

Taiwan Semiconductor Manufacturing Company, Ltd.

Annual Report 2011 (I)



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

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.

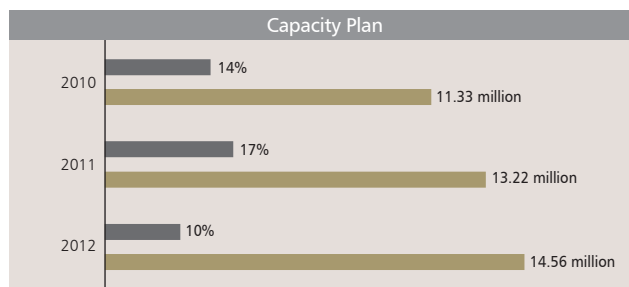
In an honor that reflects the efforts of all TSMC employees over many years, I was grateful to accept the 2011 IEEE Medal of Honor in August 2011 for pioneering the concepts of dedicated IC foundry, "fabless" IC design and virtual fabrication services in the semiconductor industry.

Outlook

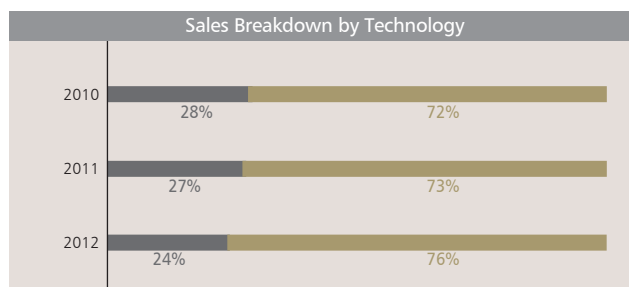
We believe that mobile computing products, such as smartphones and tablets, will continue to be the killer app for semiconductor industry in the forthcoming decade. These new devices, along with the communication infrastructure that enables their wide-spread usage, will require the development of more 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.



Morris Chang
Chairman and Chief Executive Officer



■ Annual Growth Rate
■ Capacity: 8-inch equivalent wafers



■ ≥ 0.15μm | 2012 wafer shipment is expected to be approximately 13 million 8-inch equivalent wafers.
■ ≤ 0.13μm

2. Company Profile

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.

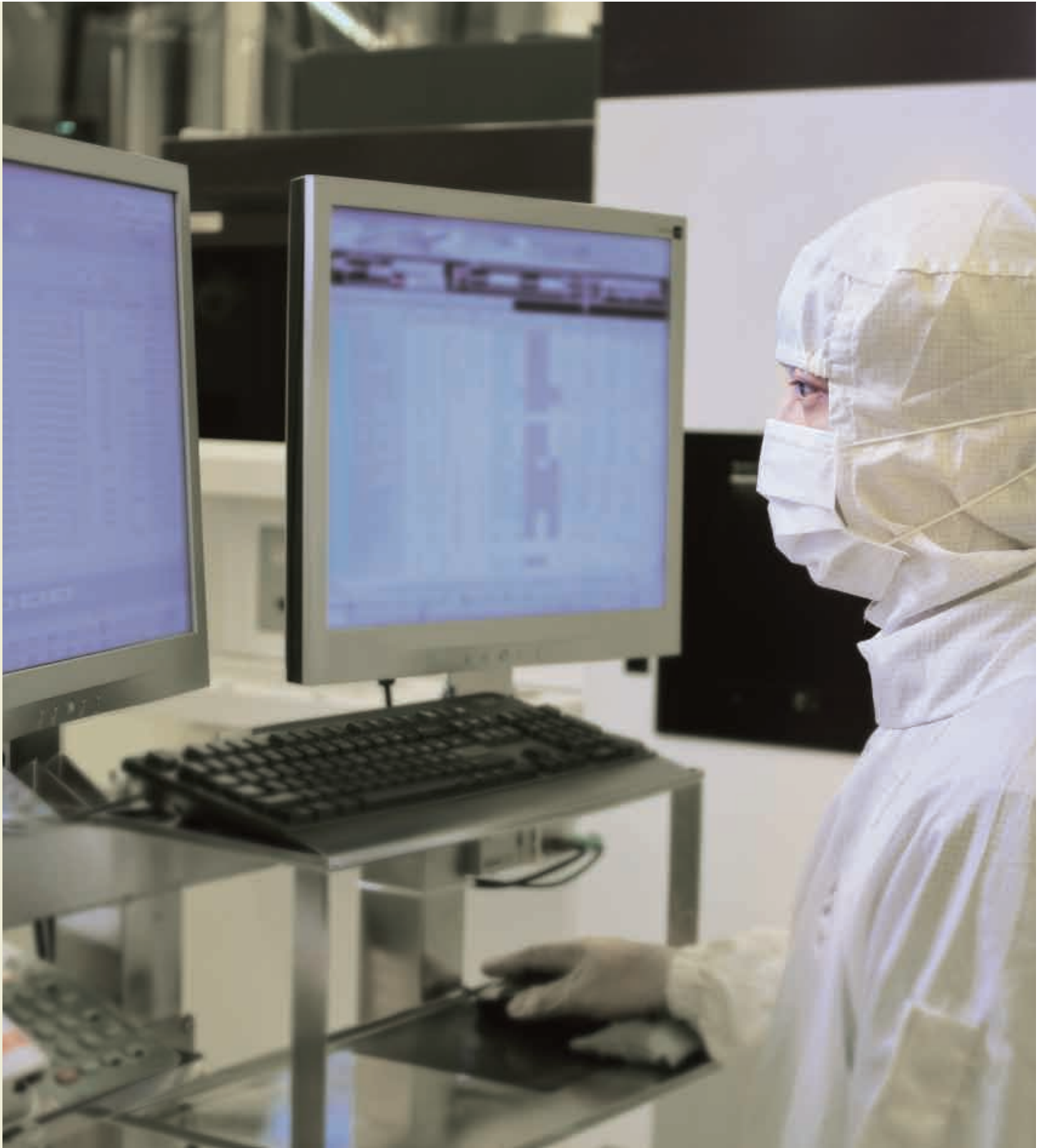
Total capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, totaled 13.22 million 8-inch equivalent wafers in 2011. In Taiwan, TSMC operates three advanced 12-inch wafer fabs, four 8-inch wafer fabs, and one 6-inch wafer fab. TSMC also manages two 8-inch 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".



2.2 Market/Business Summary

2.2.1 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 Rds(on) 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.

2.2.2 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%.

2.2.3 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.

2.2.4 TSMC Position, Differentiation and Strategy

Position

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.

Differentiation

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.

Strategy

TSMC is confident its differentiating strengths will enable it to leverage the attractive growth opportunities in the foundry sector going forward. TSMC works constantly to ensure that these strengths are maintained and improved. For example, TSMC is intensively working on the leading-edge 28nm and 20nm processes to maintain its technology leadership position. Numerous efforts are also underway to ensure manufacturing excellence, such as continuing enhancement of Design-For-Manufacturing (DFM) support services to increase yield and efficiency. TSMC also expanded its Open Innovation Platform® initiative, a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that efficiently empowers innovation throughout the supply chain to enhance timely innovation. TSMC conducted customer reviews and surveys throughout 2011 to better understand customer needs and wants, and accordingly may adjust its offerings in response, thereby strengthening its relationship with customers.

To address the dual challenges of falling wafer prices and fiercer competition from other semiconductor manufacturing companies, TSMC continually strengthens its core competitiveness, and properly deploys its short-term and long-term technology and business development plans in order to enhance its Return on Investment (ROI) and growth objectives.

● Short-term semiconductor business development plan

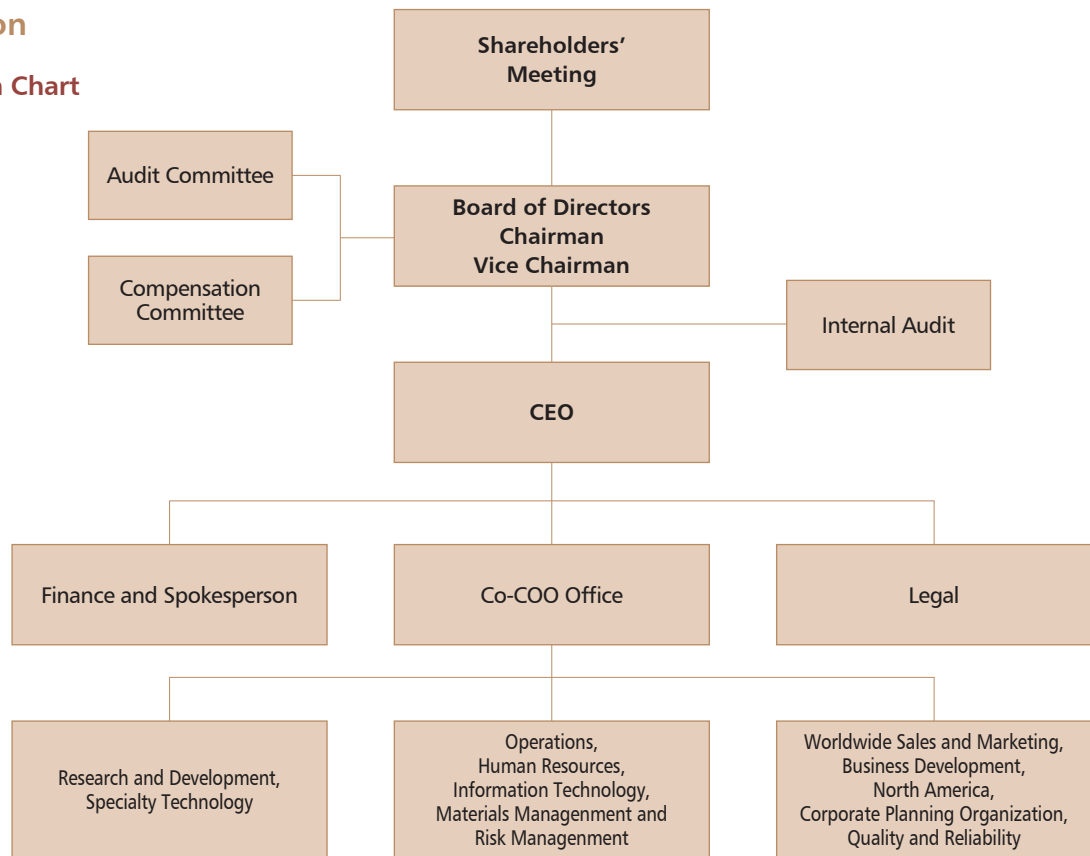
- 1) Substantially ramp up the business and sustain market segment share of advanced technologies with further investment on capacity.
- 2) Maintain market segment share of mainstream technology by expanding business into new customer and market segments with off-the-shelf technologies.
- 3) Grow business with IDMs by establishing a closer relationship on technology development.

● Long-term semiconductor business development plan

- 1) Continue developing the leading edge technologies consistent with Moore's law.
- 2) Broaden "More-than-Moore" business contribution by further developing derivative technologies.
- 3) Further expand TSMC's business and service infrastructure into emerging and developing markets.

2.3 Organization

2.3.1 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.

2.3.2 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 Board Members

2.4.1 Information Regarding Board Members

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding	
				Shares	%	Shares	%
Chairman Morris Chang	06/10/2009	06/09/2012	12/10/1986	118,047,697	0.46%	123,137,914	0.48%
Vice Chairman F.C. Tseng	06/10/2009	06/09/2012	05/13/1997	36,144,509	0.13%	34,662,675	0.13%
National Development Fund, Executive Yuan Representatives: (Notes 1, 2)	06/10/2009	06/09/2012	12/10/1986	1,645,482,861	6.42%	1,653,709,980	6.38%
Director Johnsee Lee				-	-	-	-
Director Rick Tsai	06/10/2009	06/09/2012	06/03/2003	33,768,636	0.13%	33,871,046	0.13%
Independent Director Sir Peter Leahy Bonfield	06/10/2009	06/09/2012	05/07/2002	-	-	-	-
Independent Director Stan Shih	06/10/2009	06/09/2012	04/14/2000	1,472,922	0.01%	1,480,286	0.01%
Independent Director Thomas J. Engibous	06/10/2009	06/09/2012	06/10/2009	-	-	-	-

Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
Shares	%		
135,217	0.00%	B.S. and M.S. degrees in Mechanical Engineering, MIT Ph.D. in Electrical Engineering, Stanford University Former Group Senior Vice-President, Texas Instrument Former President & COO, General Instrument Corporation Former Chairman, Industrial Technology Research Institute Life Member Emeritus of MIT Corporation Member of National Academy of Engineering, USA	CEO, TSMC
132,855	0.00%	Ph.D. in Electrical Engineering, National Chengkung University, Taiwan Former President, Vanguard International Semiconductor Corp. Former President, TSMC Former Deputy CEO, TSMC	Chairman of: - TSMC China Company Ltd. - Global Unichip Corp. Director of: - TSMC Solar Ltd. - TSMC Solid State Lighting Ltd. - digimax, Inc. Independent Director, Acer Inc.
-	-	Ph.D. in Chemical Engineering, Illinois Institute of Technology MBA, University of Chicago Graduate of Harvard Business School's Advanced Management Program Former Principal Investigator, Argonne National Laboratory Former Senior Manager, Johnson Matthey Inc. Former President, Industrial Technology Research Institute Chairman of the Development Center for Biotechnology President of Taiwan Bio Industry Organization	Independent Director of: - Taiwan Polysilicon Corp. - Zhen Ding Technology Holding Ltd.
-	-	Ph.D. in Material Science, Cornell University, USA Former President, Vanguard International Semiconductor Corp. Former Executive Vice President, Worldwide Marketing and Sales, TSMC Former COO, TSMC Former President & CEO, TSMC Former President of New Businesses, TSMC	Chairman & CEO, TSMC Solar Ltd. Chairman & CEO, TSMC Solid State Lighting Ltd. Director, TSMC subsidiary President, TSMC subsidiaries
-	-	Honours Degree in Engineering, Loughborough University Fellow of the Royal Academy of Engineering Former Chairman and CEO, ICL Plc Former CEO and Chairman of the Executive Committee, British Telecommunications Plc Vice President, the British Quality Foundation	Non-Executive Director and Chairman, NXP Semiconductors N.V. Director of: - Sony Corporation, Japan - L.M. Ericsson, Sweden - Mentor Graphics Corporation Inc., Oregon, USA - Actis Capital LLP, London Member of: - The Longreach Group Advisory Board - The Sony Corporation Advisory Board - New Venture Partners LLP Advisory Board Advisor to Apax Partners LLP Board Mentor, CMI Senior Advisor to Rothschild, London
16,116	0.00%	BSEE and MSEE in National Chiao Tung University, Taiwan Honorary EE Ph.D. in National Chiao Tung University, Taiwan Honorary Doctor of Technology, The Hong Kong Polytechnic University Honorary Fellowship, University of Wales, Cardiff, UK Honorary Doctor of International Law, Thunderbird, American Graduate School of International Management, USA Former Chairman, CEO and Co-Founder, Acer Group Chairman, National Culture and Arts Foundation, R.O.C.	Group Chairman, iD SoftCapital Director of: - Acer Inc. - Qisda Corp. - Wistron Corp. - Nan Shan Life Insurance Co., Ltd.
-	-	Bachelor Degree in Electrical Engineering, Purdue University Master Degree in Electrical Engineering, Purdue University Honorary Doctorate in Engineering, Purdue University Member, National Academy of Engineering Former Executive Vice President and President of the Semiconductor Group, Texas Instruments Inc. Former President and CEO, Texas Instrument Inc. Former Chairman of the Board, Texas Instrument Inc. Former Chairman of the Board of Catalyst Honorary Director of Catalyst Trustee, Southwestern Medical Foundation Member, The Business Council	Chairman, J. C. Penney Company Inc.

(Continued)

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding	
				Shares	%	Shares	%
Independent Director Gregory C. Chow	06/09/2011	06/09/2012	06/09/2011	-	-	-	-
Independent Director Kok-Choo Chen	06/09/2011	06/09/2012	06/09/2011	(Notes 3)		-	-

Remarks:

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

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

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

Note 2: Major institutional shareholders of National Development Fund: Not applicable.

Note 3: The period of suspension of stock transfers was from April 11 to June 9, 2011 prior to the 2011 Annual Shareholders Meeting. Ms. Kok-Choo Chen held 112,000 TSMC shares before the suspension period, and all such shares were sold on April 7, 2011.

Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
Shares	%		
-	-	Bachelor Degree in Economics, Cornell University Master Degree and Ph.D. in Economics, Chicago University Academician, Academia Sinica, R.O.C. Member, American Philosophical Society Fellow of the American Statistical Association Fellow of the Econometric Society Former President, Society of Economic Dynamics and Control Honorary Doctor's, Zhongshan University L.L.D., Lingnan University Hon. Dr. of Business Adm, Hong Kong University of Science and Technology Honorary Professor of Fudan, Guangxi, Hainan, Nankai, Shandong, Remin, Huazhong U of Science and Tech, Graduate School of Management of Chinese Academy of Sciences, Zhongshan Universities and the City University of Hong Kong Assistant Professor, Sloan School of Management of M.I.T., 1955-1959 Associate Professor, Cornell University, 1959-1962 Staff Member, Manager of Economics Research, IBM Thomas Watson Research Center, 1962-1970 Adjunct Professor, Columbia University, 1965-1970 Professor of Economics, Princeton University, 1970-2001 Director, Econometric Research Program, Princeton University (In 2001 Princeton University renamed the Program the Gregory C. Chow Econometric Research Program in his honor.), 1970-1997 Class of 1913 Professor of Political Economy, Princeton University, 1997-2001 Chairman of the American Economic Association's Committee on Exchanges in Economics with the People's Republic of China, 1981-1994 Co-chairman of the U.S. Committee on Economics Education and Research in China, 1985-1994 Advisor to Prime Ministers and Chairmen of the Economic Planning and Development Council of the Executive Yuan in Taiwan on economic policy from the mid 1960's to the early 1980's Advisor to the Prime Minister and the State Commission for Restructuring the Economic System on economic reform in China, 1985-1989 Professor of Economics and Class of 1913 Professor of Political Economy, Emeritus, Princeton University Lecturer with the Rank of Professor, Princeton University	-
5,120	0.00%	Inns of Court School of Law, England Barrister-at-law, England Advocate & Solicitor, Singapore Attorney-at-law, California, U.S.A. Senior Vice-President & General Counsel, TSMC, 1997-2001 President, National Culture & Arts Foundation, R.O.C., 1995-1997 Vice-President, Echo Publishing, Taiwan, 1992-1995 Partner, Chen & Associates Law Offices, Taiwan, 1988-1992 Partner, Ding & Ding Law Offices, Taiwan, 1975-1988 Lawyer, Heller, Erhman, White & McAuliffe, San Francisco, California, U.S.A., 1974-1975 Lawyer, Sullivan & Cromwell, New York, U.S.A., 1971-1974 Lawyer, Tan, Rajah & Cheah, Singapore, 1969-1970 Professor, Soochow University, 2001-2008 Professor, National Chengchi University, 2001-2004 Chair Professor, National Tsing Hua University, 1999-2002 Associate Professor, Soochow University, 1981-1998 Lecturer, Nanyang University, Singapore, 1970-1971 Sponsor and Founder, two Taiwan heritage site museums (Taipei Story House and Futai Street Mansion) Advisor, Executive Yuan, R.O.C. Advisor, Taipei City Government Director of TSMC Education and Culture Foundation Director of National Culture and Arts Foundation, R.O.C. Director of Republic of China Female Cancer Foundation	-

2.4.2 Directors' Professional Qualifications and Independence Analysis

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

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

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

1. Not an employee of the company or any of its affiliates;
2. Not a director or supervisor of the company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares;
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the company or ranking in the top 10 in holdings;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds 5% or more of the total number of outstanding shares of the company or that holds shares ranking in the top five in holdings;
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution that has a financial or business relationship with the company;
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the company or to any affiliate of the company, or a spouse thereof;
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the company;
9. Not been a person of any conditions defined in Article 30 of the Company Law; and
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Criteria (Note)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director
1	2	3	4	5	6	7	8	9	10	
	√		√	√	√	√	√	√	√	0
√			√	√	√	√	√	√	√	1
√	√	√	√	√	√	√	√	√		2
			√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0
√	√	√	√	√	√	√	√	√	√	0

2.4.3 Remuneration Paid to Directors (Note 1)

Unit: NT\$ thousands

Title/Name	Director's Remuneration								Total Remuneration (A+B+C+D) as a % of 2011 Net Income	
	Base Compensation (A)		Severance Pay and Pensions (B) (Note 4)		Compensation to Directors (C) (Note 5)		Allowances (D) (Note 6)			
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities
Chairman & CEO Morris Chang	29,244	30,444	708	708	54,324	54,324	3,584	3,584	0.07%	0.07%
Vice Chairman F.C. Tseng										
Director Rick Tsai (Note 2)										
Independent Director Sir Peter Leahy Bonfield										
Independent Director Stan Shih										
Independent Director Thomas J. Engibous										
Independent Director Gregory C. Chow (Note 3)										
Independent Director Kok-Choo Chen (Note 3)										
Director National Development Fund, Executive Yuan Representatives: Johnsee Lee	0	0	0	0	8,000	8,000	0	0		

Note 1: Remuneration Policies: The base compensation for the Chairman, Vice-Chairman and directors are determined in accordance with the procedures set forth in TSMC's Articles of Incorporation. The Articles of Incorporation also provides that the compensation to directors shall be no more than 0.3% of earnings available for distribution. The distribution of compensation to directors shall be made in accordance with TSMC's "Rules for Distribution of Compensation to Directors".

Note 2: Mr. Rick Tsai is currently the Chairman and CEO of two new TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd. since August 1, 2011.

Note 3: Mr. Gregory C. Chow and Ms. Kok-Choo Chen were elected as the independent directors of TSMC in the Annual Shareholders' Meeting held on June 9, 2011.

Note 4: Pensions funded according to applicable law.

Note 5: The Board adopted a proposal that includes 2011 compensation to TSMC's directors in the amount of NT\$62,324 thousand at its meeting on February 14, 2012.

Note 6: The amount shown in the above table includes the expense for company cars and gasoline reimbursement, but does not include compensation paid to company drivers (totaled NT\$4,231 thousand).

Note 7: Includes the employees' cash bonuses distributed in May, August, November 2011 and February 2012.

Note 8: The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 12, 2012.

Note 9: Represents the number of cumulative employee stock options exercisable as of the date of this Annual Report.

Note 10: Total remuneration and compensation paid to TSMC's directors in 2010 was NT\$433,247 thousand, accounting for 0.27% of 2010 net income.

Remuneration Paid to Directors

	2011			
	Total Remuneration (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G+I)	
	From TSMC	From All Consolidated Entities and Non-consolidated Affiliates	From TSMC	From All Consolidated Entities and Non-consolidated Affiliates
Under NT\$2,000,000	Rick Tsai (Note)			
NT\$2,000,000 ~ NT\$4,999,999				
NT\$5,000,000 ~ NT\$9,999,999	Gregory C. Chow, Kok-Choo Chen, National Development Fund, Executive Yuan		Gregory C. Chow, Kok-Choo Chen, National Development Fund, Executive Yuan	
NT\$10,000,000 ~ NT\$14,999,999	Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous		Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous	
NT\$15,000,000 ~ NT\$29,999,999	Morris Chang (Note), F.C. Tseng		F.C. Tseng	
NT\$30,000,000 ~ NT\$49,999,999				
NT\$50,000,000 ~ NT\$99,999,999			Rick Tsai (Note)	
Over NT\$100,000,000			Morris Chang (Note)	
Total	9		9	

Note: According to the Company's Articles of Incorporation, directors who also serve as executive officers of this Corporation are not entitled to receive compensation to directors. As a result, no compensation to directors was paid to Dr. Morris Chang and Dr. Rick Tsai.

Compensation Earned by a Director Who is an Employee of TSMC or of TSMC's Consolidated Entities										Total Compensation (A+B+C+D+E+F+G) as a % of 2011 Net Income (Note 10)		Compensation Paid to Directors from Non- consolidated Affiliates (I)
Base Compensation, Bonuses, and Allowances (E) (Note 7)		Severance Pay and Pensions (F) (Note 4)		Employee Profit Sharing (G) (Note 8)				Exercisable Employee Stock Options (H) (Note 9)				
From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC		From All Consolidated Entities		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	
				Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)					
112,165	141,631	145	370	104,754	0	104,754	0	0	0	0.23%	0.26%	1,200
0	0	0	0	0	0	0	0	0	0			0

2.5 Management Team

2.5.1 Information Regarding Management Team

Title Name	On-board Date (Note 1)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)
		Shareholding	%	Shareholding	%	
Chairman & CEO Morris Chang	01/01/1987	123,137,914	0.48%	135,217	0.00%	-
Executive Vice President & Co-Chief Operating Officer Shang-yi Chiang (Note 2)	07/07/1997	2,192,481	0.01%	-	-	-
Executive Vice President & Co-Chief Operating Officer Mark Liu (Note 2)	11/15/1993	13,462,114	0.05%	-	-	-
Executive Vice President & Co-Chief Operating Officer C.C. Wei (Note 2)	02/01/1998	8,183,325	0.03%	261	0.00%	-
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management Stephen T. Tso	12/16/1996	14,875,064	0.06%	-	-	-
Senior Vice President & General Counsel Legal Richard Thurston	01/02/2002	1,569,892	0.01%	-	-	-
Senior Vice President, Chief Financial Officer & Spokesperson Finance Lora Ho	06/01/1999	6,381,080	0.02%	110,268	0.00%	-
Senior Vice President Worldwide Sales and Marketing Jason C.S. Chen	03/31/2005	317,320	0.00%	122	0.00%	2,000,000
Vice President Operations/Affiliate Fabs M.C. Tzeng	01/01/1987	7,618,595	0.03%	39,722	0.00%	-
Vice President Operations/Manufacturing Technology Wei-Jen Lo	07/01/2004	2,324,127	0.01%	-	-	-
Vice President & Chief Technology Officer Research and Development Jack Sun	06/02/1997	4,568,831	0.02%	-	-	-
Vice President Operations/Product Development Y.P. Chin	01/01/1987	7,875,122	0.03%	2,209,107	0.01%	-
Vice President Quality and Reliability N.S. Tsai	03/01/2000	2,051,180	0.01%	1,103,253	0.00%	-
Vice President President of TSMC North America Rick Cassidy	11/14/1997	-	-	-	-	-
Vice President Human Resources L.C. Tu	01/01/1987	9,371,440	0.04%	1,252,481	0.00%	-

Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
Ph.D., Electrical Engineering, Stanford University, USA Chairman, Industrial Technology Research Institute President & Chief Operation Officer, General Instrument Corporation Group Senior Vice-President, Texas Instrument		-	-	-
Ph.D., Electrical Engineering, Stanford University, USA Senior Vice President, Research and Development, TSMC Chairman, VisEra Technologies Company and Xintec Inc.		-	-	-
Ph.D., Electrical Engineering & Computer Science, University of California, Berkeley, USA Senior Vice President of Operations, TSMC Senior Vice President, Advanced Technology Business, TSMC Vice President, South Site Operation, TSMC President, Worldwide Semiconductor Manufacturing Corp.	Director, TSMC affiliate	-	-	-
Ph.D., Electrical Engineering, Yale University, USA Senior Vice President of Business Development, TSMC Senior Vice President, Mainstream Technology Business, TSMC Vice President, South Site Operation, TSMC Senior Vice President, Chartered Semiconductor Manufacturing Ltd.	Director, TSMC subsidiary Director, TSMC affiliates	-	-	-
Ph.D., Materials Science & Engineering, University of California, Berkeley, USA President, WaferTech, LLC Senior Vice President, Operations, TSMC	Director, TSMC subsidiary	-	-	-
J.D., Rutgers School of Law, State University of New Jersey, USA Ph.D., History, University of Virginia, USA Partner, Haynes Boone, LLP Vice President Corporate Staff, Assistant General Counsel, Texas Instruments Incorporated	Director, TSMC subsidiaries Director, TSMC affiliate	-	-	-
Master, Business Administration, National Taiwan University, Taiwan Director, Accounting, TSMC Vice President & CFO, TI-Acer Semiconductor Manufacturing Corp.	Director and/or Supervisor, TSMC subsidiaries Director and/or Supervisor, TSMC affiliates President, TSMC subsidiaries	-	-	-
Master, Business Administration, University of Missouri-Columbia, USA Vice President & Co-Director of Worldwide Sales & Marketing Group, Intel	Director, TSMC subsidiaries Member of Joint Management Committee, TSMC affiliate	-	-	-
Master, Applied Chemistry, Chungyuan University, Taiwan Vice President, Mainstream Technology Business, TSMC Senior Director, Fab 2 Operation, TSMC	Director, TSMC subsidiaries	Department Manager	M.J. Tzeng	Siblings
Ph.D., Solid State Physics & Surface Chemistry, University of California, Berkeley, USA Vice President, Advanced Technology Business, TSMC Vice President, Research & Development, TSMC Vice President, Operation II, TSMC Director, Advanced Technology Development & CTM Plant Manager, Intel		-	-	-
Ph.D., Electrical Engineering, University of Illinois at Urbana-Champaign, USA Vice President, Research and Development, TSMC Senior Director, Logic Technology Division, TSMC R&D, International Business Machines		-	-	-
Master, Electrical Engineering, National Cheng Kung University, Taiwan Vice President, Advanced Technology Business, TSMC Senior Director, Product Engineering & Services, TSMC		-	-	-
Ph.D., Material Science, Massachusetts Institute of Technology, USA Senior Director, Assembly Test Technology & Service, TSMC Vice President, Operations, Vanguard International Semiconductor Corp.		-	-	-
Bachelor, Engineering Technology, United States Military Academy at West Point, USA Vice President of TSMC North America Account Management	Director, TSMC North America	-	-	-
Master, Business Administration, Tulane University, USA Senior Director, Corporate Planning Organization, TSMC Senior Director, Fab 5 Operation, TSMC		-	-	-

(Continued)

Title Name	On-board Date (Note 1)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)
		Shareholding	%	Shareholding	%	
Vice President Operations/Mainstream Fabs J.K. Lin	01/01/1987	12,182,118	0.05%	1,644,874	0.01%	-
Vice President Operations/300mm Fabs J.K. Wang	02/11/1987	2,553,947	0.01%	160,844	0.00%	-
Vice President Corporate Planning Organization Irene Sun	10/01/2003	1,349,709	0.01%	-	-	-
Vice President Research and Development Burn J. Lin (Note 3)	04/26/2000	3,026,746	0.01%	1,024,933	0.00%	-
Vice President Research and Development Y.J. Mii (Note 4)	11/14/1994	434,841	0.00%	565,578	0.00%	-
Vice President Research and Development Cliff Hou (Note 4)	12/15/1997	752,532	0.00%	60,802	0.00%	-

Note 1: On-board date means the official date joining TSMC.

Note 2: On March 2, 2012, 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, effective March 5, 2012.

Note 3: Mr. Burn J. Lin was promoted to Vice President on February 15, 2011.

Note 4: Mr. Y.J. Mii and Mr. Cliff Hou were promoted to Vice Presidents on August 9, 2011.

Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Title	Name	Relation
Bachelor, Science, National Changhua University of Education, Taiwan Senior Director, Mainstream Fabs, TSMC		-	-	-
Master, Chemical Engineering, National Cheng Kung University, Taiwan Senior Director, 300 mm fab operations, TSMC		Manager	J.J. Wang	Siblings
Ph.D., Materials Science and Engineering, Cornell University, U.S.A. Senior Director, Corporate Planning Organization, TSMC		Manager	Thomas T. Sun	Siblings
Ph.D., Electrical Engineering, Ohio State University Senior Director, Nanopatterning Technology Division, TSMC		-	-	-
Ph.D., Electrical Engineering, University of California, Los Angeles Senior Director, R&D Platform I Division, TSMC		-	-	-
Ph.D., Electrical Engineering, Syracuse University Senior Director, Design and Technology Platform, TSMC	Director, TSMC subsidiaries Director, TSMC affiliate President, TSMC subsidiaries	-	-	-

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

Unit: NT\$ thousands

Title	Name	Salary		Severance Pay and Pensions (Note 7)		Bonuses and Allowances (Note 8)	
		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities
Chairman & CEO	Morris Chang	80,987	95,333	2,318	6,510	475,807	553,864
President New Businesses (Note 2)	Rick Tsai (Note 3)						
Executive Vice President & Co-Chief Operating Officer	Shang-yi Chiang (Note 4)						
Executive Vice President & Co-Chief Operating Officer	Mark Liu (Note 4)						
Executive Vice President & Co-Chief Operating Officer	C.C. Wei (Note 4)						
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management	Stephen T. Tso						
Senior Vice President & General Counsel Legal	Richard Thurston						
Senior Vice President, Chief Financial Officer & Spokesperson Finance	Lora Ho						
Senior Vice President Worldwide Sales and Marketing	Jason C.S. Chen						
Vice President Operations/Affiliate Fabs	M.C. Tzeng						
Vice President Operations/Manufacturing Technology	Wei-Jen Lo						
Vice President & Chief Technical Officer Research and Development	Jack Sun						
Vice President Operations/Product Development	Y.P. Chin						
Vice President Quality and Reliability	N.S. Tsai						
Vice President & President of TSMC North America	Rick Cassidy						
Vice President Human Resources	L.C. Tu						
Vice President Operations/Mainstream Fabs	J.K. Lin						
Vice President Operations/300mm Fabs	J.K. Wang						
Vice President Corporate Planning Organization	Irene Sun						
Vice President Research and Development	Burn J. Lin (Note 5)						
Vice President Research and Development	Y.J. Mii (Note 6)						
Vice President Research and Development	Cliff Hou (Note 6)						

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

Note 2: TSMC's new businesses organization was transferred into two new TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd., on August 1, 2011.

Note 3: Mr. Rick Tsai has been the Chairman and CEO of two new TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd. since August 1, 2011. Before taking these positions, he was TSMC's President of New Businesses.

Note 4: On March 2, 2012, 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, effective March 5, 2012.

Note 5: Mr. Burn J. Lin was promoted to Vice President on February 15, 2011.

Note 6: Mr. Y.J. Mii and Mr. Cliff Hou were promoted to Vice Presidents on August 9, 2011.

Note 7: Pensions funded according to applicable law.

Note 8: The amount shown in the above table includes the expense for the employees' cash bonuses distributed in May, August, November 2011 and February 2012, company cars and gasoline reimbursement, but does not include compensation paid to company drivers (totalled NT\$4,207 thousand).

Note 9: The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 12, 2012.

Note 10: Total compensation paid to TSMC's CEO, President and vice presidents in 2010 was NT\$1,382,763 thousand, accounting for 0.86% of 2010 net income.

Note 11: Represents cumulative employee stock options exercisable as of the date of this Annual Report.

Compensation Paid to CEO, President and Vice Presidents

	2011	
	From TSMC	From All Consolidated Entities and Non-consolidated Affiliates
Under NT\$2,000,000	Rick Cassidy	
NT\$2,000,000 ~ NT\$4,999,999		
NT\$5,000,000 ~ NT\$9,999,999		
NT\$10,000,000 ~ NT\$14,999,999		
NT\$15,000,000 ~ NT\$29,999,999	Y.P. Chin, N.S. Tsai, L.C. Tu, J.K. Lin, J.K. Wang, Irene Sun, Y.J. Mii, Cliff Hou	Y.P. Chin, N.S. Tsai, L.C. Tu, J.K. Lin, J.K. Wang, Irene Sun, Y.J. Mii, Cliff Hou
NT\$30,000,000 ~ NT\$49,999,999	M.C. Tzeng, Wei-Jen Lo, Jack Sun, Burn J. Lin	M.C. Tzeng, Wei-Jen Lo, Jack Sun, Burn J. Lin
NT\$50,000,000 ~ NT\$99,999,999	Rick Tsai, Shang-yi Chiang, Mark Liu, C.C. Wei, Stephen T. Tso, Richard Thurston, Lora Ho, Jason C.S. Chen	Rick Tsai, Shang-yi Chiang, Mark Liu, C.C. Wei, Stephen T. Tso, Richard Thurston, Lora Ho, Jason C.S. Chen, Rick Cassidy
Over NT\$100,000,000	Morris Chang	Morris Chang
Total	22	22

Employee Profit Sharing (Note 9)				Total Compensation as a % of 2011 Net Income (Note 10)		Exercisable Employee Stock Options (K shares) (Note 11)		Compensation Received from Non-consolidated Affiliates
From TSMC		From All Consolidated Entities		From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	
Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)					
445,681	0	445,681	0	0.75%	0.82%	583	1,154	227

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

Unit: NT\$ thousands

Title	Name
Chairman & CEO	Morris Chang
President New Businesses (Note 2)	Rick Tsai (Note 3)
Executive Vice President & Co-Chief Operating Officer	Shang-yi Chiang (Note 4)
Executive Vice President & Co-Chief Operating Officer	Mark Liu (Note 4)
Executive Vice President & Co-Chief Operating Officer	C.C. Wei (Note 4)
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management	Stephen T. Tso
Senior Vice President & General Counsel Legal	Richard Thurston
Senior Vice President, Chief Financial Officer & Spokesperson Finance	Lora Ho
Senior Vice President Worldwide Sales and Marketing	Jason C.S. Chen
Vice President Operations/Affiliate Fabs	M.C. Tzeng
Vice President Operations/Manufacturing Technology	Wei-Jen Lo
Vice President & Chief Technical Officer Research and Development	Jack Sun
Vice President Operations/Product Development	Y.P. Chin
Vice President Quality and Reliability	N.S. Tsai
Vice President & President of TSMC North America	Rick Cassidy
Vice President Human Resources	L.C. Tu
Vice President Operations/Mainstream Fabs	J.K. Lin
Vice President Operations/300mm Fabs	J.K. Wang
Vice President Corporate Planning Organization	Irene Sun
Vice President Research and Development	Burn J. Lin (Note 5)
Vice President Research and Development	Y.J. Mii (Note 6)
Vice President Research and Development	Cliff Hou (Note 6)
Senior Director Finance	Jan Kees van Vliet
Senior Director New Businesses (Note 2)	Y.C. Chao (Note 7)

Note 1: The above-mentioned figures are preliminary and the proposed employee profit sharing distribution will be processed after the approval of the same by shareholders at the Annual Shareholders' Meeting on June 12, 2012.

Note 2: TSMC's new businesses organization was transferred into two new TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd., on August 1, 2011.

Note 3: Mr. Rick Tsai has been the Chairman and CEO of two new TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd. since August 1, 2011. Before taking these positions, he was TSMC's President of New Businesses.

Note 4: On March 2, 2012, 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, effective March 5, 2012.

Note 5: Mr. Burn J. Lin was promoted to Vice President on February 15, 2011.

Note 6: Mr. Y.J. Mii and Mr. Cliff Hou were promoted to Vice Presidents on August 9, 2011.

Note 7: Mr. Y.C. Chao has been the President of the new TSMC subsidiary, TSMC Solar Ltd. since August 1, 2011. Before taking this position, he was TSMC's Senior Director of New Businesses.

Stock (Fair Market Value)	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of 2011 Net Income
0	459,774	459,774	0.34%

3. Corporate Governance

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors established an Audit Committee in 2002 and a Compensation Committee in 2003.

TSMC's corporate governance won international recognition in 2011: *Corporate Governance Asia* honored TSMC with its "1st Asian Excellence Recognition Awards 2011" and "Corporate Governance Asia Recognition Awards 2011". *IR Global Rankings* honored TSMC with its "Best Corporate Governance in Greater China" and "Best Corporate Governance in Asia-Pacific". *Commonwealth Magazine* honored TSMC with its "Best Corporate Citizenship" and "Most Admired Company in Taiwan".

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.



Board of Directors Meeting Status

Dr. Morris Chang, the Chairman of the Board of Directors, convened four regular meetings and two special meetings in 2011. The directors' attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Morris Chang	6	0	100%	None
Vice Chairman	F.C. Tseng	6	0	100%	None
Director	National Development Fund, Executive Yuan Representative: Johnsee Lee	6	0	100%	None
Director	Rick Tsai	6	0	100%	None
Independent Director	Sir Peter Leahy Bonfield	4	2	67%	Sir Peter Bonfield participated in the discussion through telephone at one Special Meeting, represented by proxy.
Independent Director	Stan Shih	6	0	100%	None
Independent Director	Thomas J. Engibous	4	2	67%	None
Independent Director	Gregory C. Chow	2	0	100%	New office assumed (Elected on June 9)
Independent Director	Kok-Choo Chen	2	0	100%	New office assumed (Elected on June 9)

Annotations:

1. In 2011, there were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion.
2. There were no recusals of Directors due to conflicts of interests in 2011.
3. Measures taken to strengthen the functionality of the Board: We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors has established an Audit Committee and a Compensation Committee to assist the Board in carrying out its various duties.

3.1.1 Audit 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.

Audit Committee Meeting Status

Sir Peter Bonfield, Chairman of the Audit Committee, convened four regular meetings in 2011. The Committee members' attendance status is shown in the following table. In addition to these meetings, the Audit Committee members and consultant participated in five telephone conferences to discuss the Company's Annual Report to be filed with the Taiwan and U.S. authorities and investor conference materials with management.

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Sir Peter Leahy Bonfield	4	0	100%	None
Member	Stan Shih	4	0	100%	None
Member	Thomas J. Engibous	4	0	100%	None
Member	Gregory C. Chow	2	0	100%	New office assumed (Note)
Member	Kok-Choo Chen	2	0	100%	New office assumed (Note)
Financial Expert	J.C. Lobbezoo	4	0	100%	None

Annotations:

1. There was no Securities and Exchange Act §14-5 resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2011.
2. There were no recusals of independent directors due to conflicts of interests in 2011.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2011 (e.g. the channels, items and/or results of the audits on the corporate finance and/or operations, etc.):
 - (1) The internal auditors have sent the audit reports to the members of the Audit Committee periodically, and presented the findings of all audit reports in the quarterly meetings of the Audit Committee. The head of Internal Audit will immediately report to the members of the Audit Committee any material matters. During 2011, the head of Internal Audit did not report any such material matters. The communication channel between the Audit Committee and the internal auditor functioned well.
 - (2) The Company's independent auditors have presented the findings of their quarterly review or audits on the Company's financial results. Under applicable laws and regulations, the independent auditors are also required to immediately communicate to the Audit Committee any material matters that they have discovered. During 2011, the Company's independent auditors did not report any irregularity. The communication channel between the Audit Committee and the independent auditors functioned well.

Note: Mr. Gregory C. Chow and Ms. Kok-Choo Chen were elected as TSMC's independent directors and became members of the Audit Committee on June 9, 2011.

3.1.2 Compensation Committee

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

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.

Compensation Committee Meeting Status

Mr. Stan Shih, Chairman of the Compensation Committee, convened four regular meetings in 2011. The Committee members' attendance status is as follows:

Title	Name	Attendance in Person	Attendance Rate in Person (%)	Notes
Chair	Stan Shih	4	100%	(Note)
Member	Sir Peter Leahy Bonfield	4	100%	(Note)
Member	Thomas J. Engibous	4	100%	(Note)
Member	Gregory C. Chow	2	100%	New office assumed (Note)
Member	Kok-Choo Chen	2	100%	New office assumed (Note)

Note: At the meeting of August 9, 2011, TSMC's Board of Directors approved the appointment of all five Independent Directors, 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. Mr. Gregory C. Chow and Ms. Kok-Choo Chen are the new members of the Committee.

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

Item	Implementation Status	Non-implementation and Its Reason(s)
1. Shareholding Structure & Shareholders' Rights (1) Method of handling shareholder suggestions or complaints (2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3) Risk management mechanism and "firewall" between the Company and its affiliates	TSMC has designated appropriate departments, such as Corporate Communication Division, the SEC Compliance Department, Legal Department, etc., to handle shareholder suggestions or complaints. TSMC tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of TSMC. TSMC has established appropriate guidelines in its "Internal Control System" and "TSMC Invested Entity Governance and Management Policy".	None
2. Composition and Responsibilities of the Board of Directors (1) Independent Directors (2) Regular evaluation of external auditors' independence	Sir Peter Leahy Bonfield, Mr. Stan Shih, Mr. Thomas J. Engibous, Mr. Gregory C. Chow and Ms. Kok-Choo Chen are the independent directors of TSMC. The TSMC Audit Committee regularly evaluates the independence of external auditors.	None
3. Communication channel with stakeholders	TSMC has designated appropriate departments, such as Corporate Communication Division, the SEC Compliance Department, etc., to communicate with stakeholders on a case by case basis, as needed. Furthermore, the contact information providing access to the Company's spokesperson and relevant departments is available on TSMC's website.	None
4. Information Disclosure (1) Establishment of a corporate website to disclose information regarding the Company's financials, business and corporate governance status (2) Other information disclosure channels (e.g. maintaining an English-language website, designating people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference etc.)	TSMC discloses information through its website (in both Chinese and English) http://www.tsmc.com . Since TSMC is a foreign private issuer with American Depositary Receipts listed on the New York Stock Exchange (NYSE), TSMC is subject to various NYSE regulations, one of which requires TSMC to disclose the significant ways in which its corporate governance practices differ from those followed by US domestic companies under NYSE listing standards. Such disclosure information may be found at the following web address: http://www.tsmc.com/download/english/e03_governance/NYSE_Section_303A.pdf TSMC has designated appropriate departments (e.g. Corporate Communication Division, the SEC Compliance Department, etc.) to handle the collection and disclosure of information as required by the relevant laws and regulations of Taiwan and other jurisdictions. TSMC has designated spokespersons as required by relevant regulations. TSMC webcasts live investor conferences.	None
5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors	TSMC's Board of Directors has established an Audit Committee and a Compensation Committee. Please refer to the "Corporate Governance" section on page 28-35 of this Annual Report for details.	None

(Continued)

6. If the Company has established corporate governance policies based on TSE Corporate Governance Best Practice Principles, please describe any discrepancy between the policies and their implementation.

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, TSMC's Board of Directors established an Audit Committee in 2002 and a Compensation Committee in 2003. For the status of TSMC's corporate governance, please refer to the "Corporate Governance" section on page 28-35 of this Annual Report.

7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors):

- (1) Status of employee rights and employee wellness: Please refer to the "Employees" section on page 60-64 of this Annual Report.
- (2) Status of investor relations, supplier relations and rights of stakeholders: Please refer to the "Corporate Social Responsibility" on page 78-89 of this Annual Report.
- (3) Status of Risk Management Policies and Risk Evaluation: Please refer to the "Risk Management" section on page 71-77 of this Annual Report.
- (4) Status of Customer Relations Policies: Please refer to the "Customer Trust" section on page 59-60 of this Annual Report.
- (5) TSMC maintains D&O Insurance for its directors and officers.

8. If the Company has a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None

TSMC's corporate governance won international recognition in 2011: *Corporate Governance Asia* honored TSMC with its "1st Asian Excellence Recognition Awards 2011" and "Corporate Governance Asia Recognition Awards 2011". *IR Global Rankings* honored TSMC with its "Best Corporate Governance in Greater China" and "Best Corporate Governance in Asia-Pacific". *Commonwealth Magazine* honored TSMC with its "Best Corporate Citizenship" and "Most Admired Company in Taiwan".

Continuing Education/Training of Directors in 2011

Name	Date	Host by	Training/Speech Title	Duration
Morris Chang (Note)	04/12	Taiwan Stock Exchange Corporation	Speech: Enterprise Management & Corporate Social Responsibility	2 hours
	11/24	Taiwan Financial Supervisory Commission: The 7th Taipei Corporate Governance Forum	Speech: Corporate Governance & Corporate Social Responsibility	20 minutes
Sir Peter Leahy Bonfield	02/10	National Association of Corporate Directors	Global Governance: Adapting to Changes at Home and Abroad	2.5 hours
Stan Shih (Note)	12/02	Youth Career Development Association	Speech: Wangdao Management & Enterprise Management	1 hour
Johnsee Lee	02/23	Taiwan Securities & Futures Institute	Practice Advanced Seminar for Directors and Supervisors (including Independent Directors): Enterprise Crime & the Responsibilities of Directors and Supervisor	3 hours
	10/27-10/28	Cross-strait Economic Cooperation Committee	The First Cross-strait Industrial Cooperation Forum	2 days
	12/02	Hong Kong Trade Development Council	Business of IP Asia Forum	7 hours
Morris Chang F.C. Tseng Sir Peter Leahy Bonfield Stan Shih Thomas J. Engibous Gregory C. Chow Kok-Choo Chen Rick Tsai Johnsee Lee	08/09	TSMC	Speech: "Cloud Computing & Mobile Products" by Barry Lam, Chairman of Quanta Computer Inc.	1 hour
Morris Chang F.C. Tseng Sir Peter Leahy Bonfield Stan Shih Thomas J. Engibous Kok-Choo Chen Rick Tsai Johnsee Lee	11/08	TSMC	Speech: "Chinese Economy" by Professor Gregory C. Chow	45 minutes

1. From time to time, TSMC provides directors with information concerning regulatory requirements and developments as related to directors' activities. TSMC management also regularly presents updates on the Company's business and other information to directors.

2. Regular regulatory update reports are provided by TSMC's General Counsel and by the Company's independent auditors at the Audit Committee meetings.

Note: Selected speeches on corporate governance and related topics.

Continuing Education/Training of Management in 2011

Title/Name	Date	Host by	Training	Duration
Director, Accounting Division Jessica Chou	12/12-12/13	Accounting Research and Development Foundation	Continuing Education Course for Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12 hours
Director, Internal Audit John Liang	11/24-11/25	The Institute of Internal Auditors, R.O.C.	Managerial Proficiency Training for Internal Auditors – Financial Auditing for Internal Auditors	14 hours

Note: In 2011, Management attended external or internal training programs or speech presentations, such as Chairman of Quanta Computer Inc., Mr. Barry Lam's speech on "Cloud Computing & Mobile Products", Professor Gregory C. Chow's speech on "Chinese Economy" and legal training on "Inter-Company's Fair Competition – Analysis of the Company Law and the Fair Trade Act between the Affiliates", etc.

3.3 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.1 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.

3.3.2 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.

3.3.3 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors from January 1, 2011 to February 29, 2012: None.

3.4 Internal Control System Execution Status

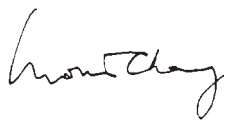
Taiwan Semiconductor Manufacturing Company Limited Statement of Internal Control System

Date: February 14, 2012

Based on the findings of a self-assessment, Taiwan Semiconductor Manufacturing Company Limited (TSMC) states the following with regard to its internal control system during the year 2011:

1. TSMC's Board of Directors and Management are responsible for establishing, implementing, and maintaining an adequate internal control system. Our internal control is a process designed to provide reasonable assurance over the effectiveness and efficiency of our operations (including profitability, performance, and safeguarding of assets), reliability of our financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing its stated objectives. Moreover, the effectiveness of an internal control system may be subject to changes due to extenuating circumstances beyond our control. Nevertheless, our internal control system contains self-monitoring mechanisms, and TSMC takes immediate remedial actions in response to any identified deficiencies.
3. TSMC evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five key components of managerial internal control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.
4. TSMC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid Regulations.
5. Based on the findings of such evaluation, TSMC believes that, on December 31, 2011, we have maintained, in all material respects, an effective internal control system (that includes the supervision and management of our subsidiaries), to provide reasonable assurance over our operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations.
6. This Statement will be an integral part of TSMC's Annual Report for the year 2011 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on February 14, 2012, with none of the nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Taiwan Semiconductor Manufacturing Company Limited



Morris Chang,
Chairman & Chief Executive Officer

3.5 Status of Personnel Responsible for Preparing Financial Reports

3.5.1 Resignation or Dismissal of Personnel Responsible for Financial Report from January 1, 2011 to February 29, 2012: None.

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

Certification	Number of Employees	
	Internal Audit	Finance
Certified Public Accountants (CPA)	3	17
US Certified Public Accountants (US CPA)	2	9
Certified Internal Auditor (CIA)	8	5
Chartered Financial Analyst (CFA)	0	2
Certified Management Accountant (CMA)	0	1
Financial Risk Manager (FRM)	0	0
Certificate in Financial Management (CFM)	0	1
Certification in Control Self-Assessment (CCSA)	3	0
Certified Information Systems Auditor (CISA)	2	0
BS7799/ISO 27001 Lead Auditor	1	0

3.6 Information Regarding TSMC's Independent Auditor

3.6.1 Audit Fees

Unit: NT\$ thousands

Accounting Firm	Name of CPA	Audit Fee	Non-audit Fee					Whether the CPA's Audit Period Covers an Entire Fiscal Year			Note
			System Design	Company Registration	Human Resource	Others (Note 2)	Subtotal	Yes	No	Audit Period	
Deloitte & Touche	Hung-Peng Lin, Shu-Chieh Huang, and others	77,056	-	240	-	510	750	✓			Note 1

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

Note 2: Fee mainly related to ROC IFRS adoption project.

3.6.2 TSMC did not replace its independent auditor during 2010, 2011, and as of February 29, 2012.

3.6.3 TSMC's Chairman, Chief Executive Officer, Chief Financial Officer, and managers in charge of its finance and accounting operations did not hold any positions within TSMC's independent audit firm or its affiliates during 2011.

3.7 Material Information Management Procedure

TSMC has established relevant procedures for material information management and disclosure. All relevant departments and employees are required to comply with the procedures and other applicable regulations when they become aware of any potential material information and the disclosure thereof.

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Capitalization

Unit: Share/NT\$

As of 02/29/2012

Month/ Year	Issue Price (Per Share)	Authorized Share Capital		Capital Stock		Remark		
		Shares	Amount	Shares	Amount	Sources of Capital	Capital Increase by Assets Other than Cash	Date of Approval & Approval Document No.
03/2011	10	28,050,000,000	280,500,000,000	25,910,078,664	259,100,786,640	Exercise of Employee Stock Options: NT\$27,347,210	None	03/11/2011 Yuan Shang Tzu No. 1000007213
06/2011	10	28,050,000,000	280,500,000,000	25,914,193,297	259,141,932,970	Exercise of Employee Stock Options: NT\$41,146,330	None	06/07/2011 Yuan Shang Tzu No. 1000015848
08/2011	10	28,050,000,000	280,500,000,000	25,914,283,114	259,142,831,140	Exercise of Employee Stock Options: NT\$898,170	None	08/26/2011 Yuan Shang Tzu No. 1000025518
12/2011	10	28,050,000,000	280,500,000,000	25,914,149,208	259,141,492,080	Exercise of Employee Stock Options: NT\$8,660,600 Cancellation of treasury shares: NT\$9,999,660	None	12/14/2011 Yuan Shang Tzu No. 1000037707

4.1.2 Capital and Shares

Unit: Share

As of 02/29/2012

Type of Stock	Authorized Share Capital				Total
	Issued Shares			Unissued Shares	
	Listed	Non-listed	Total		
Common Stock	25,917,753,612	0	25,917,753,612	2,132,246,388	28,050,000,000

Shelf Registration: None.

4.1.3 Composition of Shareholders

Common Share

As of 07/05/2011 (last record date)

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	14	253	1,060	3,058	439,975	444,360
Shareholding	1,761,390,560	1,178,924,846	1,135,228,569	18,701,750,163	3,136,988,976	25,914,283,114
Holding Percentage (%)	6.80%	4.55%	4.38%	72.16%	12.11%	100.00%



Distribution Profile of Share Ownership

Common Share

As of 07/05/2011 (last record date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	176,014	39,503,017	0.15%
1,000 ~ 5,000	179,144	395,793,562	1.53%
5,001 ~ 10,000	41,024	290,812,230	1.12%
10,001 ~ 15,000	16,602	199,704,949	0.77%
15,001 ~ 20,000	7,383	129,082,015	0.50%
20,001 ~ 30,000	7,983	192,751,790	0.74%
30,001 ~ 40,000	3,682	126,385,404	0.49%
40,001 ~ 50,000	2,350	105,505,232	0.41%
50,001 ~ 100,000	4,378	303,270,856	1.17%
100,001 ~ 200,000	2,194	303,609,365	1.17%
200,001 ~ 400,000	1,226	343,922,060	1.33%
400,001 ~ 600,000	520	253,255,140	0.98%
600,001 ~ 800,000	261	180,970,691	0.70%
800,001 ~ 1,000,000	213	191,945,165	0.74%
Over 1,000,001	1,386	22,857,771,638	88.20%
Total	444,360	25,914,283,114	100.00%

Preferred Share: None.

4.1.4 Major Shareholders

Common Share

As of 07/05/2011 (last record date)

Shareholders	Total Shares Owned	Ownership (%)
ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	5,468,653,928	21.10%
National Development Fund, Executive Yuan	1,653,709,980	6.38%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	760,113,810	2.93%
Cathay Life Insurance Co., Ltd.	376,533,235	1.45%
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	364,978,136	1.41%
Government of Singapore	340,835,129	1.32%
Fubon Life Insurance Co., Ltd.	243,035,308	0.94%
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	241,377,663	0.93%
The Royal Bank of Scotland plc as Depositary of First State Asia Pacific Leaders Fund a sub fund of First State Investments ICVC	226,909,807	0.88%
Polaris Taiwan Top 50 Tracker Fund	222,860,366	0.86%

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

Unit: Share

Title Name	2011		01/01/2012 ~ 02/29/2012	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Chairman & CEO Morris Chang	2,000,000	-	-	-
Vice Chairman F.C. Tseng	-	-	-	-
Director National Development Fund, Executive Yuan	-	(329,490,000)	-	-
Representative: Johnsee Lee	-	-	-	-
Director Rick Tsai	(500,000)	-	(110,000)	-
Independent Director Sir Peter Leahy Bonfield	-	-	-	-
Independent Director Stan Shih	-	-	-	-
Independent Director Thomas J. Engibous	-	-	-	-

(Continued)

Title Name	2011		01/01/2012 ~ 02/29/2012	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Independent Director Gregory C. Chow (Note 2)	-	-	-	-
Independent Director Kok-Choo Chen (Note 2)	-	-	-	-
Executive Vice President & Co-Chief Operating Officer Shang-yi Chiang (Note 3)	(220,000)	-	-	-
Executive Vice President & Co-Chief Operating Officer Mark Liu (Note 3)	760,541	-	(85,000)	-
Executive Vice President & Co-Chief Operating Officer C.C. Wei (Note 3)	(261,000)	-	-	-
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management Stephen T. Tso	(570,000)	-	(30,000)	-
Senior Vice President & General Counsel Legal Richard Thurston	(250,000)	650,000	(20,000)	-
Senior Vice President, Chief Financial Officer & Spokesperson Finance Lora Ho	160,000	-	-	-
Senior Vice President Worldwide Sales and Marketing Jason C.S. Chen	(106,000)	280,000	(30,000)	-
Vice President Operations/Affiliate Fabs M.C. Tzeng	(72,000)	-	-	-
Vice President Operations/Manufacturing Technology Wei-Jen Lo	(209,000)	-	(22,000)	-
Vice President & Chief Technology Officer Research and Development Jack Sun	(278,000)	-	(58,000)	-
Vice President Operations/Product Development Y.P. Chin	(211,000)	-	(10,000)	-
Vice President Quality and Reliability N.S. Tsai	-	-	-	-
Vice President President of TSMC North America Rick Cassidy	-	-	-	-
Vice President Human Resources L.C. Tu	61,373	-	-	-
Vice President Operations/Mainstream Fabs J.K. Lin	-	-	-	-
Vice President Operations/300mm Fabs J.K. Wang	-	-	-	-
Vice President Corporate Planning Organization Irene Sun	(50,000)	220,000	-	-
Vice President Research and Development Burn J. Lin (Note 4)	-	-	-	-
Vice President Research and Development Y.J. Mii (Note 5)	-	-	-	-
Vice President Research and Development Cliff Hou (Note 5)	-	-	-	-
Senior Director Finance Jan Kees van Vliet	-	-	-	-
Senior Director New Businesses Y.C. Chao (Note 6)	-	-	-	-

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

Note 2: Mr. Gregory C. Chow and Ms. Kok-Choo Chen were elected as our independent directors at our Annual Shareholders' Meeting held on June 9, 2011. Net change in their shareholding or shares pledged were from June 9, 2011 to February 29, 2012.

