

Taiwan Semiconductor Manufacturing Company, Ltd.

TSMC 2011
BUSINESS OVERVIEW



- TSMC's shares are listed on the Taiwan Stock Exchange (TSE) under the code 2330.
- Depositary receipts of the common shares are listed on the New York Stock Exchange (NYSE) under the symbol TSM.

TSMC VISION & CORE VALUES

TSMC’s Vision

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

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

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

TSMC Core Values

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

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

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

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

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1. Letter to Shareholders

Dear Shareholders,

2011 was a challenging year as the global semiconductor market growth was close to zero, and the outlook for the year continuously worsened as the year progressed. TSMC achieved revenue growth of 9.2 percent in US dollars and gained market share from the 2010 level. Our growth was mainly fueled by our technology leadership and the wide adoption of our advanced technologies, which became more critical in the face of the high growth of mobile computing products. Despite the challenging operating environment, the Company successfully enlarged its business offerings, rapidly grew our share of 40-nanometer, achieved volume production in 28-nanometer, and developed 20-nanometer capability. More specifically,

- Our total wafer shipments reached 12.55 million 8"-equivalent wafers.
- Our advanced technologies (65-nanometer and beyond) reached 55 percent of total wafer revenue.
- We became the first foundry to offer volume production of 28-nanometer, with the first-to-market 28-nanometer high-k/metal gate (HKMG) technology portfolio.

Financial Performance

Consolidated revenue for 2011 totaled NT\$427.08 billion, an increase of 1.8 percent over NT\$419.54 billion in 2010. Net income was NT\$134.20 billion and diluted earnings per share were NT\$5.18, both of which were 17 percent below the previous year level of NT\$161.61 billion net income and NT\$6.23 diluted earnings per share registered in 2010.

In US dollars, TSMC generated net income of US\$4.57 billion on consolidated revenue of US\$14.54 billion, compared with net income of US\$5.13 billion on consolidated revenue of US\$13.32 billion for 2010.

Gross profit margin was 45.4 percent compared with 49.4 percent in 2010, with an Operating Profit Margin of 33.1 percent compared with 37.9 percent a year earlier. Net Profit Margin reached 31.4 percent, a decrease of 7.1 percentage points from the 2010 level.



Technological Developments

Based on a record number of customer product tape-outs, TSMC entered volume production of superior 28-nanometer Gate-Last HKMG logic technology. Revenue from the 28-nanometer node contributed 2% of fourth quarter 2011 wafer revenue, and is expected to contribute approximately 10% wafer revenue in 2012. Our 20-nanometer technology development is on track for risk production in the second half of 2012. In third quarter 2011, we completed the world's first tape-out of 20-nanometer ARM-Cortex A15 MP core processor which is high performance for future mobile computing products. In second half of 2011, we also started full scale 14-nanometer development, after completing three years of path-finding and demonstrated excellent 3D FinFET transistor capabilities in 28-nanometer and 20-nanometer.

As we forge ahead in IC development, we are also trying to realize the potential of sub-system integration by 3D chip stacking that will enable future mobile applications. In 2011, we demonstrated a fully functional sub-system, having logic chip with built-in passive components, and bumps, all manufactured and assembled at TSMC, using our proprietary Chip on Wafer on Substrate (CoWoS™) technology. Our CoWoS™ scheme is fundamentally better than other 3D chip stacking schemes in terms of cost, yield, reliability, and end-to-end sub-system integration. We have been collaborating with early development partners to enable CoWoS™ products for qualification in 2012 and initial production in 2013. We expect CoWoS™ to start at 28-nanometer and become a significant factor at 20-nanometer and below.

Corporate Developments

In August 2011, we formed two wholly owned subsidiaries of TSMC: TSMC Solar Ltd. and TSMC Solid State Lighting Ltd., in order to encourage entrepreneurialism in these new businesses. Both Solar and Solid State Lighting are making very good progress in technology development and pilot production.

Honors and Awards

During 2011, TSMC was the recipient of numerous honors and awards for our efforts in corporate governance, investor relations, sustainability, innovation, and overall corporate excellence. TSMC received awards from Corporate Governance Asia, Institutional Investors, the IR Magazine, and IR Global Ranking. TSMC was also honored with the Top Corporate Citizen Award, and Most Admired Company Award, from CommonWealth Magazine, and the National Industrial Innovation Award, and the Green Classic Awards for corporate social responsibilities, from Taiwan government. 2011 also marked the 11th consecutive year that TSMC was included in the Dow Jones Sustainability Index.

In an honor that reflects the efforts of all TSMC employees over many years, I was grateful to accept the 2011 IEEE Medal of Honor in August 2011 for pioneering the concepts of dedicated IC foundry, "fabless" IC design and virtual fabrication services in the semiconductor industry.

Outlook

We believe that mobile computing products, such as smartphones and tablets, will continue to be the killer app for semiconductor industry in the forthcoming decade. These new devices, along with the communication infrastructure that enables their wide-spread usage, will require the development of more sophisticated semiconductor technologies. We believe we are well positioned to enjoy continued success and business growth with our customers in these markets because we have the right technology and manufacturing capacity. Our trinity of strengths: technology leadership, manufacturing excellence and customer trust, will continue to enable TSMC to be the most advanced, innovative, and largest provider of foundry services for years to come.



A handwritten signature in black ink, reading "Morris Chang".

Morris Chang
Chairman and Chief Executive Officer

2. Introduction to TSMC and Market Overview

2.1 An Introduction to TSMC

TSMC is the world's largest pure-play semiconductor foundry. Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the business model of focusing solely on manufacturing customers' semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers.

With a diverse global customer base, TSMC-manufactured microchips are used in a broad variety of applications that cover various segments of the computer, communications, consumer, and other electronics markets.

Total capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, totaled 13.22 million 8-inch equivalent wafers in 2011. In Taiwan, TSMC operates three advanced 12-inch wafer fabs, four 8-inch wafer fabs, and one 6-inch wafer fab. TSMC also manages two 8-inch fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited. In addition, TSMC obtains 8-inch wafer capacity from other companies in which the Company has an equity interest.

TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, South Korea, and India. The Company employed more than 33,000 people worldwide as of the end of 2011.

TSMC continued to lead the foundry segment of the semiconductor industry in both advanced and "More-than-Moore" process technologies. Already the first foundry to provide 65nm and 40nm production capacity, TSMC in 2011 also reached full volume production of 28nm featuring 28HP & 28HPM for high performance and 28LP & 28HPL for low power, and began the initial tape out of 20nm technology late in the year. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, Mixed Signal/RF, high voltage, CMOS image sensor, color filter, MEMS, silicon germanium technologies and automotive service packages.



In August 2011, TSMC transferred its Solar and Solid State Lighting businesses to its two new subsidiaries, “TSMC Solar Ltd.” and “TSMC Solid State Lighting Ltd.”, respectively.

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

TSMC’s leadership position is based on a trinity of key differentiating strengths: technology leadership, manufacturing excellence, and customer trust. As a technology leader, TSMC has consistently been first among pure-play foundries in developing the next generation of leading-edge technologies. As a manufacturing leader, TSMC is renowned for its yield management, and offers best-in-class designer/developer support services to expedite time-to-market and time-to-volume. And, as to customer trust, TSMC works closely with its customers on end-to-end collaboration to optimize design and manufacturing efficiencies. TSMC continually builds on this trinity of strengths to provide the best overall value to its customers.

2.2 TSMC Achievements

In 2011, TSMC maintained its leading position in the total foundry segment of the global semiconductor industry, with an estimated market segment share of 48%. TSMC achieved this result amid intense competition from both established players and relatively new entrants to the business.

Leadership in advanced process technologies is a key factor in TSMC’s strong market position. In 2011, 73% of TSMC’s wafer revenue came from manufacturing processes with geometries of 0.13 μ m and below. By August 2011, TSMC shipped its millionth 45/40nm 12-inch wafer. TSMC also piloted the leading-edge 28nm process with its foundry customers. As of fourth quarter 2011, 59% of TSMC’s wafer revenue came from 65nm processes and below.

With TSMC’s focus on customer trust, the Company continuously strengthens Open Innovation Platform® (OIP) in 2011 with additional innovative services. During the 2011 TSMC Technology Symposium and the 2011 Design Automation Conference (DAC) of IEEE/ACM, the Company revealed TSMC Reference Flow 12.0, the 3rd revision of radio frequency (RF) reference design kit, and the 2nd revision of Analog Mixed-Signal Reference Flow, to highlight the success of design enablement through OIP. A two-day OIP Ecosystem Forum was held in October 2011 at San Jose, California, which was well attended by both customers and ecosystem partners to demonstrate the value of collaboration through OIP to foster innovations. Furthermore, the OIP business model was recognized by Taiwan Government in its 1st National Industrial/Enterprise Innovations Award in December 2011, to fortify OIP’s benefits to the semiconductor industry.

TSMC continued to advance the semiconductor roadmap in 2011. Examples of technologies the Company either developed or rolled out include:

- 20nm technology is under development to provide best speed/power value for both performance driven products like CPU (Central Processing Unit), GPU (Graphics Processing Unit), APU (Accelerated Processing Unit), FPGA (Field-Programmable Gate Array) and mobile computing applications including smartphones, tablets and high-end SoC (System-on-a-Chip).
- 28nm High Performance (28HP) technology for performance driven markets like CPU, GPU, APU, FPGA & high-speed networking applications.

