TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
November 15, 2013

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2013

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant s Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

SIGNATURES

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

Taiwan Semiconductor Manufacturing Company Ltd.

Date: November 15, 2013

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

Taiwan Semiconductor Manufacturing

Company Limited and Subsidiaries

Consolidated Financial Statements for the

Nine months ended September 30, 2013 and 2012 and

Independent Accountants Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012 and the related consolidated statements of comprehensive income for the three months ended September 30, 2013 and 2012 and for the nine months ended September 30, 2013 and 2012, as well as the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standard 1, First-time adoption of International Financial Reporting Standards, and International Accounting Standard 34, Interim Financial Reporting, endorsed by the Financial Supervisory Commission of the Republic of China.

November 12, 2013

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

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	September 30, 2013 Amount	%	December 31, 2012 Amount	%	September 30, 2012 Amount	%	January 1, 2012 Amount	%
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents (Note 6)	$ 216,603,697	19	$ 143,410,588	15	$ 138,738,113	16	$ 143,472,277	18
Financial assets at fair value through profit or loss (Note 7)	188,970		39,554		58,690		15,360	
Available-for-sale financial assets (Note 8)	672,179		2,410,635		2,067,730		3,308,770	
Held-to-maturity financial assets (Note 9)	700,285		5,056,973	1	6,854,611	1	3,825,680	1
Hedging derivative financial assets (Note 10)					28,189			
Notes and accounts receivable, net (Note 11)	78,844,389	7	57,777,586	6	64,386,937	7	45,830,288	6
Receivables from related parties (Note 37)	827,480		353,811		925,245		185,764	
Other receivables from related parties (Note 37)	194,408		185,550		157,144		122,292	
Inventories (Notes 5 and 12)	36,916,527	3	37,830,498	4	33,249,045	4	24,840,582	3
Other current assets (Note 17)	2,740,765		2,786,408		2,639,414		2,174,014	
Other financial assets (Note 38)	522,137		473,833		469,979		617,142	
Total current assets	338,210,837	29	250,325,436	26	249,575,097	28	224,392,169	28
NONCURRENT ASSETS								

Available-for-sale financial assets (Note 8)	61,145,097	5	38,751,245	4				
Held-to-maturity financial assets (Note 9)					701,435		5,243,167	1
Financial assets carried at cost (Note 13)	2,124,507		3,605,077		3,981,251		4,315,005	1
Investments accounted for using equity method (Notes 5 and 14)	25,903,920	2	23,360,918	3	23,907,158	3	24,886,931	3
Property, plant and equipment (Notes 5 and 15)	727,716,024	62	617,562,188	64	580,114,062	66	490,422,153	63
Intangible assets (Notes 5 and 16)	11,393,280	1	10,959,569	1	10,888,854	1	10,861,563	1
Deferred income tax assets (Notes 5 and 31)	7,165,944	1	13,128,219	2	13,058,484	2	13,604,218	2
Refundable deposits (Note 37)	2,464,658		2,426,712		2,331,966		4,518,863	1
Other noncurrent assets (Note 17)	1,415,948		1,235,144		1,213,129		1,306,746	
Total noncurrent assets	839,329,378	71	711,029,072	74	636,196,339	72	555,158,646	72
TOTAL	$ 1,177,540,215	100	$ 961,354,508	100	$ 885,771,436	100	$ 779,550,815	100

	September 30, 2013		**December 31, 2012**		**September 30, 2012**		**January 1, 2012**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
LIABILITIES AND EQUITY								
CURRENT LIABILITIES								
Short-term loans (Note 18)	$ 18,053,096	2	$ 34,714,929	4	$ 29,749,650	3	$ 25,926,528	3
Financial liabilities at fair value through profit or loss (Note 7)	18,876		15,625		20,013		13,742	
Hedging derivative financial							232	

liabilities (Note 10)								
Accounts payable	13,478,598	1	14,490,429	2	13,773,108	2	10,530,487	1
Payables to related parties (Note 37)	1,594,104		748,613		783,253		1,328,521	
Salary and bonus payable	7,668,518	1	7,535,296	1	6,994,285	1	6,148,499	1
Accrued profit sharing to employees and bonus to directors and supervisors (Note 24)	9,946,700	1	11,186,591	1	8,654,015	1	9,081,293	1
Payables to contractors and equipment suppliers	58,381,100	5	44,831,798	5	32,785,881	4	35,540,526	5
Income tax payable (Note 31)	17,025,992	1	15,635,594	2	10,855,245	1	10,656,124	1
Provisions (Notes 5 and 19)	6,720,214	1	6,038,003		6,900,184		5,068,263	1
Accrued expenses and other current liabilities (Notes 15 and 22)	15,396,990	1	13,148,944	1	15,312,033	2	13,218,235	2
Current portion of bonds payable and long-term bank loans (Notes 20 and 21)			128,125		125,000		4,562,500	1
Total current liabilities	148,284,188	13	148,473,947	16	125,952,667	14	122,074,950	16
NONCURRENT LIABILITIES								
Hedging derivative financial liabilities (Note 10)	6,144,025							
Bonds payable (Note 20)	210,416,434	18	80,000,000	8	75,600,000	9	18,000,000	3
Long-term bank loans (Note 21)	40,000		1,359,375		1,393,750		1,587,500	
Provisions (Note 19)	7,344		4,891		3,619		2,889	
Other long-term payables (Note 22)	36,000		54,000		54,000			
Obligations under finance leases (Note 15)	758,732		748,115		737,034		870,993	
Accrued pension cost (Note 23)	6,931,366	1	6,921,234	1	6,233,278	1	6,241,024	1
Guarantee deposits	149,622		203,890		229,212		443,983	
Others	597,743		495,150		480,559		400,831	
Total noncurrent liabilities	225,081,266	19	89,786,655	9	84,731,452	10	27,547,220	4
Total liabilities	373,365,454	32	238,260,602	25	210,684,119	24	149,622,170	20
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT								
Capital stock (Note 24)	259,283,910	22	259,244,357	27	259,220,476	29	259,162,226	33
Capital surplus (Note 24)	55,841,716	5	55,675,340	6	55,630,425	6	55,471,662	7
Retained earnings (Note 24)								
Appropriated as legal capital reserve	132,436,003	11	115,820,123	12	115,820,123	13	102,399,995	13

Appropriated as special capital reserve	2,785,741		7,606,224	1	7,606,224	1	6,433,874	1
Unappropriated earnings	338,752,961	29	284,985,121	29	244,003,918	28	211,630,458	27
	473,974,705	40	408,411,468	42	367,430,265	42	320,464,327	41
Others (Note 24)	14,776,668	1	(2,780,485)		(9,783,800)	(1)	(7,606,219)	(1)
Equity attributable to shareholders of the parent	803,876,999	68	720,550,680	75	672,497,366	76	627,491,996	80
NONCONTROLLING INTERESTS (Note 24)	297,762		2,543,226		2,589,951		2,436,649	
Total equity	804,174,761	68	723,093,906	75	675,087,317	76	629,928,645	80
TOTAL	$ 1,177,540,215	100	$ 961,354,508	100	$ 885,771,436	100	$ 779,550,815	100

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
NET REVENUE (Notes 5, 26, 37 and 42)	$ 162,577,034	100	$ 141,499,253	100	$ 451,218,350	100	$ 375,300,415	100
COST OF REVENUE (Notes 12, 33 and 37)	83,636,464	51	72,344,501	51	235,092,710	52	193,133,859	52
GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	78,940,570	49	69,154,752	49	216,125,640	48	182,166,556	48
REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	(49,759)		10,381		(42,833)		(129,569)	
GROSS PROFIT	78,890,811	49	69,165,133	49	216,082,807	48	182,036,987	48
OPERATING EXPENSES (Notes 5, 33 and 37)								
Research and development	13,357,075	8	10,656,855	8	35,949,931	8	29,883,097	8
General and administrative	4,738,276	3	4,478,517	3	15,119,366	3	13,500,459	3
Marketing	1,164,881	1	1,234,982	1	3,359,373	1	3,440,158	1
Total operating expenses	19,260,232	12	16,370,354	12	54,428,670	12	46,823,714	12
OTHER OPERATING INCOME AND EXPENSES, NET	(12,525)		3,199		21,008		(425,894)	

