accounts receivable, net

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

Movements of the allowance for doubtful receivables

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

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

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

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

11. INVENTORIES

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

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

12. FINANCIAL ASSETS CARRIED AT COST

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

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

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

a. Investments in subsidiaries

Subsidiaries consisted of the following:

Subsidiaries	Principal Activities	Place of Incorporation and Operation	Carrying Amount			% of Ownership and Voting Rights Held by the Company		
			December 31, 2013	December 31, 2012	January 1, 2012	December 31, 2013	December 31, 2012	January 1, 2012
TSMC Global Ltd. (TSMC Global)	Investment activities	Tortola, British Virgin Islands	\$ 64,953,489	\$ 49,954,386	\$ 44,071,845	100%	100%	100%
TSMC Partners, Ltd. (TSMC Partners)	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	Tortola, British Virgin Islands	42,861,788	38,635,129	34,986,964	100%	100%	100%
TSMC China Company Limited (TSMC China)	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	Shanghai, China	23,845,371	17,828,683	13,542,181	100%	100%	100%
TSMC Solar Ltd. (TSMC Solar)	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	Tai-Chung, Taiwan	4,551,318	6,011,397	10,136,237	99%	99%	100%
TSMC North America	Selling and marketing of integrated circuits and semiconductor devices	San Jose, California, U.S.A.	3,763,194	3,209,288	2,981,639	100%	100%	100%
TSMC Solid State Lighting Ltd. (TSMC SSL)	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	Hsin-Chu, Taiwan	2,154,913	2,389,541	1,725,514	92%	95%	100%
VentureTech Alliance Fund III, L.P. (VTAF III)	Investing in new start-up technology companies	Cayman Islands	892,439	1,047,285	1,311,044	50%	50%	53%
VentureTech Alliance Fund II, L.P. (VTAF II)	Investing in new start-up technology companies	Cayman Islands	441,763	563,056	762,135	98%	98%	98%
TSMC Europe B.V. (TSMC Europe)	Marketing and engineering supporting activities	Amsterdam, the Netherlands	290,838	235,761	205,171	100%	100%	100%
Emerging Alliance Fund, L.P. (Emerging Alliance)	Investing in new start-up technology companies	Cayman Islands	144,924	167,359	213,235	99.5%	99.5%	99.5%
TSMC Japan Limited (TSMC Japan)	Marketing activities	Yokohama, Japan	124,762	142,412	161,601	100%	100%	100%
TSMC Guang Neng Investment, Ltd. (TSMC GN)	Investment activities	Taipei, Taiwan	85,162	65,007	-	100%	100%	-
TSMC Korea Limited (TSMC Korea)	Customer service and technical supporting activities	Seoul, Korea	29,475	26,935	23,448	100%	100%	100%
Xintec Inc. (Xintec)	Wafer level chip size packaging service	Taoyuan, Taiwan	-	1,541,824	1,597,677	-	40%	40%
			<u>\$ 144,139,436</u>	<u>\$ 121,818,063</u>	<u>\$ 111,718,691</u>			

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

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

b. Investments in associates

Associates consisted of the following:

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

The summarized financial information in respect of the Company's associates is set out below. The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with the Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, which is also adjusted by the Company using the equity method of accounting.

	December 31, 2013	December 31, 2012	January 1, 2012
Total assets	\$ 62,946,717	\$ 49,240,451	\$ 46,033,229
Total liabilities	(12,103,610)	(7,755,433)	(6,117,893)
Net assets	<u>\$ 50,843,107</u>	<u>\$ 41,485,018</u>	<u>\$ 39,915,336</u>
The Company's share of net assets of associates	<u>\$ 20,936,345</u>	<u>\$ 17,332,378</u>	<u>\$ 16,424,565</u>

	Years Ended December 31	
	2013	2012
Net revenue	<u>\$ 46,268,485</u>	<u>\$ 40,583,794</u>
Net income	<u>\$ 9,946,540</u>	<u>\$ 7,255,006</u>
Other comprehensive loss	<u>\$ (4,148)</u>	<u>\$ (12,969)</u>
The Company's share of profits of associates	<u>\$ 3,827,244</u>	<u>\$ 2,853,322</u>
The Company's share of other comprehensive loss of associates	<u>\$ (2,190)</u>	<u>\$ (8,624)</u>

The market prices of the investments accounted for using the equity method in publicly traded stocks calculated by the closing price at the end of the reporting period are summarized as follows:

Name of Associate	December 31, 2013	December 31, 2012	January 1, 2012
VIS	<u>\$ 22,239,112</u>	<u>\$ 12,658,703</u>	<u>\$ 6,627,758</u>
GUC	<u>\$ 3,454,902</u>	<u>\$ 4,692,130</u>	<u>\$ 4,645,442</u>

14. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2013	December 31, 2012	January 1, 2012
Land	\$ 3,212,000	\$ -	\$ -
Buildings	94,121,508	73,699,762	59,268,448
Machinery and equipment	393,907,564	388,186,195	280,093,649
Office equipment	7,423,200	5,974,732	4,242,921
Equipment under installation and construction in progress	271,779,222	118,775,347	110,815,752
	<u>\$ 770,443,494</u>	<u>\$ 586,636,036</u>	<u>\$ 454,420,770</u>

	Year Ended December 31, 2013				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
Cost					
Land	\$ -	\$ 3,212,000	\$ -	\$ -	\$ 3,212,000
Buildings	173,442,106	31,812,949	-	3,797	205,258,852
Machinery and equipment	1,203,400,605	139,527,643	(2,400,908)	-	1,340,527,340
Office equipment	16,683,484	3,631,477	(508,592)	-	19,806,369
	<u>1,393,526,195</u>	<u>\$ 178,184,069</u>	<u>\$ (2,909,500)</u>	<u>\$ 3,797</u>	<u>1,568,804,561</u>
Accumulated depreciation and impairment					
Buildings	99,742,344	\$ 11,395,000	\$ -	\$ -	111,137,344
Machinery and equipment	815,214,410	133,688,815	(2,283,449)	-	946,619,776
Office equipment	10,708,752	2,183,010	(508,593)	-	12,383,169
	<u>925,665,506</u>	<u>\$ 147,266,825</u>	<u>\$ (2,792,042)</u>	<u>\$ -</u>	<u>1,070,140,289</u>
Equipment under installation and construction in progress	118,775,347	\$ 153,007,821	\$ (3,946)	\$ -	271,779,222
	<u>\$ 586,636,036</u>				<u>\$ 770,443,494</u>

	Year Ended December 31, 2012					
	Balance, Beginning of Year	Additions	Disposals	Impairment	Reclassification	Balance, End of Year
Cost						
Buildings	\$ 149,620,319	\$ 23,886,199	\$ (53,338)	\$ -	\$ (11,074)	\$ 173,442,106
Machinery and equipment	985,232,851	219,868,105	(1,711,425)	-	11,074	1,203,400,605
Office equipment	13,824,434	3,348,864	(489,814)	-	-	16,683,484
	<u>1,148,677,604</u>	<u>\$ 247,103,168</u>	<u>\$ (2,254,577)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,393,526,195</u>
Accumulated depreciation and impairment						
Buildings	90,351,871	9,434,868	(44,231)	-	(164)	99,742,344
Machinery and equipment	705,139,202	111,325,894	(1,669,180)	418,330	164	815,214,410
Office equipment	9,581,513	1,617,053	(489,814)	-	-	10,708,752
	<u>805,072,586</u>	<u>\$ 122,377,815</u>	<u>\$ (2,203,225)</u>	<u>\$ 418,330</u>	<u>\$ -</u>	<u>925,665,506</u>
Equipment under installation and construction in progress	110,815,752	\$ 8,004,900	\$ (45,305)	\$ -	\$ -	118,775,347
	<u>\$ 454,420,770</u>					<u>\$ 586,636,036</u>

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

For the year ended December 31, 2012, the Company recognized impairment loss of NT\$418,330 thousand related to property, plant and equipment of the foundry reportable segment since the carrying amount of some of property, plant and equipment is expected to be unrecoverable.

15. INTANGIBLE ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Goodwill	\$ 1,567,756	\$ 1,567,756	\$ 1,567,756
Technology license fees	980,685	1,226,587	1,617,310
Software and system design costs	3,620,028	2,914,613	2,316,571
Patent and others	900,987	740,881	785,363
	<u>\$ 7,069,456</u>	<u>\$ 6,449,837</u>	<u>\$ 6,287,000</u>

	Year Ended December 31, 2013				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
Cost					
Goodwill	\$ 1,567,756	\$ -	\$ -	\$ -	\$ 1,567,756
Technology license fees	4,186,558	-	-	-	4,186,558
Software and system design costs	14,880,058	2,130,713	(2,373)	(110,745)	16,897,653
Patent and others	2,646,738	565,901	-	101,007	3,313,646
	<u>23,281,110</u>	<u>\$ 2,696,614</u>	<u>\$ (2,373)</u>	<u>\$ (9,738)</u>	<u>25,965,613</u>
Accumulated amortization					
Technology license fees	2,959,971	\$ 245,902	\$ -	\$ -	3,205,873
Software and system design costs	11,965,445	1,320,222	(2,101)	(5,941)	13,277,625
Patent and others	1,905,857	506,802	-	-	2,412,659
	<u>16,831,273</u>	<u>\$ 2,072,926</u>	<u>\$ (2,101)</u>	<u>\$ (5,941)</u>	<u>18,896,157</u>
	<u>\$ 6,449,837</u>				<u>\$ 7,069,456</u>

	Year Ended December 31, 2012				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
Cost					
Goodwill	\$ 1,567,756	\$ -	\$ -	\$ -	\$ 1,567,756
Technology license fees	4,186,558	-	-	-	4,186,558
Software and system design costs	13,227,136	1,772,958	(26,046)	(93,990)	14,880,058
Patent and others	2,140,805	411,943	-	93,990	2,646,738
	<u>21,122,255</u>	<u>\$ 2,184,901</u>	<u>\$ (26,046)</u>	<u>\$ -</u>	<u>23,281,110</u>
Accumulated amortization					
Technology license fees	2,569,248	\$ 390,723	\$ -	\$ -	2,959,971
Software and system design costs	10,910,565	1,117,478	(26,046)	(36,552)	11,965,445
Patent and others	1,355,442	513,863	-	36,552	1,905,857
	<u>14,835,255</u>	<u>\$ 2,022,064</u>	<u>\$ (26,046)</u>	<u>\$ -</u>	<u>16,831,273</u>
	<u>\$ 6,287,000</u>				<u>\$ 6,449,837</u>

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

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

16. OTHER ASSETS

	December 31, 2013	December 31, 2012	January 1, 2012
Tax receivable	\$ 1,547,706	\$ 1,382,392	\$ 569,223
Prepaid expenses	837,425	714,937	1,156,502
Long-term receivable	820,000	767,800	785,400
Others	900	116,477	236,960
	<u>\$ 3,206,031</u>	<u>\$ 2,981,606</u>	<u>\$ 2,748,085</u>
Current portion	\$ 2,386,031	\$ 2,097,329	\$ 1,725,736
Noncurrent portion	820,000	884,277	1,022,349
	<u>\$ 3,206,031</u>	<u>\$ 2,981,606</u>	<u>\$ 2,748,085</u>

17. SHORT-TERM LOANS

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

18. PROVISIONS

	December 31, 2013	December 31, 2012
Balance, beginning of year	\$ 5,732,738	\$ 4,887,879
Provision made	6,187,344	6,825,851
Payment	(4,702,751)	(5,980,992)
Balance, end of year	<u>\$ 7,217,331</u>	<u>\$ 5,732,738</u>

