

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 20-F
April 13, 2017
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES
EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended December 31, 2016

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number 1-14700

(Exact Name of Registrant as Specified in Its Charter)

**Taiwan Semiconductor Manufacturing Company
Limited**

(Translation of Registrant's Name Into English)

Republic of China

(Jurisdiction of Incorporation or Organization)

No. 8, Li-Hsin Road 6

Hsinchu Science Park

Hsinchu, Taiwan

Republic of China

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value NT\$10.00 each*	The New York Stock Exchange, Inc.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2016, 25,930,380,458 Common Shares, par value NT\$10 each were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued

Other

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American Depositary Shares representing such Common Shares

Table of Contents**TABLE OF CONTENTS****Taiwan Semiconductor Manufacturing Company Limited**

	<u>Page</u>
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION</u>	1
<u>PART I</u>	2
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u>	2
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	2
ITEM 3. <u>KEY INFORMATION</u>	2
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	12
ITEM 4A. <u>UNRESOLVED STAFF COMMENTS</u>	20
ITEM 5. <u>OPERATING AND FINANCIAL REVIEWS AND PROSPECTS</u>	20
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	32
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	40
ITEM 8. <u>FINANCIAL INFORMATION</u>	42
ITEM 9. <u>THE OFFER AND LISTING</u>	44
ITEM 10. <u>ADDITIONAL INFORMATION</u>	45
ITEM 11. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u>	58
ITEM 12D. <u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	60
<u>PART II</u>	62
ITEM 13. <u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	62
ITEM 14. <u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	62
ITEM 15. <u>CONTROLS AND PROCEDURES</u>	62
ITEM 16A. <u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	63
ITEM 16B. <u>CODE OF ETHICS</u>	63
ITEM 16C. <u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	64
ITEM 16D. <u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	64
ITEM 16E. <u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	64
ITEM 16F. <u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	64
ITEM 16G. <u>CORPORATE GOVERNANCE</u>	64
ITEM 16H. <u>MINE SAFETY DISCLOSURE</u>	67

<u>PART III</u>		68
ITEM 17.	<u>FINANCIAL STATEMENTS</u>	68
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	68
ITEM 19.	<u>EXHIBITS</u>	68

Table of Contents

EX-4.6 LAND LEASE WITH HSINCHU SCIENCE PARK ADMINISTRATION

EX-12.1 CERTIFICATION OF CO-CEO - RULE 13A-14(A)

EX-12.2 CERTIFICATION OF CO-CEO - RULE 13A-14(A)

EX-12.3 CERTIFICATION OF CFO - RULE 13A-14(A)

EX-13.1 CERTIFICATION OF CO-CEO - RULE 13A-14(B)

EX-13.2 CERTIFICATION OF CO-CEO - RULE 13A-14(B)

EX-13.3 CERTIFICATION OF CFO - RULE 13A-14(B)

EX-99.1 CONSENT OF DELOITTE & TOUCHE

TSMC , tsmc , Open Innovation Platform , CyberShuttle and CoWoS are some of our registered trademarks used in various jurisdictions, including the United States of America. All rights reserved.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report includes statements that are, or may be deemed to be, forward-looking statements within the meaning of U.S. securities laws. The terms anticipates, expects, may, will, could, should and other similar expressions identify forward-looking statements. These statements appear in a number of places throughout this annual report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this annual report. Important factors that could cause those differences include, but are not limited to:

the volatility of the semiconductor and electronics industry;

overcapacity in the semiconductor industry;

our ability to develop new technologies successfully and remain a technological leader;

the increased competition from other companies and our ability to retain and increase our market share;

our ability to maintain control over expansion and facility modifications;

our reliance on certain major customers;

our ability to generate growth and profitability;

our ability to hire and retain qualified personnel;

our ability to acquire required equipment and supplies necessary to meet business needs;

the political stability of our local region; and

general local and global economic conditions.