(Notes 27 and 33)								
INCOME FROM OPERATIONS (Note 42)	59,618,054	37	52,797,978	37	161,675,145	36	134,787,379	36
NON-OPERATING INCOME AND EXPENSES								
Share of profits of associates and joint venture (Note 14)	1,113,243	1	712,186	1	2,826,900	1	1,338,261	
Other income (Note 28)	433,395		353,132		1,788,780		1,364,809	
Foreign exchange gain (loss), net	(314,948)		(157,185)		133,136		208,125	
Finance costs (Notes 10 and 29)	(732,326)		(270,379)		(1,861,664)		(685,418)	
Other gains and losses (Note 30)	(767,534)	(1)	326,609		552,180		(1,620,830)	
Total non-operating income and expenses	(268,170)		964,363	1	3,439,332	1	604,947	
INCOME BEFORE INCOME TAX	59,349,884	37	53,762,341	38	165,114,477	37	135,392,326	36
INCOME TAX EXPENSE (Note 31)	7,415,132	5	4,340,047	3	21,882,679	5	10,787,480	3
NET INCOME	51,934,752	32	49,422,294	35	143,231,798	32	124,604,846	33
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 10, 14, 24 and 31)								
Exchange differences arising on translation of foreign operations	(1,740,459)	(1)	(2,239,717)	(2)	2,335,435	1	(3,627,600)	(1)
Changes in fair value of available-for-sale financial assets	7,685,269	5	(112,534)		15,180,754	3	1,710,289	1
Cash flow hedges			28,258				28,421	
Share of other comprehensive income of associates and joint venture	37,947		48,074		(18,924)		68,461	
Income tax benefit (expense) related to components of other comprehensive	10,274		(24,497)		53,484		(333,426)	

income												
Other comprehensive income (loss) for the period, net of income tax		5,993,031	4		(2,300,416)	(2)		17,550,749	4		(2,153,855)	
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$	57,927,783	36	$	47,121,878	33	$	160,782,547	36	$	122,450,991	33
NET INCOME (LOSS) ATTRIBUTABLE TO:												
Shareholders of the parent	$	51,951,943	32	$	49,379,633	35	$	143,336,544	32	$	124,714,606	33
Noncontrolling interests		(17,191)			42,661			(104,746)			(109,760)	
	$	51,934,752	32	$	49,422,294	35	$	143,231,798	32	$	124,604,846	33
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:												
Shareholders of the parent	$	57,951,263	36	$	47,092,066	33	$	160,893,697	36	$	122,537,025	33
Noncontrolling interests		(23,480)			29,812			(111,150)			(86,034)	
	$	57,927,783	36	$	47,121,878	33	$	160,782,547	36	$	122,450,991	33

	For the Three Months Ended September 30			For the Nine Months Ended September 30		
	2013	2012		2013	2012	
	Income Attributable to Shareholders of the Parent	Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent	Income Attributable to Shareholders of the Parent	
EARNINGS PER SHARE (NT$, Note 32)						
Basic earnings per share	$ 2.00	$	1.90	$ 5.53	$	4.81
Diluted earnings per share	$ 2.00	$	1.90	$ 5.53	$	4.81

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

(Reviewed, Not Audited)

Equity Attributable to Shareholders of the Parent								
	Retained Earnings				Others			
Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Foreign Currency Translation Reserve	Unrealized Gain (Loss) from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
$ 55,675,340	$ 115,820,123	$ 7,606,224	$ 284,985,121	$ 408,411,468	$ (10,753,806)	$ 7,973,321	$	$ (2,780,4
	16,615,880		(16,615,880)					
		(4,820,483)	4,820,483					
			(77,773,307)	(77,773,307)				
	16,615,880	(4,820,483)	(89,568,704)	(77,773,307)				
			143,336,544	143,336,544				
					2,315,276	15,241,944	(67)	17,557,1
			143,336,544	143,336,544	2,315,276	15,241,944	(67)	17,557,1
74,613								

27,011								
64,752								
$ 55,841,716	$ 132,436,003	$ 2,785,741	$ 338,752,961	$ 473,974,705	$ (8,438,530)	$ 23,215,265	$ (67)	$ 14,776,6
$ 55,471,662	$ 102,399,995	$ 6,433,874	$ 211,630,458	$ 320,464,327	$ (6,433,364)	$ (1,172,762)	$ (93)	$ (7,606,2
	13,420,128		(13,420,128)					
		1,172,350	(1,172,350)					
			(77,748,668)	(77,748,668)				
	13,420,128	1,172,350	(92,341,146)	(77,748,668)				
			124,714,606	124,714,606				
					(3,618,876)	1,413,013	28,282	(2,177,5
			124,714,606	124,714,606	(3,618,876)	1,413,013	28,282	(2,177,5
118,206								

2,601								
37,956								
$ 55,630,425	$ 115,820,123	$ 7,606,224	$ 244,003,918	$ 367,430,265	$ (10,052,240)	$ 240,251	$ 28,189	$ (9,783,8

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

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 165,114,477	$ 135,392,326
Adjustments for:		
Depreciation expense	113,400,781	93,501,687
Amortization expense	1,629,482	1,642,604
Stock option compensation cost of subsidiary	5,312	3,372
Finance costs	1,861,664	685,418
Share of profits of associates and joint venture	(2,826,900)	(1,338,261)
Interest income	(1,282,220)	(1,294,864)
Gain on disposal of property, plant and equipment and intangible assets, net	(19,554)	(263)
Impairment loss on property, plant and equipment		422,323
Impairment loss of financial assets	1,541,170	2,748,616
Gain on disposal of available-for-sale financial assets, net	(1,239,442)	(321,580)
Gain on disposal of financial assets carried at cost, net	(32,199)	(127,480)
Loss on disposal of investments in associates	733	1,009
Gain on deconsolidation of subsidiary	(293,578)	
Unrealized gross profit on sales to associates	42,833	129,569
Loss (gain) on foreign exchange, net	353,755	(1,707,952)
Dividend income	(506,560)	(69,945)
Income from receipt of equity securities in settlement of trade receivables	(9,590)	(886)
Loss on hedging instruments	6,319,146	
Gain arising from changes in fair value of available-for-sale financial assets in hedge effective portion	(5,989,610)	
Changes in operating assets and liabilities:		
Derivative financial instruments	(145,680)	(37,059)
Receivables from related parties	(740,050)	(739,481)
Notes and accounts receivable, net	(21,325,495)	(18,556,562)
Other receivables from related parties	77,757	(34,852)
Inventories	700,838	(8,408,463)
Other current assets	(79,924)	(476,904)
Other financial assets	39,939	107,508
Accounts payable	(959,796)	2,891,661
Payables to related parties	755,742	(559,968)
Salary and bonus payable	221,487	845,786
Accrued profit sharing to employees and bonus to directors and supervisors	(1,239,891)	(427,278)
Accrued expenses and other current liabilities	2,906,280	4,418,928
Provisions	714,527	1,839,277

Accrued pension cost	13,068	(7,746)
Cash generated from operations	259,008,502	210,520,540
Income taxes paid	(14,398,067)	(10,355,944)
Net cash generated by operating activities	244,610,435	200,164,596

