

TSMC ANNUAL REPORT 2012 (I)

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.

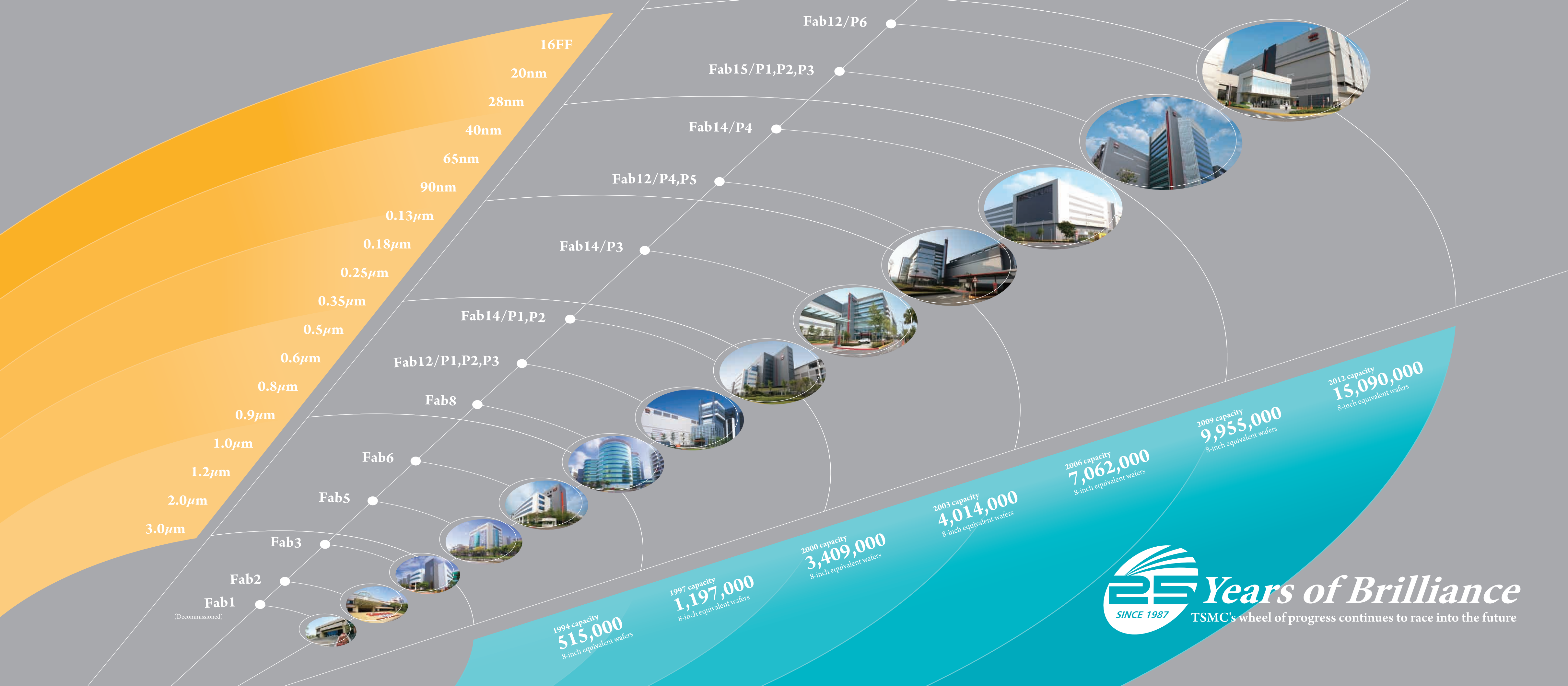
Commitment – TSMC is committed to the welfare of customers, suppliers, employees, shareholders, and society. These stakeholders all contribute to TSMC’s success, and TSMC is dedicated to serving their best interests. In return, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

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.

TABLE OF CONTENTS

○ 1. Letter to Shareholders	5	○ 5. Operational Highlights	64
○ 2. Company Profile	10	• 5.1 Business Activities	64
• 2.1 An Introduction to TSMC	10	• 5.2 Technology Leadership	65
• 2.2 Market/Business Summary	10	• 5.3 Manufacturing Excellence	71
• 2.3 Organization	14	• 5.4 Customer Trust	73
• 2.4 Board Members	16	• 5.5 Employees	75
• 2.5 Management Team	22	• 5.6 Material Contracts	78
○ 3. Corporate Governance	32	○ 6. Financial Highlights	82
• 3.1 Board of Directors	32	• 6.1 Financial Status and Operating Results	82
• 3.2 Major Resolutions of Shareholders’ Meeting and Board Meetings	36	• 6.2 Risk Management	86
• 3.3 Taiwan Corporate Governance Implementation as Required by the Taiwan Financial Supervisory Commission	38	○ 7. Corporate Social Responsibility	98
• 3.4 Code of Ethics and Business Conduct	39	• 7.1 Environmental, Safety and Health (ESH) Management	99
• 3.5 Regulatory Compliance	43	• 7.2 TSMC Education and Culture Foundation	105
• 3.6 Internal Control System Execution Status	44	• 7.3 TSMC Volunteer Program	106
• 3.7 Status of Personnel Responsible for the Company’s Financial and Business Operation	45	• 7.4 Social Responsibility Implementation Status as Required by the Taiwan Financial Supervisory Commission	109
• 3.8 Information Regarding TSMC’s Independent Auditor	45	○ 8. Subsidiary Information and Other Special Notes	112
• 3.9 Material Information Management Procedure	45	• 8.1 Subsidiaries	112
○ 4. Capital and Shares	48	• 8.2 Status of TSMC Common Shares and ADRs Acquired, Disposed of, and Held by Subsidiaries	117
• 4.1 Capital and Shares	48	• 8.3 Special Notes	117
• 4.2 Issuance of Corporate Bonds	54		
• 4.3 Preferred Shares	56		
• 4.4 Issuance of American Depositary Shares	56		
• 4.5 Status of Employee Stock Option Plan	58		
• 4.6 Status of Employee Restricted Stock	60		
• 4.7 Status of New Share Issuance in Connection with Mergers and Acquisitions	60		
• 4.8 Financing Plans and Implementation	60		



Years of Brilliance

TSMC's wheel of progress continues to race into the future

1. Letter to Shareholders

Dear Shareholders,

In 2012 TSMC achieved record revenue and net profit, despite a decline in world semiconductor industry revenue related to slower global economic growth. Our performance was driven largely by the growing global demand for mobile IC products, such as tablets and smartphones. Designers of these products are rapidly migrating to 28-nanometer technology, where TSMC has commanded a very strong position among the semiconductor foundry players.

As we continued to expand our technology leadership with multiple years of intensified R&D and capital investment, our leadership position in mobile IC was strengthened by our close partnerships with customers, who count on TSMC to deliver the advanced technology nodes that enable their innovative designs with higher speed, lower power consumption and smaller form factor. We believe TSMC is well positioned to meet the strong demand for mobile products in the next several years.

In 2012 we accelerated the installation of 28-nanometer capacity and production at an unprecedented pace in order to meet customers’ strong demand. As a result, TSMC’s shipment of 28-nanometer wafers increased thirty-fold in 2012 from its 2011 level. Other achievements in 2012 include:

- Our total wafer shipments reached 14.04 million 8-inch equivalent wafers.
- Our advanced technologies (65-nanometer and beyond) reached 62 percent of total wafer revenue.
- Our share of the total semiconductor foundry segment increased for the third consecutive year and reached 45 percent.

2012 Financial Performance

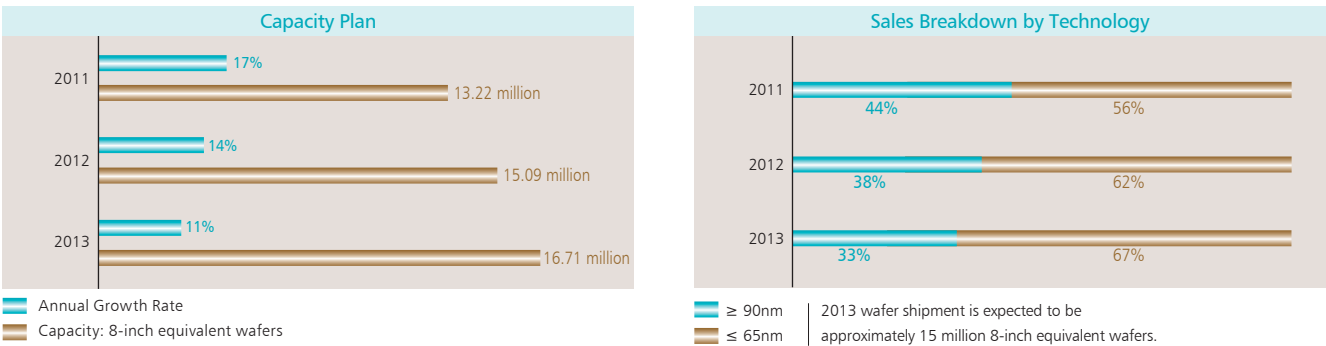
Consolidated revenue totaled NT\$506.25 billion, an increase of 18.5 percent over NT\$427.08 billion in 2011. Net income was NT\$166.16 billion and diluted earnings per share were NT\$6.41, both increased 23.8 percent from the 2011 level of NT\$134.20 billion net income and NT\$5.18 diluted EPS.

In US dollars, TSMC generated net income of US\$5.62 billion on consolidated revenue of US\$17.12 billion, compared with net income of US\$4.57 billion on consolidated revenue of US\$14.54 billion for 2011.

Gross profit margin was 48.1 percent compared with 45.4 percent in 2011, and operating profit margin reached 35.8 percent compared with 33.1 percent a year earlier. Net profit margin was 32.8 percent, an increase of 1.4 percentage points from the previous year’s 31.4 percent.

Technological Developments

We are augmenting our strong position in 28-nanometer technology with the development of our 20-nanometer System-on-Chip (20-SoC) and 16-nanometer FinFET, or field-effect transistor with three-dimensional architecture. Both 20-nanometer and 16-nanometer FinFET are making progress in R&D and represent state-of-the-art leading-edge technologies, not just in foundry but in the whole semiconductor industry. In November 2012, we began to accept customers’ test chips for our 20-nanometer SoC technology, and volume production is scheduled to begin in 2014. In 2012, we completed the 16-nanometer FinFET technology definition and began development, and we successfully taped out process development test vehicle and demonstrated functional yield on the FinFET-based SRAM bit-cells. Risk production of TSMC’s 16-FinFET is expected to follow 20-SoC by one year. This is a somewhat faster cadence than our previous generations, enabled by the similarity in interconnect density shared between 20-SoC and 16-FinFET. At the same time, pathfinding for 10-nanometer node has started with multiple patterning on immersion scanners. Innovative processes are being developed to deal with the unique challenges of this technology node.



TSMC became the world’s first foundry to provide a full system integration, turn-key solution to customers in 2012. Our backend technologies included advanced interconnect, production-ready fine pitch silicon interposer with through silicon via (TSV) and chip stacking, and advanced wafer-level-chip scale packaging (WL CSP). We can offer customers design tools, technology and mass production capability.