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

19. BONDS PAYABLE

	December 31, 2013	December 31, 2012	January 1, 2012
Domestic unsecured bonds	\$ 166,200,000	\$ 80,000,000	\$ 22,500,000
Current portion	\$ -	\$ -	\$ 4,500,000
Noncurrent portion	166,200,000	80,000,000	18,000,000
	<u>\$ 166,200,000</u>	<u>\$ 80,000,000</u>	<u>\$ 22,500,000</u>

The major terms of domestic unsecured bonds are as follows:

Issuance	Tranche	Issuance Period	Total Amount	Coupon Rate	Repayment and Interest Payment
100-1	A	September 2011 to September 2016	\$ 10,500,000	1.40%	Bullet repayment; interest payable annually
	B	September 2011 to September 2018	7,500,000	1.63%	
100-2	A	January 2012 to January 2017	10,000,000	1.29%	"
	B	January 2012 to January 2019	7,000,000	1.46%	
101-1	A	August 2012 to August 2017	9,900,000	1.28%	"
	B	August 2012 to August 2019	9,000,000	1.40%	
101-2	A	September 2012 to September 2017	12,700,000	1.28%	"
	B	September 2012 to September 2019	9,000,000	1.39%	
101-3	-	October 2012 to October 2022	4,400,000	1.53%	"
101-4	A	January 2013 to January 2018	10,600,000	1.23%	
	B	January 2013 to January 2020	10,000,000	1.35%	"
	C	January 2013 to January 2023	3,000,000	1.49%	
102-1	A	February 2013 to February 2018	6,200,000	1.23%	
	B	February 2013 to February 2020	11,600,000	1.38%	"
	C	February 2013 to February 2023	3,600,000	1.50%	
102-2	A	July 2013 to July 2020	10,200,000	1.50%	
	B	July 2013 to July 2023	3,500,000	1.70%	"
102-3	A	August 2013 to August 2017	4,000,000	1.34%	
	B	August 2013 to August 2019	8,500,000	1.52%	"
102-4	A	September 2013 to September 2016	1,500,000	1.35%	
	B	September 2013 to September 2017	1,500,000	1.45%	
	C	September 2013 to March 2019	1,400,000	1.60%	Bullet repayment; interest payable annually (interest for the six months prior to maturity will accrue on the basis of actual days and be repayable at maturity)

(Continued)

Issuance	Tranche	Issuance Period	Total Amount	Coupon Rate	Repayment and Interest Payment
	D	September 2013 to March 2021	2,600,000	1.85%	Bullet repayment; interest payable annually (interest for the six months prior to maturity will accrue on the basis of actual days and be repayable at maturity)
	E	September 2013 to March 2023	5,400,000	2.05%	"
	F	September 2013 to September 2023	2,600,000	2.10%	Bullet repayment; interest payable annually
Domestic 5 th	C	January 2002 to January 2012	4,500,000	3.00%	"

(Concluded)

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The plan under the Labor Pension Act (the "Act") is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts. Accordingly, the Company recognized expenses of NT\$1,355,947 thousand and NT\$1,205,642 thousand in the parent company only statements of comprehensive income for the years ended December 31, 2013 and 2012, respectively.

b. Defined benefit plans

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

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

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

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

	Years Ended December 31	
	2013	2012
Current service cost	\$ 129,749	\$ 125,895
Interest cost	172,486	156,773
Expected return on plan assets	(66,001)	(61,664)
Past service cost	(7,126)	(7,126)
	<u>\$ 229,108</u>	<u>\$ 213,878</u>

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

	Years Ended December 31	
	2013	2012
Cost of revenue	\$ 148,787	\$ 135,841
Research and development expenses	59,518	56,014
General and administrative expenses	16,766	17,877
Marketing expenses	4,037	4,146
	<u>\$ 229,108</u>	<u>\$ 213,878</u>

For the years ended December 31, 2013 and 2012, the pre-tax actuarial loss recognized in other comprehensive income were NT\$671,774 thousand and NT\$677,413 thousand, respectively. As of December 31, 2013 and 2012, the pre-tax accumulated actuarial loss recognized in other comprehensive income were NT\$1,349,187 thousand and NT\$677,413 thousand, respectively.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	\$ 10,176,332	\$ 9,931,695	\$ 9,026,683
Fair value of plan assets	(3,471,478)	(3,264,786)	(3,039,871)
Funded status	6,704,854	6,666,909	5,986,812
Unrecognized prior service cost	786,186	138,133	145,259
Accrued pension cost	<u>\$ 7,491,040</u>	<u>\$ 6,805,042</u>	<u>\$ 6,132,071</u>

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

	Years Ended December 31	
	2013	2012
Balance, beginning of year	\$ 9,931,695	\$ 9,026,683
Current service cost	129,749	125,895
Interest cost	172,486	156,773
Benefits paid from plan assets	(50,508)	(26,119)
Effect of plan changes	(655,179)	-
Actuarial loss	648,089	648,463
Balance, end of year	<u>\$ 10,176,332</u>	<u>\$ 9,931,695</u>

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

	Years Ended December 31	
	2013	2012
Balance, beginning of year	\$ 3,264,786	\$ 3,039,871
Expected return on plan assets	66,001	61,664
Actuarial loss	(23,685)	(28,950)
Contributions from employer	214,884	218,320
Benefits paid from plan assets	(50,508)	(26,119)
Balance, end of year	<u>\$ 3,471,478</u>	<u>\$ 3,264,786</u>

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

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

The overall expected rate of return on plan assets was based on the historical return trends, analysts' predictions of the market over the life of related obligation, reference to the performance of the Funds operated by the Committee and the consideration of the effect that the minimum return should not be less than the average interest rate on a two-year time deposit published by the local banks. For the years ended December 31, 2013 and 2012, the actual return on plan assets were NT\$42,316 thousand and NT\$32,714 thousand, respectively.

The Company elects to disclose the historical information of experience adjustments from the adoption of Accounting Standards Used in Preparation of Parent Company Only Financial Statements, which is as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Experience adjustments on plan liabilities	\$ 1,298,932	\$ 391,826	\$ -
Experience adjustments on plan assets	\$ (23,685)	\$ (28,950)	\$ -

The Company expects to make contributions of NT\$221,330 thousand to the defined benefit plans in the next year starting from December 31, 2013.

21. EQUITY

a. Capital stock

	December 31, 2013	December 31, 2012	January 1, 2012
Authorized shares (in thousands)	28,050,000	28,050,000	28,050,000
Authorized capital	\$ 280,500,000	\$ 280,500,000	\$ 280,500,000
Issued and paid shares (in thousands)	25,928,617	25,924,435	25,916,222
Issued capital	\$ 259,286,171	\$ 259,244,357	\$ 259,162,226

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

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

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

b. Capital surplus

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

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

c. Retained earnings and dividend policy

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

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

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

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

The Company accrued profit sharing to employees based on certain percentage of net income during the

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

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

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

The appropriations of 2012 and 2011 earnings have been approved by the Company's shareholders in its meetings held on June 11, 2013 and on June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2012	For Fiscal Year 2011	For Fiscal Year 2012	For Fiscal Year 2011
Legal capital reserve	\$ 16,615,880	\$ 13,420,128		
Special capital reserve	(4,820,483)	1,172,350		
Cash dividends to shareholders	<u>77,773,307</u>	<u>77,748,668</u>	\$ 3.00	\$ 3.00
	<u>\$ 89,568,704</u>	<u>\$ 92,341,146</u>		

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

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

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

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

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

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

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

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

d. Others

Changes in others were as follows:

	Year Ended December 31, 2013			
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of year	\$ (10,753,806)	\$ 7,973,321	\$ -	\$ (2,780,485)
Exchange differences arising on translation of foreign operations	3,655,675	-	-	3,655,675
Changes in fair value of available-for-sale financial assets	-	(1,061,644)	-	(1,061,644)
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets	-	846,709	-	846,709
Share of other comprehensive income of subsidiaries and associates	(42,930)	13,515,899	(113)	13,472,856
The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates	699	(43)	-	656
Income tax effect	-	<u>36,539</u>	-	<u>36,539</u>
Balance, end of year	<u>\$ (7,140,362)</u>	<u>\$ 21,310,781</u>	<u>\$ (113)</u>	<u>\$ 14,170,306</u>

	Year Ended December 31, 2012			
	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of year	\$ (6,433,364)	\$ (1,172,762)	\$ (93)	\$ (7,606,219)
Exchange differences arising on translation of foreign operations	(4,317,386)	-	-	(4,317,386)
Changes in fair value of available-for-sale financial assets	-	(159,248)	-	(159,248)
Cumulative loss reclassified to profit or loss upon impairment of available-for-sale financial assets	-	2,677,529	-	2,677,529
Cumulative (gain)/loss reclassified to profit or loss upon disposal of available-for-sale financial assets	-	(110,634)	-	(110,634)
Share of other comprehensive income of subsidiaries and associates	(3,056)	7,147,736	93	7,144,773
Income tax effect	-	(409,300)	-	(409,300)
Balance, end of year	<u>\$ (10,753,806)</u>	<u>\$ 7,973,321</u>	<u>\$ -</u>	<u>\$ (2,780,485)</u>

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

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

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

22. SHARE-BASED PAYMENT

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

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

exercise price equal to the closing price of the Company's common shares quoted on the TWSE on the grant date.

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

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

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

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

Information about the Company's outstanding stock options was as follows:

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

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

23. NET REVENUE

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

	Years Ended December 31	
	2013	2012
Net revenue from sale of goods	\$ 590,564,728	\$ 499,871,887
Net revenue from royalties	<u>522,872</u>	<u>497,638</u>
	<u>\$ 591,087,600</u>	<u>\$ 500,369,525</u>

24. OTHER OPERATING INCOME AND EXPENSES, NET

	Years Ended December 31	
	2013	2012
Income (expenses) of rental assets		
Rental income	\$ 13,385	\$ 469
Depreciation of rental assets	<u>(25,120)</u>	<u>(6,656)</u>
	(11,735)	(6,187)
Loss on disposal of property, plant and equipment and intangible assets, net	(64,753)	(125,488)
Impairment loss on property, plant and equipment	-	(418,330)
Others	<u>9,874</u>	<u>918</u>
	<u>\$ (66,614)</u>	<u>\$ (549,087)</u>

25. OTHER INCOME

	Years Ended December 31	
	2013	2012
Interest income		
Bank deposits	\$ 996,995	\$ 836,580
Held-to-maturity financial assets	<u>14,306</u>	<u>30,647</u>
	1,011,301	867,227
Dividend income	<u>71,125</u>	<u>69,676</u>
	<u>\$ 1,082,426</u>	<u>\$ 936,903</u>

26. FINANCE COSTS

	Years Ended December 31	
	2013	2012
Interest expense		
Corporate bonds	\$ 1,991,519	\$ 758,204
Bank loans	99,722	182,040
Others	<u>995</u>	<u>4,870</u>
	<u>\$ 2,092,236</u>	<u>\$ 945,114</u>

27. OTHER GAINS AND LOSSES

	Years Ended December 31	
	2013	2012
Gain (loss) on disposal of financial assets, net		
Available-for-sale financial assets	\$ 846,709	\$ 110,634
Financial assets carried at cost	42,664	(269)
Gain on deconsolidation of subsidiary	293,578	-
Settlement income	899,745	883,845
Other gains	138,612	286,266
Net gain (loss) on financial instruments at FVTPL		
Held for trading	54,766	(152,814)
Impairment loss of financial assets		
Available-for-sale financial assets	-	(2,677,529)
Other losses	<u>(14,027)</u>	<u>(12,810)</u>
	<u>\$ 2,262,047</u>	<u>\$ (1,562,677)</u>

28. INCOME TAX

a. Income tax expense recognized in profit or loss

Income tax expense consisted of the following:

	Years Ended December 31	
	2013	2012
Current income tax expense (benefit)		
Current tax expense recognized in the current year	\$ 22,297,945	\$ 14,609,220
Income tax adjustments on prior years	(603,321)	48,609
Other income tax adjustments	<u>19,589</u>	<u>194,660</u>
	21,714,213	14,852,489
Deferred income tax expense (benefit)		
Effect of tax rate changes	-	(543,611)
The origination and reversal of temporary differences	506,563	588,318
Investment tax credits	<u>5,348,984</u>	<u>2,536,905</u>
	5,855,547	2,581,612
Income tax expense recognized in profit or loss	<u>\$ 27,569,760</u>	<u>\$ 17,434,101</u>

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

	Years Ended December 31	
	2013	2012
Income before tax	\$ 215,716,550	\$ 183,752,387
Income tax expense at the statutory rate (17%)	\$ 36,671,813	\$ 31,237,906
Tax effect of adjusting items:		
Nondeductible (deductible) items in determining taxable income	(2,369,323)	(2,873,123)
Tax-exempt income	(7,716,747)	(8,360,834)
Additional income tax on unappropriated earnings	7,659,010	4,186,013
Effect of tax rate changes on deferred income tax	-	(543,611)
Income tax credits	(3,136,942)	(2,828,300)
The origination and reversal of temporary differences	506,563	588,318
Remeasurement of investment tax credits	(3,460,882)	(4,215,537)
	28,153,492	17,190,832
Income tax adjustments on prior years	(603,321)	48,609
Other income tax adjustments	19,589	194,660
Income tax expense recognized in profit or loss	\$ 27,569,760	\$ 17,434,101

b. Income tax expense recognized in other comprehensive income

	Years Ended December 31	
	2013	2012
Deferred income tax expense (benefit)		
Related to unrealized gain/loss on available-for-sale financial assets	\$ (36,539)	\$ 409,300
Related to actuarial gain/loss from defined benefit plans	(80,613)	(81,290)
	\$ (117,152)	\$ 328,010

c. Deferred income tax balance

The analysis of deferred income tax in the parent company only balance sheets was as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Investment tax credits	\$ 1,955,980	\$ 7,304,964	\$ 9,841,869
Temporary differences			
Depreciation	366,912	819,231	2,044,680
Provision for sales returns and allowance	866,080	687,929	488,788
Accrued pension cost	900,795	818,502	457,667
Available-for-sale financial assets	6,361	224,694	308,929
Unrealized loss on inventories	387,227	359,823	-
Others	97,113	103,720	86,552
	\$ 4,580,468	\$ 10,318,863	\$ 13,228,485

	Balance, Beginning of Year	Recognized in		Balance, End of Year
		Profit or Loss	Other Comprehensive Income	
<u>Year Ended December 31, 2013</u>				
Investment tax credits	\$ 7,304,964	\$ (5,348,984)	\$ -	\$ 1,955,980
Temporary differences				
Depreciation	819,231	(452,319)	-	366,912
Provision for sales returns and allowance	687,929	178,151	-	866,080
Accrued pension cost	818,502	1,680	80,613	900,795
Available-for-sale financial assets	224,694	(254,872)	36,539	6,361
Unrealized loss on inventories	359,823	27,404	-	387,227
Others	103,720	(6,607)	-	97,113
Deferred income tax assets	\$ 10,318,863	\$ (5,855,547)	\$ 117,152	\$ 4,580,468
<u>Year Ended December 31, 2012</u>				
Investment tax credits	\$ 9,841,869	\$ (2,536,905)	\$ -	\$ 7,304,964
Temporary differences				
Depreciation	2,044,680	(1,225,449)	-	819,231
Provision for sales returns and allowance	488,788	199,141	-	687,929
Accrued pension cost	457,667	279,545	81,290	818,502
Available-for-sale financial assets	308,929	325,065	(409,300)	224,694
Unrealized loss on inventories	-	359,823	-	359,823
Others	86,552	17,168	-	103,720
Deferred income tax assets	\$ 13,228,485	\$ (2,581,612)	\$ (328,010)	\$ 10,318,863

d. The investment tax credits and deductible temporary differences for which no deferred income tax assets have been recognized in the parent company only financial statements

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

	December 31, 2013	December 31, 2012	January 1, 2012
Expiry year			
2013	\$ -	\$ -	\$ 5,456,991
2014	3,015,705	5,807,110	4,881,100
	\$ 3,015,705	\$ 5,807,110	\$ 10,338,091

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

e. Unused investment tax credits and tax-exemption information

As of December 31, 2013, the investment tax credits of the Company consisted of the following:

Law/Statute	Item	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 4,489,334	2014
		<u>482,351</u>	2015
		<u>\$ 4,971,685</u>	

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

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

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

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

g. Integrated income tax information

	December 31, 2013	December 31, 2012	January 1, 2012
Balance of the Imputation Credit Account	<u>\$ 15,242,724</u>	<u>\$ 8,130,060</u>	<u>\$ 4,003,228</u>

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

Under the Rule No.10204562810 issued by the Ministry of Finance, when calculating the creditable ratio in the year of first-time adoption of Accounting Standards Used in Preparation of Parent Company Only Financial Statements, the Company has included the adjustments to retained earnings from the effect of transition to Parent Company Only Financial Statements Accounting Standards in the accumulated unappropriated earnings.

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

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

h. Income tax examination

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

29. EARNINGS PER SHARE

	Years Ended December 31	
	2013	2012
Basic EPS	<u>\$ 7.26</u>	<u>\$ 6.42</u>
Diluted EPS	<u>\$ 7.26</u>	<u>\$ 6.41</u>

EPS is computed as follows:

	Amounts (Numerator)	Number of Shares (Denominator) (In Thousands)	EPS (NT\$)
<u>Year ended December 31, 2013</u>			
Basic EPS			
Net income available to common shareholders	\$ 188,146,790	25,927,778	<u>\$ 7.26</u>
Effect of dilutive potential common shares	-	1,825	
Diluted EPS			
Net income available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 188,146,790</u>	<u>25,929,603</u>	<u>\$ 7.26</u>
<u>Year ended December 31, 2012</u>			
Basic EPS			
Net income available to common shareholders	\$ 166,318,286	25,920,735	<u>\$ 6.42</u>
Effect of dilutive potential common shares	-	7,201	
Diluted EPS			
Net income available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 166,318,286</u>	<u>25,927,936</u>	<u>\$ 6.41</u>

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

30. ADDITIONAL INFORMATION OF EXPENSES BY NATURE

Net income included the following items:

	Years Ended December 31	
	2013	2012
a. Depreciation of property, plant and equipment		
Recognized in cost of revenue	\$ 134,545,283	\$ 111,929,312
Recognized in operating expenses	12,696,422	10,441,847
Recognized in other operating income and expenses	25,120	6,656
	<u>\$ 147,266,825</u>	<u>\$ 122,377,815</u>
b. Amortization of intangible assets		
Recognized in cost of revenue	\$ 1,099,542	\$ 1,273,689
Recognized in operating expenses	973,384	748,375
	<u>\$ 2,072,926</u>	<u>\$ 2,022,064</u>
c. Research and development costs expensed as incurred	<u>\$ 46,922,471</u>	<u>\$ 38,769,956</u>
d. Employee benefits expenses		
Post-employment benefits (Note 20)		
Defined contribution plans	\$ 1,355,947	\$ 1,205,642
Defined benefit plans	229,108	213,878
	1,585,055	1,419,520
Other employee benefits	56,622,215	50,788,680
	<u>\$ 58,207,270</u>	<u>\$ 52,208,200</u>
Employee benefits expense summarized by function		
Recognized in cost of revenue	\$ 35,791,556	\$ 31,066,533
Recognized in operating expenses	22,415,714	21,141,667
	<u>\$ 58,207,270</u>	<u>\$ 52,208,200</u>

31. LOSS OF CONTROL IN SUBSIDIARY

Starting June 2013, the Company has no power to govern the financial and operating policies of Xintec due to the loss of power to cast the majority of votes at meetings of the Board of Directors, but over which the Company still retains significant influence. Accordingly, Xintec is reclassified as an associate. For more information on deconsolidation of subsidiary, please refer to Note 34 to the consolidated financial statements for the year ended December 31, 2013.

32. CAPITAL MANAGEMENT

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

33. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets			
FVTPL			
Held for trading derivatives	\$ 64,030	\$ 38,824	\$ 14,925
Available-for-sale financial assets (Note)	1,115,780	2,328,811	3,114,969
Held-to-maturity financial assets	1,795,949	701,146	1,403,427
Loans and receivables			
Cash and cash equivalents	146,438,768	109,150,810	85,262,521
Notes and accounts receivables (including related parties)	70,415,680	56,239,838	44,186,800
Other receivables	1,453,842	1,218,024	1,095,438
Refundable deposits	2,496,663	2,394,826	4,491,735
	<u>\$ 223,780,712</u>	<u>\$ 172,072,279</u>	<u>\$ 139,569,815</u>
Financial liabilities			
FVTPL			
Held for trading derivatives	\$ 25,404	\$ 6,274	\$ -
Amortized cost			
Short-term loans	15,645,000	34,714,929	25,926,528
Accounts payable (including related parties)	17,812,654	16,622,563	12,515,270
Payables to contractors and equipment suppliers	89,555,814	44,371,108	33,811,970
Accrued expenses and other current liabilities	13,035,795	8,689,543	7,112,898
Bonds payable	166,200,000	80,000,000	22,500,000
Other long-term payables	54,000	113,000	-
Guarantee deposits	147,964	199,315	439,032
	<u>\$ 302,476,631</u>	<u>\$ 184,716,732</u>	<u>\$ 102,305,698</u>

Note: Including financial assets carried at cost.

b. Financial risk management objectives

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

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

c. Market risk

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

Foreign currency risk

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

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

The Company's sensitivity analysis to foreign currency risk mainly focuses on the foreign currency monetary items at the end of the reporting period. Assuming an unfavorable 10% movement in the levels of foreign exchanges against the New Taiwan dollar, the net income for the years ended December 31, 2013 and 2012 would have decreased by NT\$156,590 thousand and NT\$707,926 thousand, respectively, after taking into consideration of the hedging contracts and the hedged items.

Interest rate risk

The Company is exposed to interest rate risk arising from borrowing at fixed interest rates. All of the Company's long-term bonds have fixed interest rates and are measured at amortized cost. As such, changes in interest rates would not affect the future cash flows.

Other price risk

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

Assuming a hypothetical decrease of 5% in equity prices of the equity investments at the end of the reporting period, the net income for the years ended December 31, 2013 and 2012 would have been unaffected as they were classified as available-for-sale; however, the other comprehensive income for the years ended December 31, 2013 and 2012 would have decreased by NT\$47,150 thousand and NT\$97,492 thousand, respectively.

d. Credit risk management

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

Business related credit risk

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

As of December 31, 2013 and 2012 and January 1, 2012, the Company's ten largest customers accounted for 56%, 55% and 59% of accounts receivable, respectively. The Company believes the concentration of credit risk is insignificant for the remaining accounts receivable.

Financial credit risk

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

e. Liquidity risk management

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

As of December 31, 2013 and 2012 and January 1, 2012, the unused of financing facilities of the Company amounted to NT\$67,437,805 thousand, NT\$46,273,762 thousand and NT\$55,424,367 thousand, respectively.