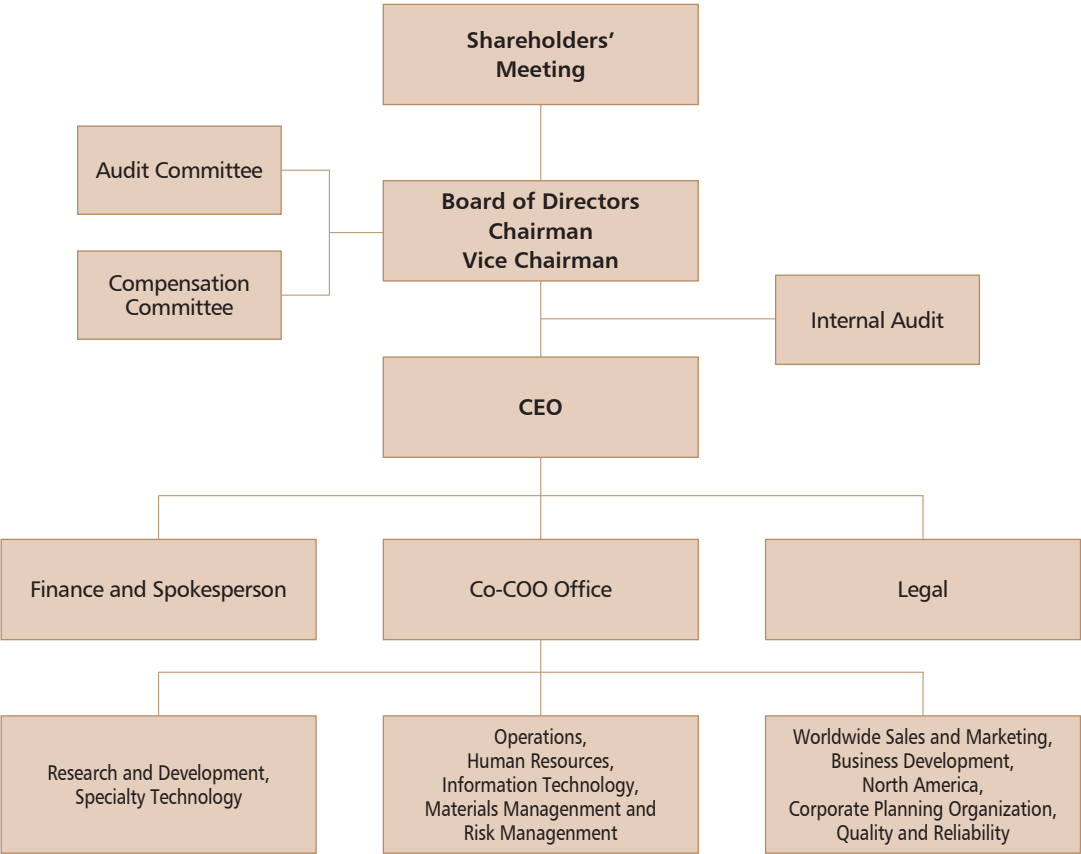
- 28nm High Performance Mobile computing (28HPM) technology for tablets, smartphones, and high-end SoC applications.
- 28nm Low Power (28LP & 28HPL) and RF (28HPL-RF) technology for mainstream smartphones, application processors, tablets, home entertainment and digital consumer applications.
- 40nm general purpose technology for performance-driven markets like CPU, GPU, FPGA, HDD (Hard Disk Drive), game console & Gigabit Ethernet applications.
- 40nm low power and RF technology for cellular baseband, application processor, DTV (Digital Television), STB (Set-Top-Box), game and wireless connectivity applications.
- 40nm and 65nm eFlash for non-volatile memory technologies under joint development for high-end automotive application.
- 55nm low power RF technology for WLAN (Wireless Local Area Network), cellular baseband, DTV, STB, Bluetooth, PMP (Personal Media Player), MID (Mobile Internet Devices) and other handheld applications.
- 55nm & 65nm technology for WLAN, cellular baseband, DTV, STB, Bluetooth, Blue-Ray DVD Player and HDD applications.
- 55nm and 85nm low power technology for flash controller application.
- 80nm high voltage process for fully integrated HD720 display driver which could achieve “RETINA” display quality in smartphones.
- 90nm eFlash technology qualified and in production for ASIC and microcontroller applications.
- 0.18 μ m Extreme Low Leakage (eLL, reduced 98% leakage current from 0.18 μ m generic technology) eFlash technology qualified for extremely power sensitive applications.
- 0.18 μ m and 0.25 μ m qualified OTP (One-Time Programmable) solution for automotive application.
- 0.18 μ m and 0.25 μ m high precision analog process fully release for performance driven mixed-signal applications.
- 0.18 μ m BCD new generation for digital power management is now in Beta site release stage that offers worldwide competitive Rdson performance to optimize IC cost structure.

In addition, TSMC further strengthened its comprehensive development of specialty technologies in 2011, including Backside Illumination CMOS image sensor (BSI CIS), 90/55nm embedded flash, 0.5 μ m ultra high voltage power IC and 0.13 μ m analog technologies. In 2011, TSMC offered a motion sensor 3D MEMS (Micro Electro Mechanical Systems) platform with 30 μ m thick MEMS structure and wafer level bonding for hermetic seal of MEMS device to the first wave fabless customers. These first wave customers have adapted the platform structure with separate ASIC driver chip for accelerometer application. TSMC will offer fully integrated CMOS 3D MEMS platform with design rule in first quarter 2012 as a general offering. These specialty technologies are key differentiators from our competitors and provide customers more value-added.

As the leader in the semiconductor foundry segment, TSMC commanded a 48% share of this segment in 2011, with total consolidated revenue of US\$14.5 billion. In terms of geographic distribution of net sales, 69% came from companies headquartered in North America; 14% from the Asia Pacific region, excluding China and Japan; 9% from Europe, and 4% from China and 4% from Japan. By end product application, 22% of TSMC’s wafer revenue came from the computer sector, 49% from communications, 10% from consumer products, and 19% from other categories, such as industrial products.

2.3 Organization

Organization Chart



Note: Senior Vice President of R&D Dr. Shang-yi Chiang, Senior Vice President of Operations Dr. Mark Liu, and Senior Vice President of Business Development Dr. C.C. Wei were appointed as Executive Vice Presidents and Co-Chief Operating Officers of TSMC on March 2, 2012. Following these appointments, the three Executive VPs and Co-COOs, as well as TSMC's Finance and Legal organizations, will report directly to the Chairman and Chief Executive Officer Dr. Morris Chang. All other organizations will report to the three Executive VPs and Co-COOs. The new organizational structure became effective on March 5, 2012.

Major Corporate Functions

- Research and Development**
- Advanced and mainstream technology research and development, exploratory research and development, design services and technology platform development
- Specialty Technology**
- Specialty technology business strategy development and execution
- Operations**
- Product development, manufacturing technology, mainstream fabs, 300mm fabs, affiliate fabs, and back-end technology and service
- Human Resources**
- Human resources management and organizational development
 - Proprietary information protection (PIP)
- Information Technology**
- Technology system integration, business system integration, IT infrastructure, communication service, IT security, IT productivity and quality management
- Materials Management and Risk Management**
- Purchasing, warehousing, import and export, logistics support, industrial safety, and environmental protection
- Worldwide Sales and Marketing**
- Brand management, market analysis & forecast, customer service, Japan, Asia, China and Europe regional sales operations or service and field technical support
- Business Development**
- Develop semiconductor foundry business in mobile computing, computer, consumer electronics, communication and industrial related products, identify new applications and markets, and solidify customer relationship
- TSMC North America**
- Sales operations, market development, field technical support and service for North America customers
- Corporate Planning Organization**
- Operation resources planning, production and demand planning, and business process integration
- Quality and Reliability**
- Quality and reliability management
- Finance and Spokesperson**
- Corporate finance, accounting, investor relations, public relations, tax, financial planning, investment management, and strategic program
 - Corporate spokesperson
- Legal**
- Corporate legal affairs, litigation, commercial transactions, patents and other intellectual property management, compliance and regulatory work
- Internal Audit**
- Internal audit and process compliance audit

2.4 Market Overview

We estimate that world-wide semiconductor market reached US\$300 billion of revenue in 2011, a 0.4% increase compared to 2010. Total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US\$28 billion in 2011, or 4% YoY growth. In 2011, the largest geographic market (based on the location of customers' corporate headquarters) for foundry services was North America, accounting for 61% of overall foundry revenue. The second largest geographic market was Asia Pacific (excluding Japan), which accounted for 28% of foundry revenue. European-based customers accounted for 8%, and orders from companies based in Japan contributed 3%.

Industry Outlook, Opportunities and Threats

Industry Demand and Supply Outlook

After 2010 with 45% growth, foundry segment growth slowed down significantly to only 4% in 2011 compared to 2010. Sluggish end-demand and cautious inventory management caused by the softening global macro economy, supply-chain disruption post Japan earthquake and flooding in Thailand were among the factors that contributed to the weak semiconductor growth, hence impacting the foundry segment.

We forecast total semiconductor market to grow at 2% YoY in 2012. Longer term, increasing semiconductor content in electronics devices, continuing market share gain of fabless and increasing IDM outsourcing, foundry sales are expected to display stronger growth than the 4% compound annual growth rate (CAGR) for the total semiconductor industry from 2011 through 2016.

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

● Communications

The communications sector, particularly the handset segment, posted a robust result of 10% growth in unit shipment for 2011. Smartphones, which have much higher semiconductor content, have been leading the growth of the sector.

The continuing transition to 3G and 4G/LTE handsets will bring positive momentum to the market. Smartphones with increasing performance, lower power and more intelligent features will continue to propel the buying interest of new handsets in the coming 2012. The growing popularity of low-end smartphones in the emerging countries is also a new catalyst driving the growth of the sector.

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

● Computer

The computer sector posted a relatively weak unit shipment growth of 2% YoY in 2011 after a double-digit growth year in

2010. Cautious spending in developed countries and budget competition from tablet products are among the factors causing the weak demand.

PC growth is expected to remain modest in 2012. While pessimism regarding the economic outlook will overhang the sector, emerging countries with relatively low installed base could be the primary growth driver. New innovative features and form-factors such as thin-and-light "Ultrabook" and new OS (Operating System) introduction are expected to instill buying interest.

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

● Consumer

After encouraging sales in 2010, the consumer sector lost momentum in 2011 with aggregated unit shipment growth of 1% YoY. Economic uncertainties have stifled buyers' appetite for consumer electronics products, resulting in segments like DTV to suffer from high inventory level throughout the year.

Moving forward, new product launches such as new console introduction will stimulate new interest in video game. Government regulation and subsidy programs such as analog-switch-off that are taking place in several countries should drive the adoption of set-top boxes. Feature enhancements complemented by aggressive price declines should also spur demand for DTV, Blu-ray DVD and digital single-lens reflex (DSLR) camera.

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

Emerging Applications

Emerging new applications such as tablets are increasing contributions to foundry segment revenue. Led by Apple's iPad, around 60 million tablets shipped in 2011 compared with 17 million units the previous year. The strong sales momentum will continue in 2012 as more models are introduced by other OEMs. We forecast the tablet market will grow with 34% CAGR from 2011 to 2016, and become a strong growth driver for both the semiconductor and foundry segments.

Supply Chain

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

3. Corporate Governance

3.1 Board of Directors

In 2011, TSMC increased the number of directors from seven to nine and elected two additional independent directors at TSMC's 2011 Annual Shareholders' Meeting. TSMC's Board of Directors now consists of nine distinguished members with a great breadth of experience as world-class business leaders or scholars. Five of the nine members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; former Acer Group Chairman, Mr. Stan Shih; former Texas Instrument Inc. Chairman of the Board, Mr. Thomas J. Engibous; Professor of Princeton University, Gregory C. Chow; and an advisor to the Taiwan Executive Yuan and the Taipei City Government, Ms. Kok-Choo Chen. The number of Independent Directors is more than 50% of the total numbers of Directors. Under the leadership of Chairman Morris Chang, TSMC's Board of Directors takes a serious and forthright approach to its duties and is a dedicated, competent and independent Board.

