

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
February 23, 2017

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 February 2017

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

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

(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: February 23, 2017

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

**Taiwan Semiconductor Manufacturing
Company Limited and Subsidiaries
Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors Report**

REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2016, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, Consolidated Financial Statements. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED

By

MORRIS CHANG
Chairman

February 14, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Provision of sales returns and allowances

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

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

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

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

The Company continues to invest in capital expenditures to develop and build capacity in leading-edge technologies to meet customers' demand. Please refer to Notes 4 and 15 to the consolidated financial statements for the details of the information and accounting policy about the depreciation of PP&E. According to IAS 16, depreciation of PP&E should commence when the assets are available for their intended use. Due to the significant capital expenditures incurred by the Company, the appropriateness of the timing to commence depreciation of PP&E could have a material impact on its financial performance. Consequently, the validity of the timing to commence depreciation of PP&E is identified as a key audit matter.

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

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

5. Sampled equipment under installation and construction in progress which met the criteria of available for use and were transferred in the subsequent period to evaluate the reasonableness of the timing for commencing depreciation;
6. Sampled and reviewed the appropriateness of the equipment under installation and construction in progress which are not available for their intended use.

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

Deloitte & Touche

Taipei, Taiwan

The Republic of China

February 14, 2017

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands of New Taiwan Dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	\$ 541,253,833	29	\$ 562,688,930	34
Financial assets at fair value through profit or loss (Note 7)	6,451,112		6,026	
Available-for-sale financial assets (Notes 8 and 14)	67,788,767	4	14,299,361	1
Held-to-maturity financial assets (Note 9)	16,610,116	1	9,166,523	1
Hedging derivative financial assets (Note 10)	5,550		1,739	
Notes and accounts receivable, net (Note 11)	128,335,271	7	85,059,675	5
Receivables from related parties (Note 37)	969,559		505,722	
Other receivables from related parties (Note 37)	146,788		125,018	
Inventories (Notes 5, 12 and 41)	48,682,233	3	67,052,270	4
Other financial assets (Notes 38 and 41)	4,100,475		4,305,358	
Other current assets (Note 17)	3,385,422		3,533,369	
Total current assets	817,729,126	44	746,743,991	45
NONCURRENT ASSETS				
Held-to-maturity financial assets (Note 9)	22,307,561	1	6,910,873	
Financial assets carried at cost (Note 13)	4,102,467		3,990,882	
Investments accounted for using equity method (Notes 5 and 14)	19,743,888	1	24,091,828	2
Property, plant and equipment (Notes 5 and 15)	997,777,687	53	853,470,392	52
Intangible assets (Notes 5, 16 and 33)	14,614,846	1	14,065,880	1
Deferred income tax assets (Notes 5 and 30)	8,271,421		6,384,974	
Refundable deposits	407,874		430,802	
Other noncurrent assets (Note 17)	1,500,432		1,428,676	
Total noncurrent assets	1,068,726,176	56	910,774,307	55
TOTAL	\$ 1,886,455,302	100	\$ 1,657,518,298	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 18)	\$ 57,958,200	3	\$ 39,474,000	2
Financial liabilities at fair value through profit or loss (Note 7)	191,135		72,610	

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Accounts payable	26,062,351	2	18,575,286	1
Payables to related parties (Note 37)	1,262,174		1,149,988	
Salary and bonus payable	13,681,817	1	11,702,042	1
Accrued profit sharing bonus to employees and compensation to directors and supervisors (Notes 23 and 32)	22,894,006	1	20,958,893	1
Payables to contractors and equipment suppliers	63,154,514	3	26,012,192	2
Income tax payable (Notes 5 and 30)	40,306,054	2	32,901,106	2
Provisions (Notes 5 and 19)	18,037,789	1	10,163,536	1
Long-term liabilities - current portion (Note 20)	38,109,680	2	23,517,612	1
Accrued expenses and other current liabilities (Note 22)	36,581,553	2	27,701,329	2
Total current liabilities	318,239,273	17	212,228,594	13
NONCURRENT LIABILITIES				
Bonds payable (Note 20)	153,093,557	8	191,965,082	12
Long-term bank loans	21,780		32,500	
Deferred income tax liabilities (Notes 5 and 30)	141,183		31,271	
Net defined benefit liability (Notes 5 and 21)	8,551,408		7,448,026	
Guarantee deposits (Note 22)	14,670,433	1	21,564,801	1
Others (Note 19)	1,686,542		1,613,545	
Total noncurrent liabilities	178,164,903	9	222,655,225	13
Total liabilities	496,404,176	26	434,883,819	26
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Capital stock (Note 23)	259,303,805	14	259,303,805	16
Capital surplus (Note 23)	56,272,304	3	56,300,215	3
Retained earnings (Note 23)				
Appropriated as legal capital reserve	208,297,945	11	177,640,561	11
Unappropriated earnings	863,710,224	46	716,653,025	43
	1,072,008,169	57	894,293,586	54
Others (Note 23)	1,663,983		11,774,113	1
Equity attributable to shareholders of the parent	1,389,248,261	74	1,221,671,719	74
NONCONTROLLING INTERESTS	802,865		962,760	
Total equity	1,390,051,126	74	1,222,634,479	74
TOTAL	\$ 1,886,455,302	100	\$ 1,657,518,298	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)