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

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
<u>December 31, 2013</u>					
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 15,646,783	\$ -	\$ -	\$ -	\$ 15,646,783
Accounts payable (including related parties)	17,812,654	-	-	-	17,812,654
Payables to contractors and equipment suppliers	89,555,814	-	-	-	89,555,814
Accrued expenses and other current liabilities	13,035,795	-	-	-	13,035,795
Bonds payable	2,380,157	16,720,430	65,859,591	94,360,103	179,320,281
Other long-term payables	18,000	36,000	-	-	54,000
Guarantee deposits	-	147,964	-	-	147,964
	<u>138,449,203</u>	<u>16,904,394</u>	<u>65,859,591</u>	<u>94,360,103</u>	<u>315,573,291</u>
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	24,812,803	-	-	-	24,812,803
Inflows	(24,810,910)	-	-	-	(24,810,910)
	<u>1,893</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,893</u>
	<u>\$ 138,451,096</u>	<u>\$ 16,904,394</u>	<u>\$ 65,859,591</u>	<u>\$ 94,360,103</u>	<u>\$ 315,575,184</u>
<u>December 31, 2012</u>					
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 34,721,003	\$ -	\$ -	\$ -	\$ 34,721,003
Accounts payable (including related parties)	16,622,563	-	-	-	16,622,563

(Continued)

	Less Than 1 Year	2-3 Years	4-5 Years	5+ Years	Total
Payables to contractors and equipment suppliers	\$ 44,371,108	\$ -	\$ -	\$ -	\$ 44,371,108
Accrued expenses and other current liabilities	8,689,543	-	-	-	8,689,543
Bonds payable	1,108,150	2,216,300	44,911,191	37,834,474	86,070,115
Other long-term payables	59,000	36,000	18,000	-	113,000
Guarantee deposits	-	199,315	-	-	199,315
	<u>105,571,367</u>	<u>2,451,615</u>	<u>44,929,191</u>	<u>37,834,474</u>	<u>190,786,647</u>
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	9,417,062	-	-	-	9,417,062
Inflows	(9,443,940)	-	-	-	(9,443,940)
	<u>(26,878)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,878)</u>
Cross currency swap contracts					
Outflows	7,985,450	-	-	-	7,985,450
Inflows	(7,986,190)	-	-	-	(7,986,190)
	<u>(740)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(740)</u>
	<u>\$ 105,543,749</u>	<u>\$ 2,451,615</u>	<u>\$ 44,929,191</u>	<u>\$ 37,834,474</u>	<u>\$ 190,759,029</u>
January 1, 2012					
<u>Non-derivative financial liabilities</u>					
Short-term loans	\$ 25,933,177	\$ -	\$ -	\$ -	\$ 25,933,177
Accounts payable (including related parties)	12,515,270	-	-	-	12,515,270
Payables to contractors and equipment suppliers	33,811,970	-	-	-	33,811,970
Accrued expenses and other current liabilities	7,112,898	-	-	-	7,112,898
Bonds payable	4,775,081	538,500	11,000,933	7,713,258	24,027,772
Guarantee deposits	-	439,032	-	-	439,032
	<u>84,148,396</u>	<u>977,532</u>	<u>11,000,933</u>	<u>7,713,258</u>	<u>103,840,119</u>
<u>Derivative financial instruments</u>					
Forward exchange contracts					
Outflows	1,515,822	-	-	-	1,515,822
Inflows	(1,528,206)	-	-	-	(1,528,206)
	<u>(12,384)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,384)</u>
	<u>\$ 84,136,012</u>	<u>\$ 977,532</u>	<u>\$ 11,000,933</u>	<u>\$ 7,713,258</u>	<u>\$ 103,827,735</u>

(Concluded)

f. Fair value of financial instruments

1) Fair value of financial instruments carried at amortized cost

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>						
Held-to-maturity financial assets						
Commercial paper	\$ 1,795,949	\$ 1,795,612	\$ -	\$ -	\$ -	\$ -
Corporate bonds	-	-	701,146	708,973	1,403,427	1,426,474
<u>Financial liabilities</u>						
Measured at amortized cost						
Bonds payable	166,200,000	165,476,545	80,000,000	80,343,413	22,500,000	22,597,115

2) Fair value measurements recognized in the parent company only balance sheets

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 64,030	\$ -	\$ 64,030
<u>Available-for-sale financial assets</u>				
Publicly traded stocks	\$ 646,402	\$ -	\$ -	\$ 646,402
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 25,404	\$ -	\$ 25,404

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 38,824	\$ -	\$ 38,824
<u>Available-for-sale financial assets</u>				
Publicly traded stocks	\$ 1,845,052	\$ -	\$ -	\$ 1,845,052
<u>Financial liabilities at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 6,274	\$ -	\$ 6,274

	January 1, 2012			
	Level 1	Level 2	Level 3	Total
<u>Financial assets at FVTPL</u>				
Derivative financial instruments	\$ -	\$ 14,925	\$ -	\$ 14,925
<u>Available-for-sale financial assets</u>				
Publicly traded stocks	\$ 2,617,134	\$ -	\$ -	\$ 2,617,134

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

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

3) Valuation techniques and assumptions used in fair value measurement

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes publicly traded stocks).
- Forward exchange contracts and cross currency swap contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

34. RELATED PARTY TRANSACTIONS

The transactions between the Company and its related parties, other than those disclosed in other notes, are summarized as follows:

a. Net revenue

	Net Revenue from Sale of Goods		Net Revenue from Royalties	
	Years Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
<u>Related Party Categories</u>				
Subsidiaries	\$ 414,108,019	\$ 326,784,542	\$ 15,624	\$ 984
Associates	2,167,467	4,548,173	497,020	479,239
Associates of the Company's subsidiaries	119,067	-	-	-
Joint venture of the Company's subsidiaries	1,677	3,410	-	-
	<u>\$ 416,396,230</u>	<u>\$ 331,336,125</u>	<u>\$ 512,644</u>	<u>\$ 480,223</u>

b. Purchases

	Years Ended December 31	
	2013	2012
<u>Related Party Categories</u>		
Subsidiaries	\$ 25,422,634	\$ 23,734,561
Associates	10,052,170	8,114,307
	<u>\$ 35,474,804</u>	<u>\$ 31,848,868</u>

c. Receivables from related parties

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Related Party Categories</u>			
Subsidiaries	\$ 52,750,047	\$ 40,748,905	\$ 24,661,104
Associates	219,424	238,380	116,218
Joint venture of the Company's subsidiaries	332	159	212
	<u>\$ 52,969,803</u>	<u>\$ 40,987,444</u>	<u>\$ 24,777,534</u>

d. Payables to related parties

	December 31, 2013	December 31, 2012	January 1, 2012
<u>Related Party Categories</u>			
Subsidiaries	\$ 2,503,578	\$ 2,485,560	\$ 1,664,623
Associates	1,679,184	742,705	1,325,791
Joint venture of the Company's subsidiaries	1,217	2,077	2,168
	<u>\$ 4,183,979</u>	<u>\$ 3,230,342</u>	<u>\$ 2,992,582</u>

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

	Purchase Price	
	Years Ended December 31	
	2013	2012
<u>Related Party Categories</u>		
Subsidiaries	\$ 120,499	\$ 230,532
Associates	21,135	47,051
Joint venture of the Company's subsidiaries	-	1,224
	<u>\$ 141,634</u>	<u>\$ 278,807</u>

f. Disposal of property, plant and equipment

	Years Ended December 31			
	2013		2012	
	Proceeds	Gains (Losses)	Proceeds	Gains (Losses)
<u>Related Party Categories</u>				
Subsidiaries	\$ 94,152	\$ 2,570	\$ 46,951	\$ (18,697)
Associates	58,265	2,787	14,531	(132)
Joint venture of the Company's subsidiaries	-	948	9,000	213
	<u>\$ 152,417</u>	<u>\$ 6,305</u>	<u>\$ 70,482</u>	<u>\$ (18,616)</u>

	Deferred Gains (Losses) from Disposal of Property, Plant and Equipment		
	December 31, 2013	December 31, 2012	January 1, 2012
	<u>Related Party Categories</u>		
Subsidiaries	\$ 46,235	\$ 17,279	\$ (1,493)
Associates	-	(7,806)	-
Joint venture of the Company's subsidiaries	-	948	-
	<u>\$ 46,235</u>	<u>\$ 10,421</u>	<u>\$ (1,493)</u>

g. Others

	Manufacturing Expenses		Research and Development Expenses	
	Years Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
<u>Related Party Categories</u>				
Subsidiaries	\$ 122,068	\$ 180,998	\$ 1,107,059	\$ 975,455
Associates	908,977	-	903	4,644
Joint venture of the Company's subsidiaries	5,187	14,586	6,340	8,254
	<u>\$ 1,036,232</u>	<u>\$ 195,584</u>	<u>\$ 1,114,302</u>	<u>\$ 988,353</u>

	Marketing Expenses - Commission		Non-operating Income	
	Years Ended December 31		Years Ended December 31	
	2013	2012	2013	2012
<u>Related Party Categories</u>				
Subsidiaries	\$ 736,937	\$ 716,296	\$ 18,636	\$ 12,292
Associates	-	-	-	5,990
	<u>\$ 736,937</u>	<u>\$ 716,296</u>	<u>\$ 18,636</u>	<u>\$ 18,282</u>

	Other Receivables from Related Parties		
	December 31, 2013	December 31, 2012	January 1, 2012
	<u>Related Party Categories</u>		
Subsidiaries	\$ 351,169	\$ 95,271	\$ 65,736
Associates	220,831	179,692	121,767
Joint venture of the Company's subsidiaries	-	-	525
	<u>\$ 572,000</u>	<u>\$ 274,963</u>	<u>\$ 188,028</u>

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

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

The Company deferred the disposal gain/loss derived from sales of property, plant and equipment to related parties using equity method, and then recognized such gain/loss over the depreciable lives of the disposed assets.

h. Compensation of key management personnel

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

	Years Ended December 31	
	2013	2012
Short-term employee benefits	\$ 1,242,451	\$ 1,293,052
Post-employment benefits	7,998	3,009
	<u>\$ 1,250,449</u>	<u>\$ 1,296,061</u>

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

35. SIGNIFICANT OPERATING LEASE ARRANGEMENTS

The Company leases several parcels of land from the Science Park Administration. These operating leases expire between February 2014 and December 2032 and can be renewed upon expiration.

The Company expensed the lease payments as follows:

	Years Ended December 31	
	2013	2012
Minimum lease payments	\$ 671,371	\$ 484,603

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

	December 31, 2013	December 31, 2012	January 1, 2012
Not later than 1 year	\$ 666,791	\$ 485,963	\$ 453,868
Later than 1 year and not later than 5 years	2,426,891	1,783,197	1,642,683
Later than 5 years	5,110,098	3,655,825	3,255,047
	<u>\$ 8,203,780</u>	<u>\$ 5,924,985</u>	<u>\$ 5,351,598</u>

36. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity provided the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice. In 2013 and 2012, the R.O.C. Government did not involve such right.
- b. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, in September 2006, Philips spun-off its semiconductor subsidiary which was renamed as NXP B.V. Further, the Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares, respectively. The Company and NXP B.V. are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC falls below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs. There was no default from the aforementioned commitment as of December 31, 2013.
- c. In June 2010, Keranos, LLC. filed a complaint in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in

November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single lawsuit in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.

- d. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of infringing several U.S. patents. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- e. The Company joined the Customer Co-Investment Program of ASML and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML's equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity on October 31, 2012. Both parties also signed the research and development funding agreement whereby the Company shall provide EUR276,000 thousand to ASML's research and development programs from 2013 to 2017. For the year ended December 31, 2013, the Company paid EUR55,078 thousand to ASML under the research and development funding agreement.
- f. In December 2013, Tela Innovations, Inc. filed complaints in the U.S. District Court for the District of Delaware and in the United States International Trade Commission accusing the Company and TSMC North America of infringing one U.S. patent. In January 2014, the Company filed a lawsuit against Tela for trade secret misappropriation and breach of contract. The outcome cannot be determined and the Company cannot make a reliable estimate of the contingent liability at this time.
- g. As of December 31, 2013, the Company provided financial guarantees of NT\$44,700,000 thousand to its subsidiary, TSMC Global, in respect of the issuance of unsecured corporate bonds.