TSMC has gained important customer wins and segment share not only through manufacturing excellence, but also through other key competitive advantages, not the least of which is our open design ecosystem, the Open Innovation Platform® (OIP). OIP becomes an even more important competitive advantage for TSMC as customers engage the exploration-solution-validation design cycle at 20- and 16-nanometer geometries, which represent a new frontier in precision technology manufacturing.

Corporate Developments

To accelerate the development of key next-generation lithographic technology, in August 2012 TSMC joined the ASML Holding N.V. Customer Co-Investment Program. The program’s scope includes development of extreme ultraviolet (EUV) lithography technology and 450-millimeter lithography tools. Under the agreement with ASML, TSMC made an investment of €838 million to acquire 5 percent of ASML’s equity, and will commit €277 million, spread over five years, to ASML’s R&D program.

Honors and Awards

TSMC in 2012 received numerous honors and awards for our efforts in sustainability, corporate governance, investor relations, and innovation from *Corporate Governance Asia*, *EuroMoney*, *FinanceAsia*, *Institutional Investor*, *IR Magazine*, *CommonWealth Magazine*, and *Global Views Magazine*.

As a leader in green manufacturing, we were honored that TSMC’s Fab 12, Phases 1 and 2, manufacturing facility earned the world’s first LEED® “Platinum” certification for a semiconductor wafer fab.

Dow Jones Sustainability Indexes (DJSI) not only included TSMC in its index for the 12th consecutive year, but also named TSMC the semiconductor sector leader for the second time since 2010, highlighting our dedication to corporate social responsibility, leadership in adopting international sustainability management standards, and continued innovation in the economic, environmental, and social dimensions.

Outlook

Innovations in mobile computing products have changed the way people live, and advancement of semiconductor technologies enabled these changes. Through our efforts in the past 25 years, TSMC has achieved technology leadership, manufacturing excellence, and the trust of our customers. Allied with our customers, suppliers, and ecosystem partners, we believe TSMC is well positioned to expand the technology frontier, enable innovations further, and to fulfill our mission as the trusted technology and capacity provider for the global logic IC industry for years to come.




Morris Chang
Chairman and Chief Executive Officer

Footnote 1: LEED stands for the “Leadership in Energy and Environmental Design,” a rating system run by the U.S. Green Building Council that conducts the certification process.

2012 Revenues NT\$ **506.2** Billion
Reaching Another Record High

2008 Revenues NT\$ **333.2** Billion
Exceeding US\$10 Billion for the First Time

2000 Revenues NT\$ **166.2** Billion
Exceeding NT\$100 Billion for the First Time

1997 Revenues NT\$ **43.9** Billion
ADRs Listed on New York Stock Exchange

1994 Revenues NT\$ **19.3** Billion
Listed on Taiwan Stock Exchange

1988 Revenues NT\$ **1.0** Billion
First Profitable Year

1987 TSMC Founded

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, industrial and other electronics markets.

Annual capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, totaled 15.09 million 8-inch equivalent wafers in 2012. 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 37,000 people worldwide as of the end of 2012.

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 2012 also reached full volume production of 28nm featuring 28HP & 28HPM for high performance and 28LP & 28HPL for low power, and began the initial customer tape out of 20nm technology. 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, MEMS, silicon germanium technologies and automotive service packages.

TSMC’s subsidiaries “TSMC Solid State Lighting Ltd.” and “TSMC Solar Ltd.” also respectively engage in the researching, developing, designing, manufacturing and selling of solid state lighting devices as well as related products and systems, and solar-related technologies and products.

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 2012, TSMC maintained its leading position in the total foundry segment of the global semiconductor industry, with an estimated market segment share of 45%. 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 2012, 77% of TSMC’s wafer revenue came from manufacturing processes with geometries of 0.13μm and below; 62% of TSMC’s wafer revenue came from 65nm processes and below.

With TSMC’s focus on customer trust, the Company continuously strengthened its Open Innovation Platform® (OIP) initiative in 2012 with additional innovative services. During the 2012 TSMC Technology Symposium and the 2012 Design Automation Conference of IEEE/ACM, the Company revealed TSMC 20nm Reference Flow, CoWoS™ Reference Flow, the fourth revision of radio frequency (RF) reference design kit, and 20nm Custom Design Reference Flow, to highlight the success of design enablement through OIP. The OIP Ecosystem Forum, which was held in October 2012 at San Jose, California, was well attended by both customers and ecosystem partners to demonstrate the value of collaboration through OIP to foster innovations.

TSMC continued to advance the semiconductor roadmap in 2012. Examples of technologies the Company either developed or rolled out include:

- 16nm FinFET technology (16FF) is under development to provide best value in speed/power optimization to meet next generation products requirements in CPU (Central Processing Unit), GPU (Graphics Processing Unit), APU (Accelerated Processing Unit), FPGA (Field-Programmable Gate Array), Networking and mobile computing applications, including smartphones, tablets and high-end SoC (System-on-Chip) devices.
- 20nm System-on-Chip technology (20-SoC) is under development to provide the migration path from 28nm for both performance-driven products and mobile computing applications.
- 28nm High Performance (28HP) technology for performance-driven markets like CPU, GPU, APU, FPGA and 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, Game Console, Network Processor and Gigabit Ethernet applications.
- 40nm low power and RF technology for smartphones, DTV (Digital Television), STB (Set-Top-Box), game and wireless connectivity applications.
- 40nm 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), Bluetooth and other handheld applications.
- 55nm & 65nm 5V LDMOS (Laterally Diffused Metal Oxide Semiconductor) for power management application.
- 55nm and 85nm ultra-low power technology for flash controller applications.
- 65nm joint developed eFlash technology qualified and in production for industrial/automotive microcontroller and smartcard applications.
- 80nm & 0.11μm high voltage process for high resolution HD720 and FHD display driver IC, which could support Retina to Super Retina display quality in smartphones.
- 90nm uLL (Ultra Low Leakage) eFlash technology qualified and in production for ASIC (Application-Specific Integrated Circuit) and microcontroller applications.
- 0.13μm new generation BCD (Binary Coded Decimal) process for mobile computing is in risk production stage. It offers worldwide competitive power LDMOS Rds(on) performance for better power efficiency and allows micro controller integration to further increase battery life.

- 0.18μm BCD second generation is in risk production stage. It offers worldwide competitive power LDMOS Rds(on) performance and with wide voltage spectrum from 6V to 70V for multiple applications in Computing, Communication and Consumer markets.
- 0.18μm and 0.25μm high-precision analog process was fully released, and offers TFR (Thin Film Resistor) and high linearity MIM (Metal-Insulator-Metal) for performance-driven mixed-signal applications.

In addition, TSMC further strengthened its comprehensive development of specialty technologies in 2012, including the release of 0.5μm ultra high voltage power IC technology, 90nm/65nm smartcard, 40nm automotive and Backside Illumination CMOS Image Sensor (BSI CIS), which successfully migrated to 65nm from 0.11μm and to volume production in 12-inch fabs. In 2012, TSMC offered a motion sensor 3D modular MEMS (Micro Electro Mechanical Systems) with 30μm thick MEMS structure and wafer level bonding for hermetic seal of the MEMS device. These first wave customers have adapted the modular MEMS structure with separate ASIC driver chip for accelerometer application and are now in production. TSMC will offer fully integrated CMOS 3D modular MEMS with design rule in the first quarter 2013 as a general offering. These specialty technologies are key differentiators from our competitors and provide customers more added value.

2.2.2 Market Overview

We estimate that the worldwide semiconductor market in 2012 reached US\$308 billion in revenue, a 2% decline compared to 2011. Total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US\$34 billion in 2012, or 16% YoY growth.

2.2.3 Industry Outlook, Opportunities and Threats

Industry Demand and Supply Outlook

Following 5% growth in 2011, foundry segment growth accelerated significantly by 16% in 2012, mainly driven by fabless market share gain over IDM and process technology advancement.

We forecast total semiconductor market to grow 3% YoY in 2013. Longer term, increasing semiconductor content in electronics devices, continuing market share gain of fabless, and increasing in-house ASIC from system companies, foundry sales are expected to display much stronger growth than the projected 4% compound annual growth rate (CAGR) for the total semiconductor industry from 2012 through 2017.

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 modest 5% growth in unit shipments for 2012. Smartphones, which have much higher semiconductor content, have been leading the growth of the sector.

The continuing transition to 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 2013. 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 (i.e. device footprint), 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’s unit shipment growth declined 3% YoY in 2012 after a close to flat year in 2011. Cautious spending in developed countries and budget competition from tablet products were among the factors causing the weak demand.

Moving into 2013, PC market will decline. While pessimism regarding the economic outlook will overhang the sector, new innovative features and form-factors such as detachable keyboard, hybrid notebook and the introduction of the new Windows 8 operating system are expected to stimulate PC demand.

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 flat sales in 2011, the consumer sector lost momentum in 2012 with a decline of 2% in aggregated unit shipment growth YoY. Economic uncertainties have stifled buyers’ appetite for consumer electronics products, and the growth of mobile computing devices has also impacted the consumer electronics sales.

Moving forward, new product launches such as the introduction of a new generation of game consoles will stimulate new interest in video games. Low-priced, large screen TVs will kindle end-consumer buying interest. And, government subsidy programs in multiple countries should drive the adoption of DTV.

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, micro-controller 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 155 million tablets shipped in 2012 compared with 68 million units in 2011. The strong sales momentum will continue in 2013 as more models are introduced by other OEMs. We forecast the tablet market will grow with a 23% CAGR from 2012 through 2017, and become a strong growth driver for both the semiconductor industry and foundry segment.

Supply Chain

The electronics industry consists of a long and complex supply chain, the elements of which are highly dependent and correlated with each other. At the upstream IC manufacturing level, 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 45% share of this segment in 2012, with total consolidated revenue of US\$17.1 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; 5% from China; and 3% from Japan. By end product application, 19% of TSMC’s net sales came from the computer sector, 50% from communications, 9% from consumer products, and 22% from industrial and standard 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. As to customer trust, TSMC works closely with its customers on end-to-end collaboration to optimize design and manufacturing efficiencies. And as a pure-play foundry, TSMC does not compete with its customers. 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 20nm and 16nm FinFET technologies 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 2012 to better understand customer needs and wants, and accordingly may adjust its offerings in response, thereby further strengthening its relationship with customers.