Forward-looking statements include, but are not limited to, statements regarding our strategy and future plans, future business condition and financial results, our capital expenditure plans, our capacity management plans, expectations as to the commercial production using 7-nanometer and more advanced technologies, technological upgrades, investment in research and development, future market demand, future regulatory or other developments in our industry, business expansion plans or new investments as well as business acquisitions and financing plans. Please see Item 3. Key Information Risk Factors for a further discussion of certain factors that may cause actual results to differ materially from those indicated by our forward-looking statements.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**Selected Financial and Operating Data**

The selected consolidated statements of profit or loss and other comprehensive income data and other consolidated financial data for the years ended December 31, 2014, 2015 and 2016, and the selected consolidated statements of financial position data as of December 31, 2015 and 2016, set forth below, are derived from our audited consolidated financial statements included herein, and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes thereto, which have been prepared in accordance with International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) issued by the International Accounting Standards Board (IASB) (collectively, IFRSs). The selected consolidated statements of profit or loss and other comprehensive income data and other consolidated financial data for the year ended December 31, 2012 and 2013 and the selected consolidated statements of financial position data as of December 31, 2012, 2013 and 2014, set forth below, are derived from our audited consolidated financial statements not included herein.

In addition to preparing financial statements in accordance with IFRSs included in this annual report, we also prepare financial statements in accordance with the IFRSs as adopted for use in Taiwan (Taiwan-IFRSs), which we are required to file with the Financial Supervisory Commission (FSC) of the Republic of China (R.O.C. or Taiwan) and Taiwan Stock Exchange (TWSE) under the applicable regulations and listing rules of the TWSE. English translations of such financial statements are furnished to the SEC on Form 6-K, which are not incorporated by reference to this or any of our previous annual reports on Form 20-F.

	Year ended and as of December 31,					US\$
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	
	(in millions, except for percentages,					
	earnings per share and per ADS)					
Consolidated Statements of Profit or Loss and Other Comprehensive Income Data:						
Net revenue	506,745	597,024	762,806	843,497	947,938	29,257
Cost of revenue	(262,592)	(315,642)	(385,113)	(433,117)	(473,077)	(14,601)
	244,153	281,382	377,693	410,380	474,861	14,656

Gross profit before realized (unrealized) gross profit on sales to associates						
Realized (unrealized) gross profit on sales to associates	(25)	(21)	29	15	(29)	(1)
Gross profit	244,128	281,361	377,722	410,395	474,832	14,655
Operating expenses	(62,517)	(71,339)	(80,849)	(88,467)	(96,904)	(2,991)
Other operating income and expenses, net	(449)	47	(1,002)	(1,880)	30	1
Income from operations	181,162	210,069	295,871	320,048	377,958	11,665
Non-operating income and expenses, net	499	5,893	6,203	30,430	7,964	246
Income before income tax	181,661	215,962	302,074	350,478	385,922	11,911
Income tax expense	(22,375)	(32,112)	(47,890)	(47,645)	(54,125)	(1,670)
Net income	159,286	183,850	254,184	302,833	331,797	10,241
Other comprehensive income (loss) for the year, net of income tax	4,261	16,359	11,805	(14,714)	(11,067)	(342)
Total comprehensive income for the year	163,547	200,209	265,989	288,119	320,730	9,899
Net income attributable to shareholders of the parent	159,481	183,978	254,302	302,851	331,714	10,238
Net income (loss) attributable to noncontrolling interests	(195)	(128)	(118)	(18)	83	3
Total comprehensive income attributable to shareholders of the parent	163,692	200,343	266,091	288,145	320,653	9,897
Total comprehensive income (loss) attributable to noncontrolling interests	(145)	(134)	(102)	(26)	77	2
Basic/Diluted earnings per share	6.15	7.10	9.81	11.68	12.79	0.39
Basic earnings per ADS equivalent	30.76	35.48	49.04	58.40	63.96	1.97
Diluted earnings per ADS equivalent	30.75	35.48	49.04	58.40	63.96	1.97
Basic weighted average shares outstanding	25,921	25,928	25,929	25,930	25,930	25,930
Diluted weighted average shares outstanding	25,928	25,930	25,930	25,930	25,930	25,930