Note 3: On March 2, 2012, 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, effective March 5, 2012.

Note 4: Mr. Burn J. Lin was promoted to Vice President on February 15, 2011.

Note 5: Mr. Y.J. Mii and Mr. Cliff Hou were promoted to Vice Presidents on August 9, 2011. Net change in their shareholding or shares pledged were from August 9, 2011 to February 29, 2012.

Note 6: Mr. Y.C. Chao has been the President of the new TSMC subsidiary, TSMC Solar Ltd., since August 1, 2011. His shareholding numbers was as of July 31, 2011.

4.1.6 Stock Trade with Related Party: None.

4.1.7 Stock Pledge with Related Party: None.

4.1.8 Related Party Relationship among Our 10 Largest Shareholders

Common

As of 07/05/2011 (last record date)

Name	Current Shareholding		Spouse & Minor Shareholding		TSMC Shareholding by Nominee Arrangement		Name and Relationship between TSMC's Shareholders as Defined in the Statement of Financial Accounting Standards No.6	
	Shares	%	Shares	%	Shares	%	Name	Relationship
ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	5,468,653,928	21.10%	N/A	N/A	N/A	N/A	None	None
National Development Fund, Executive Yuan Representatives: Johnsee Lee	1,653,709,980	6.38%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	760,113,810	2.93%	N/A	N/A	N/A	N/A	None	None
Cathay Life Insurance Co., Ltd. Chairman: Hong-Tu Tsai	376,533,235	1.45%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	364,978,136	1.41%	N/A	N/A	N/A	N/A	None	None
Government of Singapore	340,835,129	1.32%	N/A	N/A	N/A	N/A	None	None
Fubon Life Insurance Co., Ltd. Chairman: Peng-Yuan Cheng	243,035,308	0.94%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	241,377,663	0.93%	N/A	N/A	N/A	N/A	None	None
The Royal Bank of Scotland plc as Depositary of First State Asia Pacific Leaders Fund a sub fund of First State Investments ICVC	226,909,807	0.88%	N/A	N/A	N/A	N/A	None	None
Polaris Taiwan Top 50 Tracker Fund	222,860,366	0.86%	N/A	N/A	N/A	N/A	None	None

4.1.9 Long-term Investment Ownership

As of 12/31/2011

Long-term Investment	Ownership by TSMC (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Equity Method:						
TSMC Partners, Ltd.	988,268,244	100.0%	0	0%	988,268,244	100.0%
TSMC Global, Ltd.	1,284	100.0%	0	0%	1,284	100.0%
TSMC North America	11,000,000	100.0%	0	0%	11,000,000	100.0%
TSMC Europe B.V.	200	100.0%	0	0%	200	100.0%
TSMC Japan Limited	6,000	100.0%	0	0%	6,000	100.0%
TSMC Korea Limited	80,000	100.0%	0	0%	80,000	100.0%
TSMC China Company Limited	Not Applicable (Note 1)	100.0%	Not Applicable (Note 1)	0%	Not Applicable (Note 1)	100.0%
TSMC Solar Ltd.	1,118,000,000	100.0%	0	0%	1,118,000,000	100.0%
TSMC Solid State Lighting Ltd.	227,000,000	100.0%	0	0%	227,000,000	100.0%
Systems on Silicon Manufacturing Co. Pte Ltd.	313,603	38.8%	0	0%	313,603	38.8%
Vanguard International Semiconductor Corp.	628,223,493	38.8%	279,279,917	17.2% (Note 2)	907,503,410	56.0%
Xintec Inc.	94,010,653	40.2%	0	0%	94,010,653	40.2%
Global UniChip Corporation	46,687,859	34.8%	0	0%	46,687,859	34.8%
Emerging Alliance Fund, L.P.	Not Applicable (Note 1)	99.5%	Not Applicable (Note 1)	0%	Not Applicable (Note 1)	99.5%
VentureTech Alliance Fund II, L.P.	Not Applicable (Note 1)	98.0%	Not Applicable (Note 1)	0%	Not Applicable (Note 1)	98.0%
VentureTech Alliance Fund III, L.P.	Not Applicable (Note 1)	52.8%	Not Applicable (Note 1)	0%	Not Applicable (Note 1)	98.0%

(Continued)

Long-term Investment	Ownership by TSMC (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Cost Method:						
Non-publicly Traded						
United Industrial Gases Co. Ltd.	16,782,937	9.8%	0	0%	16,782,937	9.8%
Shin-Etsu Handotai Taiwan Co. Ltd.	10,500,000	7.0%	0	0%	10,500,000	7.0%
W.K. Technology Fund IV	4,000,000	1.9%	0	0%	4,000,000	1.9%
Funds						
Horizon Ventures Fund I, L.P.	Not Applicable (Note 1)	12.1%	Not Applicable (Note 1)	0%	Not Applicable (Note 1)	12.1%
Crimson Asia Capital Ltd., L.P.	Not Applicable (Note 1)	1.0%	Not Applicable (Note 1)	0%	Not Applicable (Note 1)	1.0%

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

Note 2: TSMC's Director, National Development Fund of Executive Yuan, holds 16.9% while other Directors and Management hold 0.3%.

4.1.10 Share Information

TSMC's earnings per share decreased 16.9% in 2011 to NT\$5.18 per share. The following table details TSMC's net worth, earnings, dividends and market price per common share in 2011, as well as other data regarding return on investment.

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

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

Item	2010	2011	01/01/2012 ~ 02/29/2012
Market Price Per Share			
Highest Market Price	69.90 (Note 1)	76.60 (Note 1)	81.10
Lowest Market Price	51.20 (Note 1)	63.30 (Note 1)	75.00
Average Market Price	57.54 (Note 1)	70.68 (Note 1)	77.39
Net Worth Per Share			
Before Distribution	22.16	24.30	-
After Distribution	19.16	(Note 5)	-
Earnings Per Share			
Weighted Average Shares (thousand shares)	25,919,814	25,924,682	-
Diluted Earnings Per Share	6.23	5.18 (Note 5)	-
Adjusted Diluted Earnings Per Share (Note 1)	6.23	(Note 5)	-
Dividends Per Share			
Cash Dividends	3.00	3.00 (Note 5)	-
Accumulated Undistributed Dividend	-	-	-
Return on Investment			
Price/Earnings Ratio (Note 2)	9.24	(Note 5)	-
Price/Dividend Ratio (Note 3)	19.18	(Note 5)	-
Cash Dividend Yield (Note 4)	5%	(Note 5)	-

Note 1: Retroactively adjusted for appropriation of earnings

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

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

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

Note 5: Pending for shareholders' approval

4.1.11 Dividend Policy

TSMC's profits may be distributed by way of cash dividend and/or stock dividend. The preferred method of distributing profits is by way of an annual cash dividend. Under TSMC's Articles of Incorporation, stock dividends shall not exceed 50% of the total dividend distribution in any given fiscal year. TSMC does not pay dividends when there is no profit or retained earnings.

4.1.12 Distribution of Profit

The Board adopted a proposal for 2011 profit distribution at its Meeting on February 14, 2012. The proposal will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 12, 2012.

In addition, according to the Company's Articles of Incorporation, TSMC shall allocate no more than 0.3% of earnings available for distribution (net income after a regulatory required deduction for prior years' losses and contributions to legal and special reserves) as compensation to directors, and not less than 1% as a bonus to employees. Profit sharing to employees to be distributed after the 2012 Annual Shareholders' Meeting was recorded as a charge to earnings of proximately 6.7% of net income in year 2011; compensation to directors were expensed based on estimated amount of payment. The proposal will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 12, 2012. If the actual amounts subsequently resolved by the shareholders differ from the above estimated amounts, the differences will be recorded in the year of shareholders' resolution as a change in accounting estimate.

Proposal to Distribute 2011 Profits

Unit: NT\$

Cash Dividends to Common Shareholders (NT\$3.0 per share)	77,748,667,725
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Note: Employees' cash bonus and profit sharing and compensation to directors for the year 2011 which have been expensed under the Company's income statements are listed below:

- NT\$8,990,026,475 distributed employees' cash bonus
- NT\$8,990,026,475 employees' cash profit sharing to be distributed after 2012 Annual Shareholders' Meeting
- NT\$62,323,764 directors' compensation

2010 Directors' Compensation and Employee Profit Sharing

	Board Resolution (02/15/2011)	Actual Result (Note)
	Amount (NT\$)	Amount (NT\$)
Directors' Compensation (Cash)	51,131,000	51,131,000
Employee's Cash Profit Sharing	10,908,338,094	10,908,338,094
Total	10,959,469,094	10,959,469,094

Note: Each of the above two items, being approved by the Board, has been expensed at the same amount under the Company's 2010 income statements.

4.1.13 Impact to 2012 Business Performance and EPS Resulting from Stock Dividend Distribution: Not applicable.

4.1.14 Buyback of Common Stock

In third quarter 2011, certain TSMC shareholders expressed their dissent on the transfer of TSMC's solar and solid state lighting businesses approved by the 2011 annual general shareholders' meeting, and requested TSMC to buy back their 999,966 TSMC shares at the agreed-upon price of NT\$71.6 per share, in accordance with relevant laws and regulations. The value of shares bought back was NT\$71,598 thousand. The shares bought back were subsequently cancelled in December 2011. As of February 29, 2012, TSMC did not hold any treasury shares.

4.2 Issuance of Corporate Bonds

4.2.1 Corporate Bonds

As of 02/29/2012

Issue	Domestic Unsecured Bond (100-1)	Domestic Unsecured Bond (100-2)
Issuing Date	09/28/2011	01/11/2012
Denomination	NT\$10,000,000	NT\$10,000,000
Offering Price	Par	Par
Total Amount	NT\$18,000,000,000	NT\$17,000,000,000
Coupon	Tranche A: 1.40% p.a. Tranche B: 1.63% p.a.	Tranche A: 1.29% p.a. Tranche B: 1.46% p.a.
Tenor and Maturity Date	Tranche A: 5 years Maturity: 09/28/2016 Tranche B: 7 years Maturity: 09/28/2018	Tranche A: 5 years Maturity: 01/11/2017 Tranche B: 7 years Maturity: 01/11/2019
Guarantor	None	None
Trustee	Mega International Commercial Bank	Mega International Commercial Bank
Underwriter	Not Applicable	Not Applicable
Legal Counsel	Modern Law Office	Modern Law Office
Auditor	Deloitte & Touche	Deloitte & Touche
Repayment	Bullet	Bullet
Outstanding	NT\$18,000,000,000	NT\$17,000,000,000
Redemption or Early Repayment Clause	None	None
Covenants	None	None
Credit Rating	twAAA (Taiwan Ratings Corporation, 08/24/2011)	twAAA (Taiwan Ratings Corporation, 12/06/2011)
Other Rights of Bondholders	Conversion Right	None
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities	Not Applicable
Dilution Effect and Other Adverse Effects on Existing Shareholders	None	None
Custodian	None	None

Note: Tranche C of Domestic Unsecured Bond V (NT\$4.5 billion) was repaid in January 2012.

4.2.2 Convertible Bond: None.

4.2.3 Exchangeable Bond: None.

4.2.4 Shelf Registration: None.

4.2.5 Bond with Warrants: None.

4.3 Preferred Shares

4.3.1 Preferred Share: None.

4.3.2 Preferred Share with Warrants: None.

4.4 Issuance of American Depositary Shares

Issuing Date	10/08/1997	11/20/1998	01/12/1999 - 01/14/1999	07/15/1999	08/23/1999 - 09/09/1999	02/22/2000 - 03/08/2000	04/17/2000	06/07/2000 - 06/15/2000
Issuance & Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
Total Amount (US\$)	594,720,000	184,554,440	35,500,000	296,499,641	158,897,089	379,134,599	224,640,000	1,167,873,850
Offering Price Per ADS (US\$)	24.78	15.26	17.75	24.516	28.964	57.79	56.16	35.75
Units Issued	24,000,000	12,094,000	2,000,000	12,094,000	5,486,000	6,560,000	4,000,000	32,667,800
Underlying Securities	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	Cash Offering and TSMC Common Shares from Selling Shareholders
Common Shares Represented	120,000,000	60,470,000	10,000,000	60,470,000	27,430,000	32,800,000	20,000,000	163,339,000
Rights & Obligations of ADS Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders
Trustee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Depository Bank	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York
Custodian Bank (Note 1)	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch
ADSs Outstanding (Note 2)	24,000,000	46,222,650	48,222,650	71,407,859	76,893,859	83,453,859	87,453,859	144,608,739
Apportionment of Expenses for Issuance & Maintenance	(Note 3)							(Note 4)
Terms and Conditions in the Deposit Agreement & Custody Agreement	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details
Closing Price Per ADS (US\$)	2011	High	13.43					
		Low	10.94					
		Average	12.37					
	01/01/2012 - 02/29/2012	High	14.69					
		Low	13.14					
		Average	14.01					

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

Note 2: TSMC has in aggregate issued 813,544,500 ADSs since 1997, which, if taking into consideration stock dividend distributed over the period, would amount to 1,147,835,205 ADSs. As of February 29, 2012, total number of outstanding ADSs was 1,091,848,660 after 55,986,545 ADSs were redeemed. Stock dividends distributed in 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009 was 45%, 23%, 28%, 40%, 10%, 8%, 14.08668%, 4.99971%, 2.99903%, 0.49991%, 0.50417% and 0.49998% respectively.

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

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

05/14/2001 - 06/11/2001	06/12/2001	11/27/2001	02/07/2002 - 02/08/2002	11/21/2002 - 12/19/2002	07/14/2003 - 07/21/2003	11/14/2003	08/10/2005 - 09/08/2005	05/23/2007
NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE
240,999,660	297,649,640	320,600,000	1,001,650,000	160,097,914	908,514,880	1,077,000,000	1,402,036,500	2,563,200,000
20.63	20.63	16.03	16.75	8.73	10.40	10.77	8.6	10.68
11,682,000	14,428,000	20,000,000	59,800,000	18,348,000	87,357,200	100,000,000	163,027,500	240,000,000
TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders (Pursuant to ADR Conversion Sale Program)	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders	TSMC Common Shares from Selling Shareholders
58,410,000	72,140,000	100,000,000	299,000,000	91,740,000	436,786,000	500,000,000	815,137,500	1,200,000,000
Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders	Same as those of Common Share Holders
Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York	Citibank, N.A. – New York
Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch	Citibank, N.A. – Taipei Branch
156,290,739	170,718,739	259,006,235	318,806,235	369,019,413	485,898,166	585,898,166	864,210,597	1,128,739,639

(Note 3)

See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details	See Deposit Agreement and Custody Agreement for Details
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4.5 Status of Employee Stock Option Plan

4.5.1 Issuance of Employee Stock Options

ESOP Granted	First Grant	Second Grant	Third Grant
Approval Date by The Securities & Futures Bureau	06/25/2002	06/25/2002	06/25/2002
Issue (Grant) Date	08/22/2002	11/08/2002	03/07/2003
Number of Options Granted	18,909,700	1,085,000	6,489,514
Percentage of Shares Exercisable to Outstanding Common Shares	0.10154%	0.00583%	0.03485%
Option Duration	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share
Vesting Schedule	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
Shares Exercised	19,456,127	1,252,714	5,830,687
Value of Shares Exercised (NT\$)	666,641,509	41,811,521	139,392,384
Shares Unexercised	1,163,128	163,489	1,753,867
Original Grant Price Per Share (NT\$)	NT\$53.0	NT\$51.0	NT\$41.6
Adjusted Exercise Price Per Share (NT\$)	NT\$26.5	NT\$25.5	NT\$20.9
Percentage of Shares Unexercised to Outstanding Common Shares	0.00449%	0.00063%	0.00677%
Impact to Shareholders' Equity	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited

4.5.2 Employee Stock Options Granted to Management Team and to Top 10 Employees with an Individual Grant Value over NT\$30,000,000

Title	Name	Number of Options Granted (Note 2)	% of Shares Exercisable to Outstanding Common Shares
Chairman & Chief Executive Officer	Morris Chang (Note 1)	5,610,424	0.02165%
President	Rick Tsai (Note 1)		
Executive Vice President & Co-Chief Operating Officer	Mark Liu (Note 1)		
Executive Vice President & Co-Chief Operating Officer	C.C. Wei (Note 1)		
Senior Vice President	Stephen T. Tso (Note 1)		
Senior Vice President & General Counsel	Richard Thurston (Note 1)		
Vice President	Jack Sun (Note 1)		
Vice President	Rick Cassidy		
Vice President	L.C. Tu (Note 1)		
Vice President	J.K. Lin (Note 1)		
Vice President	Burn J. Lin (Note 1)		

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

Note 2: Number of options granted includes the additional shares due to stock dividend distributed in 2004, 2005, 2006, 2007, 2008 and 2009.

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

TSMC did not issue new shares in connection with mergers or acquisitions in 2011, and as of the date of this Annual Report.

4.7 Financing Plans and Implementation: Not applicable.

As of 02/29/2012

Fourth Grant	Fifth Grant	Sixth Grant	Seventh Grant	Eighth Grant	Ninth Grant
06/25/2002	10/29/2003	10/29/2003	10/29/2003	10/29/2003	01/06/2005
06/06/2003	12/03/2003	02/19/2004	05/11/2004	08/11/2004	05/17/2005
23,090,550	842,900	15,720	11,167,817	135,300	10,742,350
0.12399%	0.00416%	0.00008%	0.05510%	0.00058%	0.04620%
10 years	10 years	10 years	10 years	10 years	10 years
New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share
2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%	2nd Year: up to 50% 3rd Year: up to 75% 4th Year: up to 100%
18,543,219	480,834	10,173	9,024,378	128,014	7,080,516
669,714,219	24,683,269	493,565	400,677,512	4,982,968	337,405,079
6,341,825	102,277	5,243	1,347,023	0	1,885,665
NT\$58.5	NT\$66.5	NT\$63.5	NT\$57.5	NT\$43.8	NT\$54.3
NT\$29.3	NT\$50.1	NT\$47.8	NT\$43.2	NT\$38.0	NT\$47.2
0.02447%	0.00039%	0.00002%	0.00520%	0.00000%	0.00728%
Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited	Dilution to Shareholders' Equity is limited

As of 02/29/2012

Exercised				Unexercised			
Shares Exercised	Exercise Price Per Share	Value of Shares Exercised (NT\$)	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share	Value of Shares Unexercised (NT\$)	% of Shares Unexercised to Outstanding Common Shares
4,456,025	24.8	110,510,000	0.01719%	1,154,399	25.1	28,922,558	0.00445%

5. Operational Highlights

5.1 Business Activities

5.1.1 Business Scope

As the founder and a leader of the dedicated semiconductor foundry segment, TSMC has built its reputation by offering advanced and “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.

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

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

5.1.2 Customer Applications

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.



5.1.3 Unconsolidated Shipments and Gross Sales in 2011 and 2010

Unit: Shipments (8-inch equivalent wafers) / Gross Sales (NT\$ thousands)

		2011		2010	
		Shipments	Gross Sales	Shipments	Gross Sales
Wafer	Domestic	2,077,487	49,039,389	2,132,697	51,312,831
	Export	10,411,227	340,588,566	9,688,352	340,474,577
Package	Domestic	0	0	0	0
	Export	24,881	1,045,714	23,550	963,427
Other	Domestic	19,544	4,499,828	20,278	3,974,831
	Export	58,682	26,298,590	53,137	21,940,782
Total	Domestic	2,097,031	53,539,217	2,152,975	55,287,662
	Export	10,494,790	367,932,870	9,765,039	363,378,786

5.1.4 Production in 2011 and 2010

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

Wafers			
Year	Capacity	Output	Amount
2011	13,221,316	12,019,882	188,521,607
2010	11,328,601	11,806,566	199,376,792

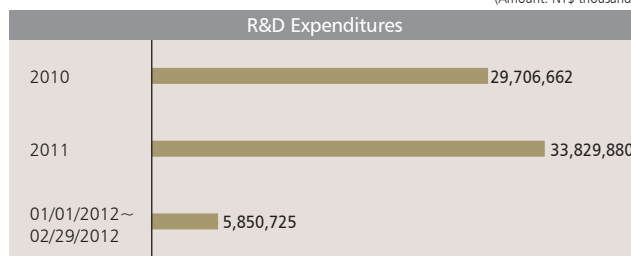
5.2 Technology Leadership

5.2.1 R&D Organization and Investment

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%.

(Amount: NT\$ thousands)



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.

5.2.2 R&D Accomplishments in 2011

R&D Highlights

● 28nm Technology

TSMC continues to lead the foundry segment with the most advanced 28nm technology, having achieved volume production at 28nm, including record high transistor performances with high-k/ metal-gate stack, 5th generation of Cu and low-k interconnect, and the 2nd generation of immersion lithography.

TSMC's 28nm process offering includes 28nm High Performance (28HP), 28nm High Performance Low Power (28HPL), 28nm Low Power (28LP), and 28nm High Performance Mobile Computing (28HPM). Among these technology offerings, 28HP, 28HPL and 28LP have all been qualified and demonstrated first Silicon success in FPGAs, GPUs, CPUs, and mobile SoC products. The 28HPM was qualified for production at the end of 2011.

The number of customer 28nm production tape outs has more than doubled as compared with that of 40nm. At 28nm, there are currently more than 80 customer product tape-outs. The TSMC 28nm process has surpassed the previous generation's production ramps and product yield at the same point in time due to closer and earlier collaboration with customers.

● 20nm Technology

In 2011, TSMC continued to focus on 20nm technology development, including process baseline set up, design rule definition, SPICE model building, and reliability evaluation. To offer a leading-edge technology for both analog and digital applications, the Company adopted advanced lithography process for smaller feature size. With the second generation of HKMG, more Si strain, and new device structure, the intrinsic transistor performance continues to ramp following Moore's Law. Meanwhile, external resistance can be effectively reduced and controlled by a specially designed process technique. The back end-of-line (BEOL) interconnect process features extreme low-K inter-metal dielectric materials and copper metallization with the novel low-resistance

scheme. The logic transistor and SRAM bit-cell offering, using the 20nm process, will cover high performance System-on-Chip (SoC) application.

Development of 20nm technology will create superior gate density and chip performance. The cost and complexity of advanced technology will continue to escalate for customers. In 2011, TSMC successfully taped out the process development test vehicle (TV1R), defect reduction vehicle (BEYT) and product-like yield learning vehicle (PQV), on which the advanced ARM core block was included. With the vehicle and process development, TSMC provided V0.1 process flow, design kits (design rule, SPICE model, and PDK tools) and intellectual property (IP) to help reduce foundry costs in 2011. The Company achieved its outstanding transistor performance target and demonstrated the functional yield of the leading-edge SRAM bit-cells as planned. TSMC's high performance 20nm process will enter risk production in second half 2012.

● 14nm Technology

By leveraging and extending the work of advanced transistor research on non-planar transistor architecture—FinFET, TSMC started development of 14nm technology in third quarter 2011. Excellent progress has been made in the 14nm test vehicle setup. Technology definition based on FinFET, with high-K metal gate and novel silicon stressor, is underway.

● Lithography

Lithography for the 28nm node has been transferred to Fab 12 GIGAFAB™. An unprecedented low k_1 has been achieved and verified on many customer tape-outs. This consists of gains in mask CD and placement controls, wafer CDU and overlay accuracy, optical proximity correction, lithography patterning checking, and resist, scanner, track, and defect reduction.

Lithography for the 20nm node signifies the introduction of double patterning techniques for many critical layers to push the scanner beyond its single-exposure resolution limit. Pattern density 1.9 times that of the 28nm node, can be achieved. G-rule has been established for proper layout designs for double patterning. Due to double patterning, mask making, lithography processing window, overlay accuracy, pattern correction, hotspot checking, resists, and defect level pose challenges at 20nm even more severe than that for the 28nm node. Because of a new platform, the scanner also presents a new challenge in reliability. All these have been sufficiently developed to support preliminary yield in SRAM cells.

Preparation for the 14nm node has started using immersion lithography. A key resolution enhancement scheme is being investigated. Schemes to reduce costs and improve density are being explored. Development of EUV lithography and multiple e-beam direct write is aimed at the 10nm node because of late availability. Nevertheless, the 14nm node will be used to exercise these technologies.

At the front of main-stream technology, R&D lithography has succeeded in extending previous limits. A negative process is provided to reduce metallic contamination from the wafer edge. We have completed development and transferred three eFlash technologies to the fabs.

In the summer of 2011, the Company received a full-field extreme-ultraviolet (EUV) scanner from ASML Netherlands B.V. for the development of lithographic processes for devices of the 14nm node and beyond at TSMC's Fab 12 GIGAFAB™. Baseline processes for EUV mask making and wafer processing are also being established.

The MAPPER pre-alpha tool continues to make small-area test patterns in the Fab 12 GIGAFAB™. The MAPPER Matrix tool capable of full wafer exposure with alignment and more than 1,500 beams is being developed for delivery in 2012/2013. The KLA-Tencor tool is being extensively simulated for feasibility, performance, and improvements. Two scanner companies are performing sizing feasibility for multiple e-beam maskless lithography. Multiple e-beam maskless lithography not only has the potential for imaging critical layers, it also offers cost reduction potential for non-critical layers and 450mm wafers.

● Mask Technology

Mask technology is an integral part of advanced lithography technology. TSMC has developed proprietary resolution-enhancement techniques that are co-optimized with our in-house mask-making technology. The Company integrates optical proximity correction, scanner parameter optimization, and advanced mask technology to provide a total solution in 193nm immersion lithography. In 2011, TSMC turned on its state-of-the-art R&D mask facility in its Fab 12 GIGAFAB™ featuring advanced electron-beam mask writing, etching, inspection, repair, verification, and metrology tools for developing mask technologies. The facility also provides R&D masks for the 20nm node and beyond, including EUV masks where TSMC also participates actively in developing its mask-making infrastructure. TSMC's strength in mask technology gives significant and unique benefits to its customers in terms of technical excellence, top quality, fast cycle time, and one-stop service.

Integrated Interconnect and Packaging

The Integrated Interconnect and Package Development Division (IIPD) was formed in late 2008 to develop and deliver an integrated technology solution combining advanced interconnect with packaging technology. The introduction of extreme low-K dielectric (ELK) in 45/40nm adds more challenges among many others to the given tasks. In 2011, the major focus was to resolve interconnect/package related bottlenecks and to ensure smooth ramp of 28nm first-wave customers' products. In addition, we added advanced flip-chip assembly, a bump-on-trace technology, to our backend technology portfolio. Furthermore, developing CoWoS™ technology provides simplified integration service for 3D-IC customers. Our goal is to make TSMC the technology powerhouse for system scaling. Leading customers include APU, GPU and FPGA for high-performance devices and AP, BB, TRx/WiFi for mobile devices.

● Advanced Interconnect

Advanced interconnects with the lowest resistance/capacitance RC-delay continued to be a primary focus of TSMC technology development in 2011. For 20 nm process node, we have developed a metal scheme to achieve both good layout scaling density and minimizing resistance/capacitance RC-delay.

Copper interconnect resistivity is trending up by generation node because of the size effect. Keeping the RC performance and good reliability for the advanced interconnect has been judiciously handled for 20nm and beyond technology nodes. On the 20nm generation, the effective resistivity of Cu lines is competitive and aligned with that projected by the International Technology Roadmap for Semiconductors.

● Advanced Package Development

To provide innovative and competitive lead-free bumping/packaging solutions, in 2011, TSMC has developed and qualified 28nm Bump-on-Trace (BOT) packaging technology with ultra-fine pitch array Cu-bump for mobile devices. We also expanded the 28nm lead-free (SnAg) packaging technology envelope to larger die size (420mm²), which can be utilized in high performance (GPU/CPU/FPGA) applications. In addition, we have developed and delivered 28nm Fan-in wafer level packaging (WLP) for handheld devices (up to 50mm² die size), which would further enhance customers' product performance, form factor and overall competitiveness.

● 3D IC

In 2011, TSMC has developed a cost-effective 3D IC CoWoS™ solution, and has also developed foundry compatible Fan-out wafer level packaging (WLP) technologies. Our CoWoS™ solution is to provide a simplified integration process for customers to realize their product with the best cost and cycle time. TSMC will deliver solutions to enable SiP design for the first time. It includes SiP package design, electrical analysis of package extraction, timing, signal integrity, IR drop, and thermal to physical verification of design rule check (DRC) and Layout Verification of Schematic (LVS). The integrated solution for product realization will be made available to customers from 2012.

Advanced Transistor Research

Front-end-of-line (FEOL) technology is focused on transistor capability, while back-end-of-line (BEOL) technology is focused on metal interconnects. Transistor capability is set according to the application needs for high performance or for low power consumption. Historically, high-performance applications are served by G-family transistors while low-power applications are served by LP-family transistors. BEOL metal layers provided by TSMC are very compact and enable great layout scaling density. The new establishment of the R&D Process Center (RDPC) will greatly facilitate timely access to fabrication facilities that can speed up transistor learning cycles and thus help secure advanced transistor leadership position.

Spectrum of Technology

In addition to CMOS logic technology, TSMC continues to conduct research and development on a broad mix of capabilities. The Company enhanced its SoC roadmap, with higher integration and more variants.

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

TSMC delivered a 20nm EM silicon and simulation-based LC tank design package to facilitate faster and faster Serdes design. With accumulated experience in various customization cases, the engineering staff successfully fulfilled requirements for different customized LC-tank layouts and metal schemes in a significantly shorter time. The first version of metal gate-based 28nm full-scope RFCMOS technology is developed with the aim of providing a platform to enable low-power RF transceiver design for 4G LTE cellular phones. For More-than-Moore RF technology, enhancement of 40nm RF for competitive designs is underway.

● Power IC/BCD Technology

In 2011, TSMC delivered an enhancement of C025BCD to offer improved Bipolar Junction Transistor (BJT). We also enriched the power component characterizations and offered a very helpful document to speed up customers' design success. We also released the low voltage part of a second generation 0.18 BCD, which performs the best power MOSFET performance in the field.

● Panel Driver Technology

In mobile device display drivers, TSMC is collaborating with a customer on the release of N80HV for very high-end smartphones.

In TV display driver application, TSMC is developing a very competitive technology that can save 40% of the cost of existing production technologies.

● Microelectromechanical Systems (MEMS) Technology

In 2011, TSMC released a monolithic technology for accelerometer, which demonstrated the best noise and power characteristics among competing technologies.

● Flash/Embedded Flash Technology

In 2011, TSMC achieved several important milestones in embedded Flash technologies at 55-65nm nodes. At the 65nm node, one commercial process was qualified for the split gate cell, and is currently being ramped up in production. This is a precursor for a more stringent automotive process to be qualified in the future. For the hybrid cell the process was frozen with good yield for chip card applications, and is subsequently intended for automotive.

To further extend the lead in this arena, TSMC continues to engage with leading IDMs to develop the next generation of embedded Flash at the 40nm node.

5.2.3 Technology Platform

TSMC equips modern IC designers with the sophisticated design infrastructure required to achieve acceptable productivity and cycle time. This includes design flow for electronic design automation (EDA), silicon-proven building blocks such as libraries and IPs, simulation and verification design kits such as process design kit (PDK) and tech files. All these are built on top of the technology foundation, and each technology needs its own design infrastructure to be usable for designers. This is the concept of a technology platform.

TSMC's technology platforms reflect the culmination of years of work by TSMC and its alliance partners. The Company has added additional deliverables to its Open Innovation Platform® to further enhance its technology platforms every year since OIP was launched in 2008.

In May 2011, TSMC announced full delivery of 28nm design ecosystem through OIP collaboration. TSMC's 28nm design ecosystem is ready with foundation design collaterals such as DRC, LVS and PDKs; foundation IP, including standard cell libraries, standard I/O, effuse and memory compilers; and standard interface IP such as USB, PCI and DDR/LPDDR. Customers can conveniently download these materials at TSMC-Online. In addition, new design enablement of EDA tools is updated regularly to fulfill 28nm technology requirements.

TSMC addressed the most critical design challenges through Reference Flow 12.0 in 2011, extending its tradition of driving advances in design methodology and completing TSMC's 28nm design infrastructure. Reference Flow 12.0 features various enhancements in both two-and-a-half and three dimensional integrated circuits (2.5D/3D ICs), 28nm model-based simulation, increased DFM speed, and advanced Electronic System Level (ESL) design initiative enabling TSMC's process technology PPA (power, performance, and area) to be integrated into system-level design. In addition, Reference Flow 12.0 discloses TSMC's 20nm Transparent Double Patterning design solution as part of the on-going effort to build up 20nm design capability within OIP.

Reference Flow 12.0 features new design capabilities in floor-planning, P&R, and IR-drop and thermal analysis to accommodate multiple nodes simultaneously, as well as a new design for test methodology for 2.5D design.

In May 2011, TSMC also announced the foundry segment's second Analog/Mixed Signal (AMS) Reference Flow, and the third revision of the Radio Frequency Reference Design Kit (RF RDK). AMS Reference Flow 2.0 expands from 2010's first custom design flow to help designers to ensure the compliance of Design For Manufacturing (DFM) and Restricted Design Rules (RDR) for custom

design in 28nm. It demonstrated correct design configurations and options setting to use TSMC PDKs and DFM utilities. In addition, TSMC applies accumulated reliability “lessons learned,” and collaborates with ecosystem partners to introduce innovative approaches to filter out known potential reliability defects.

The updated RF RDK provides a solution to common bottlenecks that designers encounter on a daily basis. RF RDK 3.0 includes advanced, silicon correlated, 60GHz Millimeter Wave design kit, and an innovated way for customers to design their own choice of inductors through EM (ElectroMagnetic) simulation.

After the debut of a series of interoperable data formats in iRCX, iDRC, iLVS and iPDK in 2009, TSMC demonstrated its strong commitment to industry users in 2010 with its industry-first iDRC & iLVS runsets in 40nm, and iPDKs in many TSMC advanced process nodes from 0.13 μ m to 28nm. In 2011, TSMC introduced iFill, extending interoperable format to cover dummy fills for all front-end & back-end fills. In parallel, TSMC continues to enhance deliverables with the completion of 28nm iLVS & iRCX in LP, HP, HPL and HPM.

To ensure OIP Ecosystem partners’ compliance with TSMC new process requirements, TSMC works with development partners to publish the “EDA Tool Qualification Report” on TSMC-Online, providing customers with an actively maintained status of individual EDA tools. These tools include DRC, LVS, RC extraction, Placement and Routing regarding their readiness for TSMC advanced technologies. The physical verification tool qualification report of DRC/LVS/RCX is updated on a quarterly basis, and covers interoperable runsets, such as iDRC/iLVS/iRCX/iFill.

In order to lower the barrier of technology adoption for customers, TSMC first introduced the Integrated Sign-Off Flow (ISF) in 65/55nm in 2009 and announced 40nm ISF in 2011 to address TSMC design solutions. ISF is a production-proven design flow based on TSMC’s internal design expertise accumulated over the years. ISF started to bear fruit in 2010, and enabled a large number of first-time 65/55nm customers to leapfrog from mature technology such as 0.13 μ m. The introduction of 40nm ISF has further helped customers seize more business opportunities to jumpstart their product solutions in 40nm designs, with examples of successful tapeouts for mobile processor application and 3G/4G communication from China in 2011.

The Soft IP Alliance program aims to improve soft IP readiness for advanced technology nodes and to drive earlier time-to-market. Soft IP has historically been process technology independent and, therefore, not optimized for power, performance and area considerations. Given the ever-increasing need of first-time silicon success and early time-to-market for highly integrated circuits, such as Systems-on-Chip (SoC), close technical collaboration between the foundry and the IP provider is imperative to emphasize this critical trade-off.

In 2011, TSMC setup a dedicated quality management system to drive for highest quality assurance for soft-IP continuing the

successful story of excellent quality records as seen in hard-IP. Customers can now access soft-IP9000 assessment status reports of soft-IPs through TSMC-Online.

5.2.4 Design Enablement

Customers can design directly on TSMC technologies through the Company’s direct design support team as well as via alliance partners. TSMC’s technology platform provides a solid foundation for design enablement.

Tech File and PDK

Customers heavily leverage tech files and process design kits (PDK) provided by TSMC, as evidenced by dramatic increase to more than 50,000 downloads in 2011, from 20,000+ downloads in 2010. TSMC also is increasing resources to meet the high demand it is experiencing on PDK for mainstream technologies.

Library and IP

TSMC and its alliance partners offer TSMC’s customers a rich portfolio of libraries and IPs. These reusable building blocks are essential for many design projects. In 2011, over half of new tape-outs at TSMC adopted one or more libraries or IPs from TSMC and/or its IP partners. To support the high demand, TSMC also invested resources to expand its library and silicon IP portfolio. Compared with the total number of library or IP content in the portfolio with 3,005 in 2010, the total number increased to 3,740 in 2011, including the new addition of soft IP.

Design Methodology and Flow

TSMC announced in May 2011 the full delivery of 28nm support within Open Innovation Platform® (OIP) design infrastructure.

TSMC’s 28nm design ecosystem is ready with foundation design collaterals such as DRC, LVS and PDKs; foundation IP, including standard cell libraries, standard I/O, effuse and memory compilers; and standard interface IP such as USB, PCI and DDR/LPDDR. Customers can download these materials at TSMC-Online. Collaboration with EDA community for 28nm has been equally thorough in order to achieve tool consistency for improved design results.

Reference Flow 12.0 and Transparent Double Patterning for 20nm

20nm is the first process node where metal pitch is beyond the lithographic capabilities of existing exposure systems. Double patterning is the key enabling lithographic technology to overcome the litho resolution limitations without resorting to as yet unproven production technologies such as EUV. TSMC’s Transparent Double Patterning solution enables system and chip designers to access 20nm technology, implemented with double patterning, without any modifications to their current design methodologies or flows. This technology is being delivered to EDA partners and certified for delivery in their commercial products.

28nm Power, Performance and DFM Design Enablement

Timing degradation from wire and via resistance becomes more significant in finer geometry technologies: Reference Flow 12.0 introduces an enhanced routing methodology to minimize via counts, change layers for routing, or widen wires to mitigate the impact of wire and via resistance.

Current leakage increases as threshold voltage and gate oxide thickness decrease in 28nm. Multi-Mode Multi-Corner (MMMC) leakage optimization accommodates different Vt options and gate-biased libraries enabling designers to more effectively reduce current leakage.

Finally, in order to minimize the design cycle time of hotspot checking and fixing in 28nm, a new “hotspot filtering engine” is added to the DFM Data Kit (DDK) to speed up model-based DFM analysis.

Several TSMC announcements in 2011 highlighted the success of design enablement through Open Innovation Platform®. The customer adoption rate for TSMC’s 28nm process is two times faster than 40nm at the same point in time. This is directly attributable to the close, early collaboration fostered by OIP between TSMC and ecosystem partners.

Equally significant, ARM and TSMC celebrated the tape out of the world’s first 20nm ARM Cortex-A15 MPCore processor in 2011. The two companies completed the implementation from RTL to tape out in six months, an early success milestone indicating the readiness of TSMC’s OIP 20nm design ecosystem.

5.2.5 Intellectual Property

A strong portfolio of intellectual property rights strengthens TSMC’s technology leadership and protects our advanced and leading edge technologies. In 2011, TSMC received 440 U.S. patents, 146 Taiwanese patents, 180 PRC patents, and other patents issued in various other countries. TSMC’s patent portfolio is now approximately 15,000 patents worldwide. We continue to implement a unified model for TSMC’s intellectual capital management. Strategic considerations and close alignment with the business objectives drive the timely creation, management and use of our intellectual property.

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

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

5.2.6 TSMC University Shuttle Program

The TSMC University Shuttle Program exists to handle MPW (Multi-Project Wafer) access requests by qualified professors at leading research universities worldwide. To the participating professors, TSMC University Shuttle Program provides annual pre-approved access to quality technologies, including 65nm, 40nm process nodes for analog/mixed-signal circuits and RF design, and 0.11 μ m/0.18 μ m process nodes for MEMS (micro-electromechanical system) designs. For very advanced logic design and SRAM studies, the 28nm process node is provided to special university projects. To TSMC, the key performance indices are the 3Rs: Recruiting, Research results transfer from universities to TSMC, and Recognition.

Participation in the TSMC University Shuttle Program includes major research universities in U.S.A., Taiwan, and China. In U.S.A., research groups from M.I.T., Stanford University, UC Berkeley, Harvard University, UCLA, and Cornell University actively participate. In Taiwan, research groups from National Taiwan University, National Chiao-Tung University, and National Tsing-Hua University actively participate. In China, research groups from Tsing Hua University in Beijing, and Jiao-Tong University in Shanghai actively participate.

The TSMC University Shuttle Program serves as an effective bridge to link motivated professors and graduate students in leading research universities worldwide with enthusiastic managers and directors at TSMC to contribute to newer level of excellence in advancing technologies and in nurturing new generations of talent in the semiconductor field.

TSMC’s University Shuttle Program has been very effective and is praised by professors around the world. Jointly they recognize that this program allows their graduate students to implement exciting designs ranging from low-power memory, ADC and digital designs to advanced RF and mixed-signal bio-medical systems. This is truly a “win-win” collaboration. In 2011, TSMC received specific letters of appreciation from professors of M.I.T., Harvard University, Stanford University, UC Berkeley, Cornell University, UCLA, National Taiwan University and National Chiao-Tung University.

5.2.7 Future R&D Plans

In light of the significant accomplishments of TSMC's advanced technologies in 2011, the Company plans to continue to grow its R&D investments. TSMC will add a dedicated 300mm R&D pilot line to speed up 20nm and 14nm development. The Company plans to reinforce its exploratory development work on new transistors and technologies, such as 3D structures, strained-layer CMOS, high mobility materials and novel 3D-IC devices. These studies of the fundamental physics of nanometer CMOS transistors are core aspects of our efforts to improve the understanding and guide the design of transistors at advanced nodes. The findings of these studies are being applied to ensure our continued industry leadership at the 28nm and 20nm nodes. One of TSMC's goals is to extend Moore's Law through innovative in-house work, as well as by collaborating with industry leaders and academia to push the envelope in finding cost-effective technologies and manufacturing solutions.

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.

TSMC continues to work with mask inspection equipment suppliers to develop viable inspection techniques, a collaborative partnership to help ensure the Company maintains its leadership position in mask quality & cycle time and continue to meet aggressive R&D, prototyping and production requirements.

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

TSMC R&D future major project summary:

Project Name	Description	Risk Production (Estimated Target Schedule)
20nm logic platform technology and applications	Next-generation technology for both digital and analog products	2012
14nm logic platform technology and applications	Exploratory technology for both digital and analog products	2014
3D-IC	Cost-effective solution with better form factor and performance for SiP	2012-2013
Next-generation lithography	EUV and multiple E-Beam to extend Moore's Law	2012-2014
Long-term research	Special SoC technology (including new NVM, MEMS, RF, analog) and 14nm transistors	2012-2014

The above plans account for roughly 70% of the total R&D budget in 2012, while total R&D budget is currently estimated to be around 8% of 2012 revenue.

5.3 Manufacturing Excellence

5.3.1 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.

5.3.2 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.

5.3.3 Precision and Lean Operations

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

5.3.4 450mm Wafer Manufacturing Transition

TSMC has officially setup a 450mm program and has committed to lead an effective industry 450mm transition with G450C (Global 450mm Consortium) in Albany, New York. TSMC will work with G450C to setup a 450mm facility to verify industry 450mm production capability in Albany (First 450mm LPCVD has completed the installation). It will provide an industry wide platform to deliver the readiness of 450mm production tools in cost-effective way.

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

Leveraging industry effort and result from IC makers, tool suppliers, semiconductor associates and NY government, TSMC is planning to setup 450mm LAB to verify critical process capability in 2013-2014 and 450mm pilot line for device verification in 2015-2016.

5.3.5 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.

Raw Materials Supply

Major Materials	Major Suppliers	Market Status	Procurement Strategy
Raw Wafers	F.S.T. MEMC S.E.H. Siltronic SUMCO	These five suppliers together provide over 85% of the world's wafer supply. Each supplier has multiple manufacturing sites in order to meet customer demand, including plants in North America, Asia, and Europe.	- TSMC's suppliers of silicon wafers are required to pass stringent quality certification procedures. - TSMC procures wafers from multiple sources to ensure adequate supplies for volume manufacturing and to appropriately manage supply risk. - TSMC maintains competitive price and service agreements with its wafer suppliers, and, when necessary, enters into strategic and collaborative agreements with key suppliers. - TSMC regularly reviews the quality, delivery, cost and service performance of its wafer suppliers. The results of these reviews are incorporated into TSMC's subsequent purchasing decisions. - A periodic audit of each wafer supplier's quality assurance systems ensures that TSMC can maintain the highest quality in its own products.
Chemicals	Air Products ATMI BASF Dow MGC TYS	These six companies are the major suppliers for bulk and specialty chemicals.	- Most suppliers have relocated many of their operations closer to TSMC's major manufacturing facilities, thereby significantly improving procurement logistics. - The suppliers' products are regularly reviewed to ensure that TSMC's specifications are met and product quality is satisfactory.
Litho Materials	AZ Nissan Shin-Etsu Chemical Sumitomo T.O.K.	These five companies are the major suppliers for worldwide litho materials	- TSMC works closely with its suppliers to develop materials able to meet application and cost requirements. - TSMC and suppliers periodically conducts improvement programs of their quality, delivery, sustainability and green policy, to ensure continuous progress of TSMC's supply chain.
Gases	Air Liquide Air Products Linde Taiyo Nippon Sanso	These four companies are the major suppliers of specialty gases. The products of these four suppliers are interchangeable.	- The majority of the four suppliers are located in different geographic locations, minimizing supply risk to TSMC. - TSMC conducts periodic audits of the suppliers' quality assurance systems to ensure that they meet TSMC's standards.
Slurry, Pad, Disk	Asahi Glass Cabot Microelectronics DA Nano Dow Chemical Fujimi Hitachi Chemical Kinik Planar Solutions 3M	These companies are the major suppliers for CMP materials.	- TSMC works closely with its suppliers to develop materials able to meet application and cost requirements. - TSMC and suppliers periodically conducts improvement programs of their quality, delivery, sustainability and green policy, to ensure continuous progress of TSMC's supply chain.

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

Unit: NT\$ thousands

Supplier	2011			2010		
	Procurement Amount	As % of 2011 Total Net Procurement	Relation to TSMC	Procurement Amount	As % of 2010 Total Net Procurement	Relation to TSMC
VIS	5,597,895	22%	Investee accounted for using equity method	4,959,050	14%	Investee accounted for using equity method
Company A	5,549,444	22%	None	7,001,961	20%	None
SSMC	3,949,176	16%	Investee accounted for using equity method	4,521,046	13%	Investee accounted for using equity method
Company B	3,035,441	12%	None	3,443,962	10%	None
Others	6,775,433	28%		14,281,849	43%	
Total Net Procurement	24,907,389	100%		34,207,868	100%	

5.3.6 Quality and Reliability

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

Q&R technical services assist customers in the technology development and product design stage to design-in their product reliability requirements. Since 2008, Q&R has worked with R&D to successfully establish and implement new qualification methodology for High-k/Metal Gate (HKMG). Q&R also works with design services on embedded memory, high voltage, e-Fuse and MEMS IP developments to expand TSMC's design portfolio. In 2011, Q&R continued to work with R&D and the design service team to develop an integrated R&D and design quality platform that included items such as SPICE, DRM, DFM, and IP/lib. Q&R also worked with R&D, design and product team to develop DRM infrastructure with iEDA layout platform. In package reliability, Q&R extends characterization to the system level by establishing Power Cycling capability and methodology.

Q&R has deployed systems to ensure robust quality in managing production and in design services, including third-party IP management, to meet the business requirements of customers. Q&R also implemented innovative statistical matching methodologies for manufacturing quality enhancement, including matching of facility, metrology and process tools, wafer acceptance test (WAT) data and reliability performance. In 2011, Q&R further tightened the post-fab outgoing visual inspection criteria for wafer quality improvement (to AQL 0.4% from AQL 0.65%).

To sustain production quality and to minimize risk to customers when deviations occur, manufacturing quality monitoring and event management span all critical stages – from raw material supply, mask making, and real-time in-process monitoring, to bumping, wafer sort and reliability performance. Advanced failure and materials analysis techniques are also developed and effectively deployed in process development, customer new product development, and product manufacturing. Analytical techniques traditionally used in a laboratory environment were adapted to aid in the release and monitoring of advanced Fab tools and processes for the 40nm and 28nm technology nodes. In order to properly support development activities of the 20nm technology node, additional state-of-the-art Transmission Electron Microscopy (TEM) and microanalysis capabilities were added in 2011, bringing the spatial resolution to better than 0.1nm or about one-third the diameter of a silicon atom.

In compliance with the electronic industry's lead-free and green IC package policy, Q&R qualified and released lead-free bumping to satisfy customer demands and made lead free bump package possible for 0.13μm, 45nm, 40nm and 28nm technology products by collaborating with the major outsource assembly & testing subcontractors (OSAT). This has enabled TSMC customers to introduce and ramp lead-free products with excellent assembly quality. In 2011, TSMC Q&R ramped Wafer level Chip Scale Package (CSP) to 10K per month and Lead-free to 20K per month without major quality issues. For mainstream technologies, Q&R continues to build reliability testing and monitoring to ensure excellent manufacturing quality of automotive, high-voltage products, CMOS image sensors and MEMS products.

TSMC Q&R is also responsible for leading the Company towards the ultimate goal of zero-defect production through the use of continuous improvement programs. Periodic customer feedback indicates that products shipped from TSMC have consistently met or exceeded their field quality and reliability requirements. In 2011, a third-party audit verified the effectiveness of the TSMC quality management system in compliance with ISO/TS 16949:2009 and IECQ QC 080000 certificates requirements.

5.4 Customer Trust

5.4.1 Customers

TSMC's worldwide customers have diverse product specialties and excellent performance records in various segments of the semiconductor industry. Fabless customers include: 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.

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

Unit: NT\$ thousands

Customer	2011			2010		
	Net Sales	As % of 2011 Total Net Sales	Relation to TSMC	Net Sales	As % of 2010 Total Net Sales	Relation to TSMC
Customer A	59,203,844	14%	None	37,202,785	9%	None
Others	367,876,801	86%		382,335,126	91%	
Total Net Sales	427,080,645	100%		419,537,911	100%	

5.4.2 Open Innovation Platform® (OIP)

Innovation has long been both an exciting and a challenging proposition. Competition among semiconductor companies is becoming more difficult in the face of increasing industry consolidation and the commoditization of technology at more mature, conventional levels. Companies must find new ways to continue innovation in order to prosper further. Some companies started to extend the "outside-in" innovation model to the "inside-out" model, accelerating innovation through active collaborations with external partners. This active collaboration with external partners is known as Open Innovation. TSMC has adopted this path to innovate via the Open Innovation Platform® (OIP)

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

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

OIP is the substantiation of TSMC's Open Innovation model that brings together the innovative thinking of customers and partners under the common goal of shortening design cycle, reducing time-to-volume, time-to-market, and ultimately time-to-revenue:

- The foundry segment's largest, most comprehensive and robust silicon-proven intellectual properties (IPs) and library portfolio;
- Advanced design methodology delivery through reference flows, Design For Manufacturing (DFM), and process design kits; and
- Comprehensive design ecosystem alliance programs covering market-leading EDA, library, IPs, and design service partners.

TSMC's OIP Alliance consists of 37 electronic design automation (EDA) partners, 42 IP partners, and 27 design service partners. TSMC and our partners proactively work together, and engage much earlier and deeper than before to address mounting design challenges at advanced technology nodes. Through this early and intensive collaboration model, TSMC OIP is able to deliver the needed design infrastructure with timely enhancement of EDA tools, early availability of critical IPs and quality design services when customers need them. This is critical to the success for our customers to take full advantage of the process technologies once it reaches production-ready maturity.

In October 2011, TSMC hosted a two-day OIP Ecosystem Forum at San Jose Convention Center in California, with keynote addresses from the executives of TSMC as well as TSMC's ecosystem partners. The forum was well attended by both customers and ecosystem partners and demonstrated the value of collaboration through OIP to nurture innovations.

TSMC launched a new OIP Partner Management Portal in December 2011 that aims to enhance communication with our ecosystem partners for efficient business productivity. This new portal was designed with an intuitive interface and can be linked directly from TSMC-Online.

In December 2011, Taiwan's Ministry of Economic Affairs (MOEA) granted the first National Industrial Innovation Award to TSMC for its creation of Open Innovation Platform®. This recognition by the Taiwan government further reinforces OIP's benefits to the semiconductor industry.

5.5 Employees

5.5.1 Human Capital

Human capital is one of the most important assets of TSMC. The Company strives to provide employees with a challenging, enjoyable and rewarding work environment. In 2011, TSMC was named the "Most Admired Company in Taiwan" by *CommonWealth Magazine* for the 15th consecutive year.

At the end of 2011, TSMC had almost 34,000 employees worldwide (over 35,000 employees if consolidating TSMC and its subsidiaries), including 3,374 managers and 13,111 professionals. Female managers comprised 11.4% of all managers, and non-Taiwanese nationals comprised 9.8% of all TSMC managers and professionals. The following tables summarize TSMC workforce structure at the end of February, 2012:

TSMC Workforce Structure

		12/31/2010	12/31/2011	02/29/2012
Job	Managers	3,142	3,374	3,394
	Professionals	12,729	13,111	13,066
	Assistant Engineer/ Clerical	2,650	2,745	2,749
	Technician	14,711	14,439	14,457
Gender	Male (%)	53.4%	54.1%	54.1%
	Female (%)	46.6%	45.9%	45.9%
Education	Ph.D.	3.3%	3.5%	3.5%
	Master's	31.7%	32.8%	32.8%
	Bachelor's	25.9%	25.9%	25.8%
	Other Higher Education	14.3%	13.9%	14.0%
	High School	24.8%	23.9%	23.9%
Average Age (years)		32.3	33.0	34.9
Average Years of Service (years)		5.5	6.2	5.3
Total		33,232	33,669	33,666

5.5.2 Recruitment

Attracting new talent and retaining and motivating existing employees are the keys to the success of TSMC's human resources strategy. TSMC considers the candidate according to his/her qualification as related to the requirement of each position, rather than race, gender, age, religion, nationality, or political affiliation. We advocate equal opportunity employment, and our practices center on the principles of open-and-fair recruitment. Although facing a slow global economy, TSMC recruited over 1,500 managers and professionals, 600 assistants and technicians in 2011 to support our business for future challenge. Furthermore, TSMC aims to provide not only job opportunities, but well-paying job opportunities in a good work environment. By paying our employees well, we can bridge the gap between the two extremes in the "M-shaped" income distribution in Taiwan, thus bringing healthy changes that influence our society to move in a positive direction.

In order to cultivate young talent pipeline for recruitment around the world, TSMC deploys a number of recruiting activities and university programs, including Joint Development Programs, University Shuttle Program, Summer Internship, Job Fairs in Taiwan, US and India, Fresh Graduate Career Symposium, and Outstanding Student Research Award. These programs also advance novel or innovative academic semiconductor research.

5.5.3 People Development

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

Based on individual job nature, work performance, and career development track, a tailor-made *Individual Development Plan (IDP)* is established for each employee. Meanwhile, employees are provided with a comprehensive network of resources, including on-the-job training, coaching, mentoring, job rotation, on-site courses, and e-learning. Employees are also subsidized when taking external short-term courses, credit courses and degrees.

The Company provides employees with a wide range of on-site general, professional and management training programs. In addition to external experts engaged as trainers, hundreds of TSMC employees are trained as qualified instructors for delivering valuable know-how in internal training courses. During 2011, TSMC conducted 1,566 internal training sessions, for a company-wide total of nearly 800,000 training hours and a total of 409,877 attendees participating. Employees on average attended 24 hours of training. The total training expenses were NT\$55 million. TSMC's training programs include:

- **Management Training:** includes programs tailored to the needs of managers at all levels. These include New, Experienced, and Senior Manager programs, as well as other elective courses.
- **General Training:** refers to training required by government regulations and/or Company policies. Such training includes subjects of industry-specific safety, workplace health and safety, quality, fab emergency response, languages, and personal effectiveness training.
- **Professional/Functional Training:** provides technical and professional training required by various functions within the Company. We offer training courses on equipment engineering, process engineering, accounting, and information technology, among others.
- **Direct Labor (DL) Training:** enables production line employees to acquire the knowledge, skills and attitudes they need to perform their job well and to pass the certification for operating equipment. Training includes DL Skill Training, Technician "Train-the-Trainer" Training, and Manufacturing Leader Training.

- **New Employee Training:** includes new employee basic training and job orientation. Furthermore, new comers' manager and our well-established Buddy System are actively engaged in the assimilation process.

5.5.4 Employee Satisfaction

TSMC is committed to providing above-average quality jobs to its employees, and it is dedicated to foster a dynamic and fun work environment. In 2011, the Company is recognized as one of the Outstanding Businesses in Taiwan's Council of Labor Affairs (CLA) first Employee Assistance Program (EAP) Award for its unceasing efforts as an advocator of employees' work-life balance, as well as its commitment in employee caring.

To enrich employees' work experience, the Company continuously implements programs to enhance employee caring, benefits, rewards and communication. The various initiatives include the following:

Employee Benefit Programs

- Employees can enjoy various welfare programs provided by the Company's Employee Welfare Committee, including 65 hobby clubs, over 50 speeches covering diverse topics (in 2011), Sports Day, Family Day and so on. In addition, holiday bonuses, marriage bonuses, condolence allowances and emergency subsidies are also available to cater for employees' needs.
- To ensure that convenient services relating to daily life are accessible to employees while at work, TSMC provides on-site cafeteria, dry-cleaning, travel, banking, haircut services, housing, and commuting assistances.
- Health enhancement programs and psychological consultation services are available to employees to ensure their physical and mental well-being. Five free counseling sessions are offered to TSMC employees on an annual basis, with extension available depending on the individual employee's needs. Health enhancement programs provided by TSMC include weight control, exercise camp, massage service, sleep assistance, abdominal and neck x-ray, female care, blood donation, liver disease prevention, monthly seminar, etc.
- To promote a healthier lifestyle, TSMC Sports Center offers a variety of workout facilities to all employees and their families.
- Daycare centers, operating as per employees' working time, are available at Hsinchu and Tainan sites to meet employees' need for childcare.

Employee Recognition

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

The various award programs sponsored by TSMC include:

- TSMC Medal of Honor, presented exclusively by Chairman for those who contribute to the Company's business performance significantly.
- TSMC Academy Election to recognize outstanding TSMC scientists and engineers whose individual technical capabilities contribute to the Company greatly.
- Outstanding Engineer Award for each Fab and Total Quality Excellence Conference Award to recognize employees' continuous efforts in making value for the Company.
- Service Award to appreciate senior employees' devotion and commitment to the Company.
- Excellent Instructor Award to recognize the outstanding performance and contribution of the Company's internal instructors in training courses.

In 2011, TSMC employees continued to be recognized through a host of external prestigious awards, including National Model Worker Award, Top 10 National Outstanding Managers Award, Outstanding Engineer Award, Outstanding Young Engineer Award, as well as the first National Industrial Innovation Award.