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

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

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount
<u>December 31, 2013</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 2,601,226	29.800	\$ 77,516,527
EUR	450,273	41.00	18,461,200
JPY	41,327,283	0.2834	11,712,152
Non-monetary items			
HKD	168,334	3.84	646,402
<u>Financial liabilities</u>			
Monetary items			
USD	1,926,813	29.800	57,419,016
EUR	810,174	41.00	33,217,114
JPY	71,828,809	0.2834	20,356,284

(Continued)

	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Carrying Amount
<u>December 31, 2012</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 2,255,391	29.038	\$ 65,492,054
EUR	117,136	38.39	4,496,863
JPY	35,290,837	0.3352	11,829,489
Non-monetary items			
HKD	492,014	3.75	1,845,052
<u>Financial liabilities</u>			
Monetary items			
USD	2,171,316	29.038	63,050,668
EUR	245,237	38.39	9,414,653
JPY	43,052,403	0.3352	14,431,165
<u>January 1, 2012</u>			
<u>Financial assets</u>			
Monetary items			
USD	\$ 1,566,212	30.288	\$ 47,437,444
EUR	124,425	39.27	4,886,187
JPY	33,073,336	0.3897	12,888,679
Non-monetary items			
HKD	671,060	3.90	2,617,134
<u>Financial liabilities</u>			
Monetary items			
USD	1,626,129	30.288	49,252,192
EUR	106,931	39.27	4,199,185
JPY	34,942,421	0.3897	13,617,061

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

(Concluded)

38. FIRST-TIME ADOPTION OF PARENT COMPANY ONLY FINANCIAL STATEMENTS ACCOUNTING STANDARDS

The transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements was on January 1, 2012 (the transition date). The effects on the Company's parent company only balance sheets as of December 31, 2012 and January 1, 2012 as well as the parent company only statements of comprehensive income for the year ended December 31, 2012, were as follows:

a. Exemptions

Except for optional exemptions and mandatory exceptions, the Company retrospectively applied Accounting Standards Used in Preparation of the Parent Company Only Financial Statements in its opening balance sheet at the date of transition, January 1, 2012.

- 1) Business combinations. The Company elected not to apply related guidance retrospectively to business combinations that occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations was the same as the carrying amount of goodwill under R.O.C. GAAP as of January 1, 2012.
- 2) Employee benefits. The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of the transition date. In addition, the Company elected to apply the exemption disclosure requirement provided by related guidance, in which the amounts of present value of defined benefit obligations, the fair value of plan assets, the surplus or deficit in the plan and the experience adjustments are determined for each accounting period prospectively from the transition date.
- 3) Share-based payment. The Company elected to take the optional exemption from applying related guidance retrospectively for the share-based payment transactions granted and vested before the transition date.

b. Reconciliation of parent company only balance sheet as of December 31, 2012

Item	R.O.C. GAAP		Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Note
	Amount		Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Current assets							
Cash and cash equivalents	\$ 109,150,810	\$ -	\$ -	\$ -	\$ 109,150,810	Cash and cash equivalents	
Financial assets at fair value through profit or loss	38,824	-	-	-	38,824	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	1,845,052	-	-	-	1,845,052	Available-for-sale financial assets	
Held-to-maturity financial assets	701,146	-	-	-	701,146	Held-to-maturity financial assets	
Notes and accounts receivable	15,726,431	-	(474,037)	-	15,252,394	Notes and accounts receivable, net	
Receivables from related parties	40,987,444	-	-	-	40,987,444	Receivables from related parties	
Allowance for doubtful receivables	(474,037)	-	-	474,037	-	-	
Allowance for sales returns and others	(5,732,738)	-	-	5,732,738	-	-	a)
Other receivables from related parties	274,963	-	-	-	274,963	Other receivables from related parties	
Other financial assets	175,261	-	-	-	175,261	Other financial assets	
Inventories	35,296,391	-	-	-	35,296,391	Inventories	
Deferred income tax assets	7,728,464	-	(7,728,464)	-	-	-	b)
Prepaid expenses and other current assets	2,097,329	-	-	-	2,097,329	Other current assets	
Total current assets	207,815,340	-	(1,995,726)	-	205,819,614	Total current assets	
Long-term investments							
Investments accounted for using equity method	139,264,161	(113,720)	-	-	139,150,441	Investments accounted for using equity method	e)
Financial assets carried at cost	483,759	-	-	-	483,759	Financial assets carried at cost	
Total long-term investments	139,747,920	(113,720)	-	-	139,634,200	Total long-term investments	
Net property, plant and equipment	586,603,294	-	32,742	-	586,636,036	Property, plant and equipment	c)
Intangible assets	6,449,837	-	-	-	6,449,837	Intangible assets	
Other assets							
Deferred income tax assets	2,244,947	345,452	-	7,728,464	10,318,863	Deferred income tax assets	b), d)
Refundable deposits	2,394,826	-	-	-	2,394,826	Refundable deposits	

(Continued)

R.O.C. GAAP		Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Others	\$ 917,019	\$ -	\$ (32,742)	\$ 884,277	Other noncurrent assets	c)
Total other assets	5,556,792	345,452	7,695,722	13,597,966		
Total	\$ 946,173,183	\$ 231,732	\$ 5,732,738	\$ 952,137,653	Total	
Current liabilities						
Short-term loans	\$ 34,714,929	\$ -	\$ -	\$ 34,714,929	Short-term loans	
Financial liabilities at fair value through profit or loss	6,274	-	-	6,274	Financial liabilities at fair value through profit or loss	
Accounts payable	13,392,221	-	-	13,392,221	Accounts payable	
Payables to related parties	3,230,342	-	-	3,230,342	Payables to related parties	
Income tax payable	15,196,399	-	-	15,196,399	Income tax payable	
Accrued profit sharing to employees and bonus to directors	11,186,591	-	-	11,186,591	Accrued profit sharing to employees and bonus to directors	
Payables to contractors and equipment suppliers	44,371,108	-	-	44,371,108	Payables to contractors and equipment suppliers	
Accrued expenses and other current liabilities	16,698,014	-	-	16,698,014	Accrued expenses and other current liabilities	
-	-	-	5,732,738	5,732,738	Provisions	a)
Total current liabilities	138,795,878	-	5,732,738	144,528,616	Total current liabilities	
Long-term liabilities						
Bonds payable	80,000,000	-	-	80,000,000	Bonds payable	
Other long-term payables	54,000	-	-	54,000	Other long-term payables	
Total long-term liabilities	80,054,000	-	-	80,054,000	Total long-term liabilities	
Other liabilities						
Accrued pension cost	3,926,276	2,878,766	-	6,805,042	Accrued pension cost	d)
Guarantee deposits	199,315	-	-	199,315	Guarantee deposits	
Total other liabilities	4,125,591	2,878,766	-	7,004,357	Total other liabilities	
Total liabilities	222,975,469	2,878,766	5,732,738	231,586,973	Total liabilities	
Capital stock	259,244,357	-	-	259,244,357	Capital stock	e)
Capital surplus	56,137,809	(462,469)	-	55,675,340	Capital surplus	
Retained earnings					Retained earnings	
Appropriated as legal capital reserve	115,820,123	-	-	115,820,123	Appropriated as legal capital reserve	
Appropriated as special capital reserve	7,606,224	-	-	7,606,224	Appropriated as special capital Reserve	d), e)
Unappropriated earnings	287,174,942	(2,189,821)	-	284,985,121	Unappropriated earnings	
Others	410,601,289	(2,189,821)	-	408,411,468	Others	
Others						
Cumulative translation adjustments	(10,753,763)	(43)	-	(10,753,806)	Foreign currency translation reserve	e)
Net loss not recognized as pension cost	(5,299)	5,299	-	-	-	e)
Unrealized gain/loss on financial instruments	7,973,321	-	-	7,973,321	Unrealized gain/loss from available-for-sale financial assets	
	(2,785,741)	5,256	-	(2,780,485)		
Total shareholders' equity	723,197,714	(2,647,034)	-	720,550,680	Total equity	
Total	\$ 946,173,183	\$ 231,732	\$ 5,732,738	\$ 952,137,653	Total	

(Concluded)

c. Reconciliation of parent company only balance sheet as of January 1, 2012

R.O.C. GAAP		Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Current assets						
Cash and cash equivalents	\$ 85,262,521	\$ -	\$ -	\$ 85,262,521	Cash and cash equivalents	
Financial assets at fair value through profit or loss	14,925	-	-	14,925	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	2,617,134	-	-	2,617,134	Available-for-sale financial assets	
Held-to-maturity financial assets	701,136	-	-	701,136	Held-to-maturity financial assets	
Notes and accounts receivable	19,894,386	-	(485,120)	19,409,266	Notes and accounts receivable, net	
Receivables from related parties	24,777,534	-	-	24,777,534	Receivables from related Parties	
Allowance for doubtful receivables	(485,120)	-	485,120	-	-	a)
Allowance for sales returns and others	(4,887,879)	-	4,887,879	-	-	
Other receivables from related parties	188,028	-	-	188,028	Other receivables from related parties	
Other financial assets	122,010	-	-	122,010	Other financial assets	
Inventories	22,853,397	-	-	22,853,397	Inventories	b)
Deferred income tax assets	5,779,544	-	(5,779,544)	-	-	
Prepaid expenses and other current assets	1,725,736	-	-	1,725,736	Other current asset	
Total current assets	158,563,352	-	(891,665)	157,671,687	Total current assets	
Long-term investments						
Investments accounted for using equity method	128,200,718	(57,462)	-	128,143,256	Investments accounted for using equity method	e)
Held-to-maturity financial assets	702,291	-	-	702,291	Held-to-maturity financial assets	
Financial assets carried at cost	497,835	-	-	497,835	Financial assets carried at cost	
Total long-term investments	129,400,844	(57,462)	-	129,343,382	Total long-term investments	
Net property, plant and equipment	454,373,533	-	47,237	454,420,770	Property, plant and equipment	c)
Intangible assets	6,287,000	-	-	6,287,000	Intangible assets	
Other assets						
Deferred income tax assets	7,221,824	227,117	5,779,544	13,228,485	Deferred income tax assets	b), d)
Refundable deposits	4,491,735	-	-	4,491,735	Refundable deposits	
Others	1,069,586	-	(47,237)	1,022,349	Other noncurrent assets	c)
Total other assets	12,783,145	227,117	5,732,307	18,742,569	Total other assets	
Total	\$ 761,407,874	\$ 169,655	\$ 4,887,879	\$ 766,465,408	Total	
Current liabilities						
Short-term loans	\$ 25,926,528	\$ -	\$ -	\$ 25,926,528	Short-term loans	
Accounts payable	9,522,688	-	-	9,522,688	Accounts payable	
Payables to related parties	2,992,582	-	-	2,992,582	Payables to related parties	
Income tax payable	10,647,797	-	-	10,647,797	Income tax payable	
Accrued profit sharing to employees and bonus to directors	9,055,704	-	-	9,055,704	Accrued profit sharing to employees and bonus to directors	
Payables to contractors and equipment suppliers	33,811,970	-	-	33,811,970	Payables to contractors and equipment suppliers	

(Continued)