In the spirit of Chairman Chang's approach to corporate governance, a board of directors' primary duty is to supervise. The Board should supervise the Company's: compliance with relevant laws and regulations; financial transparency; timely disclosure of material information, and maintaining of the highest integrity within the Company. TSMC's Board of Directors strives to perform through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, coordination with the Internal Audit department, and through the ombudsman reporting system.



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

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

Audit Committee and Compensation Committee

The Audit Committee assists the Board in carrying out its financial oversight responsibilities and other duties as set forth in the Company Act, the Securities and Exchange Act, and other applicable laws and regulations. Matters required to be reviewed by the Audit Committee include the Company’s: financial reports; auditing and accounting policies and procedures; internal control systems; material asset or derivatives transactions; offering or issuance of any equity-type securities; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers.

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

As of February 2012, the Audit Committee is comprised of all five independent directors and had engaged a financial expert consultant. The Audit Committee Charter is available on TSMC’s corporate website.

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

As of February 2012, the Compensation Committee is comprised of all five independent directors; the Chairman of the Board, Dr. Morris Chang, shall be invited by the Committee to attend all meeting and is excused from the Committee’s discussion of his own compensation. The Compensation Committee Charter is available on TSMC’s corporate website.

3.2 Major Resolutions of Shareholders’ Meeting and Board Meetings

Major Resolutions of Shareholders’ Meeting and Implementation Status

TSMC’s 2011 Annual Shareholders’ Meeting was held in Hsinchu, Taiwan on June 9, 2011. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1) The 2010 Business Report and Financial Statements;
- (2) The distribution of 2010 profits;
- (3) The revisions to internal rules as follows:
 - Procedures for Lending Funds to Other Parties
 - Procedures for Endorsement and Guarantee
- (4) The transfer of TSMC’s solar business and solid state lighting business into two new TSMC wholly owned companies respectively, and the “Solar Business Transfer Plan” and “Solid State Lighting Business Transfer Plan”.
- (5) Election of two additional independent directors

Implementation Status:

All the resolutions of the Shareholders’ Meeting have been fully implemented in accordance with the resolutions. The two newly elected independent directors are Mr. Gregory C. Chow and Ms. Kok-Choo Chen.

Major Resolutions of Board Meetings

During the 2011 calendar year, and through the period of January 1 to February 29, 2012, five regular board meetings and two special board meetings were convened. Major resolutions approved at these meetings are summarized below:

- (1) Regular Board Meeting of February 14 & 15, 2011:
 - approving 2010 business report and financial statements;
 - approving distribution of 2010 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$2.9 billion;
 - approving a capital injection of US\$5 million into TSMC Solar North America;
 - convening the 2011 Annual Shareholders’ Meeting;
 - determining the number of Directors to be nine, and approving the election of two additional independent directors at TSMC’s 2011 Annual Shareholders’ Meeting; and
 - approving the promotion of Dr. Burn Lin as Vice President.
- (2) Special Board Meeting of April 27, 2011:
 - listing two qualified candidates for independent directors to stand for election at TSMC’s 2011 Annual Shareholders’ Meeting; and
 - approving the transfer of TSMC’s solar and solid state lighting businesses into two wholly owned subsidiaries to be established.
- (3) Regular Board Meeting of May 9 & 10, 2011:
 - approving capital appropriations of US\$1,599.2 million.
- (4) Regular Board Meeting of August 8 & 9, 2011:
 - approving adjustments to the amounts of the respective business values to be transferred to TSMC Solar Ltd. and TSMC Solid State Lighting Ltd.;
 - approving issuance of an unsecured straight corporate bond in the domestic market for an amount not exceeding NT\$35 billion;
 - approving the promotion of Dr. Y. J. Mii as Vice President of R&D;
 - approving the promotion of Dr. Cliff Hou as Vice President of Design and Technology Platform; and
 - approving the appointment of Mr. Stan Shih, Sir Peter Leahy Bonfield, Mr. Thomas J. Engibous, Mr. Gregory C. Chow and Ms. Kok-Choo Chen as members of the compensation committee.
- (5) Regular Board Meeting of November 7 & 8, 2011:
 - approving capital appropriations of US\$1,061.4 million; and
 - approving R&D capital appropriations and 2012 sustaining capital appropriations totaling US\$233.9 million.
- (6) Regular Board Meeting of February 13 & 14, 2012:
 - approving 2011 business report and financial statements;
 - approving distribution of 2011 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$1,395.5 million;
 - approving R&D capital appropriations of US\$239.6 million; and
 - convening the 2012 Annual Shareholders’ Meeting, at which shareholders will hold an election for TSMC’s nine-member Board of Directors, including five independent directors.

4. Operational Highlights

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

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

Over the past 24 years, more than 600 customers worldwide have relied on TSMC to manufacture chips that are used across the entire spectrum of electronic applications, including computers and peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, consumer electronics such as DVDs, digital TVs, game consoles, digital still cameras (DSCs), and many other applications.

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

4.1 Technology Leadership

TSMC further expanded many aspects of Research and Development in 2011 to strengthen our Technology Leadership. An R&D Process Center (RDPC) was established to provide timely and reliable access to fabrication facilities by Technology Platform teams.

In 2011 the total R&D budget was 7.9% of total revenue. This level of R&D investment is equal to or more than that of many leading edge technology companies. Along with the budget increase, the R&D organization increased staffing by over 13.3%.



TSMC recognizes that the technology challenge required to extend Moore’s Law, the business law behind CMOS scaling, is getting increasingly difficult. R&D Vice Presidents bring their rich industry experiences to lead the strengthening of the R&D team and to navigate through the technological and competitive challenges ahead. In 2011, TSMC offered the foundry segment’s first 28nm technology in volume production and production wafers have been shipped to customers. After intense work on ramping this technology, 28nm contributed close to 2% of fourth quarter 2011 revenue and will significantly increase in 2012.

TSMC further accelerated the development of advanced transistors, especially 3-D transistors using FinFET structure for 14nm process node, embedded memories, and copper (Cu)/low-K interconnect technologies. During 2011, the R&D organization once again proved its capabilities by offering a first-to-market 28nm high-K/metal gate (HKMG) foundry technology portfolio, developing 20nm technology as well as establishing 14nm transistor leadership capabilities.

TSMC has also expanded its external R&D partnerships and alliances with world-class research institutions. For example, TSMC is a core partner of IMEC in Belgium, the respected European R&D consortium. TSMC also has strategic agreements with IP providers to enable the development of physical IPs through the advanced technology nodes. In addition, TSMC strengthened its collaborations with key development partners on design-process optimization. TSMC provides funding for nanotechnology researches at leading research universities worldwide to promote innovations and the advancement of technology.

These research efforts enable the Company to continuously offer its customers the foundry-leading, first-to-market technologies and design solutions that contribute to their product success in today’s complex and challenging market environment.

TSMC will continue working closely with international consortia and lithography equipment suppliers to ensure the timely development of 193nm high-NA scanner technology, EUV lithography, and massively parallel E-Beam direct-write technologies. These technologies are now fundamental to TSMC’s process development efforts at the 14nm and 10nm nodes and beyond.

4.2 Manufacturing Excellence

GIGAFAB™ Fabrications

TSMC’s 12-inch fabs are a key part of its manufacturing strategy. TSMC currently operates three 12-inch GIGAFAB™ fabrication facilities – Fab 12, Fab 14, and Fab 15 – whose combined capacity reached 3,261,000 12-inch wafers in 2011. Production within these three facilities supports 0.13μm, 90nm, 65nm, 40nm, and 28nm process technologies, and their sub-nodes. Part of the capacity is reserved for research and development work and currently supports 20nm, 14nm and beyond technology development. TSMC has developed a centralized fab manufacturing management for the customers’ benefit of same quality and reliability performance, greater flexibility of demand fluctuations, faster yield learning and time-to-volume, and minimized costly product re-qualification.

Engineering Performance Optimization

Highly sophisticated information technology (IT) solutions, such as advanced equipment control, fault detection and diagnosis are implemented to optimize TSMC equipment performance and improve production efficiency, effectiveness, and engineering capability via information integration, workflow optimization and automation.

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

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

Precision and Lean Operations

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

Raw Materials and Supply Chain Risk Management

In 2011, TSMC continued Supply Chain Risk Management meetings periodically to integrate Company resources from materials management, fab operations, risk management and quality management. TSMC worked with its suppliers to enhance the performance of quality, delivery, risk management, and to support Green procurement, environmental protection and safety.

4.3 Customer Trust

Customers

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

Customer Service

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

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

Customer Satisfaction

To assess customer satisfaction and to ensure that customers’ needs and wants are adequately addressed, TSMC conducts an annual customer satisfaction survey (ACSS) with all active customers, either by web or interview survey, through an independent consultancy.

Complementary with ACSS, quarterly-based business reviews (QBRs) are also performed by the customer service team to survey customers’ satisfaction during their visits on technical and business related services offered. Through both surveys and intensive interaction with customers by account team, TSMC is able to maintain close touch with customers for better service and collaboration.

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

5. Corporate Social Responsibility

TSMC believes there are many dimensions to corporate social responsibility. We both practice and push ourselves to improve our performance in the seven dimensions of “morals, business ethics, economy, rule of law, work/life balance, caring for the earth and the next generation, and philanthropy” in order to carry out the responsibilities that a good corporate citizen should bear. By doing our part in these seven dimensions, we can act as a stabilizing force in society, and inspire others to follow, and make society better.

We firmly believe that a corporation’s social responsibility is to act as an uplifting force in society to realize our vision of a society that works together towards sustainable development, equality and justice, and a harmonious environment to live and work. Our ten principles of corporate social responsibility are our criteria for continuing to bring positive change to society.

1. We insist on honesty and integrity. We are honest to our shareholders, employees, and to the public alike.
2. We respect the rule of law and always obey the law.
3. We oppose corruption and reject cronyism. We do not bribe, and do not curry favor with the government or any government official.
4. We practice good corporate governance, and balance the interests of shareholders, employees, and all stakeholders in the company.
5. We do not engage in politics.
6. We provide good job opportunities with a safe, comfortable, and intellectually challenging environment to give our employees both physical comfort and mental stimulation.
7. We contribute our part to controlling global climate change and place great importance on protecting the environment.
8. We emphasize and reward innovation, and manage the risks that innovation may bring.
9. We actively invest in green businesses such as solid state lighting and solar power to contribute to environmental protection and conservation.
10. We provide long-term care to communities and continue to support educational and cultural activities.



In the area of morals, TSMC insists on integrity, opposes corruption, and does not seek favor with government officials. In terms of business ethics, besides the principles above, TSMC maintains good corporate governance, transparent operations, meets commitments to all stakeholders, and encourages innovation to drive progress and prosperity in industry.