Employee Communication

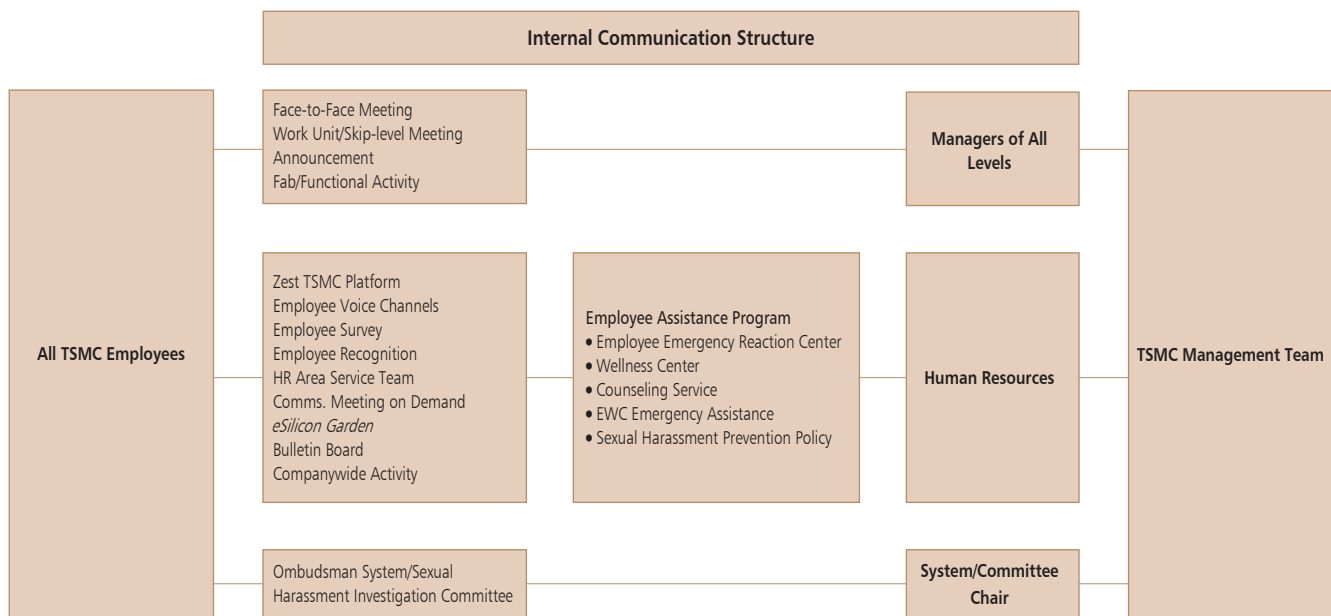
TSMC values two-way communication and is committed to keeping the communication channels between the management level and their subordinates, as well as among peers, open and transparent. Our continuous efforts lie in the reinforcement of mutual and timely employee communication, based on existing platforms, which in turn fosters harmonious labor relations and creates a win-win situation for the Company and the employees.

Regular communication meetings are held for the various levels of managers and employees. Periodic employee satisfaction surveys are conducted. *eSilicon Garden*, the website hosting TSMC's internal publication, is available in both Chinese and English, with its content ranging from work to fun updated on a bi-weekly basis. These all help maintain the unobstructed flow of information between TSMC and its employees.

To ensure that employees' opinions and voices are heard, and their issues are addressed and solved, impartial and smooth voice submission mechanisms are in place to provide timely support:

- Complaints regarding major management, financial and auditing issues are directed to the following channels, which handle the complaints with high level of confidentiality:
 - 1) The independent Audit Committee; and
 - 2) Ombudsman system led by an appointed Vice President.
- The Suggestion Box provides a channel for employees to express their opinions regarding their work and the overall work environment.
- Employee care teams in each Fab take care of the issues related to employees' work and personal life.

All in all, the comprehensive communication channels provided by TSMC can be showcased by the following chart:



The Company also sets and promotes policies and measures to ensure gender equity in accordance with employment laws and sexual harassment prevention policies to foster a fair work environment for employees of both genders. In 2011, the Company leveraged a variety of creative initiatives in reinforcing employees' perception regarding gender equity, including a promotional campaign using the video clip provided by Ministry of the Interior (MOI), which attracted the participation of 24,000 employees. In addition, the Company also joined hands with National Central University in rolling out "Gender Equity Camp", which invited employees to learn more about respect between different genders through a series of professional workshops.

5.5.5 Retention

From the employee's initial adaptation to professional and career development, TSMC works proactively to retain outstanding employees through creating an innovative, challenging, and fun environment. All these efforts contributed to a history-low turnover rate of 5.3% for 2011.

5.5.6 Compensation

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

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

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

In addition to providing employees of TSMC's overseas subsidiaries with a locally competitive base salary, the Company grants short-term and long-term bonuses as a part of total compensation. The performance bonus is a short-term incentive and is granted in line with local regulations, market practices, and the overall operating performance of each subsidiary. The long-term incentive bonus is

awarded based on TSMC's financial performance and is vested over the course of several years in order to encourage long-term employee commitment and development within the Company.

5.5.7 Retirement Policy

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

5.5.8 Code of Ethics and Business Conduct and Regulatory Compliance

Ethics Values

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

TSMC's Code of Ethics and Business Conduct ("Code") applies to TSMC and its subsidiaries, and this Code requires that employee bears a heavy personal responsibility to preserve and to protect TSMC's ethical values and reputation and to comply with various applicable laws and regulations. In so doing, each of us: must not advance our personal interests at the expense of, or in conflict with the Company; must refrain from corruption, unfair competition, fraud, waste and abuse; must not undertake any practices detrimental to TSMC, the environment and to society; must abide by both the spirit and letter of all applicable laws, rules and regulations; and must avoid any efforts improperly to influence the decisions of anyone, including government officials, agencies, and courts, as well as our customers, suppliers, and vendors.

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

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

Code Administration and Disciplinary Action

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

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

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

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

We have a "zero tolerance" rule for any violation of any ethics rule. Simply put, any officer or employee regardless of their seniority will be severely punished (including immediate dismissal) and prosecuted to the full extent of our policies and the law, for any violation of our ethical standards. For example, the Company prosecuted two legal actions against former employees for misappropriation of the Company's intellectual property and bribery in 2011. Additionally, TSMC terminated 9 employees during 2011 for Proprietary Information Protection (PIP) and other ethics Rules.

5.6 Material Contracts

Shareholders Agreement

Term of Agreement:

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

Contracting Parties:

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

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

Summary:

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

Technology Cooperation Agreement

Term of Agreement:

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

Contracting Party:

Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)

Summary:

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

Patent License Agreement

Term of Agreement:

12/20/2007-12/31/2017

Contracting Party:

A multinational company

Summary:

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

Manufacturing, License, and Technology Transfer Agreement

Term of Agreement:

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

Contracting Party:

Vanguard International Semiconductor Corporation (VIS)

Summary:

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

Patent License Agreement

Term of Agreement:

11/01/2002-10/31/2012

Contracting Party:

A multinational company

Summary:

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

Patent License Agreement

Term of Agreement:

01/01/2001-12/31/2011

Contracting Party:

A multinational company

Summary:

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

Amended Research and Development Collaboration Agreement

Term of Agreement:

01/01/2009-12/31/2009, renewable on annual basis upon mutual agreement

Contracting Party:

NXP B.V.

Summary:

The parties entered into research and development collaboration to develop advanced semiconductor technologies.

Note: TSMC is not currently party to any other material contract, other than contracts entered into in the ordinary course of our business. The Company's "Significant Commitments and Contingencies" are disclosed in the "*Financial Information*" of Annual Report (II), page 68-69.

6. Financial Highlights

6.1 Financial Status and Operating Results

6.1.1 Financial Status

Unconsolidated

Unit: NT\$ thousands

Item	2011	2010	Difference	%
Current Assets	158,563,352	192,234,282	(33,670,930)	-18%
Fixed Assets	454,373,533	366,854,299	87,519,234	24%
Other Assets	19,070,145	24,237,329	(5,167,184)	-21%
Total Assets	761,407,874	701,239,666	60,168,208	9%
Current Liabilities	109,514,430	118,022,260	(8,507,830)	-7%
Long-term Liabilities	22,299,930	9,072,488	13,227,442	146%
Total Liabilities	131,814,360	127,094,748	4,719,612	4%
Capital Stock	259,162,226	259,100,787	61,439	0%
Capital Surplus	55,846,357	55,698,434	147,923	0%
Retained Earnings	322,191,155	265,779,571	56,411,584	21%
Total Shareholders' Equity	629,593,514	574,144,918	55,448,596	10%

• Analysis of Deviation over 20%

The increase in fixed assets was mainly due to capital expenditures for advanced technology equipment during 2011.

The decrease in other assets was mainly due to return of refundable deposits and decrease in deferred charges.

The increase in Long-term liabilities was mainly due to issuance of corporate bonds for \$18 billion in 2011.

The increase in retained earnings was mainly due to net income of 2011, partially offset by distribution of 2010 earnings.

• Major Impact on Financial Position

The above deviations over 20% had no major impact on TSMC's financial position.

• Future Plan on Financial Position: Not applicable.



Consolidated

Unit: NT\$ thousands

Item	2011	2010	Difference	%
Current Assets	225,260,396	261,519,317	(36,258,921)	-14%
Fixed Assets	490,374,916	388,444,023	101,930,893	26%
Other Assets	24,171,126	29,190,036	(5,018,910)	-17%
Total Assets	774,264,942	718,928,904	55,336,038	8%
Current Liabilities	117,006,687	123,191,113	(6,184,426)	-5%
Long-term Liabilities	25,214,704	17,033,386	8,181,318	48%
Total Liabilities	142,221,391	140,224,499	1,996,892	1%
Capital Stock	259,162,226	259,100,787	61,439	0%
Capital Surplus	55,846,357	55,698,434	147,923	0%
Retained Earnings	322,191,155	265,779,571	56,411,584	21%
Equity Attributable to Shareholders of the Parent	629,593,514	574,144,918	55,448,596	10%
Total Shareholders' Equity	632,043,551	578,704,405	53,339,146	9%

• Analysis of Deviation over 20%

The increase in fixed assets was mainly due to capital expenditures for advanced technology equipment during 2011.

The increase in long-term liabilities was mainly due to issuance of corporate bonds for NT\$18 billion in 2011, partially offset by decrease in other long-term payables.

The increase in retained earnings was mainly due to net income of 2011, partially offset by distribution of 2010 earnings.

• Major Impact on Financial Position

The above deviations over 20% had no major impact on TSMC's financial position.

• Future Plan on Financial Position: Not applicable.

6.1.2 Operating Results

Unconsolidated

Unit: NT\$ thousands

Item	2011	2010	Difference	%
Gross Sales	421,472,087	418,666,448	2,805,639	1%
Sales Returns & Allowances	(3,226,594)	(11,703,136)	8,476,542	-72%
Net Sales	418,245,493	406,963,312	11,282,181	3%
Cost of Sales	233,083,068	209,921,268	23,161,800	11%
Gross Profit before Affiliates Elimination	185,162,425	197,042,044	(11,879,619)	-6%
Realized (Unrealized) Gross Profit from Affiliates	398,440	(52,742)	451,182	-855%
Gross Profit	185,560,865	196,989,302	(11,428,437)	-6%
Operating Expenses	46,655,102	42,142,794	4,512,308	11%
Income from Operations	138,905,763	154,846,508	(15,940,745)	-10%
Non-operating Income & Gains	7,287,046	15,907,968	(8,620,922)	-54%
Non-operating Expenses & Losses	1,484,965	1,464,272	20,693	1%
Income before Income Tax	144,707,844	169,290,204	(24,582,360)	-15%
Income Tax Expenses	(10,506,565)	(7,685,195)	(2,821,370)	37%
Income after Income Tax	134,201,279	161,605,009	(27,403,730)	-17%

● **Analysis of Deviation over 20%**

Decrease in sales returns & allowances: The decrease was mainly due to lower sales incentives and product related issues.

Increase in realized gross profit from affiliates: The increase was primarily due to lower sales to affiliates in fourth quarter 2011.

Decrease in non-operating income and gains: The decrease was primarily due to lower settlement income and decline in earnings of equity method investees.

Increase in income tax expenses: The increase was mainly due to 10% of income tax imposed on unappropriated earnings.

● **Sales Volume Forecast and Related Information**

For additional details, please refer to *"Letter to Shareholders"* on pages 2-5 of this Annual Report.

Consolidated

Unit: NT\$ thousands

Item	2011	2010	Difference	%
Gross Sales	430,490,500	431,630,858	(1,140,358)	0%
Sales Returns & Allowances	(3,409,855)	(12,092,947)	8,683,092	-72%
Net Sales	427,080,645	419,537,911	7,542,734	2%
Cost of Sales	232,937,388	212,484,320	20,453,068	10%
Gross Profit before Affiliates Elimination	194,143,257	207,053,591	(12,910,334)	-6%
Unrealized Gross Profit from Affiliates	(74,029)	0	(74,029)	-
Gross Profit	194,069,228	207,053,591	(12,984,363)	-6%
Operating Expenses	52,511,810	47,878,256	4,633,554	10%
Income from Operations	141,557,418	159,175,335	(17,617,917)	-11%
Non-operating Income & Gains	5,358,527	13,136,072	(7,777,545)	-59%
Non-operating Expenses & Losses	1,768,268	2,041,012	(272,744)	-13%
Income before Income Tax	145,147,677	170,270,395	(25,122,718)	-15%
Income Tax Expenses	(10,694,417)	(7,988,465)	(2,705,952)	34%
Net Income	134,453,260	162,281,930	(27,828,670)	-17%
Net Income Attributable to Shareholders of the Parent	134,201,279	161,605,009	(27,403,730)	-17%

● **Analysis of Deviation over 20%**

Decrease in sales returns & allowances: The decrease was mainly due to lower sales incentives and product related issues.

Decrease in non-operating income and gains: The decrease was primarily due to lower settlement income and decline in earnings of equity method investees.

Increase in income tax expenses: The increase was mainly due to 10% tax on unappropriated earnings.

● **Sales Volume Forecast and Related Information**

For additional details, please refer to *"Letter to Shareholders"* on pages 2-5 of this Annual Report.

6.1.3 Cash Flow

Unconsolidated

Unit: NT\$ thousands

Cash Balance 12/31/2010	Net Cash Provided by Operating Activities in 2011	Net Cash Outflows from Investing and Financing Activities in 2011	Cash Balance 12/31/2011	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
109,511,130	238,734,696	(262,983,305)	85,262,521	-	-

● Analysis of Cash Flow

NT\$238.7 billion net cash provided by operating activities: Mainly from net income and depreciation/amortization.

NT\$198.1 billion net cash used in investing activities: Primarily for capital expenditures.

NT\$64.9 billion net cash used in financing activities: Mainly for the payment of cash dividends, partially offset by issuance of corporate bonds.

● **Remedial Actions for Cash Shortfall:** In view of positive operating cash flow and ample cash on-hand, remedial actions are not required.

● **Cash Flow Projection for Next Year:** Not applicable.

Consolidated

Unit: NT\$ thousands

Cash Balance 12/31/2010	Net Cash Provided by Operating Activities in 2011	Net Cash Outflows from Investing and Financing Activities in 2011	Cash Balance 12/31/2011	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
147,886,955	247,587,051	(252,001,729)	143,472,277	-	-

● Analysis of Cash Flow

NT\$247.6 billion net cash provided by operating activities: Mainly from net income and depreciation/amortization.

NT\$182.5 billion net cash used in investing activities: Primarily for capital expenditures.

NT\$67.9 billion net cash used in financing activities: Mainly for the payment of cash dividends and decrease in short-term loans, partially offset by issuance of corporate bonds.

● **Remedial Actions for Cash Shortfall:** As a result of positive operating cash flows and ample cash on-hand, remedial actions are not required.

● **Cash Flow Projection for Next Year:** Not applicable.

6.1.4 Major Capital Expenditure

Major Capital Expenditures and Sources of Funding

Unit: NT\$ thousands

Plan	Actual or Planned Source of Capital	Total Amount as of 12/31/2011	Status of Actual or Projected Use of Capital			
			2008	2009	2010	2011
Production Facilities and Equipment	Cash flow generated from operations	509,253,041	56,902,459	80,923,392	174,490,585	196,936,605
R&D Equipment	Cash flow generated from operations	35,153,698	1,637,643	6,371,056	11,235,029	15,909,970
Others	Cash flow generated from operations	3,507,545	682,552	490,458	1,218,589	1,115,946
Total	Cash flow generated from operations	547,914,284	59,222,654	87,784,906	186,944,203	213,962,521

Expected Future Benefits

With the capital expenditures mentioned above and projected for 2012, it is estimated that TSMC's annual production capacity will increase by approximately 1.34million 8-inch equivalent wafers in 2012.

6.1.5 Long-term Investment Policy and Results

TSMC's long-term investments, accounted for under equity method, are all for strategic purpose. In 2011, the investment gain from these investments amounted to NT\$3,778,083 thousands (NT\$897,611 thousands on consolidated basis), less than the gain in 2010 mainly due to the global economy slowdown and weaker end-market demand. For future investments, TSMC will continue to focus on strategic purposes through prudent assessments.

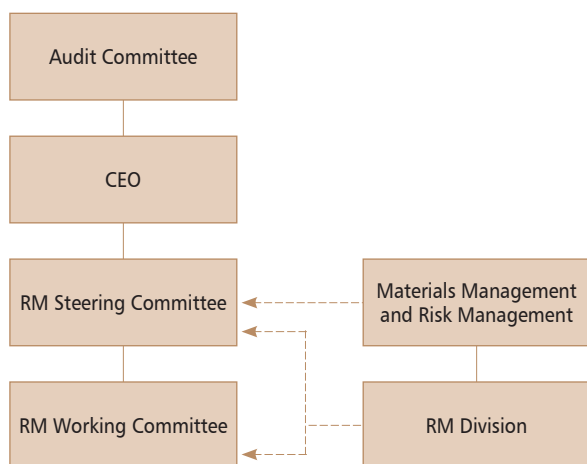
6.2 Risk Management

TSMC and its subsidiaries are committed to proactively and cost-effectively integrating and managing strategic, operational, financial and hazardous risks together with potential consequences to operations and revenue. TSMC established its Enterprise Risk Management (ERM) program based on both its corporate vision and its long-term sustainability and responsibility to both industry and society. ERM seeks to provide for the appropriate management of risks by TSMC on behalf of all stakeholders.

To reduce TSMC's supply chain risks, a cross-function taskforce comprised of members from fab operations, material management, risk management and quality system management worked with TSMC's primary suppliers to develop business continuity plans, and effectively manage the risks faced by our suppliers. As a result of those efforts, the March 11 earthquake in Japan did not cause any interruptions in TSMC's supply lines.

As TSMC expanded capacity in 2011, risk treatment practices and green factory projects were initiated and implemented, beginning in the design phase for all new fabs.

6.2.1 Risk Management (RM) Organization Chart



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

- **RM Working Committee:**
Is composed of representatives from each function;
Aligns functional ERM activities; and
Follows up the risk control action plan.

- **RM Division:**
Coordinates the RM Working Committee activities;
Facilitates functional risk management activities; and
Consolidates ERM reports into the RM Steering Committee.

6.2.2 Strategic Risks

Industry Developments

The semiconductor market and microelectronics industries have historically been cyclical and subject to significant, and often rapid, increases and decreases in product demand. TSMC's semiconductor foundry business is affected by market conditions in such highly cyclical semiconductor and microelectronics industries. Most of the Company's customers operate in these industries. Variations in order levels from customers result in volatility in the Company's revenues and earnings.

From time to time, the semiconductor and microelectronics industries have experienced significant, and sometimes prolonged, periods of downturns and overcapacity. Because TSMC is, and will continue to be, dependent on the requirements of semiconductor and microelectronics companies for its services, periods of downturn and overcapacity in the general semiconductor and microelectronics industries lead to reduced demand for overall semiconductor foundry services, including the Company's services. If it cannot take appropriate actions such as reducing TSMC's costs to sufficiently offset declines in demand, the Company's revenues, margins and earnings will suffer during periods of downturn and overcapacity.

Changes in Technology

The semiconductor industry and the technologies used in it are constantly changing. TSMC competes by developing process technologies using increasingly smaller nodes and on manufacturing products with multiple or more advanced functions. If it does not anticipate these changes in technologies in a timely manner and rapidly develop new and innovative technologies, or if the Company's competitors unforeseeably gain sudden access to more advanced technologies, TSMC may not be able to provide advanced foundry services on competitive terms. Although it has concentrated on maintaining a competitive edge in research and development, if TSMC fails to achieve advances in technologies or processes, or to obtain access to advanced technologies or processes developed by others, it may become less competitive.

Decrease in Demand and Average Selling Price

A vast majority of the Company's sales revenue is derived from customers who use TSMC's services in communication devices, personal computers, consumer electronics products and industrial devices. Any significant decrease in the demand for some or all of these products may decrease the demand for overall global semiconductor foundry services, including TSMC's services, and may adversely affect the Company's revenues. Further, a significant

portion of our operating costs is fixed because we own most of our manufacturing capacities. In general, these costs do not decline when customer demand or our capacity utilization rates drop, and thus declines in customer demand, among other factors, may significantly decrease our margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which can improve our margins. In addition, the historical and current trend of declining average selling prices of end-use applications places downward pressure on the prices of the components that go into such applications. If the average selling prices of end-use applications continue to decrease, the pricing pressure on components produced by us may lead to a reduction of TSMC's revenues, margin and earnings.

Competition

TSMC competes internationally and domestically with other pure-play foundry service providers, as well as with integrated device manufacturers that devote a significant portion of their manufacturing capacity to foundry operations. Some of these companies may have access to more advanced technologies and greater financial and other resources than us, (such as the possibility of receiving direct or indirect government bailout/economic stimulus funds or other incentives that are unavailable to us). The Company's competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Competitive activities may cause us to lose customers or to decrease TSMC's customer base, or TSMC's average selling prices, or both.

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

Risks Associated with Changes in the Government Policies and Regulatory Environment

TSMC's management team closely monitors domestic and foreign governmental policies and regulations that might impact TSMC's business and financial operations. As of February 29, 2012, there exists the following changes or developments in governmental policies and regulations that may influence the Company's business operations:

The Taiwan Financial Supervisory Commission (FSC) requires listed companies to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) starting from January 1, 2013. TSMC has setup an IFRS project team and has launched the project plan for its IFRS adoption. In addition, the progress of such adoption is regularly reported to the Board. The

impact of the IFRS adoption may include changes of accounting treatment for certain types of transactions and certain modification in the presentation of its financial report. We will keep monitoring the update of IFRS and the development of related laws and regulations in Taiwan and evaluate the respective impact to TSMC. In addition, according to FSC's requirements, TSMC will disclose the IFRS project plan, status and significant difference between IFRS and current accounting policy in the 2011 annual consolidated financial statements and 2012 annual and interim consolidated financial statements.

The Taiwan "National Health Insurance Act" was amended on January 26, 2011, to create an obligation to fund the health insurance scheme by paying an extra 2% "supplementary premium" (based on 2% of the total profit sharing and variable bonus) plus the "basic premium" charge. Such extra 2% "supplementary premium" will be incurred in connection with future payouts of profit sharing and variable bonus and increase the operating costs of the Company. The Executive Yuan has not yet promulgated the official implementation of this law. TSMC has studied the implications of this new amendment and has taken the necessary managerial precautionary steps with respect to such amendment.

In addition, the Taiwan legislative authority has been studying the relevant laws relating to environmental protection (e.g. "Greenhouse Gas Reduction Act" and Energy Tax), and "Labor Safety and Health Act". Since there has been no concrete guidance or laws issuing from the Taiwan government as of yet, the impacts of such laws are indeterminable at the moment. However, it is very likely that such laws may increase the operating costs of the Company.

Other than the above laws and regulations, it is not expected that the relevant governmental policies and regulatory changes would materially impact TSMC's operations and financial condition.

6.2.3 Operational Risks

Risks Associated with Capacity Expansion

In response to customer demand, since 2004, TSMC has steadily ramped up the production of 12-inch wafer fabs in the Hsinchu Science Park, Tainan Science Park and Central Taiwan Science Park, respectively. Total monthly capacity of the Company's 12-inch wafer fabs increased from 244,600 wafers in December 31, 2010 to 290,100 wafers in December 31, 2011. Overall, TSMC increased its annual production capacity by approximately 1.9 million 8-inch equivalent wafers in 2011. The total average billing utilization rate for 2011 was 91%. Expansion and modification of the Company's production facilities will, among other factors, increase TSMC's costs. For example, the Company will need to purchase additional equipment, train personnel to operate the new equipment or hire additional personnel. If it does not increase its net sales accordingly in order to offset these higher costs, TSMC's financial performance may be adversely affected.

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

Risks Associated with Sales Concentration

While it generates revenue from hundreds of customers worldwide, TSMC's ten largest customers accounted for approximately 54% and 56% of net sales in 2010 and 2011, respectively, and the Company's largest customer accounted for approximately 9% and 14% of net sales in 2010 and 2011, respectively. TSMC's results of operations and financial condition could be adversely affected by the loss of, or significant curtailment of purchases by, one or more of the Company's top customers, including curtailments due to increased competitive pressures, industrial consolidation, a change in the design or manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments.

Risks Associated with Purchase Concentration

• Raw Materials

TSMC's production operations require that it obtain adequate supplies of raw materials, such as silicon wafers, gases, chemicals, and lithographic materials, on a timely basis. Some of TSMC raw materials are sole-source, so there is a risk that our need for such raw materials may not be met when needed or that back-up supplies may not be readily obtainable. Many of our raw materials are sourced from Japan. Any serious catastrophe that might happen in Japan, like earthquake, is likely to impact the supply chain and undercut our ability to procure on a timely basis sufficient raw materials to produce our products and render our services. Shortages in the supply of some materials experienced by specific vendors or by the semiconductor industry generally have in the past resulted in occasional industry-wide price adjustments and delivery delays. The Company's revenue and earnings could decline if it is unable to obtain adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that it cannot pass on to its customers.

To eliminate the supply chain risk and to manage the cost actively, TSMC is committed to put resources in developing new supply sources. In addition, we encourage our suppliers to reduce their supply chain risk by decentralizing production plants and intensify their cost competitiveness by moving their production site to Taiwan from high-cost areas. We believe this benefits both suppliers and TSMC. Moreover, we continually refine our planning system and monitor inventory and replenishment on a daily basis so that we may sustain an optimal level with rational cost.

• Equipment

The Company's operations and ongoing expansion plans depend on its ability to obtain an appropriate amount of equipment and related services from a limited number of suppliers in a market that is characterized by limited supply and long delivery cycles. During such times, supplier-specific or industry-wide lead times for delivery can be as long as six months or more. To better manage its supply chain, the Company has implemented various business models and risk management contingencies with suppliers to shorten the procurement lead time. TSMC also provides its projected demand for various items to many of the Company's equipment suppliers to help them plan their production in advance. We have purchased used tools when and where it is appropriate to do so and continue to seek opportunities in acquiring relevant used tools. If it is unable to obtain equipment in a timely manner and at a reasonable cost, TSMC may be unable to fulfill customers' orders, which could negatively impact its financial condition and results of operations.

Risks Associated with Intellectual Property Rights

Our ability to compete successfully and to achieve future growth may depend in part on the continued strength of our intellectual property portfolio. While we actively procure, enforce and protect our intellectual property rights, we cannot guarantee that our efforts will be adequate to entirely prevent the misappropriation or improper use of our proprietary technology, trade secrets, software or know-how. Also, we cannot guarantee that, as our businesses or business models expand into new areas, we will be able to independently develop the technology, trade secrets, software or know-how necessary to conduct our business or that we can do so without the intellectual property rights of others. As a result, we may have to rely on obtaining licenses to certain technologies from third parties. To the extent that we rely on licenses from others, we cannot guarantee that we will be able to obtain any or all of the necessary licenses on terms we consider reasonable. The lack of necessary licenses could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify our customers against damages resulting from infringement claims.

We have received, from time-to-time, communications from third parties asserting that our technologies, manufacturing processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe their patents or other intellectual property rights. And, because of the nature of the semiconductor industry, we may continue to receive such communications in the future. In some instances, these disputes may result in litigation. If we fail to obtain or maintain certain government, technology or intellectual property licenses and, if litigation relating to an intellectual property claim occurs, it could prevent us from manufacturing or selling certain products or using certain manufacturing processes or technologies, which could reduce our opportunities to compete or generate revenues.

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

Nevertheless, as the number of claims and lawsuits alleging intellectual property right infringements filed by non-practicing entities (NPEs) against semiconductor companies continues to rise, TSMC had been, and believes it will continue to be, a target for NPEs. TSMC, however, plans to continue its strong IP initiatives in an effort to continue to minimize the number of such claims and lawsuits against the Company.

Risks Associated with Litigation

As is the case with many companies in the semiconductor industry, we have received from time-to-time communications from third parties asserting that our technologies, manufacturing processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe upon patents or other intellectual property rights of others. In some instances, these disputes have resulted in litigation by or against us and certain settlement payments by us in some cases. Irrespective of the validity of these claims, we could incur significant costs in the defense thereof or could suffer adverse effects on our operations.

In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC NA, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single case in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined at this time.

In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC NA and one other company of allegedly infringing six U.S. patents. This litigation is in its very early stages and therefore the outcome of the case cannot be determined at this time.

Other than the matters described above, we were not involved in any other material litigation in 2011 and are not currently involved in any material litigation.

Risks Associated with Mergers and Acquisitions

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

Risks Associated with Recruiting and Retaining Qualified Personnel

The Company depends on the continued services and contributions of its executive officers and skilled technical and other personnel. TSMC's business could suffer if it lost, for whatever reasons, and could not adequately replace the services and contributions of some of these personnel. The Company may be required to increase the number of employees in connection with any business expansion, and since there is intense competition for the recruitment of these personnel, it cannot ensure it will be able to fulfill its personnel requirements in a timely manner or at reasonable cost.

Therefore, TSMC provides a variety of competitive compensation programs, and is generous in sharing the Company's long-term business achievements with its employees. Furthermore, in order to attract and retain talent, the Compensation Committee of the Board of Directors decided to enhance the compensation system and provide a timely distribution of employees' cash bonus from the Company's profits. We believe by rewarding employees' hard work in a timely fashion, we not only encourage employees to contribute consistently to ensure the success of TSMC, but also link their interests with those of TSMC's shareholders.

Future R&D Plans and Expected R&D Spending

For additional details, please refer to "Future R&D Plans" on page 56 of this Annual Report.

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

TSMC has established an excellent corporate image based on its firm belief in its core values, its rigorous corporate governance, its outstanding operations, and its vision of a society that works together towards sustainable development, equality and justice, and a harmonious environment to live and work. For its efforts the Company has won wide recognition over the years, including:

- Membership in the Dow Jones Sustainability Index since 2001
- The Executive Yuan's Enterprise Sustainable Development Award
- The Ministry of Economic Affairs' Outstanding Innovation Achievement Award
- The Council of Labor Affairs' National Workplace Safety Award

- The Environmental Protection Administration's National Enterprise Environmental Protection Award
- The Ministry of Economic Affairs' National Industrial Innovation Award
- The Ministry of Economic Affairs' Taiwan Green Classic Award
- *Commonwealth* Magazine's benchmark for Most Admired Company in Taiwan
- *Commonwealth* Magazine's Best Corporate Citizenship for a large company
- *GlobalViews* Magazine's Corporate Social Responsibility award
- Ranked Number one in the *Asian Wall Street Journal's* survey of the top 10 companies in Taiwan
- First place in *Cheers* Magazine's survey of Company Most Admired by the New Generation
- *IR Magazine's* award for Best Corporate Governance and Best Investor Relations in Taiwan and Hong Kong.

Management believes such recognition is the strongest evidence of TSMC's corporate image.

In addition, the Company has established departments such as Brand Management, Customer Service, Public Relations, Employee Relations, Investor Relations, Risk Management, Internal Audit, and the TSMC Education and Culture Foundation to further protect and enhance TSMC's corporate image, coordinate crisis management, and to make preparations for prevention and control of potential risks.

Risks Associated with Change in Management

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

6.2.4 Financial Risks

Internal Management of Economic Risks

● Interest Rate Fluctuation

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

● Foreign Exchange Volatility

Over half of TSMC's capital expenditures and manufacturing costs are denominated in currencies other than NT dollars, primarily in US dollars, Japanese yen and Euros. More than 90% of the Company's sales are denominated in US dollars and currencies other than NT dollars. Therefore, any significant fluctuation to the Company's disadvantage in such exchange rates would have an adverse effect on TSMC's financial condition. For example, during the period from September 1, 2010 to December 30, 2010, the U.S. dollar depreciated 8.9% against the NT dollar, which had a negative impact on our results of operations. Specifically, every 1% depreciation of the US dollar against the NT dollar exchange rate results in approximately 0.4 percentage point decrease in TSMC's operating margin. TSMC utilizes short-term debt denominated in foreign currencies and derivative financial instruments, including currency forward contracts and cross currency swaps, to hedge our currency nexposure.

Fluctuations in the exchange rate between the US dollar and the NT dollar may affect the US dollar value of the Company's common shares and the market price of the Company's American Depositary Shares (ADSs) and of any cash dividends paid in NT dollars on TSMC's common shares represented by ADSs.

● Inflation & Deflation

During 2011 and up to the date of this report, neither inflation nor deflation had a material impact on our operations, or the business operations of our customers and suppliers. However, with uncertain global economy outlook, we cannot assure that there will be no significant variations in the future, which may have a material impact on our results of operations.

Risks Associated with High-risk/High-leveraged Investment; Lending, Endorsements, and Guarantees for Other Parties; and Financial Derivative Transactions

TSMC neither made high-risk or high-leveraged financial investments nor provided endorsements or guarantees for other parties during 2011 and up to the date of this report. As of February 29, 2012, TSMC had an intercompany loan of US\$286 million arranged among our subsidiaries, which was in compliance with relevant rules and regulations.

The financial transactions of a "derivative" nature that TSMC entered into were strictly for hedging purposes and not for any trading or speculative purpose. For more information, please refer to the "Financial Information" on page 55 and 57 of Annual Report (II). The fair market value of our trading and available for sale financial securities are subject to prevailing market conditions and may fluctuate from TSMC's carrying value from time to time, which may impact the returns of those securities.

To control various types of financial transactions, the Company has established internal policies and procedures based on sound financial and business practices, all in compliance with the relevant rules and regulations issued by the Taiwan Securities and Futures Bureau. TSMC policies and procedures include "Policies and Procedures for Financial Derivative Transactions", "Procedures for Lending Funds to Other Parties", "Procedures for Acquisition or Disposal of Assets", and "Procedures for Endorsement and Guarantee".

Risks Associated with Impairment Charges

Under Generally Accepted Accounting Principles (GAAP) of both the Republic of China and the United States, TSMC is required to evaluate its long-lived assets and intangible assets for impairment whenever there is an indication of impairment. If certain criteria are met, TSMC is required to record an impairment charge. TSMC is also required under ROC GAAP and US GAAP to evaluate goodwill for impairment at least on an annual basis or whenever a "triggering event" or an indication of impairment occurs.

The determination of an impairment charge at any given time is substantially based on the expected results of the Company's operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when the Company's operating results are otherwise already depressed.

TSMC has established the process and system to closely monitor and assess the risk of any impairment charge. However, management currently is unable to estimate the extent or timing of any impairment charge for future years. Any impairment charge required may have a material adverse effect on the Company's net income.

6.2.5 Hazardous Risks

TSMC maintains a comprehensive risk management system dedicated to the conservation of natural resources, safety of people, and protection of property. In order to effectively handle emergencies and natural disasters at each facility, management has developed comprehensive plans and procedures that focus on risk prevention, emergency response, crisis management, and business continuity. TSMC has adopted local and international standards for Environmental, Safety & Health (ESH) management. All TSMC manufacturing fabs have been ISO 14001 certified (Environmental Management System), OHSAS 18001 certified (Occupational Health and Safety Management System) and QC 080000 certified (Hazardous Substance Process Management System); all manufacturing fabs in Taiwan have also been TOSHMS (Taiwan Occupational Safety and Health Management System) certified. The new fabs will also acquire above certificates within 18 months after mass production.

The Company pays special attention to preparedness for emergencies or disasters, such as typhoons, floods, droughts caused by climate change, earthquakes, environmental contamination, large-scale product returns, disruption of IT systems, strikes, pandemics (such as H1N1 influenza), and sudden and unexpected disruptions to the supply of raw materials or water, electricity, and other public utilities. TSMC has established a company-wide task force dedicated to managing the risk of water shortage that might arise due to climate change. This task force keeps watch on the external supply and internal demand for water. Cross-company consolidations and external collaborations with public agencies are also ongoing in the industrial parks to ensure and sustain a stable water supply.

TSMC has further strengthened its business continuity plans, which include risk assessment, control, and implementation, through the establishment of emergency task forces when necessary, combined with the preparation of a thorough analysis of the emergency, its impact, alternative actions, and solutions for each possible scenario together with appropriate precautionary and/or recovery measures. Each task force is given the responsibility of ensuring TSMC's ability to conduct business while minimizing personal injury, business disruption, and financial impact under the circumstances. TSMC's business continuity plan is periodically reviewed according to results of test scenarios or practical implementation for ensuring effective and successful business continuity. Customers are informed of TSMC's strong business continuity plan in order to establish resilience and flexibility in both their supply chain and insurance placement. For the year 2011, and up to the date of this Annual Report, there have been no reportable material events that have necessitated the activation of such contingency plans. The Company has also conducted a continuous improvement project, including evaluating building anti-seismic capability, holding earthquake response drills and enhancing tool anchorage, and has improved TSMC business continuity procedures with reference to BS 25999 business continuity management.

A wide variety of combustible materials are used in TSMC's manufacturing processes and, consequently, are subject to the risk of explosion and fire. The Company maintains many overlapping risk prevention and protection systems, as well as comprehensive fire and casualty insurance, including insurance for loss of property and loss of profit resulting from business interruption. Nonetheless, TSMC's risk management and insurance coverage may, in certain circumstances, be insufficient to cover all of the Company's potential losses. If any of TSMC's fabs were to be damaged or cease operations as a result of an explosion, fire or environmental mishap, it could reduce the Company's manufacturing capacity and might cause us to lose important customers, thereby potentially having a materially adverse impact on TSMC's financial performance. In

addition to periodic fire protection system inspection and firefighting drills, the Company has also carried out a corporate-wide fire risk mitigation project focused on management and hardware improvements.

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

6.2.6 Climate Change Risks

If applicable laws, regulations or international accords directly or indirectly require us to: (a) use certain alternative chemicals or raw materials; and/or (b) exclude prohibited chemicals or raw materials from our products, processes and designs, TSMC cannot offer any assurances that the resulting product, processes or designs would be as reliable or efficient. Also, our failure to manage the import, export, use, transportation, emissions, discharge, storage, recycling, or disposal of such chemicals and materials could subject us to increased costs or future liabilities.

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

Increasing climate change and environmental concerns also presents other commercial challenges. For example, a request by some of our customers and/or suppliers ask that we exceed the legal standard set for environmentally compliant products and services could result in lost market share to possibly more accommodating competitors.

Further, energy costs in general could increase significantly as a result of future climate change regulations. Our energy costs may increase significantly if utility or power companies pass on their costs, such as those associated with carbon taxes, emission cap and carbon credit trading programs, or other similar programs imposed locally or worldwide.

To mitigate risks resulting from climate change, TSMC continues to carry out energy conservation measures, implementing voluntary PFC emission reduction projects and conducting GHG inventory and verification each year. TSMC has publicly disclosed climate change information every year since 2005 through participation in an annual survey conducted by the nonprofit Carbon Disclosure Project (CDP), which includes greenhouse gas emission and reduction information for all TSMC fabs.

6.2.7 Other Risks

Potential Impact and Risks Associated with Sales of Significant Numbers of Shares by TSMC's Directors, and/or Major Shareholders Who Own 10% or More of TSMC's Total Outstanding Shares

The value of TSMC shareholders' investment may be reduced by possible future sales of TSMC shares owned by the major shareholders.

One or more of our existing shareholders may, from time to time, dispose of significant numbers of our common shares or ADSs. For example, the National Development Fund, which owned 6.4% of TSMC's outstanding shares as of February 29, 2012, sold our shares in the form of ADSs in several transactions during the period between 1997 and 2005.

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

Other Material Risks

During 2011 and as of the date of this Annual Report, TSMC's management is not aware of any other risk event that could impart a potentially material impact on the financial status of the Company.

7. Corporate Social Responsibility

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

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

1. We insist on honesty and integrity. We are honest to our shareholders, customers, employees, and to the public alike.
2. We respect the rule of law and always obey the law.
3. We abhor cronyism. We do not seek favoritism from the government or any government official, and we do not bribe.
4. We practice good corporate governance, and balance the interests of shareholders, employees, and all stakeholders in the company.
5. We do not engage in politics.

6. We provide good job opportunities with a safe, comfortable, and intellectually challenging environment to give our employees both physical comfort and mental stimulation.
7. We contribute our part in controlling climate change and place great importance on the protection of the environment.
8. We emphasize and reward innovation, and actively manage the risks that innovation may bring.
9. We invest in green businesses such as solid state lighting and solar to contribute to a greener world.
10. We support educational and cultural activities, and provide long-term care to communities.

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



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

7.1 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.

7.1.1 Environmental Protection

Greenhouse Gas (GHG) Emission Reduction

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

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

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

TSMC continues its active participation in WSC's activities to set up a global voluntary PFC emissions reduction goal for the next 10 years and integrated past experience to develop best practices. The implementation of best practices for new semiconductor fabs has been adopted by WSC for the major element of the 2020 goal.

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

Air and Water Pollution Control

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

Water Conservation

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

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

Waste Management and Recycling

TSMC has established a designated unit responsible for waste recycling and disposal. To meet the goal of sustainable resource utilization, TSMC's first priority is to reduce process waste before considering recycling or disposal. TSMC carefully selects waste disposal and recycling contractors and performs annual audits of certification documents, site operations and transportation routes to ensure the legal and proper disposal of waste. TSMC achieved a 91.85% waste recycling rate in 2011, surpassing its goal of 90%. The Company's landfill rate has been reduced to less than 1%.

Other Environmental Protection Programs

TSMC has implemented an environmental accounting system, allowing each fab to calculate cost savings or profits created by their individual environmental programs.

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

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

TSMC has adopted both the Taiwan "Green Building" and the US Leadership in Energy and Environmental Design (LEED) standards for new fab and office building designs since 2006 to achieve better energy and resource efficiency than conventional designs. At the same time, TSMC plans to upgrade existing office buildings to comply with the LEED standard each year. In 2008 and 2009, respectively, TSMC's newly constructed Fab 14 Phase 3 and Fab 12 Phase 4 achieved EEWB Diamond and LEED Gold certification. For these projects, TSMC invited Dr. Kath Williams, former vice president of the United States Green Building Council (USGBC) to serve as a consultant, and also consulted experts from leading Taiwan universities. TSMC believes that manufacturing companies should

convert their facilities into green factories to effectively improve the environment and lower construction costs. Therefore, we freely share our practical experience with industry, government, and academia. More than 3,300 visitors from 80 different industry, government, academia and general community groups contacted TSMC to gain an understanding and discuss our green factory practices. TSMC believes if something is worth doing, it's worth doing well in order to protect the Earth. TSMC led industry to support the Taiwan government to establish "Green Factory Labeling System" from 2009, a system that included "Clean Production Evaluation System" and "Green Factory Evaluation System".

TSMC initiated the "Taiwan Corporate Sustainability Forum (TCSF)", which united 20 leading Taiwan companies as founders. TSMC's 2008 Green Forum was the first of a series of TCSF events. At this meeting, TSMC shared its hands-on experience in obtaining the US Green Building Council's LEED certification, and applying for Taiwan's Ecology, Energy Saving, Waste Reduction, and Health (EEWH) certification for its Fab 14 Phase 3 facility. The TCSF continues to invite leading Taiwan companies to join the TCSF.

Environmental Compliance Record

As of February 29, 2012, TSMC didn't receive any environmental penalties or fines.

7.1.2 Safety and Health

Safety and Health Management

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

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

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

In 2011, TSMC launched new programs on the improvement of office ergonomics, the promotion of personnel stress management, and the appraisal of worker's health age compared to the country average. TSMC offers annual employee health examinations and consultation services as well as on-site clinics and a dental clinic for a better access to medical assistance.

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

Working Environment and Employee Safety Protection

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

- **Hardware Safety of Equipment Used by Process, Facilities, IT, and General Services Departments**

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

- **Environmental, Safety and Health Evaluation of Hazardous Chemical Substances**

Any new chemical substance introduced to TSMC — from the R&D phase to mass production — is carefully reviewed before use by the "New Chemical Review Committee" to ensure that environmental and safety and health concerns are well controlled, including engineering control, the installation of personal protection equipment, and operational safety training during storage, transportation, usage, and disposal.

- **General Safety Management, Training and Audit**

All TSMC manufacturing facilities hold environmental, safety and health committee meetings on a monthly basis. TSMC takes preventive measures such as controls on high-risk work, contractor management, chemical safety management, personal protective equipment requirements, and safety audit management. In addition, TSMC also maintains detailed disaster response procedures and performs regular drills designed to minimize harm to employees and property, as well as the impact on society and the environment in the event of a disaster.

● Working Environment Measurement

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

As the working pattern changed increasingly to computer use, TSMC launched an office ergonomics program to adjust the height of office chairs and desks to meet the needs of taller or shorter employees. Whenever new employees of significantly above or below-average height enter the company, the assessment and intervention will be initiated proactively by site ESH professionals.

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

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

● Emerging Infectious Disease Response

In the TSMC ESH management system, we have a dedicated corporate ESH organization which monitors emerging infectious diseases around the world, assesses any potential impact on the workplace and provides a strategic response plan. In previous outbreaks (such as SARS in 2003 and the H1N1 influenza outbreak in 2009), we convened the Corporate Influenza Response Committee to develop our strategies. These strategies include educating our employees in prevention and response, publishing guidelines for managers, establishing guidelines for employee sick leave due to flu, and installing alcohol-based hand sanitizers at appropriate locations. The Committee also monitors the status of employee leave due to illness and, at the same time, develops a continuous plan to address manpower shortages and protect employee health as well as minimize business impact.

● Emergency Response

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

All TSMC fabs conduct major annual emergency response exercises and evacuation drills. TSMC's on-site service contractors also participate in emergency response planning and exercises to ensure cooperation in handling accidents and to effectively minimize any damage caused by disasters.

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

● Employee Health Enhancement

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

Health promotion activities for employees include fitness programs, women's health care programs, mother's rooms, body weight control programs, sleep problem management, massage and chiropractic services, hepatitis and flu vaccinations, and health lectures.

TSMC believes employees who are physically and mentally fit can enjoy a better quality of life and be more productive.

Supplier and Contractor Management

● Supplier Management

As a means of enhancing its supply chain management, TSMC is committed to communicating with and encouraging its contractors and suppliers to improve their quality, environmental, safety and health, delivery performance. By means of communication between senior managers, site audits and experience sharing, TSMC collaborates with major suppliers and contractors to enhance partnership and ensure continual improvement for increased joint contributions to society. Contractors performing high-risk activities must lay out clearly defined safety precautions and preventative measures. In addition, contractors working on high-risk engineering projects must establish OHSAS 18001 systems and the workers must successfully complete work skill training.

● Green Supply Chain

At TSMC 2011 Supply Chain Management Forum, the company presented its first award of "Achievement in Environmental Excellence" to the supplier who demonstrated outstanding performance on overall environmental protections. The assessment criteria included efficiency (water saving, power saving, consumable saving, etc.), code compliance, carbon inventory, hazard restriction, environmental management system (ISO 14001, QC 080000), green project/commitment or green JDP with TSMC.

Fang-ming Hsu, the deputy director of TSMC's risk management division, stated TSMC's 10 CSR guidance in the forum, and emphasized that TSMC has been striving for environmental protection as a corporate social responsibility and devoted ourselves into the business of solar energy and LEDs. Besides, TSMC has put the energy saving into the criteria of supplier/subcontractor selection. TSMC also claimed this change to our suppliers and assist them on overall improvement.

We believe TSMC is on leading edge of the industry in demonstrating corporate social responsibility. Our impact to the semiconductor industry is immense and deep. Therefore, TSMC will continue to put significant effort on the tasks of environmental protection with the power to influence the supply chain.

Environmental, Safety and Health-related Awards in 2011

- Chosen for membership in the Dow Jones Sustainability World Index for an 11th consecutive year in 2011
- Chairman Dr. Morris Chang received the Akira Inoue Award from SEMI Global (Semiconductor Equipment & Materials International) for contributions to semiconductor environment, health and safety management. The Award recognizes individuals in industry and academia who have made significant contributions to EHS by exercising leadership or demonstrating innovation in the development of processes, products or materials that reduce EHS impacts.
- Ministry of Economic Affairs (MOEA) Bureau of Foreign Trade's first "Taiwan Green Classic Award" in the categories of "Green Classic Product" and "Green Classic Service"
- Awarded "Excellence in Corporate Social Responsibility First Prize" by *CommonWealth Magazine*
- Recognized by the Taiwan Institute of Sustainable Energy (TAISE) with the "Gold Award for Taiwan Corporate Sustainability Reports" for a third consecutive year. TISE is the first organization initiated the Corporate Sustainability Report competition in Taiwan.
- Recognized by the Taiwan Institute of Sustainable Energy with their first "Outstanding CSR Website Award". TSMC was the sole winner of this award.
- Recognized by the Taiwan Stock Exchange with its Outstanding Disclosure Award for Listed Companies' Corporate Sustainability Reports
- Fab 12 Phase 4/5 was recognized by the Environmental Protection Administration with the "The Annual Enterprise Environmental Protection Award"
- Fab 12 Phase 3 was recognized by the Ministry of Economic Affairs with the "Water Saving Award"
- Fab 3, 5, 12 Phase 1/2/3 were recognized by the Hsinchu Science Park Administration with the "Low Carbon Enterprise Award"
- Fab 3 was recognized by the Hsinchu Science Park Administration with the "Water Saving Award"

- Fab 12 Phase 4/5 was recognized by the Ministry of Economic Affairs with the "Energy Conservation Award"
- Fab 12 Phase 4/5 and Fab 3 were recognized by the Hsinchu Science Park Administration with the "Excellence in Labor Safety and Hygiene Award"
- Fab 2&5, 3, 6, 8 were recognized by the Environmental Protection Administration with the "Energy Conservation and Carbon Reduction Action Mark"
- Fab 12 Phase 4 Office Building was recognized by Executive Yuan "Outstanding Green Building Honor Award"
- Tainan site was recognized by Department of Health, Executive Yuan "Excellence in Healthy Workplace Award"
- Tainan site was recognized by Tainan City Government "Excellence in Wellness Promotion Workplace Award"

7.2 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.

Commitment to Education

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

At the primary-school level, the Foundation's focus is on aesthetic education. In addition to "the TSMC Aesthetic Tour", taking 3000 elementary students from remote townships to visit National Palace Museum, exhibitions, and other art sites, this year the Foundation supports Taipei Fine Arts Museum to build up a "Children's Art Education Center". The upcoming Art Center, consisting of a gallery, workshops, and a courtyard, will be completed and inaugurated in 2013.

At the high school level, TSMC emphasizes the need for a balanced education in both science and the humanities. In science, collaborating with the Ministry of Education and the Wu Chien-Shiung Foundation, the Foundation continues the project "Lifting the Ability of High School Physics Experiments". This year we held summer camps for high school physics teachers. One week's training enhanced 70 teachers' teaching and experimental abilities. We wish to see these teachers nurture and inspire more students' potential in science. At the same time the Foundation continued to sponsor science camps for talented science students to meet with world-class scholars.

In the humanities, we organized the fourth "TSMC Youth Calligraphy Contest". This year we held three workshops at three high schools to inspire the students to appreciate the beauty and cultural richness of calligraphy. The TSMC Youth Literature has been held for 8 consecutive years to encourage talented young writer to create new works. We also invited famous writers to held lectures for students and the public to increase their appreciation for literature.

At the college level, in 2011 the TSMC Foundation continued "TSMC Mentor Scholarship" to support and encourage underprivileged students of National Tsing Hua University and National Central University. In addition to providing financial assistance, the Foundation recruited senior TSMC employees to mentor the students regularly. We hope that the rich practical experience of TSMC employees can provide productive consultations for the students both in schools and future career paths. In the meantime, the Foundation continued to endow chair professorships to enhance academic research of Taiwan universities.

Promotion of Arts and Culture

The TSMC Education and Culture Foundation has devoted its efforts to the promotion of arts and culture for years. In addition to inviting international performance groups to Taiwan, we also aspire to raise the quality of domestic performing arts through exchange programs, and to give society deeper knowledge and appreciation of the arts.

This year the Foundation sponsored the world-renowned orchestra, the Berliner Philharmoniker, to perform in Taiwan. We also arranged 200 young music students from the Hsinchu area to attend the orchestra's rehearsal. We trust that this close-up view of a master conductor in action would open broader artistic horizons for these students. To encourage young talented writers, we launched TSMC Literature Award, which drew hundreds of novels from all over the world and gained overwhelmingly positive responses. After Confucius Analects, the Foundation continues to promote another Chinese Classic, Chung-tzu. We again invited Professor Hsin Yih-yun to produce the broadcasting program "Chung-tzu in Hsin's View". Through Professor Hsin Yih-yun's rich knowledge and vivid examples,

we hope that more people can understand Chung-tzu's philosophy, and gain the wisdom from it. Noting the importance of preserving historic sites, the Foundation continued to sponsor the Taipei Story House's Literature Salon. Cultural activities such as regular author readings on the site gave the old building a new life and attracted the general public to this cultural heritage site.

Community Building

The Foundation continues to promote arts and cultural activities in our site communities of Hsinchu and Tainan. Every year we organize the TSMC Hsin-chu Art Festival to bring cultural activities to these high-tech cities and encourage a greater art appreciation in the communities.

In 2011, the Hsin-chu Art Festival gathered national and international masters to present the most exquisite performances for the communities. Professor Fang Yu had a series of lectures to introduce the beautiful Chinese classic poetry of Li Shang-yin. The Peking opera master, Li Po-chun, brought Taipei Li-yuan Chinese Opera Theatre to present the Chinese Opera "The Scholar of Ba-Shan" to showcase the beauty of Chinese Theatre. Two classical music masters, Shlomo Mintz and Kun Woo Paik, were invited to join the festival for the first time, and brought the audience two beautiful concerts. More than 70 performances of the Hsinchu Festival nurtured over 20,000 inhabitants from every corner of the communities.

7.3 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. The following are TSMC's employee volunteer programs:

TSMC Volunteer Docent Program
TSMC Book Reading Volunteer Program
TSMC Energy-saving Volunteer Program
TSMC Community Volunteer Program

TSMC Volunteer Docent Program

Sharing knowledge is one important way for a corporation to serve and respond to its communities. The spread of knowledge furthers people's understanding of their environment and may inspire the future generations and bring forth change in society.

To promote science education and to further people's understanding of the IC industry, TSMC made a donation to the National Museum of Natural Science (Taichung) in 1997 to set up an exhibition hall — The World of the Integrated Circuits. In 2003 and 2011, TSMC sponsored the renovation of the hall, adding interactive displays to show the principles and the development of integrated circuits as well as the linkage between the IC industry and daily life. In 2004, TSMC Foundation recruited employees and their family members to serve as volunteer docents at the exhibition hall on weekends and holiday.

As many as 194 people volunteered in 2004. In 2006, youth volunteers were also recruited. Employees were encouraged to invite their high school children to join the Volunteer Docent Program. The working together helps them to strengthen parent-children relationships. In 2007, the program was expanded to recruit new blood from TSMC's affiliated companies, including Vanguard, VisEra, Xintec, and Global Unichip. Their enthusiasm and professionalism have been highly appreciated by visitors, and each year the group is recognized as an "Outstanding Volunteer Team" by the National Museum of Science.

In 2011, the whole new "The World of Semiconductor" opened, and the TSMC volunteer program recruited around 500 new volunteers to devote their time and effort to promoting science education.

TSMC Book Reading Volunteer Program

The future hope and competitiveness of Taiwan lie in the children of the next generation, and education is the key to the development of these children. In hopes of helping to close the disparity of educational resources between rural and urban schools, TSMC Foundation has been sponsoring the Hope Reading Program organized for underprivileged children by the Commonwealth Magazine since 2004. Besides donating 20,000 books annually to 200 schools in remote rural areas, the Foundation recruited employees and their family members to form a volunteer team to read to the children in the hope of sparking their interest in reading.

During the first year, 49 volunteers joined and started serving two elementary schools in the remote townships in Hsinchu. Over the years, more and more people joined in the program. Now more than 100 people traveled to the remote schools to tell stories to the children on a regular basis. With the increasing participants, the program has been extended to Tainan since 2006. Currently,

volunteers are serving in five schools, encouraging children to read and make use of the books donated through the Hope Reading Program.

In addition, volunteers prepare plays or plan activities during holidays to further encourage children's interest in reading. Working regularly with the children over the long term, the volunteers have developed profound friendship with the children. These children not only enjoy exploring the world of reading with TSMC volunteers but also enjoy their warm friendship.

The Book Reading Volunteer Program benefits both the children and the volunteers. The children's eager looks and enthusiastic responses have drawn the volunteers to travel long and far to read to the children, and the volunteers learn that they are gaining a great deal while giving. The volunteers' selfless service has been greatly appreciated by the schools and the children. This program has become a great model frequently reported by the mass media, which has helped to spread the spirit of encouraging reading through reading aloud.

In 2011, there are total 203 volunteers to read books with children in Hsinchu & Tainan. They have served for seven consecutive years and will continue to help pave the road for these underprivileged children's future.

TSMC Energy Saving Volunteer Program

With global warming and the depletion of limited natural resources and fossil fuel, saving energy has become the common goal of human beings. TSMC recruited employees with expertise in energy saving to start the Energy-saving Volunteer Program and has provided schools in Hsinchu and Tainan areas with professional consulting service. The team helps to come up with plans for schools to improve power efficiency and reduce carbon emissions.

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

The Energy-saving Volunteer Program was formed in 2008 by 25 TSMC employees. For over 1,200 working hours of service, the volunteer team has suggested 168 environmental safety strategies with potential to reduce 360 tons of carbon emissions. The team's professional service has been much appreciated by these schools.

The Energy-saving volunteers not only endeavor to save energy for the company but also wish to do what they can to preserve the earth and Taiwan. In 2011, we expanded our service to Taichung, to achieve our promise: "Where TSMC is, their volunteers are also".

TSMC Community Volunteer Program

When we started recruiting volunteers, we kept asking how the volunteers can use their expertise to help those who need them the most.

In 2009, Typhoon Morakot struck southern Taiwan, and TSMC employees were deeply saddened for the suffering caused by it. We immediately established the Typhoon Morakot Project Team and provided assistance and relief measures to the typhoon victims. This experience prompted TSMC employees to ponder what else we could do to help our community. Therefore, the Typhoon Morakot Project Team became the Community Volunteer Program in 2010, aiming to reach out to the needy.

Among the needy, the elderly and children are the focus of TSMC Community volunteers partly because Taiwan is an aging society with more than 2,000,000 people over 65, among whom one fifth needs nursing care, and partly because in a rapidly changing society, it is critical for children — the future of the country — to build their characters at an early age. It goes without saying how important it is for children to have great interactions with parents. However, the children from dysfunctional families need warmth, care, and company.

TSMC Community Volunteer Program mainly serves the elderly at Hsinchu Veterans Home and the children at St. Teresa Children Center. In 2010, when we first recruited volunteers, 156 people joined. Now there are 274 volunteers. The elderly, the children, and the volunteers are closely linked through regular activities.

Hsinchu Veterans Home activities: In 2011, a total of 225 TSMC volunteers visit Hsinchu Veterans Home every weekend to spend time with the elderly veterans. Volunteers are divided into three groups:

- **The Energetic Group:** Volunteers exercise with the elderly veterans. Volunteers play croquet with them every other week and hold little contests occasionally. The elderly veterans get to stretch their bodies and enjoy the exciting matches.
- **The Warm, Romantic Group:** Volunteers sing songs to the physically handicapped veterans or play interactive games with them. When they sing karaoke together, joy seems to float with the notes among all of them.
- **The Art Group:** In some art classes, volunteers and the veterans create artistic works such as rock-painting. The veterans get to enjoy the beauty of arts, and volunteers and the veterans get to understand each other through chatting. We hope that the elderly veterans tell us their wishes and that someday we may be able to make their wishes come true.