R.O.C. GAAP		Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Accrued expenses and other current liabilities	\$ 13,057,161	\$ -	\$ -	\$ 13,057,161	Accrued expenses and other current liabilities	a)
Current portion of bonds payable	4,500,000	-	-	4,500,000	Current portion of bonds payable	
-	-	-	4,887,879	4,887,879	Provisions	
Total current liabilities	109,514,430	-	4,887,879	114,402,309	Total current liabilities	
Long-term liabilities						
Bonds payable	18,000,000	-	-	18,000,000	Bonds payable	
Other liabilities						
Accrued pension cost	3,860,898	2,271,173	-	6,132,071	Accrued pension cost	
Guarantee deposits	439,032	-	-	439,032	Guarantee deposits	
Total other liabilities	4,299,930	2,271,173	-	6,571,103		
Total liabilities	131,814,360	2,271,173	4,887,879	138,973,412	Total liabilities	d)
Capital stock	259,162,226	-	-	259,162,226	Capital stock	e)
Capital surplus	55,846,357	(374,695)	-	55,471,662	Capital surplus	
Retained earnings					Retained earnings	d), e)
Appropriated as legal capital reserve	\$ 102,399,995	\$ -	\$ -	\$ 102,399,995	Appropriated as legal capital reserve	
Appropriated as special capital reserve	6,433,874	-	-	6,433,874	Appropriated as special capital reserve	
Unappropriated earnings	213,357,286	(1,726,828)	-	211,630,458	Unappropriated earnings	
	322,191,155	(1,726,828)	-	320,464,327		
Others						e)
Cumulative translation adjustments	(6,433,369)	5	-	(6,433,364)	Foreign currency translation reserve	
Unrealized gain/loss on financial instruments	(1,172,855)	-	93	(1,172,762)	Unrealized gain/loss from available-for-sale financial assets	e)
-	-	-	(93)	(93)	Cash flow hedges reserve	
	(7,606,224)	5	-	(7,606,219)		
Total shareholders' equity	629,593,514	(2,101,518)	-	627,491,996	Total equity	
Total	\$ 761,407,874	\$ 169,655	\$ 4,887,879	\$ 766,465,408	Total	

(Concluded)

d. Reconciliation of parent company only statement of comprehensive income for the year ended December 31, 2012

R.O.C. GAAP		Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Net sales	\$ 499,871,887	\$ -	\$ 497,638	\$ 500,369,525	Net revenue	f)
Cost of sales	265,538,540	(44,355)	-	265,494,185	Cost of revenue	d)
Gross profit before affiliates elimination	234,333,347	44,355	497,638	234,875,340	Gross profit before unrealized gross profit on sales to associates	f)
Unrealized gross profit from affiliates	(25,029)	-	-	(25,029)	Unrealized gross profit on sales to associates	
Gross profit	234,308,318	44,355	497,638	234,850,311	Gross profit	d)
Operating expenses						
Research and development	38,788,245	(18,289)	-	38,769,956	Research and development	d)
General and administrative	16,330,060	(5,822)	-	16,324,238	General and administrative	d)
Marketing	2,388,243	(1,354)	-	2,386,889	Marketing	d)
Total operating expenses	57,506,548	(25,465)	-	57,481,083		f)
-	-	-	(549,087)	(549,087)	Other operating income and expenses, net	
Income from operations	176,801,770	69,820	(51,449)	176,820,141	Income from operations	e)
Non-operating income and gains						
Equity in earnings of equity method investees, net	8,127,748	47,642	-	8,175,390	Share of profits of subsidiaries and associates	f)
Interest income	867,227	-	(867,227)	-		
Settlement income	883,845	-	(883,845)	-		f)
-	-	-	327,744	327,744	Foreign exchange gain, net	f)
Technical service income	497,638	-	(497,638)	-		f)
Others	811,619	-	(811,619)	-		f)
-	-	-	936,903	936,903	Other income	f)
-	-	4,977	(1,567,654)	(1,562,677)	Other gains and losses	e), f)
Total non-operating income and gains	11,188,077	52,619	(3,363,336)	7,877,360		f)
Non-operating expenses and losses						
Impairment of financial assets	2,677,529	-	(2,677,529)	-		f)
Interest expense	945,114	-	-	945,114	Finance costs	f)
Impairment loss on idle assets	418,330	-	(418,330)	-		
Loss on disposal of property, plant and equipment	146,647	-	(146,647)	-		f)
Others	172,279	-	(172,279)	-		f)
Total non-operating expenses and losses	4,359,899	-	(3,414,785)	945,114		
Income before income tax	183,629,948	122,439	-	183,752,387	Income before income tax	d)
Income tax expense	17,471,146	(37,045)	-	17,434,101	Income tax expense	

(Continued)

R.O.C. GAAP		Effect of Transition to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Accounting Standards Used in Preparation of the Parent Company Only Financial Statements		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Net income	\$ 166,158,802	\$ 159,484	\$ -	\$ 166,318,286 (4,317,386)	Net income	
				2,407,647	Exchange differences arising on translation of foreign operations	
				7,118,419	Changes in fair value of available-for-sale financial assets	
				(677,413)	Share of other comprehensive income of subsidiaries and associates	e)
				(328,010)	Actuarial loss from defined benefit plans	d)
				4,203,257	Income tax expense related to components of other comprehensive income	d)
					Other comprehensive income for the year, net of income tax	
				\$ 170,521,543	Total comprehensive income for the year	

(Concluded)

e. Significant reconciliation differences in statement of cash flows for the year ended December 31, 2012

For the year ended December 31, 2012, the Company partially disposed and acquired its interests in subsidiaries without the loss of control with the cash inflows and cash outflows of NT\$587,902 thousand and NT\$2,259,244 thousand, respectively. Under R.O.C. GAAP, such cash flows were classified as investing activities. However, under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, such cash flows were classified as financing activities.

The Company prepared the statement of cash flows using the indirect method under R.O.C. GAAP, in which the interest received is not required to be disclosed separately; instead, the interest received and the interest paid are included within the operating activities in the statement of cash flows. However, according to Accounting Standards Used in Preparation of the Parent Company Only Financial Statements for the year ended December 31, 2012, the interest received of NT\$834,314 thousand should be disclosed separately in the investing activities; and the interest paid of NT\$670,165 thousand should be disclosed in the financing activities based on their nature, respectively.

Except for the above differences, there are no other significant differences between R.O.C. GAAP and Accounting Standards Used in Preparation of the Parent Company Only Financial Statements in the parent company only statement of cash flows.

f. Notes to the reconciliation of the significant differences:

1) Allowance for sales returns and others

Under R.O.C. GAAP, provisions for estimated sales returns and others are recognized as a reduction in revenue in the year the related revenue is recognized based on historical experience. The corresponding allowance for sales returns and others is presented as a reduction in accounts receivable. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, the allowance for sales returns and others is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions in accordance with the related guidance.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provisions were NT\$5,732,738 thousand and NT\$4,887,879 thousand, respectively.

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

Under R.O.C. GAAP, a deferred tax asset and liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the parent company only financial statements, it is classified as either current or noncurrent based on the expected length of time before it is realized or settled. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, a deferred tax asset and liability is classified as noncurrent asset or liability.

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

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to noncurrent assets were NT\$7,728,464 thousand and NT\$5,779,544 thousand, respectively.

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

Under R.O.C. GAAP, assets leased to others and idle assets are classified under other assets. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, the aforementioned items are classified as property, plant and equipment according to their nature. In accordance with the related guidance, investment properties are defined as properties held to earn rentals or for capital appreciation; however, the Company's assets leased to others are mainly housing facilities leased to employees and manufacturing facilities leased to suppliers. The housing facilities leased to employees are not classified as investment properties; and manufacturing facilities leased to suppliers are not considered as investment properties since they cannot be sold separately and comprise only an insignificant portion of the entire facility.

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

4) Employee benefits

The Company had recognized the pension cost and retirement benefit obligation under its defined benefit plans based on actuarial valuations performed in conformity with R.O.C. GAAP. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, the Company should carry out actuarial valuation on defined benefit obligation in accordance with the related guidance.

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

Under the related guidance, the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

At the transition date, the Company performed the actuarial valuation under the related guidance and recognized the valuation difference directly to retained earnings. For the year ended December 31, 2012, total actuarial gains and losses were also recognized to other comprehensive income in accordance with actuarial valuation carried out in 2012.

In addition, under R.O.C. GAAP, a minimum pension liability should be recognized in the balance sheet. If the accrued pension cost is less than the minimum pension liability, the difference should be recognized as an additional liability. Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, there is no aforementioned requirement to recognize minimum pension liability.

As of December 31, 2012 and January 1, 2012, accrued pension cost of the Company was adjusted for an increase of NT\$2,878,766 thousand and NT\$2,271,173 thousand, respectively; deferred income tax assets were adjusted for an increase of NT\$345,452 thousand and NT\$227,117 thousand, respectively. For the year ended December 31, 2012, pension cost and income tax expense of the Company were adjusted for a decrease of NT\$69,820 thousand and NT\$37,045 thousand, respectively; actuarial loss from defined benefit plans and income tax benefit related to components of other comprehensive income were recognized in the amount of NT\$677,413 thousand and NT\$81,290 thousand, respectively.

5) Investments accounted for using the equity method

The Company has evaluated significant differences between current accounting policies and Accounting Standards Used in Preparation of the Parent Company Only Financial Statements for the Company's subsidiaries and associates accounted for using the equity method. The significant difference is mainly due to the adjustment to employee benefits.

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

As of December 31, 2012 and January 1, 2012, as a result of the differences mentioned above, investment accounted for using the equity method was adjusted for a decrease of NT\$113,720 thousand and NT\$57,462 thousand, respectively; foreign currency translation reserve was adjusted for a decrease of NT\$43 thousand and an increase of NT\$5 thousand, respectively; capital surplus was adjusted for a decrease of NT\$462,469 thousand and NT\$374,695 thousand, respectively. As of December 31, 2012, net loss not recognized as pension cost was adjusted for a decrease of NT\$5,299 thousand. In addition, equity in earnings of equity method investees and share of other comprehensive income of subsidiaries and associates were adjusted for an increase of NT\$47,642 thousand and decrease of NT\$26,402 thousand respectively for the year ended December 31, 2012; other gains and losses was adjusted for a gain of NT\$4,977 thousand for the year ended December 31, 2012.

6) The reclassification of line items in the parent company only statement of comprehensive income

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

Under Accounting Standards Used in Preparation of the Parent Company Only Financial Statements, based on the nature of operating transactions, for the year ended December 31, 2012, the Company also reclassified technical service income of NT\$497,638 thousand to net revenue, rental revenue of NT\$469 thousand, net loss on disposal of property, plant and equipment and other assets of NT\$125,488 thousand, other income of NT\$918 thousand, depreciation of rental assets of NT\$6,656 thousand and impairment loss on idle assets of NT\$418,330 thousand to other operating income and expenses; other income of NT\$327,744 thousand was reclassified to net foreign exchange gain. In addition, interest income of NT\$867,227 thousand and dividend income of NT\$69,676 thousand were also reclassified to other income; settlement income of NT\$883,845 thousand, net gain on disposal of financial assets of NT\$110,365 thousand, others of NT\$286,266 thousand (under non-operating income and gains), net valuation loss on financial instruments of NT\$152,814 thousand, impairment loss of financial assets of NT\$2,677,529 thousand as well as others of NT\$17,787 thousand (under non-operating expenses and losses) were reclassified to other gains and losses for the year ended December 31, 2012.

39. ADDITIONAL DISCLOSURES

- a. Financings provided: None;
- b. Endorsement/guarantee provided: Please see Table 1 attached;
- c. Marketable securities held (excluding investments in subsidiaries, associates and jointly controlled entities): Please see Table 2 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital: Please see Table 3 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$300 million or 20% of the paid-in capital: Please see Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$300 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Information about the derivative financial instruments transaction: Please see Note 7;
- j. Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;
- k. Information on investment in Mainland China
 - 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, income (losses) of the investee, share of profits/losses of investee, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
 - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 34.

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited**ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Notes 1 and 2)	Maximum Balance for the Period (US\$ in Thousands) (Note 3)	Ending Balance (US\$ in Thousands) (Note 3)	Amount Actually Drawn (US\$ in Thousands)	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship										
0	The Company	TSMC Global	Subsidiary	\$ 211,877,064	\$ 44,700,000 (US\$ 1,500,000)	\$ 44,700,000 (US\$ 1,500,000)	\$ 44,700,000 (US\$ 1,500,000)	\$ -	5.3%	\$ 211,877,064	Yes	No	No

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

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

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

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited**MARKETABLE SECURITIES HELD****DECEMBER 31, 2013**

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

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

Note: The carrying value represents carrying amount less accumulated impairment of NT\$412,901 thousand.