Along the economic dimension, TSMC’s good corporate governance, outstanding operations, and promotion of innovation allows us to offer good job opportunities and an excellent return to shareholders, creating added value for society. In terms of rule of law, we do more than obey the law and oppose corruption; we hold ourselves to the highest standards of morality and business ethics.

In work/life balance, TSMC offers its employees good compensation and a high-quality work environment, and at the same time pays close attention to our employees’ work/life balance. We advocate eliminating unnecessary meetings, improving work flows, raising efficiency, and ask managers to lead by example to reduce working hours and to give employees a balanced and healthy work environment.

We care for the earth and the next generation by providing a healthy living environment. Industry has an especially strong responsibility to protect the environment and care for the earth’s resources, and TSMC is no exception. TSMC’s new factories and office buildings all meet green building standards and use environmentally friendly equipment, and office areas also make use of many energy-saving measures.

While caring for the earth and the next generation, TSMC also does its part in corporate philanthropy. Our employees formed the TSMC Volunteer Society out of their own initiative to engage with society, including acting as docents at the National Museum of Natural Science, reading to schoolchildren, and acting as energy-saving volunteers to share their power conservation know-how with schools. Besides helping society, these volunteer activities also bring happiness and balance to our employees. In addition, the company also established the TSMC Education and Culture Foundation to actively engage in social welfare, encourage scholarship, and support community and cultural activities.

TSMC will continue to redouble its efforts in the dimensions above to act as a positive force in society. While creating value for all our stakeholders, we hold firm to our commitments in environmental sustainability, and aspire to act as a benchmark for others. Through the hard work of all our employees at TSMC, we have won acclaim for our corporate governance, operations, investor relations, employee benefits, environmental protection, and other fields. Looking ahead, TSMC will persist in strengthening our performance and commitment in our principles to benefit all our stakeholders and build a better future for our society.

Corporate Social Responsibility: Uplift Society

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

5.1 Environmental, Safety and Health (ESH) Management

TSMC believes its environmental, safety and health practices should not only comply with legal requirements, but also measure up to recognized international practices. In 2010, our ESH policy was renewed and endorsed by Chairman and Chief Executive Officer Dr. Morris Chang. The policy aims to reach the goals of “zero incident” and “sustainable development”, and to make TSMC a world-class company in environmental, safety and health management. Our strategies for reaching these goals are to comply with regulations, promote safety and health, strengthen recycling and pollution prevention, manage ESH risks, instill an ESH culture, establish a green supply chain, and fulfill our related corporate social responsibilities.

TSMC was honored to be included in the Dow Jones Sustainability Index for the eleventh consecutive year in 2011.

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

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

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

In 2011, TSMC adopted ISO 50001 Energy Management System for the continuous improvement of energy conservation. TSMC, represented by Fab 12 Phase 4 data center, has become Taiwan’s first company to earn the ISO 50001 certification for a high density computing data center.

TSMC plans to extend the ISO 50001 Energy Management System to its manufacturing facilities in addition to data centers. TSMC communicates with suppliers and contractors regarding environmental, safety and health issues and encourages them to improve their ESH performance. In line with this policy, TSMC uses priority work management and self-management to govern work performed by contractors. TSMC requires contractors performing high-risk operations to complete certification for technicians, and to establish their own OHSAS 18001 safety and health management system before bidding on contracts. This self-management is aimed at increasing the sense of responsibility of our contractors, with the goal of promoting safety awareness and technical improvement for all contractors in the industry.

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

Reducing the carbon and water footprints of our supply chain is essential to our green supply chain ideals. Since 2009, TSMC has required our suppliers to set up carbon inventory procedures. In 2010 TSMC led 15 selected suppliers to join the carbon footprint development project, which was sponsored by the Taiwan Industrial Development Bureau and assisted by the Industrial Technology Research Institute. In this project, we completed a carbon footprint of both TSMC and suppliers’ products. In February 2011, we passed the 12-inch wafer and packaged integrated circuit products third-party certification based on the British PAS2050 product carbon footprint standard, and became the first enterprise in Taiwan to lead upstream and downstream partners to complete a product carbon footprint.

TSMC also began monitoring potential water shortages in the supply chain and investigating the supply chain’s water inventory. TSMC is also preparing to work with suppliers on water footprinting and conservation plans. The ESH management programs of TSMC suppliers are tied to a sustainability index that includes three components: the Green Index, the Social Index and the Risk Index. The “Green Index” includes environmental management systems, regulatory compliance, hazardous substance management, conflict mineral investigation, greenhouse gas inventory, carbon footprinting, water footprinting and other green activities. The “Social Index” includes labor and ethical conducts and participation in social activities. The “Risk Index” includes safety and health management, fire prevention, natural disaster mitigation, IT interruption recovery, transportation reliability, supply chain management, pandemic response planning and a business continuity plan. This sustainability index is applied to TSMC’s critical suppliers. In 2011, we held our 11th annual Supply Chain Management Forum to show appreciation for the support and contributions of our suppliers, and to recognize several outstanding equipment suppliers for environmental excellence.

TSMC launched an e-ESH management system called Total ESH Management (TSM). This web-based platform integrates over 20 ESH IT sub-systems covering the four sectors of “Plan”, “Do”, “Check”, and “Act”, and information, such as risk assessment, safety management of change, contractor management, training/testing, accident/incident corrective action requests (CAR), ESH indicators and others. The TSM system serves as the backbone of ESH KPI management and facilitates the comparison between fabs and their ability to take business decisions and improve operational efficiency. TSMC aims to reduce both costs and risks while improving ESH management efficiency and effectiveness through the cross-fab implementation of this platform.

5.2 TSMC Education and Culture Foundation

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

In 2011, to promote art and education, the TSMC Foundation continued to infuse resources to build up a “Children’s Art Education Center” at Taipei Fine Arts Museum, “Lifting the Ability of High School Physics Experiments,” the sponsorship of the Berliner Philharmoniker’s concert, and the launching a new broadcast program “Chung-tzu in Hsin’s View.” Aside from financial sponsorships, TSMC Foundation supports TSMC Volunteer Society, organizing the employees to devote themselves to the caring of the underprivileged of the communities.

5.3 TSMC Volunteer Program

Fulfilling our corporate social responsibility, in addition to our core business, is an important part of TSMC’s contribution to society. In particular, TSMC employees possess high professional ability and training, and many serve as volunteers in their personal time to apply their knowledge and passion to helping others. The TSMC Foundation is dedicated to promoting education and culture, providing aid for the underprivileged, advocating environmental protection, and caring for communities, and at the same time encourages employees to engage with society. In 2003, the TSMC Foundation launched an employee volunteer program to coordinate volunteer activities and invite employees and their family members to make a long-term commitment to education and culture and combine their individual contributions to make a difference.

6. Financial Statements

Taiwan Semiconductor Manufacturing Company Limited

Balance Sheets (Unconsolidated)

December 31, 2011~2007

(In Thousands of New Taiwan Dollars)

	2011	2010	2009	2008	2007
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 85,262,521	\$ 109,511,130	\$ 117,043,543	\$ 138,208,360	\$ 72,422,102
Financial assets at fair value through profit or loss	14,925	-	181,743	42,460	42,083
Available-for-sale financial assets	2,617,134	3,918,274	-	-	22,267,223
Held-to-maturity financial assets	701,136	4,796,589	9,944,843	5,881,999	11,526,946
Receivables from related parties	24,777,534	25,733,974	22,541,773	11,728,204	26,701,648
Notes and accounts receivable	19,894,386	22,250,905	19,884,520	11,441,176	17,911,328
Allowance for doubtful receivables	(485,120)	(488,000)	(431,000)	(436,746)	(688,972)
Allowance for sales returns and others	(4,887,879)	(7,341,444)	(8,583,632)	(5,868,582)	(3,856,685)
Other receivables from related parties	188,028	1,302,281	246,003	489,742	525,308
Other financial assets	122,010	418,206	1,104,072	711,755	331,698
Inventories	22,853,397	25,646,348	18,830,216	12,807,936	20,987,142
Deferred income tax assets	5,779,544	5,133,775	4,063,410	3,650,700	5,268,000
Prepaid expenses and other current assets	1,725,736	1,352,244	1,006,046	1,192,475	861,465
Total current assets	158,563,352	192,234,282	185,831,537	179,849,479	174,299,286
LONG-TERM INVESTMENTS					
Investments accounted for using equity method	128,200,718	114,977,174	104,660,098	109,871,178	113,048,081
Available-for-sale financial assets	-	1,033,049	1,046,672	2,032,658	1,397,186
Held-to-maturity financial assets	702,291	1,405,698	12,219,055	11,761,325	8,697,726
Financial assets carried at cost	497,835	497,835	501,988	519,502	748,160
Total long-term investments	129,400,844	117,913,756	118,427,813	124,184,663	123,891,153
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Buildings	149,495,478	128,646,942	124,522,047	114,014,588	101,907,892
Machinery and equipment	984,978,666	852,733,592	713,426,126	635,008,261	589,131,625
Office equipment	13,824,434	11,730,537	10,781,099	9,748,869	9,167,107
	1,148,298,578	993,111,071	848,729,272	758,771,718	700,206,624
Accumulated depreciation	(804,740,797)	(706,605,445)	(627,764,323)	(557,247,254)	(486,725,019)
Advance payments and construction in progress	110,815,752	80,348,673	33,786,577	17,758,038	21,082,953
Net property, plant and equipment	454,373,533	366,854,299	254,751,526	219,282,502	234,564,558



Taiwan Semiconductor Manufacturing Company Limited

Statements of Income (Unconsolidated)