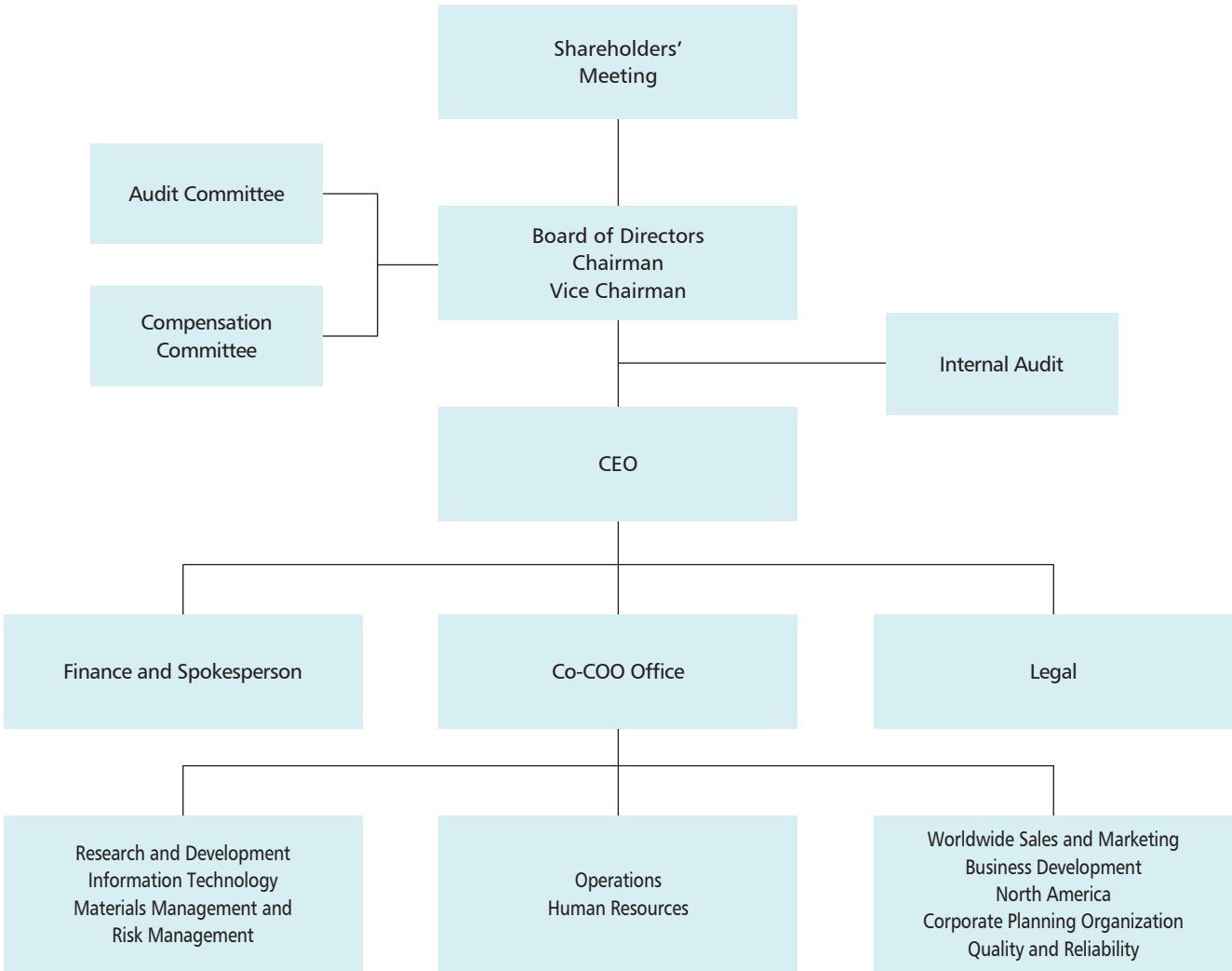
To address the dual challenges of falling wafer prices and fiercer competition from other semiconductor manufacturing companies, TSMC continually strengthens its core competitiveness and properly deploys its short-term and long-term technology and business development plans in order to enhance its Return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



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

Information Technology

- Technology system integration, business system integration, IT infrastructure and communication service, IT security, IT productivity and quality management

Materials Management and Risk Management

- Purchasing, warehousing, import and export, logistics support, environmental protection, industrial safety, health management, and risk management

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) and physical security management

Worldwide Sales and Marketing

- Brand management, market analysis & forecast, customer service and regional sales operations or service and field technical support for Japan, Asia, China and Europe

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

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 control risk monitoring and independent assessment of compliance

2.4 Board Members

2.4.1 Information Regarding Board Members

As of 02/28/2013

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
				Shares	%	Shares	%	Shares	%		
Chairman Morris Chang	06/12/2012	06/11/2015	12/10/1986	123,137,914	0.48%	123,137,914	0.47%	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 Instruments Inc. Former President & COO, General Instrument Corporation Former Chairman, Industrial Technology Research Institute Life Member Emeritus of MIT Corporation Member of National Academy of Engineering, U.S.	CEO, TSMC
Vice Chairman F.C. Tseng	06/12/2012	06/11/2015	05/13/1997	34,662,675	0.13%	34,662,675	0.13%	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, TSMC Education and Culture Foundation	Chairman of: - TSMC China Company Ltd. - Global Unichip Corp. Director of: - TSMC Solar Ltd. - TSMC Solid State Lighting Ltd. - Vanguard International Semiconductor Corp. - digimax, Inc. Independent Director, Compensation Committee member & Chairman of the Financial Statement and Internal Control Review Committee, Acer Inc.
Director National Development Fund, Executive Yuan (Note 1) Representative: Johnsee Lee	06/12/2012	06/11/2015	12/10/1986 08/06/2010 (Note 2)	1,653,709,980 -	6.38% -	1,653,709,980 -	6.38% -	- -	- -	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, Development Center for Biotechnology President, Taiwan Bio Industry Organization	Independent Director of: - Taiwan Polysilicon Corp. - Zhen Ding Technology Holding Ltd. - Far Eastern New Century Corp.
Director Rick Tsai	06/12/2012	06/11/2015	06/03/2003	33,665,046	0.13%	32,687,046	0.13%	-	-	Ph.D. in Material Science, Cornell University, U.S. 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 Advisor, Executive Yuan, R.O.C.	Chairman & CEO, TSMC Solar Ltd. Chairman & CEO, TSMC Solid State Lighting Ltd. Director, TSMC subsidiary President, TSMC subsidiaries Director, Motech Industries, Inc.
Independent Director Sir Peter Leahy Bonfield	06/12/2012	06/11/2015	05/07/2002	-	-	-	-	-	-	Honours Degree in Engineering, Loughborough University Fellow of the Royal Academy of Engineering Chair of Council and Senior Pro-Chancellor, Loughborough University, UK Former Chairman and CEO, ICL Plc Former CEO and Chairman of the Executive Committee, British Telecommunications Plc Former Vice President, the British Quality Foundation	Chairman, NXP Semiconductors N.V., the Netherlands Director of: - Sony Corporation, Japan - L.M. Ericsson, Sweden - Mentor Graphics Corporation Inc., Oregon, U.S. 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
Independent Director Stan Shih	06/12/2012	06/11/2015	04/14/2000	1,480,286	0.01%	1,480,286	0.01%	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, U.S. Co-Founder, Chairman Emeritus, Acer Group Former Chairman & CEO, 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.

(Continued)

Title/Name	Date Elected	Term Expires	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Selected Education, Past Positions & Current Positions at Non-profit Organizations	Selected Current Positions at TSMC and Other Companies
				Shares	%	Shares	%	Shares	%		
Independent Director Thomas J. Engibous	06/12/2012	06/11/2015	06/10/2009	-	-	-	-	-	-	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 Member, Texas Business Hall of Fame Woodrow Wilson Award Former Executive Vice President and President of the Semiconductor Group, Texas Instruments Inc. Former President and CEO, Texas Instruments Inc. Former Chairman of the Board, Texas Instruments Inc. Former Chairman of the Board of Catalyst Honorary Director of Catalyst Honorary Trustee, Southwestern Medical Foundation	Chairman, J. C. Penney Company Inc.
Independent Director Gregory C. Chow	06/12/2012	06/11/2015	06/09/2011	-	-	-	-	-	-	Bachelor Degree in Economics, Cornell University, 1951 Master Degree in Economics, Chicago University, 1952 Ph.D. in Economics, Chicago University, 1955 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, M.I.T., 1955-1959 Associate Professor, Cornell University, 1959-1962 Research Staff Member and Manager of Economics Research, IBM Thomas Watson Research Center, 1962-1970 Adjunct Professor, Columbia University, 1964-1970 Professor and Director, Econometric Research Program, Princeton University, 1970-2001 (In 2001 Princeton University renamed the Program the Gregory C. Chow Econometric Research Program in his honor.) Class of 1913 Professor of Political Economy, Princeton University, 1976-2001 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, 2001-Present Lecturer with the Rank of Professor, Princeton University	None
Independent Director Kok-Choo Chen	06/12/2012	06/11/2015	06/09/2011	-	-	-	-	5,120	0.00%	Inns of Court School of Law, England Barrister-at-law, England Advocate & Solicitor, Singapore Attorney-at-law, California, U.S. 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., 1974-1975 Lawyer, Sullivan & Cromwell, New York, U.S., 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	None

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

Major institutional shareholders of National Development Fund: Not applicable.
Note 2: Mr. Johnsee Lee was appointed as the representative of National Development Fund on August 6, 2010.

2.4.2 Remuneration Paid to Directors (Note 1)

Unit: NT\$ thousands

Title/Name	Director's Remuneration								Total Remuneration (A+B+C+D) as a % of 2012 Net Income		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 2012 Net Income (Note 11)		Compensation Paid to Directors from Non- consolidated Affiliates (J)
	Base Compensation (A)		Severance Pay and Pensions (B) (Note 4)		Compensation to Directors (C)		Allowances (D) (Note 6)				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)		Granted Employee Restricted Stock (I) (Note 10)				
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities	From TSMC (Note 5)	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	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 (Note 2)	30,347	30,347	731	731	71,351	71,351	3,894	3,894	0.06%	0.06%	105,844	158,749	0	561	105,751	0	105,751	0	0	0	0	0.19%	0.22%	2,490	
Vice Chairman F.C. Tseng																									
Director Rick Tsai (Note 3)																									
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																									
Director National Development Fund, Executive Yuan Representative: Johnsee Lee																									

Note 1: Remuneration policies, standards/packages, procedures, the linkage to operating performance and future risk exposure: 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 and directors who also serve as executive officers of TSMC are not entitled to receive compensation to directors. The distribution of compensation to directors shall be made in accordance with TSMC's "Rules for Distribution of Compensation to Directors".

Note 2: No compensation to directors was paid to Dr. Morris Chang.

Note 3: Mr. Rick Tsai is currently the Chairman and CEO of two TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd.

Note 4: Pensions funded according to applicable law.

Note 5: TSMC Board adopted a proposal that includes 2012 compensation to TSMC's directors in the amount of NT\$71,351 thousand at its meeting on February 5, 2013.

Note 6: The above-mentioned figures include the expense for company cars and gasoline reimbursement, but does not include compensation paid to company drivers (totaled NT\$4,743 thousand).

Note 7: The above-mentioned figures include the employees' cash bonuses distributed in June, August, November 2012 and February 2013.

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 11, 2013.

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

Note 10: TSMC did not issue employee restricted stock in 2012, and as of the date of this Annual Report.

Note 11: Total remuneration and compensation paid to TSMC's directors in 2011 was NT\$343,815 thousand, accounting for 0.26% of 2011 net income.