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2013	**2012**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale financial assets	$ (16,496)	$ (4,434)
Financial assets carried at cost	(18,059)	(6,833)
Property, plant and equipment	(213,640,001)	(186,371,680)
Intangible assets	(2,013,354)	(1,106,734)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	2,370,217	616,757
Held-to-maturity financial assets	4,445,850	1,278,089
Financial assets carried at cost	53,857	236,735
Property, plant and equipment	97,368	116,748
Other assets		8,259
Costs from entering into hedging transactions	(143,982)	
Interest received	1,194,967	1,340,623
Other dividends received	506,560	69,945
Dividends received from associates	2,141,881	2,088,472
Refundable deposits paid	(67,513)	(103,531)
Refundable deposits refunded	81,922	2,290,428
Net cash outflow from deconsolidation of subsidiary (Note 34)	(979,910)	
Net cash used in investing activities	(205,986,693)	(179,547,156)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of bonds	130,844,821	57,600,000
Repayment of bonds		(4,500,000)
Increase (decrease) in short-term loans	(17,314,261)	4,494,916
Increase in long-term bank loans	690,000	50,000
Repayment of long-term bank loans	(62,500)	(181,250)
Repayment of other long-term payables	(853,788)	(2,367,866)
Interest paid	(1,242,377)	(683,003)
Guarantee deposits received	14,916	14,814
Guarantee deposits refunded	(71,982)	(229,585)
Decrease in obligations under finance leases	(27,796)	(124,923)
Proceeds from exercise of employee stock options	114,166	176,456
Cash dividends	(77,773,307)	(77,748,668)
Increase in noncontrolling interests	212,410	273,920

Net cash generated (used) by financing activities	34,530,302	(23,225,189)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	39,065	(2,126,415)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	73,193,109	(4,734,164)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	143,410,588	143,472,277
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 216,603,697	$ 138,738,113

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

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

(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. TSMC is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, TSMC also engages in the researching, developing, designing, manufacturing and selling of solid state lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products.

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 consolidated financial statements were reported to the Board of Directors and issued on November 12, 2013.

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).

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 new, revised or amended standards and interpretations is still subject to the effective date to be published by the FSC.

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note)
Endorsed by the FSC but the effective dates have not yet been determined by the FSC		
Amendments to IFRSs	Improvements to IFRSs 2009 Amendment to IAS 39	January 1, 2009 or January 1, 2010
IFRS 9 (2009)	Financial Instruments	January 1, 2015
Amendment to IAS 39	Embedded Derivatives	Effective in fiscal year beginning on or after June 30, 2009
Not yet endorsed by the FSC		
Amendments to IFRSs	Improvements to IFRSs 2010 Amendment to IAS 39	July 1, 2010 or January 1, 2011
Amendments to IFRSs	Annual Improvements to IFRSs 2009 2011 Cycle	January 1, 2013
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	July 1, 2010
Amendments to IFRS 1	Government Loans	January 1, 2013
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	July 1, 2011
Amendment to IFRS 7	Disclosures-offsetting Financial Assets and Financial Liabilities	January 1, 2013
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date and Transition Disclosure	January 1, 2015
Amendment to IFRS 7	Disclosures Transfers of Financial Assets	July 1, 2011
Amendment to IFRS 9 (2010)	Financial Instruments	January 1, 2015
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		January 1, 2013

	Investments in Associates and Joint Ventures	
Amendment to IAS 32	Offsetting of Financial Assets and Financial Liabilities	January 1, 2014
Amendment to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets	January 1, 2014

(Continued)

New, Revised or Amended Standards and Interpretations		Effective Date Issued by IASB (Note)
Amendment to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
IFRIC 20	Stripping Costs in the Production Phase of A Surface Mine	January 1, 2013
IFRIC 21	Levies	January 1, 2014

(Concluded)

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

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

a. 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 balance sheet date.

b. 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.

c. IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements.

d. 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.

e. 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.

f. 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 period 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.

As of the date that the consolidated financial statements were 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 consolidated financial statements are the Taiwan-IFRSs interim consolidated financial statements for part of the period covered by the 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 and IFRS 1, First-time adoption of International Financial Reporting Standards, (IFRS 1) and IAS 34, Interim Financial Reporting, endorsed by the FSC. The consolidated financial statements do not present all the disclosures required for a complete set of annual consolidated financial statements prepared under Taiwan-IFRSs.

Basis of Consolidation

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

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

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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.

<u>The subsidiaries in the consolidated financial statements</u>

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 September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012	Note
TSMC	TSMC North America	Selling and marketing of integrated circuits and semiconductor devices	San Jose, California, U.S.A.	100%	100%	100%	100%	
				100%	100%	100%	100%	a)

	TSMC Japan Limited (TSMC Japan)	Marketing activities	Yokohama, Japan					
	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%	100%	
	TSMC Korea Limited (TSMC Korea)	Customer service and technical supporting activities	Seoul, Korea	100%	100%	100%	100%	a)
	TSMC Europe B.V. (TSMC Europe)	Marketing and engineering supporting activities	Amsterdam, the Netherlands	100%	100%	100%	100%	a)
	TSMC Global, Ltd. (TSMC Global)	Investment activities	Tortola, British Virgin Islands	100%	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%	100%	
	VentureTech Alliance Fund III, L.P. (VTAF III)	Investing in new start-up technology companies	Cayman Islands	50%	50%	50%	53%	
	VentureTech Alliance Fund II, L.P. (VTAF II)	Investing in new start-up technology companies	Cayman Islands	98%	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%	99.5%	a)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Establishment and Operating Location	Percentage of Ownership September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012	Note
TSMC	Xintec Inc. (Xintec)	Wafer level chip size packaging service	Taoyuan, Taiwan	b)	40%	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%	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%	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%	100%		
TSMC Partners	TSMC Design Technology Canada Inc. (TSMC Canada)	Engineering support activities	Ontario, Canada	100%	100%	100%	100%	a)
	TSMC Technology, Inc. (TSMC Technology)	Engineering support activities	Delaware, U.S.A.	100%	100%	100%	100%	a)
	TSMC Development,	Investment activities	Delaware, U.S.A.	100%	100%	100%	100%	

	Inc. (TSMC Development)							
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Investing in new start-up technology companies	Cayman Islands	97%	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%	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%	100%	
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	Taipei, Taiwan	58%	58%	58%	57%	a)
	Growth Fund Limited (Growth Fund)	Investing in new start-up technology companies	Cayman Islands	100%	100%	100%	100%	a)
VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, LLC (VTA Holdings)	Investing in new start-up technology companies	Delaware, U.S.A.	100%	100%	100%	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%	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%	100%	a)
	TSMC Solar Europe B.V. (TSMC Solar Europe)	Investing in solar related business	Amsterdam, the Netherlands	100%	100%	100%	100%	a)
				49%	49%	49%	46%	

	VentureTech Alliance Fund III, L.P. (VTAF III)	Investing in new start-up technology companies	Cayman Islands					
TSMC Solar Europe	TSMC Solar Europe GmbH	Selling of solar related products and providing customer service	Hamburg, Germany	100%	100%	100%	100%	a)

(Concluded)

Note a: This is an insignificant subsidiary for which the financial statements are not reviewed by the Company s independent accountants. The Company s management believes the investment in such subsidiary has no material effect on the Company s consolidated financial statements.

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.

Other Significant Accounting Policies

The same accounting policies have been followed in this consolidated financial statements as were applied in the preparation of the Company s consolidated financial statements for the three months ended March 31, 2013. For the summary of other significant accounting policies, please refer to Note 4 to the consolidated financial statements for the three months ended March 31, 2013.