For the Years Ended December 31, 2011 ~ 2007

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

	2011	2010	2009	2008	2007
INTANGIBLE ASSETS					
Goodwill	\$ 1,567,756	\$ 1,567,756	\$ 1,567,756	\$ 1,567,756	\$ 1,567,756
Deferred charges, net	4,719,244	5,456,427	5,891,685	6,401,461	7,172,413
Total intangible assets	<u>6,287,000</u>	<u>7,024,183</u>	<u>7,459,441</u>	<u>7,969,217</u>	<u>8,740,169</u>
OTHER ASSETS					
Deferred income tax assets	7,221,824	7,154,266	7,763,643	6,497,972	7,241,933
Refundable deposits	4,491,735	8,638,749	2,698,116	2,719,737	2,741,538
Others	1,069,586	1,420,131	494,546	55,677	293,986
Total other assets	<u>12,783,145</u>	<u>17,213,146</u>	<u>10,956,305</u>	<u>9,273,386</u>	<u>10,277,457</u>
TOTAL	<u>\$ 761,407,874</u>	<u>\$ 701,239,666</u>	<u>\$ 577,426,622</u>	<u>\$ 540,559,247</u>	<u>\$ 551,772,623</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	\$ 25,926,528	\$ 30,908,637	\$ -	\$ -	\$ -
Financial liabilities at fair value through profit or loss	-	7,834	-	83,618	247,646
Accounts payable	9,522,688	10,559,283	9,678,849	4,314,265	9,485,818
Payables to related parties	2,992,582	2,574,450	2,039,342	1,202,350	2,999,630
Income tax payable	10,647,797	7,108,869	8,761,120	9,222,811	10,977,963
Salary and bonus payable	4,840,794	5,287,751	8,677,299	1,601,897	1,632,177
Accrued profit sharing to employees and bonus to directors	9,055,704	10,959,469	6,771,338	15,148,057	-
Payables to contractors and equipment suppliers	33,811,970	41,992,198	28,756,884	7,574,891	5,389,740
Accrued expenses and other current liabilities	8,216,367	8,623,769	7,886,263	5,951,578	13,067,836
Current portion of bonds payable	4,500,000	-	-	8,000,000	-
Total current liabilities	<u>109,514,430</u>	<u>118,022,260</u>	<u>72,571,095</u>	<u>53,099,467</u>	<u>43,800,810</u>
LONG-TERM LIABILITIES					
Bonds payable	18,000,000	4,500,000	4,500,000	4,500,000	12,500,000
Other long-term payables	-	-	416,390	931,252	1,501,462
Total long-term liabilities	<u>18,000,000</u>	<u>4,500,000</u>	<u>4,916,390</u>	<u>5,431,252</u>	<u>14,001,462</u>
OTHER LIABILITIES					
Accrued pension cost	3,860,898	3,824,601	3,807,176	3,710,009	3,657,679
Guarantee deposits	439,032	747,887	1,001,376	1,479,152	2,240,677
Deferred credits	-	-	47,873	462,256	980,593
Total other liabilities	<u>4,299,930</u>	<u>4,572,488</u>	<u>4,856,425</u>	<u>5,651,417</u>	<u>6,878,949</u>
Total Liabilities	<u>131,814,360</u>	<u>127,094,748</u>	<u>82,343,910</u>	<u>64,182,136</u>	<u>64,681,221</u>
SHAREHOLDERS' EQUITY					
Capital stock - \$10 par value					
Common stock	259,162,226	259,100,787	259,027,066	256,254,373	264,271,037
Capital surplus	55,846,357	55,698,434	55,486,010	49,875,255	53,732,682
Retained earnings					
Appropriated as legal capital reserve	102,399,995	86,239,494	77,317,710	67,324,393	56,406,684
Appropriated as special capital reserve	6,433,874	1,313,047	-	391,857	629,550
Unappropriated earnings	213,357,286	178,227,030	104,564,972	102,337,417	161,828,337
	<u>322,191,155</u>	<u>265,779,571</u>	<u>181,882,682</u>	<u>170,053,667</u>	<u>218,864,571</u>
Others					
Cumulative translation adjustments	(6,433,369)	(6,543,163)	(1,766,667)	481,158	(1,072,853)
Unrealized gain (loss) on financial instruments	(1,172,855)	109,289	453,621	(287,342)	680,997
Treasury stock	-	-	-	-	(49,385,032)
	<u>(7,606,224)</u>	<u>(6,433,874)</u>	<u>(1,313,046)</u>	<u>193,816</u>	<u>(49,776,888)</u>
Total shareholders' equity	<u>629,593,514</u>	<u>574,144,918</u>	<u>495,082,712</u>	<u>476,377,111</u>	<u>487,091,402</u>
TOTAL	<u>\$ 761,407,874</u>	<u>\$ 701,239,666</u>	<u>\$ 577,426,622</u>	<u>\$ 540,559,247</u>	<u>\$ 551,772,623</u>

	2011	2010	2009	2008	2007 (1)
GROSS SALES	\$ 421,472,087	\$ 418,666,448	\$ 299,471,214	\$ 330,228,027	\$ 319,167,299
SALES RETURNS AND ALLOWANCES	<u>3,226,594</u>	<u>11,703,136</u>	<u>13,728,346</u>	<u>8,460,944</u>	<u>5,519,655</u>
NET SALES	418,245,493	406,963,312	285,742,868	321,767,083	313,647,644
COST OF SALES	<u>233,083,068</u>	<u>209,921,268</u>	<u>159,106,619</u>	<u>183,589,540</u>	<u>176,223,224</u>
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	185,162,425	197,042,044	126,636,249	138,177,543	137,424,420
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES	<u>398,440</u>	<u>(52,742)</u>	<u>(160,279)</u>	<u>72</u>	<u>(265,106)</u>
GROSS PROFIT	<u>185,560,865</u>	<u>196,989,302</u>	<u>126,475,970</u>	<u>138,177,615</u>	<u>137,159,314</u>
OPERATING EXPENSES					
Research and development	31,594,034	27,623,299	19,688,032	19,737,038	15,913,834
General and administrative	12,715,339	11,681,756	10,238,131	9,895,617	7,660,776
Marketing	<u>2,345,729</u>	<u>2,837,739</u>	<u>2,027,454</u>	<u>2,254,728</u>	<u>1,332,657</u>
Total operating expenses	<u>46,655,102</u>	<u>42,142,794</u>	<u>31,953,617</u>	<u>31,887,383</u>	<u>24,907,267</u>
INCOME FROM OPERATIONS	<u>138,905,763</u>	<u>154,846,508</u>	<u>94,522,353</u>	<u>106,290,232</u>	<u>112,252,047</u>
NON-OPERATING INCOME AND GAINS					
Equity in earnings of equity method investees, net	3,778,083	7,111,443	-	72,568	5,468,230
Settlement income	947,340	6,939,764	1,464,915	951,180	985,114
Valuation gain on financial instruments, net	801,195	312,862	587,151	-	-
Interest income	697,196	764,027	1,117,374	2,728,892	2,634,636
Technical service income	408,153	446,746	375,118	619,237	712,162
Gain on disposal of property, plant and equipment and other assets	103,017	77,452	196,856	298,772	305,201
Rental income	67,576	145,006	138,744	164,321	368,748
Gain on settlement and disposal of financial assets, net	125,353	-	53,364	452,159	271,094
Foreign exchange gain, net	-	-	-	1,113,406	71,128
Others	<u>359,133</u>	<u>110,668</u>	<u>187,987</u>	<u>325,090</u>	<u>289,479</u>
Total non-operating income and gains	<u>7,287,046</u>	<u>15,907,968</u>	<u>4,121,509</u>	<u>6,725,625</u>	<u>11,105,792</u>
NON-OPERATING EXPENSES AND LOSSES					
Foreign exchange loss, net	673,085	58,737	630,455	-	-
Interest expense	445,887	214,641	142,026	355,056	584,736
Loss on disposal of property, plant and equipment	202,901	838,750	58,242	3	4,814
Casualty loss	-	190,992	-	-	-
Equity in losses of equity method investees, net	-	-	2,695,720	-	-
Valuation loss on financial instruments, net	-	-	-	1,230,966	924,316
Impairment of financial assets	-	-	-	247,488	-
Impairment loss on idle assets	-	-	-	210,477	-
Provision for litigation loss	-	-	-	99,126	1,008,635
Others	<u>163,092</u>	<u>161,152</u>	<u>136,397</u>	<u>113,923</u>	<u>83,932</u>
Total non-operating expenses and losses	<u>1,484,965</u>	<u>1,464,272</u>	<u>3,662,840</u>	<u>2,257,039</u>	<u>2,606,433</u>
INCOME BEFORE INCOME TAX	144,707,844	169,290,204	94,981,022	110,758,818	120,751,406
INCOME TAX EXPENSE	<u>10,506,565</u>	<u>7,685,195</u>	<u>5,763,186</u>	<u>10,825,650</u>	<u>11,574,313</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	134,201,279	161,605,009	89,217,836	99,933,168	109,177,093
NET INCOME	<u>\$ 134,201,279</u>	<u>\$ 161,605,009</u>	<u>\$ 89,217,836</u>	<u>\$ 99,933,168</u>	<u>\$ 109,177,093</u>
EARNINGS PER SHARE (2)					
Basic earnings per share	\$ 5.18	\$ 6.24	\$ 3.45	\$ 3.84	\$ 4.04
Diluted earnings per share	\$ 5.18	\$ 6.23	\$ 3.44	\$ 3.81	\$ 4.04

Note 1: Certain accounts have been reclassified to conform to year 2008 reclassification.

Note 2: Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008 and profit sharing to employees in stock for earning year 2007.

Taiwan Semiconductor Manufacturing Company Limited

Statements of Cash Flows (Unconsolidated)

For the Years Ended December 31, 2011 ~ 2007

(In Thousands of New Taiwan Dollars)