Remuneration Paid to Directors

	2012			
	Total Remuneration (A+B+C+D)		Total Compensation (A+B+C+D+E+F+G+J)	
	From TSMC	From All Consolidated Entities	From TSMC	From All Consolidated Entities and Non-consolidated Affiliates
Under NT\$2,000,000		Rick Tsai		
NT\$2,000,000 ~ NT\$4,999,999				
NT\$5,000,000 ~ NT\$9,999,999	National Development Fund, Executive Yuan		National Development Fund, Executive Yuan	
NT\$10,000,000 ~ NT\$14,999,999	Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous, Gregory C. Chow, Kok-Choo Chen		Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous, Gregory C. Chow, Kok-Choo Chen	
NT\$15,000,000 ~ NT\$29,999,999	Morris Chang, F.C. Tseng		F.C. Tseng	
NT\$30,000,000 ~ NT\$49,999,999				
NT\$50,000,000 ~ NT\$99,999,999				Rick Tsai
Over NT\$100,000,000			Morris Chang	
Total	9		9	

2.5 Management Team

2.5.1 Information Regarding Management Team

As of 02/28/2013

Title Name	On-board Date (Note 1)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)	Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Shareholding	%	Shareholding	%				Title	Name	Relation
Chairman & CEO Morris Chang	01/01/1987	123,137,914	0.47%	135,217	0.00%	-	Ph.D., Electrical Engineering, Stanford University, U.S. Chairman, Industrial Technology Research Institute President & Chief Operation Officer, General Instrument Corporation Group Senior Vice-President, Texas Instruments Inc.		-	-	-
Executive Vice President & Co-Chief Operating Officer Shang-yi Chiang (Note 2)	07/07/1997	1,062,481	0.00%	-	-	-	Ph.D., Electrical Engineering, Stanford University, U.S. Senior Vice President, Research and Development, TSMC Chairman, VisEra Technologies Company and Xintec Inc.		-	-	-
Executive Vice President & Co-Chief Operating Officer Mark Liu (Note 2)	11/15/1993	13,127,114	0.05%	-	-	-	Ph.D., Electrical Engineering & Computer Science, University of California, Berkeley, U.S. 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	-	-	-
Executive Vice President & Co-Chief Operating Officer C.C. Wei (Note 2)	02/01/1998	8,460,207	0.03%	261	0.00%	-	Ph.D., Electrical Engineering, Yale University, U.S. 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	-	-	-
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management Stephen T. Tso	12/16/1996	14,425,064	0.06%	-	-	-	Ph.D., Materials Science & Engineering, University of California, Berkeley, U.S. President, WaferTech, LLC Senior Vice President, Operations, TSMC General Manager of CVD Products, Applied Material	Director, TSMC subsidiary	-	-	-
Senior Vice President & General Counsel Legal Richard Thurston	01/02/2002	869,892	0.00%	-	-	-	J.D., Rutgers School of Law, State University of New Jersey, U.S. Ph.D., History, University of Virginia, U.S. Partner, Haynes Boone, LLP Vice President Corporate Staff, Assistant General Counsel, Texas Instruments Inc.	Director, TSMC subsidiaries Director, TSMC affiliate	-	-	-
Senior Vice President, Chief Financial Officer & Spokesperson Finance Lora Ho	06/01/1999	6,381,080	0.02%	110,268	0.00%	-	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, TSMC affiliates President, TSMC subsidiaries	-	-	-
Senior Vice President Worldwide Sales and Marketing Jason C.S. Chen	03/31/2005	27,320	0.00%	122	0.00%	2,000,000	Master, Business Administration, University of Missouri-Columbia, U.S. Vice President & Co-Director of Worldwide Sales & Marketing Group, Intel	Director, TSMC subsidiaries Member of Joint Management Committee, TSMC affiliate	-	-	-
Vice President Operations/Affiliate Fabs M.C. Tzeng	01/01/1987	7,592,595	0.03%	-	-	-	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
Vice President Research and Development Wei-Jen Lo	07/01/2004	1,913,127	0.01%	-	-	-	Ph.D., Solid State Physics & Surface Chemistry, University of California, Berkeley, U.S. Vice President, Advanced Technology Business, TSMC Vice President, Research & Development, TSMC Vice President, Operation II, TSMC Director, Advanced Technology Development & CTM Plant Manager, Intel		-	-	-
Vice President & Chief Technology Officer Research and Development Jack Sun	06/02/1997	4,402,831	0.02%	-	-	-	Ph.D., Electrical Engineering, University of Illinois at Urbana-Champaign, U.S. Vice President, Research and Development, TSMC Senior Director, Logic Technology Division, TSMC Senior Manager of R&D, International Business Machines (IBM)		-	-	-
Vice President Operations/Product Development Y.P. Chin	01/01/1987	7,540,122	0.03%	2,194,107	0.01%	-	Master, Electrical Engineering, National Cheng Kung University, Taiwan Vice President, Advanced Technology Business, TSMC Senior Director, Product Engineering & Services, TSMC		-	-	-
Vice President Quality and Reliability N.S. Tsai	03/01/2000	2,051,180	0.01%	1,103,253	0.00%	-	Ph.D., Material Science, Massachusetts Institute of Technology, U.S. Senior Director, Assembly Test Technology & Service, TSMC Vice President, Operations, Vanguard International Semiconductor Corp.		-	-	-

(Continued)

Title Name	On-board Date (Note 1)	Shareholding		Spouse & Minor		TSMC Shareholding by Nominee Arrangement (Shares)	Education & Selected Past Positions	Selected Current Positions at Other Companies	Managers Who are Spouses or within Second-degree Relative of Consanguinity to Each Other		
		Shareholding	%	Shareholding	%				Title	Name	Relation
Vice President & President of TSMC North America Rick Cassidy	11/14/1997	-	-	-	-	-	Bachelor, Engineering Technology, United States Military Academy at West Point, U.S. Vice President of TSMC North America Account Management	Director, TSMC North America	-	-	-
Vice President Human Resources L.C. Tu (Note 3)	01/01/1987	9,347,440	0.04%	1,252,481	0.00%	-	Master, Business Administration, Tulane University, U.S. Senior Director, Corporate Planning Organization, TSMC Senior Director, Fab 5 Operation, TSMC		-	-	-
Vice President Operations/Mainstream Fabs and Manufacturing Technology J.K. Lin	01/01/1987	12,507,018	0.05%	1,663,036	0.01%	-	Bachelor, Science, National Changhua University of Education, Taiwan Senior Director, Mainstream Fabs, TSMC		-	-	-
Vice President Operations/300mm Fabs J.K. Wang	02/11/1987	2,553,947	0.01%	160,844	0.00%	-	Master, Chemical Engineering, National Cheng Kung University, Taiwan Senior Director, 300mm fab operations, TSMC		Manager	J.J. Wang	Siblings
Vice President Corporate Planning Organization Irene Sun	10/01/2003	960,709	0.00%	-	-	-	Ph.D., Materials Science and Engineering, Cornell University, U.S. Senior Director, Corporate Planning Organization, TSMC		Manager	Thomas T. Sun	Siblings
Vice President Research and Development Burn J. Lin	04/26/2000	2,997,746	0.01%	1,024,933	0.00%	-	Ph.D., Electrical Engineering, Ohio State University Senior Director, Nanopatterning Technology Division, TSMC		-	-	-
Vice President Research and Development Y.J. Mii	11/14/1994	1,000,419	0.00%	-	-	-	Ph.D., Electrical Engineering, University of California, Los Angeles Senior Director, R&D Platform I Division, TSMC		-	-	-
Vice President Research and Development Cliff Hou	12/15/1997	752,532	0.00%	60,802	0.00%	-	Ph.D., Electrical Engineering, Syracuse University Senior Director, Design and Technology Platform, TSMC	Director, TSMC subsidiaries Director, TSMC affiliate President, TSMC subsidiaries	-	-	-

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: On March 5, 2013, Vice President of Human Resources Mr. L.C. Tu was appointed as the President of TSMC China, effective March 15, 2013.

2.5.2 Compensation Paid to CEO and Executive Officers (Note 1)

Unit: NT\$ thousands

Title	Name	Salary (A)		Severance Pay and Pensions (B) (Note 4)		Bonuses and Allowances (C) (Note 5)		Employee Profit Sharing (D) (Note 6)				Total Compensation as a % of 2012 Net Income (A,B,C,D) (Note 7)		Exercisable Employee Stock Options (K shares) (Note 8)		Exercisable Employee Restricted Stock (K shares) (Note 9)		Compensation Received from Non-consolidated Affiliates
		From TSMC	From All Consoildated Entities	From TSMC	From All Consoildated Entities	From TSMC	From All Consoildated Entities	From TSMC		From All Consoildated Entities		From TSMC	From All Consoildated Entities	From TSMC	From All Consoildated Entities	From TSMC	From All Consoildated Entities	
								Cash	Stock (Fair Market Value)	Cash	Stock (Fair Market Value)							
Chairman & CEO	Morris Chang	81,386	112,347	2,278	2,604	567,997	608,437	538,077	0	538,077	0	0.72%	0.76%	0	0	0	0	135
Executive Vice President & Co-Chief Operating Officer	Shang-yi Chiang (Note 2)																	
Executive Vice President & Co-Chief Operating Officer	Mark Liu (Note 2)																	
Executive Vice President & Co-Chief Operating Officer	C.C. Wei (Note 2)																	
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 Research and Development	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 (Note 3)																	
Vice President Operations/Mainstream Fabs and Manufacturing Technology	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																	
Vice President Research and Development	Y.J. Mii																	
Vice President Research and Development	Cliff Hou																	

Note 1: Compensation Policy: The cash compensation and profit sharing paid to CEO and each executive officer 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: 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: On March 5, 2013, Vice President of Human Resources Mr. L.C. Tu was appointed as the President of TSMC China, effective March 15, 2013.

Note 4: Pensions funded according to applicable law.

Note 5: The above-mentioned figures include the expense for the employees' cash bonuses distributed in June, August, November 2012 and February 2013, company cars and gasoline reimbursement, but does not include compensation paid to company drivers (totaled NT\$5,491 thousand).

Note 6: 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 11, 2013.

Note 7: Total compensation paid to TSMC's CEO and Executive Officers in 2011 was NT\$1,101,388 thousand, accounting for 0.82% of 2011 net income.

Note 8: Represents cumulative employee stock options exercisable as of the date of this Annual Report.

Note 9: TSMC did not issue employee restricted stock in 2012, and as of the date of this Annual Report.

Compensation Paid to CEO and Executive Officers

	2012	
	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	Irene Sun, Y.J. Mii, Cliff Hou	Irene Sun, Y.J. Mii, Cliff Hou
NT\$30,000,000 ~ NT\$49,999,999	M.C. Tzeng, Jack Sun, Y.P. Chin, N.S. Tsai, L.C. Tu, J.K. Lin, J.K. Wang, Burn J. Lin	M.C. Tzeng, Jack Sun, Y.P. Chin, N.S. Tsai, L.C. Tu, J.K. Lin, J.K. Wang, Burn J. Lin
NT\$50,000,000 ~ NT\$99,999,999	Shang-yi Chiang, Mark Liu, C.C. Wei, Stephen T. Tso, Richard Thurston, Lora Ho, Jason C.S. Chen, Wei-Jen Lo	Shang-yi Chiang, Mark Liu, C.C. Wei, Stephen T. Tso, Richard Thurston, Lora Ho, Jason C.S. Chen, Wei-Jen Lo, Rick Cassidy
Over NT\$100,000,000	Morris Chang	Morris Chang
Total	21	21

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

Unit: NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total Employee Profit Sharing	Total Employee Profit Sharing Paid to Management Team as a % of 2012 Net Income
Chairman & CEO	Morris Chang	0	538,077	538,077	0.32%
Executive Vice President & Co-Chief Operating Officer	Shang-yi Chiang (Note 2)				
Executive Vice President & Co-Chief Operating Officer	Mark Liu (Note 2)				
Executive Vice President & Co-Chief Operating Officer	C.C. Wei (Note 2)				
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 Research and Development	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 (Note 3)				
Vice President Operations/Mainstream Fabs and Manufacturing Technology	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				
Vice President Research and Development	Y.J. Mii				
Vice President Research and Development	Cliff Hou				
Senior Director Finance	Jan Kees van Vliet (Note 4)				

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 11, 2013.
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: On March 5, 2013, Vice President of Human Resources Mr. L.C. Tu was appointed as the President of TSMC China, effective March 15, 2013.
Note 4: Mr. Jan Kees van Vliet voluntarily retired on September 7, 2012.