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

The same critical accounting judgments and key sources of estimates and uncertainty have been followed in these consolidated financial statements as were applied in the preparation of the Company s consolidated financial statements for the three months ended March 31, 2013. For the related information, please refer to Note 5 to the consolidated financial statements for the three months ended March 31, 2013.

6. CASH AND CASH EQUIVALENTS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Cash and deposits in banks	$ 213,978,108	$ 140,072,294	$ 135,330,257	$ 139,637,363
Repurchase agreements collateralized by corporate bonds	2,052,723	2,691,042	2,534,741	
Repurchase agreements collateralized by short-term commercial paper	449,803	349,341	399,585	
Repurchase agreements collateralized by government bonds	123,063	297,911	473,530	3,834,914
	$ 216,603,697	$ 143,410,588	$ 138,738,113	$ 143,472,277

Deposits in banks, for the purpose of meeting short-term cash commitments, consisted of highly liquid time deposits that were readily convertible to known amounts of cash and which were subject to an insignificant risk of changes in value.

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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Derivative financial assets				
Forward exchange contracts	$ 26,051	$ 38,607	$ 55,995	$ 15,360
Cross currency swap contracts	162,919	947	2,695	
	$ 188,970	$ 39,554	$ 58,690	$ 15,360
Derivative financial liabilities				
Forward exchange contracts	$ 2,086	$ 12,174	$ 16,045	$ 13,623
Cross currency swap contracts	16,790	3,451	3,968	119

$	18,876	$	15,625	$	20,013	$	13,742

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

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
September 30, 2013		
Sell NT$/Buy JPY	October 2013	NT$14,344/JPY48,000
Sell NT$/Buy US$	October 2013	NT$639,824/US$21,650
Sell US$/Buy EUR	October 2013	US$428,345/EUR317,000
Sell US$/Buy JPY	October 2013	US$64,418/JPY6,352,719
Sell US$/Buy RMB	October 2013 to December 2013	US$117,000/RMB718,331
December 31, 2012		
Sell NT$/Buy EUR	January 2013	NT$9,417,062/EUR246,000
Sell NT$/Buy US$	January 2013	NT$590,403/US$20,400
Sell NT$/Buy JPY	January 2013	NT$44,110/JPY130,000
Sell US$/Buy NT$	January 2013 to March 2013	US$13,700/NT$398,239
Sell US$/Buy RMB	January 2013	US$20,000/RMB124,735
September 30, 2012		
Sell NT$/Buy EUR	October 2012	NT$7,684/EUR200
Sell NT$/Buy JPY	October 2012 to November 2012	NT$149,017/JPY393,000
Sell NT$/Buy US$	October 2012 to November 2012	NT$449,412/US$15,000
Sell RMB/Buy US$	October 2012	RMB685,056/US$108,000
Sell US$/Buy EUR	October 2012	US$52,421/EUR40,500
Sell US$/Buy JPY	October 2012	US$315,000/JPY24,525,215
Sell US$/Buy NT$	October 2012 to December 2012	US$106,190/NT$3,131,774
January 1, 2012		
Sell EUR/Buy NT$	January 2012	EUR38,600/NT$1,528,206
Sell NT$/Buy US$	January 2012 to February 2012	NT$163,491/US$5,400
Sell RMB/Buy US$	January 2012	RMB1,118,705/US$177,000
Sell US$/Buy EUR	January 2012	US$2,082/EUR1,591
Sell US$/Buy JPY	January 2012	US$3,335/JPY259,830
Sell US$/Buy NT$	January 2012 to February 2012	US$16,900/NT$510,122

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
September 30, 2013			
October 2013	NT$1,366,150/US$46,080		0.32%-0.60%
October 2013 to November 2013	US$1,199,000/NT$35,692,006	0.31%-3.51%	

December 31, 2012

January 2013	NT$1,083,139/US$37,280		0.06%
January 2013	US$275,000/NT$7,986,190	0.14%-0.17%	

(Continued)

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
September 30, 2012			
October 2012	NT$833,013/US$28,280		0.04%-0.05%
October 2012	US$170,000/NT$4,991,030	0.10%-0.11%	
January 1, 2012			
January 2012	NT$420,431/US$13,880		0.48%
			(Concluded)

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Publicly traded stocks	$ 61,802,636	$ 41,160,437	$ 2,067,730	$ 3,306,248
Money market funds	14,640	1,443		2,522
	$ 61,817,276	$ 41,161,880	$ 2,067,730	$ 3,308,770
Current portion	$ 672,179	$ 2,410,635	$ 2,067,730	$ 3,308,770
Noncurrent portion	61,145,097	38,751,245		
	$ 61,817,276	$ 41,161,880	$ 2,067,730	$ 3,308,770

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

In the second quarter of 2012, the Company recognized an impairment loss on some of the overseas 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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Corporate bonds	$ 700,285	$ 5,056,973	$ 7,556,046	$ 8,614,527
Government bonds				454,320

	$	700,285	$	5,056,973	$	7,556,046	$ 9,068,847
Current portion	$	700,285	$	5,056,973	$	6,854,611	$ 3,825,680
Noncurrent portion						701,435	5,243,167
	$	700,285	$	5,056,973	$	7,556,046	$ 9,068,847

10. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Financial assets				
Current				
Cash flow hedges				
Forward exchange contract	$	$	$ 28,189	$
Financial liabilities				
Current				
Cash flow hedges				
Interest rate swap contracts	$	$	$	$ 232
Noncurrent				
Fair value hedges				
Stock forward contracts	$ 6,144,025	$	$	$

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 Shares (In Thousands)	Maturity Date	Contract Price
September 30, 2013		
8,250	May 2015 to September 2015	Determined by the specific percentage of spot price on the trade date

The Company entered into derivative contracts to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction in September 2012. Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
September 30, 2012		
Sell US$/Buy EUR	October 2012	US$ 257,759/EUR200,000

For the three months and nine months ended September 30, 2012, the amount recognized in other comprehensive income and accumulated under the heading of cash flow hedges reserve from the above forward exchange contract both amounted to a net gain of NT$28,189 thousand.

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 outstanding interest rate swap contract consisted of the following:

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 three months and the nine months ended September 30, 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$22 thousand and NT$5 thousand, respectively; the amount reclassified from equity and recognized as a loss from the above interest rate swap contract amounted to a net loss of NT$47 thousand and NT$227 thousand, respectively, which were included under finance costs in the consolidated statements of comprehensive income.

11. NOTES AND ACCOUNTS RECEIVABLE, NET

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Notes and accounts receivable	$ 79,330,887	$ 58,257,798	$ 64,876,527	$ 46,321,240
Allowance for doubtful receivables	(486,498)	(480,212)	(489,590)	(490,952)
Notes and accounts receivable, net	$ 78,844,389	$ 57,777,586	$ 64,386,937	$ 45,830,288

The Company s sales agreements typically provide that the payment is due 30 days from the invoice date for a majority of the costumers and 30 to 45 days after the end of the month in which sales occur for some customers. 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 an 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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Neither past due nor impaired	$ 71,148,159	$ 47,528,952	$ 55,324,138	$ 39,362,390
Past due but not impaired				

Past due within 30 days	7,696,230	10,248,634	9,062,799	6,467,898
	$ 78,844,389	$ 57,777,586	$ 64,386,937	$ 45,830,288

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Movements of the allowance for doubtful receivables

	Nine Months Ended September 30	
	2013	2012
Balance, beginning of the period	$ 480,212	$ 490,952
Provision (reversal)	9,380	(3)
Write-off		(1,272)
Effect of deconsolidation of subsidiary	(3,157)	
Effect of exchange rate changes	63	(87)
Balance, end of the period	$ 486,498	$ 489,590

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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Not past due	$ 7,557	$ 160,354	$ 125,474	$ 81,017
Past due 1-30 days	6,832	2,863	10,165	24,351
Past due 31-60 days	4,576			4,684
Past due over 120 days		3,157		9,769
	$ 18,965	$ 166,374	$ 135,639	$ 119,821

The Company held bank guarantees and other credit enhancements as collateral for certain impaired accounts receivables. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the amount of the bank guarantee and other credit enhancements were US$9 thousand, US$1,000 thousand, US$1,985 thousand and US$2,962 thousand, respectively.