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance (Note 1)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain/Loss on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
The Company	Stock	Available-for-sale financial assets Investments accounted for using equity method	-	-	1,277,958	\$ 1,845,052	-	\$ -	1,002,001	\$ 1,830,424	\$ 983,715	\$ 846,709	275,957	\$ 646,402
	Semiconductor Manufacturing International Corporation TSMC SSL		Note 2	Subsidiary	430,400	2,389,541	124,274	1,242,744	-	-	-	-	554,674	2,154,913
	Commercial Paper	Held-to-maturity financial assets	-	-	-	-	100	998,018	-	-	-	-	100	998,018
	CPC Corporation, Taiwan		-	-	-	-	80	797,931	-	-	-	-	80	797,931
Taiwan Power Company	"	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2013**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
The Company	Land	January 3, 2013	\$ 2,248,400	By the contract	Miaoli County Government	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 22, 2013 to August 29, 2013	3,561,600	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2013 to June 21, 2013	4,373,205	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 3, 2013 to October 25, 2013	338,948	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	April 3, 2013 to May 15, 2013	2,615,744	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	May 27, 2013 to June 19, 2013	615,038	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount (Foreign Currencies in Thousands)	% to Total	Payment Terms	Unit Price (Note 1)	Payment Terms (Note 1)	Ending Balance (Foreign Currencies in Thousands)	% to Total	
TSMC	TSMC North America GUC	Subsidiary	Sales	\$ 414,087,565	69	Net 30 days from invoice date	-	-	\$ 52,750,047	74	
		Associate	Sales	1,970,934	1	Net 30 days from the end of the month of when invoice is issued	-	-	219,424	-	
	VIS	Associate	Sales	195,101	-	Net 30 days from the end of the month of when invoice is issued	-	-	-	-	
	Mcube Inc. (Mcube) TSMC China	Associate of the Company's subsidiary (Note 2) Subsidiary	Sales	119,067	-	Net 30 days from invoice date	-	-	-	-	
			Purchases	16,902,114	27	Net 30 days from the end of the month of when invoice is issued	-	-	(1,509,508)	8	
	WaferTech	Indirect subsidiary	Purchases	8,520,337	14	Net 30 days from the end of the month of when invoice is issued	-	-	(685,906)	4	
	VIS	Associate	Purchases	6,993,964	11	Net 30 days from the end of the month of when invoice is issued	-	-	(731,587)	4	
	SSMC	Associate	Purchases	3,056,372	5	Net 30 days from the end of the month of when invoice is issued	-	-	(382,007)	2	

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

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

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2013**

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

Company Name	Related Party	Nature of Relationships	Ending Balance (Foreign Currencies in Thousands)	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC North America	Subsidiary	\$ 53,078,207	41	\$ 16,627,236	-	\$ 18,782,230	\$ -
	GUC	Associate	219,424	42	-	-	-	-
	VIS	Associate	105,881	(Note 2)	-	-	-	-

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

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

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE YEAR ENDED DECEMBER 31, 2013

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2013			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Share of Profits/Losses of Investee (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2013 (Foreign Currencies in Thousands)	December 31, 2012 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC	TSMC Global TSMC Partners	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 64,953,489	\$ (172,392)	\$ (172,392)	Subsidiary
		Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	42,861,788	3,516,560	3,516,667	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	39	10,556,348	4,370,988	1,724,819	Associate
	SSMC TSMC Solar	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	7,457,733	5,039,563	1,954,847	Associate
		Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	11,180,000	1,118,000	99	4,551,318	(1,554,038)	(1,516,235)	Subsidiary
	TSMC North America	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	3,763,194	468,309	468,309	Subsidiary
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	5,546,744	4,304,000	554,674	92	2,154,913	(1,663,137)	(1,550,850)	Subsidiary
	Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,950	40	1,866,123	288,881	37,942	Associate
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,056,141	289,204	100,746	Associate
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,908,912	1,896,914	-	50	892,439	(1,509,593)	(151,326)	Subsidiary
	VTAF II	Cayman Islands	Investing in new start-up technology companies	596,514	704,447	-	98	441,763	(3,662)	(3,589)	Subsidiary
	TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	290,838	37,659	37,659	Subsidiary
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	841,757	852,258	-	99.5	144,924	(10,806)	(10,753)	Subsidiary
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	124,762	4,717	4,717	Subsidiary
	TSMC GN	Taipei, Taiwan	Investment activities	150,000	100,000	-	100	85,162	(22,899)	(22,899)	Subsidiary
TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	29,475	1,296	1,296	Subsidiary	

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

Note 2: Please refer to Table 10 for information on investment in Mainland China.

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited**INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2013**

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2013 (US\$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2013 (US\$ in Thousands)
					Outflow	Inflow	
TSMC China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 18,939,667 (RMB 4,502,080)	(Note 1)	\$ 18,939,667 (US\$ 596,000)	\$ -	\$ -	\$ 18,939,667 (US\$ 596,000)

Investee Company	Percentage of Ownership	Share of Profits/Losses	Carrying Amount as of December 31, 2013	Accumulated Inward Remittance of Earnings as of December 31, 2013
TSMC China	100%	\$ 5,111,975 (Note 2)	\$ 23,845,371	\$ -

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

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

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

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STATEMENT 1

Taiwan Semiconductor Manufacturing Company Limited

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2013

(In thousands of New Taiwan Dollars)

Item	Description	Amount
Cash		
Petty cash		\$ 530
Cash in banks		
Checking accounts and demand deposits		3,390,420
Foreign currency deposits	Including US\$206,545 thousand @29.800, JPY94 thousand @0.2834, EUR54 thousand @41.00	6,157,302
Time deposits	From 2013.09.25 to 2014.04.30, interest rates at 0.35%-1.10%, including NT\$ 105,214,460 thousand, US\$5,400 thousand @29.800, JPY40,981,458 thousand @0.2834 and EUR378,338 thousand @41.00	132,501,391
Cash equivalents		
Repurchase agreements collateralized by corporate bonds	Expired by 2014.01.23, interest rates at 0.65%-0.70%	1,708,603
Repurchase agreements collateralized by short-term commercial paper	Expired by 2014.02.26, interest rates at 0.64%-0.66%	2,395,644
Repurchase agreements collateralized by government bonds	Expired by 2014.01.23, interest rates at 0.65%-0.66%	<u>284,878</u>
Total		<u>\$ 146,438,768</u>

STATEMENT 2

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF NOTES AND ACCOUNTS RECEIVABLE, NET
DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Client Name	Amount
MediaTek Inc.	\$ 2,066,935
Spreadtrum Communications, Inc.	1,380,840
NXP Semiconductors N.V.	1,185,287
STMicroelectronics Pte Ltd.	928,011
Others (Note 1)	<u>12,368,306</u>
	17,929,379
Less: Allowance for doubtful accounts	<u>483,502</u>
Total	<u>\$ 17,445,877</u>

Note 1: The amount of individual client included in others does not exceed 5% of the account balance.

Note 2: The accounts receivable past due over one year amounted to NT\$20 thousand for which the Company has recognized appropriate allowance for doubtful accounts.

STATEMENT 3

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF RECEIVABLES FROM RELATED PARTIES
DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Client Name	Amount
TSMC North America	\$ 52,750,047
Others (Note)	<u>219,756</u>
Total	<u>\$ 52,969,803</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

STATEMENT 4

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF INVENTORIES
DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Net Realizable Value
Finished goods	\$ 7,049,813	\$ 14,607,068
Work in process	24,857,927	68,937,287
Raw materials	2,208,291	2,195,941
Supplies and spare parts	<u>1,127,030</u>	<u>1,315,950</u>
Total	<u>\$ 35,243,061</u>	<u>\$ 87,056,246</u>

Taiwan Semiconductor Manufacturing Company Limited

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2013

(In thousands of New Taiwan Dollars)

Investees	Balance, January 1, 2013		Additions		Decrease		Increase (Decrease) in Using the Equity Method	Adjustments to Share of Changes in Equity of Subsidiaries and Associates	Adjustments Arising from Changes in Percentage of Ownership in Subsidiaries	Adjustments Resulting from the Transactions with Subsidiaries and Associates	Balance, December 31, 2013			Market Value or Net Assets Value		Collateral	
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount					Shares (in Thousands)	%	Amount	Unit Price (NT\$)	Total Amount		
																	Amount (Note 3)
Stocks																	
TSMC Global	1	\$ 49,954,386	-	\$ -	-	\$ -	\$ 14,999,103	\$ -	\$ -	\$ -	1	100	\$ 64,953,489		\$ 64,953,489	Nil	
TSMC Partners	988,268	38,635,129	-	-	-	-	4,226,405	-	254	-	988,268	100	42,861,788		42,862,161	Nil	
VIS	628,223	9,406,597	-	-	-	-	1,110,938	38,813	-	-	628,223	39	10,556,348	35.40 (Note 1)	22,239,112	Nil	
SSMC	314	6,710,956	-	-	-	-	746,777	-	-	-	314	39	7,457,733		7,243,749	Nil	
TSMC Solar	1,118,000	6,011,397	-	-	-	-	(1,454,686)	(2,740)	(2,647)	(6)	1,118,000	99	4,551,318		4,512,306	Nil	
TSMC North America	11,000	3,209,288	-	-	-	-	553,906	-	-	-	11,000	100	3,763,194		3,763,194	Nil	
TSMC SSL	430,400	2,389,541	124,274	1,242,744	-	-	(1,547,898)	-	70,526	-	554,674	92	2,154,913		2,154,913	Nil	
Xintec	94,950	1,541,824	-	293,578	-	-	28,926	1,967	(172)	-	94,950	40	1,866,123		1,669,922	Nil	
				(Note 4)													
GUC	46,688	1,214,825	-	-	-	-	(38,801)	44	-	(119,927)	46,688	35	1,056,141	74.00 (Note 2)	3,454,902	Nil	
TSMC Europe	-	235,761	-	-	-	-	55,077	-	-	-	-	100	290,838		290,838	Nil	
TSMC Japan	6	142,412	-	-	-	-	(17,650)	-	-	-	6	100	124,762		124,762	Nil	
TSMC Korea	80	26,935	-	-	-	-	2,540	-	-	-	80	100	29,475		29,475	Nil	
Subtotal		119,479,051		1,536,322		-	18,664,637	38,084	67,961	(119,933)			139,666,122		153,298,823		
Capital																	
TSMC China	-	17,828,683	-	-	-	-	6,059,284	-	-	(42,596)	-	100	23,845,371		24,026,559	Nil	
VTAF III	-	1,047,285	-	46,945	-	(34,947)	(168,451)	-	1,607	-	-	50	892,439		869,955	Nil	
VTAF II	-	563,056	-	14,578	-	(122,511)	(13,360)	-	-	-	-	98	441,763		435,517	Nil	
Emerging Alliance	-	167,359	-	2,955	-	(13,456)	(11,934)	-	-	-	-	99.5	144,924		144,924	Nil	
TSMC GN	-	65,007	-	50,000	-	-	(22,723)	-	(7,122)	-	-	100	85,162		85,162	Nil	
Subtotal		19,671,390		114,478		(170,914)	5,842,816	-	(5,515)	(42,596)			25,409,659		25,562,117		
Total		\$ 139,150,441		\$ 1,650,800		\$ (170,914)	\$ 24,507,453	\$ 38,084	\$ 62,446	\$ (162,529)			\$ 165,075,781		\$ 178,860,940		

Note 1: The unit price is calculated by closing price of Gre Tai Securities Market as of December 31, 2013.