Asian Corporate Governance Association
Number 1 Corporate
Governance Ranking in Asia Pacific

R.O.C. Securities & Futures Institute
Ranked A++ in Information Disclosure
by Public Companies

FinanceAsia
Best Managed Company - Ranked No. 1 in Taiwan

Euromoney
Asia Best Managed
Company-Technology Sector

CommonWealth Magazine
The Most Admired Company in Taiwan

FinanceAsia
Best Corporate Governance Company -
Ranked No.1 in Taiwan

CommonWealth Magazine
Corporate Citizenship Award

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, the TSMC Board delegates various responsibilities and authority to two Board Committees, Audit Committee and Compensation Committee. Each Committee has a written charter approved by the Board. Each Committee’s chairperson regularly reports to the Board on the activities and actions of the relevant committee. The Audit Committee and Compensation Committee consist solely of independent directors.

2012 Corporate Governance Awards

Organization	Awards
Corporate Governance Asia	8 th Recognition Awards 2012 - The Best of Asia - Taiwan Companies
FinanceAsia	- Asia’s Best Managed Companies in Hong Kong and Taiwan - Best Managed Company - Ranked No. 1 in Taiwan - Best Corporate Governance Company - Ranked No. 1 in Taiwan
Asian Corporate Governance Association (ACGA)	No. 1 Corporate Governance Ranking in Asia Pacific
R.O.C. Securities & Futures Institute	9 th Information Disclosure of Public Companies Ranking - Ranked A ⁺⁺

3.1 Board of Directors

Board Structure

TSMC’s 12th Board of Directors was elected at TSMC’s 2012 Annual Shareholders’ Meeting. All Directors continue in office. TSMC’s Board of Directors consists of nine distinguished members with a great breadth of experience as world-class business leaders or scholars. We rely on them for their diverse knowledge, personal perspectives, and solid business judgment. 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 Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; Professor of Princeton University, Gregory C. Chow; and 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 number of Directors.

Board Responsibilities

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 these responsibilities through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, and coordination with the Internal Audit department.

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, and updates TSMC’s Board on the progress of those 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.

Directors’ Compensation

Currently, TSMC Directors’ compensation consists exclusively of fixed compensation. TSMC’s Articles of Incorporation restricts the amount of compensation payable to its directors that the Company may make from its distributable earnings (defined as net income after required regulatory provisions). Over the years, TSMC directors’ compensation declined from 1% of TSMC’s distributable earnings to 0.3%, before being capped to no more than 0.3% of its distributable compensation. Because director’s compensation is capped at 0.3% of distributable earnings, currently, TSMC Directors’ compensation consists exclusively of fixed compensation which is in line with international best practice on board compensation. In 2012, total compensation paid to TSMC’s directors only accounted for 0.06% of our 2012 net income. In addition, directors who also serve as executive officers of the Company are not entitled to receive any director compensation.

Directors’ Professional Qualifications and Independent 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 the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)										Number of Other Taiwanese Public Companies Concurrently Serving as an Independent Director
	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	1	2	3	4	5	6	7	8	9	10	
Morris Chang Chairman			▼		▼		▼	▼	▼	▼	▼	▼	▼	0
F.C. Tseng Vice Chairman			▼	▼			▼	▼	▼	▼	▼	▼	▼	1
Johnsee Lee Director	▼		▼	▼	▼	▼	▼	▼	▼	▼	▼	▼		3
Rick Tsai Director			▼				▼	▼	▼	▼	▼	▼	▼	0
Sir Peter Leahy Bonfield Independent Director			▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	0
Stan Shih Independent Director			▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	0
Thomas J. Engibous Independent Director			▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	0
Gregory C. Chow Independent Director	▼		▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	0
Kok-Choo Chen Independent Director	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	▼	0

Note:
Directors, during the two years before being elected and 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 percent 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 one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent 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, provided that this restriction does not apply to any member of the compensation committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Compensation Committees of Companies whose Stock is Listed on the TWSE or Traded on the GTSM";
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.

3.1.1 Audit Committee

The Audit Committee assists the Board in fulfilling its oversight of the quality and integrity of the accounting, auditing, reporting, and financial control practices of the Company. The Audit Committee is responsible to review the Company’s: financial reports; auditing and accounting policies and procedures; internal control systems; material asset or derivatives transactions; material lending funds, endorsements or guarantees; offering or issuance of any equity-type securities; legal compliance; related-party transactions and potential conflicts of interests involving executive officers and directors; Ombudsman reports; corporate risk management; hiring or dismissal of an attesting CPA, or the compensation given thereto; and appointment or discharge of financial, accounting, or internal auditing officers.

Under R.O.C. law, the membership of Audit Committee shall consist of all independent Directors. TSMC’s Audit Committee satisfies this statutory requirement. The Committee also engaged a financial expert consultant in accordance with the rules of the U.S. Securities and Exchange Commission. The Audit Committee annually conducts self-evaluation to assess the Committee’s performance and identify areas for further attention.

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. The Audit Committee Charter is available on TSMC’s corporate website.

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.

The members of the Compensation Committee are appointed by the Board as required by R.O.C. law. According to TSMC’s Compensation Committee Charter, the Committee shall consist of no fewer than three independent directors of the Board. Currently, the Compensation Committee is comprised of all five independent directors; the Chairman of the Board, Dr. Morris Chang, is invited by the Committee to attend all meetings and is excused from the Committee’s discussion of his own compensation.

TSMC’s Compensation Committee is authorized by its Charter to retain an independent consultant to assist in the evaluation of CEO, or executive officer compensation. The Compensation Committee Charter is available on TSMC’s corporate website.

Compensation Committee Members’ Professional Qualifications and Independent Analysis

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

Name Title/Criteria	Meet the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Criteria (Note)								Number of Other Taiwanese Public Companies Concurrently Serving as a Compensation Committee Member in Taiwan
	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	1	2	3	4	5	6	7	8	
Stan Shih Independent Director			√	√	√	√	√	√	√	√	√	0
Sir Peter Leahy Bonfield Independent Director			√	√	√	√	√	√	√	√	√	0
Thomas J. Engibous Independent Director			√	√	√	√	√	√	√	√	√	0
Gregory C. Chow Independent Director	√		√	√	√	√	√	√	√	√	√	0
Kok-Choo Chen Independent Director	√	√	√	√	√	√	√	√	√	√	√	0

Note:
Compensation Committee Members, 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 percent 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 one percent or more of the total number of issued shares of the company or ranks as one of its top ten shareholders;
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the above persons in the preceding three subparagraphs;
5. Not a director, supervisor, or employee of a corporate/institutional shareholder that directly holds five percent or more of the total number of issued shares of the company or ranks as one of its top five shareholders;
6. Not a director, supervisor, officer, or shareholder holding five percent 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 been a person of any conditions defined in Article 30 of the Company Law.

3.1.3 Directors and Committees Members’ Attendance

Each Director is expected to attend every Board meeting and the committees meeting on which he or she serves. In 2012, the average Board Meeting attendance rate was 83% and the attendance rate for the Audit Committee and Compensation Committee’s Meetings were 100%.

Board of Directors Meeting Status

Dr. Morris Chang, the Chairman of the Board of Directors, convened four regular meetings and three special meetings in 2012. The directors’ attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chairman	Morris Chang	7	0	100%	Renewal of office (Note)
Vice Chairman	F. C. Tseng	6	1	86%	Renewal of office (Note)
Director	National Development Fund, Executive Yuan Representative: Johnsee Lee	7	0	100%	Renewal of office (Note)
Director	Rick Tsai	7	0	100%	Renewal of office (Note)
Independent Director	Sir Peter Leahy Bonfield	4	3	57%	Renewal of office (Note) Sir Peter Bonfield participated in the discussion through telephone at two Special Meetings, represented by proxy.
Independent Director	Stan Shih	6	1	86%	Renewal of office (Note)
Independent Director	Thomas J. Engibous	4	3	57%	Renewal of office (Note) Mr. Thomas J. Engibous participated in the discussion through telephone at one Special Meeting, represented by proxy.
Independent Director	Gregory C. Chow	4	3	57%	Renewal of office (Note) Mr. Gregory C. Chow participated in the discussion through telephone at one Special Meeting, represented by proxy.
Independent Director	Kok-Choo Chen	7	0	100%	Renewal of office (Note)

Annotations:
1. There were no written or otherwise recorded resolutions on which an independent director had a dissenting opinion or qualified opinion in 2012.
2. There were no recusals of Directors due to conflicts of interests in 2012.
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.

Note: TSMC’s 12th Board of Directors was elected at TSMC’s Annual Shareholders’ Meeting on June 12, 2012. All Directors continue to serve in office. Their respective tenures are from June 12, 2012 to June 11, 2015.

Audit Committee Meeting Status

Sir Peter Bonfield, Chairman of the Audit Committee, convened four regular meetings in 2012. The Committee members and consultant’s attendance status is shown in the following table. In addition to these meetings, the 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%	Renewal of office (Note)
Member	Stan Shih	4	0	100%	Renewal of office (Note)
Member	Thomas J. Engibous	4	0	100%	Renewal of office (Note)
Member	Gregory C. Chow	4	0	100%	Renewal of office (Note)
Member	Kok-Choo Chen	4	0	100%	Renewal of office (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 2012.
2. There were no recusals of independent directors due to conflicts of interests in 2012.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2012 (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 2012, 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 2012, the Company’s independent auditors did not report any irregularity. The communication channel between the Audit Committee and the independent auditors functioned well.

Note: Sir Peter Leahy Bonfield, Stan Shih, Thomas J. Engibous, Gregory C. Chow and Kok-Choo Chen were elected as TSMC’s independent directors and became members of the Audit Committee on June 12, 2012. Their respective tenures are from June 12, 2012 to June 11, 2015.