12. INVENTORIES

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Finished goods	$ 6,696,080	$ 6,244,824	$ 4,255,500	$ 3,347,849
Work in process	25,528,912	25,713,217	24,686,231	17,940,960
Raw materials	2,889,113	3,864,105	2,429,431	1,808,615
Supplies and spare parts	1,802,422	2,008,352	1,877,883	1,743,158
	$ 36,916,527	$ 37,830,498	$ 33,249,045	$ 24,840,582

Write-down of inventories to net realizable value was included in the cost of revenue, which was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Inventory losses	$ 252,245	$ 443,728	$ 489,414	$ 1,485,371

13. FINANCIAL ASSETS CARRIED AT COST

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Non-publicly traded stocks	$ 1,844,469	$ 3,314,713	$ 3,689,527	$ 4,004,314
Mutual funds	280,038	290,364	291,724	310,691
	$ 2,124,507	$ 3,605,077	$ 3,981,251	$ 4,315,005

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

The Company recognized impairment loss on financial assets carried at cost in the amount of NT$1,495,454 thousand and NT$160 thousand for the three months ended September 30, 2013 and 2012, respectively; and of NT$1,541,170 thousand and NT$71,087 thousand for the nine months ended September 30, 2013 and 2012, respectively.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Associates	$ 22,459,686	$ 20,325,277	$ 20,993,580	$ 22,033,567
Jointly controlled entities	3,444,234	3,035,641	2,913,578	2,853,364
	$ 25,903,920	$ 23,360,918	$ 23,907,158	$ 24,886,931

a. Investments in associates

Associates consisted of the following:

			Carrying Amount				% of Ownership Voting Rights Hel the Company		
f Associate	Principal Activities	Place of Incorporation and Operation	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012	September 30, 2013	December 31, 2012	September 2012
d onal ductor	Research, design, development, manufacture,	Hsinchu, Taiwan	$ 10,107,307	$ 9,406,597	$ 9,121,036	$ 8,985,340	39%	40%	41%

tion (VIS)	packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts								
on Silicon cturing y Pte Ltd.	Fabrication and supply of integrated circuits	Singapore	6,870,266	6,710,956	6,253,232	6,289,429	39%	39%	39%
Industries, tech)	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	2,713,227	2,992,899	4,449,280	5,609,002	20%	20%	20%
	Wafer level chip size packaging service	Taoyuan, Taiwan	1,785,184				40%		
Unichip tion (GUC)	Researching, developing, manufacturing, testing and marketing of integrated circuits	Hsinchu, Taiwan	983,702	1,214,825	1,170,032	1,149,796	35%	35%	35%
nc.	Research, development, and sale of micro-semiconductor device	Delaware, U.S.A.						25%	25%
			$ 22,459,686	$ 20,325,277	$ 20,993,580	$ 22,033,567			

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, after reassessment, the Company did not exercise significant influence over Mcube and 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.

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.

In February 2010, the Company acquired 75,316 thousand shares of Motech through a private placement for NT$6,228,661 thousand; following such acquisition, the Company s percentage of ownership in Motech was 20%. Transfer of the aforementioned common shares within three years from the acquisition date is prohibited unless permitted by other related regulations.

Financial information of the Company s associates was summarized as follows:

	September 30, 2013	**December 31, 2012**	**September 30, 2012**	**January 1, 2012**
Total assets	$ 86,577,100	$ 76,889,298	$ 78,210,258	$ 79,721,042
Total liabilities	(25,288,666)	(21,683,504)	(23,922,106)	(20,948,855)
Net assets	$ 61,288,434	$ 55,205,794	$ 54,288,152	$ 58,772,187
The Company s share of net assets of associates	$ 22,459,686	$ 20,325,277	$ 20,993,580	$ 22,033,567

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2013	**2012**	**2013**	**2012**
Net revenue	$ 16,901,548	$ 14,721,518	$ 45,692,397	$ 41,525,415
Net income	$ 3,107,787	$ 1,230,675	$ 6,806,119	$ 1,170,094
The Company s share of profits of associates	$ 969,247	$ 558,002	$ 2,420,334	$ 852,523
The Company s share of other comprehensive income (loss) of associates	$ 1,108	$ 3,115	$ 28,292	$ (6,682)

The market prices of the investments accounted for using the equity method in publicly traded stocks calculated by the closing price at the balance sheet date are summarized as follows:

Name of Associate	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
VIS	$ 20,323,030	$ 12,658,703	$ 11,370,845	$ 6,627,758
Motech	$ 4,435,225	$ 2,383,824	$ 2,703,125	$ 4,645,176
GUC	$ 4,066,513	$ 4,692,130	$ 5,439,136	$ 4,645,442

b. Investments in jointly controlled entities

Jointly controlled entities consisted of the following:

			Carrying Amount				% of Ownership and Voting Rights Held b the Company			
e of Jointly rolled Entity	Principal Activities	Place of Incorporation and Operation	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012	September 30, 2013	December 31, 2012	September 30, 2012	Janu 2
a Holding pany (VisEra ng)	Investing in companies involved in the design, manufacturing and other related businesses in the semiconductor industry	Cayman Islands	$ 3,444,234	$ 3,035,641	$ 2,913,578	$ 2,853,364	49%	49%	49%	

Financial information of the Company s jointly controlled entities was summarized as follows:

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Current assets	$ 2,221,606	$ 1,887,122	$ 1,531,298	$ 1,616,916
Noncurrent assets	$ 1,641,911	$ 1,780,903	$ 1,975,543	$ 1,732,247
Current liabilities	$ 418,821	$ 631,803	$ 592,516	$ 495,066
Noncurrent liabilities	$ 462	$ 581	$ 747	$ 733

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net revenue	$ 482,576	$ 546,251	$ 1,463,662	$ 1,251,020
Cost of revenue	$ 311,902	$ 334,873	$ 905,720	$ 856,342
Operating expenses	$ 34,084	$ 30,024	$ 99,545	$ 90,615
Non-operating income, net	$ 31,673	$ 3,205	$ 39,287	$ 193,414
Income tax expense	$ 24,267	$ 30,375	$ 91,118	$ 11,739

The Company s share of profits of joint venture	$ 143,996	$ 154,184	$ 406,566	$ 485,738
The Company s share of other comprehensive income (loss) of joint venture	$ 36,839	$ 44,959	$ (47,216)	$ 75,143

15. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Land and land improvements	$ 3,586,612	$ 1,159,755	$ 1,170,071	$ 1,185,573
Buildings	105,868,005	85,610,120	86,982,731	71,915,740
Machinery and equipment	427,938,323	404,382,298	418,513,468	294,814,381
Office equipment	7,689,194	6,907,376	6,558,696	5,148,538
Assets under finance leases	421,911	438,663	444,782	493,945
Advance payments and construction in progress	182,211,979	119,063,976	66,444,314	116,863,976
	$ 727,716,024	$ 617,562,188	$ 580,114,062	$ 490,422,153