St. Teresa Children Center activities: There are 49 volunteers serving at the Center, giving warm and timely care to the children. They have accomplished the following:

- **One-on-one companionship:** During the monthly family day at the Center, volunteers spend a wonderful weekend going on an outing with the children or reading to them in the Center.
- **Summer Camps:** During summer vacation, volunteers accompanied the children to two-day camps in Sanxia, Tamsui, Beitou, etc. The children have thus become closer to the volunteers.
- **McDonald Happy Hour:** All the children were invited to McDonald for a treat, and they spent one happy afternoon participating in all sorts of activities.

In 2011, TSMC Volunteer Program organized two holiday volunteer activities. Over 450 employees and families participated. The first one was combined with TSMC Family Day. The elderly veterans from Hsinchu Veterans Home and the children from St. Teresa Children Center were invited to Pushin Ranch. Over 300 participated. The second activity gathered 300 volunteers to spend a happy and heart-warming morning in a cold winter day with the elderly veterans. TSMC Volunteer Program also invited some clubs and the cheerleaders to perform for the elderly.

7.4 "The Disaster Relief of Japan's Earthquake/Tsunami" Program

A 9.0 magnitude earthquake struck the northeast region of Japan on March 11th, 2011, followed by the tsunami of waves measured 10-meter high that severely damaged the coastal area of Japan. The earthquake is reported to be the largest ever in Japan since official record was taken, which caused the country thousands of deceased and injuries.

As a global citizen and with the proximity of Japan and Taiwan, TSMC felt deeply for those suffering from this natural disaster. Upon hearing the happening of the earthquake, the Company held "The Disaster Relief of Japan's Earthquake/Tsunami" program at once and encouraged its employees to make monetary donation to support those suffering in Japan.

A total of 12,892 employees joined the disaster relief program with the monetary donation amounted to NTD25,541,828. The consolidated donation was transferred to the following charity organizations, including 1) World Vision Organization; 2) The Red Cross Society, R.O.C; and 3) Tzu Chi Organization to be used to support those most in need.

Every little support counts; the disaster relief program showcased the commitment of TSMC employees in doing their best to assist those most in need, especially under critical circumstances like Japan's 311 earthquake.

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

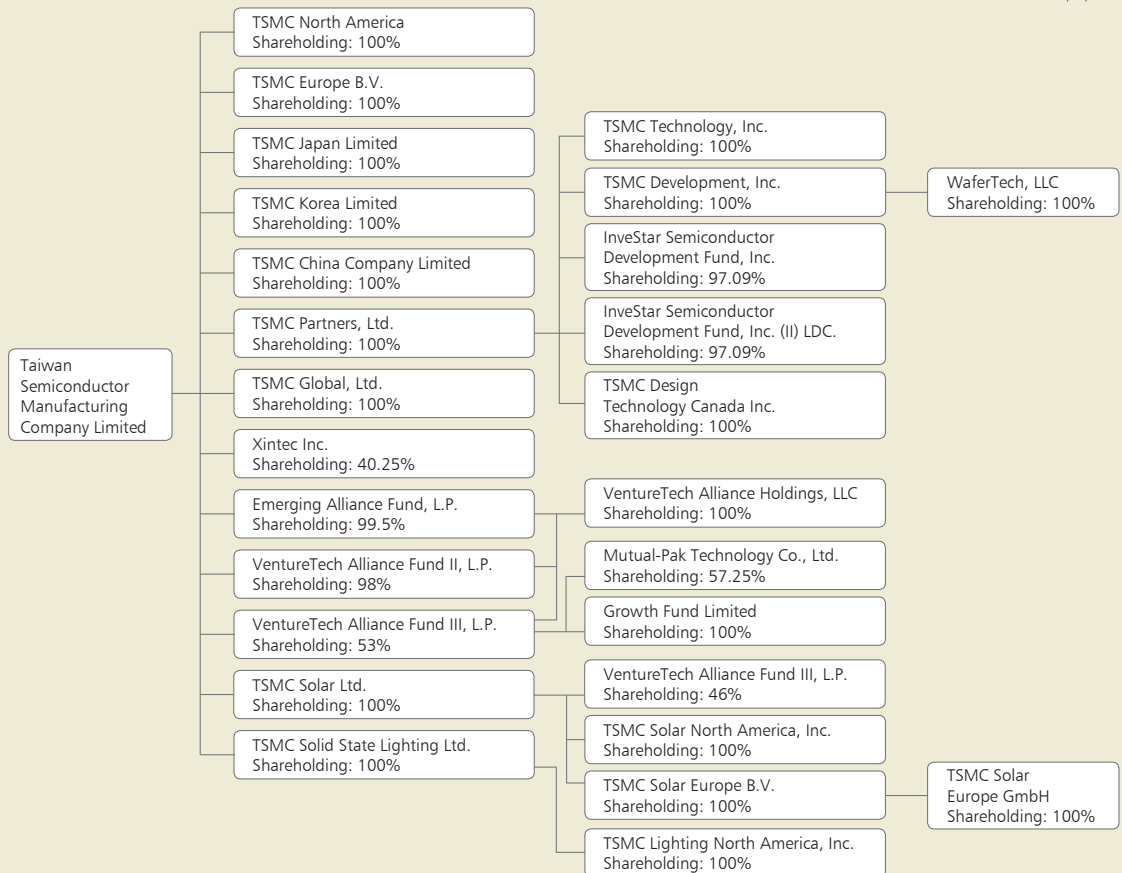
Item	Implementation Status	Non-implementation and Its Reason(s)
1. Implementation of Corporate Governance (1) Corporate social responsibility policy and performance evaluation (2) Dedicated organization for the promotion and execution of corporate social responsibility (3) Regular training and promotion of corporate ethics among employees and the Board of Directors, and integration with the employee performance appraisal system	(1) Please refer to "7. Corporate Social Responsibility" in this report page 78-88. (2) TSMC follows the ten principles of corporate social responsibility set by the Chairman, Dr. Morris Chang. Each unit in TSMC incorporates corporate social responsibility principals into daily operations. All issues of stakeholders' concerns are collected regularly or through ad hoc communication channels. Each unit will assess and identify material issues, and incorporate them into execution plans and daily operations. (3) Please refer to "5.5.8 Code of Ethics and Business Conduct and Regulatory Compliance" in this report page 63-64.	None
2. Sustainable Environment Development (1) Commitment to improving resources utilization and the use of renewable materials (2) Environmental management system designed to industry characteristics (3) Dedicated environmental management unit or personnel (4) Company strategy for climate change, energy conservation and greenhouse gas reduction	Please see "7.1.1 Environmental Protection" in this report page 81-83.	None
3. Promotion of social welfare (1) Compliance with labor regulations, protection of employee rights, and appropriate management measures and procedures (2) Safety and health in working environment (3) Disclosure of consumer rights policy, and official channel for consumer complaints (4) Collaboration with suppliers (5) Participation in community development and charities through commercial activities, donations or volunteers	(1) Please refer to "5.5 Employees" in this report page 60-64. (2) Please refer to "7.1.2 Safety and Health" in this report page 83-85. (3) Please refer to "5.4 Customer Trust" page 59-60. (4) TSMC brought together fab operations, materials management, risk management, and quality system management in an internal committee dedicated to managing our supply chain. The focuses of the committee are risk mitigation and supply chain improvement. The steering team, including a senior vice president and managers, sets goals annually and reviews progress each quarter. The committee's working team assists suppliers in lowering production and transportation risks by sharing risk management practices and helping suppliers improve quality systems, green procurement, protection of the environment, and safety. At the same time, we monitor the financial situation of key suppliers through regular communication or public information, and the inventory of supply chain, with corresponding backup plans. The working team holds monthly meetings to monitor progress and actively handle suppliers' issues. Please refer to TSMC's website for additional information: http://www.tsmc.com/english/csr/supply_chain_management.htm (5) Please refer "7. Corporate Social Responsibility" in this report page 78-88.	None
4. Enhancement of Information Disclosure (1) Disclosure of corporate social responsibility related information with significance and reliability. (2) Published corporate social responsibility report and disclosure of implementation of corporate social responsibility	TSMC has published "Corporate Social Responsibility Report" since 2008, which has been verified by third party in compliance with the requirements of Global Reporting Initiative (GRI) G3.1 level A+ and AA1000AS: 2008 standard.	None
5. If the company has established its corporate social responsibility code of practice according to "Listed Companies Corporate Social Responsibility Code of Practice", please describe the operational status and differences. TSMC does not establish the code for corporate social responsibility. For our corporate social responsibility operational status, please refer to "7. Corporate Social Responsibility" in this report page 78-88 and our corporate social responsibility related information in our website: http://www.tsmc.com/english/csr/index.htm		
6. Other important information to facilitate better understanding of the Company's implementation of corporate social responsibility (e.g., environmental protection, community participation, social contribution, social services, social welfare, consumers' rights, human rights and safety and health): Please refer to TSMC's website for our corporate social responsibility implementation status: http://www.tsmc.com/english/csr/index.htm		
7. Other information regarding products or "Corporate Social Responsibility Report" which are verified by certification bodies: (1) TSMC obtained Integrated Circuit carbon footprint and Type 3 Environmental Product Label verification, which comply with PAS2050 and ISO14025 standards. (2) TSMC Corporate Social Responsibility Report is compliant with the requirements of Global Reporting Initiative (GRI) G3.1 level A+ and AA1000AS:2008 standard.		

8. Subsidiary Information and Other Special Notes

8.1 Subsidiaries

8.1.1 TSMC Subsidiaries Chart

As of 12/31/2011



Remarks:

1. Since July 2011, we no longer have controlling interest over GUC and its subsidiaries, and thus they were removed from the chart.
2. TSMC Solar Ltd. and TSMC Solid State Lighting Ltd. were established in August 2011.



8.1.2 Business Scope of TSMC and Its Subsidiaries

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

8.1.3 TSMC Subsidiaries

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

As of 12/31/2011

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
TSMC North America	Jan. 18, 1988	San Jose, California, U.S.A.	US\$ 11,000	Selling and marketing of integrated circuits and semiconductor devices
TSMC Europe B.V.	Mar. 04, 1994	Amsterdam, the Netherlands	EUR 100	Marketing and engineering supporting activities
TSMC Japan Limited	Sep. 10, 1997	Yokohama, Japan	JPY 300,000	Marketing activities
TSMC Korea Limited	May 02, 2006	Seoul, Korea	KRW 400,000	Customer service and technical supporting activities
TSMC China Company Limited	Aug. 04, 2003	Shanghai, China	RMB 4,502,080	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers
TSMC Technology, Inc.	Feb. 20, 1996	Delaware, U.S.A.	US\$ 0.001	Engineering support activities
InveStar Semiconductor Development Fund, Inc.	Sep. 10, 1996	Cayman Islands	US\$ 811	Investing in new start-up technology companies
InveStar Semiconductor Development Fund, Inc. (II) LDC.	Aug. 25, 2000	Cayman Islands	US\$ 14,578	Investing in new start-up technology companies
TSMC Development, Inc.	Feb. 16, 1996	Delaware, U.S.A.	US\$ 0.001	Investment activities
WaferTech, LLC	Jun. 03, 1996	Washington, U.S.A.	US\$ 280,000	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices
TSMC Partners, Ltd.	Mar. 26, 1998	Tortola, British Virgin Islands	US\$ 988,268	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry
TSMC Design Technology Canada Inc.	May 28, 2007	Ontario, Canada	CAD 2,434	Engineering support activities
TSMC Global, Ltd.	Jul. 13, 2006	Tortola, British Virgin Islands	US\$ 1,284,000	Investment activities
Xintec Inc.	Sep. 11, 1998	Taoyuan, Taiwan	NT\$ 2,335,811	Wafer level chip size packaging service
Emerging Alliance Fund, L.P.	Jan. 10, 2001	Cayman Islands	US\$ 25,880	Investing in new start-up technology companies
VentureTech Alliance Fund II, L.P.	Feb. 27, 2004	Cayman Islands	US\$ 27,057	Investing in new start-up technology companies
VentureTech Alliance Fund III, L.P.	Mar. 25, 2006	Cayman Islands	US\$ 120,990	Investing in new start-up technology companies
VentureTech Alliance Holdings, LLC	Apr. 25, 2007	Delaware, U.S.A.	N/A	Investing in new start-up technology companies
Mutual-Pak Technology Co., Ltd.	Mar. 22, 2006	Taipei, Taiwan	NT\$ 207,312	Manufacturing and selling of electronic parts and researching, developing and testing of RFID
Growth Fund Limited	May 30, 2007	Cayman Islands	US\$ 1,830	Investing in new start-up technology companies
TSMC Solar Ltd.	Aug. 16, 2011	Tai-Chung, Taiwan	NT\$ 11,180,000	Researching, developing, designing, manufacturing and selling renewable energy and energy saving related technologies and products
TSMC Solar North America, Inc.	Sep. 03, 2010	Delaware, U.S.A.	US\$ 1	Selling and marketing of solar related products
TSMC Solar Europe B.V.	Sep. 29, 2010	Amsterdam, the Netherlands	EUR 100	Investing in solar related business
TSMC Solar Europe GmbH	Dec. 17, 2010	Hamburg, Germany	EUR 100	Selling of solar related products and providing customer service
TSMC Solid State Lighting Ltd.	Aug. 16, 2011	Hsin-Chu, Taiwan	NT\$ 2,270,000	Researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems
TSMC Lighting North America, Inc.	Sep. 03, 2010	Delaware, U.S.A.	US\$ 1	Selling and marketing of solid state lighting related products

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

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

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

As of 12/31/2011

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding%)
TSMC North America	Director	Jason Chen	-	-
	Director	Rick Cassidy	-	-
	President	Rick Cassidy	-	-
			TSMC holds 11,000,000 shares	100%
TSMC Europe B.V.	Director	Jason Chen	-	-
	Director	Wendell Huang	-	-
	Director	Maria Marced	-	-
	President	Maria Marced	-	-
			TSMC holds 200 shares	100%
TSMC Japan Limited	Director	Jason Chen	-	-
	Director	Makoto Onodera	-	-
	Supervisor	Lora Ho	-	-
	President	Makoto Onodera	-	-
			TSMC holds 6,000 shares	100%
TSMC Korea Limited	Director	Shing-Wha Lin	-	-
	Director	Chih-Chun Tsai	-	-
	Director	Wendell Huang	-	-
			TSMC holds 80,000 shares	100%
TSMC China Company Limited	Chairman	F.C.Tseng	-	-
	Director	M.C. Tzeng	-	-
	Director	Jason Chen	-	-
	Supervisor	Lora Ho	-	-
	President	C.H. Chen	-	-
			(TSMC's investment US\$596,000,000)	(100%)
TSMC Technology, Inc.	Chairman	Lora Ho	-	-
	Director	Richard Thurston	-	-
	Director	Cliff Hou	-	-
	President	Cliff Hou	-	-
			TSMC Partners, Ltd. holds 1,000 shares	100%
InveStar Semiconductor Development Fund, Inc.	Director	Wendell Huang	-	-
			TSMC Partners, Ltd. holds 786,907 shares	97.09%
InveStar Semiconductor Development Fund, Inc. (II) LDC.	Director	Wendell Huang	-	-
			TSMC Partners, Ltd. holds 14,152,996 shares	97.09%
TSMC Development, Inc.	Chairman	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Lora Ho	-	-
			TSMC Partners, Ltd. holds 1,000 shares	100%
WaferTech, LLC	Director	M.C. Tzeng	-	-
	Director	Steve Tso	-	-
	President	Kuo-Chin Hsu	-	-
			TSMC Development, Inc. holds 293,639,685 shares	100%
TSMC Partners, Ltd.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Lora Ho	-	-
			TSMC holds 988,268,244 shares	100%
TSMC Design Technology Canada Inc.	Director	Cliff Hou	-	-
	Director	Sreedhar Natarajan	-	-
	Director	Richard Thurston	-	-
	President	Cliff Hou	-	-
			TSMC Partners, Ltd. holds 2,300,000 shares	100%
TSMC Global, Ltd.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
			TSMC holds 1,284 shares	100%

(Continued)

Company	Title	Name	Shareholding	
			Shares (Investment Amount)	% (Investment Holding%)
Xintec Inc.	Chairman	Representative of TSMC: Robert Kuan	94,010,653 shares	40.25%
	Director	Representative of TSMC: C.C.Wei	94,010,653 shares	40.25%
	Director	Representative of TSMC: Lora Ho	94,010,653 shares	40.25%
	Director	Representative of OmniVision Investment Holding Inc.: Xiaoying Hong	9,712,168 shares	4.16%
	Director	Tzun Eing Chen	873,621 shares	0.37%
	Supervisor	Representative of VisEra Holding Company: Cheng Ho	36,866,800 shares	15.78%
	Supervisor	Representative of VisEra Holding Company: W.M. Sheng	36,866,800 shares	15.78%
	President	Robert Kuan	-	-
Emerging Alliance Fund, L.P.	None	None	(TSMC's investment US\$25,879,796)	(99.5%)
VentureTech Alliance Fund II, L.P.	None	None	(TSMC's investment US\$27,056,705)	(98%)
VentureTech Alliance Fund III, L.P.	None	None	(TSMC's investment US\$65,130,000) (TSMC Solar Ltd. investment US\$55,860,001)	(53%) (46%)
VentureTech Alliance Holdings, LLC	None	None	None	(100%)
Mutual-Pak Technology Co., Ltd.	Chairman	Hsu-Tung Chen	810,600 shares	3.91%
	Director	Lewis Hwang	1,963,000 shares	9.47%
	Director	Representative of VentureTech Alliance Fund III, L.P.: Juine-Kai Tseng	11,867,600 shares	57.25%
	Supervisor	Wei-Pong Lin	30,000 shares	0.14%
	President	Lewis Hwang	1,963,000 shares	9.47%
Growth Fund Limited	None	None	(VentureTech Alliance Fund III, L.P.'s investment US\$1,830,000)	(100%)
TSMC Solar Ltd.	Chairman	Rick Tsai	-	-
	Director	F.C. Tseng	-	-
	Director	Richard Thurston	-	-
	Supervisor	Lora Ho	-	-
	President	Ying-Chen Chao	-	-
			TSMC holds 1,118,000,000 shares	100%
TSMC Solar North America, Inc.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Rick Tsai	-	-
			TSMC Solar Ltd. holds 1,000 shares	100%
TSMC Solar Europe B.V.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
			TSMC Solar Ltd. holds 200 shares	100%
TSMC Solar Europe GmbH	Director	Rick Tsai	-	-
	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	Director	Goetz Bendele	-	-
	Director	Ying-Chen Chao	-	-
			TSMC Solar Europe B.V. holds 200 shares	100%
TSMC Solar State Lighting Ltd.	Chairman	Rick Tsai	-	-
	Director	F.C. Tseng	-	-
	Director	Richard Thurston	-	-
	Supervisor	Lora Ho	-	-
	President	Jacob Tarn	-	-
			TSMC holds 227,000,000 shares	100%
TSMC Lighting North America, Inc.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Rick Tsai	-	-
			TSMC Solid State Lighting Ltd. holds 1,000 shares	100%

8.1.6 Operational Highlights of TSMC Subsidiaries (Note)

Unit: NT\$ thousands, except Earning (Loss) per share (\$)

As of 12/31/2011

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Loss)	Basic Earning (Loss)*per share
TSMC North America	333,168	29,284,049	26,302,410	2,981,639	237,296,925	236,336	197,493	17.95
TSMC Europe B.V.	3,927	289,468	84,297	205,171	398,666	42,912	34,937	174,685.00
TSMC Japan Limited	116,910	224,757	63,156	161,601	279,073	12,209	4,523	753.83
TSMC Korea Limited	10,480	26,638	3,190	23,448	21,813	1,983	3,263	40.79
TSMC China Company Limited	21,655,005	27,108,293	13,525,079	13,583,214	10,597,879	1,733,800	2,113,521	N/A
TSMC Technology, Inc.	0.03	372,814	51,304	321,510	536,541	25,550	21,668	21,668.00
InveStar Semiconductor Development Fund, Inc.	24,549	403,197	56,551	346,646	127,435	107,452	107,425	136.52
InveStar Semiconductor Development Fund, Inc. (II) LDC.	441,526	308,296	160	308,136	8,859	(18,854)	(18,861)	(1.33)
TSMC Development, Inc.	0.03	9,527,219	-	9,527,219	1,659,918	1,658,399	1,658,399	1,658,399.00
WaferTech, LLC	8,480,640	7,579,550	618,810	6,960,740	7,336,335	1,632,927	1,613,464	5.49
TSMC Partners, Ltd.	29,932,669	34,997,980	11,016	34,986,964	2,152,874	1,745,799	1,745,799	1.77
TSMC Design Technology Canada Inc.	72,310	152,131	29,192	122,939	191,705	17,428	12,779	5.56
TSMC Global, Ltd.	38,889,792	44,072,000	155	44,071,845	425,047	414,070	431,368	335,956.39
Xintec Inc.	2,335,811	6,492,444	2,532,595	3,959,849	3,866,586	248,699	134,422	0.58
Emerging Alliance Fund, L.P.	783,847	214,307	-	214,307	46,061	(11,442)	(11,185)	N/A
VentureTech Alliance Fund II, L.P.	819,493	779,482	7,926	771,556	247,457	83,585	32,275	N/A
VentureTech Alliance Fund III, L.P.	3,664,545	3,002,651	4,510	2,998,140	23,286	(280,045)	(280,045)	N/A
VentureTech Alliance Holdings, LLC	-	-	-	-	-	-	-	N/A
Mutual-Pak Technology Co., Ltd.	207,312	65,760	25,692	40,068	12,600	(41,329)	(42,837)	(2.07)
Growth Fund Limited	55,427	16,925	1,478	15,447	-	(13,684)	(13,684)	N/A
TSMC Solar Ltd.	11,180,000	11,200,690	1,138,801	10,061,889	-	(327,587)	(1,067,420)	(0.95)
TSMC Solar North America, Inc.	30	76,108	23,921	52,187	-	(62,909)	(63,192)	(63,192.00)
TSMC Solar Europe B.V.	3,927	204,287	124	204,163	-	(134)	(196,659)	(983,295.00)
TSMC Solar Europe GmbH	3,927	254,971	54,593	200,378	160,562	(130,014)	(196,523)	(982,615.00)
TSMC Solid State Lighting Ltd.	2,270,000	2,524,090	777,197	1,746,893	4,017	(520,917)	(523,002)	(2.30)
TSMC Lighting North America, Inc.	30	3,029	35	2,994	-	(34)	(34)	(34.00)

*Except TSMC Japan Limited, TSMC Europe B.V., TSMC Korea Limited, TSMC Design Technology Canada Inc., TSMC Technology, Inc., Mutual-Pak Technology Co., Ltd., Emerging Alliance Fund, L.P., Growth Fund Limited, and VentureTech Alliance Holdings, LLC, the basic earning (loss) per share of each group entity is calculated based on audit figures.

Note: Foreign exchange rates for balance sheet amounts are as follows: \$1 USD = \$30.288 NT, \$1 EUR = \$39.27 NT, \$1 JPY = \$0.3897 NT, \$1 RMB = \$4.81 NT, \$1 KRW = \$0.0262 NT, \$1 CAD = \$29.71 NT
Foreign exchange rates for income statement amounts are as follows: \$1 USD = \$29.385 NT, \$1 EUR = \$41.05 NT, \$1 JPY = \$0.3696 NT, \$1 RMB = \$4.55 NT, \$1 KRW = \$0.0266 NT, \$1 CAD = \$29.78 NT

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

8.3 Special Notes

8.3.1 Private Placement Securities in 2011 and as of the Date of this Annual Report: None.

8.3.2 Regulatory Authorities' Legal Penalties to the Company or Its Employees, and the Company's Resulting Punishment on Its Employees for Violations of Internal Control System Provisions, Principal Deficiencies, and the State of Any Efforts to Make Improvements in 2011 and as of the Date of this Annual Report

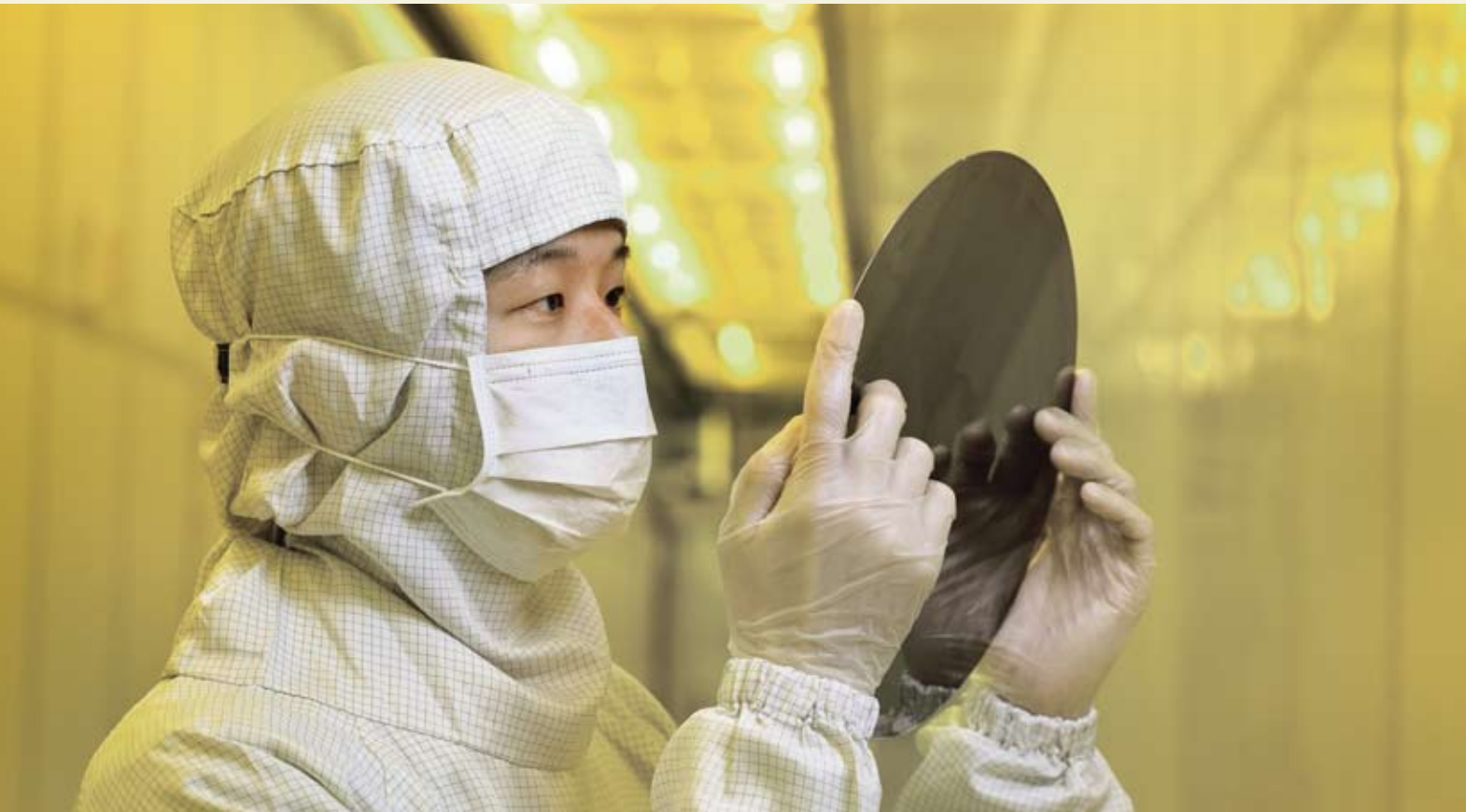
The competent authorities determined that one record relating to routine TSMC's personnel management was incomplete and therefore issued fines totalling NT\$12,000. After communicating with the authorities, TSMC has been completing relevant remedial measures.

8.3.3 Any Events in 2011 and as of the Date of this Annual Report that Had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

8.3.4 Other Necessary Supplement: None.

Taiwan Semiconductor Manufacturing Company, Ltd.

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Financial Information



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

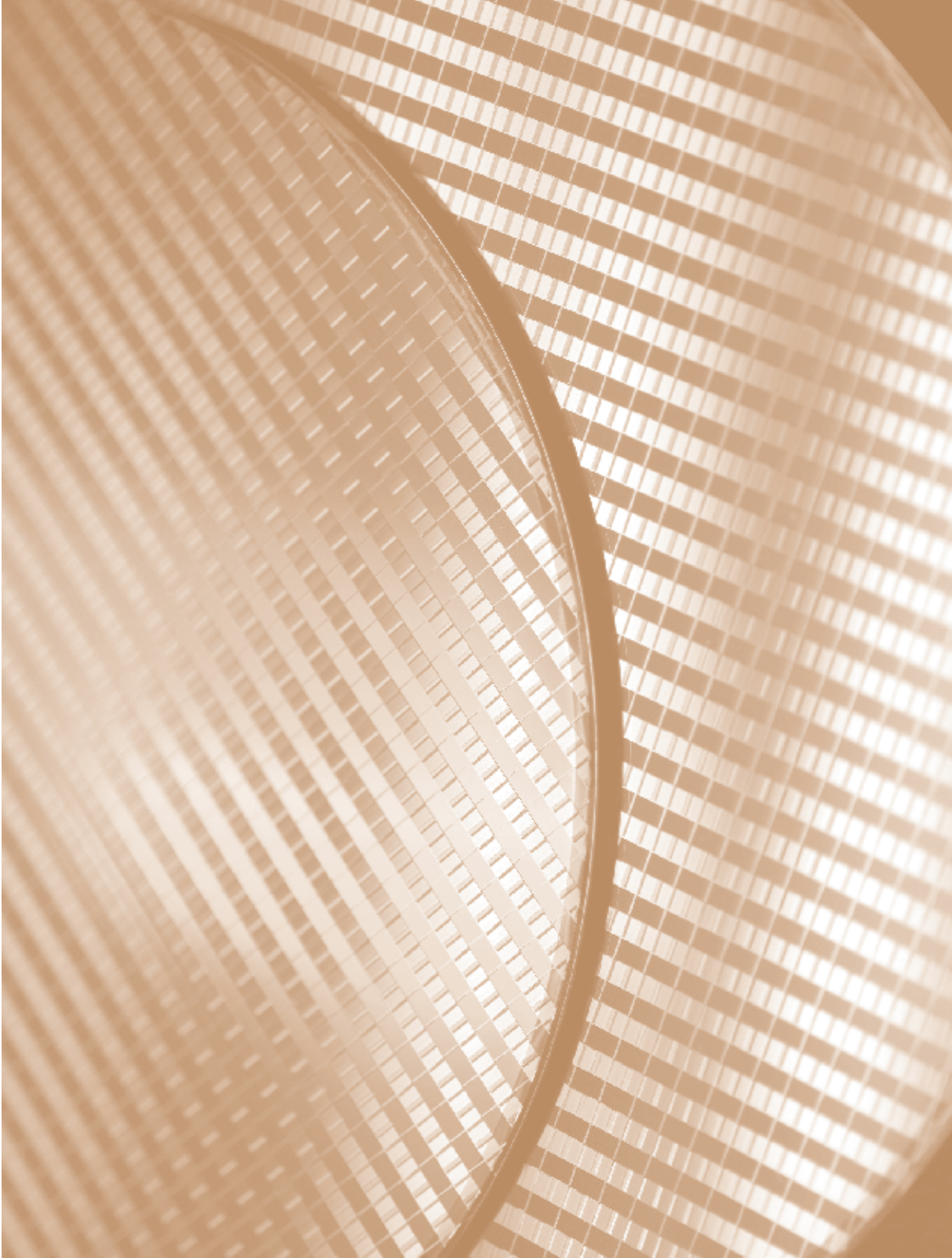


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1. Condensed Balance Sheet

1.1 Condensed Balance Sheet from 2007 to 2011 (Unconsolidated)

Unit: NT\$ thousands

Item	2007	2008	2009	2010	2011
Current Assets	174,299,286	179,849,479	185,831,537	192,234,282	158,563,352
Long-term Investments	123,891,153	124,184,663	118,427,813	117,913,756	129,400,844
Fixed Assets	234,564,558	219,282,502	254,751,526	366,854,299	454,373,533
Other Assets	19,017,626	17,242,603	18,415,746	24,237,329	19,070,145
Total Assets	551,772,623	540,559,247	577,426,622	701,239,666	761,407,874
Current Liabilities					
Before Distribution	43,800,810	53,099,467	72,571,095	118,022,260	109,514,430
After Distribution	124,798,894	129,975,779	150,279,215	195,752,496	*
Long-term Liabilities	14,001,462	5,431,252	4,916,390	4,500,000	18,000,000
Other Liabilities	6,878,949	5,651,417	4,856,425	4,572,488	4,299,930
Capital Stock	264,271,037	256,254,373	259,027,066	259,100,787	259,162,226
Capital Surplus	53,732,682	49,875,255	55,486,010	55,698,434	55,846,357
Retained Earnings					
Before Distribution	218,864,571	170,053,667	181,882,682	265,779,571	322,191,155
After Distribution	133,414,062	92,664,846	104,174,562	188,049,335	*
Cumulative Translation Adjustments	(1,072,853)	481,158	(1,766,667)	(6,543,163)	(6,433,369)
Unrealized Gain/Loss on Financial Instruments	680,997	(287,342)	453,621	109,289	(1,172,855)
Total Liabilities					
Before Distribution	64,681,221	64,182,136	82,343,910	127,094,748	131,814,360
After Distribution	145,679,305	141,058,448	160,052,030	204,824,984	*
Total Equity					
Before Distribution	487,091,402	476,377,111	495,082,712	574,144,918	629,593,514
After Distribution	406,093,318	399,500,799	417,374,592	496,414,682	*

*Pending for shareholders' meeting resolution

1.2 Condensed Balance Sheet from 2007 to 2011 (Consolidated)

Unit: NT\$ thousands

Item	2007	2008	2009	2010	2011
Current Assets	249,822,329	252,618,431	259,803,748	261,519,317	225,260,396
Long-term Investments	36,461,325	39,981,515	37,845,503	39,775,528	34,458,504
Fixed Assets	260,252,187	243,645,350	273,674,787	388,444,023	490,374,916
Other Assets	24,329,385	22,671,293	23,372,182	29,190,036	24,171,126
Total Assets	570,865,226	558,916,589	594,696,220	718,928,904	774,264,942
Current Liabilities					
Before Distribution	48,706,007	56,806,756	79,133,288	123,191,113	117,006,687
After Distribution	129,704,091	133,683,068	156,841,408	200,921,349	*
Long-term Liabilities	24,284,470	16,191,041	11,388,479	12,050,755	20,458,493
Other Liabilities	7,189,178	5,546,325	5,125,905	4,982,631	4,756,211
Capital Stock	264,271,037	256,254,373	259,027,066	259,100,787	259,162,226
Capital Surplus	53,732,682	49,875,255	55,486,010	55,698,434	55,846,357
Retained Earnings					
Before Distribution	218,864,571	170,053,667	181,882,682	265,779,571	322,191,155
After Distribution	133,414,062	92,664,846	104,174,562	188,049,335	*
Cumulative Translation Adjustments	(1,072,853)	481,158	(1,766,667)	(6,543,163)	(6,433,369)
Unrealized Gain/Loss on Financial Instruments	680,997	(287,342)	453,621	109,289	(1,172,855)
Total Liabilities					
Before Distribution	80,179,655	78,544,122	95,647,672	140,224,499	142,221,391
After Distribution	161,177,739	155,420,434	173,355,792	217,954,735	*
Equity Attributable to Shareholders of the Parent					
Before Distribution	487,091,402	476,377,111	495,082,712	574,144,918	629,593,514
After Distribution	406,093,318	399,500,799	417,374,592	496,414,682	*
Minority Interests	3,594,169	3,995,356	3,965,836	4,559,487	2,450,037
Total Equity					
Before Distribution	490,685,571	480,372,467	499,048,548	578,704,405	632,043,551
After Distribution	409,687,487	403,496,155	421,340,428	500,974,169	*

*Pending for shareholders' meeting resolution

2. Condensed Statement of Income

2.1 Condensed Statement of Income from 2007 to 2011 (Unconsolidated)

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

Item	2007	2008	2009	2010	2011
Net Sales	313,647,644	321,767,083	285,742,868	406,963,312	418,245,493
Gross Profit	137,159,314	138,177,615	126,475,970	196,989,302	185,560,865
Income from Operations	112,252,047	106,290,232	94,522,353	154,846,508	138,905,763
Non-operating Income and Gains	11,105,792 ***	6,725,625	4,121,509	15,907,968	7,287,046
Non-operating Expenses and Losses	2,606,433 ***	2,257,039	3,662,840	1,464,272	1,484,965
Interest Revenue	2,634,636	2,728,892	1,117,374	764,027	697,196
Interest Expense	584,736	355,056	142,026	214,641	445,887
Income from Operations of Continued Segments - before Tax	120,751,406	110,758,818	94,981,022	169,290,204	144,707,844
Income from Operations of Continued Segments - after Tax	109,177,093	99,933,168	89,217,836	161,605,009	134,201,279
Net Income	109,177,093	99,933,168	89,217,836	161,605,009	134,201,279
Basic Earnings Per Share	4.14 *	3.86 *	3.45 *	6.24 *	5.18 *
Adjusted Basic Earnings Per Share	4.04 **	3.84 **	3.45	6.24	-
Capitalized Interest	-	-	-	-	-

* Based on weighted average shares outstanding in each year

** Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008 and profit sharing to employees in stock for earning year 2007

2.2 Condensed Statement of Income from 2007 to 2011 (Consolidated)

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

Item	2007	2008	2009	2010	2011
Net Sales	322,630,596	333,157,660	295,742,239	419,537,911	427,080,645
Gross Profit	142,350,211	141,749,561	129,328,611	207,053,591	194,069,228
Income from Operations	111,721,907	104,435,368	91,961,886	159,175,335	141,557,418
Non-operating Income and Gains	11,933,803	10,821,449	5,653,548	13,136,072	5,358,527
Non-operating Expenses and Losses	2,013,684	3,784,571	2,152,787	2,041,012	1,768,268
Interest Revenue	5,651,700	5,373,823	2,600,925	1,665,193	1,479,514
Interest Expense	842,242	614,988	391,479	425,356	626,725
Income from Operations of Continued Segments - before Tax	121,642,026	111,472,246	95,462,647	170,270,395	145,147,677
Income from Operations of Continued Segments - after Tax	109,932,400	100,523,237	89,466,223	162,281,930	134,453,260
Net Income	109,932,400	100,523,237	89,466,223	162,281,930	134,453,260
Net income Attributable to Shareholders of the Parent	109,177,093	99,933,168	89,217,836	161,605,009	134,201,279
Basic Earnings Per Share	4.14 *	3.86 *	3.45 *	6.24 *	5.18 *
Adjusted Basic Earnings Per Share	4.04 **	3.84 **	3.45	6.24	-
Capitalized Interest	-	-	-	-	9,093

* Based on weighted average shares outstanding in each year

** Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008 and profit sharing to employees in stock for earning year 2007

3. Financial Analysis

3.1 Financial Analysis from 2007 to 2011 (Unconsolidated)

		2007	2008	2009	2010	2011
Capital Structure Analysis	Debt Ratio(%)	11.72	11.87	14.26	18.12	17.31
	Long-term Fund to Fixed Assets Ratio (%)	213.63	219.72	196.27	157.73	142.52
Liquidity Analysis	Current Ratio (%)	397.94	338.70	256.07	162.88	144.79
	Quick Ratio (%)	348.53	312.83	228.94	140.07	122.41
	Times Interest Earned (Times)	207.51	312.95	669.76	789.71	325.54
Operating Performance Analysis	Average Collection Turnover (Times)	8.82	11.08	11.17	10.93	10.40
	Days Sales Outstanding	41.40	32.93	32.66	33.40	35.09
	Average Inventory Turnover (Times)	8.78	10.86	10.06	9.44	9.61
	Average Inventory Turnover Days	41.57	33.59	36.29	38.67	37.97
	Average Payment Turnover (Times)	16.05	20.40	18.46	16.89	18.17
	Fixed Assets Turnover (Times)	1.34	1.47	1.12	1.11	0.92
	Total Assets Turnover (Times)	0.57	0.60	0.49	0.58	0.55
Profitability Analysis	Return on Total Assets (%)	19.49	18.35	15.98	25.31	18.40
	Return on Equity (%)	21.94	20.74	18.37	30.23	22.30
	Operating Income to Paid-in Capital Ratio (%)	42.48	41.48	36.49	59.76	53.60
	Pre-tax Income to Paid-in Capital Ratio (%)	45.69	43.22	36.67	65.34	55.84
	Net Margin (%)	34.81	31.06	31.22	39.71	32.09
	Basic Earnings Per Share (NT\$) (Note)	4.04	3.84	3.45	6.24	5.18
	Diluted Earnings Per Share (NT\$) (Note)	4.04	3.81	3.44	6.23	5.18
Cash Flow	Cash Flow Ratio (%)	397.52	399.16	214.83	188.12	217.99
	Cash Flow Adequacy Ratio (%)	139.35	134.79	122.02	109.98	99.13
	Cash Flow Reinvestment Ratio (%)	9.73	12.95	6.99	11.20	11.07
Leverage	Operating Leverage	2.23	2.50	2.46	2.17	2.54
	Financial Leverage	1.01	1.00	1.00	1.00	1.00
Analysis of Deviation over 20% for 2011 vs. 2010: 1. The times interest earned decreased by 59%, primarily due to decrease in pre-tax income and an increase in interest expense. 2. The return on total assets decreased by 27%, primarily due to a decrease in net income and increase in average total assets. 3. The return on equity decreased by 26%, primarily due to a decrease in net income and increase in average total shareholders' equity.						

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

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio
- (2) Long-term Fund to Fixed Assets Ratio

= Total Liabilities / Total Assets
 = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

- (1) Current Ratio
- (2) Quick Ratio

= Current Assets / Current Liabilities
 = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
 = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover
- (2) Days Sales Outstanding
- (3) Average Inventory Turnover

= Net Sales / Average Trade Receivables
 = 365 / Average Collection Turnover
 = Cost of Sales / Average Inventory

(4) Average Inventory Turnover Days

- (5) Average Payment Turnover
- (6) Fixed Assets Turnover
- (7) Total Assets Turnover

4. Profitability Analysis

- (1) Return on Total Assets

- (2) Return on Equity
- (3) Operating Income to Paid-in Capital Ratio
- (4) Pre-tax Income to Paid-in Capital Ratio
- (5) Net Margin
- (6) Earnings Per Share

= 365 / Average Inventory Turnover
 = Cost of Sales / Average Trade Payables
 = Net Sales / Net Fixed Assets
 = Net Sales / Total Assets

= (Net Income + Interest Expenses * (1 - Effective tax rate)) / Average Total Assets
 = Net Income / Average Shareholders' Equity
 = Operating Income / Paid-in Capital

= Income before Tax / Paid-in Capital
 = Net Income / Net Sales
 = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash flow

- (1) Cash Flow Ratio
- (2) Cash Flow Adequacy Ratio
- (3) Cash Flow Reinvestment Ratio

= Net Cash Provided by Operating Activities / Current Liabilities
 = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
 = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital)

6. Leverage

- (1) Operating Leverage
- (2) Financial Leverage

= (Net Sales - Variable Cost) / Income from Operations
 = Income from Operations / (Income from Operations - Interest Expenses)

3.2 Financial Analysis from 2007 to 2011 (Consolidated)

		2007	2008	2009	2010	2011
Capital Structure Analysis	Debts Ratio(%)	14.05	14.05	16.08	19.50	18.37
	Long-term Fund to Fixed Assets (%)	197.87	203.81	186.51	152.08	133.06
Liquidity Analysis	Current Ratio (%)	512.92	444.70	328.31	212.29	192.52
	Quick Ratio (%)	461.11	415.32	300.15	187.57	170.06
	Times Interest Earned (Times)	145.43	182.26	244.85	401.30	229.27
Operating Performance Analysis	Average Collection Turnover (Times)	8.55	10.73	10.78	10.57	10.06
	Days Sales Outstanding	42.69	34.01	33.86	34.54	36.29
	Average Inventory Turnover (Times)	7.96	9.88	9.30	8.62	8.75
	Average Inventory Turnover Days	45.85	36.94	39.25	42.36	41.70
	Average Payment Turnover (Times)	15.76	20.02	18.77	17.23	18.77
	Fixed Assets Turnover (Times)	1.24	1.37	1.08	1.08	0.87
	Total Assets Turnover (Times)	0.57	0.60	0.50	0.58	0.55
Profitability Analysis	Return on Total Assets (%)	19.10	17.89	15.57	24.77	18.08
	Return on Equity (%)	21.94	20.74	18.37	30.23	22.30
	Operating Income to Paid-in Capital Ratio (%)	42.28	40.75	35.50	61.43	54.62
	Pre-tax Income to Paid-in Capital Ratio (%)	46.03	43.50	36.85	65.72	56.01
	Net Margin (%)	34.07	30.17	30.25	38.68	31.48
	Basic Earnings Per Share (NT\$) (Note1)	4.04	3.84	3.45	6.24	5.18
	Diluted Earnings Per Share (NT\$) (Note1)	4.04	3.81	3.44	6.23	5.18
Cash Flow	Cash Flow Ratio (%)	377.30	389.91	202.15	186.28	211.60
	Cash Flow Adequacy Ratio (%)	142.46	139.50	126.39	113.91	101.93
	Cash Flow Reinvestment Ratio (%)	10.07	12.98	6.90	11.13	11.12
Leverage	Operating Leverage	2.21	2.53	2.53	2.12	2.50
	Financial Leverage	1.01	1.01	1.00	1.00	1.00
Industry Specific Key Performance Indicator	Billing Utilization Rate (%)	93 (Note 2)	88 (Note 2)	75 (Note 2)	101 (Note 2)	91
	Advanced technologies (0.13-micron and below) Percentage of Wafer Sales (%)	55	64	67	72	73
	Sales Growth (%)	1.6	3.3	-11.2	41.9	1.8
	Net Income Growth (%)	-14.0	-8.5	-10.7	81.1	-17.0

Analysis of Deviation over 20% for 2011 vs. 2010:

1. The times interest earned decreased by 43%, primarily due to a decrease in pre-tax income and an increase in interest expense.
2. The return on total assets decreased by 27%, primarily due to a decrease in net income and an increase in average total assets.
3. The return in equity decreased by 26%, primarily due to a decrease in net income and an increase in average total shareholders' equity.

Note 1: Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008 and profit sharing to employees in stock for earning year 2007.

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

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
(2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
(2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
(3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
(2) Days Sales Outstanding = 365 / Average Collection Turnover
(3) Average Inventory Turnover = Cost of Sales / Average Inventory

(4) Average Inventory Turnover Days

- (5) Average Payment Turnover
(6) Fixed Assets Turnover
(7) Total Assets Turnover
4. Profitability Analysis
(1) Return on Total Assets
(2) Return on Equity
(3) Operating Income to Paid-in Capital Ratio
(4) Pre-tax Income to Paid-in Capital Ratio
(5) Net Margin
(6) Earnings Per Share

- = 365 / Average Inventory Turnover
= Cost of Sales / Average Trade Payables
= Net Sales / Net Fixed Assets
= Net Sales / Total Assets

- = (Net Income + Interest Expenses * (1 - Effective tax rate)) / Average Total Assets
= Net Income / Average Shareholders' Equity
= Operating Income / Paid-in Capital
= Income Before Tax / Paid-in Capital
= Net Income / Net Sales
= (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
(2) Cash Flow Adequacy Ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
(3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets + Investments + Other Assets + Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
(2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

4. Auditors' Opinions from 2007 to 2011

Year	CPA	Audit Opinion
2007	Hung-Wen Huang, Ming-Cheng Chang	An Unqualified Opinion
2008	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion with explanatory paragraph referring to adoption of new accounting standards
2009	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion with explanatory paragraph referring to adoption of new accounting standards
2010	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion
2011	Hung-Peng Lin, Shu-Chieh Huang	An Unqualified Opinion

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

5. Audit Committee's Report

The Board of Directors has prepared the Company's 2011 Business Report, Financial Statements, and proposal for allocation of profits. The CPA firm of Deloitte & Touche was retained to audit TSMC's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report, Financial Statements, and profit allocation proposal have been reviewed and determined to be correct and accurate by the Audit Committee members of Taiwan Semiconductor Manufacturing Company Limited. According to Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Taiwan Semiconductor Manufacturing Company Limited

Chairman of the Audit Committee: Sir Peter Leahy Bonfield



February 14, 2012

6. Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2011 and as of the date of this Annual Report: None

7. Financial Statements for the Years Ended December 31, 2011 and 2010 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2011 and 2010, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the year ended December 31, 2011 and 2010 on which we have issued an unqualified opinion.

Deloitte & Touche

February 14, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010		LIABILITIES AND SHAREHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 85,262,521	11	\$ 109,511,130	15	Short-term loans (Note 14)	\$ 25,926,528	3	\$ 30,908,637	4
Financial assets at fair value through profit or loss (Notes 2, 5 and 24)	14,925	-	-	-	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 24)	-	-	7,834	-
Available-for-sale financial assets (Notes 2, 6 and 24)	2,617,134	-	3,918,274	-	Accounts payable	9,522,688	1	10,559,283	2
Held-to-maturity financial assets (Notes 2, 7 and 24)	701,136	-	4,796,589	1	Payables to related parties (Note 25)	2,992,582	-	2,574,450	-
Receivables from related parties (Notes 3 and 25)	24,777,534	3	25,733,974	4	Income tax payable (Notes 2 and 18)	10,647,797	1	7,108,869	1
Notes and accounts receivable (Note 3)	19,894,386	3	22,250,905	3	Accrued profit sharing to employees and bonus to directors (Notes 2 and 20)	9,055,704	1	10,959,469	2
Allowance for doubtful receivables (Notes 2, 3 and 8)	(485,120)	-	(488,000)	-	Payables to contractors and equipment suppliers	33,811,970	5	41,992,198	6
Allowance for sales returns and others (Notes 2 and 8)	(4,887,879)	-	(7,341,444)	(1)	Accrued expenses and other current liabilities (Notes 16, 24 and 25)	13,057,161	2	13,911,520	2
Other receivables from related parties (Notes 3 and 25)	188,028	-	1,302,281	-	Current portion of bonds payable (Notes 15 and 24)	4,500,000	1	-	-
Other financial assets (Note 26)	122,010	-	418,206	-					
Inventories (Notes 2 and 9)	22,853,397	3	25,646,348	4	Total current liabilities	109,514,430	14	118,022,260	17
Deferred income tax assets (Notes 2 and 18)	5,779,544	1	5,133,775	1					
Prepaid expenses and other current assets	1,725,736	-	1,352,244	-	LONG-TERM LIABILITIES				
					Bonds payable (Notes 15 and 24)	18,000,000	2	4,500,000	-
Total current assets	158,563,352	21	192,234,282	27					
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 24)					OTHER LIABILITIES				
Investments accounted for using equity method	128,200,718	17	114,977,174	17	Accrued pension cost (Notes 2 and 17)	3,860,898	1	3,824,601	1
Available-for-sale financial assets	-	-	1,033,049	-	Guarantee deposits (Note 28)	439,032	-	747,887	-
Held-to-maturity financial assets	702,291	-	1,405,698	-					
Financial assets carried at cost	497,835	-	497,835	-	Total other liabilities	4,299,930	1	4,572,488	1
Total long-term investments	129,400,844	17	117,913,756	17	Total liabilities	131,814,360	17	127,094,748	18
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 25)					CAPITAL STOCK - NT\$10 PAR VALUE (Note 20)				
Cost					Authorized: 28,050,000 thousand shares				
Buildings	149,495,478	20	128,646,942	18	Issued: 25,916,222 thousand shares in 2011				
Machinery and equipment	984,978,666	129	852,733,592	122	25,910,078 thousand shares in 2010	259,162,226	34	259,100,787	37
Office equipment	13,824,434	2	11,730,537	2					
	1,148,298,578	151	993,111,071	142	CAPITAL SURPLUS (Notes 2 and 20)	55,846,357	8	55,698,434	8
Accumulated depreciation	(804,740,797)	(106)	(706,605,445)	(101)					
Advance payments and construction in progress	110,815,752	14	80,348,673	11	RETAINED EARNINGS (Note 20)				
					Appropriated as legal capital reserve	102,399,995	13	86,239,494	12
Net property, plant and equipment	454,373,533	59	366,854,299	52	Appropriated as special capital reserve	6,433,874	1	1,313,047	-
					Unappropriated earnings	213,357,286	28	178,227,030	26
INTANGIBLE ASSETS						322,191,155	42	265,779,571	38
Goodwill (Note 2)	1,567,756	-	1,567,756	-	OTHERS (Notes 2, 22 and 24)				
Deferred charges, net (Notes 2 and 13)	4,719,244	1	5,456,427	1	Cumulative translation adjustments	(6,433,369)	(1)	(6,543,163)	(1)
					Unrealized gain (loss) on financial instruments	(1,172,855)	-	109,289	-
Total intangible assets	6,287,000	1	7,024,183	1		(7,606,224)	(1)	(6,433,874)	(1)
OTHER ASSETS					Total shareholders' equity	629,593,514	83	574,144,918	82
Deferred income tax assets (Notes 2 and 18)	7,221,824	1	7,154,266	1					
Refundable deposits	4,491,735	1	8,638,749	2					
Others (Notes 2 and 25)	1,069,586	-	1,420,131	-					
Total other assets	12,783,145	2	17,213,146	3					
TOTAL	\$ 761,407,874	100	\$ 701,239,666	100	TOTAL	\$ 761,407,874	100	\$ 701,239,666	100

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 25)	\$ 421,472,087		\$ 418,666,448	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	<u>3,226,594</u>		<u>11,703,136</u>	
NET SALES	418,245,493	100	406,963,312	100
COST OF SALES (Notes 9, 19 and 25)	<u>233,083,068</u>	<u>56</u>	<u>209,921,268</u>	<u>52</u>
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	185,162,425	44	197,042,044	48
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2)	<u>398,440</u>	<u>-</u>	<u>(52,742)</u>	<u>-</u>
GROSS PROFIT	<u>185,560,865</u>	<u>44</u>	<u>196,989,302</u>	<u>48</u>
OPERATING EXPENSES (Notes 19 and 25)				
Research and development	31,594,034	7	27,623,299	7
General and administrative	12,715,339	3	11,681,756	3
Marketing	<u>2,345,729</u>	<u>1</u>	<u>2,837,739</u>	<u>-</u>
Total operating expenses	<u>46,655,102</u>	<u>11</u>	<u>42,142,794</u>	<u>10</u>
INCOME FROM OPERATIONS	<u>138,905,763</u>	<u>33</u>	<u>154,846,508</u>	<u>38</u>
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	3,778,083	1	7,111,443	2
Settlement income (Note 28)	947,340	1	6,939,764	2
Valuation gain on financial instruments, net (Notes 2, 5 and 24)	801,195	-	312,862	-
Interest income	697,196	-	764,027	-
Technical service income (Note 25)	408,153	-	446,746	-
Others (Notes 2 and 25)	<u>655,079</u>	<u>-</u>	<u>333,126</u>	<u>-</u>
Total non-operating income and gains	<u>7,287,046</u>	<u>2</u>	<u>15,907,968</u>	<u>4</u>

(Continued)

	2011		2010	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	\$ 673,085	-	\$ 58,737	-
Interest expense (Note 25)	445,887	-	214,641	-
Loss on disposal of property, plant and equipment (Note 2)	202,901	-	838,750	-
Casualty loss (Note 9)	-	-	190,992	-
Others	<u>163,092</u>	<u>-</u>	<u>161,152</u>	<u>-</u>
Total non-operating expenses and losses	<u>1,484,965</u>	<u>-</u>	<u>1,464,272</u>	<u>-</u>
INCOME BEFORE INCOME TAX	144,707,844	35	169,290,204	42
INCOME TAX EXPENSE (Notes 2 and 18)	<u>10,506,565</u>	<u>3</u>	<u>7,685,195</u>	<u>2</u>
NET INCOME	<u>\$ 134,201,279</u>	<u>32</u>	<u>\$ 161,605,009</u>	<u>40</u>
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 23)				
Basic earnings per share	<u>\$ 5.58</u>	<u>\$ 5.18</u>	<u>\$ 6.53</u>	<u>\$ 6.24</u>
Diluted earnings per share	<u>\$ 5.58</u>	<u>\$ 5.18</u>	<u>\$ 6.53</u>	<u>\$ 6.23</u>

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	Capital Stock - Common Stock		Capital Surplus	Retained Earnings				Others			Total Shareholders' Equity
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock	
BALANCE, JANUARY 1, 2010	25,902,706	\$ 259,027,066	\$ 55,486,010	\$ 77,317,710	\$ -	\$ 104,564,972	\$ 181,882,682	\$ (1,766,667)	\$ 453,621	\$ -	\$ 495,082,712
Appropriations of prior year's earnings											
Legal capital reserve	-	-	-	8,921,784	-	(8,921,784)	-	-	-	-	-
Special capital reserve	-	-	-	-	1,313,047	(1,313,047)	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,708,120)	(77,708,120)	-	-	-	(77,708,120)
Net income in 2010	-	-	-	-	-	161,605,009	161,605,009	-	-	-	161,605,009
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	(17,885)	-	-	-	-	-	-	-	(17,885)
Translation adjustments	-	-	-	-	-	-	-	(4,776,496)	-	-	(4,776,496)
Issuance of stock from exercising employee stock options	7,372	73,721	171,103	-	-	-	-	-	-	-	244,824
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(441,978)	-	(441,978)
Net change in shareholders' equity from equity method investees	-	-	59,206	-	-	-	-	-	97,646	-	156,852
BALANCE, DECEMBER 31, 2010	25,910,078	259,100,787	55,698,434	86,239,494	1,313,047	178,227,030	265,779,571	(6,543,163)	109,289	-	574,144,918
Appropriations of prior year's earnings											
Legal capital reserve	-	-	-	16,160,501	-	(16,160,501)	-	-	-	-	-
Special capital reserve	-	-	-	-	5,120,827	(5,120,827)	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,730,236)	(77,730,236)	-	-	-	(77,730,236)
Net income in 2011	-	-	-	-	-	134,201,279	134,201,279	-	-	-	134,201,279
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	59,898	-	-	-	-	-	-	-	59,898
Translation adjustments	-	-	-	-	-	-	-	(112,326)	-	-	(112,326)
Issuance of stock from exercising employee stock options	7,144	71,439	146,258	-	-	-	-	-	-	-	217,697
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,112,995)	-	(1,112,995)
Net change in shareholders' equity from equity method investees	-	-	-	-	-	-	-	-	(165,851)	-	(165,851)
Acquisition of treasury stock - shareholders executed the appraisal right	-	-	-	-	-	-	-	-	-	(71,598)	(71,598)
Retirement of treasury stock	(1,000)	(10,000)	(2,139)	-	-	(59,459)	(59,459)	-	-	71,598	-
Effect of spin-off	-	-	(56,094)	-	-	-	-	222,120	(3,298)	-	162,728
BALANCE, DECEMBER 31, 2011	25,916,222	\$ 259,162,226	\$ 55,846,357	\$ 102,399,995	\$ 6,433,874	\$ 213,357,286	\$ 322,191,155	\$ (6,433,369)	\$ (1,172,855)	\$ -	\$ 629,593,514

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 134,201,279	\$ 161,605,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,925,423	83,366,121
Unrealized (realized) gross profit from affiliates	(398,440)	52,742
Amortization of premium/discount of financial assets	9,860	18,611
Gain on disposal of available-for-sale financial assets, net	(35,151)	-
Loss on disposal of financial assets carried at cost	-	1,263
Equity in earnings of equity method investees, net	(3,778,083)	(7,111,443)
Cash dividends received from equity method investees	2,941,548	422,490
Loss on disposal of property, plant and equipment and other assets, net	99,884	761,298
Settlement income from receiving equity securities	-	(4,434,364)
Deferred income tax	(493,026)	(373,253)
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(22,759)	189,577
Receivables from related parties	956,440	(3,192,201)
Notes and accounts receivable	2,356,519	(2,366,385)
Allowance for doubtful receivables	(2,880)	57,000
Allowance for sales returns and others	(2,453,565)	(1,242,188)
Other receivables from related parties	(38,049)	85,830
Other financial assets	138,196	904,157
Inventories	2,775,646	(6,816,132)
Prepaid expenses and other current assets	(382,852)	(445,797)
Accounts payable	(1,805,422)	624,608
Payables to related parties	418,132	535,108
Income tax payable	3,538,928	(1,652,251)
Accrued profit sharing to employees and bonus to directors	(1,903,765)	4,188,131
Accrued expenses and other current liabilities	(410,047)	(3,124,307)
Accrued pension cost	96,880	17,425
Deferred credits	-	(47,873)
Net cash provided by operating activities	<u>238,734,696</u>	<u>222,023,176</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)
Investments accounted for using equity method	(7,390,883)	(8,262,519)
Financial assets carried at cost	-	(480)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	1,035,151	-
Held-to-maturity financial assets	4,789,000	15,943,000
Financial assets carried at cost	-	3,370
Property, plant and equipment and other assets	4,650,078	387,735
Proceeds from return of capital by investees	320,013	-
Increase in deferred charges	(1,658,296)	(1,538,301)
Decrease (increase) in refundable deposits	4,147,014	(5,940,633)
Decrease (increase) in other assets	27,600	(1,004,581)
Net cash used in investing activities	<u>(198,108,204)</u>	<u>(182,747,441)</u>
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	-

(Continued)

	2011	2010	
Decrease in guarantee deposits	\$ (308,855)	\$ (253,489)	
Proceeds from exercise of employee stock options	217,697	244,824	
Acquisition of treasury stock	(71,598)	-	
Cash dividends	<u>(77,730,236)</u>	<u>(77,708,120)</u>	
Net cash used in financing activities	<u>(64,875,101)</u>	<u>(46,808,148)</u>	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,248,609)	(7,532,413)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>109,511,130</u>	<u>117,043,543</u>	
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 85,262,521</u>	<u>\$ 109,511,130</u>	
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	<u>\$ 369,085</u>	<u>\$ 200,892</u>	
Income tax paid	<u>\$ 7,454,386</u>	<u>\$ 9,640,396</u>	
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS			
Acquisition of property, plant and equipment	\$ 195,932,728	\$ 195,950,918	
Decrease (increase) in payables to contractors and equipment suppliers	6,827,106	(13,491,140)	
Nonmonetary exchange trade-out price	(2,293)	(124,746)	
Cash paid	<u>\$ 202,757,541</u>	<u>\$ 182,335,032</u>	
Disposal of property, plant and equipment and other assets	3,370,165	1,872,880	
Decrease (increase) in other receivables from related parties	1,124,206	(1,142,108)	
Decrease (increase) in other financial assets	158,000	(218,291)	
Nonmonetary exchange trade-out price	(2,293)	(124,746)	
Cash received	<u>\$ 4,650,078</u>	<u>\$ 387,735</u>	
NON-CASH FINANCING ACTIVITIES			
Current portion of bonds payable	<u>\$ 4,500,000</u>	<u>\$ -</u>	
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ -</u>	<u>\$ 718,637</u>	
SUPPLEMENTAL INFORMATION FOR SPIN-OFF BUSINESSES			
In August 2011, the Company transferred the solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC Solid State Lighting Ltd. (TSMC SSL) and TSMC Solar Ltd. (TSMC Solar), respectively. The relevant information about spin-off was as follows:			
	TSMC SSL	TSMC Solar	Total
Acquired investments accounted for using equity method	\$ 2,270,000	\$ 11,180,000	\$ 13,450,000
Non-cash items transferred			
Current assets	36,050	18,807	54,857
Long-term investments	2,872	7,912,710	7,915,582
Property, plant and equipment	1,929,563	2,372,214	4,301,777
Other assets	234,696	201,677	436,373
Current liabilities	(292,728)	(337,439)	(630,167)
Other liabilities	(36,272)	(25,218)	(61,490)
Capital surplus	-	(56,094)	(56,094)
Unrealized gain (loss) on financial instruments	-	(3,298)	(3,298)
Cumulative translation adjustments	256	221,864	222,120
	<u>(1,874,437)</u>	<u>(10,305,223)</u>	<u>(12,179,660)</u>
Cash contributed related to spin-off	<u>\$ 395,563</u>	<u>\$ 874,777</u>	<u>\$ 1,270,340</u>

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the “Company” or “TSMC”), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, the Company also engages in the researching, developing, designing, manufacturing and selling of solid state lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. In August 2011, the Company transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC SSL and TSMC Solar, respectively.