Compensation Committee Meeting Status

Mr. Stan Shih, Chairman of the Compensation Committee, convened four regular meetings in 2012. The Committee members’ attendance status is as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate in Person (%)	Notes
Chair	Stan Shih	4	0	100%	Renewal of office (Note)
Member	Sir Peter Leahy Bonfield	4	0	100%	Renewal of office (Note)
Member	Thomas J. Engibous	4	0	100%	Renewal of office (Note)
Member	Gregory C. Chow	4	0	100%	Renewal of office (Note)
Member	Kok-Choo Chen	4	`0	100%	Renewal of office (Note)

Annotation:
1. There was no recommendation of the Compensation Committee which was not adopted or was modified by the Board of Directors in 2012.
2. There were no written or otherwise recorded resolutions on which a member of the Compensation Committee had a dissenting opinion or qualified opinion.

Note: At the meeting of June 12, 2012, TSMC’s Board of Directors approved the appointment of all five Independent Directors, Stan Shih, Sir Peter Leahy Bonfield, Thomas J. Engibous, Gregory C. Chow and Kok-Choo Chen, as members of the Compensation Committee. Their respective tenures are from June 12, 2012 to June 11, 2015.

3.2 Major Resolutions of Shareholders’ Meeting and Board Meetings

3.2.1 Major Resolutions of Shareholders’ Meeting and Implementation Status

TSMC’s 2012 Annual Shareholders’ Meeting was held in Hsinchu, Taiwan on June 12, 2012. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1) The 2011 Business Report and Financial Statements;
- (2) The distribution of 2011 profits;
- (3) The revisions to the Articles of Incorporation;
- (4) The revisions to the Rules for Election of Directors; and
- (5) Election of nine directors (including five independent directors).

Implementation Status

All the resolutions of the Shareholders’ Meeting have been fully implemented in accordance with the resolutions.

The nine newly elected directors were Morris Chang, F.C. Tseng, Sir Peter Leahy Bonfield (Independent Director), Stan Shih (Independent Director), Thomas J. Engibous (Independent Director), Gregory C. Chow (Independent Director), Kok-Choo Chen (Independent Director), Johnsee Lee (representative of National Development Fund, Executive Yuan) and Rick Tsai.

3.2.2 Major Resolutions of Board Meetings

During the 2012 calendar year, and as of the date of this Annual Report, major resolutions approved at Board meetings are summarized below:

- (1) 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\$1,395.49 million;
 - approving R&D capital appropriation 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.
- (2) Special Board Meeting of March 2, 2012:
 - approving the appointment of 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 as Executive Vice Presidents and Co-Chief Operating Officers of TSMC.
 - Following these appointments, the three Executive Vice Presidents and Co-COOs, as well as TSMC’s Finance and Legal organizations, will report directly to Chairman and Chief Executive Officer Dr. Morris Chang. All other organizations will report to the three Executive Vice Presidents and Co-COOs. The new organizational structure will take effect on March 5, 2012.
- (3) Special Board Meeting of April 26, 2012:
 - approving capital appropriations of US\$1,814.2 million; and
 - listing five qualified candidates for independent directors to stand for election at TSMC’s 2012 Annual Shareholders’ Meeting.
- (4) Regular Board Meeting of June 12 & 13, 2012:
 - re-election of Dr. Morris Chang as the Chairman and Dr. F.C. Tseng as the Vice Chairman of the Board of Directors;
 - approving the appointment of the five independent Directors, Stan Shih, Sir Peter Leahy Bonfield, Thomas J. Engibous, Gregory C. Chow and Kok-Choo Chen, as members of the Compensation Committee;

- approving capital appropriations of US\$3,176.65 million;
- approving R&D capital appropriation of US\$233.2 million; and
- approving issuance of an unsecured straight corporate bond in the domestic market for an amount not exceeding NT\$45 billion.
- (5) Regular Board Meeting of August 13 & 14, 2012:
 - approving 2012 semi-annual financial statements; and
 - approving capital appropriations of US\$2,786.53 million.
- (6) Regular Board Meeting of November 12 & 13, 2012:
 - approving capital appropriations of US\$2,975 million;
 - approving R&D capital appropriation and 2013 sustaining capital appropriation totaling approximately US\$209.5 million;
 - approving issuance of an unsecured straight corporate bond in the domestic market for an amount not exceeding NT\$45 billion;
 - approving the subscription of NT\$1,243 million in new shares to be issued by TSMC Solid State Lighting Ltd. in 2013; and
 - approving the subscription of NT\$636 million in new shares to be issued by TSMC Solar Ltd. in 2013.
- (7) Regular Board Meeting of February 4 & 5, 2013:
 - approving 2012 business report and financial statements;
 - approving distribution of 2012 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$2,714.76 million;
 - approving R&D capital appropriations of US\$103.6 million;
 - approving the provision of a loan guarantee to wholly-owned subsidiary TSMC Global for its issuance of US dollar-denominated senior unsecured corporate bonds for an amount not to exceed US\$1.5 billion; and
 - convening the 2013 Annual Shareholders’ Meeting.

3.2.3 Major Issues of Record or Written Statements Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors during the 2012 Calendar Year and as of the Date of this Annual Report: None.

3.3 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	TSMC has designated appropriate departments, such as Corporate Communication Division, the SEC Compliance Department, Legal Department, etc., to handle shareholder suggestions or complaints.	None
(2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders	TSMC tracks the shareholdings of directors, officers, and shareholders holding more than 10% of the outstanding shares of TSMC.	
(3) Risk management mechanism and "firewall" between the Company and its affiliates	TSMC has established appropriate guidelines in its "Internal Control System" and "TSMC Invested Entity Governance and Management Policy".	
2. Composition and Responsibilities of the Board of Directors (1) Independent Directors	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.	None
(2) Regular evaluation of external auditors' independence	The TSMC Audit Committee regularly evaluates the independence of external auditors.	
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	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 U.S. 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	None
(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 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.	
5. Operations of the Company's Nomination 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 "3. Corporate Governance" on page 32-45 of this Annual Report for details.	None
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 "3. Corporate Governance" on page 32-45 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 "5.5 Employees" on page 75-78 of this Annual Report. (2) Status of investor relations, supplier relations and rights of stakeholders: Please refer to "7. Corporate Social Responsibility" on page 98-109 of this Annual Report. (3) Directors' training records: Please refer to page 39 of this Annual Report for details. (4) Status of Risk Management Policies and Risk Evaluation: Please refer to "6.2 Risk Management" on page 86-95 of this Annual Report. (5) Status of Customer Relations Policies: Please refer to "5.4 Customer Trust" on page 73-75 of this Annual Report. (6) 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 2012: <i>Corporate Governance Asia</i> honored TSMC with its "Corporate Governance Asia Recognition Awards 2012". <i>FinancialAsia</i> honored TSMC with its "Best Corporate Governance Company – Ranked No. 1 in Taiwan". Asian Corporate Governance Association honored TSMC with its "Top 1 Corporate Governance Raking in Asia Pacific". Securities & Futures Institute's 9 th Information Disclosure of Public Companies Ranking ranked TSMC "A" ⁺⁺ . <i>Commonwealth Magazine</i> honored TSMC with its "Most Admired Company in Taiwan".	

Continuing Education/Training of Directors in 2012

Name	Date	Host by	Training/Speech Title	Duration
Morris Chang (Note)	10/25	The Economic Daily News	2012 Master Forum - Far away from the Storm and Sailing alone Steady - a panel discussion with visiting 2011 Nobel Economics Prize winner Christopher Sims	40 minutes
	06/25	The United Daily New Group	A Critical Two Years for Taiwan's Economic Development Forum - a panel discussion: The Priority of The Critical Two Years	1.5 hours
F.C. Tseng	08/16	Global Unichip Corp.	Executive Compensation and Long-Term Incentive Program	1 hour
Stan Shih (Note)	04/18	Taiwan Corporate Governance Association	Speech: Enterprise Management & Corporate Governance	2 hours
	10/25	Securities & Future Institute	The 8 th Taipei Corporate Governance Forum Speech: Wangdao & Corporate Governance	20 minutes
	11/30	Taiwan Corporate Governance Association	International Corporate Governance Forum Speech: Wangdao & Corporate Governance	3 hours
Kok-Choo Chen	05/22	Taiwan Corporate Governance Association	Function Performance of Independent Directors and Practice of Audit Committee	3 hours
Johnsee Lee	05/23	Securities & Future Institute	Directors and Supervisors Practice Advanced Seminar: Financial Forecast and Risk Management	3 hours
	11/07	Global Views Monthly Magazine	The Chinese Enterprise Leader Forum - Global Change and New Leadership	2 days

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 2012

Name/Title	Date	Host by	Training	Duration
Jessica Chou Director, Accounting Division	02/20	Accounting Research and Development Foundation	Guiding principles of amending regulations of financial statements preparation under IFRS (International Financial Reporting Standard)	3 hours
	02/20	Accounting Research and Development Foundation	Conference on business finance and tax: Case study of administrative proceedings regarding enterprise income tax and business tax	3 hours
	11/20	Accounting Research and Development Foundation	The legal responsibility and case study of environmental protection (development and sustainable environment) for enterprise	3 hours
	11/21	Accounting Research and Development Foundation	Case study of "Transfer Pricing" audit in China, and the latest development in value added tax in China	3 hours
	12/10	Accounting Research and Development Foundation	Analysis of 2012 International Financial Reporting Standard -Chapter one: Preparation of financial statements	3 hours
	12/10	Accounting Research and Development Foundation	Analysis of 2012 International Financial Reporting Standard -Chapter two: Revenue and inventory	3 hours
John Liang Director, Internal Audit	11/20	The Institute of Internal Auditors, R.O.C.	Supervision of Subsidiary	7 hours
	12/20	The Institute of Internal Auditors, Taiwan	Audit for Newly Added Items of Internal Control System	7 hours

Note: In 2012, Our Management attended various external, internal training programs, and speech presentations, such as the one conducted by our Sr. Vice President & CFO, Lora Ho on "TSMC Corporate Income Tax".

3.4 Code of Ethics and Business Conduct

Ethics Values

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

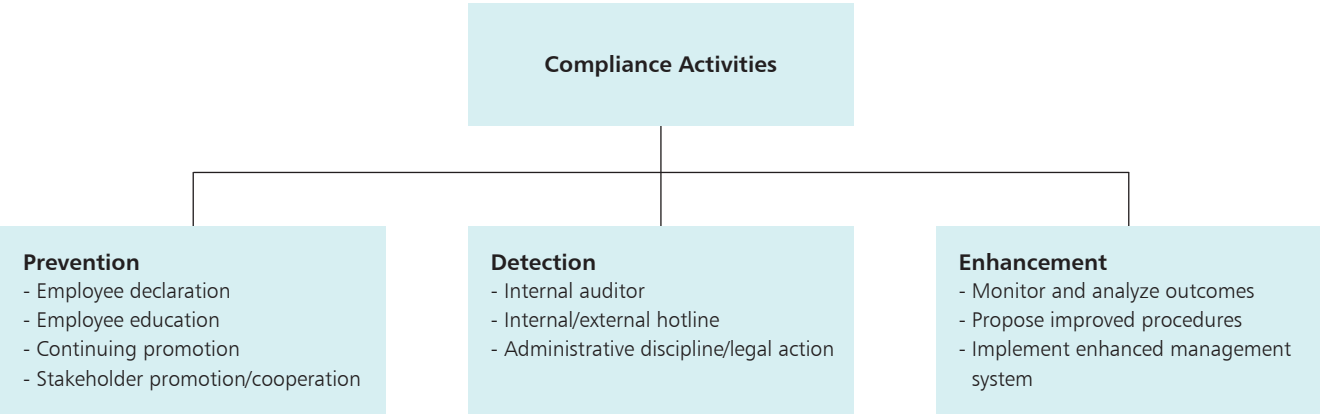
At the heart of our corporate governance culture is TSMC's Code of Ethics and Business Conduct (the "Code") that applies to TSMC and its subsidiaries, and this Code requires that each employee bears a heavy personal responsibility to preserve and to protect TSMC's ethical values and reputation and to 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 procure all of our raw materials from socially responsible sources;
 - 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, the 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 the 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 and documents filed by the Company with securities authorities and in all TSMC public communications and disclosures.