Nine Months Ended September 30, 2013

	Balance, Beginning of Period	Additions	Disposals	Reclassification	Effect of Deconsolidation of Subsidiary	Effect of Exchange Rate Changes	Balance, End of Period
Cost							
Land and land improvements	$ 1,527,124	$ 3,212,000	$	$	$ (772,029)	$ 13,860	$ 3,980,955
Buildings	197,411,851	30,371,814		3,797	(986,205)	586,240	227,387,497
Machinery and equipment	1,279,893,177	127,162,251	(2,094,599)		(5,630,854)	1,628,558	1,400,958,533
Office equipment	20,067,943	3,006,548	(506,366)		(1,055,809)	29,489	21,541,805
Assets under finance leases	766,732					24,593	791,325
	1,499,666,827	$ 163,752,613	$ (2,600,965)	$ 3,797	$ (8,444,897)	$ 2,282,740	1,654,660,115
Accumulated depreciation and impairment							
Land improvements	367,369	$ 20,332	$	$	$	$ 6,642	394,343
Buildings	111,801,731	9,642,611			(226,908)	302,058	121,519,492
Machinery and equipment	875,510,879	101,931,987	(2,024,038)		(3,656,326)	1,257,708	973,020,210
Office equipment	13,160,567	1,774,915	(506,117)		(599,483)	22,729	13,852,611
Assets under finance leases	328,069	30,936				10,409	369,414
	1,001,168,615	$ 113,400,781	$ (2,530,155)	$	$ (4,482,717)	$ 1,599,546	1,109,156,070
Advance payments and construction in progress	119,063,976	$ 64,777,969	$	$	$ (1,632,860)	$ 2,894	182,211,979
	$ 617,562,188						$ 727,716,024

Nine Months Ended September 30, 2012

	Balance, Beginning of Period	Additions (Deductions)	Disposals	Impairment	Reclassification	Effect of Exchange Rate Changes	Balance, End of Period
Cost							
	$ 1,541,128	$ 18,500	$	$	$	$ (25,431)	$ 1,534,197

Land and land improvements							
Buildings	172,997,391	23,699,216	(53,487)			(772,172)	195,870,948
Machinery and equipment	1,057,926,529	208,463,387	(1,125,566)		(35)	(2,354,872)	1,262,909,443
Office equipment	17,041,306	2,790,915	(472,763)		35	(75,533)	19,283,960
Assets under finance leases	791,480					(31,217)	760,263
	1,250,297,834	$ 234,972,018	$ (1,651,816)	$	$	$ (3,259,225)	1,480,358,811
Accumulated depreciation and impairment							
Land improvements	355,555	$ 20,335	$	$	$	$ (11,764)	364,126
Buildings	101,081,651	8,248,043	(43,387)			(398,090)	108,888,217
Machinery and equipment	763,112,148	83,843,149	(1,028,311)	422,323	(8)	(1,953,326)	844,395,975
Office equipment	11,892,768	1,359,994	(464,794)		8	(62,712)	12,725,264
Assets under finance leases	297,535	30,166				(12,220)	315,481
	876,739,657	$ 93,501,687	$ (1,536,492)	$ 422,323	$	$ (2,438,112)	966,689,063
Advance payments and construction in progress	116,863,976	$ (50,318,756)	$	$	$ (2,086)	$ (98,820)	66,444,314
	$ 490,422,153						$ 580,114,062

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 nine months ended September 30, 2012, the Company recognized impairment loss of NT$422,323 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:

	September 30,	September 30,	January 1,

	2013	December 31, 2012	2012	2012
Minimum lease payments				
Not later than 1 year	$ 27,912	$ 27,042	$ 26,809	$
Later than 1 year and not later than 5 years	111,648	108,168	107,236	223,296
Later than five years	725,137	729,566	723,303	780,962
	864,697	864,776	857,348	1,004,258
Less: Future finance expenses	97,353	108,471	112,244	133,265
Present value of minimum lease payments	$ 767,344	$ 756,305	$ 745,104	$ 870,993

(Continued)

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Present value of minimum lease payments				
Not later than 1 year	$ 27,231	$ 26,382	$ 26,156	$
Later than 1 year and not later than 5 years	102,443	100,821	98,397	213,411
Later than five years	637,670	629,102	620,551	657,582
	$ 767,344	$ 756,305	$ 745,104	$ 870,993
Current portion	$ 8,612	$ 8,190	$ 8,070	$
Noncurrent portion	758,732	748,115	737,034	870,993
	$ 767,344	$ 756,305	$ 745,104	$ 870,993

(Concluded)

There was no capitalization of interest for the nine months ended September 30, 2013. During the nine months ended September 30, 2012, the Company capitalized the borrowing costs directly attributable to the acquisition or construction of property, plant and equipment. For the three months and the nine months ended September 30, 2012, the amount of capitalized interest was nil and NT$6,442 thousand, respectively, and the capitalized interest rate was 1.08%-1.20%.

16. INTANGIBLE ASSETS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Goodwill	$ 5,596,319	$ 5,523,707	$ 5,560,762	$ 5,693,999
Technology license fees	1,174,288	1,461,893	1,548,893	1,682,892
Software and system design costs	3,666,125	2,968,942	2,627,158	2,366,483
Patent and others	956,548	1,005,027	1,152,041	1,118,189
	$ 11,393,280	$ 10,959,569	$ 10,888,854	$ 10,861,563

	Nine Months Ended September 30, 2013						
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Effect of Deconsolidation of Subsidiary	Effect of Exchange Rate Changes	Balance, End of Period
Cost							
Goodwill	$ 5,523,707	$	$	$	$	$ 72,612	$ 5,596,319
	4,590,548			(29,565)	(113,340)	(1,164)	4,446,479

Technology license fees							
Software and system design costs	15,095,421	1,809,264	(17,486)	(110,746)	(25,335)	3,498	16,754,616
Patent and others	3,094,664	287,840	(23,549)	101,007	(42,089)	3,662	3,421,535
	28,304,340	$ 2,097,104	$ (41,035)	$ (39,304)	$ (180,764)	$ 78,608	30,218,949
Accumulated amortization							
Technology license fees	3,128,655	$ 211,287	$	$	$ (66,587)	$ (1,164)	3,272,191
Software and system design costs	12,126,479	994,698	(17,214)	(5,942)	(12,661)	3,131	13,088,491
Patent and others	2,089,637	423,497	(23,549)		(25,195)	597	2,464,987
	17,344,771	$ 1,629,482	$ (40,763)	$ (5,942)	$ (104,443)	$ 2,564	18,825,669
	$ 10,959,569						$ 11,393,280

	Nine Months Ended September 30, 2012					
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Period
Cost						
Goodwill	$ 5,693,999	$	$	$	$ (133,237)	$ 5,560,762
Technology license fees	4,370,173	29,565		191,580	(527)	4,590,791
Software and system design costs	13,438,579	1,162,867	(48,201)	(91,904)	(5,114)	14,456,227
Patent and others	2,670,031	422,527	(91,844)	93,990	(4,641)	3,090,063
	26,172,782	$ 1,614,959	$ (140,045)	$ 193,666	$ (143,519)	27,697,843
Accumulated amortization						
Technology license fees	2,687,281	$ 354,029	$	$	$ 588	3,041,898
Software and system design costs	11,072,096	846,409	(48,201)	(36,552)	(4,683)	11,829,069
Patent and others	1,551,842	442,166	(91,844)	36,552	(694)	1,938,022
	15,311,219	$ 1,642,604	$ (140,045)	$	$ (4,789)	16,808,989
	$ 10,861,563					$ 10,888,854

The recoverable amount of the Company s goodwill has been tested for impairment at the end of the annual reporting period and was determined based on the value in use. The value in use was calculated based on the cash flow forecast from the financial budgets covering future five-year period, and the Company used annual discount rate of 9.00% and 9.68% in its test of impairment as of December 31, 2012 and 2011, respectively, to reflect the relevant specific risk in the cash-generating unit.

For the nine months ended September 30, 2013 and 2012, the Company did not recognize any impairment loss on goodwill.