Table of Contents

	Year ended and as of December 31,					
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	US\$
	(in millions, except for cash dividend per common share)					
Consolidated Statements of Financial Position Data:						
Current assets	250,326	358,487	626,566	746,744	817,729	25,239
Long-term investments ⁽¹⁾	65,723	89,024	29,860	34,873	45,995	1,420
Property, plant and equipment	617,562	792,666	818,199	853,470	997,778	30,796
Intangible assets	10,960	11,490	13,531	14,066	14,615	451
Total assets	961,344	1,262,801	1,494,853	1,657,397	1,886,297	58,219
Current liabilities	158,103	203,974	224,785	239,772	348,286	10,750
Hedging derivative financial liabilities		5,482				
Guarantee deposits	204	152	25,538	21,565	14,670	453
Long-term bonds payable	80,000	210,768	213,674	191,965	153,094	4,725
Net defined benefit liability	6,781	6,802	6,568	7,448	8,551	264
Total liabilities	247,749	428,688	472,492	462,427	526,451	16,249
Capital stock	259,245	259,286	259,297	259,304	259,304	8,003
Equity attributable to shareholders of the parent	711,052	833,846	1,022,234	1,194,008	1,359,051	41,946
Noncontrolling interests	2,543	267	127	962	795	24
Cash dividend paid per common share ⁽²⁾	3.0	3.0	3.0	4.5	6.0	0.2

	Year ended and as of December 31,					
	2012 NT\$	2013 NT\$	2014 NT\$	2015 NT\$	2016 NT\$	US\$
	(in millions, except for percentages and operating data)					
Other Consolidated Financial Data:						
Gross margin	48.2%	47.1%	49.5%	48.7%	50.1%	50.1%
Operating margin	35.8%	35.2%	38.8%	37.9%	39.9%	39.9%
Net margin	31.5%	30.8%	33.3%	35.9%	35.0%	35.0%
Capital expenditures	246,137	287,595	288,540	257,517	328,045	10,125
Depreciation and amortization	131,349	156,182	200,252	222,506	223,828	6,908
Cash generated by operating activities	284,963	347,384	421,524	529,879	539,835	16,661
Cash used in investing activities	(269,318)	(281,054)	(282,421)	(217,246)	(395,440)	(12,205)
Cash generated by (used in) financing activities	(13,589)	32,106	(32,328)	(116,734)	(157,800)	(4,870)
Effect of exchange rate changes and others	(2,118)	849	8,979	8,341	(8,030)	(248)
Net increase (decrease) in cash	(62)	99,285	115,754	204,240	(21,435)	(662)
Operating Data:						
Wafer (12-inch equivalent) shipment ⁽³⁾	6,242	6,963	8,263	8,763	9,606	9,606
Billing Utilization Rate ⁽⁴⁾	91%	91%	97%	93%	92%	92%

(1) Investments accounted for using equity method, noncurrent available-for-sale financial assets, and noncurrent held-to-maturity financial assets.

- (2) Cash dividend paid per common share was approved at our annual shareholders meeting. The numbers are rounded to one decimal point.
- (3) In thousands.
- (4) Billing Utilization Rate is equal to annual wafer shipment divided by annual capacity. Annual capacity includes wafers committed by Vanguard International Semiconductor Corporation (VIS) and Systems on Silicon Manufacturing Company Pte. Ltd. (SSMC). Please see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions .

Exchange Rates

We publish our financial statements in New Taiwan dollars, the lawful currency of the R.O.C. In this annual report, \$, US\$ and U.S. dollars mean United States dollars, the lawful currency of the United States, and NT\$ and NT dollars mean New Taiwan dollars. This annual report contains translations of certain NT dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. The translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars were made by the exchange rate as set forth in the statistical release of the Federal Reserve Board. Unless otherwise noted, all translations for the year 2016 were made at the exchange rate as of December 31, 2016, which was NT\$32.40 to US\$1.00. On April 7, 2017, the exchange rate was NT\$30.56 to US\$1.00.

Table of Contents

The following table sets forth, for the periods indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged.

NT dollars per U.S. dollar
Average⁽¹⁾ High