Code Administration and Disciplinary Action



All employees, officers and managers must comply with the Code and other policies and 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 have or may have the appearance of undermining the Code, such as any actual or potential conflict of interest. Key employees and senior officers must periodically declare their compliance status with the 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 all of our various policies available through easy access on our intranet and require all employees to be trained on our core values and compliance regime. Our compliance program for all employees includes regular live seminars and online training on various topics on ethics, including the requirements to prevent bribery and to protect our intellectual property. Our intranet website posts various 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 employees. For example, we require all of our suppliers, vendors and partners to declare in writing that they will not engage in any fraud or any unethical

conduct when dealing with us or our officers and employees; we also promote our ethical culture to our business partners through regular live seminars to prevent any unethical conduct. 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 regularly audit the compliance by the Company, our vendors, suppliers, and customers, of relevant rules and regulations.

TSMC Internal Audit assists the Board of Directors and Management in inspecting and reviewing whether TSMC’s internal control system is adequate in design and effective in operation to ensure:

1. Financial, managerial, and operating information is accurate, reliable, and timely.
2. Legislative or regulatory issues impacting the organization are recognized and addressed properly.
3. Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
4. Resources are acquired economically, used efficiently, and adequately protected.

To achieve the above objectives, Internal Audit submits an annual audit plan incorporating the regulatory compliance audit projects to the Board of Directors for approval. Subsequent to the audits, Internal Audit reports the audit findings along with issue follow-up to the Board and Management on a regular basis.

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 judicial prosecution as appropriate) to the full extent of our policies and the law, for any violation of our ethical standards. For example, the Company prosecuted one legal action against former employees for misappropriation of the Company’s intellectual property in 2012. Additionally, TSMC terminated 4 employees during 2012 for violating our Proprietary Information Protection (“PIP”) and other ethics Rules.

3.4.1 Taiwan Corporate Conduct and Ethics Implementation as Required by the Taiwan Financial Supervisory Commission

Item	Implementation Status	Non-implementation and Its Reason(s)
1. Establishment of Corporate Conduct and Ethics Policy and Implementation Measures (1) The company’s guidelines on corporate conduct and ethics are provided in internal policies and disclosed publicly. The Board of Directors and the management team demonstrate their commitments to implement the policies. (2) The company establishes relevant policies for preventing any unethical conduct. The implementation of the relevant procedures, guidelines and training mechanism are provided in the policies. (3) The company establishes appropriate measures for preventing bribery and illegal political contribution for higher potential unethical conduct in the relevant policies.	Integrity is the most important core value of TSMC’s culture. TSMC is committed to acting ethically in all aspects of our business. TSMC has established the Code of Ethics and Business Conduct (the “Code”) to require that each employee bears a heavy personal responsibility to uphold TSMC’s ethics value. All details of the Code and the measures that the Board and the management team take to ensure compliance of the Code are reported in TSMC’s annual report and the Corporate Social Responsibility Report. In order to promote a culture of awareness, we have made available through easy access all of our various policies on our intranet and require all employees to be trained periodically on our core values and compliance regime. 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 employees. The internal auditors of TSMC regularly audit compliance by the Company, our vendors, suppliers, and customers, of relevant rules and regulations. In order to prevent any unethical conduct, all employees must disclose any matters that have or may have the appearance of undermining the Code, such as any actual or potential conflict of interest. Key employees and senior officers must periodically declare their compliance status with the Code. TSMC requires 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 internal and external online “hotline” that any relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC.	None

(Continued)

Item	Implementation Status	Non-implementation and Its Reason(s)
2. Corporate Conduct and Ethics Compliance Practice (1) The company shall prevent doing business with whom has unethical records and include business conduct and ethics related clauses in the business contracts. (2) The company sets up dedicated unit in charge of promotion and execution of the company's corporate conduct and ethics. The board of directors supervises such execution and compliance of the policies. (3) The company establishes policies to prevent conflict of interest and provides appropriate communication and complaint channels. (4) The company establishes effective accounting and internal control systems for the implementation of policies, and the internal auditors audit such execution and compliance.	TSMC requires 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 also promote our ethical culture to our business partners through regular live seminars to prevent any unethical conduct. Integrity is the most important core value of TSMC's culture. TSMC's Board, under the leadership of the Chairman, the Company's Ombudsman and other internal functions of the Company including Legal Department, Human Resources and Internal Auditors fully promote the code values of the Company from the various perspectives. All employees, officers, and Board members must whole-heartedly embrace and practice the 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. TSMC requires each new hiring employee to declare if there is any conflict of interest, and asks all employees to disclose any matters that have, or may have the appearance of undermining the Code, such as any actual or potential conflict of interest. Key employees and senior officers must periodically declare their compliance status with the Code. TSMC requires 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 internal and external online "hotline" that any relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC. TSMC continues maintaining the integrity of its financial reporting processes and controls and establishes appropriate internal control systems for preventing higher potential unethical conduct. The Internal auditors formulate annual audit plans based on the results of the risk assessment and report to the Board its audit report.	None
3. The company establishes the channels for reporting any ethical irregularities and sets up punishment for violations of the policies.	TSMC has established internal and external online "hotline" that any employee or relevant person may use to report any ethical irregularities to be investigated personally by designated senior management of TSMC. Any officer or employee will be severely punished (including immediate dismissal and judicial prosecution as appropriate) and prosecuted to the full extent of our policies and the law, for any violation of our ethical standards. For example, the Company prosecuted a legal action against former employee for misappropriation of the Company's intellectual property in 2012. Additionally, TSMC terminated 4 employees during 2012 for violating our PIP and other ethical rules.	None
4. Information Disclosure (1) To set up a corporate website that publishes information relating to company's corporate conduct and ethics. (2) Other information disclosure channels (e.g. maintaining an English website, designating personnel to handle information collection and disclosure)	Our intranet website posts various guidelines and informative articles on ethics and honorable business conduct for employees' reference (in both Chinese and English). TSMC discloses the relevant information in its' Annual Report and CSR Report which are available in TSMC external website (http://www.tsmc.com), in both Chinese and English)	None
5. If the company has established corporate governance policies based on TSE Corporate Conduct and Ethics Best Practice Principles, please describe any discrepancy between the policies and their implementation. TSMC has established the Code of Ethics and Business Conduct (the "Code") to require that all employees, officers and board members comply with the Code and the other policies and procedures. For details on the implementation of TSMC's Corporate Conduct and Ethics, please refer to " <i>3.4 Code of Ethics and Business Conduct</i> " on page 39-42 of this Annual Report.		
6. Other important information to facilitate better understanding of the company's corporate conduct and ethics compliance practices (e.g., promote and demonstrate the company's commitment to ethical standard and provide training to its business partners; review the company's corporate conduct and ethics policy). For details on the implementation of TSMC's Corporate Conduct and Ethics, please refer to " <i>3.4 Code of Ethics and Business Conduct</i> " on page 39-42 of this Annual Report.		

3.5 Regulatory Compliance

TSMC operates in many countries; in order to achieve compliance with governing legislation, applicable laws, regulations and regulatory expectations, we closely monitor domestic and foreign government policies and regulatory developments that could have a material impact on TSMC's business and financial operations.

In addition to TSMC's Code of Ethics and Business Conduct, TSMC has also established policies, guidelines and procedures in other policy areas, including: Anti-bribery/corruption, Anti-harassment/discrimination, Antitrust (unfair competition), Environment, Export Control, Financial Reporting/Internal controls, Insider Trading, Intellectual Property, PIP, Privacy, as well as procuring of raw materials from socially responsible sources and so forth. With respect to "PIP," it is one of the six key strategies of TSMC as announced in June 2010.

TSMC and our employees are expected to comply with all laws and regulations that govern our business. Training is a major component of our compliance program and is conducted throughout the year to refresh employees' commitment to ethical conduct, and to get updated information on any changes to the law. Highlights of our compliance training program include the following:

- A wide range of on-line learning programs are designed to provide employees with an understanding of the law and key compliance issues. Topics available via on-line learning including competition law (antitrust), environmental protection, insider trading, export control management, PIP and more.

- Live seminars are offered for topics related to Anti-bribery/corruption, Anti-harassment and discrimination, Antitrust, PIP, Insider Trading, Export Control, Financial Reporting, Contract Management, Intellectual Property, and Privacy Law. The Privacy Protection course has been updated and reworked to reflect the newly adoption of Taiwan's Personal Information Protection Act. These courses are mandatory to managers and certain employees because of the nature of the business activities they perform.
- Members of our legal team regularly attend outside training in Taiwan and abroad to receive legal updates and new development in compliance and other areas.
- Inviting legal professionals and industry experts to lecture on new areas of knowledge and the latest developments on industry-specific compliance matters.
- To enhance compliance and risk management to our subsidiaries and affiliates, we regularly hold compliance meetings with them to ensure that all of our subsidiaries and affiliates (as appropriate) are aligned with the compliance standards at TSMC headquarters.

To increase awareness of all employees in relation to the various compliance topics, various trainings and resources are available through our intranet, including Company's latest internal policies. Furthermore, compliance education and articles are published regulatory on TSMC's Legal Organization website. Actively promoting the right behavior is our key focus. For example, through various promotion campaigns, we have raised awareness of behavior associated with anti-bribery in 2012.

3.6 Internal Control System Execution Status

Taiwan Semiconductor Manufacturing Company Limited
Statement of Internal Control System

Date: February 5, 2013

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 2012:

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, 2012, 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 2012 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 5, 2013, 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 and Chief Executive Officer

3.7 Status of Personnel Responsible for the Company’s Financial and Business Operation

3.7.1 Resignation or Dismissal of Personnel Responsible for the Company’s Financial and Business Operation during the 2012 Calendar Year and as of the Date of this Annual Report: None.