17. OTHER ASSETS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Tax receivable	$ 1,471,795	$ 1,565,104	$ 1,462,504	$ 708,891
Prepaid expenses	1,258,358	1,080,236	1,042,826	1,436,416
Long-term receivable	796,400	767,800	756,400	785,400
Others	630,160	608,412	590,813	550,053
	$ 4,156,713	$ 4,021,552	$ 3,852,543	$ 3,480,760
Current portion	$ 2,740,765	$ 2,786,408	$ 2,639,414	$ 2,174,014

Noncurrent portion	1,415,948	1,235,144	1,213,129	1,306,746
	$ 4,156,713	$ 4,021,552	$ 3,852,543	$ 3,480,760

18. SHORT-TERM LOANS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Unsecured loans				
Amount	$ 18,053,096	$ 34,714,929	$ 29,749,650	$ 25,926,528
Original loan content				
US$ (in thousands)	$ 610,500	$ 1,195,500	$ 1,015,000	$ 856,000
Annual interest rate	0.38%-0.40%	0.39%-0.58%	0.42%-0.65%	0.45%-1.00%
Maturity date	Due in October 2013	Due in January 2013	Due in October 2012	Due by February 2012

19. PROVISIONS

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Sales returns and allowances	$ 6,720,214	$ 6,038,003	$ 6,900,184	$ 5,068,263
Warranties	7,344	4,891	3,619	2,889
	$ 6,727,558	$ 6,042,894	$ 6,903,803	$ 5,071,152
Current portion	$ 6,720,214	$ 6,038,003	$ 6,900,184	$ 5,068,263
Noncurrent portion	7,344	4,891	3,619	2,889
	$ 6,727,558	$ 6,042,894	$ 6,903,803	$ 5,071,152

	Sales Returns and Allowances	Warranties	Total
Nine months ended September 30, 2013			
Balance, beginning of period	$ 6,038,003	$ 4,891	$ 6,042,894
Provision	3,798,683	3,687	3,802,370
Payment	(3,086,482)	(1,361)	(3,087,843)
Effect of deconsolidation of subsidiary	(37,748)		(37,748)
Effect of exchange rate changes	7,758	127	7,885
Balance, end of period	$ 6,720,214	$ 7,344	$ 6,727,558
Nine months ended September 30, 2012			
Balance, beginning of period	$ 5,068,263	$ 2,889	$ 5,071,152
Provision	6,462,738	820	6,463,558
Payment	(4,624,281)		(4,624,281)

Effect of exchange rate changes		(6,536)		(90)		(6,626)
Balance, end of period	$	6,900,184	$	3,619	$	6,903,803

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 period 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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Domestic unsecured bonds	$ 166,200,000	$ 80,000,000	$ 75,600,000	$ 22,500,000
Overseas unsecured bonds	44,356,500			
	210,556,500	80,000,000	75,600,000	22,500,000
Less: Discounts on bonds payable	140,066			
Total	$ 210,416,434	$ 80,000,000	$ 75,600,000	$ 22,500,000
Current portion	$	$	$	$ 4,500,000
Noncurrent portion	210,416,434	80,000,000	75,600,000	18,000,000
	$ 210,416,434	$ 80,000,000	$ 75,600,000	$ 22,500,000

The major terms of domestic unsecured bonds are as follows:

Issuance	Tranche	Issuance Period	Total Amount	Coupon Rate	Repayment and Interest Payment
100-1	A	September 2011 to September 2016	$10,500,000	1.40%	Bullet repayment; interest payable annually
	B	September 2011 to September 2018	7,500,000	1.63%	
100-2	A	January 2012 to January 2017	10,000,000	1.29%	
	B	January 2012 to January 2019	7,000,000	1.46%	
101-1	A	August 2012 to August 2017	9,900,000	1.28%	
	B	August 2012 to August 2019	9,000,000	1.40%	
101-2	A		12,700,000	1.28%	

		September 2012 to September 2017		
	B	September 2012 to September 2019	9,000,000	1.39%
101-3		October 2012 to October 2022	4,400,000	1.53%
101-4	A	January 2013 to January 2018	10,600,000	1.23%
	B	January 2013 to January 2020	10,000,000	1.35%
	C	January 2013 to January 2023	3,000,000	1.49%

(Continued)

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

	F	September 2013 to September 2023	2,600,000	2.10%	Bullet repayment; interest payable annually
Domestic 5th	C	January 2002 to January 2012	4,500,000	3.00%	

(Concluded)

The major terms of overseas unsecured bonds are as follows:

Issuance Period	Total Amount (US$)	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%	

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21. LONG-TERM BANK LOANS

	September 30, 2013	December 31, 2012	September 30, 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 but repaid earlier of NT$100,000 thousand in September 2012, annual interest rate at 1.08%-1.21% in 2012		550,000	550,000	650,000
Repayable in full in one lump sum payment in March 2015 but repaid earlier of NT$50,000 thousand in August 2012, annual interest rate at 1.16%-1.18% in 2012		450,000	450,000	500,000
Repayable from July 2012 in 16 quarterly installments, annual interest rate at 1.21%-1.24% in 2012		262,500	281,250	300,000
Repayable from September 2012 in 16 quarterly installments, annual interest rate at 1.21%-1.24% in 2012		175,000	187,500	200,000
Repayable from October 2013 in 16 quarterly installments, annual interest rate at 1.23%-1.24% in 2012		50,000	50,000	
	$ 40,000	$ 1,487,500	$ 1,518,750	$ 1,650,000
Current portion	$	$ 128,125	$ 125,000	$ 62,500
Noncurrent portion	40,000	1,359,375	1,393,750	1,587,500
	$ 40,000	$ 1,487,500	$ 1,518,750	$ 1,650,000

As of September 30, 2013, some of the long-term bank loans were amounted to nil as a result of deconsolidation of Xintec in June 2013 (refer to Note 34).

22. OTHER LONG-TERM PAYABLES

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Payables for software and system design costs	$ 54,000	$ 113,000	$ 113,000	$
Payables for acquisition of property, plant and equipment		825,447	818,361	3,399,855
Payables for technology transfer		29,038	29,310	
	$ 54,000	$ 967,485	$ 960,671	$ 3,399,855
Current portion (classified under accrued expenses and other current liabilities)	$ 18,000	$ 913,485	$ 906,671	$ 3,399,855
Noncurrent portion	36,000	54,000	54,000	
	$ 54,000	$ 967,485	$ 960,671	$ 3,399,855

TSMC entered into an agreement with a counterparty in 2003 whereby TSMC China is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. The property, plant and equipment have been in use by TSMC China since 2004. The aforementioned payables were totally paid in July 2013.

23. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension mechanism 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$402,495 thousand and NT$364,639 thousand in the consolidated statements of comprehensive income for the three months ended September 30, 2013 and 2012, respectively; and of NT$1,190,732 thousand and NT$1,031,294 thousand in the consolidated statements of comprehensive income for the nine months ended September 30, 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.

The Company adopted projected unit credit method to measure the present value of the defined benefit obligation, current service costs and prior service costs.

The Company adopted the pension cost rate from the actuarial valuation as of December 31, 2012 and January 1, 2012 to determine and recognize pension expenses of NT$60,702 thousand and NT$56,697 thousand in the consolidated statements of comprehensive income for the three months ended September 30, 2013 and 2012, respectively; and of NT$182,089 thousand and NT$166,025 thousand in the consolidated statements of comprehensive income for the nine months ended September 30, 2013 and 2012, respectively. For the information of the defined benefit plans as of December 31, 2012 and January 1, 2012, please refer to Note 23 to the consolidated financial statements for the three months ended March 31, 2013.