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

As of December 31, 2011 and 2010, the Company had 30,113 and 29,929 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the R.O.C.

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

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

Use of Estimates

The preparation of financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management’s estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Repurchase agreements collateralized by government bonds acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value due to their short term nature.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of shareholders’ equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

The fair value of overseas publicly traded stock is determined using the closing prices at the end of the year. The fair value of debt securities is determined using the average of bid and asked prices at the end of the year.

Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to

shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Financial Assets Carried at Cost

Investments for which the Company does not exercise significant influence and that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks and mutual funds, are carried at their original cost. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared on the earnings of the investee attributable to the period prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectability of receivables. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

The Company's provision was originally set at 1% of the amount of outstanding receivables. On January 1, 2011, the Company adopted the third revision of Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement (SFAS No. 34)." One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. Accordingly, the Company evaluates for indication of impairment of accounts receivable based on an individual and collective basis at the end of each reporting period. When objective evidence indicates that the estimated future cash flow of accounts receivable decreases as a result of one or more events that occurred after the initial recognition of the accounts receivable, such accounts receivable are deemed to be impaired.

Because of the Company's short average collection period, the amount of the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad debt expense which is recorded in the operating expenses - general and administrative. When accounts receivable are considered uncollectable, the amount is written off against the allowance account.

Inventories

Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the "equity in earnings/losses of equity method investees, net" account. The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. Cash dividends received from an investee shall reduce the carrying amount of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income.

Gains or losses on sales from the Company to equity method investees are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties. The entire amount of the gains or losses on sales to investees over which the Company has a controlling interest is deferred until such gains or losses are realized through subsequent sales of the related products to third parties. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties. Gains or losses on sales between equity method investees over each of which the Company has control are deferred in proportion to the Company's weighted-average ownership percentage in the investee which records gains or losses. In transactions between equity method investees over either or both of which the Company has no control, gains or losses on sales are deferred in

proportion to the multiplication of the Company's weighted-average ownership percentages in the investees. Such gains or losses are deferred until they are realized through transactions with third parties.

If an investee's functional currency is a foreign currency, differences will result from the translation of the investee's financial statements into the reporting currency of the Company. Such differences are charged or credited to cumulative translation adjustments, a separate component of shareholders' equity.

Property, Plant and Equipment and Assets Leased to Others

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: buildings - 10 to 20 years; machinery and equipment - 5 years; and office equipment - 3 to 5 years.

Upon sale or disposal of property, plant and equipment and assets leased to others, the related cost and accumulated depreciation are deducted from the corresponding accounts, with any gain or loss recorded as non-operating gains or losses in the year of sale or disposal.

Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is no longer amortized and instead is tested for impairment annually, or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable. If an event occurs or circumstances change which indicate that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred charges consist of technology license fees, software and system design costs and patent and others. The amounts are amortized over the following periods: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 3 years; patent and others - the economic life or contract period. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense when incurred.

Pension Costs

For employees who participate in defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during their service periods. For employees who participate in defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies an inter-period allocation for its income tax whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery and equipment, research and development expenditures and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income tax on unappropriated earnings at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with SFAS No. 39, "Accounting for Share-based Payment." The Company did not grant or modify any employee stock options since January 1, 2008.

Treasury Stock

Treasury stock represents the outstanding shares that the Company buys back from market, which is stated at cost and shown as a deduction in shareholders' equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus - additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount. When the Company resells the treasury stock, the treasury stock shall be reversed, and if the selling price is greater than the book value, the amount in excess of the book value shall be credited to additional paid-in capital - treasury stock.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, the rewards of ownership and significant risk of the goods has been transferred to the buyer, price is fixed or determinable, and collectability is reasonably assured. Provisions for estimated sales returns and other allowances are recorded in the year the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectable within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

Spin-off

In accordance with the Company's organization realignment, the Company contributed net assets, including cash, to the newly formed subsidiaries in exchange for all of the shares of those subsidiaries. The net assets transferred are reflected at their net book value without recognizing any gain or loss.

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company's financial statements as of and for the year ended December 31, 2011.

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, "Segment Reporting." The Company conformed to the disclosure requirements as of and for the year ended December 31, 2011. The information for the year ended December 31, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
Cash and deposits in banks	\$ 81,467,607	\$ 108,735,942
Repurchase agreements collateralized by government bonds	3,794,914	775,188
	<u>\$ 85,262,521</u>	<u>\$ 109,511,130</u>

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

	December 31	
	2011	2010
<u>Trading financial assets</u>		
Forward exchange contracts	\$ 14,925	\$ -
<u>Trading financial liabilities</u>		
Forward exchange contracts	\$ -	\$ 7,834

The Company entered into derivative contracts during the years ended December 31, 2011 and 2010 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2011</u>		
Sell EUR/Buy NT\$	January 2012	EUR38,600/NT\$1,528,206
<u>December 31, 2010</u>		
Sell NT\$/Buy JPY	January 2011 to February 2011	NT\$814,882/JPY2,278,420

Net gains on derivative financial instruments for the years ended December 31, 2011 and 2010 were NT\$801,195 thousand and NT\$312,862 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2011	2010
Overseas publicly traded stock	\$ 2,617,134	\$ 3,918,274
Corporate bonds	-	1,033,049
	2,617,134	4,951,323
Current portion	(2,617,134)	(3,918,274)
	<u>\$ -</u>	<u>\$ 1,033,049</u>

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2011	2010
Corporate bonds	\$ 1,403,427	\$ 6,202,287
Current portion	(701,136)	(4,796,589)
	<u>\$ 702,291</u>	<u>\$ 1,405,698</u>

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 488,000	\$ 431,000
Provision	-	59,268
Write-off	(2,880)	(2,268)
Balance, end of year	<u>\$ 485,120</u>	<u>\$ 488,000</u>

Movements of the allowance for sales returns and others were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 7,341,444	\$ 8,583,632
Provision	3,226,594	11,703,136
Write-off	(5,680,159)	(12,945,324)
Balance, end of year	<u>\$ 4,887,879</u>	<u>\$ 7,341,444</u>

9. INVENTORIES

	December 31	
	2011	2010
Finished goods	\$ 3,250,637	\$ 4,623,812
Work in process	16,971,209	18,128,677
Raw materials	1,593,393	1,681,525
Supplies and spare parts	<u>1,038,158</u>	<u>1,212,334</u>
	<u>\$ 22,853,397</u>	<u>\$ 25,646,348</u>

The reserve for inventory write-downs in the amount of NT\$74,861 thousand was reversed in the cost of sales for the year ended December 31, 2011 when the related inventory items were scrapped or sold. Write-down of inventories to net realizable value in the amount of NT\$792,951 thousand was included in the cost of sales for the year ended December 31, 2010. Inventory losses related to earthquake in the amount of NT\$190,992 thousand were classified under non-operating expenses and losses for the year ended December 31, 2010.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2011		2010	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
TSMC Global Ltd. (TSMC Global)	\$ 44,071,845	100	\$ 43,710,543	100
TSMC Partners, Ltd. (TSMC Partners)	34,986,964	100	33,565,775	100
TSMC China Company Limited (TSMC China)	13,542,181	100	4,252,270	100
TSMC Solar	10,153,244	100	-	-
Vanguard International Semiconductor Corporation (VIS)	8,988,007	39	9,422,452	38
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,289,429	39	7,120,714	39
TSMC North America	2,981,639	100	2,873,888	100
TSMC SSL	1,746,893	100	-	-
Xintec Inc. (Xintec)	1,606,694	40	1,645,201	41
VentureTech Alliance Fund III, L.P. (VTAF III)	1,311,044	53	2,769,423	99
Global UniChip Corporation (GUC)	1,157,188	35	1,113,516	35
VentureTech Alliance Fund II, L.P. (VTAF II)	762,135	98	1,063,057	98
Emerging Alliance Fund, L.P. (Emerging Alliance)	213,235	99	304,310	99
TSMC Europe B.V. (TSMC Europe)	205,171	100	177,784	100
TSMC Japan Limited (TSMC Japan)	161,601	100	150,312	100
TSMC Korea Limited (TSMC Korea)	23,448	100	20,929	100
Motech Industries Inc. (Motech)	-	-	6,733,369	20
TSMC Solar North America, Inc. (TSMC Solar NA)	-	-	26,527	100
TSMC Solar Europe B.V. (TSMC Solar Europe)	-	-	23,971	100
TSMC Lighting North America, Inc. (TSMC Lighting NA)	-	-	3,133	100
	<u>\$ 128,200,718</u>		<u>\$ 114,977,174</u>	

In the second half year of 2011, the Company continually increased its investment in TSMC China for the amount of NT\$6,759,300 thousand, and the Company has received the approval from the Investment Commission of Ministry of Economic Affairs.

For the renewable energy and efficiency related businesses development, the Company established wholly-owned subsidiaries, TSMC Solar NA, TSMC Solar Europe and TSMC Lighting NA, in the third quarter of 2010. In addition, to foster a stronger sense of corporate entrepreneurship and facilitate business specializations in order to strengthen overall profitability and operational efficiency, the Company transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC SSL and TSMC Solar, in August 2011. Furthermore, the Company adjusted its investment structure by transferring TSMC Lighting NA to TSMC SSL and transferring Motech, TSMC Solar Europe, TSMC Solar NA and part of VTAF III to TSMC Solar. As of August 1, 2011, the net book values of the Company's certain assets, liabilities and shareholders' equity, including cash, contributed to TSMC SSL and TSMC Solar in exchange for all the shares of TSMC SSL and TSMC Solar amounted to NT\$2,270,000 thousand and NT\$11,180,000 thousand, respectively.

For the year ended December 31, 2010, the Company increased its investment in VTAF III for the amount of NT\$1,862,278 thousand, and the Company's percentage of ownership in VTAF III increased from 98% to 99%. Due to the aforementioned transfer and the effect of the subsequent cash injection of NT\$135,297 thousand, the Company's percentage of ownership further decreased to 53%.

In February 2010, the Company subscribed to 75,316 thousand shares of Motech through a private

placement for NT\$6,228,661 thousand; after the subscription, the Company's percentage of ownership in Motech was 20%. Transfer of the aforementioned common shares within three years is prohibited unless permitted by other related regulations.

For the years ended December 31, 2011 and 2010, equity in earnings/losses of equity method investees was a net gain of NT\$3,778,083 thousand and NT\$7,111,443 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the audited financial statements, except those of Emerging Alliance, TSMC Europe, TSMC Japan and TSMC Korea for the years ended December 31, 2011 and 2010. The Company believes that, had the aforementioned equity method investees' financial statements been audited, any adjustments arising would have no material effect on the Company's financial statements.

As of December 31, 2011 and 2010, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$11,273,200 thousand and NT\$14,993,626 thousand, respectively.

Movements of the difference between the cost of investments and the Company's share in investees' net assets allocated to depreciable assets were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 2,504,496	\$ 1,429,118
Additions	-	2,055,660
Amortizations	(721,482)	(980,282)
Effect of spin-off	<u>(1,507,430)</u>	<u>-</u>
Balance, end of year	<u>\$ 275,584</u>	<u>\$ 2,504,496</u>

Movements of the difference allocated to goodwill were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 1,415,565	\$ 1,061,885
Additions	-	353,680
Effect of spin-off	<u>(353,680)</u>	<u>-</u>
Balance, end of year	<u>\$ 1,061,885</u>	<u>\$ 1,415,565</u>

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2011	2010
Non-publicly traded stocks	\$ 338,584	\$ 338,584
Mutual funds	<u>159,251</u>	<u>159,251</u>
	<u>\$ 497,835</u>	<u>\$ 497,835</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2011					
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Spin-off	Balance, End of Year
Cost						
Buildings	\$ 128,646,942	\$ 22,343,302	\$ (36,929)	\$ (388)	\$ (1,457,449)	\$ 149,495,478
Machinery and equipment	852,733,592	135,641,295	(2,079,115)	(17,225)	(1,299,881)	984,978,666
Office equipment	11,730,537	2,495,001	(362,032)	-	(39,072)	13,824,434
	<u>993,111,071</u>	<u>\$ 160,479,598</u>	<u>\$ (2,478,076)</u>	<u>\$ (17,613)</u>	<u>\$ (2,796,402)</u>	<u>1,148,298,578</u>
Accumulated depreciation						
Buildings	81,347,877	\$ 8,966,377	\$ (14,293)	\$ (55)	\$ (25,639)	90,274,267
Machinery and equipment	616,495,207	90,613,430	(2,025,728)	(5,569)	(192,323)	704,885,017
Office equipment	8,762,361	1,184,310	(362,031)	-	(3,127)	9,581,513
	<u>706,605,445</u>	<u>\$ 100,764,117</u>	<u>\$ (2,402,052)</u>	<u>\$ (5,624)</u>	<u>\$ (221,089)</u>	<u>804,740,797</u>
Advance payments and construction in progress	<u>80,348,673</u>	<u>\$ 35,453,130</u>	<u>\$ (3,259,587)</u>	<u>\$ -</u>	<u>\$ (1,726,464)</u>	<u>110,815,752</u>
	<u>\$ 366,854,299</u>					<u>\$ 454,373,533</u>

	Year Ended December 31, 2010				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
Cost					
Buildings	\$ 124,522,047	\$ 4,262,592	\$ (135,497)	\$ (2,200)	\$ 128,646,942
Machinery and equipment	713,426,126	141,033,304	(1,867,880)	142,042	852,733,592
Office equipment	10,781,099	1,639,082	(689,202)	(442)	11,730,537
	<u>848,729,272</u>	<u>\$ 146,934,978</u>	<u>\$ (2,692,579)</u>	<u>\$ 139,400</u>	<u>993,111,071</u>
Accumulated depreciation					
Buildings	73,525,160	\$ 7,951,678	\$ (128,466)	\$ (495)	81,347,877
Machinery and equipment	545,693,910	72,528,436	(1,867,476)	140,337	616,495,207
Office equipment	8,545,253	906,714	(689,164)	(442)	8,762,361
	<u>627,764,323</u>	<u>\$ 81,386,828</u>	<u>\$ (2,685,106)</u>	<u>\$ 139,400</u>	<u>706,605,445</u>
Advance payments and construction in progress	<u>33,786,577</u>	<u>\$ 49,015,940</u>	<u>\$ (2,453,844)</u>	<u>\$ -</u>	<u>80,348,673</u>
	<u>\$ 254,751,526</u>				<u>\$ 366,854,299</u>

No interest was capitalized during the years ended December 31, 2011 and 2010.

13. DEFERRED CHARGES, NET

	Year Ended December 31, 2011					
	Balance, Beginning of Year	Additions	Amortization	Disposals	Effect of Spin-off	Balance, End of Year
Technology license fees	\$ 2,277,832	\$ 10,308	\$ (670,830)	\$ -	\$ -	\$ 1,617,310
Software and system design costs	2,075,935	1,324,958	(1,064,884)	(46)	(19,392)	2,316,571
Patent and others	1,102,660	323,030	(416,630)	-	(223,697)	785,363
	<u>\$ 5,456,427</u>	<u>\$ 1,658,296</u>	<u>\$ (2,152,344)</u>	<u>\$ (46)</u>	<u>\$ (243,089)</u>	<u>\$ 4,719,244</u>

	Year Ended December 31, 2010			
	Balance, Beginning of Year	Additions	Amortization	Balance, End of Year
Technology license fees	\$ 2,979,801	\$ -	\$ (701,969)	\$ 2,277,832
Software and system design costs	1,646,973	1,327,183	(898,221)	2,075,935
Patent and others	<u>1,264,911</u>	<u>211,118</u>	<u>(373,369)</u>	<u>1,102,660</u>
	<u>\$ 5,891,685</u>	<u>\$ 1,538,301</u>	<u>\$ (1,973,559)</u>	<u>\$ 5,456,427</u>

14. SHORT-TERM LOANS

	December 31	
	2011	2010
Unsecured loans: US\$856,000 thousand, due by February 2012, and annual interest at 0.45%-1.00% in 2011; US\$864,000 thousand and EUR114,900 thousand, due in January 2011, and annual interest at 0.38%-0.65% in 2010	<u>\$ 25,926,528</u>	<u>\$ 30,908,637</u>

15. BONDS PAYABLE

	December 31	
	2011	2010
Domestic unsecured bonds: Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually	\$ 10,500,000	\$ -
Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually	7,500,000	-
Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	<u>4,500,000</u>	<u>4,500,000</u>
	22,500,000	4,500,000
Current portion	<u>(4,500,000)</u>	<u>-</u>
	<u>\$ 18,000,000</u>	<u>\$ 4,500,000</u>

With the approval from the Financial Supervisory Commission, the Company issued domestic unsecured bonds in the amount of NT\$17,000,000 thousand in January 2012.

16. OTHER LONG-TERM PAYABLES

The Company's other long-term payables mainly resulted from license agreements for certain semiconductor-related patents.

As of December 31, 2011, other long-term payables due within one year were already paid.

17. PENSION PLANS

The pension mechanism under the Labor Pension Act (the "Act") is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts and recognized pension costs of NT\$1,119,717 thousand and NT\$964,063 thousand for the years ended December 31, 2011 and 2010, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan.

Due to the spin-off, the Company transferred the pension fund and the accrued pension cost in the amount of NT\$46,884 thousand and NT\$60,583 thousand, respectively, to TSMC SSL and TSMC Solar in August 2011.

Pension information on the defined benefit plan is summarized as follows:

a. Components of net periodic pension cost for the year

	2011	2010
Service cost	\$ 131,975	\$ 129,552
Interest cost	164,372	145,151
Projected return on plan assets	(67,051)	(39,939)
Amortization	<u>73,306</u>	<u>1,061</u>
Net periodic pension cost	<u>\$ 302,602</u>	<u>\$ 235,825</u>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2011 and 2010

	2011	2010
Benefit obligation		
Vested benefit obligation	\$ 280,629	\$ 189,047
Nonvested benefit obligation	<u>5,356,405</u>	<u>5,390,113</u>
Accumulated benefit obligation	5,637,034	5,579,160
Additional benefits based on future salaries	<u>3,389,649</u>	<u>3,634,495</u>
Projected benefit obligation	9,026,683	9,213,655
Fair value of plan assets	<u>(3,039,871)</u>	<u>(2,853,535)</u>
Funded status	5,986,812	6,360,120
Unrecognized net transition obligation	(73,599)	(82,991)
Prior service cost	145,259	154,738
Unrecognized net loss	<u>(2,197,574)</u>	<u>(2,607,266)</u>
Accrued pension cost	<u>\$ 3,860,898</u>	<u>\$ 3,824,601</u>
Vested benefit	<u>\$ 312,213</u>	<u>\$ 208,176</u>

c. Actuarial assumptions at December 31, 2011 and 2010

	2011	2010
Discount rate used in determining present values	1.75%	1.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.00%	2.50%

d. Contributions to the Fund for the year

	2011	2010
	<u>\$ 209,260</u>	<u>\$ 209,459</u>

e. Payments from the Fund for the year

	2011	2010
	<u>\$ 7,339</u>	<u>\$ 19,991</u>

18. INCOME TAX

a. A reconciliation of income tax expense based on "income before income tax" at the statutory rate and income tax currently payable was as follows:

	Years Ended December 31	
	2011	2010
Income tax expense based on "income before income tax" at statutory rate (17%)	\$ 24,600,334	\$ 28,779,335
Tax effect of the following:		
Tax-exempt income	(13,231,821)	(16,669,784)
Temporary and permanent differences	(1,429,188)	(704,252)
Additional income tax under Alternative Minimum Tax Act	286,827	-
Additional tax at 10% on unappropriated earnings	6,259,344	127,489
Income tax credits used	<u>(6,259,344)</u>	<u>(4,823,988)</u>
Income tax currently payable	<u>\$ 10,226,152</u>	<u>\$ 6,708,800</u>

b. Income tax expense consisted of the following:

	Years Ended December 31	
	2011	2010
Income tax currently payable	\$ 10,226,152	\$ 6,708,800
Income tax adjustments on prior years	464,078	980,428
Other income tax adjustments	309,361	369,220
Net change in deferred income tax assets		
Investment tax credits	1,795,254	(7,243,473)
Temporary differences	27,284	16,790
Valuation allowance	(2,314,671)	6,853,430
Effect of spin-off	<u>(893)</u>	<u>-</u>
Income tax expense	<u>\$ 10,506,565</u>	<u>\$ 7,685,195</u>

c. Net deferred income tax assets consisted of the following:

	December 31	
	2011	2010
Current deferred income tax assets		
Investment tax credits	\$ 4,892,158	\$ 4,182,893
Temporary differences		
Allowance for sales returns and others	488,788	624,023
Unrealized gain/loss on financial instruments	308,929	87,735
Others	<u>89,669</u>	<u>239,124</u>
	<u>\$ 5,779,544</u>	<u>\$ 5,133,775</u>
Noncurrent deferred income tax assets		
Investment tax credits	\$ 15,287,802	\$ 17,792,321
Temporary differences		
Depreciation	2,044,680	1,981,915
Others	227,433	32,792
Valuation allowance	<u>(10,338,091)</u>	<u>(12,652,762)</u>
	<u>\$ 7,221,824</u>	<u>\$ 7,154,266</u>

Effective in May 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010. The Company recalculated its deferred tax assets in accordance with the new amended Article and adjusted the resulting difference as an income tax expense in 2010. The Company evaluated the effect of Alternative Minimum Tax and applicable year of the profits generated from projects exempt from income tax for a five-year period. As the Company plans to apply the tax-exempt income in later years, income tax payable is anticipated to increase and the Company will utilize available investment tax credits as an offset against income taxes. Since more investment tax credits can be utilized, valuation allowance has been adjusted down accordingly.

Under the Article 10 of the Statute for Industrial Innovation (SII) legislated, effective in May 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that year. This incentive is retroactive to January 1, 2010 and effective until December 31, 2019.

d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2011 and 2010 was NT\$4,003,228 thousand and NT\$1,669,533 thousand, respectively.

The estimated and actual creditable ratios for distribution of earnings of 2011 and 2010 were 6.67% and 4.96%, respectively.

The imputation credit allocated to shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

e. All earnings generated prior to December 31, 1997 have been appropriated.

f. As of December 31, 2011, investment tax credits consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 3,202,253	\$ 1,165,765	2012
		6,513,605	6,513,605	2013
		7,006,655	7,006,655	2014
		482,351	482,351	2015
		<u>\$ 17,204,864</u>	<u>\$ 15,168,376</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,772,824	\$ -	2012
		4,994,463	4,994,463	2013
		<u>\$ 6,767,287</u>	<u>\$ 4,994,463</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 17,391	\$ -	2012
		17,121	17,121	2013
		<u>\$ 34,512</u>	<u>\$ 17,121</u>	
Statute for Industrial Innovation	Research and development expenditures	<u>\$ 2,432,641</u>	<u>\$ -</u>	2011

g. The profits generated from the following projects are exempt from income tax for a five-year period:

	Tax-exemption Period
Construction and expansion of 2003	2007 to 2011
Construction and expansion of 2004	2008 to 2012
Construction and expansion of 2005	2010 to 2014
Construction and expansion of 2006	2011 to 2015

h. The tax authorities have examined income tax returns of the Company through 2008. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 23,511,116	\$ 16,780,285	\$ 40,291,401
Labor and health insurance	1,225,757	713,298	1,939,055
Pension	899,039	523,178	1,422,217
Meal	640,257	273,002	913,259
Welfare	230,762	137,019	367,781
Others	294,010	143,151	437,161
	<u>\$ 26,800,941</u>	<u>\$ 18,569,933</u>	<u>\$ 45,370,874</u>
Depreciation	<u>\$ 93,898,048</u>	<u>\$ 6,858,236</u>	<u>\$ 100,756,284</u>
Amortization	<u>\$ 1,407,787</u>	<u>\$ 744,557</u>	<u>\$ 2,152,344</u>

	Year Ended December 31, 2010		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 24,222,823	\$ 17,849,735	\$ 42,072,558
Labor and health insurance	973,364	550,731	1,524,095
Pension	765,872	433,932	1,199,804
Meal	566,425	229,247	795,672
Welfare	228,218	133,376	361,594
Others	63,384	26,614	89,998
	<u>\$ 26,820,086</u>	<u>\$ 19,223,635</u>	<u>\$ 46,043,721</u>
Depreciation	<u>\$ 76,219,816</u>	<u>\$ 5,150,747</u>	<u>\$ 81,370,563</u>
Amortization	<u>\$ 1,242,824</u>	<u>\$ 730,735</u>	<u>\$ 1,973,559</u>

20. SHAREHOLDERS' EQUITY

As of December 31, 2011, 1,092,313 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,461,567 thousand (one ADS represents five common shares).

Capital surplus can be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of the Company's paid-in capital. In addition, the capital surplus from long-term investments may not be used for any purpose. However, according to the revised Company Law, effective January 2012, the aforementioned capital surplus generated from donations and the excess of the issuance price over the par value of capital stock can also be used to distribute cash in proportion to original shareholders' holding.

Capital surplus consisted of the following:

	December 31	
	2011	2010
Additional paid-in capital	\$ 23,774,250	\$ 23,628,908
From merger	22,804,510	22,805,390
From convertible bonds	8,892,847	8,893,190
From long-term investments	374,695	370,891
Donations	<u>55</u>	<u>55</u>
	<u>\$ 55,846,357</u>	<u>\$ 55,698,434</u>

The Company's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, the Company shall first offset its losses in previous years and then set aside the following items accordingly:

- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company's paid-in capital;
- Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- Bonus to directors and profit sharing to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors. The Company may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

The Company's Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

The Company accrued profit sharing to employees based on certain percentage of net income during the year, which amounted to NT\$8,990,026 thousand and NT\$10,908,338 thousand for the years ended December 2011 and 2010, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

The Company no longer has supervisors since January 1, 2007. The required duties of supervisors are being fulfilled by the Audit Committee.

According to the revised Company Law, effective January 2012, the appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

A special capital reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2010 and 2009 had been approved in the shareholders' meetings held on June 9, 2011 and June 15, 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2010	For Fiscal Year 2009	For Fiscal Year 2010	For Fiscal Year 2009
Legal capital reserve	\$ 16,160,501	\$ 8,921,784	\$ 3.00	\$ 3.00
Special capital reserve	5,120,827	1,313,047		
Cash dividends to shareholders	<u>77,730,236</u>	<u>77,708,120</u>		
	<u>\$ 99,011,564</u>	<u>\$ 87,942,951</u>		

TSMC's profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$10,908,338 thousand and NT\$51,131 thousand for 2010, respectively, and profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$6,691,338 thousand and NT\$67,692 thousand for 2009, respectively, had been approved in the shareholders' meeting held on June 9, 2011 and June 15, 2010, respectively. The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of meeting of the Board of Directors held on February 15, 2011 and February 9, 2010 and same amount had been charged against earnings of 2010 and 2009, respectively.

The appropriations of earnings for 2011 had been resolved in the meeting of the Board of Directors held on February 14, 2012. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
	For Fiscal Year 2011	For Fiscal Year 2011
Legal capital reserve	\$ 13,420,128	\$ 3.00
Special capital reserve	1,172,350	
Cash dividends to shareholders	<u>77,748,668</u>	
	<u>\$ 92,341,146</u>	

The Board of Directors also resolved to appropriate profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$8,990,026 thousand and NT\$62,324 thousand for 2011, respectively. There is no significant difference between the aforementioned resolved amounts and the amounts charged against earnings of 2011.

The appropriations of earnings, profit sharing to employees and bonus to directors for 2011 are to be resolved in the shareholders' meeting held on June 12, 2012 (expected).

The information about the appropriations of profit sharing to employees and bonus to directors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by the Company on earnings generated since January 1, 1998.

21. STOCK-BASED COMPENSATION PLANS

The Company's Employee Stock Option Plans, consisting of the 2004 Plan, 2003 Plan and 2002 Plan, were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of options authorized to be granted under the 2004 Plan, 2003 Plan and 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share when exercised. The options may be granted to qualified employees of the Company or any of its domestic or foreign subsidiaries, in which the Company's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of the Company's common shares listed on the TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2011.

Information about outstanding options for the years ended December 31, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2011</u>		
Balance, beginning of year	21,437	\$ 31.4
Options exercised	(7,144)	30.5
Balance, end of year	<u>14,293</u>	32.1
<u>Year ended December 31, 2010</u>		
Balance, beginning of year	28,810	32.4
Options exercised	(7,372)	33.2
Options canceled	(1)	50.1
Balance, end of year	<u>21,437</u>	32.3

The number of outstanding options and exercise prices have been adjusted to reflect the distribution of earnings in accordance with the plans.

As of December 31, 2011, information about outstanding options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding		
	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)
\$20.9-\$29.3	10,584	1.2	\$ 27.4
38.0- 50.1	<u>3,709</u>	2.9	45.7
	<u>14,293</u>	1.7	32.1

As of December 31, 2011, all of the above outstanding options were exercisable.

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2011 and 2010. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions at the various grant dates and pro forma results of the Company for the years ended December 31, 2011 and 2010 would have been as follows:

Assumptions:	
Expected dividend yield	1.00%-3.44%
Expected volatility	43.77%-46.15%
Risk free interest rate	3.07%-3.85%
Expected life	5 years

	Years Ended December 31	
	2011	2010
Net income:		
Net income as reported	\$ 134,201,279	\$ 161,605,009
Pro forma net income	134,146,490	161,470,030
Earnings per share (EPS) - after income tax (NT\$):		
Basic EPS as reported	\$ 5.18	\$ 6.24
Pro forma basic EPS	5.18	6.23
Diluted EPS as reported	5.18	6.23
Pro forma diluted EPS	5.17	6.23

22. TREASURY STOCK

(Shares in Thousands)				
Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition	Retirement	Number of Shares, End of Year
<u>Year ended December 31, 2011</u>				
Shareholders executed the appraisal right	-	<u>1,000</u>	<u>(1,000)</u>	-

In August 2011, pursuant to the Company Law and at the option of the shareholders of the Company, certain shareholders requested the Company to buy back their shares at the current market price, which shares were subsequently retired in November 2011.

23. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2011</u>					
Basic EPS					
Earnings available to common shareholders	\$ 144,707,844	\$ 134,201,279	25,914,076	<u>\$ 5.58</u>	<u>\$ 5.18</u>
Effect of dilutive potential common shares	<u>-</u>	<u>-</u>	<u>10,606</u>		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 144,707,844</u>	<u>\$ 134,201,279</u>	<u>25,924,682</u>	<u>\$ 5.58</u>	<u>\$ 5.18</u>
<u>Year ended December 31, 2010</u>					
Basic EPS					
Earnings available to common shareholders	\$ 169,290,204	\$ 161,605,009	25,905,832	<u>\$ 6.53</u>	<u>\$ 6.24</u>
Effect of dilutive potential common shares	<u>-</u>	<u>-</u>	<u>13,982</u>		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 169,290,204</u>	<u>\$ 161,605,009</u>	<u>25,919,814</u>	<u>\$ 6.53</u>	<u>\$ 6.23</u>

If the Company may settle the obligation by cash, by issuing shares, or in combination of both cash and shares, profit sharing to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of profit sharing to employees in stock by the closing price (after considering the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of profit sharing to employees are resolved in the shareholders' meeting in the following year.

The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each of the basic and diluted after income tax EPS for the year ended December 31, 2010 to remain at NT\$6.24 and NT\$6.23, respectively.

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 14,925	\$ 14,925	\$ -	\$ -
Available-for-sale financial assets	2,617,134	2,617,134	4,951,323	4,951,323
Held-to-maturity financial assets	1,403,427	1,426,474	6,202,287	6,278,054
Financial assets carried at cost	497,835	-	497,835	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	7,834	7,834
Bonds payable (including current portion)	22,500,000	22,597,115	4,500,000	4,538,660
Other long-term payables (including current portion)	-	-	718,637	718,637

b. Methods and assumptions used in the estimation of fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Except for derivatives, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
- 3) The fair values of those derivatives are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- 5) Fair value of bonds payable was based on their quoted market price.
- 6) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.

c. Valuation gains (losses) arising from changes in fair value of derivatives contracts determined using valuation techniques were recognized as a net gain of NT\$14,925 thousand and a net loss of NT\$7,834 thousand for the years ended December 31, 2011 and 2010, respectively.

d. As of December 31, 2011 and 2010, financial assets exposed to fair value interest rate risk were NT\$1,418,352 thousand and NT\$7,235,336 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$48,426,528 thousand and NT\$35,416,471 thousand, respectively.

e. Movements of the unrealized gains or losses on financial instruments for the years ended December 31, 2011 and 2010 were as follows:

	Year Ended December 31, 2011		
	From Available-for-sale Financial Assets	Equity-method Investments	Total
Balance, beginning of year	\$ (395,306)	\$ 504,595	\$ 109,289
Recognized directly in shareholders' equity	(1,077,844)	(165,851)	(1,243,695)
Removed from shareholders' equity and recognized in earnings	(35,151)	-	(35,151)
Effect of spin-off	(3,298)	-	(3,298)
Balance, end of year	<u>\$ (1,511,599)</u>	<u>\$ 338,744</u>	<u>\$ (1,172,855)</u>

	Year Ended December 31, 2010		
	From Available-for-sale Financial Assets	Equity-method Investments	Total
Balance, beginning of year	\$ 46,672	\$ 406,949	\$ 453,621
Recognized directly in shareholders' equity	(441,978)	97,646	(344,332)
Balance, end of year	<u>\$ (395,306)</u>	<u>\$ 504,595</u>	<u>\$ 109,289</u>

f. Information about financial risks

1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the market exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market exchange rate risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities and overseas publicly traded stock; therefore, the fluctuations in market interest rates and market prices will result in changes in fair values of these debt securities.

2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The Company evaluated whether the financial instruments for any possible counter-parties or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company's exposure to credit risk was not significant.

3) Liquidity risk. The Company has sufficient operating capital and bank facilities to meet cash needs upon settlement of derivative financial instruments and bonds payable. Therefore, the liquidity risk is low.

4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

25. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

a. Subsidiaries

TSMC North America
TSMC China
TSMC Europe
TSMC Japan
TSMC Global

b. Investees

Xintec (holding a controlling financial interest)
GUC (accounted for using the equity method, as the Company had no controlling interest in GUC since July 2011)
VIS (accounted for using the equity method)
SSMC (accounted for using the equity method)

c. Indirect subsidiaries

WaferTech, LLC (WaferTech)
TSMC Technology, Inc. (TSMC Technology)
TSMC Design Technology Canada, Inc. (TSMC Canada)

d. Indirect investee

VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using the equity method.

e. Others

Related parties over which the Company has control or exercises significant influence but with which the Company had no material transactions.

Transactions with the aforementioned parties, other than those disclosed in other notes, are summarized as follows:

	2011		2010	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
TSMC North America	\$ 234,902,043	56	\$ 220,529,792	53
Others	3,882,801	1	3,071,549	1
	<u>\$ 238,784,844</u>	<u>57</u>	<u>\$ 223,601,341</u>	<u>54</u>
Purchases				
TSMC China	\$ 10,392,189	21	\$ 8,748,101	18
WaferTech	7,305,879	15	7,878,260	16
VIS	5,577,762	12	4,937,617	10
SSMC	3,949,176	8	4,521,046	10
Others	124,673	-	39,099	-
	<u>\$ 27,349,679</u>	<u>56</u>	<u>\$ 26,124,123</u>	<u>54</u>
Manufacturing expenses				
Xintec (rent and outsourcing)	\$ 260,250	-	\$ 313,397	-
VisEra (outsourcing)	14,588	-	44,488	-
VIS (rent)	5,902	-	9,845	-
	<u>\$ 280,740</u>	<u>-</u>	<u>\$ 367,730</u>	<u>-</u>
Marketing expenses - commission				
TSMC Europe	\$ 357,582	15	\$ 415,765	15
TSMC Japan	284,644	12	266,194	9
TSMC China	64,907	3	59,180	2
Others	22,049	1	19,318	1
	<u>\$ 729,182</u>	<u>31</u>	<u>\$ 760,457</u>	<u>27</u>
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 534,804	2	\$ 547,838	2
TSMC Canada (primarily consulting fee)	192,616	1	181,943	1
TSMC Europe	45,489	-	33,907	-
VIS (primarily rent)	1,984	-	12,017	-
Others	30,605	-	32,167	-
	<u>\$ 805,498</u>	<u>3</u>	<u>\$ 807,872</u>	<u>3</u>
Sales of property, plant and equipment and other assets				
TSMC China	\$ 2,885,847	86	\$ 1,409,862	75
Others	109,141	3	84,336	5
	<u>\$ 2,994,988</u>	<u>89</u>	<u>\$ 1,494,198</u>	<u>80</u>

	2011		2010	
	Amount	%	Amount	%
Purchases of property, plant and equipment and other assets				
TSMC China	\$ 70,491	-	\$ 66,337	-
VIS	45,473	-	109,855	-
WaferTech	-	-	9,624	-
Others	1,812	-	-	-
	<u>\$ 117,776</u>	<u>-</u>	<u>\$ 185,816</u>	<u>-</u>
Non-operating income and gains				
VIS (primarily technical service income)	\$ 227,024	3	\$ 267,370	2
SSMC (primarily technical service income)	193,781	3	198,218	1
TSMC China (primary gains on disposal from property, plant and equipment)	96,050	1	49,738	-
VisEra (primarily rent)	4,054	-	-	-
Others	7,157	-	9,655	-
	<u>\$ 528,066</u>	<u>7</u>	<u>\$ 524,981</u>	<u>3</u>
Non-operating expenses and losses				
Xintec (settlement loss)	\$ 19,686	1	-	-
<u>As of December 31</u>				
Receivables				
TSMC North America	\$ 24,661,104	99	\$ 25,579,259	99
Others	116,430	1	154,715	1
	<u>\$ 24,777,534</u>	<u>100</u>	<u>\$ 25,733,974</u>	<u>100</u>
Other receivables				
VIS	\$ 87,507	46	\$ 70,798	5
SSMC	34,260	18	53,788	4
TSMC North America	23,887	13	3,673	1
TSMC China	23,688	13	1,170,407	90
WaferTech	14,196	8	3,543	-
Others	4,490	2	72	-
	<u>\$ 188,028</u>	<u>100</u>	<u>\$ 1,302,281</u>	<u>100</u>
Payables				
VIS	\$ 987,937	33	\$ 428,797	17
TSMC China	946,826	32	895,193	35
WaferTech	420,459	14	568,685	22
SSMC	336,037	11	430,235	17
Others	301,323	10	251,540	9
	<u>\$ 2,992,582</u>	<u>100</u>	<u>\$ 2,574,450</u>	<u>100</u>
Other assets				
TSMC China	\$ 1,493	-	\$ 27,327	2

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

The Company leased certain buildings, facilities, and machinery and equipment from Xintec. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under manufacturing expenses.

The Company leased certain office space and facilities from VIS. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under research and development expenses and manufacturing expenses.

The Company leased certain machinery and equipment to VisEra. The lease terms and prices were determined in accordance with mutual agreements. The rental income was received monthly and the related income was classified under non-operating income and gains.

The Company deferred the disposal losses (classified under other assets) derived from sales of property, plant and equipment to TSMC China, and then recognized such losses (classified under non-operating gains and losses) over the depreciable lives of the disposed assets.

The Company borrowed funds from related parties in July 2011. Additional disclosures consisted of the following:

Financing Company	Year Ended December 31, 2011					
	Maximum Balance	Date	Ending Balance	Interest Rate	Interest Expense	Interest Payable
TSMC Global	\$ 24,684,000	July 2011 to December 2011	\$ -	0.3544%	\$ 22,293	\$ -

Compensation of directors and management personnel:

	Years Ended December 31	
	2011	2010
Salaries, incentives and special compensation	\$ 654,972	\$ 774,181
Bonus	445,681	593,967
	<u>\$ 1,100,653</u>	<u>\$ 1,368,148</u>

The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting. Total compensation expense for the year ended December 31, 2011 includes estimated profit sharing to employees and bonus to directors of the Company that relate to 2011 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2012. The total compensation for the year ended December 31, 2010 included the bonuses appropriated from earnings of 2010 which was approved by the shareholders' meeting held in 2011.

26. PLEDGED OR MORTGAGED ASSETS

As of December 31, 2011, the Company had no assets set aside as collateral. As of December 31, 2010, the Company had pledged time deposits of NT\$25,864 thousand (classified as other financial assets) as collateral for land lease agreements and customs duty guarantee.

27. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from December 2012 to September 2030 and can be renewed upon expiration.

As of December 31, 2011, future lease payments were as follows:

Year	Amount
2012	\$ 453,868
2013	429,130
2014	414,786
2015	404,465
2016	394,302
2017 and thereafter	<u>3,255,047</u>
	<u>\$ 5,351,598</u>

28. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2011, excluding those disclosed in other notes, were as follows:

- Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity if the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of December 31, 2011, the Company had a total of US\$13,039 thousand of guarantee deposits.
- Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.

d. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as “SMIC”) in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People’s High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People’s High Court ruled in favor of TSMC and dismissed SMIC’s lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC’s trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC’s appeal against the Beijing High Court’s finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares in July 2010, which are recorded within available for sale financial assets, and obtained the subsequent cash settlement income in accordance with the agreement.

e. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single case in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined at this time.

f. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing six U.S. patents. This litigation is in its very early stages and therefore the outcome of the case cannot be determined at this time.

29. SPIN-OFF BUSINESS INFORMATION

To foster a stronger sense of corporate entrepreneurship and facilitate business specializations in order to strengthen overall profitability and operational efficiency, the Company transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC SSL and TSMC Solar, on August 1, 2011. As of August 1, 2011, the net book values transferred to TSMC SSL and TSMC Solar amounted to NT\$2,270,000 thousand and NT\$11,180,000 thousand, respectively.

The book values of transferred assets and liabilities were as follows:

	TSMC SSL	TSMC Solar	Total
Current assets	\$ 431,613	\$ 893,584	\$ 1,325,197
Long-term investments	2,872	7,912,710	7,915,582
Property, plant and equipment	1,929,563	2,372,214	4,301,777
Other assets	234,696	201,677	436,373
Current liabilities	(292,728)	(337,439)	(630,167)
Other liabilities	(36,272)	(25,218)	(61,490)
Capital surplus	-	(56,094)	(56,094)
Unrealized gain (loss) on financial instruments	-	(3,298)	(3,298)
Cumulative translation adjustments	256	221,864	222,120
	<u>\$ 2,270,000</u>	<u>\$ 11,180,000</u>	<u>\$ 13,450,000</u>

30. OTHERS

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2011		2010	
	Foreign Currency (In Thousands)	Exchange Rate (Note)	Foreign Currency (In Thousands)	Exchange Rate (Note)
<u>Financial assets</u>				
Monetary items				
USD	\$ 1,566,212	30.288	\$ 1,732,529	30.368
EUR	124,425	39.27	224,363	40.65
JPY	33,073,336	0.3897	28,580,962	0.3735
Non-monetary items				
HKD	671,060	3.90	1,002,116	3.91
Investments accounted for using equity method				
USD	2,983,866	30.288	2,997,686	30.368
EUR	5,225	39.27	4,963	40.65
JPY	414,680	0.3897	402,441	0.3735
RMB	2,823,953	4.81	927,986	4.61
<u>Financial liabilities</u>				
Monetary items				
USD	1,626,129	30.288	1,776,756	30.368
EUR	106,931	39.27	261,956	40.65
JPY	34,942,421	0.3897	30,604,986	0.3735

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

31. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for the Company and its investees:

a. Financings provided: Please see Table 1 attached;

b. Endorsement/guarantee provided: None;

c. Marketable securities held: Please see Table 2 attached;

d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;

e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;

f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;

g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;

h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;

i. Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;

j. Information about derivatives of investees over which the Company has a controlling interest:

Do not meet the criteria for hedge accounting

1) TSMC China

TSMC China entered into forward exchange contracts during the year ended December 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy EUR	January 2012	US\$2,082/EUR1,591
Sell US\$/Buy JPY	January 2012	US\$3,335/JPY259,830

For the year ended December 31, 2011, net losses arising from forward exchange contracts of TSMC China amounted to NT\$56,819 thousand.

2) Xintec

Xintec entered into forward exchange contracts during the year ended December 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy NT\$	January 2012 to February 2012	US\$16,900/NT\$510,122

For the year ended December 31, 2011, net losses arising from forward exchange contracts of Xintec amounted to NT\$21,784 thousand.

3) TSMC Partners

TSMC Partners entered into forward exchange contracts during the year ended December 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell RMB/Buy US\$	January 2012	RMB1,118,705/US\$177,000

For the year ended December 31, 2011, net losses arising from forward exchange contracts of TSMC Partners amounted to NT\$224,638 thousand.

4) TSMC Solar

TSMC Solar entered into derivative contracts during the year ended December 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell NT\$/Buy US\$	January 2012 to February 2012	NT\$130,205/US\$4,300

Outstanding cross currency swap contracts as of December 31, 2011 consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
January 2012	NT\$208,398/ US\$6,800	0.00%	0.48%

For the year ended December 31, 2011, net gains arising from derivative financial instruments of TSMC Solar amounted to NT\$3,112 thousand.

5) TSMC SSL

TSMC SSL entered into derivative contracts during the year ended December 31, 2011 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2011 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell NT\$/Buy US\$	January 2012 to February 2012	NT\$33,286/US\$1,100

Outstanding cross currency swap contracts as of December 31, 2011 consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
January 2012	NT\$212,033/US\$7,000	0.00%	0.48%

For the year ended December 31, 2011, net gains arising from derivative financial instruments of TSMC SSL amounted to NT\$6,365 thousand.

Meet the criteria for hedge accounting

Xintec monitors and manages the financial risk through the analysis of business environment and evaluation of entity's financial risks. Further, Xintec seeks to reduce the effects of future cash flow related interest rate exposures by primarily using derivative financial instruments.

Xintec is exposed to interest rate risk because its long-term bank loans bear floating interest rates. Accordingly, Xintec enters into interest rate swap contract to hedge such a cash flow interest rate risk. As of December 31, 2011, the outstanding interest rate swap contract of Xintec consisted of the following:

Hedged Item	Hedging Financial Instrument	Fair Value December 31, 2011	Expected Cash Flow Generated Period	Expected Timing for the Recognition of Gains or Losses from Hedge
Long-term bank loans	Interest rate swap contract	\$ (232)	2011 to 2012	2011 to 2012

For the year ended December 31, 2011, the adjustment for current period to shareholders' equity amounted to a loss of NT\$98 thousand for the above Xintec's interest rate swap contract. The amount removed from shareholders' equity and recognized as a loss amounted to NT\$680 thousand.

k. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 25.

32. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements.

33. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on February 14, 2012.

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Investees

FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2011

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

No.	Financing Company	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousands) (Note 4)	Ending Balance (US\$ in Thousands) (Note 4)	Amount Actually Drawn (US\$ in Thousands)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Notes 1 and 2)	Financing Company's Total Financing Amount Limits (Note 3)
												Item	Value		
1	TSMC Partners	TSMC China	Long-term receivables from related parties	\$ 7,572,000 (US\$ 250,000)	\$ 7,572,000 (US\$ 250,000)	\$ 7,572,000 (US\$ 250,000)	0.25%-0.26%	The need for short-term financing	\$ -	Purchase equipment	\$ -	-	\$ -	\$ 34,986,964	\$ 34,986,964
		TSMC Solar	Other receivables from related parties	1,211,520 (US\$ 40,000)	1,211,520 (US\$ 40,000)	454,320 (US\$ 15,000)	0.4017%-0.4651%	The need for short-term financing	-	Operating capital	-	-	-	3,498,696	
		TSMC SSL	Other receivables from related parties	908,640 (US\$ 30,000)	908,640 (US\$ 30,000)	348,312 (US\$ 11,500)	0.4545%	The need for short-term financing	-	Operating capital	-	-	-	3,498,696	
2	TSMC Global	TSMC	Other receivables from related parties	25,744,800 (US\$ 850,000)	-	-	0.3544%	The need for short-term financing	-	Support the parent company's short-term operation requirement	-	-	-	44,071,845	44,071,845

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. While offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions. The restriction of thirty percent (30%) of the borrower's net worth will not apply to subsidiaries whose voting shares are 90% or more owned, directly or indirectly, by TSMC.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Global. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. TSMC or offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions.

Note 3: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners and TSMC Global, respectively.