	2011	2010	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168	\$ 109,177,093
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	102,925,423	83,366,121	74,327,868	74,569,562	72,820,579
Unrealized (realized) gross profit from affiliates	(398,440)	52,742	160,279	(72)	265,106
Amortization of premium/discount of financial assets	9,860	18,611	6,322	(97,381)	(117,159)
Impairment of financial assets	-	-	-	247,488	-
Gain on disposal of available-for-sale financial assets, net	(35,151)	-	(37,370)	(443,404)	(271,094)
Gain on held-to-maturity financial assets redeemed by the issuer	-	-	(16,091)	-	-
Loss (gain) on disposal of financial assets carried at cost, net	-	1,263	97	(8,755)	-
Equity in losses (earnings) of equity method investees, net	(3,778,083)	(7,111,443)	2,695,720	(72,568)	(5,468,230)
Cash dividends received from equity method investees	2,941,548	422,490	1,402,592	1,804,351	677,147
Loss (gain) on disposal of property, plant and equipment and other assets, net	99,884	761,298	(138,613)	(298,769)	(300,387)
Settlement income from receiving equity securities	-	(4,434,364)	-	-	-
Impairment loss on idle assets	-	-	-	210,477	-
Deferred income taxes	(493,026)	(373,253)	(1,678,381)	2,361,261	1,083,194
Changes in operating assets and liabilities:					
Financial assets and liabilities at fair value through profit or loss	(22,759)	189,577	(222,901)	(164,405)	239,413
Receivables from related parties	956,440	(3,192,201)	(10,813,569)	14,973,444	(9,832,139)
Notes and accounts receivable	2,356,519	(2,366,385)	(8,443,344)	6,470,152	(1,633,164)
Allowance for doubtful receivables	(2,880)	57,000	(5,746)	(252,226)	(1,959)
Allowance for sales returns and others	(2,453,565)	(1,242,188)	2,715,050	2,011,897	1,105,620
Other receivables from related parties	(38,049)	85,830	235,470	43,835	(76,042)
Other financial assets	138,196	904,157	(392,317)	(380,057)	321,762
Inventories, net	2,775,646	(6,816,132)	(6,022,280)	8,179,206	(1,834,928)
Prepaid expenses and other current assets	(382,852)	(445,797)	290,470	(330,664)	359,734
Increase (decrease) in:					
Accounts payable	(1,805,422)	624,608	4,925,758	(5,171,553)	3,342,139
Payables to related parties	418,132	535,108	836,992	(1,797,280)	(327,286)
Income tax payable	3,538,928	(1,652,251)	(461,691)	(1,766,153)	3,127,545
Salary and bonus payable	(426,797)	(3,389,548)	7,075,402	(30,280)	96,793
Accrued profit sharing to employees and bonus to directors	(1,903,765)	4,188,131	(881,731)	15,148,057	-
Accrued expenses and other current liabilities	16,750	265,241	1,259,544	(3,112,220)	1,162,945
Accrued pension cost	96,880	17,425	97,167	52,330	127,563
Deferred credits	-	(47,873)	(230,487)	(129,494)	72,747
Net cash provided by operating activities	<u>238,734,696</u>	<u>222,023,176</u>	<u>155,902,046</u>	<u>211,949,947</u>	<u>174,116,992</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash contributed related to spin-off	(1,270,340)	-	-	-	-
Acquisitions of :					
Property, plant and equipment	(202,757,541)	(182,335,032)	(86,970,843)	(56,766,192)	(81,303,047)
Available-for-sale financial assets	-	-	-	(23,697,000)	(9,547,253)
Held-to-maturity financial assets	-	-	(10,803,805)	(12,371,965)	-
Investments accounted for using equity method	(7,390,883)	(8,262,519)	(320,443)	(494,765)	(7,358,685)
Financial assets carried at cost	-	(480)	(1,411)	(20,681)	(36,333)
Cash from merger of subsidiaries	-	-	-	270,650	-
Proceeds from disposal or redemption of:					
Available-for-sale financial assets	1,035,151	-	1,037,370	45,584,934	18,844,520
Held-to-maturity financial assets	4,789,000	15,943,000	6,293,000	15,004,000	17,325,120
Financial assets carried at cost	-	3,370	18,828	10,606	-
Investments accounted for using equity method	-	-	-	-	-
Property, plant and equipment and other assets	4,650,078	387,735	71,850	2,042,899	54,509
Proceeds from return of capital by investee	320,013	-	27,753	2,465,293	433,551
Increase in deferred charges	(1,658,296)	(1,538,301)	(1,347,228)	(3,199,813)	(2,685,610)
Decrease (increase) in refundable deposits	4,147,014	(5,940,633)	21,621	21,801	(1,435,304)
Decrease (increase) in other assets	27,600	(1,004,581)	-	-	-
Others	-	-	-	-	(232,575)
Net cash used in investing activities	<u>(198,108,204)</u>	<u>(182,747,441)</u>	<u>(91,973,308)</u>	<u>(31,150,233)</u>	<u>(65,941,107)</u>

	2011	2010	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in short-term loans	\$ (4,982,109)	\$ 30,908,637	\$ -	\$ -	\$ -
Proceeds from issuance of bonds	18,000,000	-	-	-	-
Repayment of bonds payable	-	-	(8,000,000)	-	(7,000,000)
Decrease in guarantee deposits	(308,855)	(253,489)	(477,776)	(761,525)	(1,569,284)
Cash dividends	(77,730,236)	(77,708,120)	(76,876,312)	(76,881,311)	(77,489,064)
Cash bonus paid to employees	-	-	-	(3,939,883)	(4,572,798)
Bonus to directors	-	-	-	(176,890)	(285,800)
Acquisition of treasury stock	(71,598)	-	-	(33,480,997)	(45,413,373)
Proceeds from exercise of employee stock options	<u>217,697</u>	<u>244,824</u>	<u>260,533</u>	<u>227,150</u>	<u>436,827</u>
Net cash used in financing Activities	<u>(64,875,101)</u>	<u>(46,808,148)</u>	<u>(85,093,555)</u>	<u>(115,013,456)</u>	<u>(135,893,492)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,248,609)	(7,532,413)	(21,164,817)	65,786,258	(27,717,607)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>109,511,130</u>	<u>117,043,543</u>	<u>138,208,360</u>	<u>72,422,102</u>	<u>100,139,709</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 85,262,521</u>	<u>\$ 109,511,130</u>	<u>\$ 117,043,543</u>	<u>\$ 138,208,360</u>	<u>\$ 72,422,102</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest paid	\$ 369,085	\$ 200,892	\$ 351,803	\$ 355,056	\$ 661,200
Income tax paid	<u>\$ 7,454,386</u>	<u>\$ 9,640,396</u>	<u>\$ 7,791,196</u>	<u>\$ 10,282,464</u>	<u>\$ 7,330,401</u>
INVESTING AND FINANCING ACTIVITIES AFFECTION BOTH CASH AND NON-CASH ITEMS					
Acquisition of property, plant and equipment	\$ 195,932,728	\$ 195,950,918	\$ 108,592,471	\$ 58,951,343	\$ 76,023,264
Decrease (increase) in payables to contractors and equipment suppliers	6,827,106	(13,491,140)	(21,620,819)	(2,185,151)	5,279,783
Nonmonetary exchange trade-out price	<u>(2,293)</u>	<u>(124,746)</u>	<u>(809)</u>	<u>-</u>	<u>-</u>
Cash paid	<u>\$ 202,757,541</u>	<u>\$ 182,335,032</u>	<u>\$ 86,970,843</u>	<u>\$ 56,766,192</u>	<u>\$ 81,303,047</u>
Disposal of property, plant and equipment and other assets	\$ 3,370,165	\$ 1,872,880	\$ 64,390	\$ 2,051,168	\$ 54,509
Decrease (increase) in other receivables from related parties	1,124,206	(1,142,108)	8,269	(8,269)	-
Decrease (increase) in other financial assets	158,000	(218,291)	-	-	-
Nonmonetary exchange trade-out price	<u>(2,293)</u>	<u>(124,746)</u>	<u>(809)</u>	<u>-</u>	<u>-</u>
Cash received	<u>\$ 4,650,078</u>	<u>\$ 387,735</u>	<u>\$ 71,850</u>	<u>\$ 2,042,899</u>	<u>\$ 54,509</u>
Acquisition of treasury stock	\$ 71,598	\$ -	\$ -	\$ 30,427,413	\$ 48,466,957
Decrease (Increase) in accrued expenses and other current liabilities	-	-	-	3,053,584	(3,053,584)
Cash paid	<u>\$ 71,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,480,997</u>	<u>\$ 45,413,373</u>
NON-CASH FINANCING ACTIVITIES					
Current portion of bonds payable	\$ 4,500,000	\$ -	\$ -	\$ 8,000,000	\$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ -</u>	<u>\$ 718,637</u>	<u>\$ 769,144</u>	<u>\$ 1,026,421</u>	<u>\$ 3,673,182</u>

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Balance Sheets (Consolidated)

December 31, 2011 ~ 2007

(In Thousands of New Taiwan Dollars)

	2011	2010	2009	2008	2007
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 143,472,277	\$ 147,886,955	\$ 171,276,341	\$ 194,613,752	\$ 94,986,488
Financial assets at fair value through profit or loss	15,360	6,886	186,081	55,730	1,632,387
Available-for-sale financial assets	3,308,770	28,883,728	14,389,946	10,898,715	66,688,368
Held-to-maturity financial assets	3,825,680	4,796,589	9,944,843	5,881,999	11,526,946
Receivables from related parties	185,764	2,722	12,524	407	10,885
Notes and accounts receivable	46,321,240	51,029,885	44,637,642	25,023,321	47,204,126
Allowance for doubtful receivables	(490,952)	(504,029)	(543,325)	(455,751)	(701,807)
Allowance for sales returns and others	(5,068,263)	(7,546,264)	(8,724,481)	(6,071,026)	(4,089,035)
Other receivables from related parties	122,292	124,586	121,292	99,918	243,620
Other financial assets	617,142	1,021,552	1,849,987	1,911,699	1,515,527
Inventories	24,840,582	28,405,984	20,913,751	14,876,645	23,862,260
Deferred income tax assets	5,936,490	5,373,076	4,370,309	3,969,330	5,572,334
Prepaid expenses and other current assets	2,174,014	2,037,647	1,368,838	1,813,692	1,370,230
Total current assets	<u>225,260,396</u>	<u>261,519,317</u>	<u>259,803,748</u>	<u>252,618,431</u>	<u>249,822,329</u>
LONG-TERM INVESTMENTS					
Investments accounted for using equity method	24,900,332	25,815,385	17,871,208	18,907,158	22,517,289
Available-for-sale financial assets	-	1,033,049	1,358,049	2,032,658	1,400,691
Held-to-maturity financial assets	5,243,167	8,502,887	15,553,242	15,426,252	8,697,726
Financial assets carried at cost	4,315,005	4,424,207	3,063,004	3,615,447	3,845,619
Total long-term investments	<u>34,458,504</u>	<u>39,775,528</u>	<u>37,845,503</u>	<u>39,981,515</u>	<u>36,461,325</u>
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Land and land improvements	1,541,128	891,197	934,090	953,857	942,197
Buildings	172,872,550	145,966,024	142,294,558	132,249,996	118,640,027
Machinery and equipment	1,057,588,736	913,155,252	775,653,489	697,498,743	646,419,427
Office equipment	16,969,266	14,856,582	13,667,747	12,430,800	11,829,640
Leased assets	791,480	701,552	714,424	722,339	652,296
	1,249,763,160	1,075,570,607	933,264,308	843,855,735	778,483,587
Accumulated depreciation	(876,252,220)	(773,278,157)	(693,743,886)	(618,816,267)	(540,099,567)
Advance payments and construction in progress	116,863,976	86,151,573	34,154,365	18,605,882	21,868,167
Net property, plant and equipment	<u>490,374,916</u>	<u>388,444,023</u>	<u>273,674,787</u>	<u>243,645,350</u>	<u>260,252,187</u>
INTANGIBLE ASSETS					
Goodwill	5,693,999	5,704,897	5,931,318	6,044,392	5,987,582
Deferred charges, net	5,167,564	6,027,085	6,458,554	7,125,828	7,923,601
Total intangible assets	<u>10,861,563</u>	<u>11,731,982</u>	<u>12,389,872</u>	<u>13,170,220</u>	<u>13,911,183</u>
OTHER ASSETS					
Deferred income tax assets	7,436,717	7,362,784	7,988,303	6,636,873	7,313,283
Refundable deposits	4,518,863	8,677,970	2,733,143	2,767,199	2,777,769
Others	1,353,983	1,417,300	260,864	97,001	327,150
Total other assets	<u>13,309,563</u>	<u>17,458,054</u>	<u>10,982,310</u>	<u>9,501,073</u>	<u>10,418,202</u>
TOTAL	<u>\$ 774,264,942</u>	<u>\$ 718,928,904</u>	<u>\$ 594,696,220</u>	<u>\$ 558,916,589</u>	<u>\$ 570,865,226</u>