Note 2: The unit price is calculated by closing price of the Taiwan Stock Exchange as of December 31, 2013.

Note 3: Including share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and cash dividends received from subsidiaries and associates.

Note 4: Please refer to Note 31 for gain on deconsolidation of subsidiary.

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF SHORT-TERM LOANS****DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Loan Commitments	Collateral	Remark
Unsecured loans						
JPMorgan Chase Bank N.A.	\$ 4,321,000	2013.12.26-2014.01.07	0.38	US\$ 200,000	Nil	-
The Bank Of Nova Scotia	3,337,600	2013.12.16-2014.01.24	0.38	\$ 3,500,000	Nil	-
Credit Agricole Corporate & Investment Bank	2,384,000	2013.12.16-2014.01.15	0.38	US\$ 100,000	Nil	-
BNP Paribas	2,235,000	2013.12.16-2014.01.06	0.42	US\$ 75,000	Nil	-
Citibank Taiwan, Limited	1,788,000	2013.12.06-2014.01.03	0.40	US\$ 110,000	Nil	-
Citibank	<u>1,579,400</u>	2013.12.06-2014.01.03	0.40	US\$ 395,000	Nil	-
	<u>\$ 15,645,000</u>					

STATEMENT 7

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF PAYABLES TO RELATED PARTIES****DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Vendor Name	Amount
TSMC China	\$ 1,509,508
VIS	731,587
WaferTech, LLC	685,906
Xintec	565,590
SSMC	382,007
Others (Note)	<u>309,381</u>
Total	<u>\$ 4,183,979</u>

Note: The amount of individual vendor in others does not exceed 5% of the account balance.

STATEMENT 9

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES****DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Item	Amount
Salary and bonus payable	\$ 6,834,181
Utilities	2,043,803
Receipts in advance	1,653,999
Interest expense	1,300,609
Joint development project expenses	1,153,472
Others (Note)	<u>8,647,345</u>
Total	<u>\$ 21,633,409</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

STATEMENT 8

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF PAYABLES TO CONTRACTORS AND EQUIPMENT SUPPLIERS****DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Vendor Name	Amount
ASML Hong Kong Ltd.	\$ 31,688,679
Applied Materials South East Asia Pte Ltd.	15,960,433
TOKYO Electron Ltd.	7,240,498
Others (Note)	<u>34,666,204</u>
Total	<u>\$ 89,555,814</u>

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

Taiwan Semiconductor Manufacturing Company Limited

STATEMENT OF BONDS PAYABLE
DECEMBER 31, 2013

(In thousands of New Taiwan Dollars)

Bonds Name	Trustee	Issuance Date	Interest Payment Date	Coupon Rate (%)	Amount					Repayment	Collateral
					Total Amount	Repayment paid	Balance, End of Year	Unamortized Premiums (Discounts)	Carrying Value		
Domestic unsecured bonds-100-1											
- A	Mega International Commercial Bank Co., Ltd.	2011.09.28	on 09.28 annually	1.40	\$ 10,500,000	\$ -	\$ 10,500,000	\$ -	\$ 10,500,000	Bullet repayment	Nil
- B	Mega International Commercial Bank Co., Ltd.	2011.09.28	on 09.28 annually	1.63	7,500,000	-	7,500,000	-	7,500,000	Bullet repayment	Nil
Domestic unsecured bonds-100-2											
- A	Mega International Commercial Bank Co., Ltd.	2012.01.11	on 01.11 annually	1.29	10,000,000	-	10,000,000	-	10,000,000	Bullet repayment	Nil
- B	Mega International Commercial Bank Co., Ltd.	2012.01.11	on 01.11 annually	1.46	7,000,000	-	7,000,000	-	7,000,000	Bullet repayment	Nil
Domestic unsecured bonds-101-1											
- A	Mega International Commercial Bank Co., Ltd.	2012.08.02	on 08.02 annually	1.28	9,900,000	-	9,900,000	-	9,900,000	Bullet repayment	Nil
- B	Mega International Commercial Bank Co., Ltd.	2012.08.02	on 08.02 annually	1.40	9,000,000	-	9,000,000	-	9,000,000	Bullet repayment	Nil
Domestic unsecured bonds-101-2											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2012.09.26	on 09.26 annually	1.28	12,700,000	-	12,700,000	-	12,700,000	Bullet repayment	Nil
- B	Taipei Fubon Commercial Bank Co., Ltd.	2012.09.26	on 09.26 annually	1.39	9,000,000	-	9,000,000	-	9,000,000	Bullet repayment	Nil
Domestic unsecured bonds-101-3											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2012.10.09	on 10.09 annually	1.53	4,400,000	-	4,400,000	-	4,400,000	Bullet repayment	Nil
Domestic unsecured bonds-101-4											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2013.01.04	on 01.04 annually	1.23	10,600,000	-	10,600,000	-	10,600,000	Bullet repayment	Nil
- B	Taipei Fubon Commercial Bank Co., Ltd.	2013.01.04	on 01.04 annually	1.35	10,000,000	-	10,000,000	-	10,000,000	Bullet repayment	Nil
- C	Taipei Fubon Commercial Bank Co., Ltd.	2013.01.04	on 01.04 annually	1.49	3,000,000	-	3,000,000	-	3,000,000	Bullet repayment	Nil
Domestic unsecured bonds-102-1											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2013.02.06	on 02.06 annually	1.23	6,200,000	-	6,200,000	-	6,200,000	Bullet repayment	Nil
- B	Taipei Fubon Commercial Bank Co., Ltd.	2013.02.06	on 02.06 annually	1.38	11,600,000	-	11,600,000	-	11,600,000	Bullet repayment	Nil
- C	Taipei Fubon Commercial Bank Co., Ltd.	2013.02.06	on 02.06 annually	1.50	3,600,000	-	3,600,000	-	3,600,000	Bullet repayment	Nil
Domestic unsecured bonds-102-2											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2013.07.16	on 07.16 annually	1.50	10,200,000	-	10,200,000	-	10,200,000	Bullet repayment	Nil
- B	Taipei Fubon Commercial Bank Co., Ltd.	2013.07.16	on 07.16 annually	1.70	3,500,000	-	3,500,000	-	3,500,000	Bullet repayment	Nil
Domestic unsecured bonds-102-3											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2013.08.09	on 08.09 annually	1.34	4,000,000	-	4,000,000	-	4,000,000	Bullet repayment	Nil
- B	Taipei Fubon Commercial Bank Co., Ltd.	2013.08.09	on 08.09 annually	1.52	8,500,000	-	8,500,000	-	8,500,000	Bullet repayment	Nil
Domestic unsecured bonds-102-4											
- A	Taipei Fubon Commercial Bank Co., Ltd.	2013.09.25	on 09.25 annually	1.35	1,500,000	-	1,500,000	-	1,500,000	Bullet repayment	Nil
- B	Taipei Fubon Commercial Bank Co., Ltd.	2013.09.25	on 09.25 annually	1.45	1,500,000	-	1,500,000	-	1,500,000	Bullet repayment	Nil
- C	Taipei Fubon Commercial Bank Co., Ltd.	2013.09.25	on 09.25 annually	1.60	1,400,000	-	1,400,000	-	1,400,000	Bullet repayment	Nil
- D	Taipei Fubon Commercial Bank Co., Ltd.	2013.09.25	on 09.25 annually	1.85	2,600,000	-	2,600,000	-	2,600,000	Bullet repayment	Nil
- E	Taipei Fubon Commercial Bank Co., Ltd.	2013.09.25	on 09.25 annually	2.05	5,400,000	-	5,400,000	-	5,400,000	Bullet repayment	Nil
- F	Taipei Fubon Commercial Bank Co., Ltd.	2013.09.25	on 09.25 annually	2.10	2,600,000	-	2,600,000	-	2,600,000	Bullet repayment	Nil
TOTAL					\$ 166,200,000	\$ -	\$ 166,200,000	\$ -	\$ 166,200,000		

STATEMENT 11

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF NET REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Item	Shipments (Piece) (Note)	Amount
Sales of goods		
Wafer	15,664,497	\$ 557,314,791
Other		<u>33,249,937</u>
		590,564,728
Royalty		<u>522,872</u>
Net revenue		<u>\$ 591,087,600</u>

Note: 8-inch equivalent wafers.

STATEMENT 12

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF COST OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Item	Amount
Raw materials used	
Balance, beginning of year	\$ 3,666,048
Raw material purchased	26,515,240
Raw materials, end of year	(2,208,291)
Transferred to manufacturing or operating expenses	(7,359,525)
Others	<u>(70,385)</u>
Subtotal	20,543,087
Direct labor	10,581,290
Manufacturing expenses	<u>261,349,482</u>
Manufacturing cost	292,473,859
Work in process, beginning of year	24,442,123
Work in process, end of year	(24,857,927)
Transferred to manufacturing or operating expenses	<u>(5,653,705)</u>
Cost of finished goods	286,404,350
Finished goods, beginning of year	5,936,018
Finished goods purchased	35,468,500
Finished goods, end of year	(7,049,813)
Transferred to manufacturing or operating expenses	(3,449,307)
Scrapped	<u>(216,998)</u>
Subtotal	317,092,750
Others	<u>2,314,413</u>
Total	<u>\$ 319,407,163</u>

STATEMENT 13

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013**

(In thousands of New Taiwan Dollars)

Item	Research and Development Expenses	General and Administrative Expenses	Selling Expenses
Payroll and related expense	\$ 15,998,678	\$ 5,021,640	\$ 1,395,396
Depreciation expense	11,925,017	769,735	1,670
Consumables	6,706,174	61,371	1,718
Repair and maintenance expense	2,672,805	1,863,742	1,108
Joint development project expenses	2,562,711	-	-
Utilities	819,391	1,971,997	-
Management fees of the Science Park Administration	-	1,139,662	-
Patents	-	893,054	-
Commission	-	-	736,889
Others (Note)	<u>6,237,695</u>	<u>5,976,210</u>	<u>167,691</u>
Total	<u>\$ 46,922,471</u>	<u>\$ 17,697,411</u>	<u>\$ 2,304,472</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

Taiwan Semiconductor Manufacturing Company Limited**STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012**

(In thousands of New Taiwan Dollars)

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	Classified as Cost of Revenue	Classified as Operating Expenses	Classified as Other Operating Income and Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Classified as Other Operating Income and Expenses	Total
Labor cost								
Salary and bonus	\$ 31,781,705	\$ 20,201,521	\$ -	\$ 51,983,226	\$ 27,681,298	\$ 19,198,385	\$ -	\$ 46,879,683
Labor and health insurance	1,829,180	1,070,653	-	2,899,833	1,509,487	920,024	-	2,429,511
Pension	1,029,341	555,714	-	1,585,055	901,762	517,758	-	1,419,520
Others	1,151,330	587,826	-	1,739,156	973,986	505,500	-	1,479,486
	<u>\$ 35,791,556</u>	<u>\$ 22,415,714</u>	<u>\$ -</u>	<u>\$ 58,207,270</u>	<u>\$ 31,066,533</u>	<u>\$ 21,141,667</u>	<u>\$ -</u>	<u>\$ 52,208,200</u>
Depreciation	<u>\$ 134,545,283</u>	<u>\$ 12,696,422</u>	<u>\$ 25,120</u>	<u>\$ 147,266,825</u>	<u>\$ 111,929,312</u>	<u>\$ 10,441,847</u>	<u>\$ 6,656</u>	<u>\$ 122,377,815</u>
Amortization	<u>\$ 1,099,542</u>	<u>\$ 973,384</u>	<u>\$ -</u>	<u>\$ 2,072,926</u>	<u>\$ 1,273,689</u>	<u>\$ 748,375</u>	<u>\$ -</u>	<u>\$ 2,022,064</u>