Note 4: The maximum balance for the period and ending balance represents the amounts approved by Board of Directors.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES HELD

DECEMBER 31, 2011

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
TSMC	<u>Corporate bond</u>							
	Nan Ya Plastics Corporation	-	Held-to-maturity financial assets	-	\$ 1,099,629	N/A	\$ 1,120,808	
	China Steel Corporation	-	"	-	303,798	N/A	305,666	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation	-	Available-for-sale financial assets	1,789,493	2,617,134	7	2,617,134	
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	44,071,845	100	44,071,845	
	TSMC Partners	Subsidiary	"	988,268	34,986,964	100	34,986,964	
	TSMC Solar	Subsidiary	"	1,118,000	10,153,244	100	10,153,244	
	VIS	Investee accounted for using equity method	"	628,223	8,988,007	39	6,627,758	
	SSMC	Investee accounted for using equity method	"	314	6,289,429	39	6,075,445	
	TSMC North America	Subsidiary	"	11,000	2,981,639	100	2,981,639	
	TSMC SSL	Subsidiary	"	227,000	1,746,893	100	1,746,893	
	Xintec	Investee with a controlling financial interest	"	94,011	1,606,694	40	1,606,694	
	GUC	Investee accounted for using equity method	"	46,688	1,157,188	35	4,645,442	
	TSMC Europe	Subsidiary	"	-	205,171	100	205,171	
	TSMC Japan	Subsidiary	"	6	161,601	100	161,601	
	TSMC Korea	Subsidiary	"	80	23,448	100	23,448	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	16,783	193,584	10	350,060	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	351,996	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	41,372	
	<u>Fund</u>							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	103,992	12	103,992	
	Crimson Asia Capital	-	"	-	55,259	1	55,259	
	<u>Capital</u>							
	TSMC China	Subsidiary	Investments accounted for using equity method	-	13,542,181	100	13,583,214	
	VTAF III	Subsidiary	"	-	1,311,044	53	1,290,093	
	VTAF II	Subsidiary	"	-	762,135	98	756,125	
	Emerging Alliance	Subsidiary	"	-	213,235	99	213,235	
TSMC Solar	<u>Stock</u>							
	Motech	Investee accounted for using equity method	Investments accounted for using equity method	87,480	5,612,344	20	3,849,382	
	TSMC Solar Europe	Subsidiary	"	-	204,163	100	204,163	
	TSMC Solar NA	Subsidiary	"	1	52,187	100	52,187	
	<u>Capital</u>							
	VTAF III	Investee accounted for using equity method	Investments accounted for using equity method	-	1,681,719	46	1,681,719	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
TSMC SSL	<u>Stock</u> TSMC Lighting NA	Subsidiary	Investments accounted for using equity method	1	\$ 2,994	100	\$ 2,994	
TSMC Partners	<u>Corporate bond</u> General Elec Cap Corp. Mtn	-	Held-to-maturity financial assets	-	US\$ 20,012	N/A	US\$ 20,100	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 20,059	N/A	US\$ 20,740	
	<u>Common stock</u> TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 460,034	100	US\$ 460,034	
	VisEra Holding Company	Investee accounted for using equity method	"	43,000	US\$ 94,208	49	US\$ 94,208	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary	"	787	US\$ 11,112	97	US\$ 11,112	
	TSMC Technology	Subsidiary	"	1	US\$ 10,615	100	US\$ 10,615	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Subsidiary	"	14,153	US\$ 9,994	97	US\$ 9,994	
	TSMC Canada	Subsidiary	"	2,300	US\$ 4,059	100	US\$ 4,059	
	Mcube Inc.	Investee accounted for using equity method	"	5,333	-	80	-	
	<u>Preferred stock</u> Mcube Inc.	Investee accounted for using equity method	Investments accounted for using equity method	1,000	-	5	-	
TSMC North America	<u>Fund</u> Shanghai Walden Venture Capital Enterprise	-	Financial assets carried at cost	-	US\$ 5,000	8	US\$ 5,000	
	<u>Stock</u> Spansion Inc.	-	Available-for-sale financial assets	276	US\$ 2,283	-	US\$ 2,283	
TSMC Development	<u>Corporate bond</u> GE Capital Corp.	-	Held-to-maturity financial assets	-	US\$ 20,090	N/A	US\$ 20,770	
	JP Morgan Chase & Co.	-	"	-	US\$ 15,000	N/A	US\$ 15,087	
Emerging Alliance	<u>Stock</u> WaferTech	Subsidiary	Investments accounted for using equity method	293,640	US\$ 220,119	100	US\$ 220,119	
	<u>Common stock</u> RichWave Technology Corp.	-	Financial assets carried at cost	4,074	US\$ 1,545	10	US\$ 1,545	
	Global Investment Holding Inc.	-	"	11,124	US\$ 3,065	6	US\$ 3,065	
	<u>Preferred stock</u> Audience, Inc.	-	Financial assets carried at cost	1,654	US\$ 250	-	US\$ 250	
	Next IO, Inc.	-	"	8	US\$ 500	-	US\$ 500	
	Pixim, Inc.	-	"	4,641	US\$ 1,137	2	US\$ 1,137	
	QST Holdings, LLC	-	"	-	US\$ 142	4	US\$ 142	
	<u>Capital</u> VentureTech Alliance Holdings, LLC (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	7	-	
	<u>Common stock</u> Aether Systems, Inc.	-	Financial assets carried at cost	1,800	US\$ 1,701	23	US\$ 1,701	
	RichWave Technology Corp.	-	"	1,267	US\$ 1,036	3	US\$ 1,036	
VTAF II	Sentelic	-	"	1,806	US\$ 2,607	9	US\$ 2,607	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
VTAF III	Preferred stock 5V Technologies, Inc.	-	Financial assets carried at cost	2,890	US\$ 2,168	4	US\$ 2,168	
	Aquantia	-	"	4,556	US\$ 4,316	3	US\$ 4,316	
	Audience, Inc.	-	"	12,378	US\$ 2,378	3	US\$ 2,378	
	Impinj, Inc.	-	"	475	US\$ 1,000	-	US\$ 1,000	
	Next IO, Inc.	-	"	132	US\$ 1,110	2	US\$ 1,110	
	Pixim, Inc.	-	"	33,347	US\$ 1,878	2	US\$ 1,878	
	Power Analog Microelectronics	-	"	7,330	US\$ 3,482	21	US\$ 3,482	
	QST Holdings, LLC	-	"	-	US\$ 593	13	US\$ 593	
	Capital VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	31	-	
	Common stock Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	11,868	US\$ 1,204	57	US\$ 1,204	
Growth Fund	Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$ 315	6	US\$ 315	
	Preferred stock InvenSense, Inc.	-	Available-for-sale financial assets	796	US\$ 7,932	1	US\$ 7,932	
	BridgeLux, Inc.	-	Financial assets carried at cost	6,771	US\$ 8,745	3	US\$ 8,745	
	Exclara, Inc.	-	"	59,695	US\$ 1,812	15	US\$ 1,812	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
	Neoconix, Inc.	-	"	3,916	US\$ 4,779	4	US\$ 4,779	
	Powervation, Ltd.	-	"	449	US\$ 7,030	16	US\$ 7,030	
	Stion Corp.	-	"	8,152	US\$ 55,473	20	US\$ 55,473	
	Tilera, Inc.	-	"	3,890	US\$ 3,025	2	US\$ 3,025	
ISDF	Validity Sensors, Inc.	-	"	9,340	US\$ 3,456	4	US\$ 3,456	
	Capital Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 510	100	US\$ 510	
	VTA Holdings	Subsidiary	"	-	-	62	-	
	Common stock Veebeam	-	Financial assets carried at cost	10	US\$ 25	-	US\$ 25	
	Common stock Integrated Memory Logic, Inc.	-	Available-for-sale financial assets	2,161	US\$ 6,289	3	US\$ 6,289	
	Memsic, Inc.	-	"	1,286	US\$ 3,407	5	US\$ 3,407	
	Preferred stock Sonics, Inc.	-	Financial assets carried at cost	230	US\$ 497	2	US\$ 497	
	Common stock Memsic, Inc.	-	Available-for-sale financial assets	1,072	US\$ 2,841	5	US\$ 2,841	
	Alchip Technologies Limited	-	Financial assets carried at cost	7,520	US\$ 3,664	14	US\$ 3,664	
	Sonics, Inc.	-	"	278	US\$ 10	3	US\$ 10	
ISDF II	Goyatek Technology, Corp.	-	"	745	US\$ 163	6	US\$ 163	
	Auden Technology MFG. Co., Ltd.	-	"	1,049	US\$ 223	3	US\$ 223	
	Preferred stock Sonics, Inc.	-	Financial assets carried at cost	264	US\$ 455	3	US\$ 455	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
Xintec	Capital Compositech Ltd.	-	Financial assets carried at cost	587	-	3	-	
TSMC Solar Europe	Stock TSMC Solar Europe GmbH	Subsidiary	Investments accounted for using equity method	1	EUR 5,103	100	EUR 5,103	
TSMC Global	Corporate bond							
	Aust + Nz Banking Group	-	Held-to-maturity financial assets	20,000	US\$ 20,000	N/A	US\$ 19,751	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 24,905	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 24,991	
	Deutsche Bank AG London	-	"	20,000	US\$ 19,884	N/A	US\$ 20,033	
	JP Morgan Chase + Co.	-	"	35,000	US\$ 35,039	N/A	US\$ 35,070	
	Nationwide Building Society-UK Government Guarantee	-	"	8,000	US\$ 8,000	N/A	US\$ 8,008	
	Westpac Banking Corp.	-	"	25,000	US\$ 25,000	N/A	US\$ 24,825	
	Westpac Banking Corp. 12/12 Frn	-	"	5,000	US\$ 5,000	N/A	US\$ 5,007	
	Government bond							
	Societe De Financement De Lec	-	Held-to-maturity financial assets	15,000	US\$ 15,000	N/A	US\$ 14,991	
	Money market fund							
	Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	83	US\$ 83	N/A	US\$ 83	

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2011

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
TSMC	Stock TSMC Solar	Investments accounted for using equity method	-	Subsidiary	-	\$ -	1,118,000	\$ 11,180,000	-	\$ -	\$ -	\$ -	1,118,000	\$ 10,153,244
	TSMC SSL	"	-	Subsidiary	-	-	227,000	2,270,000	-	-	-	-	227,000	1,746,893
	Capital TSMC China	Investments accounted for using equity method	-	Subsidiary	-	4,252,270	-	6,759,300	-	-	-	-	-	13,542,181
	VTAF III	"	-	Subsidiary	-	2,769,423	-	135,297	-	-	-	-	-	1,311,044
	Stock TSMC Solar Europe	Investments accounted for using equity method	-	Subsidiary	-	23,971	-	385,682	-	-	-	-	-	204,163
	Capital VTAF III	Investments accounted for using equity method	-	Investee accounted for using equity method	-	-	-	168,548	-	-	-	-	-	1,681,719
TSMC Solar Europe	Stock TSMC Solar Europe GmbH	Investments accounted for using equity method	-	Subsidiary	1	EUR 90	-	EUR 9,800	-	EUR -	EUR -	EUR -	1	EUR 5,103
TSMC Global	Corporate bond Allstate Life Gbl Fdg Secd	Available-for-sale financial assets	-	-	4,430	US\$ 4,824	-	US\$ -	4,430	US\$ 4,787	US\$ 4,834	US\$ (47)	-	US\$ -
	American Honda Fin Corp. Mtn	"	-	-	4,000	US\$ 3,995	-	-	4,000	US\$ 4,005	US\$ 3,985	US\$ 20	-	-
	Anz National Intl Ltd.	"	-	-	3,500	US\$ 3,554	-	-	3,500	US\$ 3,555	US\$ 3,515	US\$ 40	-	-
	Archer Daniels Midland Co.	"	-	-	-	-	7,000	US\$ 7,000	7,000	US\$ 7,010	US\$ 7,000	US\$ 10	-	-
	Astrazeneca Plc	"	-	-	3,150	US\$ 3,397	-	-	3,150	US\$ 3,356	US\$ 3,456	US\$ (100)	-	-
	AT+T Wireless	"	-	-	3,500	US\$ 3,823	-	-	3,500	US\$ 3,762	US\$ 3,979	US\$ (217)	-	-
	Banco Bilbao Vizcaya P R	"	-	-	3,250	US\$ 3,249	-	-	3,250	US\$ 3,251	US\$ 3,250	US\$ 1	-	-
	Bank of Nova Scotia	"	-	-	5,000	US\$ 5,000	-	-	5,000	US\$ 5,012	US\$ 5,000	US\$ 12	-	-
	Barclays Bank Plc	"	-	-	12,000	US\$ 11,997	-	-	12,000	US\$ 12,022	US\$ 12,035	US\$ (13)	-	-
	Barclays Bk Plc UK Govt Cr	"	-	-	-	-	5,000	US\$ 5,108	5,000	US\$ 5,099	US\$ 5,108	US\$ (9)	-	-
	Bb+T Corporation	"	-	-	-	-	3,840	US\$ 3,990	3,840	US\$ 3,977	US\$ 3,990	US\$ (13)	-	-
	Bear Stearns Cos Inc.	"	-	-	3,500	US\$ 3,494	-	-	3,500	US\$ 3,465	US\$ 3,360	US\$ 105	-	-
	Berkshire Hathaway Inc. Del	"	-	-	3,500	US\$ 3,517	-	-	3,500	US\$ 3,521	US\$ 3,500	US\$ 21	-	-
	Bhp Billiton Fin USA Ltd.	"	-	-	-	-	4,000	US\$ 4,443	4,000	US\$ 4,447	US\$ 4,443	US\$ 4	-	-
	Bnp Paribas SA	"	-	-	3,810	US\$ 3,844	-	-	3,810	US\$ 3,838	US\$ 3,844	US\$ (6)	-	-
	Boeing Cap Corp.	"	-	-	2,925	US\$ 3,192	-	-	2,925	US\$ 3,180	US\$ 3,235	US\$ (55)	-	-
	Bp Capital Markets Plc	"	-	-	3,900	US\$ 3,988	-	-	3,900	US\$ 3,992	US\$ 3,969	US\$ 23	-	-
	Bp Capital Markets Plc	"	-	-	-	-	7,160	US\$ 7,160	7,160	US\$ 7,201	US\$ 7,160	US\$ 41	-	-
	Chevron Corp.	"	-	-	-	-	4,000	US\$ 4,305	4,000	US\$ 4,286	US\$ 4,305	US\$ (19)	-	-
	Cie Financement Foncier	"	-	-	4,000	US\$ 4,019	-	-	4,000	US\$ 4,034	US\$ 4,029	US\$ 5	-	-
	Cisco Systems Inc.	"	-	-	-	-	7,050	US\$ 7,050	7,050	US\$ 7,073	US\$ 7,050	US\$ 23	-	-
	Citigroup Funding Inc.	"	-	-	16,000	US\$ 16,323	-	-	16,000	US\$ 16,337	US\$ 16,262	US\$ 75	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
	Citigroup Funding Inc.	Available-for-sale financial assets	-	-	7,300	US\$ 7,446	-	US\$ -	7,300	US\$ 7,440	US\$ 7,448	US\$ (8)	-	US\$ -
	Citigroup Inc.	"	-	-	5,000	US\$ 5,490	-	-	5,000	US\$ 5,478	US\$ 5,360	US\$ 118	-	-
	Coca Cola Co.	"	-	-	4,000	US\$ 4,002	-	-	4,000	US\$ 4,003	US\$ 4,000	US\$ 3	-	-
	Countrywide Finl Corp.	"	-	-	4,000	US\$ 4,208	-	-	4,000	US\$ 4,221	US\$ 4,291	US\$ (70)	-	-
	Credit Suisse New York	"	-	-	3,945	US\$ 4,090	-	-	3,945	US\$ 4,069	US\$ 4,073	US\$ (4)	-	-
	Credit Suisse New York	"	-	-	-	-	3,200	US\$ 3,200	3,200	US\$ 3,238	US\$ 3,200	US\$ 38	-	-
	Dexia Credit Local	"	-	-	6,000	US\$ 5,976	-	-	6,000	US\$ 5,983	US\$ 6,000	US\$ (17)	-	-
	Dexia Credit Local	"	-	-	4,000	US\$ 3,984	-	-	4,000	US\$ 3,927	US\$ 4,000	US\$ (73)	-	-
	Dexia Credit Local S.A	"	-	-	4,000	US\$ 3,992	-	-	4,000	US\$ 3,976	US\$ 4,000	US\$ (24)	-	-
	Dexia Credit Local SA NY	"	-	-	5,000	US\$ 4,983	-	-	5,000	US\$ 4,952	US\$ 5,000	US\$ (48)	-	-
	Finance for Danish Ind	"	-	-	3,800	US\$ 3,799	-	-	3,800	US\$ 3,808	US\$ 3,801	US\$ 7	-	-
	General Elec Cap Corp.	"	-	-	7,000	US\$ 7,002	-	-	7,000	US\$ 7,005	US\$ 7,002	US\$ 3	-	-
	General Elec Cap Corp.	"	-	-	4,000	US\$ 4,110	-	-	4,000	US\$ 4,095	US\$ 4,117	US\$ (22)	-	-
	General Elec Cap Corp.	"	-	-	-	-	5,000	US\$ 5,000	5,000	US\$ 5,037	US\$ 5,000	US\$ 37	-	-
	Georgia Pwr Co.	"	-	-	4,000	US\$ 4,006	-	-	4,000	US\$ 4,002	US\$ 4,024	US\$ (22)	-	-
	Gmac LLC	"	-	-	4,600	US\$ 4,731	-	-	4,600	US\$ 4,715	US\$ 4,726	US\$ (11)	-	-
	Goldman Sachs Group Inc.	"	-	-	-	-	3,400	US\$ 3,400	3,400	US\$ 3,425	US\$ 3,400	US\$ 25	-	-
	Hewlett Packard Co.	"	-	-	3,000	US\$ 3,003	-	-	3,000	US\$ 3,004	US\$ 2,995	US\$ 9	-	-
	Household Fin Corp.	"	-	-	4,330	US\$ 4,694	-	-	4,330	US\$ 4,662	US\$ 4,781	US\$ (119)	-	-
	HSBC Bank Plc	"	-	-	3,400	US\$ 3,405	-	-	3,400	US\$ 3,407	US\$ 3,407	-	-	-
	HSBC Fin Corp.	"	-	-	2,900	US\$ 3,074	-	-	2,900	US\$ 3,074	US\$ 3,142	US\$ (68)	-	-
	IBM Corp.	"	-	-	6,800	US\$ 6,775	-	-	6,800	US\$ 6,781	US\$ 6,772	US\$ 9	-	-
	Inc Bk Nv Neth St Cr Gtee	"	-	-	-	-	8,500	US\$ 8,668	8,500	US\$ 8,655	US\$ 8,668	US\$ (13)	-	-
	John Deer Capital Corp. Fdic GT	"	-	-	3,500	US\$ 3,616	-	-	3,500	US\$ 3,601	US\$ 3,634	US\$ (33)	-	-
	JP Morgan Chase + Co.	"	-	-	5,000	US\$ 5,021	-	-	5,000	US\$ 5,032	US\$ 5,000	US\$ 32	-	-
	Lloyds Tsb Bank Plc Ser 144A	"	-	-	5,950	US\$ 6,009	-	-	5,950	US\$ 6,007	US\$ 6,077	US\$ (70)	-	-
	Macquarie Bk Ltd. Sr	"	-	-	3,900	US\$ 3,975	9,300	US\$ 9,472	13,200	US\$ 13,423	US\$ 13,455	US\$ (32)	-	-
	Massmutual Global Fdg II Mediu	"	-	-	4,000	US\$ 3,955	-	-	4,000	US\$ 3,991	US\$ 3,926	US\$ 65	-	-
	Mellon Fdg Corp.	"	-	-	3,500	US\$ 3,475	-	-	3,500	US\$ 3,479	US\$ 3,404	US\$ 75	-	-
	Merck + Co. Inc.	"	-	-	4,000	US\$ 4,032	-	-	4,000	US\$ 4,013	US\$ 4,066	US\$ (53)	-	-
	Merrill Lynch + Co. Inc.	"	-	-	4,691	US\$ 4,647	-	-	4,691	US\$ 4,669	US\$ 4,603	US\$ 66	-	-
	Merrill Lynch + Co. Inc.	"	-	-	-	-	4,000	US\$ 4,335	4,000	US\$ 4,319	US\$ 4,335	US\$ (16)	-	-
	Met Life Glob Funding I	"	-	-	-	-	3,000	US\$ 3,000	3,000	US\$ 3,004	US\$ 3,000	US\$ 4	-	-
	Metlife Inc.	"	-	-	6,500	US\$ 6,600	-	-	6,500	US\$ 6,584	US\$ 6,527	US\$ 57	-	-
	Microsoft Corp.	"	-	-	3,250	US\$ 3,232	-	-	3,250	US\$ 3,224	US\$ 3,249	US\$ (25)	-	-
	Morgan Stanley	"	-	-	-	-	9,000	US\$ 9,000	9,000	US\$ 9,140	US\$ 9,000	US\$ 140	-	-
	Morgan Stanley Dean Witter	"	-	-	8,000	US\$ 8,524	-	-	8,000	US\$ 8,513	US\$ 8,797	US\$ (284)	-	-
	National Australia Bank	"	-	-	-	-	3,000	US\$ 3,035	3,000	US\$ 3,040	US\$ 3,034	US\$ 6	-	-
	Pepsiamericas Inc.	"	-	-	-	-	4,000	US\$ 4,329	4,000	US\$ 4,308	US\$ 4,329	US\$ (21)	-	-
	Philip Morris Intl Inc.	"	-	-	-	-	4,000	US\$ 4,640	4,000	US\$ 4,591	US\$ 4,640	US\$ (49)	-	-
	Princoa Global Fdg I Medium	"	-	-	5,050	US\$ 5,011	-	-	5,050	US\$ 5,042	US\$ 4,921	US\$ 121	-	-
	Rabobank Nederland	"	-	-	5,000	US\$ 5,000	-	-	5,000	US\$ 5,000	US\$ 4,997	US\$ 3	-	-
	Royal Bk of Scotland Plc	"	-	-	5,000	US\$ 5,052	-	-	5,000	US\$ 5,045	US\$ 5,106	US\$ (61)	-	-
	Royal Bk Scotlnd Grp Plc 144A	"	-	-	9,450	US\$ 9,516	-	-	9,450	US\$ 9,517	US\$ 9,596	US\$ (79)	-	-
	Sanofi Aventis	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,003	US\$ 4,000	US\$ 3	-	-
	Sanofi Aventis	"	-	-	-	-	3,870	US\$ 3,870	3,870	US\$ 3,884	US\$ 3,870	US\$ 14	-	-
	Shell International Fin	"	-	-	4,515	US\$ 4,536	-	-	4,515	US\$ 4,533	US\$ 4,527	US\$ 6	-	-
	Shell International Fin	"	-	-	3,200	US\$ 3,248	-	-	3,200	US\$ 3,256	US\$ 3,227	US\$ 29	-	-
	Standard Chartered BK NY	"	-	-	-	-	3,000	US\$ 3,000	3,000	US\$ 3,001	US\$ 3,000	US\$ 1	-	-
	State Str Corp.	"	-	-	6,420	US\$ 6,417	-	-	6,420	US\$ 6,423	US\$ 6,382	US\$ 41	-	-
	Sun Life Finl Global	"	-	-	4,400	US\$ 4,332	-	-	4,400	US\$ 4,351	US\$ 4,304	US\$ 47	-	-
	Suncorp Metway Ltd.	"	-	-	8,800	US\$ 8,982	-	-	8,800	US\$ 8,937	US\$ 9,125	US\$ (188)	-	-
	Swedbank Hypotek AB	"	-	-	4,000	US\$ 3,993	-	-	4,000	US\$ 3,998	US\$ 4,002	US\$ (4)	-	-
	Swedbank Hypotek AB	"	-	-	-	-	4,100	US\$ 4,100	4,100	US\$ 4,086	US\$ 4,100	US\$ (14)	-	-
	Teva Pharm Fin III	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,019	US\$ 4,000	US\$ 19	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
	Teva Pharma Fin III LLC	Available-for-sale financial assets	-	-	4,000	US\$ 4,016	-	US\$ -	4,000	US\$ 4,011	US\$ 4,000	US\$ 11	-	US\$ -
	Total Capital Canada Ltd.	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,013	US\$ 4,000	US\$ 13	-	-
	United Technologies Corp.	"	-	-	-	-	4,000	US\$ 4,265	4,000	US\$ 4,244	US\$ 4,266	US\$ (22)	-	-
	US Central Federal Cred	"	-	-	4,000	US\$ 4,084	4,500	US\$ 4,599	8,500	US\$ 8,664	US\$ 8,692	US\$ (28)	-	-
	Verizon Communications	"	-	-	-	-	7,725	US\$ 7,725	7,725	US\$ 7,785	US\$ 7,725	US\$ 60	-	-
	Virginia Elec + Pwr Co.	"	-	-	-	-	3,250	US\$ 3,489	3,250	US\$ 3,461	US\$ 3,489	US\$ (28)	-	-
	Volkswagen Intl Fin NV	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,010	US\$ 4,000	US\$ 10	-	-
	Wachovia Corp. Global Medium	"	-	-	5,000	US\$ 5,141	-	-	5,000	US\$ 5,142	US\$ 5,138	US\$ 4	-	-
	Wal Mart Stores Inc.	"	-	-	4,000	US\$ 3,964	-	-	4,000	US\$ 3,968	US\$ 3,986	US\$ (18)	-	-
	Wal Mart Stores Inc.	"	-	-	3,770	US\$ 4,325	-	-	3,770	US\$ 4,261	US\$ 4,383	US\$ (122)	-	-
	Westpac Banking Corp.	"	-	-	3,500	US\$ 3,514	-	-	3,500	US\$ 3,511	US\$ 3,500	US\$ 11	-	-
	Westpac Banking Corp.	"	-	-	4,000	US\$ 4,005	-	-	4,000	US\$ 4,022	US\$ 4,044	US\$ (22)	-	-
	Wyeth	"	-	-	3,345	US\$ 3,657	638	US\$ 697	3,983	US\$ 4,325	US\$ 4,397	US\$ (72)	-	-
	Deutsche Bank AG London	Held-to-maturity financial assets	-	-	-	-	20,000	US\$ 19,884	-	-	-	-	20,000	US\$ 19,884
	<u>Government bond</u>													
	US Treasury N/B	Available-for-sale financial assets	-	-	41,700	US\$ 42,042	-	-	41,700	US\$ 42,042	US\$ 41,729	US\$ 313	-	-
	US Treasury N/B	"	-	-	11,100	US\$ 10,976	-	-	11,100	US\$ 10,941	US\$ 11,084	US\$ (143)	-	-
	US Treasury N/B	"	-	-	7,000	US\$ 7,079	-	-	7,000	US\$ 7,077	US\$ 7,078	US\$ (1)	-	-
	US Treasury N/B	"	-	-	5,250	US\$ 5,212	30,175	US\$ 29,906	35,425	US\$ 35,154	US\$ 35,101	US\$ 53	-	-
	US Treasury N/B	"	-	-	-	-	19,900	US\$ 19,872	19,900	US\$ 19,888	US\$ 19,872	US\$ 16	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 10,084	10,000	US\$ 10,073	US\$ 10,084	US\$ (11)	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 10,042	10,000	US\$ 10,046	US\$ 10,042	US\$ 4	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 10,024	10,000	US\$ 10,035	US\$ 10,024	US\$ 11	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 9,988	10,000	US\$ 9,990	US\$ 9,988	US\$ 2	-	-
	US Treasury N/B	"	-	-	-	-	3,300	US\$ 3,301	3,300	US\$ 3,298	US\$ 3,301	US\$ (3)	-	-
	<u>Agency bond</u>													
	Fannie Mae	Available-for-sale financial assets	-	-	16,104	US\$ 16,102	-	-	16,104	US\$ 16,116	US\$ 16,098	US\$ 18	-	-
	Fannie Mae	"	-	-	11,100	US\$ 11,096	-	-	11,100	US\$ 11,109	US\$ 11,096	US\$ 13	-	-
	Fannie Mae	"	-	-	8,765	US\$ 8,763	11,500	US\$ 11,503	20,265	US\$ 20,280	US\$ 20,262	US\$ 18	-	-
	Fannie Mae	"	-	-	4,600	US\$ 4,589	-	-	4,600	US\$ 4,606	US\$ 4,598	US\$ 8	-	-
	Fannie Mae	"	-	-	3,900	US\$ 3,861	-	-	3,900	US\$ 3,851	US\$ 3,899	US\$ (48)	-	-
	Fannie Mae	"	-	-	3,000	US\$ 2,994	-	-	3,000	US\$ 3,000	US\$ 3,009	US\$ (9)	-	-
	Fannie Mae	"	-	-	-	-	20,300	US\$ 20,269	20,300	US\$ 20,301	US\$ 20,269	US\$ 32	-	-
	Fannie Mae	"	-	-	-	-	11,045	US\$ 12,104	11,045	US\$ 12,044	US\$ 12,104	US\$ (60)	-	-
	Fannie Mae	"	-	-	-	-	7,500	US\$ 7,500	7,500	US\$ 7,508	US\$ 7,500	US\$ 8	-	-
	Fannie Mae	"	-	-	-	-	3,000	US\$ 3,000	3,000	US\$ 3,008	US\$ 3,000	US\$ 8	-	-
	Federal Farm Credit Bank	"	-	-	4,000	US\$ 3,994	-	-	4,000	US\$ 4,002	US\$ 3,995	US\$ 7	-	-
	Federal Farm Credit Bank	"	-	-	4,000	US\$ 3,984	-	-	4,000	US\$ 3,986	US\$ 3,998	US\$ (12)	-	-
	Federal Farm Credit Bank	"	-	-	-	-	4,000	US\$ 4,002	4,000	US\$ 4,003	US\$ 4,002	US\$ 1	-	-
	Federal Home Loan Bank	"	-	-	5,000	US\$ 5,007	-	-	5,000	US\$ 5,007	US\$ 5,009	US\$ (2)	-	-
	Federal Home Loan Bank	"	-	-	6,800	US\$ 6,817	-	-	6,800	US\$ 6,817	US\$ 6,811	US\$ 6	-	-
	Federal Home Loan Bank	"	-	-	8,000	US\$ 8,040	-	-	8,000	US\$ 8,033	US\$ 7,990	US\$ 43	-	-
	Federal Home Loan Bank	"	-	-	10,000	US\$ 9,998	-	-	10,000	US\$ 10,001	US\$ 9,985	US\$ 16	-	-
	Federal Home Loan Bank	"	-	-	8,400	US\$ 8,397	-	-	8,400	US\$ 8,400	US\$ 8,399	US\$ 1	-	-
	Federal Home Ln Bks	"	-	-	5,000	US\$ 5,046	-	-	5,000	US\$ 5,043	US\$ 5,098	US\$ (55)	-	-
	Federal Home Ln Mtg Corp.	"	-	-	3,732	US\$ 3,727	-	-	3,340	US\$ 3,340	US\$ 3,341	US\$ (1)	-	-
	Federal Home Ln Mtg Corp.	"	-	-	3,324	US\$ 3,453	-	-	3,161	US\$ 3,288	US\$ 3,360	US\$ (72)	-	-
	Federal Home Loan Mtg Corp.	"	-	-	5,183	US\$ 5,168	-	-	4,634	US\$ 4,634	US\$ 4,632	US\$ 2	-	-
	Fhr 2953 Da	"	-	-	3,284	US\$ 3,466	-	-	2,846	US\$ 3,028	US\$ 2,993	US\$ 35	-	-
	Fhr 3184 Fa	"	-	-	4,096	US\$ 4,084	-	-	3,810	US\$ 3,807	US\$ 3,806	US\$ 1	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
	Fnma Tba Jan 15 Single Fam	Available-for-sale financial assets	-	-	-	US\$ -	3,000	US\$ 3,147	3,000	US\$ 3,142	US\$ 3,147	US\$ (5)	-	US\$ -
	Fnma Tba Feb 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,138	3,000	US\$ 3,117	US\$ 3,138	US\$ (21)	-	-
	Fnma Tba Mar 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,110	3,000	US\$ 3,140	US\$ 3,110	US\$ 30	-	-
	Fnma Tba Apr 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,131	3,000	US\$ 3,164	US\$ 3,131	US\$ 33	-	-
	Fnr 2006 60 CO	"	-	-	3,485	US\$ 3,483	-	-	3,274	US\$ 3,274	US\$ 3,272	US\$ 2	-	-
	Fnr 2009 116 A	"	-	-	4,271	US\$ 4,640	-	-	3,841	US\$ 4,137	US\$ 4,122	US\$ 15	-	-
	Freddie Mac	"	-	-	5,750	US\$ 5,764	-	-	5,750	US\$ 5,761	US\$ 5,771	US\$ (10)	-	-
	Freddie Mac	"	-	-	4,300	US\$ 4,316	-	-	4,300	US\$ 4,312	US\$ 4,308	US\$ 4	-	-
	Freddie Mac	"	-	-	10,420	US\$ 10,411	-	-	10,420	US\$ 10,414	US\$ 10,412	US\$ 2	-	-
	Freddie Mac	"	-	-	-	-	19,000	US\$ 18,981	19,000	US\$ 18,986	US\$ 18,981	US\$ 5	-	-
	Freddie Mac	"	-	-	-	-	3,550	US\$ 3,549	3,550	US\$ 3,553	US\$ 3,549	US\$ 4	-	-
	Freddie Mac	"	-	-	-	-	14,200	US\$ 14,196	14,200	US\$ 14,204	US\$ 14,196	US\$ 8	-	-
	Gnr 2009 45 AB	"	-	-	4,417	US\$ 4,496	-	-	3,082	US\$ 3,129	US\$ 3,215	US\$ (86)	-	-
	Government Natl Mtg Assn	"	-	-	3,050	US\$ 3,285	-	-	3,050	US\$ 3,202	US\$ 3,278	US\$ (76)	-	-
	Ngn 2010 R2 1A	"	-	-	3,732	US\$ 3,731	-	-	3,490	US\$ 3,492	US\$ 3,490	US\$ 2	-	-
	Ngn 2011 R4 1A	"	-	-	-	-	4,000	US\$ 4,000	3,914	US\$ 3,914	US\$ 3,914	-	-	-
	Money market fund													
	Ssga Cash Mgmt Global Offshore	Available-for-sale financial assets	-	-	12,387	US\$ 12,387	764,155	US\$ 764,155	776,459	US\$ 776,459	US\$ 776,459	-	83	US\$ 83

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and redemption by the issuer.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/losses on financial assets, translation adjustments, equity in earnings/losses of equity method investees, other adjustments to long-term investment using equity method and amounts transferred from spin-off.

(Concluded)

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Investees

ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
TSMC	Fab	January 5, 2011 to November 10, 2011	\$ 1,018,438	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 7, 2011 to December 27, 2011	152,099	By the construction progress	Lead Fu Industrials Corp.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 26, 2011 to December 27, 2011	222,928	By the construction progress	MandarTech Interiors Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 26, 2011 to December 27, 2011	173,899	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to December 27, 2011	2,425,769	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to December 27, 2011	2,036,095	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to July 24, 2011	480,672	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to December 28, 2011	219,004	By the construction progress	Edg Corporation Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 24, 2011 to December 27, 2011	229,992	By the construction progress	Yankey Engineering Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
Xintec	Fab	February 17, 2011	1,050,000	Based on the agreement	Vertex Precision Electronics Inc.	-	N/A	N/A	N/A	N/A	Pricing report	Manufacturing purpose	None

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Investees

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 234,902,043	56	Net 30 days after invoice date	-	-	\$ 24,661,104	55	
	GUC	Investee accounted for using equity method	Sales	3,388,912	1	Net 30 days after monthly closing	-	-	116,218	-	
	VIS	Investee accounted for using equity method	Sales	302,844	-	Net 30 days after monthly closing	-	-	-	-	
	TSMC Solar Europe GmbH	Indirect subsidiary	Sales	148,898	-	Net 60 days after invoice date	-	-	-	-	
	TSMC China	Subsidiary	Purchases	10,392,189	21	Net 30 days after monthly closing	-	-	(946,826)	8	
	WaferTech	Indirect subsidiary	Purchases	7,305,879	15	Net 30 days after monthly closing	-	-	(420,459)	3	
	VIS	Investee accounted for using equity method	Purchases	5,577,762	12	Net 30 days after monthly closing	-	-	(987,937)	8	
	SSMC	Investee accounted for using equity method	Purchases	3,949,176	8	Net 30 days after monthly closing	-	-	(336,037)	3	
	Motech	Indirect investee accounted for using the equity method	Purchases	124,673	-	Net 30 days after monthly closing	-	-	-	-	
Xintec	OmniVision	Parent company of director (represented for Xintec)	Sales	1,829,969	47	Net 30 days after monthly closing	-	-	241,333	51	
	TSMC	Parent company	Sales	267,841	7	Net 30 days after monthly closing	-	-	17,326	4	

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Investees

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL DECEMBER 31, 2011

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC North America	Subsidiary	\$ 24,684,991	39	\$ 9,115,109	-	\$ 14,946,365	\$ -
	GUC	Investee accounted for using equity method	116,218	15	-	-	-	-
Xintec	OmniVision	Parent company of director (represented for Xintec)	241,333	36	-	-	-	-

Note 1: The calculation of turnover days excludes other receivables from related parties.

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited and Investees

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE DECEMBER 31, 2011

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2011			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC	TSMC Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 44,071,845	\$ 431,368	\$ 431,368	Subsidiary
	TSMC Partners	Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	34,986,964	1,745,799	1,745,799	Subsidiary
	TSMC China	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	18,939,667	12,180,367	-	100	13,542,181	2,113,521	2,098,233	Subsidiary
	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	-	1,118,000	100	10,153,244	(982,868)	(982,868)	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	39	8,988,007	882,183	(10,337)	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	6,289,429	3,370,241	1,143,147	Investee accounted for using equity method
	TSMC North America	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	2,981,639	197,493	197,493	Subsidiary
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	2,270,000	-	227,000	100	1,746,893	(523,002)	(523,002)	Subsidiary
	Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,011	40	1,606,694	166,603	54,449	Investee with a controlling financial interest
	VTAF III	Cayman Islands	Investing in new start-up technology companies	2,074,155 (Note 4)	3,565,441 (Note 4)	-	53	1,311,044	(280,045)	(273,038)	Subsidiary
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,157,188	527,406	183,843	Investee accounted for using equity method
	VTAF II	Cayman Islands	Investing in new start-up technology companies	949,267	1,166,470	-	98	762,135	32,275	31,629	Subsidiary
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	892,855	971,785	-	99	213,235	(11,185)	(11,129)	Subsidiary (Note 3)
	TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	205,171	34,937	34,937	Subsidiary (Note 3)
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	161,601	4,523	4,523	Subsidiary (Note 3)
	TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	23,448	3,263	3,263	Subsidiary (Note 3)
TSMC Solar	Motech	Taipei, Taiwan	Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems	6,228,661 (Note 4)	6,228,661 (Note 4)	87,480	20	5,612,344	(2,193,504)	Note 2	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,795,131 (Note 4)	3,565,441 (Note 4)	-	46	1,681,719	(280,045)	Note 2	Investee accounted for using equity method
	TSMC Solar Europe	Amsterdam, the Netherlands	Investing in solar related business	411,032 (Note 4)	25,350 (Note 4)	-	100	204,163	(196,659)	Note 2	Subsidiary
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	147,686 (Note 4)	60,962 (Note 4)	1	100	52,187	(63,192)	Note 2	Subsidiary
TSMC SSL	TSMC Lighting NA	Delaware, U.S.A.	Selling and marketing of solid state lighting related products	3,133 (Note 4)	3,133 (Note 4)	1	100	2,994	(34)	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2011			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC Partners	TSMC Development VisEra Holding Company	Delaware, U.S.A. Cayman Islands	Investment activities	US\$ 0,001	US\$ 0,001	1	100	US\$ 460,034	US\$ 56,777	Note 2	Subsidiary Investee accounted for using equity method
			Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$ 43,000	US\$ 43,000	43,000	49	US\$ 94,208	US\$ 29,054	Note 2	
	ISDF TSMC Technology ISDF II TSMC Canada Mcube Inc. (Common Stock)	Cayman Islands Delaware, U.S.A. Cayman Islands Ontario, Canada Delaware, U.S.A.	Investing in new start-up technology companies	US\$ 787	US\$ 4,088	787	97	US\$ 11,112	US\$ 3,656	Note 2	Subsidiary
			Engineering support activities	US\$ 0,001	US\$ 0,001	1	100	US\$ 10,615	US\$ 737	Note 2	Subsidiary (Note 3)
			Investing in new start-up technology companies	US\$ 14,153	US\$ 16,532	14,153	97	US\$ 9,994	US\$ (642)	Note 2	Subsidiary
			Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 4,059	US\$ 435	Note 2	Subsidiary (Note 3)
			Research, development, and sale of micro-semiconductor device	US\$ 800	US\$ 800	5,333	80	-	US\$ (13,586)	Note 2	Investee accounted for using equity method (Note 3)
			Research, development, and sale of micro-semiconductor device	US\$ 1,000	US\$ 1,000	1,000	5	-	US\$ (13,586)	Note 2	Investee accounted for using equity method (Note 3)
			Research, development, and sale of micro-semiconductor device	US\$ 1,000	US\$ 1,000	1,000	5	-	US\$ (13,586)	Note 2	Investee accounted for using equity method (Note 3)
	WaferTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$ 280,000	US\$ 280,000	293,640	100	US\$ 220,119	US\$ 54,908	Note 2	Subsidiary
VTAF III	Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US\$ 3,937	US\$ 3,937	11,868	57	US\$ 1,204	US\$ (1,458)	Note 2	Subsidiary (Note 3)
	Growth Fund VTA Holdings	Cayman Islands Delaware, U.S.A.	Investing in new start-up technology companies	US\$ 1,830	US\$ 1,700	-	100	US\$ 510	US\$ (466)	Note 2	Subsidiary (Note 3)
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	62	-	-	Note 2	Subsidiary (Note 3)
	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	31	-	-	Note 2	Subsidiary (Note 3)
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	7	-	-	Note 2	Subsidiary (Note 3)
TSMC Solar Europe	TSMC Solar Europe GmbH	Hamburg, Germany	Selling of solar related products and providing customer service	EUR 9,900	EUR 100	1	100	EUR 5,103	EUR (4,787)	Note 2	Subsidiary

Note 1: Equity in earnings/losses of investees include the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings/losses of the investee company is not reflected herein as such amount is already included in the equity in the earnings/losses of the investor company.

Note 3: Equity in earnings/losses was determined based on the unaudited financial statements.

Note 4: In August 2011, the Company adjusted its investment structure by transferring TSMC Lighting NA to TSMC SSL and transferring Motech, TSMC Solar Europe, TSMC Solar NA and part of VTAF III to TSMC Solar.

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Investees

INFORMATION OF INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2011

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

Investor Company	Main Businesses and Products	Total Amount of Paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2011 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2011 (US\$ in Thousands)
					Outflow (US\$ in Thousands)	Inflow	
TSMC China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 18,939,667 (RMB 4,502,080)	(Note 1)	\$ 12,180,367 (US\$ 371,000)	\$ 6,759,300 (US\$ 225,000)	\$ -	\$ 18,939,667 (US\$ 596,000)
Shanghai Walden Venture Capital Enterprise	Investing in new start-up technology companies	953,709 (US\$ 31,488)	(Note 2)	-	147,485 (US\$ 5,000)	-	147,485 (US\$ 5,000)

Investor Company	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2011 (US\$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2011	Accumulated Investment in Mainland China as of December 31, 2011 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment (US\$ in Thousand)
TSMC China	100%	\$ 2,098,233 (Note 3)	\$ 13,542,181	\$ -	\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)
Shanghai Walden Venture Capital Enterprise	8%	(Note 4)	151,440 (US\$ 5,000)	-			

Note 1: TSMC directly invested US\$596,000 thousand in TSMC China.

Note 2: TSMC indirectly invested in China company through third region, TSMC Partners.

Note 3: Amount was recognized based on the audited financial statements.

Note 4: TSMC Partners invested in financial assets carried at cost, equity in the earnings from which was not recognized.

8. Consolidated Financial Statements for the Years Ended December 31, 2011 and 2010 and Independent Auditors' Report

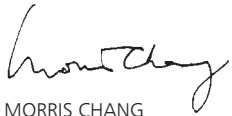
REPRESENTATION LETTER

The entities that are required to be included in the combined financial statements of Taiwan Semiconductor Manufacturing Company Limited as of and for the year ended December 31, 2011, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

Taiwan Semiconductor Manufacturing Company Limited

By

A handwritten signature in black ink, appearing to read "Morris Chang", written over a dotted line.

MORRIS CHANG
Chairman

February 14, 2012

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of December 31, 2011 and 2010, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Deloitte & Touche

February 14, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010		LIABILITIES AND SHAREHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 143,472,277	19	\$ 147,886,955	20	Short-term loans (Note 15)	\$ 25,926,528	3	\$ 31,213,944	4
Financial assets at fair value through profit or loss (Notes 2, 5 and 26)	15,360	-	6,886	-	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 26)	13,742	-	19,002	-
Available-for-sale financial assets (Notes 2, 6 and 26)	3,308,770	-	28,883,728	4	Hedging derivative financial liabilities (Notes 2, 11 and 26)	232	-	814	-
Held-to-maturity financial assets (Notes 2, 7 and 26)	3,825,680	1	4,796,589	1	Accounts payable	10,530,487	1	12,104,173	2
Receivables from related parties (Notes 3 and 27)	185,764	-	2,722	-	Payables to related parties (Note 27)	1,328,521	-	867,085	-
Notes and accounts receivable (Note 3)	46,321,240	6	51,029,885	7	Income tax payable (Notes 2 and 20)	10,656,124	1	7,184,697	1
Allowance for doubtful receivables (Notes 2, 3 and 8)	(490,952)	-	(504,029)	-	Salary and bonus payable	6,148,499	1	6,424,064	1
Allowance for sales returns and others (Notes 2 and 8)	(5,068,263)	(1)	(7,546,264)	(1)	Accrued profit sharing to employees and bonus to directors and supervisors (Notes 2 and 22)	9,081,293	1	11,096,147	2
Other receivables from related parties (Notes 3 and 27)	122,292	-	124,586	-	Payables to contractors and equipment suppliers	35,540,526	5	43,259,857	6
Other financial assets (Note 28)	617,142	-	1,021,552	-	Accrued expenses and other current liabilities (Notes 18, 26 and 30)	13,218,235	2	10,779,923	1
Inventories (Notes 2 and 9)	24,840,582	3	28,405,984	4	Current portion of bonds payable and long-term bank loans (Notes 16, 17, 26 and 28)	4,562,500	1	241,407	-
Deferred income tax assets (Notes 2 and 20)	5,936,490	1	5,373,076	1					
Prepaid expenses and other current assets	2,174,014	-	2,037,647	-	Total current liabilities	117,006,687	15	123,191,113	17
Total current assets	225,260,396	29	261,519,317	36					
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 12 and 26)					LONG-TERM LIABILITIES				
Investments accounted for using equity method	24,900,332	3	25,815,385	4	Bonds payable (Notes 16 and 26)	18,000,000	3	4,500,000	1
Available-for-sale financial assets	-	-	1,033,049	-	Long-term bank loans (Notes 17, 26 and 28)	1,587,500	-	301,561	-
Held-to-maturity financial assets	5,243,167	1	8,502,887	1	Other long-term payables (Notes 18, 26 and 30)	-	-	6,554,208	1
Financial assets carried at cost	4,315,005	1	4,424,207	1	Obligations under capital leases (Notes 2, 13 and 26)	870,993	-	694,986	-
Total long-term investments	34,458,504	5	39,775,528	6	Total long-term liabilities	20,458,493	3	12,050,755	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 27 and 28)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 19)	3,908,508	-	3,812,351	1
Land and land improvements	1,541,128	-	891,197	-	Guarantee deposits (Note 30)	443,983	-	789,098	-
Buildings	172,872,550	22	145,966,024	20	Deferred credits	26,533	-	126,539	-
Machinery and equipment	1,057,588,736	137	913,155,252	127	Others	377,187	-	254,643	-
Office equipment	16,969,266	2	14,856,582	2	Total other liabilities	4,756,211	-	4,982,631	1
Leased assets	791,480	-	701,552	-	Total liabilities	142,221,391	18	140,224,499	20
Accumulated depreciation	1,249,763,160	161	1,075,570,607	149					
Advance payments and construction in progress	(876,252,220)	(113)	(773,278,157)	(107)	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Net property, plant and equipment	116,863,976	15	86,151,573	12	Capital stock - NT\$10 par value (Note 22)				
					Authorized: 28,050,000 thousand shares				
INTANGIBLE ASSETS					Issued: 25,916,222 thousand shares in 2011	259,162,226	33	259,100,787	36
Goodwill (Note 2)	5,693,999	1	5,704,897	1	25,910,078 thousand shares in 2010	55,846,357	7	55,698,434	8
Deferred charges, net (Notes 2 and 14)	5,167,564	-	6,027,085	1	Capital surplus (Notes 2 and 22)				
Total intangible assets	10,861,563	1	11,731,982	2	Retained earnings (Note 22)				
					Appropriated as legal capital reserve	102,399,995	13	86,239,494	12
OTHER ASSETS					Appropriated as special capital reserve	6,433,874	1	1,313,047	-
Deferred income tax assets (Notes 2 and 20)	7,436,717	1	7,362,784	1	Unappropriated earnings	213,357,286	28	178,227,030	24
Refundable deposits	4,518,863	1	8,677,970	1		322,191,155	42	265,779,571	36
Others (Notes 2 and 28)	1,353,983	-	1,417,300	-	Others (Notes 2, 11, 24 and 26)				
Total other assets	13,309,563	2	17,458,054	2	Cumulative translation adjustments	(6,433,369)	(1)	(6,543,163)	(1)
					Unrealized gain (loss) on financial instruments	(1,172,855)	-	109,289	-
						(7,606,224)	(1)	(6,433,874)	(1)
TOTAL	\$ 774,264,942	100	\$ 718,928,904	100	Equity attributable to shareholders of the parent	629,593,514	81	574,144,918	79
					MINORITY INTERESTS (Note 2)	2,450,037	1	4,559,487	1
					Total shareholders' equity	632,043,551	82	578,704,405	80
					TOTAL	\$ 774,264,942	100	\$ 718,928,904	100

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 27)	\$ 430,490,500		\$ 431,630,858	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	<u>3,409,855</u>		<u>12,092,947</u>	
NET SALES	427,080,645	100	419,537,911	100
COST OF SALES (Notes 9, 21 and 27)	<u>232,937,388</u>	<u>55</u>	<u>212,484,320</u>	<u>51</u>
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	<u>194,143,257</u>	<u>45</u>	<u>207,053,591</u>	<u>49</u>
UNREALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	<u>(74,029)</u>	-	<u>-</u>	-
GROSS PROFIT	<u>194,069,228</u>	<u>45</u>	<u>207,053,591</u>	<u>49</u>
OPERATING EXPENSES (Notes 21 and 27)				
Research and development	33,829,880	8	29,706,662	7
General and administrative	14,164,114	3	12,803,997	3
Marketing	<u>4,517,816</u>	<u>1</u>	<u>5,367,597</u>	<u>1</u>
Total operating expenses	<u>52,511,810</u>	<u>12</u>	<u>47,878,256</u>	<u>11</u>
INCOME FROM OPERATIONS	<u>141,557,418</u>	<u>33</u>	<u>159,175,335</u>	<u>38</u>
NON-OPERATING INCOME AND GAINS				
Interest income	1,479,514	1	1,665,193	-
Settlement income (Note 30)	947,340	-	6,939,764	2
Equity in earnings of equity method investees, net (Notes 2 and 10)	897,611	-	2,298,159	1
Valuation gain on financial instruments, net (Notes 2, 5 and 26)	507,432	-	320,730	-
Technical service income (Notes 27 and 30)	407,089	-	450,503	-
Gain on settlement and disposal of financial assets, net (Notes 2 and 26)	233,214	-	736,843	-
Others (Note 2 and 27)	<u>886,327</u>	-	<u>724,880</u>	-
Total non-operating income and gains	<u>5,358,527</u>	<u>1</u>	<u>13,136,072</u>	<u>3</u>

(Continued)

	2011		2010	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	\$ 626,725	-	\$ 425,356	-
Impairment of financial assets (Notes 2, 12 and 26)	265,515	-	159,798	-
Loss on disposal of property, plant and equipment (Note 2)	200,673	-	849,254	-
Foreign exchange loss, net (Note 2)	185,555	-	99,130	-
Impairment loss on idle assets (Note 2)	98,009	-	319	-
Casualty loss (Note 9)	-	-	190,992	-
Others (Note 2)	<u>391,791</u>	-	<u>316,163</u>	-
Total non-operating expenses and losses	<u>1,768,268</u>	-	<u>2,041,012</u>	-
INCOME BEFORE INCOME TAX	145,147,677	34	170,270,395	41
INCOME TAX EXPENSE (Notes 2 and 20)	<u>10,694,417</u>	<u>3</u>	<u>7,988,465</u>	<u>2</u>
NET INCOME	<u>\$ 134,453,260</u>	<u>31</u>	<u>\$ 162,281,930</u>	<u>39</u>
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 134,201,279	31	\$ 161,605,009	39
Minority interests	<u>251,981</u>	-	<u>676,921</u>	-
	<u>\$ 134,453,260</u>	<u>31</u>	<u>\$ 162,281,930</u>	<u>39</u>
	2011		2010	
	Income Attributable to Shareholders of the Parent		Income Attributable to Shareholders of the Parent	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 25)				
Basic earnings per share	\$ 5.59	\$ 5.18	\$ 6.54	\$ 6.24
Diluted earnings per share	<u>\$ 5.59</u>	<u>\$ 5.18</u>	<u>\$ 6.54</u>	<u>\$ 6.23</u>

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	Equity Attributable to Shareholders of the Parent											Minority Interests	Total Shareholders' Equity
	Capital Stock - Common Stock		Capital Surplus	Retained Earnings				Others			Total		
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) On Financial Instruments	Treasury Stock			
BALANCE, JANUARY 1, 2010	25,902,706	\$ 259,027,066	\$ 55,486,010	\$ 77,317,710	\$ -	\$ 104,564,972	\$ 181,882,682	\$ (1,766,667)	\$ 453,621	\$ -	\$ 495,082,712	\$ 3,965,836	\$ 499,048,548
Appropriations of prior year's earnings													
Legal capital reserve	-	-	-	8,921,784	-	(8,921,784)	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	1,313,047	(1,313,047)	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,708,120)	(77,708,120)	-	-	-	(77,708,120)	-	(77,708,120)
Net income in 2010	-	-	-	-	-	161,605,009	161,605,009	-	-	-	161,605,009	676,921	162,281,930
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	(17,885)	-	-	-	-	-	-	-	(17,885)	4,387	(13,498)
Translation adjustments	-	-	-	-	-	-	-	(4,776,496)	-	-	(4,776,496)	7,258	(4,769,238)
Issuance of stock from exercising employee stock options	7,372	73,721	171,103	-	-	-	-	-	-	-	244,824	-	244,824
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(337,970)	-	(337,970)	3,949	(334,021)
Net change in shareholders' equity from equity method investees	-	-	59,206	-	-	-	-	-	(6,031)	-	53,175	31,702	84,877
Net change in unrealized gain/loss on hedging derivative financial instruments	-	-	-	-	-	-	-	-	(331)	-	(331)	(483)	(814)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(130,083)	(130,083)
BALANCE, DECEMBER 31, 2010	25,910,078	259,100,787	55,698,434	86,239,494	1,313,047	178,227,030	265,779,571	(6,543,163)	109,289	-	574,144,918	4,559,487	578,704,405
Appropriations of prior year's earnings													
Legal capital reserve	-	-	-	16,160,501	-	(16,160,501)	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	5,120,827	(5,120,827)	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,730,236)	(77,730,236)	-	-	-	(77,730,236)	-	(77,730,236)
Net income in 2011	-	-	-	-	-	134,201,279	134,201,279	-	-	-	134,201,279	251,981	134,453,260
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	59,898	-	-	-	-	-	-	-	59,898	1,152	61,050
Translation adjustments	-	-	-	-	-	-	-	109,794	-	-	109,794	7,587	117,381
Issuance of stock from exercising employee stock options	7,144	71,439	146,258	-	-	-	-	-	-	-	217,697	-	217,697
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,241,249)	-	(1,241,249)	(3,325)	(1,244,574)
Net change in shareholders' equity from equity method investees	-	-	(56,094)	-	-	-	-	-	(41,133)	-	(97,227)	-	(97,227)
Net change in unrealized gain/loss on hedging derivative financial instruments	-	-	-	-	-	-	-	-	238	-	238	344	582
Acquisition of treasury stock - shareholders executed the appraisal right	-	-	-	-	-	-	-	-	-	(71,598)	(71,598)	-	(71,598)
Retirement of treasury stock	(1,000)	(10,000)	(2,139)	-	-	(59,459)	(59,459)	-	-	71,598	-	-	-
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(379,334)	(379,334)
Effect of changes in consolidated entities	-	-	-	-	-	-	-	-	-	-	-	(1,987,855)	(1,987,855)
BALANCE, DECEMBER 31, 2011	25,916,222	\$ 259,162,226	\$ 55,846,357	\$ 102,399,995	\$ 6,433,874	\$ 213,357,286	\$ 322,191,155	\$ (6,433,369)	\$ (1,172,855)	\$ -	\$ 629,593,514	\$ 2,450,037	\$ 632,043,551

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 134,201,279	\$ 161,605,009
Net income attributable to minority interests	251,981	676,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	107,681,521	87,810,103
Unrealized gross profit from affiliates	74,029	-
Amortization of premium/discount of financial assets	24,711	34,142
Impairment of financial assets	265,515	159,798
Gain on disposal of available-for-sale financial assets, net	(212,442)	(603,368)
Gain on disposal of financial assets carried at cost, net	(20,772)	(133,475)
Equity in earnings of equity method investees, net	(897,611)	(2,298,159)
Cash dividends received from equity method investees	2,848,141	320,002
Loss (gain) on disposal of property, plant and equipment and other assets, net	(3,286)	633,230
Settlement income from receiving equity securities	(158,779)	(4,434,364)
Impairment loss on idle assets	98,009	319
Deferred income tax	(491,122)	(377,248)
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(13,734)	198,172
Receivables from related parties	123,265	9,802
Notes and accounts receivable	3,627,110	(6,392,243)
Allowance for doubtful receivables	(12,844)	(39,296)
Allowance for sales returns and others	(2,478,001)	(1,178,217)
Other receivables from related parties	2,294	(3,294)
Other financial assets	376,342	740,959
Inventories	2,611,297	(7,492,233)
Prepaid expenses and other current assets	(403,762)	(752,408)
Accounts payable	(1,968,820)	933,894
Payables to related parties	462,578	84,078
Income tax payable	3,490,268	(1,615,552)
Salary and bonus payable	(275,565)	(2,892,971)
Accrued profit sharing to employees and bonus to directors and supervisors	(1,925,594)	4,277,804
Accrued expenses and other current liabilities	304,582	248,192
Accrued pension cost	98,915	15,319
Deferred credits	(92,454)	(59,150)
Net cash provided by operating activities	<u>247,587,051</u>	<u>229,475,766</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(213,962,521)	(186,944,203)
Available-for-sale financial assets	(35,088,394)	(48,340,334)
Held-to-maturity financial assets	(584,280)	(4,101,501)
Investments accounted for using equity method	-	(6,242,350)
Financial assets carried at cost	(403,908)	(1,812,928)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	59,305,023	37,816,288
Held-to-maturity financial assets	4,789,000	15,943,000
Financial assets carried at cost	226,226	242,335
Property, plant and equipment and other assets	698,055	115,524
Increase in deferred charges	(1,715,892)	(1,801,728)
Decrease (increase) in refundable deposits	4,149,543	(5,944,827)
Decrease (increase) in other assets	<u>63,723</u>	<u>(1,015,458)</u>
Net cash used in investing activities	<u>(182,523,425)</u>	<u>(202,086,182)</u>

(Continued)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	\$ (5,287,416)	\$ 31,213,944
Proceeds from long-term bank loans	2,250,000	-
Repayment of long-term bank loans	(1,142,968)	(967,034)
Proceeds from issuance of bonds	18,000,000	-
Decrease in other long-term payables	(3,633,052)	(1,107,333)
Decrease in guarantee deposits	(342,242)	(232,925)
Proceeds from donation	-	49,021
Proceeds from exercise of employee stock options	217,697	244,824
Acquisition of treasury stock	(71,598)	-
Cash dividends	(77,730,236)	(77,708,120)
Decrease in minority interests	<u>(118,226)</u>	<u>(130,083)</u>
Net cash used in financing activities	<u>(67,858,041)</u>	<u>(48,637,706)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,794,415)	(21,248,122)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(147,682)	(2,141,264)
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>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 143,472,277</u>	<u>\$ 147,886,955</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 531,518	\$ 392,805
Income tax paid	\$ 7,677,085	\$ 9,818,418
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 207,175,565	\$ 201,696,476
Decrease (increase) in payables to contractors and equipment suppliers	6,846,682	(14,599,987)
Nonmonetary exchange trade-out price	(3,164)	(124,746)
Increase in other liabilities	(56,562)	(27,540)
Cash paid	<u>\$ 213,962,521</u>	<u>\$ 186,944,203</u>
Disposal of property, plant and equipment and other assets	\$ 543,219	\$ 458,561
Decrease (increase) in other financial assets	158,000	(218,291)
Nonmonetary exchange trade-out price	(3,164)	(124,746)
Cash received	<u>\$ 698,055</u>	<u>\$ 115,524</u>
Acquisition of available-for-sale financial assets	\$ 35,024,974	\$ 48,405,875
Decrease (increase) in accrued expenses and other current liabilities	63,420	(65,541)
Cash paid	<u>\$ 35,088,394</u>	<u>\$ 48,340,334</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	\$ 4,500,000	\$ -
Current portion of long-term bank loans	\$ 62,500	\$ 241,407
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ 3,399,855</u>	<u>\$ 1,406,601</u>

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. TSMC is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, TSMC also engages in the researching, developing, designing, manufacturing and selling of solid state lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. In August 2011, TSMC transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC Solid State Lighting Ltd. (TSMC SSL) and TSMC Solar Ltd. (TSMC Solar), respectively.

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

As of December 31, 2011 and 2010, TSMC and its subsidiaries had 35,457 and 35,029 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the R.O.C.

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

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of investees in which TSMC's ownership percentage is less than 50% but over which TSMC has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

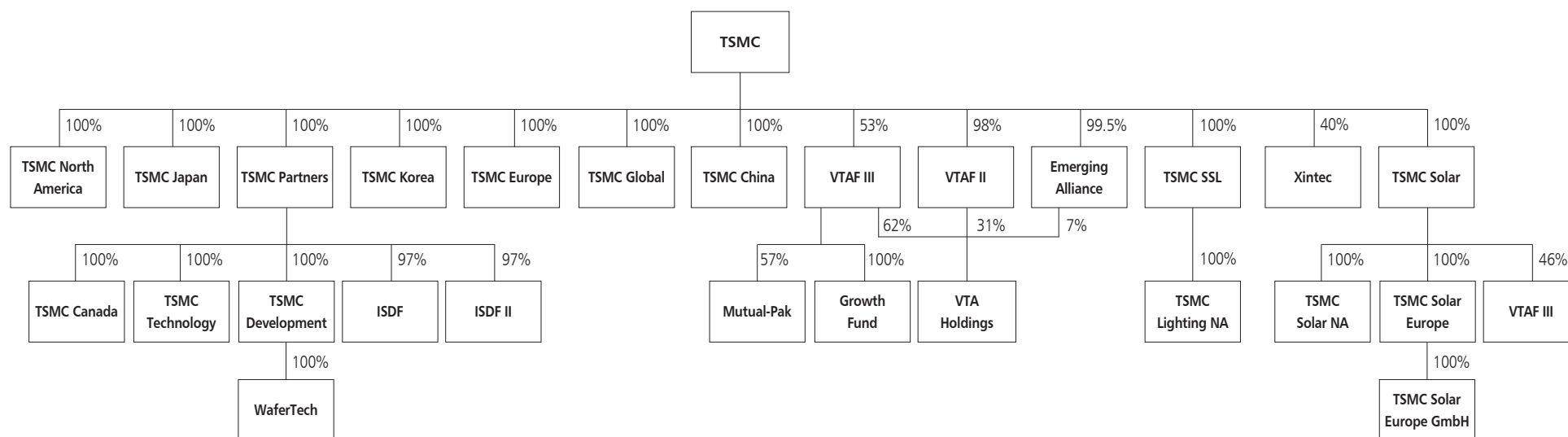
The consolidated entities were as follows:

Name of Investor	Name of Investee	Percentage of Ownership December 31		Remark
		2011	2010	
TSMC	TSMC North America	100%	100%	-
	TSMC Japan Limited (TSMC Japan)	100%	100%	-
	TSMC Partners, Ltd. (TSMC Partners)	100%	100%	-
	TSMC Korea Limited (TSMC Korea)	100%	100%	-
	TSMC Europe B.V. (TSMC Europe)	100%	100%	-
	TSMC Global Ltd. (TSMC Global)	100%	100%	-
	TSMC China Company Limited (TSMC China)	100%	100%	-
	VentureTech Alliance Fund III, L.P. (VTAF III)	53%	99%	(Note 1)
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	98%	-
	Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	99.5%	-
	Global Unichip Corporation (GUC)	(Note 2)	35%	-
	Xintec Inc. (Xintec)	40%	41%	TSMC obtained three out of five director positions and has a controlling interest in Xintec
TSMC Partners	TSMC SSL	100%	-	Established in August 2011
	TSMC Solar	100%	-	Established in August 2011
	TSMC Design Technology Canada Inc. (TSMC Canada)	100%	100%	-
	TSMC Technology, Inc. (TSMC Technology)	100%	100%	-
	TSMC Development, Inc. (TSMC Development)	100%	100%	-
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	97%	-
TSMC Development	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	97%	97%	-
	WaferTech, LLC (WaferTech)	100%	100%	-
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	57%	57%	-
	Growth Fund Limited (Growth Fund)	100%	100%	-
VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, LLC (VTA Holdings)	100%	100%	-
GUC	Global Unichip Corp.-NA (GUC-NA)	(Note 2)	100%	-
	Global Unichip Japan Co., Ltd. (GUC-Japan)	(Note 2)	100%	-
	Global Unichip Europe B.V. (GUC-Europe)	(Note 2)	100%	-
	Global Unichip (BVI) Corp. (GUC-BVI)	(Note 2)	100%	-
GUC-BVI	Global Unichip (Shanghai) Company, Limited (GUC-Shanghai)	(Note 2)	100%	-
TSMC SSL	TSMC Lighting North America, Inc. (TSMC Lighting NA)	100%	100%	Established in September 2010 (Note 1)
TSMC Solar	TSMC Solar North America, Inc. (TSMC Solar NA)	100%	100%	Established in September 2010 (Note 1)
	TSMC Solar Europe B.V. (TSMC Solar Europe)	100%	100%	Established in September 2010 (Note 1)
	VentureTech Alliance Fund III, L.P. (VTAF III)	46%	-	(Note 1)
TSMC Solar Europe	TSMC Solar Europe GmbH	100%	100%	Established in December 2010 (Note 1)

Note 1: In August 2011, TSMC adjusted its investment structure by transferring TSMC Lighting NA to TSMC SSL and transferring TSMC Solar Europe, TSMC Solar NA and part of VTAF III to TSMC Solar.