The pension costs of the defined benefit plans were as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2013	**2012**	**2013**	**2012**
Cost of revenue	$ 39,638	$ 35,128	$ 117,894	$ 102,684
Research and development expenses	15,621	14,321	46,686	43,236
General and administrative expenses	4,349	6,179	14,164	16,760
Marketing expenses	1,094	1,069	3,345	3,345
	$ 60,702	$ 56,697	$ 182,089	$ 166,025

24. EQUITY

a. Capital stock

	September 30, 2013	**December 31, 2012**	**September 30, 2012**	**January 1, 2012**
Authorized shares (in thousand)	28,050,000	28,050,000	28,050,000	28,050,000
Authorized capital	$ 280,500,000	$ 280,500,000	$ 280,500,000	$ 280,500,000
Issued and paid shares (in thousand)	25,928,391	25,924,435	25,922,047	25,916,222
Issued capital	$ 259,283,910	$ 259,244,357	$ 259,220,476	$ 259,162,226

Issued common shares with par value of $10 per share entitled the right to vote and to receive dividends.

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

As of September 30, 2013, 1,088,027 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,440,133 thousand shares (one ADS represents five common shares).

b. Capital surplus

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Additional paid-in capital	$ 24,009,220	$ 23,934,607	$ 23,892,456	$ 23,774,250
From merger	22,804,510	22,804,510	22,804,510	22,804,510
From convertible bonds	8,892,847	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	105,485	40,733	40,557	
From share of changes in equities of associates and joint venture	29,599	2,588		
Donations	55	55	55	55
	$ 55,841,716	$ 55,675,340	$ 55,630,425	$ 55,471,662

Under the Company Law, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds, the surplus from treasury stock transactions and the differences between equity purchase price and carrying amount arising from acquisition or disposal of subsidiaries) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or stock dividends, which are limited 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$3,492,973 thousand and NT$3,289,330 thousand for the three months ended September 30, 2013 and 2012, respectively; and NT$9,637,364 thousand and NT$8,333,282 thousand for the nine months ended September 30, 2013 and 2012, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently approved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders resolution as a change in accounting estimate. If profit sharing approved for distribution to employees is in the form of common shares, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders meeting.

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

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

The appropriations of 2012 and 2011 earnings have been approved by TSMC s shareholders in its meetings held on June 11, 2013 and on June 12, 2012, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Fiscal Year 2012	**For Fiscal Year 2011**	**For Fiscal Year 2012**	**For Fiscal Year 2011**
Legal capital reserve	$ 16,615,880	$ 13,420,128		
Special capital reserve	(4,820,483)	1,172,350		
Cash dividends to shareholders	77,773,307	77,748,668	$ 3.00	$ 3.00
	$ 89,568,704	$ 92,341,146		

TSMC s profit sharing to employees and bonus to 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 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 has no difference with the one approved by the Board of Directors in its meetings held on February 5, 2013 and February 14, 2012 and the same amount had been charged against earnings of 2012 and 2011, respectively.

The appropriations of earnings, payment of profit sharing to employees and bonus to directors for 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.

The information about the appropriations of TSMC s profit sharing to employees and bonus to 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:

	Nine Months Ended September 30, 2013			
	Foreign Currency Translation Reserve	Unrealized Gain (Loss) from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of period	$ (10,753,806)	$ 7,973,321	$	$ (2,780,485)
Exchange differences arising on translation of foreign operations	2,334,714			2,334,714
Changes in fair value of available-for-sale financial assets		16,417,454		16,417,454
Cumulative gain/loss reclassified to profit or loss upon disposal of available-for-sale financial assets		(1,229,330)		(1,229,330)
Share of other comprehensive income of associates and joint venture	(20,214)	380	(67)	(19,901)
The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates	776	(44)		732
Income tax effect		53,484		53,484
Balance, end of period	$ (8,438,530)	$ 23,215,265	$ (67)	$ 14,776,668

	Nine Months Ended September 30, 2012			
	Foreign Currency Translation Reserve	Unrealized Gain (Loss) from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Balance, beginning of period	$ (6,433,364)	$ (1,172,762)	$ (93)	$ (7,606,219)
Exchange differences arising on translation of foreign operations	(3,658,135)			(3,658,135)
Changes in fair value of hedging instruments for cash flow hedges			28,191	28,191
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		(643,360)		(643,360)

(Continued)

	Nine Months Ended September 30, 2012			
	Foreign Currency Translation Reserve	Unrealized Gain (Loss) from Available-for-sale Financial Assets	Cash Flow Hedges Reserve	Total
Cumulative gain/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		(316,932)		(316,932)
Share of other comprehensive income of associates and joint venture	39,259	29,202		68,461
Income tax effect		(333,426)		(333,426)
Balance, end of period	$ (10,052,240)	$ 240,251	$ 28,189	$ (9,783,800)

(Concluded)

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

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

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

e. Noncontrolling interests

	Nine Months Ended September 30	
	2013	2012
Balance, beginning of period	$ 2,543,226	$ 2,436,649
Share of noncontrolling interests		
Net loss	(104,746)	(109,760)
Exchange differences arising on translation of foreign operations	721	30,535
Changes in fair value of available-for-sale financial assets	2,741	(2,300)

Cumulative gain/loss reclassified to profit or loss upon disposal of available-for-sale financial assets	(10,111)	(4,648)

(Continued)

	Nine Months Ended September 30	
	2013	2012
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	3,372
Share of other comprehensive income of associates and joint venture	244	
The proportionate share of other comprehensive income/losses reclassified to profit or loss upon partial disposal of associates	1	
Adjustments arising from changes in percentage of ownership in subsidiaries	(64,752)	(37,956)
Increase in noncontrolling interests	198,279	273,920
Effect of deconsolidation of subsidiary	(2,273,153)	
Balance, end of period	$ 297,762	$ 2,589,951

(Concluded)

25. SHARE-BASED PAYMENT

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

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

TSMC s Employee Stock Option Plans, consisting of the TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan, were approved by the Securities and Futures Bureau (SFB) on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of 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 option eligible to subscribe for one common share of TSMC when exercised. The 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 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 options are granted at an exercise price equal to the closing price of TSMC s common shares listed 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 September 30, 2013.

Information about TSMC s outstanding options for the nine months ended September 30, 2013 and 2012 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Nine months ended September 30, 2013		
Balance, beginning of period	5,945	$ 34.6
Options exercised	(3,956)	28.9
Balance, end of period	1,989	45.9
Nine months ended September 30, 2012		
Balance, beginning of period	14,293	$ 31.4
Options exercised	(5,825)	30.3
Options canceled	(135)	34.6
Balance, end of period	8,333	32.6

The numbers of outstanding 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 options was as follows:

September 30, 2013		December 31, 2012	
Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)	Range of Exercise Price (NT$)	Weighted-average Remaining Contractual Life (Years)
$38.0-$50.1	1.3	$ 20.2-$28.3	0.4
		$ 38.0-$50.1	2.0

September 30, 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)
$20.2-$28.3	0.6	$ 20.9-$29.3	1.2
$38.0-$50.1	2.2	$ 38.0-$50.1	2.9

As of September 30, 2013, all of the above outstanding 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 shares 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 Options (In Thousands)	Weighted-average Exercise Price (NT$)
Nine months ended September 30, 2013		
Balance, beginning of period		$
Options granted	17,000	10.0
Options exercised	(17,000)	10.0
Balance, end of period		
Nine months ended September 30, 2012		
Balance, beginning of period		$
Options granted	17,175	10.0
Options exercised	(17,175)	10.0
Balance, end of period		

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 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 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 their employees to subscribe to, according to the Company Law. The aforementioned shares 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 Options (In Thousands)	Weighted-average Exercise Price (NT$)
Nine months ended September 30, 2012		
Balance, beginning of period		$
Options granted	12,341	10.0
Options exercised	(12,341)	10.0
Balance, end of period		

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 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	