	2011	2010	2009	2008	2007
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	\$ 25,926,528	\$ 31,213,944	\$ -	\$ -	\$ -
Financial liabilities at fair value through profit or loss	13,742	19,002	25	85,187	249,313
Hedging derivative financial liabilities	232	814	-	-	-
Notes and accounts payable	10,530,487	12,104,173	10,905,884	5,553,151	11,574,882
Payables to related parties	1,328,521	867,085	783,007	489,857	1,503,376
Income tax payable	10,656,124	7,184,697	8,800,249	9,331,825	11,126,128
Salary and bonus payable	6,148,499	6,424,064	9,317,035	2,215,780	2,233,450
Accrued profit sharing to employees and bonus to directors and supervisors	9,081,293	11,096,147	6,818,343	15,369,730	-
Payables to contractors and equipment suppliers	35,540,526	43,259,857	28,924,265	7,998,773	6,256,732
Accrued expenses and other current liabilities	13,218,235	10,779,923	12,635,182	7,540,055	15,481,313
Current portion of bonds payable and long-term liabilities	<u>4,562,500</u>	<u>241,407</u>	<u>949,298</u>	<u>8,222,398</u>	<u>280,813</u>
Total current liabilities	<u>117,006,687</u>	<u>123,191,113</u>	<u>79,133,288</u>	<u>56,806,756</u>	<u>48,706,007</u>
LONG-TERM LIABILITIES					
Bond payables	18,000,000	4,500,000	4,500,000	4,500,000	12,500,000
Long-term bank loans	1,587,500	301,561	578,560	1,420,476	1,722,196
Other long-term payables	-	6,554,208	5,602,420	9,548,226	9,409,978
Obligations under capital leases	<u>870,993</u>	<u>694,986</u>	<u>707,499</u>	<u>722,339</u>	<u>652,296</u>
Total long-term liabilities	<u>20,458,493</u>	<u>12,050,755</u>	<u>11,388,479</u>	<u>16,191,041</u>	<u>24,284,470</u>
OTHER LIABILITIES					
Accrued pension cost	3,908,508	3,812,351	3,797,032	3,701,584	3,665,522
Guarantee deposits	443,983	789,098	1,006,023	1,484,495	2,243,009
Deferred credits	26,533	126,539	185,689	316,537	1,236,873
Others	<u>377,187</u>	<u>254,643</u>	<u>137,161</u>	<u>43,709</u>	<u>43,774</u>
Total other liabilities	<u>4,756,211</u>	<u>4,982,631</u>	<u>5,125,905</u>	<u>5,546,325</u>	<u>7,189,178</u>
Total Liabilities	<u>142,221,391</u>	<u>140,224,499</u>	<u>95,647,672</u>	<u>78,544,122</u>	<u>80,179,655</u>
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT					
Capital stock - \$10 par value					
Common stock	<u>259,162,226</u>	<u>259,100,787</u>	<u>259,027,066</u>	<u>256,254,373</u>	<u>264,271,037</u>
Capital surplus	<u>55,846,357</u>	<u>55,698,434</u>	<u>55,486,010</u>	<u>49,875,255</u>	<u>53,732,682</u>
Retained earnings					
Appropriated as legal capital reserve	102,399,995	86,239,494	77,317,710	67,324,393	56,406,684
Appropriated as special capital reserve	6,433,874	1,313,047	-	391,857	629,550
Unappropriated earnings	<u>213,357,286</u>	<u>178,227,030</u>	<u>104,564,972</u>	<u>102,337,417</u>	<u>161,828,337</u>
	<u>322,191,155</u>	<u>265,779,571</u>	<u>181,882,682</u>	<u>170,053,667</u>	<u>218,864,571</u>
Others					
Cumulative translation adjustments	(6,433,369)	(6,543,163)	(1,766,667)	481,158	(1,072,853)
Unrealized gain (loss) on financial instruments	(1,172,855)	109,289	453,621	(287,342)	680,997
Treasury stock	-	-	-	-	(49,385,032)
	<u>(7,606,224)</u>	<u>(6,433,874)</u>	<u>(1,313,046)</u>	<u>193,816</u>	<u>(49,776,888)</u>
Equity attributable to shareholders of the parent	<u>629,593,514</u>	<u>574,144,918</u>	<u>495,082,712</u>	<u>476,377,111</u>	<u>487,091,402</u>
MINORITY INTERESTS	<u>2,450,037</u>	<u>4,559,487</u>	<u>3,965,836</u>	<u>3,995,356</u>	<u>3,594,169</u>
Total shareholders' equity	<u>632,043,551</u>	<u>578,704,405</u>	<u>499,048,548</u>	<u>480,372,467</u>	<u>490,685,571</u>
TOTAL	<u>\$ 774,264,942</u>	<u>\$ 718,928,904</u>	<u>\$ 594,696,220</u>	<u>\$ 558,916,589</u>	<u>\$ 570,865,226</u>

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Statements of Income (Consolidated)

For the Years Ended December 31, 2011 ~ 2007

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

	2011	2010	2009	2008	2007 (1)
GROSS SALES	\$ 430,490,500	\$ 431,630,858	\$ 309,655,614	\$ 341,983,355	\$ 328,336,172
SALES RETURNS AND ALLOWANCES	<u>3,409,855</u>	<u>12,092,947</u>	<u>13,913,375</u>	<u>8,825,695</u>	<u>5,705,576</u>
NET SALES	427,080,645	419,537,911	295,742,239	333,157,660	322,630,596
COST OF SALES	<u>232,937,388</u>	<u>212,484,320</u>	<u>166,413,628</u>	<u>191,408,099</u>	<u>180,280,385</u>
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	194,143,257	207,053,591	129,328,611	141,749,561	142,350,211
UNREALIZED GROSS PROFIT FROM AFFILIATES	<u>(74,029)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>194,069,228</u>	<u>207,053,591</u>	<u>129,328,611</u>	<u>141,749,561</u>	<u>142,350,211</u>
OPERATING EXPENSES					
Research and development	33,829,880	29,706,662	21,593,398	21,480,937	17,946,322
General and administrative	14,164,114	12,803,997	11,285,478	11,096,599	8,963,836
Marketing	<u>4,517,816</u>	<u>5,367,597</u>	<u>4,487,849</u>	<u>4,736,657</u>	<u>3,718,146</u>
Total operating expenses	<u>52,511,810</u>	<u>47,878,256</u>	<u>37,366,725</u>	<u>37,314,193</u>	<u>30,628,304</u>
INCOME FROM OPERATIONS	<u>141,557,418</u>	<u>159,175,335</u>	<u>91,961,886</u>	<u>104,435,368</u>	<u>111,721,907</u>
NON-OPERATING INCOME AND GAINS					
Interest income	1,479,514	1,665,193	2,600,925	5,373,823	5,651,700
Settlement income	947,340	6,939,764	1,464,915	951,180	985,114
Equity in earnings of equity method investees, net	897,611	2,298,159	45,994	701,533	2,507,869
Valuation gain on financial instruments, net	507,432	320,730	594,660	-	63,017
Technical service income	407,089	450,503	367,013	1,181,966	590,391
Gain on settlement and disposal of financial assets, net	233,214	736,843	15,999	721,050	874,670
Gain on disposal of property, plant and equipment and other assets	203,959	216,199	113,963	100,874	91,210
Rental income	78,076	156,939	153,919	166,317	378,643
Foreign exchange gain, net	-	-	-	1,227,653	80,922
Subsidy income	-	-	-	8,029	364,321
Others	<u>604,292</u>	<u>351,742</u>	<u>296,160</u>	<u>389,024</u>	<u>345,946</u>
Total non-operating income and gains	<u>5,358,527</u>	<u>13,136,072</u>	<u>5,653,548</u>	<u>10,821,449</u>	<u>11,933,803</u>
NON-OPERATING EXPENSES AND LOSSES					
Interest expense	626,725	425,356	391,479	614,988	842,242
Impairment of financial assets	265,515	159,798	913,230	1,560,055	54,208
Loss on disposal of property, plant and equipment	200,673	849,254	68,486	589	6,190
Foreign exchange loss, net	185,555	99,130	626,971	-	-
Impairment loss on idle assets	98,009	319	-	210,477	-
Casualty loss	-	190,992	-	-	-
Valuation loss on financial instruments, net	-	-	-	1,081,019	-
Provision for litigation loss	-	-	-	99,126	1,008,635
Others	<u>391,791</u>	<u>316,163</u>	<u>152,621</u>	<u>218,317</u>	<u>102,409</u>
Total non-operating expenses and losses	<u>1,768,268</u>	<u>2,041,012</u>	<u>2,152,787</u>	<u>3,784,571</u>	<u>2,013,684</u>

	2011	2010	2009	2008	2007 (1)
INCOME BEFORE INCOME TAX	\$ 145,147,677	\$ 170,270,395	\$ 95,462,647	\$ 111,472,246	\$ 121,642,026
INCOME TAX EXPENSE	10,694,417	7,988,465	5,996,424	10,949,009	11,709,626
NET INCOME	<u>\$ 134,453,260</u>	<u>\$ 162,281,930</u>	<u>\$ 89,466,223</u>	<u>\$ 100,523,237</u>	<u>\$ 109,932,400</u>
ATTRIBUTABLE TO:					
Shareholders of the parent	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168	\$ 109,177,093
Minority interest	<u>251,981</u>	<u>676,921</u>	<u>248,387</u>	<u>590,069</u>	<u>755,307</u>
	<u>\$ 134,453,260</u>	<u>\$ 162,281,930</u>	<u>\$ 89,466,223</u>	<u>\$ 100,523,237</u>	<u>\$ 109,932,400</u>
EARNINGS PER SHARE (2)					
Basic earnings per share	\$ 5.18	\$ 6.24	\$ 3.45	\$ 3.84	\$ 4.04
Diluted earnings per share	\$ 5.18	\$ 6.23	\$ 3.44	\$ 3.81	\$ 4.04

Note 1: Certain accounts have been reclassified to conform to 2008 classifications

Note 2: Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008 and profit sharing to employees in stock for earning year 2007

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Statements of Cash Flows (Consolidated)

For the Years Ended December 31, 2011 ~ 2007

(In Thousands of New Taiwan Dollars)