Note 2: TSMC has no controlling interest over the financial, operating and personnel hiring policy decisions of GUC and its subsidiaries since July 2011. As a result, GUC and its subsidiaries are no longer consolidated.

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of December 31, 2011:



TSMC has no controlling interest over the financial, operating and personnel hiring decisions of GUC and its subsidiaries since July 2011. As a result, GUC and its subsidiaries are no longer consolidated and are accounted for using the equity method.

TSMC North America is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC Japan, TSMC Korea and TSMC Europe are engaged mainly in marketing or customer service, engineering and technical supporting activities. TSMC Partners is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC Global and TSMC Development are engaged in investing activities. TSMC China is engaged in the manufacturing and selling of integrated circuits pursuant to the orders from and product design specifications provided by customers. Emerging Alliance, VTAF II, VTAF III, VTA Holdings, ISDF, ISDF II, and Growth Fund are engaged in investing in new start-up technology companies. TSMC Canada and TSMC Technology are engaged mainly in engineering support activities. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. Xintec is engaged in the provision of wafer packaging service. TSMC SSL is engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems. TSMC Lighting NA is engaged in selling and marketing of solid state lighting related products. TSMC Solar is engaged in researching, developing, designing, manufacturing and selling renewable energy and energy saving related technologies and products. TSMC Solar NA is engaged in selling and marketing of solar related products. TSMC Solar Europe is engaged in investing activities of solar related business. TSMC Solar Europe GmbH

is engaged in the selling and customer service of solar cell modules and related products. Mutual-Pak is engaged in the manufacturing and selling of electronic parts and researching, developing and testing of RFID.

To foster a stronger sense of corporate entrepreneurship and facilitate business specializations in order to strengthen overall profitability and operational efficiency, TSMC transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC SSL and TSMC Solar, in August 2011.

TSMC together with its subsidiaries are hereinafter referred to collectively as the "Company."

Minority interests in the aforementioned subsidiaries are presented as a separate component of shareholders' equity.

Foreign-currency Transactions and Translation of Foreign-currency Financial Statements

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - spot rates at year-end; shareholders' equity - historical rates; income and expenses - average rates during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

Use of Estimates

The preparation of consolidated financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Repurchase agreements collateralized by government bonds, corporate bonds, and agency bonds acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value due to their short term nature.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

Investments designated as available-for-sale financial assets include debt securities and equity securities. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: Money market funds - net asset values at the end of the year; publicly traded stocks - closing prices at the end of the year; and other debt securities - average of bid and asked prices at the end of the year.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared on the earnings of the investee attributable to the period prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Held-to-maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Hedging Derivative Financial Instruments

Hedge derivatives are mainly derivatives instruments that are for cash flow hedge purposes and determined to be an effective hedge. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same year or year during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

Financial Assets Carried at Cost

Investments for which the Company does not exercise significant influence and that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, such as non-publicly traded stocks and mutual funds, are carried at their original cost. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided based on a review of the collectability of receivables. The Company assesses the collectability of receivables by performing the account aging analysis and examining current trends in the credit quality of its customers.

TSMC's provision was originally set at 1% of the amount of outstanding receivables. On January 1, 2011, the Company adopted the third revision of Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement (SFAS No. 34)." One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. Accordingly, the Company evaluates for indication of impairment of accounts receivable based on an individual and collective basis at the end of each reporting period. When objective evidence indicates that the estimated future cash flow of accounts receivable decreases as a result of one or more events that occurred after the initial recognition of the accounts receivable, such accounts receivable are deemed to be impaired.

Because of the Company's short average collection period, the amount of the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad debt expense which is recorded in the operating expenses - general and administrative. When accounts receivable are considered uncollectable, the amount is written off against the allowance account.

Inventories

Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs.

Investments Accounted for Using Equity Method

Investments in companies wherein the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. The Company's share of the net income or net loss of an investee is recognized in the "equity in earnings/losses of equity method investees, net" account. The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of non-current assets (except for financial assets other than investments accounted for using the equity method and deferred income tax assets). When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. Cash dividends received from an investee shall reduce the carrying amount of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income.

Gains or losses on sales from the Company to equity method investees or from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties.

If an investee's functional currency is a foreign currency, differences will result from the translation of the investee's financial statements into the reporting currency of the Company. Such differences are charged or credited to cumulative translation adjustments, a separate component of shareholders' equity.

Property, Plant and Equipment and Assets Leased to Others

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, with the corresponding amount recorded as obligations under capital leases. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements - 20 years; buildings - 10 to 20 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 15 years; and leased assets - 20 years.

Upon sale or disposal of property, plant and equipment and assets leased to others, the related cost and accumulated depreciation are deducted from the corresponding accounts, with any gain or loss recorded as non-operating gains or losses in the year of sale or disposal.

When property, plant and equipment are determined to be idle or useless, they are transferred to idle assets at the lower of the net realizable value or carrying amount. Depreciation on the idle assets is provided continuously, and the idle assets are tested for impairment on a periodical basis.

Intangible Assets

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is no longer amortized and instead is tested for impairment annually, or more frequently if events or changes in circumstances suggest that the carrying amount may not be recoverable. If an event occurs or circumstances change which indicate that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred charges consist of technology license fees, software and system design costs and patent and others. The amounts are amortized over the following periods: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 2 to 5 years; patent and others - the economic life or contract period. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense when incurred.

Pension Costs

For employees who participate in defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during their service periods. For employees who participate in defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Income Tax

The Company applies an inter-period allocation for its income tax whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, net operating loss carryforwards and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred

tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery and equipment, research and development expenditures and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with SFAS No. 39, "Accounting for Share-based Payment." The Company did not grant or modify any employee stock options since January 1, 2008.

Treasury Stock

Treasury stock represents the outstanding shares that the Company buys back from market, which is stated at cost and shown as a deduction in shareholders' equity. When the Company retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus - additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount. When the Company resells the treasury stock, the treasury stock shall be reversed, and if the selling price is greater than the book value, the amount in excess of the book value shall be credited to additional paid-in capital - treasury stock.

Revenue Recognition and Allowance for Sales Returns and Others

The Company recognizes revenue when evidence of an arrangement exists, the rewards of ownership and significant risk of the goods has been transferred to the buyer, price is fixed or determinable, and collectability is reasonably assured. Provisions for estimated sales returns and other allowances are recorded in the year the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

Sales prices are determined using fair value taking into account related sales discounts agreed to by the Company and its customers. Sales agreements typically provide that payment is due 30 days from invoice date for a majority of the customers and 30 to 45 days after the end of the month in which sales occur for some customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company's consolidated financial statements as of and for the year ended December 31, 2011.

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, "Segment Reporting." The Company conformed to the disclosure requirements as of and for the year ended December 31, 2011. The information for the year ended December 31, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2011	2010
Cash and deposits in banks	\$ 139,637,363	\$ 146,622,854
Repurchase agreements collateralized by government bonds	3,834,914	960,432
Corporate bonds	-	151,840
Agency bonds	-	151,829
	<u>\$ 143,472,277</u>	<u>\$ 147,886,955</u>

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

	December 31	
	2011	2010
<u>Trading financial assets</u>		
Forward exchange contracts	<u>\$ 15,360</u>	<u>\$ 6,886</u>
<u>Trading financial liabilities</u>		
Forward exchange contracts	\$ 13,623	\$ 19,002
Cross currency swap contracts	<u>119</u>	<u>-</u>
	<u>\$ 13,742</u>	<u>\$ 19,002</u>

The Company entered into derivative contracts during the years ended December 31, 2011 and 2010 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2011</u>		
Sell EUR/Buy NT\$	January 2012	EUR38,600/NT\$1,528,206
Sell US\$/Buy NT\$	January 2012 to February 2012	US\$16,900/NT\$510,122
Sell US\$/Buy EUR	January 2012	US\$2,082/EUR1,591
Sell US\$/Buy JPY	January 2012	US\$3,335/JPY259,830
Sell RMB/Buy US\$	January 2012	RMB1,118,705/US\$177,000
Sell NT\$/Buy US\$	January 2012 to February 2012	NT\$163,491/US\$5,400
<u>December 31, 2010</u>		
Sell NT\$/Buy JPY	January 2011 to February 2011	NT\$814,882/JPY2,278,420
Sell EUR/Buy US\$	February 2011	EUR3,067/US\$4,093
Sell RMB/Buy US\$	May 2011 to June 2011	RMB529,190/US\$80,000
Sell US\$/Buy NT\$	January 2011 to March 2011	US\$11,800/NT\$353,076

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
<u>December 31, 2011</u>			
January 2012	NT\$420,431/US\$13,880	0.00%	0.48%

Net gains on derivative financial instruments for the years ended December 31, 2011 and 2010 were NT\$507,432 thousand and NT\$320,730 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2011	2010
Publicly traded stocks	\$ 3,306,248	\$ 4,634,170
Money market funds	2,522	376,168
Corporate bonds	-	14,871,120
Agency bonds	-	8,021,192
Government bonds	<u>-</u>	<u>2,014,127</u>
	3,308,770	29,916,777
Current portion	<u>(3,308,770)</u>	<u>(28,883,728)</u>
	<u>\$ -</u>	<u>\$ 1,033,049</u>

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2011	2010
Corporate bonds	\$ 8,614,527	\$ 12,843,956
Government bonds	454,320	455,520
	9,068,847	13,299,476
Current portion	(3,825,680)	(4,796,589)
	<u>\$ 5,243,167</u>	<u>\$ 8,502,887</u>

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 504,029	\$ 543,325
Reversal	(3,130)	(37,028)
Write-off	(9,714)	(2,268)
Effect of changes in consolidated entities	(233)	-
Balance, end of year	<u>\$ 490,952</u>	<u>\$ 504,029</u>

Movements of the allowance for sales returns and others were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 7,546,264	\$ 8,724,481
Provision	3,409,855	12,092,947
Write-off	(5,887,856)	(13,271,164)
Balance, end of year	<u>\$ 5,068,263</u>	<u>\$ 7,546,264</u>

9. INVENTORIES

	December 31	
	2011	2010
Finished goods	\$ 3,347,849	\$ 5,118,060
Work in process	17,940,960	19,376,372
Raw materials	1,808,615	1,947,396
Supplies and spare parts	1,743,158	1,964,156
	<u>\$ 24,840,582</u>	<u>\$ 28,405,984</u>

Write-down of inventories to net realizable value in the amount of NT\$35,316 thousand and NT\$900,221 thousand, respectively, were included in the cost of sales for the year ended December 31, 2011 and 2010. Inventory losses related to earthquake in the amount of NT\$190,992 thousand were classified under non-operating expenses and losses for the year ended December 31, 2010.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2011		2010	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Common stock				
Vanguard International Semiconductor Corporation (VIS)	\$ 8,988,007	39	\$ 9,422,452	38
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,289,429	39	7,120,714	39
Motech Industries Inc. (Motech)	5,612,344	20	6,733,369	20
VisEra Holding Company (VisEra Holding)	2,853,364	49	2,522,267	49
GUC	1,157,188	35	-	-
Mcube Inc. (Mcube)	-	82	-	70
Aiconn Technology Corporation (Aiconn)	-	-	16,583	43
Preferred stock				
Mcube	-	5	-	10
	<u>\$ 24,900,332</u>		<u>\$ 25,815,385</u>	

The Company has no controlling interest over the financial, operating and personnel hiring policy decisions of GUC and its subsidiaries since July 2011. However, the Company has significant influence over them and therefore, they are no longer consolidated and are accounted for using the equity method.

The Company originally owned 43% of Aiconn, which was merged with Accton Wireless Broadband Corp. (Accton) in March 2011. As a result of the merger, the Company's equity investment in Aiconn was exchanged for equity of Accton and the Company did not exercise significant influence over Accton. Therefore, the aforementioned investment was reclassified to financial assets carried at cost.

In February 2010, the Company subscribed to 75,316 thousand shares of Motech through a private placement for NT\$6,228,661 thousand; after the subscription, the Company's percentage of ownership in Motech was 20%. Transfer of the aforementioned common shares within three years is prohibited unless permitted by other related regulations.

For the years ended December 31, 2011 and 2010, equity in earnings/losses of equity method investees was a net gain of NT\$897,611 thousand and NT\$2,298,159 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the audited financial statements, except for Aiconn and Mcube. The Company believes that, had the aforementioned equity method investees' financial statements been audited, any adjustments arising would have no material effect on the Company's consolidated financial statements.

The quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method of VIS and GUC were NT\$11,273,200 thousand as of December 31, 2011 and of VIS NT\$9,297,707 thousand as of December 31, 2010.

Movements of the difference between the cost of investments and the Company's share in investees' net assets allocated to depreciable assets were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 2,491,891	\$ 1,391,500
Additions	-	2,055,660
Deductions	(846,081)	(955,269)
Balance, end of year	<u>\$ 1,645,810</u>	<u>\$ 2,491,891</u>

Movements of the difference allocated to goodwill were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	\$ 1,415,565	\$ 1,061,885
Additions	-	353,680
Balance, end of year	<u>\$ 1,415,565</u>	<u>\$ 1,415,565</u>

11. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	December 31	
	2011	2010
<u>Hedging derivative financial liabilities</u>		
Interest rate swap contract	<u>\$ 232</u>	<u>\$ 814</u>

The Company's long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. The outstanding interest rate swap contract consisted of the following:

Contract Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
<u>December 31, 2011</u>			
NT\$80,000	August 31, 2012	1.38%	0.63%-0.86%
<u>December 31, 2010</u>			
NT\$128,000	August 31, 2012	1.38%	0.56%-0.63%

For the years ended December 31, 2011 and 2010, the adjustment for the current period to shareholders' equity amounted to net losses of NT\$98 thousand and NT\$1,166 thousand, respectively; and the amount removed from shareholders' equity and recognized as a loss from the above interest rate swap contract amounted to NT\$680 thousand and NT\$352 thousand, respectively.

12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2011	2010
Non-publicly traded stocks	\$ 4,004,314	\$ 4,264,956
Mutual funds	<u>310,691</u>	<u>159,251</u>
	<u>\$ 4,315,005</u>	<u>\$ 4,424,207</u>

In June 2010, the Company invested in Stion Corporation (Stion, a United States corporation) for US\$50,000 thousand and obtained Stion's preferred stock of 7,347 thousand shares with 23.4% of ownership. Stion is engaged in the manufacturing of high-efficiency thin-film solar photovoltaic modules. Due to certain restrictions contained in the investment agreements, the Company does not have the ability to exert significant influence over Stion's operating and financial policies. Therefore, the investment was classified under financial assets carried at cost.

The common stock of InvenSense, Inc. was listed on the NYSE in November 2011. Thus, the Company reclassified the aforementioned investments from financial assets carried at cost to available-for-sale financial assets.

The common stock of Capella Microsystems (Taiwan), Inc. and Integrated Memory Logic Limited was listed on the Taiwan GreTai Securities Market and Taiwan Stock Exchange in June 2010 and May 2010, respectively. Thus, the Company reclassified the aforementioned investments from financial assets carried at cost to available-for-sale financial assets.

For the years ended December 31, 2011 and 2010, the Company recognized impairment on financial assets carried at cost of NT\$265,515 thousand and NT\$159,798 thousand, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2011						
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Changes in Consolidated Entities	Effect of Exchange Rate Changes	Balance, End of Year
Cost							
Land and land improvements	\$ 891,197	\$ 652,011	\$ -	\$ -	\$ -	\$ (2,080)	\$ 1,541,128
Buildings	145,966,024	26,592,895	(47,667)	(388)	(242,718)	604,404	172,872,550
Machinery and equipment	913,155,252	146,048,745	(2,305,971)	(82,475)	(375,702)	1,148,887	1,057,588,736
Office equipment	14,856,582	2,825,159	(431,847)	(72,041)	(236,153)	27,566	16,969,266
Leased asset	701,552	56,562	-	-	-	33,366	791,480
	<u>1,075,570,607</u>	<u>\$ 176,175,372</u>	<u>\$ (2,785,485)</u>	<u>\$ (154,904)</u>	<u>\$ (854,573)</u>	<u>\$ 1,812,143</u>	<u>1,249,763,160</u>
Accumulated depreciation							
Land and land improvements	328,792	\$ 26,805	\$ -	\$ -	\$ -	\$ (42)	355,555
Buildings	90,472,703	10,343,346	(21,452)	(55)	(32,791)	242,296	101,004,047
Machinery and equipment	671,268,636	93,499,249	(2,252,415)	(31,287)	(293,605)	583,777	762,774,355
Office equipment	10,957,676	1,430,941	(427,103)	(13,563)	(148,862)	21,639	11,820,728
Leased asset	250,350	34,646	-	-	-	12,539	297,535
	<u>773,278,157</u>	<u>\$ 105,334,987</u>	<u>\$ (2,700,970)</u>	<u>\$ (44,905)</u>	<u>\$ (475,258)</u>	<u>\$ 860,209</u>	<u>876,252,220</u>
Advance payments and construction in progress	<u>86,151,573</u>	<u>\$ 31,000,193</u>	<u>\$ (455,372)</u>	<u>\$ (2,091)</u>	<u>\$ -</u>	<u>\$ 169,673</u>	<u>116,863,976</u>
	<u>\$ 388,444,023</u>						<u>\$ 490,374,916</u>

	Year Ended December 31, 2010					
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Cost						
Land and land improvements	\$ 934,090	\$ -	\$ -	\$ 320	\$ (43,213)	\$ 891,197
Buildings	142,294,558	4,361,536	(135,497)	2,162	(556,735)	145,966,024
Machinery and equipment	775,653,489	142,125,965	(2,287,420)	228,370	(2,565,152)	913,155,252
Office equipment	13,667,747	1,997,654	(731,094)	3,704	(81,429)	14,856,582
Leased asset	714,424	-	-	-	(12,872)	701,552
	<u>933,264,308</u>	<u>\$ 148,485,155</u>	<u>\$ (3,154,011)</u>	<u>\$ 234,556</u>	<u>\$ (3,259,401)</u>	<u>1,075,570,607</u>
Accumulated depreciation						
Land and land improvements	317,580	\$ 28,746	\$ -	\$ -	\$ (17,534)	328,792
Buildings	81,821,718	9,100,935	(128,466)	(495)	(320,989)	90,472,703
Machinery and equipment	600,795,474	75,237,057	(2,277,047)	133,318	(2,620,166)	671,268,636
Office equipment	10,589,349	1,165,827	(726,539)	(442)	(70,519)	10,957,676
Leased asset	219,765	35,084	-	-	(4,499)	250,350
	<u>693,743,886</u>	<u>\$ 85,567,649</u>	<u>\$ (3,132,052)</u>	<u>\$ 132,381</u>	<u>\$ (3,033,707)</u>	<u>773,278,157</u>
Advance payments and construction in progress	<u>34,154,365</u>	<u>\$ 53,211,321</u>	<u>\$ (1,030,521)</u>	<u>\$ (108,035)</u>	<u>\$ (75,557)</u>	<u>86,151,573</u>
	<u>\$ 273,674,787</u>					<u>\$ 388,444,023</u>

The Company entered into agreements to lease buildings that qualify as capital leases. The term of the leases is from December 2003 to December 2013. The future minimum lease payments as of December 31, 2011 were NT\$870,993 thousand.

During the year ended December 31, 2011, the Company capitalized the borrowing costs directly attributable to the acquisition or construction of property, plant and equipment. Information about capitalized interest was as follows:

	Year Ended December 31, 2011
Capitalized interest	\$ 9,093
Capitalization rates	1.07%-1.29%

14.DEFERRED CHARGES, NET

	Year Ended December 31, 2011							
	Balance, Beginning of Year	Additions	Amortization	Disposals	Reclassification	Effect of Changes in Consolidated Entities	Effect of Exchange Rate Changes	Balance, End of Year
Technology license fees	\$ 2,455,348	\$ 10,308	\$ (716,067)	\$ -	\$ -	\$ (66,186)	\$ (511)	\$ 1,682,892
Software and system design costs	2,333,271	1,360,846	(1,152,331)	(46)	2,091	(177,916)	568	2,366,483
Patent and others	<u>1,238,466</u>	<u>344,738</u>	<u>(469,172)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,157</u>	<u>1,118,189</u>
	<u>\$ 6,027,085</u>	<u>\$ 1,715,892</u>	<u>\$ (2,337,570)</u>	<u>\$ (46)</u>	<u>\$ 2,091</u>	<u>\$ (244,102)</u>	<u>\$ 4,214</u>	<u>\$ 5,167,564</u>

	Year Ended December 31, 2010						
	Balance, Beginning of Year	Additions	Amortization	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Technology license fees	\$ 3,230,624	\$ 8,300	\$ (783,557)	\$ -	\$ -	\$ (19)	\$ 2,455,348
Software and system design costs	1,834,528	1,547,605	(1,054,194)	(173)	5,542	(37)	2,333,271
Patent and others	<u>1,393,402</u>	<u>245,823</u>	<u>(398,965)</u>	<u>-</u>	<u>-</u>	<u>(1,794)</u>	<u>1,238,466</u>
	<u>\$ 6,458,554</u>	<u>\$ 1,801,728</u>	<u>\$ (2,236,716)</u>	<u>\$ (173)</u>	<u>\$ 5,542</u>	<u>\$ (1,850)</u>	<u>\$ 6,027,085</u>

15. SHORT-TERM LOANS

	December 31	
	2011	2010
Unsecured loans: US\$856,000 thousand, due by February 2012, and annual interest at 0.45%-1.00% in 2011; US\$874,000 thousand and EUR114,900 thousand, due by February 2011, annual interest at 0.38%-1.84% in 2010.	<u>\$ 25,926,528</u>	<u>\$ 31,213,944</u>

16. BONDS PAYABLE

	December 31	
	2011	2010
Domestic unsecured bonds: Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually	\$ 10,500,000	\$ -
Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually	7,500,000	-
Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	<u>4,500,000</u>	<u>4,500,000</u>
	22,500,000	4,500,000
Current portion	<u>(4,500,000)</u>	<u>-</u>
	<u>\$ 18,000,000</u>	<u>\$ 4,500,000</u>

17. LONG-TERM BANK LOANS

	December 31	
	2011	2010
Bank loans for working capital: Repayable in full in one lump sum payment in June 2016, annual interest at 1.00%-1.08%	\$ 650,000	\$ -
Repayable in full in one lump sum payment in March 2013, annual interest at 1.02%-1.16%	500,000	-
Repayable from July 2012 in 16 quarterly installments, annual interest at 1.11%-1.21%	300,000	-
Repayable from September 2012 in 16 quarterly installments, annual interest at 1.13%-1.21%	200,000	-
Secured loans: Repayable from August 2009 in 17 quarterly installments, annual interest at 0.66%-1.24% in 2010, repayable in full in one lump sum payment in June 2011	<u>-</u>	<u>542,968</u>
	1,650,000	542,968
Current portion	<u>(62,500)</u>	<u>(241,407)</u>
	<u>\$ 1,587,500</u>	<u>\$ 301,561</u>

Pursuant to the loan agreements, financial ratios calculated based on semi-annual and annual financial statements of Xintec must comply with predetermined financial covenants. As of December 31, 2011, Xintec was in compliance with all such financial covenants.

With the approval from the Financial Supervisory Commission (FSC), the Company issued domestic unsecured bonds in the amount of NT\$17,000,000 thousand in January 2012.

As of December 31, 2011, future principal repayments for the long-term bank loans were as follows:

Year of Repayment	Amount
2012	\$ 62,500
2013	625,000
2014	125,000
2015	125,000
2016	<u>712,500</u>
	<u>\$ 1,650,000</u>

18. OTHER LONG-TERM PAYABLES

	December 31	
	2011	2010
Payables for acquisition of property, plant and equipment (Note 30g)	\$ 3,399,855	\$ 7,112,172
Payables for royalties	<u>-</u>	<u>848,637</u>
	3,399,855	7,960,809
Current portion (classified under accrued expenses and other current liabilities)	<u>(3,399,855)</u>	<u>(1,406,601)</u>
	<u>\$ -</u>	<u>\$ 6,554,208</u>

The payables for royalties were primarily attributable to several license arrangements that the Company entered into for certain semiconductor-related patents.

19. PENSION PLANS

The pension mechanism under the Labor Pension Act (the “Act”) is deemed a defined contribution plan. Pursuant to the Act, TSMC, GUC, Xintec, Mutual-Pak, TSMC SSL and TSMC Solar have made monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts. Furthermore, TSMC North America, TSMC China, TSMC Europe, TSMC Canada, TSMC Solar NA and TSMC Solar Europe GmbH are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the Company recognized pension costs of NT\$1,297,583 thousand and NT\$1,121,650 thousand for the years ended December 31, 2011 and 2010, respectively.

TSMC, GUC, Xintec, TSMC SSL and TSMC Solar have defined benefit plans under the Labor Standards Law that provide benefits based on an employee’s length of service and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee’s name in the Bank of Taiwan.

Pension information on the defined benefit plans is summarized as follows:

a. Components of net periodic pension cost for the year

	2011	2010
Service cost	\$ 132,995	\$ 129,722
Interest cost	167,911	146,625
Projected return on plan assets	(68,067)	(40,967)
Amortization	<u>74,814</u>	<u>2,196</u>
Net periodic pension cost	<u>\$ 307,653</u>	<u>\$ 237,576</u>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2011 and 2010

	2011	2010
Benefit obligation		
Vested benefit obligation	\$ 313,463	\$ 189,047
Nonvested benefit obligation	<u>5,456,913</u>	<u>5,432,624</u>
Accumulated benefit obligation	5,770,376	5,621,671
Additional benefits based on future salaries	<u>3,443,749</u>	<u>3,667,087</u>
Projected benefit obligation	9,214,125	9,288,758
Fair value of plan assets	<u>(3,120,665)</u>	<u>(2,907,156)</u>
Funded status	6,093,460	6,381,602
Unrecognized net transition obligation	(74,766)	(84,230)
Prior service cost	147,564	154,738
Unrecognized net loss	<u>(2,257,750)</u>	<u>(2,639,759)</u>
Accrued pension cost	<u>\$ 3,908,508</u>	<u>\$ 3,812,351</u>
Vested benefit	<u>\$ 349,981</u>	<u>\$ 208,176</u>

c. Actuarial assumptions at December 31, 2011 and 2010

	2011	2010
Discount rate used in determining present values	1.75%	1.75%-2.25%
Future salary increase rate	2.50%-3.00%	3.00%
Expected rate of return on plan assets	2.00%	2.00%-2.50%

d. Contributions to the Funds for the year

	2011	2010
	<u>\$ 211,963</u>	<u>\$ 212,248</u>

e. Payments from the Funds for the year

	2011	2010
	<u>\$ 7,339</u>	<u>\$ 19,991</u>

20. INCOME TAX

a. A reconciliation of income tax expense based on "income before income tax" at the statutory rates and income tax currently payable was as follows:

	Years Ended December 31	
	2011	2010
Income tax expense based on "income before income tax" at statutory rates	\$ 25,964,235	\$ 30,456,361
Tax effect of the following:		
Tax-exempt income	(13,832,239)	(17,410,223)
Temporary and permanent differences	(1,597,357)	(827,033)
Additional income tax under the Alternative Minimum Tax Act	286,827	-
Additional tax at 10% on unappropriated earnings	6,293,384	138,243
Net operating loss carryforwards used	(395,258)	(529,347)
Investment tax credits used	(6,318,215)	(4,887,947)
Income tax currently payable	<u>\$ 10,401,377</u>	<u>\$ 6,940,054</u>

b. Income tax expense consisted of the following:

	Years Ended December 31	
	2011	2010
Income tax currently payable	\$ 10,401,377	\$ 6,940,054
Income tax adjustments on prior years	470,376	977,876
Other income tax adjustments	312,999	373,051
Net change in deferred income tax assets		
Investment tax credits	2,304,884	(7,129,517)
Net operating loss carryforwards	224,141	546,234
Temporary differences	(71,013)	(78,187)
Valuation allowance	(2,873,378)	6,358,954
Effect of changes in consolidated entities	(74,969)	-
Income tax expense	<u>\$ 10,694,417</u>	<u>\$ 7,988,465</u>

c. Net deferred income tax assets consisted of the following:

	December 31	
	2011	2010
Current deferred income tax assets		
Investment tax credits	\$ 4,913,791	\$ 4,282,132
Temporary differences		
Allowance for sales returns and others	506,172	653,452
Unrealized gain/loss on financial instruments	308,929	87,735
Others	348,079	488,806
Valuation allowance	(140,481)	(139,049)
	<u>\$ 5,936,490</u>	<u>\$ 5,373,076</u>

	December 31	
	2011	2010
Noncurrent deferred income tax assets		
Investment tax credits	\$ 15,399,558	\$ 18,336,101
Net operating loss carryforwards	2,491,708	2,735,278
Temporary differences		
Depreciation	2,280,923	2,160,248
Others	654,672	414,830
Valuation allowance	(13,390,144)	(16,283,673)
	<u>\$ 7,436,717</u>	<u>\$ 7,362,784</u>

Effective in May 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010. TSMC and its domestic subsidiaries which are subject to the Income Tax Law of the Republic of China recalculated their deferred tax assets in accordance with the new amended Article and adjusted the resulting difference as an income tax expense in 2010. The Company evaluated the effect of Alternative Minimum Tax and applicable year of the profits generated from projects exempt from income tax for a five-year period. As the Company plans to apply the tax-exempt income in later years, income tax payable is anticipated to increase and the Company will utilize available investment tax credits as an offset against income taxes. Since more investment tax credits can be utilized, valuation allowance has been adjusted down accordingly.

Under the Article 10 of the Statute for Industrial Innovation (SII) legislated, effective in May 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that year. This incentive is retroactive to January 1, 2010 and effective until December 31, 2019.

As of December 31, 2011, the net operating loss carryforwards generated by WaferTech, TSMC Development, Mutual-Pak, TSMC SSL and TSMC Solar would expire on various dates through 2023.

d. Integrated income tax information:

The balance of the imputation credit account of TSMC as of December 31, 2011 and 2010 was NT\$4,003,228 thousand and NT\$1,669,533 thousand, respectively.

The estimated and actual creditable ratios for distribution of TSMC's earnings of 2011 and 2010 were 6.67% and 4.96%, respectively.

The imputation credit allocated to shareholders is based on its balance as of the date of the dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credit is made.

e. All of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

f. As of December 31, 2011, investment tax credits of TSMC, Xintec, Mutual-Pak and TSMC SSL consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 22,084	\$ -	2011
		3,209,214	1,172,726	2012
		6,524,655	6,524,655	2013
		7,041,416	7,041,416	2014
		<u>505,941</u>	<u>505,941</u>	2015
		<u>\$ 17,303,310</u>	<u>\$ 15,244,738</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 9,067	\$ -	2011
		1,804,257	31,433	2012
		<u>5,020,042</u>	<u>5,020,042</u>	2013
		<u>\$ 6,833,366</u>	<u>\$ 5,051,475</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 486	\$ -	2011
		17,406	15	2012
		<u>17,121</u>	<u>17,121</u>	2013
		<u>\$ 35,013</u>	<u>\$ 17,136</u>	
Statute for Industrial Innovation	Research and development expenditures	<u>\$ 2,432,641</u>	<u>\$ -</u>	2011

g. The profits generated from the following projects of TSMC and Xintec are exempt from income tax for a five-year period:

	Tax-exemption Period
Construction and expansion of 2003 by TSMC	2007 to 2011
Construction and expansion of 2004 by TSMC	2008 to 2012
Construction and expansion of 2005 by TSMC	2010 to 2014
Construction and expansion of 2006 by TSMC	2011 to 2015
Construction and expansion of 2003 by Xintec	2007 to 2011
Construction and expansion of 2002, 2003 and 2006 by Xintec	2010 to 2014

h. The tax authorities have examined income tax returns of TSMC through 2008. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

21. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 26,548,111	\$ 20,686,957	\$ 47,235,068
Labor and health insurance	1,316,726	923,645	2,240,371
Pension	971,263	634,476	1,605,739
Meal	710,547	297,762	1,008,309
Welfare	714,628	266,891	981,519
Others	<u>341,156</u>	<u>372,673</u>	<u>713,829</u>
	<u>\$ 30,602,431</u>	<u>\$ 23,182,404</u>	<u>\$ 53,784,835</u>
Depreciation	<u>\$ 98,065,992</u>	<u>\$ 7,261,159</u>	<u>\$ 105,327,151</u>
Amortization	<u>\$ 1,463,405</u>	<u>\$ 874,165</u>	<u>\$ 2,337,570</u>

	Year Ended December 31, 2010		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 27,246,876	\$ 22,053,062	\$ 49,299,938
Labor and health insurance	1,054,566	780,384	1,834,950
Pension	819,775	539,367	1,359,142
Meal	613,870	247,672	861,542
Welfare	704,494	273,722	978,216
Others	<u>115,109</u>	<u>270,739</u>	<u>385,848</u>
	<u>\$ 30,554,690</u>	<u>\$ 24,164,946</u>	<u>\$ 54,719,636</u>
Depreciation	<u>\$ 80,123,895</u>	<u>\$ 5,427,488</u>	<u>\$ 85,551,383</u>
Amortization	<u>\$ 1,309,257</u>	<u>\$ 927,459</u>	<u>\$ 2,236,716</u>

22. SHAREHOLDERS' EQUITY

As of December 31, 2011, 1,092,313 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,461,567 thousand (one ADS represents five common shares).

Capital surplus can be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock (including the stock issued for new capital, mergers, convertible bonds and the surplus from treasury stock transactions) may be appropriated as stock dividends, which are limited to a certain percentage of TSMC's paid-in capital. In addition, the capital surplus from long-term investments may not be used for any purpose. However, according to the revised Company Law, effective January 2012, the aforementioned capital surplus generated from donations and the excess of the issuance price over the par value of capital stock can also be used to distribute cash in proportion to original shareholders' holding.

Capital surplus consisted of the following:

	December 31	
	2011	2010
Additional paid-in capital	\$ 23,774,250	\$ 23,628,908
From merger	22,804,510	22,805,390
From convertible bonds	8,892,847	8,893,190
From long-term investments	374,695	370,891
Donations	<u>55</u>	<u>55</u>
	<u>\$ 55,846,357</u>	<u>\$ 55,698,434</u>

TSMC's Articles of Incorporation provide that, when allocating the net profits for each fiscal year, TSMC shall first offset its losses in previous years and then set aside the following items accordingly:

- Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC's paid-in capital;
- Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- Bonus to directors and profit sharing to employees of TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

TSMC's Articles of Incorporation also provide that profits of TSMC may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

TSMC accrued profit sharing to employees based on certain percentage of net income during the year, which amounted to NT\$8,990,026 thousand and NT\$10,908,338 thousand for the years ended December 2011 and 2010, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

TSMC no longer has supervisors since January 1, 2007. The required duties of supervisors are being fulfilled by the Audit Committee.

According to the revised Company Law, effective January 2012, the appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends in cash or stocks for the portion in excess of 25% of the paid-in capital if the Company incurs no loss.

A special capital reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2010 and 2009 had been approved in TSMC's shareholders' meetings held on June 9, 2011 and June 15, 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2010	For Fiscal Year 2009	For Fiscal Year 2010	For Fiscal Year 2009
Legal capital reserve	\$ 16,160,501	\$ 8,921,784		
Special capital reserve	5,120,827	1,313,047		
Cash dividends to shareholders	<u>77,730,236</u>	<u>77,708,120</u>	\$ 3.00	\$ 3.00
	<u>\$ 99,011,564</u>	<u>\$ 87,942,951</u>		

TSMC's profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$10,908,338 thousand and NT\$51,131 thousand for 2010, respectively, and profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$6,691,338 thousand and NT\$67,692 thousand for 2009, respectively, had been approved in the shareholders' meeting held on June 9, 2011 and June 15, 2010, respectively. The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of meeting of the Board of Directors held on February 15, 2011 and February 9, 2010 and same amount had been charged against earnings of 2010 and 2009, respectively.

TSMC's appropriations of earnings for 2011 had been resolved in the meeting of the Board of Directors held on February 14, 2012. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
	For Fiscal Year 2011	For Fiscal Year 2011
Legal capital reserve	\$ 13,420,128	
Special capital reserve	1,172,350	
Cash dividends to shareholders	<u>77,748,668</u>	\$ 3.00
	<u>\$ 92,341,146</u>	

The Board of Directors of TSMC also resolved to appropriate profit sharing to employees to be paid in cash and bonus to directors in the amounts of NT\$8,990,026 thousand and NT\$62,324 thousand for 2011, respectively. There is no significant difference between the aforementioned resolved amounts and the amounts charged against earnings of 2011.

The appropriations of earnings, profit sharing to employees to be paid in cash and bonus to directors for 2011 are to be resolved in the TSMC's shareholders' meeting held on June 12, 2012 (expected).

The information about the appropriations of TSMC's profit sharing to employees and bonus to directors is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on January 1, 1998, R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by TSMC on earnings generated since January 1, 1998.

23. STOCK-BASED COMPENSATION PLANS

TSMC's Employee Stock Option Plans, consisting of the TSMC 2004 Plan, TSMC 2003 Plan, and TSMC 2002 Plan, were approved by the SFB on January 6, 2005, October 29, 2003 and June 25, 2002, respectively. The maximum number of options authorized to be granted under the TSMC 2004 Plan, TSMC 2003 Plan and TSMC 2002 Plan was 11,000 thousand, 120,000 thousand and 100,000 thousand, respectively, with each option eligible to subscribe for one common share of TSMC when exercised. The options may be granted to qualified employees of TSMC or any of its domestic or foreign subsidiaries, in which TSMC's shareholding with voting rights, directly or indirectly, is more than fifty percent (50%). The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date. Under the terms of the plans, the options are granted at an exercise price equal to the closing price of TSMC's common shares listed on the TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of December 31, 2011.

Information about TSMC's outstanding options for the years ended December 31, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2011</u>		
Balance, beginning of year	21,437	\$ 31.4
Options exercised	(7,144)	30.5
Balance, end of year	14,293	32.1
<u>Year ended December 31, 2010</u>		
Balance, beginning of year	28,810	\$ 32.4
Options exercised	(7,372)	33.2
Options canceled	(1)	50.1
Balance, end of year	21,437	32.3

The number of outstanding options and exercise prices have been adjusted to reflect the distribution of earnings by TSMC in accordance with the plans.

As of December 31, 2011, information about TSMC's outstanding options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding		
	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)
\$20.9-\$29.3	10,584	1.2	\$ 27.4
38.0- 50.1	3,709	2.9	45.7
	14,293	1.7	32.1

As of December 31, 2011, all of the above outstanding options were exercisable.

Xintec's Employee Stock Option Plans, consisting of the Xintec 2007 Plan and Xintec 2006 Plan, were approved by the SFB on June 26, 2007 and July 3, 2006, respectively. The maximum number of options authorized to be granted under the Xintec 2007 Plan and Xintec 2006 Plan was 6,000 thousand each, with each option eligible to subscribe for one common share of Xintec when exercised. The options may be granted to qualified employees of Xintec or any of its subsidiaries. The options of all the plans are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about Xintec's outstanding options for the years ended December 31, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2011</u>		
Balance, beginning of year	1,832	\$ 14.4
Options exercised	(967)	14.4
Options canceled	(40)	17.4
Balance, end of year	825	15.1
<u>Year ended December 31, 2010</u>		
Balance, beginning of year	3,960	\$ 14.7
Options exercised	(1,856)	13.9
Options canceled	(272)	17.3
Balance, end of year	1,832	15.1

The exercise prices have been adjusted to reflect the distribution of earnings by Xintec in accordance with the plans.

As of December 31, 2011, information about Xintec's outstanding and exercisable options was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
\$10.9-\$12.7	239	4.8	\$ 11.0	233	\$ 11.0
14.9- 18.8	586	5.7	16.8	581	16.8
	<u>825</u>	5.4	15.1	<u>814</u>	15.1

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2011 and 2010. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions at the various grant dates and pro forma results of the Company for the years ended December 31, 2011 and 2010 would have been as follows:

Assumptions:		
TSMC	Expected dividend yield	1.00%-3.44%
	Expected volatility	43.77%-46.15%
	Risk free interest rate	3.07%-3.85%
	Expected life	5 years
Xintec	Expected dividend yield	0.80%
	Expected volatility	31.79%-47.42%
	Risk free interest rate	1.88%-2.45%
	Expected life	3 years

	Years Ended December 31	
	2011	2010
Net income attributable to shareholders of the parent:		
As reported	\$134,201,279	\$161,605,009
Pro forma	134,146,490	161,470,030
Earnings per share (EPS) - after income tax (NT\$):		
Basic EPS as reported	\$5.18	\$6.24
Pro forma basic EPS	5.18	6.23
Diluted EPS as reported	5.18	6.23
Pro forma diluted EPS	5.17	6.23

24. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition	Retirement	Number of Shares, End of Year
<u>Year ended December 31, 2011</u>				
Shareholders executed the appraisal right	<u>-</u>	<u>1,000</u>	<u>(1,000)</u>	<u>-</u>

In August 2011, pursuant to the Company Law and at the option of the shareholders of TSMC, certain shareholders requested TSMC to buy back their shares at the current market price, which shares were subsequently retired in November 2011.

25. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2011</u>					
Basic EPS					
Earnings available to common shareholders of the parent	\$ 144,852,948	\$ 134,201,279	25,914,076	<u>\$ 5.59</u>	<u>\$ 5.18</u>
Effect of dilutive potential common shares	-	-	10,606		
Diluted EPS					
Earnings available to common shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 144,852,948</u>	<u>\$ 134,201,279</u>	<u>25,924,682</u>	<u>\$ 5.59</u>	<u>\$ 5.18</u>
<u>Year ended December 31, 2010</u>					
Basic EPS					
Earnings available to common shareholders of the parent	\$ 169,520,145	\$ 161,605,009	25,905,832	<u>\$ 6.54</u>	<u>\$ 6.24</u>
Effect of dilutive potential common shares	-	-	13,982		
Diluted EPS					
Earnings available to common shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 169,520,145</u>	<u>\$ 161,605,009</u>	<u>25,919,814</u>	<u>\$ 6.54</u>	<u>\$ 6.23</u>

If the Company may settle the obligation by cash, by issuing shares, or in combination of both cash and shares, profit sharing to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of profit sharing to employees in stock by the closing price (after considering the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of profit sharing to employees are resolved in the shareholders' meeting in the following year.

The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each of the basic and diluted after income tax EPS for the year ended December 31, 2010 to remain at NT\$6.24 and NT\$6.23, respectively.

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 15,360	\$ 15,360	\$ 6,886	\$ 6,886
Available-for-sale financial assets	3,308,770	3,308,770	29,916,777	29,916,777
Held-to-maturity financial assets	9,068,847	9,128,063	13,299,476	13,457,742
Financial assets carried at cost	4,315,005	-	4,424,207	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	13,742	13,742	19,002	19,002
Hedging derivative financial liabilities	232	232	814	814
Bonds payable (including current portion)	22,500,000	22,597,115	4,500,000	4,538,660
Long-term bank loans (including current portion)	1,650,000	1,650,000	542,968	542,968
Other long-term payables (including current portion)	3,399,855	3,399,855	7,960,809	7,960,809
Obligations under capital leases	870,993	870,993	694,986	694,986

b. Methods and assumptions used in the estimation of fair values of financial instruments

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Except for derivatives, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
- 3) The fair values of those derivatives are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- 5) Fair value of bonds payable was based on their quoted market price.
- 6) Fair values of long-term bank loans, other long-term payables and obligations under capital leases were based on the present value of expected cash flows, which approximate their carrying amounts.

c. Valuation gains (losses) arising from changes in fair value of derivatives contracts determined using valuation techniques were recognized as a net gain of NT\$1,618 thousand and a net loss of NT\$12,116 thousand for the years ended December 31, 2011 and 2010, respectively.

d. As of December 31, 2011 and 2010, financial assets exposed to fair value interest rate risk were NT\$9,086,729 thousand and NT\$38,588,969 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$52,711,118 thousand and NT\$43,235,611 thousand, respectively; and financial liabilities exposed to cash flow interest rate risk were NT\$1,650,232 thousand and NT\$848,275 thousand, respectively.

e. Movements of the unrealized gains or losses on financial instruments for the years ended December 31, 2011 and 2010 were as follows:

	Year Ended December 31, 2011			
	From Available-for-sale Financial Assets	Equity Method Investments	Gain (Loss) on Cash Flow Hedges	Total
Balance, beginning of year	\$ 86,158	\$ 23,462	\$ (331)	\$ 109,289
Recognized directly in shareholders' equity	(1,034,446)	(41,402)	(36)	(1,075,884)
Removed from shareholders' equity and recognized in earnings	(206,534)	-	274	(206,260)
Effect of changes in consolidated entities	(269)	269	-	-
Balance, end of year	<u>\$ (1,155,091)</u>	<u>\$ (17,671)</u>	<u>\$ (93)</u>	<u>\$ (1,172,855)</u>

	Year Ended December 31, 2010			
	From Available-for-sale Financial Assets	Equity Method Investments	Gain (Loss) on Cash Flow Hedges	Total
Balance, beginning of year	\$ 424,128	\$ 29,493	\$ -	\$ 453,621
Recognized directly in shareholders' equity	250,475	(6,031)	(476)	243,968
Removed from shareholders' equity and recognized in earnings	(588,445)	-	145	(588,300)
Balance, end of year	<u>\$ 86,158</u>	<u>\$ 23,462</u>	<u>\$ (331)</u>	<u>\$ 109,289</u>

f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the market exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market exchange rate risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities and publicly traded stocks; therefore, the fluctuations in market interest rates and market prices will result in changes in fair values of these debt securities.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The Company evaluated whether the financial instruments for any possible counter-parties or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company's exposure to credit risk was not significant.

3) Liquidity risk. The Company has sufficient operating capital and bank facilities to meet cash needs upon settlement of derivative financial instruments, bonds payable and bank loans. Therefore, the liquidity risk is low.

4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates. The long-term bank loans were floating-rate loans; therefore, changes in the market interest rates will result in changes in the interest rate of the long-term bank loans, which will affect future cash flows.

g. The Company seeks to reduce the effects of future cash flow related interest rate changes by primarily using derivative financial instruments.

The Company's long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. Information about outstanding interest rate swap contract consisted of the following:

Hedged Item	Hedging Financial Instrument	Fair Value	Expected Cash Flow Generated Period	Expected Timing for the Recognition of Gains or Losses from Hedge
<u>December 31, 2011</u>				
Long-term bank loans	Interest rate swap contract	\$ (232)	2011 to 2012	2011 to 2012
<u>December 31, 2010</u>				
Long-term bank loans	Interest rate swap contract	(814)	2010 to 2012	2010 to 2012

27. RELATED PARTY TRANSACTIONS

Except as disclosed in the consolidated financial statements and other notes, the following is a summary of significant related party transactions:

a. Investees of TSMC

GUC (prior to July 2011, GUC was a subsidiary. Since July 2011, GUC is accounted for using the equity method. The related party information between the Company and GUC as of and for the six months ended December 31, 2011 is disclosed as follows.)

VIS (accounted for using the equity method)

SSMC (accounted for using the equity method)

b. Indirect investee

VisEra Technology Company, Ltd. (VisEra), an indirect investee accounted for using the equity method by TSMC.

Mcube, an indirect investee accounted for using the equity method by TSMC.

c. Others

Related parties over which the Company has significant influence but with which the Company had no material transactions.

	2011		2010	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
GUC	\$ 2,461,345	1	\$ -	-
VIS	302,844	-	223,584	-
VisEra	10,885	-	82,595	-
Others	50,342	-	11,397	-
	<u>\$ 2,825,416</u>	<u>1</u>	<u>\$ 317,576</u>	<u>-</u>
Purchases				
VIS	\$ 5,597,895	2	\$ 4,959,050	2
SSMC	3,949,176	2	4,521,046	2
Others	124,673	-	39,099	-
	<u>\$ 9,671,744</u>	<u>4</u>	<u>\$ 9,519,195</u>	<u>4</u>
Manufacturing expenses				
VisEra (primarily outsourcing and rent)	\$ 49,155	-	\$ 102,188	-
VIS (primarily rent)	5,902	-	10,161	-
	<u>\$ 55,057</u>	<u>-</u>	<u>\$ 112,349</u>	<u>-</u>
Research and development expenses				
VisEra	\$ 19,018	-	\$ 12,053	-
VIS (primarily rent)	1,984	-	12,017	-
Others	-	-	133	-
	<u>\$ 21,002</u>	<u>-</u>	<u>\$ 24,203</u>	<u>-</u>
Sales of property, plant and equipment and other assets				
VIS	\$ 36,008	7	\$ 37,011	11
VisEra	-	-	4,418	1
SSMC	-	-	2,401	1
	<u>\$ 36,008</u>	<u>7</u>	<u>\$ 43,830</u>	<u>13</u>

	2011		2010	
	Amount	%	Amount	%
Purchase of property, plant and equipment and other assets				
VIS	\$ 45,473	-	\$ 109,855	-
VisEra	11,110	-	-	-
Others	<u>1,812</u>	-	<u>-</u>	-
	<u>\$ 58,395</u>	-	<u>\$ 109,855</u>	-
Non-operating incomes and gains				
VIS (primarily technical service income)	\$ 227,024	4	\$ 267,370	2
SSMC (primarily technical service income)	199,377	4	198,218	2
VisEra (primarily rent)	<u>4,054</u>	-	<u>-</u>	-
	<u>\$ 430,455</u>	<u>8</u>	<u>\$ 465,588</u>	<u>4</u>
As of December 31				
Receivables				
GUC	\$ 154,086	83	\$ -	-
Mcube	31,466	17	-	-
VisEra	212	-	2,599	95
VIS	<u>-</u>	-	<u>123</u>	<u>5</u>
	<u>\$ 185,764</u>	<u>100</u>	<u>\$ 2,722</u>	<u>100</u>
Other receivables				
VIS	\$ 87,507	72	\$ 70,798	57
SSMC	34,260	28	53,788	43
Others	<u>525</u>	-	<u>-</u>	-
	<u>\$ 122,292</u>	<u>100</u>	<u>\$ 124,586</u>	<u>100</u>
Payables				
VIS	\$ 987,937	75	\$ 428,797	49
SSMC	336,037	25	430,235	50
Others	<u>4,547</u>	-	<u>8,053</u>	<u>1</u>
	<u>\$ 1,328,521</u>	<u>100</u>	<u>\$ 867,085</u>	<u>100</u>

The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

The Company leased certain office space and facilities from VIS. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under research and development expenses and manufacturing expenses.

The Company leased certain factory building from VisEra. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and classified under manufacturing expenses.

The Company leased certain machinery and equipment to VisEra. The lease terms and prices were determined in accordance with mutual agreements. The rental income was received monthly and the related income was classified under non-operating income and gains.

Compensation of directors and management personnel:

	Years Ended December 31	
	2011	2010
Salaries, incentives and special compensation	\$ 752,767	\$ 885,766
Bonus	<u>445,681</u>	<u>593,967</u>
	<u>\$ 1,198,448</u>	<u>\$ 1,479,733</u>

The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting. Total compensation expense for the year ended December 31, 2011 includes estimated profit sharing to employees and bonus to directors of the Company that relate to 2011 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2012. The total compensation for the year ended December 31, 2010 included the bonuses appropriated from earnings of 2010 which was approved by the shareholders' meeting held in 2011.

28. PLEDGED OR MORTGAGED ASSETS

The Company provided certain assets as collateral mainly for long-term bank loans, land lease agreements and customs duty guarantee, which were as follows:

	December 31	
	2011	2010
Other financial assets	\$ 121,140	\$ 163,531
Property, plant and equipment, net	-	1,109,249
Other assets	<u>-</u>	<u>40,000</u>
	<u>\$ 121,140</u>	<u>\$ 1,312,780</u>

29. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land, factory and office premises from the Science Park Administration and Zhongli Industrial Park Service Center. These operating leases expire on various dates from December 2012 to September 2030 and can be renewed upon expiration.

The Company entered into lease agreements for its office premises and certain office equipment located in the United States, Japan, Shanghai and Taiwan. These operating leases expire between 2012 and 2020 and can be renewed upon expiration.

As of December 31, 2011, future lease payments were as follows:

Year	Amount
2012	\$ 627,882
2013	590,628
2014	566,953
2015	556,993
2016	543,728
2017 and thereafter	<u>3,870,728</u>
	<u>\$ 6,756,912</u>

30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2011, excluding those disclosed in other notes, were as follows:

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by TSMC can use up to 35% of TSMC's capacity if TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- b. Under several foundry agreements, TSMC shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with TSMC. As of December 31, 2011, TSMC had a total of US\$13,039 thousand of guarantee deposits.
- c. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. TSMC's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. TSMC and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- d. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as "SMIC") in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret

misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People's High Court ruled in favor of TSMC and dismissed SMIC's lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC's trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC's appeal against the Beijing High Court's finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares in July 2010, which are recorded within available for sale financial assets, and obtained the subsequent cash settlement income in accordance with the agreement.

- e. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single case in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined at this time.
- f. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing six U.S. patents. This litigation is in its very early stages and therefore the outcome of the case cannot be determined at this time.
- g. TSMC entered into an agreement with a counterparty in 2003 whereby TSMC China is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. If the purchase is not completed, TSMC China is obligated to compensate the counterparty for the loss incurred. The property, plant and equipment have been in use by TSMC China since 2004 and are being depreciated over their estimated service lives. The related obligation totaled NT\$3,399,855 thousand and NT\$7,112,172 thousand as of December 31, 2011 and 2010, respectively, which is included in other long-term payables.
- h. Amounts available under unused letters of credit as of December 31, 2011 were NT\$263,880 thousand.

31. OTHERS

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31			
	2011		2010	
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Foreign Currencies (In Thousands)	Exchange Rate (Note)
<u>Financial assets</u>				
Monetary items				
USD	\$ 3,744,817	30.288	\$ 3,944,765	29.13-30.368
EUR	135,857	39.18-39.27	233,213	38.92-40.65
JPY	37,276,671	0.3897-0.3906	29,779,663	0.3582-0.3735
RMB	201,385	4.81	251,319	4.3985-4.61
Non-monetary items				
USD	141,498	30.288	189,327	30.368
HKD	671,060	3.90	1,002,116	3.91
Investments accounted for using equity method				
USD	294,797	30.288	306,102	30.368
<u>Financial liabilities</u>				
Monetary items				
USD	1,744,746	30.288	2,021,729	29.13-30.368
EUR	111,750	39.18-39.27	265,360	38.92-40.65
JPY	35,349,169	0.3897-0.3906	31,561,576	0.3582-0.3735
RMB	278,877	4.81	566,778	4.3985-4.61

Note: Exchange rate represents the number of N.T. dollars for which one foreign currency could be exchanged.

32. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for TSMC and its investees in which all significant intercompany balances and transactions are eliminated upon consolidation:

- Financings provided: Please see Table 1 attached;
- Endorsement/guarantee provided: None;
- Marketable securities held: Please see Table 2 attached;
- Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;

f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;

g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;

h. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;

i. Names, locations, and related information of investees over which TSMC exercises significant influence: Please see Table 7 attached;

j. Information on investment in Mainland China

1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.

2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 9 attached.

k. Intercompany relationships and significant intercompany transactions: Please see Table 9 attached.

33. OPERATING SEGMENT INFORMATION

The Company's only reportable segment is the foundry segment. The foundry segment engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. The Company also had other operating segments that did not exceed the quantitative threshold. These segments mainly engage in the researching, developing, and providing SoC (System on Chip) design and also engage in the researching, developing, designing, manufacturing and selling of solid state lighting devices and renewable energy and efficiency related technologies and products.

The Company uses the operating profit as the measurement for segment profit and the basis of performance assessment. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 2.

The Company's operating segment information was as follows:

a. Industry financial information

	Foundry	Others	Elimination	Total
<u>Year ended December 31, 2011</u>				
Sales from external customers	\$ 422,691,098	\$ 4,389,547	\$ -	\$ 427,080,645
Sales among intersegments	1,588,601	6,224	(1,594,825)	-
Operating profit (loss)	143,222,120	(1,664,702)	-	141,557,418
Equity in earnings (losses) of equity method investees, net	1,635,303	(737,692)	-	897,611
Income tax expense	10,649,688	44,729	-	10,694,417
<u>Year ended December 31, 2010</u>				
Sales from external customers	409,216,727	10,321,184	-	419,537,911
Sales among intersegments	3,816,530	8,734	(3,825,264)	-
Operating profit (loss)	159,633,614	(458,279)	-	159,175,335
Equity in earnings of equity method investees, net	1,755,941	542,218	-	2,298,159
Income tax expense	7,928,663	59,802	-	7,988,465

b. Geographic information

	Years Ended December 31			
	Sales to Other Than Consolidated Entities		Non-current Assets	
	2011	2010	2011	2010
Taiwan	\$ 49,798,532	\$ 56,420,375	\$ 472,168,728	\$ 379,553,584
United States	250,811,666	221,148,708	8,284,575	8,164,795
Asia	75,946,671	91,862,893	22,121,979	13,817,069
Europe	48,982,743	49,000,320	15,180	17,857
Others	1,541,033	1,105,615	-	-
	<u>\$ 427,080,645</u>	<u>\$ 419,537,911</u>	<u>\$ 502,590,462</u>	<u>\$ 401,553,305</u>

The geographic information is presented by billed regions. Non-current assets include property, plant and equipment, intangible assets and other assets, but not include financial instruments and deferred income tax assets.

c. Production information

Production	Years Ended December 31	
	2011	2010
Wafer	\$ 384,632,494	\$ 375,060,853
Mask	23,818,656	19,796,871
Others	<u>18,629,495</u>	<u>24,680,187</u>
	<u>\$ 427,080,645</u>	<u>\$ 419,537,911</u>

d. Major customers representing at least 10% of gross sales

	Years Ended December 31			
	2011		2010	
	Amount	%	Amount	%
Customer A	\$ 60,412,085	14	\$ 37,962,026	9
Customer B	31,635,496	7	41,022,200	10

34. PRE-DISCLOSURE OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company is required to provide pre-disclosure regarding the adoption of the International Financial Reporting Standards (IFRSs) in the consolidated financial statements as follows.

- a. On May 14, 2009, the FSC announced the roadmap of IFRSs adoption for R.O.C. companies. Starting from 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare for the consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, International Accounting Standards (IASs), interpretations and related guidance translated by Accounting Research and Development Foundation (ARDF) and issued by the FSC. Due to aforementioned amendments, the Company established a taskforce to monitor and execute the IFRSs adoption plan. The important plan items, responsible divisions and plan progress are listed as follows.