	2016		2015	
	Amount	%	Amount	%
NET REVENUE (Notes 5, 25, 37 and 43)	\$ 947,938,344	100	\$ 843,497,368	100
COST OF REVENUE (Notes 5, 12, 32, 37 and 41)	473,077,173	50	433,117,601	51
GROSS PROFIT BEFORE REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	474,861,171	50	410,379,767	49
REALIZED (UNREALIZED) GROSS PROFIT ON SALES TO ASSOCIATES	(29,073)		15,126	
GROSS PROFIT	474,832,098	50	410,394,893	49
OPERATING EXPENSES (Notes 5, 32 and 37)				
Research and development	71,207,703	7	65,544,579	8
General and administrative	19,795,593	2	17,257,237	2
Marketing	5,900,837	1	5,664,684	1
Total operating expenses	96,904,133	10	88,466,500	11
OTHER OPERATING INCOME AND EXPENSES, NET (Notes 15, 16, 26 and 32)	29,813		(1,880,618)	
INCOME FROM OPERATIONS (Note 43)	377,957,778	40	320,047,775	38
NON-OPERATING INCOME AND EXPENSES				
Share of profits of associates and joint venture (Notes 14 and 43)	3,495,600		4,132,128	
Other income (Note 27)	6,454,901	1	4,750,829	1
Foreign exchange gain, net (Note 42)	1,161,322		2,481,446	
Finance costs (Note 28)	(3,306,153)		(3,190,331)	
Other gains and losses (Note 29)	195,932		22,207,064	3
Total non-operating income and expenses	8,001,602	1	30,381,136	4
INCOME BEFORE INCOME TAX	385,959,380	41	350,428,911	42

INCOME TAX EXPENSE (Notes 5, 30 and 43)	51,621,144	6	43,872,744	6
NET INCOME	334,338,236	35	306,556,167	36
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 14, 21, 23 and 30)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation	(1,057,220)		(827,703)	
Share of other comprehensive loss of associates and joint venture	(19,961)		(2,546)	
Income tax benefit related to items that will not be reclassified subsequently	126,867		99,326	
	(950,314)		(730,923)	

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	\$ (9,379,477)	(1)	\$ 6,604,768	1
Changes in fair value of available-for-sale financial assets	(692,523)		(20,489,015)	(2)
Share of other comprehensive income (loss) of associates and joint venture	16,301		(83,021)	
Income tax expense related to items that may be reclassified subsequently	(61,176)		(15,991)	
	(10,116,875)	(1)	(13,983,259)	(1)
Other comprehensive loss for the year, net of income tax	(11,067,189)	(1)	(14,714,182)	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$ 323,271,047	34	\$ 291,841,985	35
NET INCOME (LOSS) ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 334,247,180	35	\$ 306,573,837	36
Noncontrolling interests	91,056		(17,670)	
	\$ 334,338,236	35	\$ 306,556,167	36
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 323,186,736	34	\$ 291,867,757	35
Noncontrolling interests	84,311		(25,772)	
	\$ 323,271,047	34	\$ 291,841,985	35
	2016		2015	
	Income Attributable to		Income Attributable to	
	Shareholders of		Shareholders of	
	the Parent		the Parent	

EARNINGS PER SHARE (NT\$, Note 31)

Basic earnings per share	\$	12.89	\$	11.82
Diluted earnings per share	\$	12.89	\$	11.82

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**(In Thousands of New Taiwan Dollars, Except Dividends Per Share)**

Stock	Equity Attributable to Shareholders of the Parent				Others		Cash Flow	Total	Total
	Capital Surplus	Legal Capital Reserve	Unappropriated Earnings	Retained Earnings Total	Foreign Currency Translation Reserve	Unrealized Gain/Loss from Available-for-sale Financial Assets			
624	\$ 55,989,922	\$ 151,250,682	\$ 553,914,592	\$ 705,165,274	\$ 4,502,113	\$ 21,247,483	\$ (305)	\$ 25,749,291	\$ 1,040,000,000
		26,389,879	(26,389,879)						
			(116,683,481)	(116,683,481)					(116,683,481)
		26,389,879	(143,073,360)	(116,683,481)					(116,683,481)
			306,573,837	306,573,837					306,573,837
			(730,902)	(730,902)	6,537,836	(20,512,712)	(302)	(13,975,178)	(14,179,516)
			305,842,935	305,842,935	6,537,836	(20,512,712)	(302)	(13,975,178)	291,582,589

181 130,974

(47,850)

230,743

(31,142) (31,142)

(3,574)