	2011	2010	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income attributable to shareholders of the parent	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168	\$ 109,177,093
Net income attributable to minority interests	251,981	676,921	248,387	590,069	755,307
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	107,681,521	87,810,103	80,814,748	81,512,191	80,005,395
Unrealized gross profit from affiliates	74,029	-	-	-	-
Amortization of premium/discount of financial assets	24,711	34,142	21,483	(93,393)	(117,159)
Impairment of financial assets	265,515	159,798	913,230	1,560,055	54,208
Loss (gain) on disposal of available-for-sale financial assets, net	(212,442)	(603,368)	20,337	(637,219)	(610,167)
Gain on held-to-maturity financial assets redeemed by the issuer	-	-	(16,091)	-	-
Gain on disposal of financial assets carried at cost, net	(20,772)	(133,475)	(20,245)	(83,831)	(264,503)
Equity in earnings of equity method investees, net	(897,611)	(2,298,159)	(45,994)	(701,533)	(2,507,869)
Cash dividends received from equity method investees	2,848,141	320,002	1,239,490	1,661,134	625,130
Loss (gain) on disposal of property, plant and equipment and other assets, net	(3,286)	633,230	(45,475)	(100,285)	(85,020)
Settlement income from receiving equity securities	(158,779)	(4,434,364)	-	-	-
Impairment loss on idle assets	98,009	319	-	210,477	-
Deferred income taxes	(491,122)	(377,248)	(1,752,409)	2,279,414	943,797
Changes in operating assets and liabilities:					
Financial assets and liabilities at fair value through profit or loss	(13,734)	198,172	(215,513)	1,412,531	(187,084)
Receivables from related parties	123,265	9,802	(12,117)	10,478	629,467
Notes and accounts receivable	3,627,110	(6,392,243)	(19,614,321)	22,180,805	(12,134,176)
Allowance for doubtful receivables	(12,844)	(39,296)	87,574	(246,056)	(48,126)
Allowance for sales returns and others	(2,478,001)	(1,178,217)	2,653,455	1,981,991	1,205,277
Other receivables from related parties	2,294	(3,294)	(21,374)	143,702	13,243
Other financial assets	376,342	740,959	7,834	(425,937)	842,136
Inventories	2,611,297	(7,492,233)	(6,037,106)	8,985,615	(2,226,106)
Prepaid expenses and other current assets	(403,762)	(752,408)	585,430	(443,462)	290,434
Notes and accounts payable	(1,968,820)	933,894	4,916,885	(6,021,731)	3,218,255
Payables to related parties	462,578	84,078	293,150	(1,013,519)	(375,731)
Income tax payable	3,490,268	(1,615,552)	(531,576)	(1,794,303)	3,179,655
Salary and bonus payable	(275,565)	(2,892,971)	7,101,255	(17,670)	116,405
Accrued profit sharing to employees and bonus to directors and supervisors	(1,925,594)	4,277,804	(1,056,399)	15,369,730	-
Accrued expenses and other current liabilities	304,582	248,192	1,356,269	(3,936,757)	797,467
Accrued pension cost	98,915	15,319	95,448	36,062	125,462
Deferred credits	(92,454)	(59,150)	(237,726)	(858,161)	343,878
Net Cash Provided by Operating Activities	<u>247,587,051</u>	<u>229,475,766</u>	<u>159,966,465</u>	<u>221,493,565</u>	<u>183,766,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of:					
Property, plant and equipment	(213,962,521)	(186,944,203)	(87,784,906)	(59,222,654)	(84,000,985)
Available-for-sale financial assets	(35,088,394)	(48,340,334)	(38,800,577)	(85,273,867)	(87,550,197)
Held-to-maturity financial assets	(584,280)	(4,101,501)	(12,224,353)	(16,523,275)	-
Investments accounted for using equity method	-	(6,242,350)	(42,947)	(55,871)	(5,803,826)
Financial assets carried at cost	(403,908)	(1,812,928)	(321,195)	(463,211)	(911,323)
Proceeds from disposal or redemption of:					
Available-for-sale financial assets	59,305,023	37,816,288	36,039,978	138,515,023	94,908,666
Held-to-maturity financial assets	4,789,000	15,943,000	7,944,800	15,634,620	17,325,120
Financial assets carried at cost	226,226	242,335	131,075	199,424	410,465
Property, plant and equipment and other assets	698,055	115,524	24,241	194,940	60,535
Proceeds from return of capital by investees	-	-	-	2,345,867	-
Increase in deferred charges	(1,715,892)	(1,801,728)	(1,469,831)	(3,395,287)	(3,059,155)
Decrease (increase) in refundable deposits	4,149,543	(5,944,827)	34,056	10,570	(1,434,895)
Net cash paid for acquisition of subsidiaries	-	-	-	-	(404,445)
Decrease (increase) in other assets	<u>63,723</u>	<u>(1,015,458)</u>	<u>1,176</u>	<u>(8,163)</u>	<u>(228,747)</u>
Net Cash Used in Investing Activities	<u>(182,523,425)</u>	<u>(202,086,182)</u>	<u>(96,468,483)</u>	<u>(8,041,884)</u>	<u>(70,688,787)</u>

	2011	2010	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in short-term loans	\$ (5,287,416)	\$ 31,213,944	\$ -	\$ -	\$ (89,720)
Proceeds from long-term bank loans	2,250,000	-	286,574	98,400	653,000
Repayment of long-term bank loans	(1,142,968)	(967,034)	(378,673)	(468,313)	(196,173)
Proceeds from issuance of bonds	18,000,000	-	-	-	-
Repayment of bonds payable	-	-	(8,000,000)	-	(7,000,000)
Decrease in other long-term payables	(3,633,052)	(1,107,333)	-	-	-
Decrease in guarantee deposits	(342,242)	(232,925)	(478,472)	(758,514)	(1,574,131)
Cash dividends	(77,730,236)	(77,708,120)	(76,876,312)	(76,779,032)	(77,387,302)
Cash bonus paid to employees	-	-	-	(3,939,883)	(4,572,798)
Bonus to directors and supervisors	-	-	-	(176,890)	(285,800)
Proceeds from donation	-	49,021	-	-	-
Proceeds from exercise of employee stock options	217,697	244,824	260,533	227,150	436,827
Acquisition of treasury stock	(71,598)	-	-	(33,480,997)	(45,413,373)
Increase (decrease) in minority interests	<u>(118,226)</u>	<u>(130,083)</u>	<u>(284,774)</u>	<u>(114,742)</u>	<u>19,004</u>
Net Cash Used in Financing Activities	<u>(67,858,041)</u>	<u>(48,637,706)</u>	<u>(85,471,124)</u>	<u>(115,392,821)</u>	<u>(135,410,466)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,794,415)	(21,248,122)	(21,973,142)	98,058,860	(22,332,585)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(147,682)	(2,141,264)	(1,364,269)	1,568,404	(518,119)
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	(1,472,581)	-	-	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>147,886,955</u>	<u>171,276,341</u>	<u>194,613,752</u>	<u>94,986,488</u>	<u>117,837,192</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 143,472,277</u>	<u>\$ 147,886,955</u>	<u>\$ 171,276,341</u>	<u>\$ 194,613,752</u>	<u>\$ 94,986,488</u>
SUPPLEMENTAL INFORMATION DISCLOSURE OF CASH FLOW INFORMATION					
Interest paid	<u>\$ 531,518</u>	<u>\$ 392,805</u>	<u>\$ 580,376</u>	<u>\$ 676,318</u>	<u>\$ 922,079</u>
Income tax paid	<u>\$ 7,677,085</u>	<u>\$ 9,818,418</u>	<u>\$ 8,088,124</u>	<u>\$ 10,477,018</u>	<u>\$ 7,585,727</u>
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS					
Acquisition of property, plant and equipment	\$ 207,175,565	\$ 201,696,476	\$ 109,151,226	\$ 60,978,527	\$ 78,889,954
Decrease (increase) in payables to contractors and equipment suppliers	6,846,682	(14,599,987)	(21,361,340)	(1,742,041)	5,111,031
Nonmonetary exchange trade-out price	(3,164)	(124,746)	(809)	-	-
Increase in other long-term payables	-	-	-	-	-
Increase in other liabilities	(56,562)	(27,540)	-	-	-
Increase in obligations under capital leases	-	-	(4,171)	(13,832)	-
Cash paid	<u>\$ 213,962,521</u>	<u>\$ 186,944,203</u>	<u>\$ 87,784,906</u>	<u>\$ 59,222,654</u>	<u>\$ 84,000,985</u>
Acquisition of available-for-sale financial assets	\$ 35,024,974	\$ 48,405,875	\$ -	\$ -	\$ -
Increase (decrease) in accrued expenses and other current liabilities	63,420	(65,541)	-	-	-
Cash paid	<u>\$ 35,088,394</u>	<u>\$ 48,340,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of property, plant and equipment and other assets	\$ 543,219	\$ 458,561	\$ 25,050	\$ 194,940	\$ -
Increase (decrease) in other financial assets	158,000	(218,291)	-	-	-
Nonmonetary exchange trade-out price	(3,164)	(124,746)	(809)	-	-
Cash received	<u>\$ 698,055</u>	<u>\$ 115,524</u>	<u>\$ 24,241</u>	<u>\$ 194,940</u>	<u>\$ -</u>
Acquisition of treasury stock	\$ -	\$ -	\$ -	\$ 30,427,413	\$ 48,466,957
Decrease (increase) in accrued expenses and other current liabilities	-	-	-	3,053,584	(3,053,584)
Cash paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,480,997</u>	<u>\$ 45,413,373</u>
NONCASH FINANCING ACTIVITIES					
Current portion of long-term liabilities	<u>\$ 4,562,500</u>	<u>\$ 241,407</u>	<u>\$ 949,298</u>	<u>\$ 8,222,398</u>	<u>\$ 280,813</u>
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ 3,399,855</u>	<u>\$ 1,406,601</u>	<u>\$ 4,005,307</u>	<u>\$ 1,126,546</u>	<u>\$ 3,735,875</u>

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TSMC's depositary receipts of the common shares are listed on New York Stock Exchange (NYSE) under the symbol TSM.
The information relating to TSM is available at <http://www.nyse.com> and <http://newmops.tse.com.tw>

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The statements included in this business overview that are not historical in nature are “forward-looking statements” within the meaning of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. TSMC cautions readers that forward-looking statements are subject to significant risks and uncertainties and are based on TSMC’s current expectations. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including, among others, risks associated with cyclicality and market conditions in the semiconductor industry; demand and supply for TSMC’s foundry manufacturing capacity in particular and for foundry manufacturing capacity in general; intense competition; the failure of one or more significant customers to continue to place the same level of orders with us; TSMC’s ability to remain a technological leader in the semiconductor industry; TSMC’s ability to manage its capacity; TSMC’s ability to obtain, preserve and defend its intellectual property rights; natural disasters and other unexpected events which may disrupt production; and exchange rate fluctuations. Additional information as to these and other risk factors that may cause TSMC’s actual results to differ materially from TSMC’s forward-looking statements may be found in TSMC’s Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission (the “SEC”) on April 15, 2012, and such other documents as TSMC may file with, or submit to, the SEC from time to time. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.



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