Plan Item	Responsible Division	Plan Progress
1. Establish the IFRSs taskforce	Accounting Division	Finished
2. Complete the identification of GAAP differences and impact	Accounting Division, Finance Division and Employee Benefit and Payroll Section	Finished
3. Complete the identification of consolidated entities under IFRSs	Accounting Division	Finished
4. Evaluate potential effect to business operations	Accounting Division, Finance Division, Employee Benefit and Payroll Section and Business System Integration Division	Finished
5. Complete the evaluation of resources and budget needed for IFRSs adoption	Accounting division and Business System Integration Division	Finished
6. Set up a work plan for IFRSs adoption	Accounting Division and Business System Integration Division	Finished
7. Personnel training	Accounting Division	Finished
8. Determine IFRSs accounting policies	Accounting Division, Finance Division and Employee Benefit and Payroll Section	Finished
9. Develop financial statement template under IFRSs	Accounting Division and Finance Division	Finished
10. Complete evaluation, configuration and testing of the IT systems	Accounting Division and Business System Integration Division	Finished
11. Communicate with related departments on the impact of IFRSs adoption	Accounting Division	In progress according to the plan
12. Complete the preparation of opening date balance sheet under IFRSs	Accounting Division	In progress according to the plan
13. Complete modification to the relevant internal controls	Accounting Division and Internal Audit Division	In progress according to the plan
14. Prepare comparative financial information under IFRSs for 2012	Accounting Division and Finance Division	In progress according to the plan

- b. As of December 31, 2011, from the Company's assessment, the significant differences between the Company's current accounting policies under R.O.C. GAAP and the ones under IFRSs are stated as follows:

Allowance for sales returns and others

Under R.O.C. GAAP, provisions for estimated sales returns and others are recognized as a reduction in revenue in the period the related revenue is recognized based on historical experience. Allowance for sales returns and others is recorded as a deduction in accounts receivable. Under IFRSs, the allowance for sales returns and others is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions (classified under current liabilities) accordingly.

Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, a deferred tax asset or liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRSs, a deferred tax asset or liability is classified as non-current asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

The classification of leased assets and idle assets

Under R.O.C. GAAP, leased assets and idle assets are classified under other assets. Under IFRSs, the aforementioned items are classified as property, plant and equipment according to their nature. Leased assets are mainly dormitories leased to employees and factories leased to suppliers. In accordance with the relevant IFRSs guidance, the dormitories leased to employees are not classified as investment properties; factories leased to suppliers are not considered as investment properties since they cannot be sold separately and comprise only an insignificant portion of the plant.

Employee benefits

The Company had previously applied an actuarial valuation on its defined benefit obligation and recognized the related pension cost and retirement benefit obligation in conformity with R.O.C. GAAP. Under IFRSs, the Company should carry out actuarial valuation on defined benefit obligation in accordance with IAS No. 19, "Employee Benefits."

Under R.O.C. GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees.

Under IAS No. 19, "Employee Benefits," the Company will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

Investments accounted for using the equity method

The Company's associates and joint ventures accounted for using the equity method have also assessed the significant differences between their respective present accounting policies and IFRSs. The significant difference is mainly the adjustment to employee benefits.

The reclassification of line items in the statement of comprehensive income

In accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers before its amendment due to the adoption of IFRSs, income from operations in the consolidated income statement only includes revenue, cost of sales and operating expenses. Under IFRSs, based on the nature of operating transactions, technical service income is reclassified under revenue; rental revenue, depreciation of rental assets, net loss on disposal of property, plant and equipment and intangible assets, and impairment loss of property, plant and equipment, are reclassified under other operating gains and losses, which are reflected in income from operations.

- c. The Company's aforementioned assessment is based on the 2010 version of IFRSs translated by ARDF and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by FSC on December 22, 2011. However, the assessment result may be impacted by the addition or the amendment of IFRSs issued or proposed by International Accounting Standards Board and the possible future rules issued by R.O.C. authorities governing the adoption of IFRSs by companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market.

35. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on February 14, 2012.

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2011

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

No.	Financing Company	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousands) (Note 4)	Ending Balance (US\$ in Thousands) (Note 4)	Amount Actually Drawn (US\$ in Thousands)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company (Notes 1 and 2)	Financing Company's Total Financing Amount Limits (Note 3)
												Item	Value		
1	TSMC Partners	TSMC China	Long-term receivables from related parties	\$ 7,572,000 (US\$ 250,000)	\$ 7,572,000 (US\$ 250,000)	\$ 7,572,000 (US\$ 250,000)	0.25%-0.26%	The need for short-term financing	\$ -	Purchase equipment	\$ -	-	\$ -	\$ 34,986,964	\$ 34,986,964
		TSMC Solar	Other receivables from related parties	1,211,520 (US\$ 40,000)	1,211,520 (US\$ 40,000)	454,320 (US\$ 15,000)	0.4017%-0.4651%	The need for short-term financing	-	Operating capital	-	-	-	3,498,696	
		TSMC SSL	Other receivables from related parties	908,640 (US\$ 30,000)	908,640 (US\$ 30,000)	348,312 (US\$ 11,500)	0.4545%	The need for short-term financing	-	Operating capital	-	-	-	3,498,696	
2	TSMC Global	TSMC	Other receivables from related parties	25,744,800 (US\$ 850,000)	-	-	0.3544%	The need for short-term financing	-	Support the parent company's short-term operation requirement	-	-	-	44,071,845	44,071,845

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. While offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions. The restriction of thirty percent (30%) of the borrower's net worth will not apply to subsidiaries whose voting shares are 90% or more owned, directly or indirectly, by TSMC.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Global. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. TSMC or offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions.

Note 3: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners and TSMC Global, respectively.

Note 4: The maximum balance for the period and ending balance represents the amounts approved by Board of Directors.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES HELD

DECEMBER 31, 2011

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
TSMC	<u>Corporate bond</u>							
	Nan Ya Plastics Corporation	-	Held-to-maturity financial assets	-	\$ 1,099,629	N/A	\$ 1,120,808	
	China Steel Corporation	-	"	-	303,798	N/A	305,666	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation	-	Available-for-sale financial assets	1,789,493	2,617,134	7	2,617,134	
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	44,071,845	100	44,071,845	
	TSMC Partners	Subsidiary	"	988,268	34,986,964	100	34,986,964	
	TSMC Solar	Subsidiary	"	1,118,000	10,153,244	100	10,153,244	
	VIS	Investee accounted for using equity method	"	628,223	8,988,007	39	6,627,758	
	SSMC	Investee accounted for using equity method	"	314	6,289,429	39	6,075,445	
	TSMC North America	Subsidiary	"	11,000	2,981,639	100	2,981,639	
	TSMC SSL	Subsidiary	"	227,000	1,746,893	100	1,746,893	
	Xintec	Investee with a controlling financial interest	"	94,011	1,606,694	40	1,606,694	
	GUC	Investee accounted for using equity method	"	46,688	1,157,188	35	4,645,442	
	TSMC Europe	Subsidiary	"	-	205,171	100	205,171	
	TSMC Japan	Subsidiary	"	6	161,601	100	161,601	
	TSMC Korea	Subsidiary	"	80	23,448	100	23,448	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	16,783	193,584	10	350,060	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	351,996	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	41,372	
	<u>Fund</u>							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	103,992	12	103,992	
	Crimson Asia Capital	-	"	-	55,259	1	55,259	
	<u>Capital</u>							
	TSMC China	Subsidiary	Investments accounted for using equity method	-	13,542,181	100	13,583,214	
	VTAF III	Subsidiary	"	-	1,311,044	53	1,290,093	
	VTAF II	Subsidiary	"	-	762,135	98	756,125	
	Emerging Alliance	Subsidiary	"	-	213,235	99	213,235	
TSMC Solar	<u>Stock</u>							
	Motech	Investee accounted for using equity method	Investments accounted for using equity method	87,480	5,612,344	20	3,849,382	
	TSMC Solar Europe	Subsidiary	"	-	204,163	100	204,163	
	TSMC Solar NA	Subsidiary	"	1	52,187	100	52,187	
	<u>Capital</u>							
	VTAF III	Investee accounted for using equity method	Investments accounted for using equity method	-	1,681,719	46	1,681,719	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
TSMC SSL	<u>Stock</u> TSMC Lighting NA	Subsidiary	Investments accounted for using equity method	1	\$ 2,994	100	\$ 2,994	
TSMC Partners	<u>Corporate bond</u> General Elec Cap Corp. Mtn	-	Held-to-maturity financial assets	-	US\$ 20,012	N/A	US\$ 20,100	
	General Elec Cap Corp. Mtn	-	"	-	US\$ 20,059	N/A	US\$ 20,740	
	<u>Common stock</u> TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 460,034	100	US\$ 460,034	
	VisEra Holding Company	Investee accounted for using equity method	"	43,000	US\$ 94,208	49	US\$ 94,208	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary	"	787	US\$ 11,112	97	US\$ 11,112	
	TSMC Technology	Subsidiary	"	1	US\$ 10,615	100	US\$ 10,615	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Subsidiary	"	14,153	US\$ 9,994	97	US\$ 9,994	
	TSMC Canada	Subsidiary	"	2,300	US\$ 4,059	100	US\$ 4,059	
	Mcube Inc.	Investee accounted for using equity method	"	5,333	-	80	-	
	<u>Preferred stock</u> Mcube Inc.	Investee accounted for using equity method	Investments accounted for using equity method	1,000	-	5	-	
	<u>Fund</u> Shanghai Walden Venture Capital Enterprise	-	Financial assets carried at cost	-	US\$ 5,000	8	US\$ 5,000	
TSMC North America	<u>Stock</u> Spanion Inc.	-	Available-for-sale financial assets	276	US\$ 2,283	-	US\$ 2,283	
TSMC Development	<u>Corporate bond</u> GE Capital Corp.	-	Held-to-maturity financial assets	-	US\$ 20,090	N/A	US\$ 20,770	
	JP Morgan Chase & Co.	-	"	-	US\$ 15,000	N/A	US\$ 15,087	
Emerging Alliance	<u>Stock</u> WaferTech	Subsidiary	Investments accounted for using equity method	293,640	US\$ 220,119	100	US\$ 220,119	
	<u>Common stock</u> RichWave Technology Corp.	-	Financial assets carried at cost	4,074	US\$ 1,545	10	US\$ 1,545	
	Global Investment Holding Inc.	-	"	11,124	US\$ 3,065	6	US\$ 3,065	
	<u>Preferred stock</u> Audience, Inc.	-	Financial assets carried at cost	1,654	US\$ 250	-	US\$ 250	
	Next IO, Inc.	-	"	8	US\$ 500	-	US\$ 500	
	Pixim, Inc.	-	"	4,641	US\$ 1,137	2	US\$ 1,137	
	QST Holdings, LLC	-	"	-	US\$ 142	4	US\$ 142	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
VTAF II	<u>Capital</u> VentureTech Alliance Holdings, LLC (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	7	-	
	<u>Common stock</u> Aether Systems, Inc.	-	Financial assets carried at cost	1,800	US\$ 1,701	23	US\$ 1,701	
	RichWave Technology Corp.	-	"	1,267	US\$ 1,036	3	US\$ 1,036	
	Sentelic	-	"	1,806	US\$ 2,607	9	US\$ 2,607	
	<u>Preferred stock</u> 5V Technologies, Inc.	-	Financial assets carried at cost	2,890	US\$ 2,168	4	US\$ 2,168	
	Aquantia	-	"	4,556	US\$ 4,316	3	US\$ 4,316	
	Audience, Inc.	-	"	12,378	US\$ 2,378	3	US\$ 2,378	
	Impinj, Inc.	-	"	475	US\$ 1,000	-	US\$ 1,000	
	Next IO, Inc.	-	"	132	US\$ 1,110	2	US\$ 1,110	
	Pixim, Inc.	-	"	33,347	US\$ 1,878	2	US\$ 1,878	
VTAF III	Power Analog Microelectronics	-	"	7,330	US\$ 3,482	21	US\$ 3,482	
	QST Holdings, LLC	-	"	-	US\$ 593	13	US\$ 593	
	<u>Capital</u> VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	31	-	
	<u>Common stock</u> Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	11,868	US\$ 1,204	57	US\$ 1,204	
	Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$ 315	6	US\$ 315	
	<u>Preferred stock</u> InvenSense, Inc.	-	Available-for-sale financial assets	796	US\$ 7,932	1	US\$ 7,932	
	BridgeLux, Inc.	-	Financial assets carried at cost	6,771	US\$ 8,745	3	US\$ 8,745	
	Exclara, Inc.	-	"	59,695	US\$ 1,812	15	US\$ 1,812	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
Growth Fund	Neoconix, Inc.	-	"	3,916	US\$ 4,779	4	US\$ 4,779	
	Powervation, Ltd.	-	"	449	US\$ 7,030	16	US\$ 7,030	
	Stion Corp.	-	"	8,152	US\$ 55,473	20	US\$ 55,473	
	Tilera, Inc.	-	"	3,890	US\$ 3,025	2	US\$ 3,025	
	Validity Sensors, Inc.	-	"	9,340	US\$ 3,456	4	US\$ 3,456	
	<u>Capital</u> Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 510	100	US\$ 510	
	VTA Holdings	Subsidiary	"	-	-	62	-	
	<u>Common stock</u> Veebeam	-	Financial assets carried at cost	10	US\$ 25	-	US\$ 25	
	<u>Common stock</u> Integrated Memory Logic, Inc.	-	Available-for-sale financial assets	2,161	US\$ 6,289	3	US\$ 6,289	
	Memic, Inc.	-	"	1,286	US\$ 3,407	5	US\$ 3,407	
ISDF	<u>Preferred stock</u> Sonics, Inc.	-	Financial assets carried at cost	230	US\$ 497	2	US\$ 497	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2011				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
ISDF II	<u>Common stock</u>							
	Memic, Inc.	-	Available-for-sale financial assets	1,072	US\$ 2,841	5	US\$ 2,841	
	Alchip Technologies Limited	-	Financial assets carried at cost	7,520	US\$ 3,664	14	US\$ 3,664	
	Sonics, Inc.	-	"	278	US\$ 10	3	US\$ 10	
	Goyatek Technology, Corp.	-	"	745	US\$ 163	6	US\$ 163	
	Auden Technology MFG. Co., Ltd.	-	"	1,049	US\$ 223	3	US\$ 223	
	<u>Preferred stock</u>							
	Sonics, Inc.	-	Financial assets carried at cost	264	US\$ 455	3	US\$ 455	
Xintec	<u>Capital</u> Composite Ltd.	-	Financial assets carried at cost	587	-	3	-	
TSMC Solar Europe	<u>Stock</u> TSMC Solar Europe GmbH	Subsidiary	Investments accounted for using equity method	1	EUR 5,103	100	EUR 5,103	
TSMC Global	<u>Corporate bond</u>							
	Aust + Nz Banking Group	-	Held-to-maturity financial assets	20,000	US\$ 20,000	N/A	US\$ 19,751	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 24,905	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 24,991	
	Deutsche Bank AG London	-	"	20,000	US\$ 19,884	N/A	US\$ 20,033	
	JP Morgan Chase + Co.	-	"	35,000	US\$ 35,039	N/A	US\$ 35,070	
	Nationwide Building Society-UK Government Guarantee	-	"	8,000	US\$ 8,000	N/A	US\$ 8,008	
	Westpac Banking Corp.	-	"	25,000	US\$ 25,000	N/A	US\$ 24,825	
	Westpac Banking Corp. 12/12 Frn	-	"	5,000	US\$ 5,000	N/A	US\$ 5,007	
	<u>Government bond</u>							
	Societe De Financement De Lec	-	Held-to-maturity financial assets	15,000	US\$ 15,000	N/A	US\$ 14,991	
	<u>Money market fund</u>							
	Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	83	US\$ 83	N/A	US\$ 83	

(Concluded)

TABLE 3

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2011

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

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
TSMC	Stock TSMC Solar	Investments accounted for using equity method	-	Subsidiary	-	\$ -	1,118,000	\$ 11,180,000	-	\$ -	\$ -	\$ -	1,118,000	\$ 10,153,244
	TSMC SSL	"	-	Subsidiary	-	-	227,000	2,270,000	-	-	-	-	227,000	1,746,893
TSMC Solar	Capital TSMC China	Investments accounted for using equity method	-	Subsidiary	-	4,252,270	-	6,759,300	-	-	-	-	-	13,542,181
	VTAF III	"	-	Subsidiary	-	2,769,423	-	135,297	-	-	-	-	-	1,311,044
TSMC Solar	Stock TSMC Solar Europe	Investments accounted for using equity method	-	Subsidiary	-	23,971	-	385,682	-	-	-	-	-	204,163
	Capital VTAF III	Investments accounted for using equity method	-	Investee accounted for using equity method	-	-	-	168,548	-	-	-	-	-	1,681,719
TSMC Solar Europe	Stock TSMC Solar Europe GmbH	Investments accounted for using equity method	-	Subsidiary	1	EUR 90	-	EUR 9,800	-	EUR -	EUR -	EUR -	1	EUR 5,103
TSMC Global	Corporate bond Allstate Life Gbl Fdg Secd	Available-for-sale financial assets	-	-	4,430	US\$ 4,824	-	US\$ -	4,430	US\$ 4,787	US\$ 4,834	US\$ (47)	-	US\$ -
	American Honda Fin Corp. Mtn	"	-	-	4,000	US\$ 3,995	-	-	4,000	US\$ 4,005	US\$ 3,985	US\$ 20	-	-
	Anz National Intl Ltd.	"	-	-	3,500	US\$ 3,554	-	-	3,500	US\$ 3,555	US\$ 3,515	US\$ 40	-	-
	Archer Daniels Midland Co.	"	-	-	-	-	7,000	US\$ 7,000	7,000	US\$ 7,010	US\$ 7,000	US\$ 10	-	-
	Astrazeneca Plc	"	-	-	3,150	US\$ 3,397	-	-	3,150	US\$ 3,356	US\$ 3,456	US\$ (100)	-	-
	AT+T Wireless	"	-	-	3,500	US\$ 3,823	-	-	3,500	US\$ 3,762	US\$ 3,979	US\$ (217)	-	-
	Banco Bilbao Vizcaya P R	"	-	-	3,250	US\$ 3,249	-	-	3,250	US\$ 3,251	US\$ 3,250	US\$ 1	-	-
	Bank of Nova Scotia	"	-	-	5,000	US\$ 5,000	-	-	5,000	US\$ 5,012	US\$ 5,000	US\$ 12	-	-
	Barclays Bank Plc	"	-	-	12,000	US\$ 11,997	-	-	12,000	US\$ 12,022	US\$ 12,035	US\$ (13)	-	-
	Barclays Bk Plc UK Govt Cr	"	-	-	-	-	5,000	US\$ 5,108	5,000	US\$ 5,099	US\$ 5,108	US\$ (9)	-	-
	Bb+T Corporation	"	-	-	-	-	3,840	US\$ 3,990	3,840	US\$ 3,977	US\$ 3,990	US\$ (13)	-	-
	Bear Stearns Cos Inc.	"	-	-	3,500	US\$ 3,494	-	-	3,500	US\$ 3,465	US\$ 3,360	US\$ 105	-	-
	Berkshire Hathaway Inc. Del	"	-	-	3,500	US\$ 3,517	-	-	3,500	US\$ 3,521	US\$ 3,500	US\$ 21	-	-
	Bhp Billiton Fin USA Ltd.	"	-	-	-	-	4,000	US\$ 4,443	4,000	US\$ 4,447	US\$ 4,443	US\$ 4	-	-
	Bnp Paribas SA	"	-	-	3,810	US\$ 3,844	-	-	3,810	US\$ 3,838	US\$ 3,844	US\$ (6)	-	-
	Boeing Cap Corp.	"	-	-	2,925	US\$ 3,192	-	-	2,925	US\$ 3,180	US\$ 3,235	US\$ (55)	-	-
	Bp Capital Markets Plc	"	-	-	3,900	US\$ 3,988	-	-	3,900	US\$ 3,992	US\$ 3,969	US\$ 23	-	-
	Bp Capital Markets Plc	"	-	-	-	-	7,160	US\$ 7,160	7,160	US\$ 7,201	US\$ 7,160	US\$ 41	-	-
	Chevron Corp.	"	-	-	-	-	4,000	US\$ 4,305	4,000	US\$ 4,286	US\$ 4,305	US\$ (19)	-	-
	Cie Financement Foncier	"	-	-	4,000	US\$ 4,019	-	-	4,000	US\$ 4,034	US\$ 4,029	US\$ 5	-	-
	Cisco Systems Inc.	"	-	-	-	-	7,050	US\$ 7,050	7,050	US\$ 7,073	US\$ 7,050	US\$ 23	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
	Citigroup Funding Inc.	Available-for-sale financial assets	-	-	16,000	US\$ 16,323	-	US\$ -	16,000	US\$ 16,337	US\$ 16,262	US\$ 75	-	US\$ -
	Citigroup Funding Inc.	"	-	-	7,300	US\$ 7,446	-	-	7,300	US\$ 7,440	US\$ 7,448	US\$ (8)	-	-
	Citigroup Inc.	"	-	-	5,000	US\$ 5,490	-	-	5,000	US\$ 5,478	US\$ 5,360	US\$ 118	-	-
	Coca Cola Co.	"	-	-	4,000	US\$ 4,002	-	-	4,000	US\$ 4,003	US\$ 4,000	US\$ 3	-	-
	Countrywide Finl Corp.	"	-	-	4,000	US\$ 4,208	-	-	4,000	US\$ 4,221	US\$ 4,291	US\$ (70)	-	-
	Credit Suisse New York	"	-	-	3,945	US\$ 4,090	-	-	3,945	US\$ 4,069	US\$ 4,073	US\$ (4)	-	-
	Credit Suisse New York	"	-	-	-	-	3,200	US\$ 3,200	3,200	US\$ 3,238	US\$ 3,200	US\$ 38	-	-
	Dexia Credit Local	"	-	-	6,000	US\$ 5,976	-	-	6,000	US\$ 5,983	US\$ 6,000	US\$ (17)	-	-
	Dexia Credit Local	"	-	-	4,000	US\$ 3,984	-	-	4,000	US\$ 3,927	US\$ 4,000	US\$ (73)	-	-
	Dexia Credit Local S.A	"	-	-	4,000	US\$ 3,992	-	-	4,000	US\$ 3,976	US\$ 4,000	US\$ (24)	-	-
	Dexia Credit Local SA NY	"	-	-	5,000	US\$ 4,983	-	-	5,000	US\$ 4,952	US\$ 5,000	US\$ (48)	-	-
	Finance for Danish Ind	"	-	-	3,800	US\$ 3,799	-	-	3,800	US\$ 3,808	US\$ 3,801	US\$ 7	-	-
	General Elec Cap Corp.	"	-	-	7,000	US\$ 7,002	-	-	7,000	US\$ 7,005	US\$ 7,002	US\$ 3	-	-
	General Elec Cap Corp.	"	-	-	4,000	US\$ 4,110	-	-	4,000	US\$ 4,095	US\$ 4,117	US\$ (22)	-	-
	General Elec Cap Corp.	"	-	-	-	-	5,000	US\$ 5,037	5,000	US\$ 5,037	US\$ 5,000	US\$ 37	-	-
	Georgia Pwr Co.	"	-	-	4,000	US\$ 4,006	-	-	4,000	US\$ 4,002	US\$ 4,024	US\$ (22)	-	-
	Gmac LLC	"	-	-	4,600	US\$ 4,731	-	-	4,600	US\$ 4,715	US\$ 4,726	US\$ (11)	-	-
	Goldman Sachs Group Inc.	"	-	-	-	-	3,400	US\$ 3,400	3,400	US\$ 3,425	US\$ 3,400	US\$ 25	-	-
	Hewlett Packard Co.	"	-	-	3,000	US\$ 3,003	-	-	3,000	US\$ 3,004	US\$ 2,995	US\$ 9	-	-
	Household Fin Corp.	"	-	-	4,330	US\$ 4,694	-	-	4,330	US\$ 4,662	US\$ 4,781	US\$ (119)	-	-
	HSBC Bank Plc	"	-	-	3,400	US\$ 3,405	-	-	3,400	US\$ 3,407	US\$ 3,407	US\$ -	-	-
	HSBC Fin Corp.	"	-	-	2,900	US\$ 3,074	-	-	2,900	US\$ 3,074	US\$ 3,142	US\$ (68)	-	-
	IBM Corp.	"	-	-	6,800	US\$ 6,775	-	-	6,800	US\$ 6,781	US\$ 6,772	US\$ 9	-	-
	Inc Bk Nv Neth St Cr Gtee	"	-	-	-	-	8,500	US\$ 8,668	8,500	US\$ 8,655	US\$ 8,668	US\$ (13)	-	-
	John Deere Capital Corp. Fdic GT	"	-	-	3,500	US\$ 3,616	-	-	3,500	US\$ 3,601	US\$ 3,634	US\$ (33)	-	-
	JP Morgan Chase + Co.	"	-	-	5,000	US\$ 5,021	-	-	5,000	US\$ 5,032	US\$ 5,000	US\$ 32	-	-
	Lloyds Tsb Bank Plc Ser 144A	"	-	-	5,950	US\$ 6,009	-	-	5,950	US\$ 6,007	US\$ 6,077	US\$ (70)	-	-
	Macquarie Bk Ltd. Sr	"	-	-	3,900	US\$ 3,975	9,300	US\$ 9,472	13,200	US\$ 13,423	US\$ 13,455	US\$ (32)	-	-
	Massmutual Global Fdg II Mediu	"	-	-	4,000	US\$ 3,955	-	-	4,000	US\$ 3,991	US\$ 3,926	US\$ 65	-	-
	Mellon Fdg Corp.	"	-	-	3,500	US\$ 3,475	-	-	3,500	US\$ 3,479	US\$ 3,404	US\$ 75	-	-
	Merck + Co. Inc.	"	-	-	4,000	US\$ 4,032	-	-	4,000	US\$ 4,013	US\$ 4,066	US\$ (53)	-	-
	Merrill Lynch + Co. Inc.	"	-	-	4,691	US\$ 4,647	-	-	4,691	US\$ 4,669	US\$ 4,603	US\$ 66	-	-
	Merrill Lynch + Co. Inc.	"	-	-	-	-	4,000	US\$ 4,319	4,000	US\$ 4,319	US\$ 4,335	US\$ (16)	-	-
	Met Life Glob Funding I	"	-	-	-	-	3,000	US\$ 3,000	3,000	US\$ 3,004	US\$ 3,000	US\$ 4	-	-
	Metlife Inc.	"	-	-	6,500	US\$ 6,600	-	-	6,500	US\$ 6,584	US\$ 6,527	US\$ 57	-	-
	Microsoft Corp.	"	-	-	3,250	US\$ 3,232	-	-	3,250	US\$ 3,224	US\$ 3,249	US\$ (25)	-	-
	Morgan Stanley	"	-	-	-	-	9,000	US\$ 9,000	9,000	US\$ 9,140	US\$ 9,000	US\$ 140	-	-
	Morgan Stanley Dean Witter	"	-	-	8,000	US\$ 8,524	-	-	8,000	US\$ 8,513	US\$ 8,797	US\$ (284)	-	-
	National Australia Bank	"	-	-	-	-	3,000	US\$ 3,035	3,000	US\$ 3,040	US\$ 3,034	US\$ 6	-	-
	PepsiAmericas Inc.	"	-	-	-	-	4,000	US\$ 4,329	4,000	US\$ 4,308	US\$ 4,329	US\$ (21)	-	-
	Philip Morris Intl Inc.	"	-	-	-	-	4,000	US\$ 4,640	4,000	US\$ 4,591	US\$ 4,640	US\$ (49)	-	-
	Princoa Global Fdg I Medium	"	-	-	5,050	US\$ 5,011	-	-	5,050	US\$ 5,042	US\$ 4,921	US\$ 121	-	-
	Rabobank Nederland	"	-	-	5,000	US\$ 5,000	-	-	5,000	US\$ 5,000	US\$ 4,997	US\$ 3	-	-
	Royal Bk of Scotland Plc	"	-	-	5,000	US\$ 5,052	-	-	5,000	US\$ 5,045	US\$ 5,106	US\$ (61)	-	-
	Royal Bk Scotlnd Grp Plc 144A	"	-	-	9,450	US\$ 9,516	-	-	9,450	US\$ 9,517	US\$ 9,596	US\$ (79)	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
	Sanofi Aventis	Available-for-sale financial assets	-	-	-	US\$ -	4,000	US\$ 4,000	4,000	US\$ 4,003	US\$ 4,000	US\$ 3	-	US\$ -
	Sanofi Aventis	"	-	-	-	-	3,870	US\$ 3,870	3,870	US\$ 3,884	US\$ 3,870	US\$ 14	-	-
	Shell International Fin	"	-	-	4,515	US\$ 4,536	-	-	4,515	US\$ 4,533	US\$ 4,527	US\$ 6	-	-
	Shell International Fin	"	-	-	3,200	US\$ 3,248	-	-	3,200	US\$ 3,256	US\$ 3,227	US\$ 29	-	-
	Standard Chartered BK NY	"	-	-	-	-	3,000	US\$ 3,000	3,000	US\$ 3,001	US\$ 3,000	US\$ 1	-	-
	State Str Corp.	"	-	-	6,420	US\$ 6,417	-	-	6,420	US\$ 6,423	US\$ 6,382	US\$ 41	-	-
	Sun Life Finl Global	"	-	-	4,400	US\$ 4,332	-	-	4,400	US\$ 4,351	US\$ 4,304	US\$ 47	-	-
	Suncorp Metway Ltd.	"	-	-	8,800	US\$ 8,982	-	-	8,800	US\$ 8,937	US\$ 9,125	US\$ (188)	-	-
	Swedbank Hypotek AB	"	-	-	4,000	US\$ 3,993	-	-	4,000	US\$ 3,998	US\$ 4,002	US\$ (4)	-	-
	Swedbank Hypotek AB	"	-	-	-	-	4,100	US\$ 4,100	4,100	US\$ 4,086	US\$ 4,100	US\$ (14)	-	-
	Teva Pharm Fin III	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,019	US\$ 4,000	US\$ 19	-	-
	Teva Pharma Fin III LLC	"	-	-	4,000	US\$ 4,016	-	-	4,000	US\$ 4,011	US\$ 4,000	US\$ 11	-	-
	Total Capital Canada Ltd.	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,013	US\$ 4,000	US\$ 13	-	-
	United Technologies Corp.	"	-	-	-	-	4,000	US\$ 4,265	4,000	US\$ 4,244	US\$ 4,266	US\$ (22)	-	-
	US Central Federal Cred	"	-	-	4,000	US\$ 4,084	4,500	US\$ 4,599	8,500	US\$ 8,664	US\$ 8,692	US\$ (28)	-	-
	Verizon Communications	"	-	-	-	-	7,725	US\$ 7,725	7,725	US\$ 7,785	US\$ 7,725	US\$ 60	-	-
	Virginia Elec + Pwr Co.	"	-	-	-	-	3,250	US\$ 3,489	3,250	US\$ 3,461	US\$ 3,489	US\$ (28)	-	-
	Volkswagen Intl Fin NV	"	-	-	-	-	4,000	US\$ 4,000	4,000	US\$ 4,010	US\$ 4,000	US\$ 10	-	-
	Wachovia Corp. Global Medium	"	-	-	5,000	US\$ 5,141	-	-	5,000	US\$ 5,142	US\$ 5,138	US\$ 4	-	-
	Wal Mart Stores Inc.	"	-	-	4,000	US\$ 3,964	-	-	4,000	US\$ 3,968	US\$ 3,986	US\$ (18)	-	-
	Wal Mart Stores Inc.	"	-	-	3,770	US\$ 4,325	-	-	3,770	US\$ 4,261	US\$ 4,383	US\$ (122)	-	-
	Westpac Banking Corp.	"	-	-	3,500	US\$ 3,514	-	-	3,500	US\$ 3,511	US\$ 3,500	US\$ 11	-	-
	Westpac Banking Corp.	"	-	-	4,000	US\$ 4,005	-	-	4,000	US\$ 4,022	US\$ 4,044	US\$ (22)	-	-
	Wyeth	"	-	-	3,345	US\$ 3,657	638	US\$ 697	3,983	US\$ 4,325	US\$ 4,397	US\$ (72)	-	-
	Deutsche Bank AG London	Held-to-maturity financial assets	-	-	-	-	20,000	US\$ 19,884	-	-	-	-	20,000	US\$ 19,884
	<u>Government bond</u>													
	US Treasury N/B	Available-for-sale financial assets	-	-	41,700	US\$ 42,042	-	-	41,700	US\$ 42,042	US\$ 41,729	US\$ 313	-	-
	US Treasury N/B	"	-	-	11,100	US\$ 10,976	-	-	11,100	US\$ 10,941	US\$ 11,084	US\$ (143)	-	-
	US Treasury N/B	"	-	-	7,000	US\$ 7,079	-	-	7,000	US\$ 7,077	US\$ 7,078	US\$ (1)	-	-
	US Treasury N/B	"	-	-	5,250	US\$ 5,212	30,175	US\$ 29,906	35,425	US\$ 35,154	US\$ 35,101	US\$ 53	-	-
	US Treasury N/B	"	-	-	-	-	19,900	US\$ 19,872	19,900	US\$ 19,888	US\$ 19,872	US\$ 16	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 10,084	10,000	US\$ 10,073	US\$ 10,084	US\$ (11)	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 10,042	10,000	US\$ 10,046	US\$ 10,042	US\$ 4	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 10,024	10,000	US\$ 10,035	US\$ 10,024	US\$ 11	-	-
	US Treasury N/B	"	-	-	-	-	10,000	US\$ 9,988	10,000	US\$ 9,990	US\$ 9,988	US\$ 2	-	-
	US Treasury N/B	"	-	-	-	-	3,300	US\$ 3,301	3,300	US\$ 3,298	US\$ 3,301	US\$ (3)	-	-
	<u>Agency bond</u>													
	Fannie Mae	Available-for-sale financial assets	-	-	16,104	US\$ 16,102	-	-	16,104	US\$ 16,116	US\$ 16,098	US\$ 18	-	-
	Fannie Mae	"	-	-	11,100	US\$ 11,096	-	-	11,100	US\$ 11,109	US\$ 11,096	US\$ 13	-	-
	Fannie Mae	"	-	-	8,765	US\$ 8,763	11,500	US\$ 11,503	20,265	US\$ 20,280	US\$ 20,262	US\$ 18	-	-
	Fannie Mae	"	-	-	4,600	US\$ 4,589	-	-	4,600	US\$ 4,606	US\$ 4,598	US\$ 8	-	-
	Fannie Mae	"	-	-	3,900	US\$ 3,861	-	-	3,900	US\$ 3,851	US\$ 3,899	US\$ (48)	-	-
	Fannie Mae	"	-	-	3,000	US\$ 2,994	-	-	3,000	US\$ 3,000	US\$ 3,009	US\$ (9)	-	-
	Fannie Mae	"	-	-	-	-	20,300	US\$ 20,269	20,300	US\$ 20,301	US\$ 20,269	US\$ 32	-	-
	Fannie Mae	"	-	-	-	-	11,045	US\$ 12,104	11,045	US\$ 12,044	US\$ 12,104	US\$ (60)	-	-
	Fannie Mae	"	-	-	-	-	7,500	US\$ 7,500	7,500	US\$ 7,508	US\$ 7,500	US\$ 8	-	-
	Fannie Mae	"	-	-	-	-	3,000	US\$ 3,000	3,000	US\$ 3,008	US\$ 3,000	US\$ 8	-	-
	Federal Farm Credit Bank	"	-	-	4,000	US\$ 3,994	-	-	4,000	US\$ 4,002	US\$ 3,995	US\$ 7	-	-
	Federal Farm Credit Bank	"	-	-	4,000	US\$ 3,984	-	-	4,000	US\$ 3,986	US\$ 3,998	US\$ (12)	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal (Note 2)				Ending Balance (Note 3)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Carrying Value (Foreign Currencies in Thousands)	Gain (Loss) on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
	Federal Farm Credit Bank	Available-for-sale financial assets	-	-	-	US\$ -	4,000	US\$ 4,002	4,000	US\$ 4,003	US\$ 4,002	US\$ 1	-	US\$ -
	Federal Home Loan Bank	"	-	-	5,000	US\$ 5,007	-	-	5,000	US\$ 5,007	US\$ 5,009	US\$ (2)	-	-
	Federal Home Loan Bank	"	-	-	6,800	US\$ 6,817	-	-	6,800	US\$ 6,817	US\$ 6,811	US\$ 6	-	-
	Federal Home Loan Bank	"	-	-	8,000	US\$ 8,040	-	-	8,000	US\$ 8,033	US\$ 7,990	US\$ 43	-	-
	Federal Home Loan Bank	"	-	-	10,000	US\$ 9,998	-	-	10,000	US\$ 10,001	US\$ 9,985	US\$ 16	-	-
	Federal Home Loan Bank	"	-	-	8,400	US\$ 8,397	-	-	8,400	US\$ 8,400	US\$ 8,399	US\$ 1	-	-
	Federal Home Ln Bks	"	-	-	5,000	US\$ 5,046	-	-	5,000	US\$ 5,043	US\$ 5,098	US\$ (55)	-	-
	Federal Home Ln Mtg Corp.	"	-	-	3,732	US\$ 3,727	-	-	3,340	US\$ 3,340	US\$ 3,341	US\$ (1)	-	-
	Federal Home Ln Mtg Corp.	"	-	-	3,324	US\$ 3,453	-	-	3,161	US\$ 3,288	US\$ 3,360	US\$ (72)	-	-
	Federal Home Loan Mtg Corp.	"	-	-	5,183	US\$ 5,168	-	-	4,634	US\$ 4,634	US\$ 4,632	US\$ 2	-	-
	Fhr 2953 Da	"	-	-	3,284	US\$ 3,466	-	-	2,846	US\$ 3,028	US\$ 2,993	US\$ 35	-	-
	Fhr 3184 Fa	"	-	-	4,096	US\$ 4,084	-	-	3,810	US\$ 3,807	US\$ 3,806	US\$ 1	-	-
	Fnma Tba Jan 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,147	3,000	US\$ 3,142	US\$ 3,147	US\$ (5)	-	-
	Fnma Tba Feb 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,138	3,000	US\$ 3,117	US\$ 3,138	US\$ (21)	-	-
	Fnma Tba Mar 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,110	3,000	US\$ 3,140	US\$ 3,110	US\$ 30	-	-
	Fnma Tba Apr 15 Single Fam	"	-	-	-	-	3,000	US\$ 3,131	3,000	US\$ 3,164	US\$ 3,131	US\$ 33	-	-
	Fnr 2006 60 CO	"	-	-	3,485	US\$ 3,483	-	-	3,274	US\$ 3,274	US\$ 3,272	US\$ 2	-	-
	Fnr 2009 116 A	"	-	-	4,271	US\$ 4,640	-	-	3,841	US\$ 4,137	US\$ 4,122	US\$ 15	-	-
	Freddie Mac	"	-	-	5,750	US\$ 5,764	-	-	5,750	US\$ 5,761	US\$ 5,771	US\$ (10)	-	-
	Freddie Mac	"	-	-	4,300	US\$ 4,316	-	-	4,300	US\$ 4,312	US\$ 4,308	US\$ 4	-	-
	Freddie Mac	"	-	-	10,420	US\$ 10,411	-	-	10,420	US\$ 10,414	US\$ 10,412	US\$ 2	-	-
	Freddie Mac	"	-	-	-	-	19,000	US\$ 18,981	19,000	US\$ 18,986	US\$ 18,981	US\$ 5	-	-
	Freddie Mac	"	-	-	-	-	3,550	US\$ 3,549	3,550	US\$ 3,553	US\$ 3,549	US\$ 4	-	-
	Freddie Mac	"	-	-	-	-	14,200	US\$ 14,196	14,200	US\$ 14,204	US\$ 14,196	US\$ 8	-	-
	Gnr 2009 45 AB	"	-	-	4,417	US\$ 4,496	-	-	3,082	US\$ 3,129	US\$ 3,215	US\$ (86)	-	-
	Government Natl Mtg Assn	"	-	-	3,050	US\$ 3,285	-	-	3,050	US\$ 3,202	US\$ 3,278	US\$ (76)	-	-
	Ngn 2010 R2 1A	"	-	-	3,732	US\$ 3,731	-	-	3,490	US\$ 3,492	US\$ 3,490	US\$ 2	-	-
	Ngn 2011 R4 1A	"	-	-	-	-	4,000	US\$ 4,000	3,914	US\$ 3,914	US\$ 3,914	-	-	-
	<u>Money market fund</u>													
	Ssga Cash Mgmt Global Offshore	Available-for-sale financial assets	-	-	12,387	US\$ 12,387	764,155	US\$ 764,155	776,459	US\$ 776,459	US\$ 776,459	-	83	US\$ 83

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The data for marketable securities disposed exclude bonds maturities and redemption by the issuer.

Note 3: The ending balance includes the amortization of premium/discount on bonds investments, unrealized valuation gains/losses on financial assets, translation adjustments, equity in earnings/losses of equity method investees, other adjustments to long-term investment using equity method and amounts transferred from spin-off.

(Concluded)

TABLE 4

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2011

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
TSMC	Fab	January 5, 2011 to November 10, 2011	\$ 1,018,438	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 7, 2011 to December 27, 2011	152,099	By the construction progress	Lead Fu Industrials Corp.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 26, 2011 to December 27, 2011	222,928	By the construction progress	MandarTech Interiors Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 26, 2011 to December 27, 2011	173,899	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to December 27, 2011	2,425,769	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to December 27, 2011	2,036,095	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to July 24, 2011	480,672	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	January 27, 2011 to December 28, 2011	219,004	By the construction progress	Edg Corporation Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 24, 2011 to December 27, 2011	229,992	By the construction progress	Yankey Engineering Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
Xintec	Fab	February 17, 2011	1,050,000	Based on the agreement	Vertex Precision Electronics Inc.	-	N/A	N/A	N/A	N/A	Pricing report	Manufacturing purpose	None

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2011**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 234,902,043	56	Net 30 days after invoice date	-	-	\$ 24,661,104	55	
	GUC	Investee accounted for using equity method	Sales	3,388,912	1	Net 30 days after monthly closing	-	-	116,218	-	
	VIS	Investee accounted for using equity method	Sales	302,844	-	Net 30 days after monthly closing	-	-	-	-	
	TSMC Solar Europe GmbH	Indirect subsidiary	Sales	148,898	-	Net 60 days after invoice date	-	-	-	-	
	TSMC China	Subsidiary	Purchases	10,392,189	21	Net 30 days after monthly closing	-	-	(946,826)	8	
	WaferTech	Indirect subsidiary	Purchases	7,305,879	15	Net 30 days after monthly closing	-	-	(420,459)	3	
	VIS	Investee accounted for using equity method	Purchases	5,577,762	12	Net 30 days after monthly closing	-	-	(987,937)	8	
	SSMC	Investee accounted for using equity method	Purchases	3,949,176	8	Net 30 days after monthly closing	-	-	(336,037)	3	
	Motech	Indirect investee accounted for using the equity method	Purchases	124,673	-	Net 30 days after monthly closing	-	-	-	-	
Xintec	OmniVision	Parent company of director (represented for Xintec)	Sales	1,829,969	47	Net 30 days after monthly closing	-	-	241,333	51	
	TSMC	Parent company	Sales	267,841	7	Net 30 days after monthly closing	-	-	17,326	4	

Note: The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. For other related party transactions, prices and terms were determined in accordance with mutual agreements.

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries
**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2011**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC North America	Subsidiary	\$ 24,684,991	39	\$ 9,115,109	-	\$ 14,946,365	-
			116,218	15	-	-	-	-
Xintec	OmniVision	Parent company of director (represented for Xintec)	241,333	36	-	-	-	-

Note 1: The calculation of turnover days excludes other receivables from related parties.

TABLE 7

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE DECEMBER 31, 2011

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2011			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC	TSMC Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 44,071,845	\$ 431,368	\$ 431,368	Subsidiary
	TSMC Partners	Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	34,986,964	1,745,799	1,745,799	Subsidiary
	TSMC China	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	18,939,667	12,180,367	-	100	13,542,181	2,113,521	2,098,233	Subsidiary
	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	-	1,118,000	100	10,153,244	(982,868)	(982,868)	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	39	8,988,007	882,183	(10,337)	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	6,289,429	3,370,241	1,143,147	Investee accounted for using equity method
	TSMC North America	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	2,981,639	197,493	197,493	Subsidiary
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	2,270,000	-	227,000	100	1,746,893	(523,002)	(523,002)	Subsidiary
	Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,011	40	1,606,694	166,603	54,449	Investee with a controlling financial interest
	VTAF III	Cayman Islands	Investing in new start-up technology companies	2,074,155 (Note 4)	3,565,441 (Note 4)	-	53	1,311,044	(280,045)	(273,038)	Subsidiary
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,157,188	527,406	183,843	Investee accounted for using equity method
	VTAF II	Cayman Islands	Investing in new start-up technology companies	949,267	1,166,470	-	98	762,135	32,275	31,629	Subsidiary
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	892,855	971,785	-	99	213,235	(11,185)	(11,129)	Subsidiary (Note 3)
	TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	205,171	34,937	34,937	Subsidiary (Note 3)
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	161,601	4,523	4,523	Subsidiary (Note 3)
	TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	23,448	3,263	3,263	Subsidiary (Note 3)
TSMC Solar	Motech	Taipei, Taiwan	Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems	6,228,661 (Note 4)	6,228,661 (Note 4)	87,480	20	5,612,344	(2,193,504)	Note 2	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,795,131 (Note 4)	3,565,441 (Note 4)	-	46	1,681,719	(280,045)	Note 2	Investee accounted for using equity method
	TSMC Solar Europe	Amsterdam, the Netherlands	Investing in solar related business	411,032 (Note 4)	25,350 (Note 4)	-	100	204,163	(196,659)	Note 2	Subsidiary
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	147,686 (Note 4)	60,962 (Note 4)	1	100	52,187	(63,192)	Note 2	Subsidiary
TSMC SSL	TSMC Lighting NA	Delaware, U.S.A.	Selling and marketing of solid state lighting related products	3,133 (Note 4)	3,133 (Note 4)	1	100	2,994	(34)	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2011			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2011 (Foreign Currencies in Thousands)	December 31, 2010 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC Partners	TSMC Development VisEra Holding Company	Delaware, U.S.A. Cayman Islands	Investment activities	US\$ 0,001	US\$ 0,001	1	100	US\$ 460,034	US\$ 56,777	Note 2	Subsidiary Investee accounted for using equity method
			Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$ 43,000	US\$ 43,000	43,000	49	US\$ 94,208	US\$ 29,054	Note 2	
	ISDF TSMC Technology ISDF II TSMC Canada Mcube Inc. (Common Stock)	Cayman Islands Delaware, U.S.A. Cayman Islands Ontario, Canada Delaware, U.S.A.	Investing in new start-up technology companies	US\$ 787	US\$ 4,088	787	97	US\$ 11,112	US\$ 3,656	Note 2	Subsidiary
			Engineering support activities	US\$ 0,001	US\$ 0,001	1	100	US\$ 10,615	US\$ 737	Note 2	Subsidiary (Note 3)
			Investing in new start-up technology companies	US\$ 14,153	US\$ 16,532	14,153	97	US\$ 9,994	US\$ (642)	Note 2	Subsidiary
			Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 4,059	US\$ 435	Note 2	Subsidiary (Note 3)
			Research, development, and sale of micro-semiconductor device	US\$ 800	US\$ 800	5,333	80	-	US\$ (13,586)	Note 2	Investee accounted for using equity method (Note 3)
			Research, development, and sale of micro-semiconductor device	US\$ 1,000	US\$ 1,000	1,000	5	-	US\$ (13,586)	Note 2	Investee accounted for using equity method (Note 3)
	WaferTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$ 280,000	US\$ 280,000	293,640	100	US\$ 220,119	US\$ 54,908	Note 2	Subsidiary
VTAF III	Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US\$ 3,937	US\$ 3,937	11,868	57	US\$ 1,204	US\$ (1,458)	Note 2	Subsidiary (Note 3)
	Growth Fund VTA Holdings	Cayman Islands Delaware, U.S.A.	Investing in new start-up technology companies Investing in new start-up technology companies	US\$ 1,830 -	US\$ 1,700 -	- -	100 62	US\$ 510 -	US\$ (466) -	Note 2 Note 2	Subsidiary (Note 3) Subsidiary (Note 3)
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	31	-	-	Note 2	Subsidiary (Note 3)
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	7	-	-	Note 2	Subsidiary (Note 3)
TSMC Solar Europe	TSMC Solar Europe GmbH	Hamburg, Germany	Selling of solar related products and providing customer service	EUR 9,900	EUR 100	1	100	EUR 5,103	EUR (4,787)	Note 2	Subsidiary

Note 1: Equity in earnings/losses of investees include the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings/losses of the investee company is not reflected herein as such amount is already included in the equity in the earnings/losses of the investor company.

Note 3: Equity in earnings/losses was determined based on the unaudited financial statements.

Note 4: In August 2011, the Company adjusted its investment structure by transferring TSMC Lighting NA to TSMC SSL and transferring Motech, TSMC Solar Europe, TSMC Solar NA and part of VTAF III to TSMC Solar.

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INFORMATION OF INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2011

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

Investor Company	Main Businesses and Products	Total Amount of Paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2011 (US\$ in Thousand)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2011 (US\$ in Thousands)
					Outflow (US\$ in Thousands)	Inflow	
TSMC China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 18,939,667 (RMB 4,502,080)	(Note 1)	\$ 12,180,367 (US\$ 371,000)	\$ 6,759,300 (US\$ 225,000)	\$ -	\$ 18,939,667 (US\$ 596,000)
Shanghai Walden Venture Capital Enterprise	Investing in new start-up technology companies	953,709 (US\$ 31,488)	(Note 2)	-	147,485 (US\$ 5,000)	-	147,485 (US\$ 5,000)

Investor Company	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2011 (US\$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2011	Accumulated Investment in Mainland China as of December 31, 2011 (US\$ in Thousand)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousand)	Upper Limit on Investment (US\$ in Thousand)
TSMC China	100%	\$ 2,098,233 (Note 3)	\$ 13,542,181	\$ -	\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)
Shanghai Walden Venture Capital Enterprise	8%	(Note 4)	151,440 (US\$ 5,000)	-			

Note 1: TSMC directly invested US\$596,000 thousand in TSMC China.

Note 2: TSMC indirectly invested in China company through third region, TSMC Partners.

Note 3: Amount was recognized based on the audited financial statements.

Note 4: TSMC Partners invested in financial assets carried at cost, equity in the earnings from which was not recognized.

TABLE 9

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

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

A. For the year ended December 31, 2011

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
0	TSMC	TSMC North America	1	Sales	\$ 234,902,043	-	55%
				Receivables from related parties	24,661,104	-	3%
				Other receivables from related parties	23,887	-	-
				Payables to related parties	26,536	-	-
		TSMC China	1	Sales	9,834	-	-
				Purchases	10,392,189	-	2%
				Marketing expenses - commission	64,907	-	-
				Sales of property, plant and equipment	2,885,847	-	1%
				Purchases of property, plant and equipment	70,491	-	-
				Gain on disposal of property, plant and equipment	94,987	-	-
				Technical service income	1,063	-	-
				Other receivables from related parties	23,688	-	-
				Payables to related parties	946,826	-	-
				Other assets	1,493	-	-
		TSMC Japan	1	Marketing expenses - commission	284,644	-	-
				Payables to related parties	68,873	-	-
		TSMC Europe	1	Marketing expenses - commission	357,582	-	-
				Research and development expenses	45,489	-	-
				Payables to related parties	29,957	-	-
		TSMC Korea	1	Marketing expenses - commission	22,049	-	-
				Payables to related parties	3,146	-	-
		GUC (Note 3)	1	Sales	1,158,302	-	-
				Research and development expenses	5,718	-	-
		TSMC Technology	1	Research and development expenses	534,804	-	-
				Payables to related parties	112,926	-	-
		WaferTech	1	Sales	27,049	-	-
				Purchases	7,305,879	-	2%
				Sales of property, plant and equipment	72,880	-	-
				Gain on disposal of property, plant and equipment	1,463	-	-
				Other receivables from related parties	14,196	-	-
				Payables to related parties	420,459	-	-

(Continued)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
0	TSMC	TSMC Canada	1	Research and development expenses	\$ 192,616	-	-
				Payables to related parties	18,887	-	-
		Xintec	1	Manufacturing overhead	260,250	-	-
				Research and development expenses	7,313	-	-
				Settlement loss	19,686	-	-
				Payables to related parties	37,013	-	-
		TSMC Solar Europe GmbH	1	Sales	148,898	-	-
		TSMC SSL	1	Miscellaneous revenue	2,625	-	-
				Other receivables from related parties	1,947	-	-
		TSMC Solar	1	Miscellaneous revenue	2,625	-	-
				Other receivables from related parties	1,857	-	-
		TSMC Global	1	Interest payable	22,293	-	-
1	GUC (Note 3)	TSMC North America	3	Purchases	296,462	-	-
				Manufacturing overhead	120,408	-	-
		GUC-NA	3	Operating expenses	61,369	-	-
				Manufacturing overhead	30,583	-	-
		GUC-Japan	3	Operating expenses	21,826	-	-
		GUC-Shanghai	3	Operating expenses	8,568	-	-
2	TSMC Partners	TSMC China	3	Long-term receivables from related parties	7,591,420	-	1%
				Interest income	17,773	-	-
		TSMC SSL	3	Other receivables from related parties	348,369	-	-
		TSMC Solar	3	Other receivables from related parties	454,634	-	-

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

Note 3: The Company has no controlling interest over the financial, operating and personnel hiring policy decisions of GUC and its subsidiaries since July 2011. As a result, GUC and its subsidiaries are no longer consolidated and are accounted for using the equity method.

(Continued)

B. For the year ended December 31, 2010

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
0	TSMC	TSMC North America	1	Sales	\$ 220,529,792	-	51%
				Receivables from related parties	25,579,259	-	6%
				Other receivables from related parties	3,673	-	-
				Payables to related parties	11,475	-	-
		TSMC China	1	Sales	17,631	-	-
				Purchases	8,748,101	-	2%
				Marketing expenses - commission	59,180	-	-
				Gain on disposal of property, plant and equipment	45,251	-	-
				Acquisition of property, plant and equipment	66,337	-	-
				Disposal of property, plant and equipment	1,409,862	-	-
				Technical service income	4,487	-	-
				Other receivables from related parties	1,170,407	-	-
				Payables to related parties	895,193	-	-
				Deferred debits	27,327	-	-
		TSMC Japan	1	Marketing expenses - commission	266,194	-	-
				Payables to related parties	26,115	-	-
		TSMC Europe	1	Marketing expenses - commission	415,765	-	-
				Research and development expenses	33,907	-	-
				Payables to related parties	35,530	-	-
		TSMC Korea	1	Marketing expenses - commission	19,318	-	-
				Payables to related parties	2,466	-	-
		GUC	1	Sales	2,818,499	-	1%
				Research and development expenses	8,390	-	-
				Receivables from related parties	154,589	-	-
				Payables to related parties	2,271	-	-
		TSMC Technology	1	Research and development expenses	547,838	-	-
				Payables to related parties	88,292	-	-
		WaferTech	1	Sales	9,918	-	-
				Purchases	7,878,260	-	2%
				Gain on disposal of other assets	9,655	-	-
				Acquisition of property, plant and equipment	9,624	-	-
				Disposal of property, plant and equipment	27,010	-	-
				Disposal of other assets	9,655	-	-
				Other receivables from related parties	3,543	-	-
				Payables to related parties	568,685	-	-
		TSMC Canada	1	Research and development expenses	181,943	-	-
				Payables to related parties	13,495	-	-

(Continued)

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			
				Financial Statements Item	Amount	Terms (Note 2)	Percentage of Consolidated Total Gross Sales or Total Assets
0	TSMC	Xintec	1	Manufacturing overhead	\$ 313,397	-	-
				Research and development expenses	12,652	-	-
				Disposal of property, plant and equipment	3,841	-	-
				Payables to related parties	69,083	-	-
1	GUC	TSMC North America	3	Purchases	780,070	-	-
				Manufacturing overhead	196,572	-	-
				Payables to related parties	102,302	-	-
		TSMC Korea	3	Operating expenses	1,156	-	-
		GUC-NA	3	Operating expenses	155,643	-	-
				Manufacturing overhead	54,029	-	-
				Accrued expenses	14,353	-	-
		GUC-Japan	3	Operating expenses	45,927	-	-
				Accrued expenses	9,706	-	-
		GUC-Europe	3	Operating expenses	1,778	-	-
		GUC-Shanghai	3	Operating expenses	22,146	-	-
				Accrued expenses	1,945	-	-
2	TSMC Partners	TSMC China	3	Other long-term receivables	3,644,160	-	1%
3	TSMC China	TSMC Partners	3	Other long-term payables	3,663,678	-	1%
		WaferTech	3	Acquisition of property, plant and equipment	27,104	-	-

Note 1: No. 1 represents the transactions from parent company to subsidiary.

No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Concluded)

9. U.S. GAAP Financial Information

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

U.S. GAAP RECONCILIATIONS OF SHAREHOLDERS' EQUITY

December 31, 2010 and 2011

(In Thousand New Taiwan Dollars)

	2011	2010
Total shareholders' equity based on R.O.C. GAAP	\$ 632,043,551	\$ 578,704,405
Adjustments		
- U.S. GAAP adjustments on equity-method investees	(626,983)	(516,314)
- 10% tax on undistributed earnings	(2,808,380)	(1,379,606)
- Goodwill		
- Carrying amount difference for 68% equity interest in TSMC's share acquisition	52,212,732	52,212,732
- Reversal of amortization of goodwill recognized under R.O.C. GAAP	(11,507,850)	(11,499,173)
- Accrued pension cost	(23,683)	(27,445)
- Accrual for deferred pension loss	(2,108,370)	(2,477,721)
- Gain from deconsolidation of GUC	4,304,106	-
- Income tax effect of U.S. GAAP adjustments	127,484	139,349
- Net adjustment	39,569,056	36,451,822
Total equity based on U.S. GAAP	<u>\$ 671,612,607</u>	<u>\$ 615,156,227</u>
Attributable to		
Shareholders of the parent	669,162,570	610,596,740
Noncontrolling interests	2,450,037	4,559,487
	<u>\$ 671,612,607</u>	<u>\$ 615,156,227</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

U.S. GAAP RECONCILIATIONS OF NET INCOME

For the Years Ended December 31, 2010 and 2011

(In Thousand New Taiwan Dollars)

	2011	2010
Net income		
Consolidated net income based on R.O.C. GAAP	\$ 134,453,260	\$ 162,281,930
Adjustments		
- U.S. GAAP adjustments on equity-method investees	(127,210)	(7,020)
- 10% tax on undistributed earnings	(1,428,775)	2,208,402
- Profit sharing to employees - Fair market value adjustment of prior year accrual	(30,610)	-
- Pension expense	3,762	4,289
- Stock-based compensation	(60,074)	(179,784)
- Gain from deconsolidation of GUC	4,304,106	-
- Income tax effect of U.S. GAAP adjustments	(11,145)	12,625
- Net adjustment	<u>2,650,054</u>	<u>2,038,512</u>
Consolidated net income based on U.S. GAAP	<u>\$ 137,103,314</u>	<u>\$ 164,320,442</u>
Attributable to		
Shareholders of the parent	136,872,746	163,638,659
Noncontrolling interests	230,568	681,783
	<u>\$ 137,103,314</u>	<u>\$ 164,320,442</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>