3.7.2 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)	2	21
U.S. Certified Public Accountants (U.S. CPA)	2	10
Certified Internal Auditor (CIA)	9	6
Chartered Financial Analyst (CFA)	0	2
Certified Management Accountant (CMA)	0	2
Financial Risk Manager (FRM)	0	1
Cerficate in Financial Management (CFM)	0	1
Certification in Control Self-Assessment (CCSA)	3	0
Certified Information Systems Auditor (CISA)	3	0
BS7799/ISO 27001 Lead Auditor	1	0

3.8 Information Regarding TSMC’s Independent Auditor

3.8.1 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	66,048	-	370	-	2,470	2,840	V			Note 1

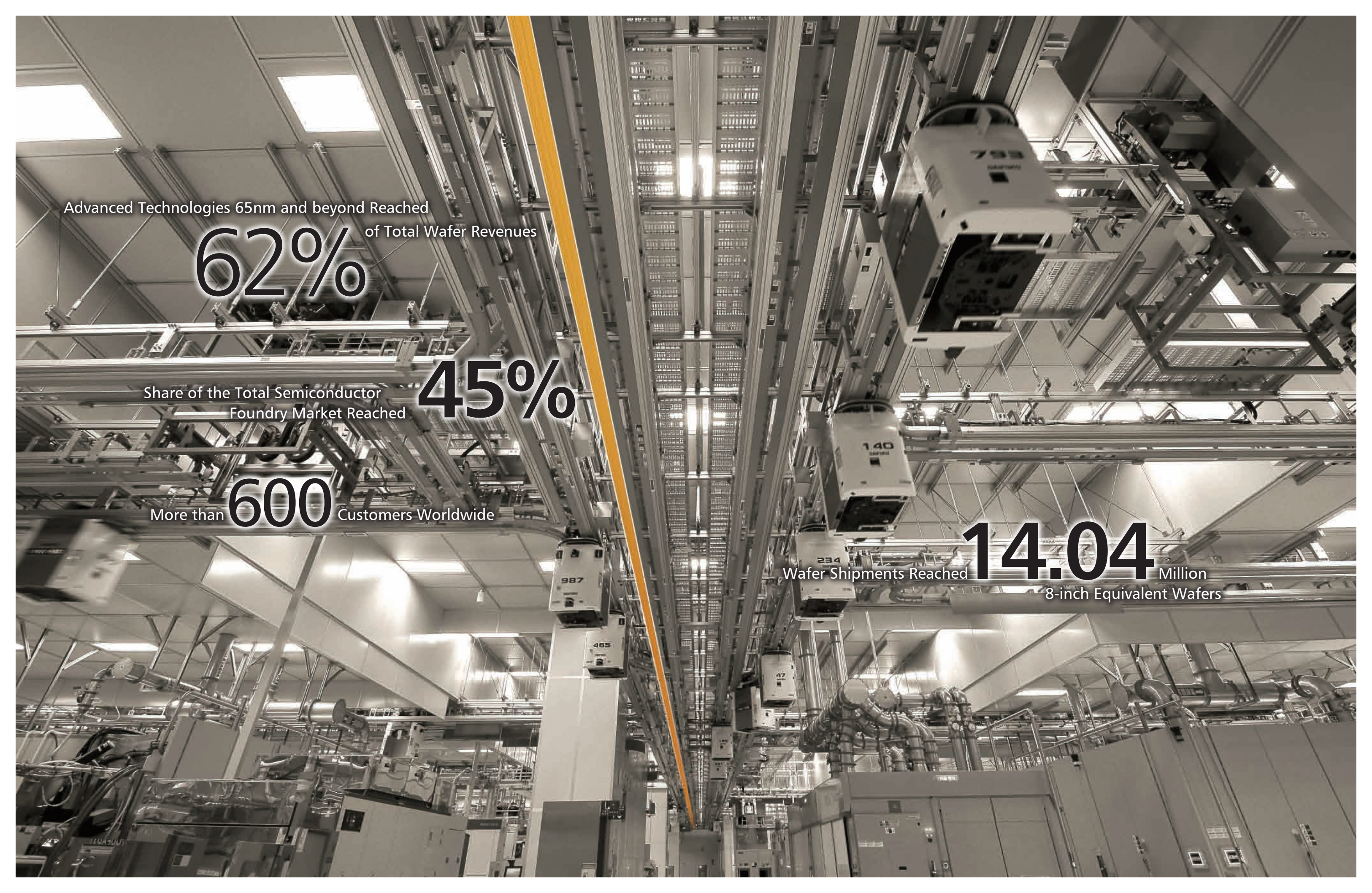
Note 1: Article 10-4 of Regulation Governing Information to be published in Annual Report of Public Companies was not applicable to TSMC.
Note 2: Fees mainly related to R.O.C. IFRS adoption project.

3.8.2 TSMC did not Replace Its Independent Auditor during 2011, 2012, and as of February 28, 2013.

3.8.3 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 2012.

3.9 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.



Advanced Technologies 65nm and beyond Reached
of Total Wafer Revenues

62%

Share of the Total Semiconductor
Foundry Market Reached

45%

More than 600 Customers Worldwide

600

Wafer Shipments Reached

14.04

Million

8-inch Equivalent Wafers

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Capitalization

Unit: Share/NT\$

As of 02/28/2013

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.
03/2012	10	28,050,000,000	280,500,000,000	25,916,222,575	259,162,225,750	Exercise of Employee Stock Options: NT\$20,733,670	None	03/22/2012 Yuan Shang Tzu No.1010008872
07/2012	10	28,050,000,000	280,500,000,000	25,920,604,605	259,206,046,050	Exercise of Employee Stock Options: NT\$43,820,300	None	07/09/2012 Yuan Shang Tzu No.1010020130
09/2012	10	28,050,000,000	280,500,000,000	25,920,709,359	259,207,093,590	Exercise of Employee Stock Options: NT\$1,047,540	None	09/04/2012 Yuan Shang Tzu No.1010027766
12/2012	10	28,050,000,000	280,500,000,000	25,922,047,578	259,220,475,780	Exercise of Employee Stock Options: NT\$13,382,190	None	12/17/2012 Yuan Shang Tzu No.1010039355

4.1.2 Capital and Shares

Unit: Share

As of 02/28/2013

Type of Stock	Authorized Share Capital				Total
	Issued Shares			Unissued Shares	
	Listed	Non-listed	Total		
Common Stock	25,926,367,175	0	25,926,367,175	2,123,632,825	28,050,000,000

Shelf Registration: None.

4.1.3 Composition of Shareholders

Common Share

As of 07/10/2012 (last record date)

Type of Shareholders	Government Agencies	Financial Institutions	Other Juridical Persons	Foreign Institutions & Natural Persons	Domestic Natural Persons	Total
Number of Shareholders	11	252	1,000	3,315	393,098	397,676
Shareholding	1,653,736,247	808,520,232	1,193,067,566	19,662,338,939	2,603,046,375	25,920,709,359
Holding Percentage (%)	6.38%	3.12%	4.60%	75.86%	10.04%	100.00%

Distribution Profile of Share Ownership

Common Share

As of 07/10/2012 (last record date)

Shareholder Ownership (Unit: Share)	Number of Shareholders	Ownership	Ownership (%)
1 ~ 999	179,839	40,386,381	0.16%
1,000 ~ 5,000	146,222	322,008,654	1.24%
5,001 ~ 10,000	32,754	231,441,009	0.89%
10,001 ~ 15,000	13,134	158,402,696	0.61%
15,001 ~ 20,000	5,653	98,500,500	0.38%
20,001 ~ 30,000	6,415	154,591,336	0.60%
30,001 ~ 40,000	2,944	101,246,006	0.39%
40,001 ~ 50,000	1,813	81,277,324	0.31%
50,001 ~ 100,000	3,518	243,418,575	0.94%
100,001 ~ 200,000	1,863	256,673,695	0.99%
200,001 ~ 400,000	1,173	330,352,824	1.27%
400,001 ~ 600,000	479	233,532,296	0.90%
600,001 ~ 800,000	268	185,504,687	0.72%
800,001 ~ 1,000,000	203	181,682,616	0.70%
Over 1,000,001	1,398	23,301,690,760	89.90%
Total	397,676	25,920,709,359	100.00%

Preferred Share: None.

4.1.4 Major Shareholders

Common Share

As of 07/10/2012 (last record date)

Shareholders	Total Shares Owned	Ownership (%)
ADR-Taiwan Semiconductor Manufacturing Company, Ltd.	5,458,510,828	21.06%
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	813,105,396	3.14%
Government of Singapore	496,005,919	1.91%
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	413,565,136	1.60%
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	271,795,529	1.05%
Cathay Life Insurance Co.,Ltd.	255,515,235	0.99%
Polaris Taiwan Top 50 Tracker Fund	237,011,423	0.91%
iShares MSCI Emerging Markets Index Fund	229,265,000	0.88%
National Westminster Bank plc as Depositary of First State Asia Pacific Leaders Fund a sub fund of First State Investments ICVC	226,137,807	0.87%

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	2012		01/01/2013 ~ 02/28/2013	
	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	-	-	-	-
Vice Chairman F.C. Tseng	-	-	-	-
Director National Development Fund, Executive Yuan Representative: Johnsee Lee	-	-	-	-
	-	-	-	-
Director Rick Tsai	(1,124,000)	-	(170,000)	-
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	-	-	-	-
Executive Vice President & Co-Chief Operating Officer Shang-yi Chiang (Note 2)	(1,080,000)	-	(50,000)	-
Executive Vice President & Co-Chief Operating Officer Mark Liu (Note 2)	(385,000)	-	(35,000)	-
Executive Vice President & Co-Chief Operating Officer C.C. Wei (Note 2)	-	-	276,882	-
Senior Vice President & Chief Information Officer Information Technology & Materials Management and Risk Management Stephen T. Tso	(350,000)	-	(130,000)	-
Senior Vice President & General Counsel Legal Richard Thurston	(720,000)	-	-	-
Senior Vice President, Chief Financial Officer & Spokesperson Finance Lora Ho	-	-	-	-
Senior Vice President Worldwide Sales and Marketing Jason C.S. Chen	(270,000)	-	(50,000)	-
Vice President Operations/Affiliate Fabs M.C. Tzeng	-	-	(26,000)	-
Vice President Research and Development Wei-Jen Lo	(357,000)	-	(76,000)	-
Vice President & Chief Technology Officer Research and Development Jack Sun	(224,000)	-	-	-
Vice President Operations/Product Development Y.P. Chin	(265,000)	-	(80,000)	-
Vice President Quality and Reliability N.S. Tsai	-	-	-	-
Vice President & President of TSMC North America Rick Cassidy	-	-	-	-

(Continued)

Title Name	2012		01/01/2013 ~ 02/28/2013	
	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)	Net Change in Shareholding	Net Change in Shares Pledged (Note 1)
Vice President Human Resources L.C. Tu (Note 3)	-	-	(24,000)	-
Vice President Operations/Mainstream Fabs and Manufacturing Technology J.K. Lin	324,900	-	-	-
Vice President Operations/300mm Fabs J.K. Wang	-	-	-	-
Vice President Corporate Planning Organization Irene Sun	(300,000)	-	(89,000)	-
Vice President Research and Development Burn J. Lin	(5,000)	-	(24,000)	-
Vice President Research and Development Y.J. Mii	565,578	-	-	-
Vice President Research and Development Cliff Hou	-	-	-	-

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: 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: On March 5, 2013, Vice President of Human Resources Mr. L.C. Tu was appointed as the President of TSMC China, effective March 15, 2013.

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 Share

As of 07/10/2012 (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.	5,458,510,828	21.06%	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
	-	-	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for Saudi Arabian Monetary Agency	813,105,396	3.14%	N/A	N/A	N/A	N/A	None	None
Government of Singapore	496,005,919	1.91%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for EuroPacific Growth Fund	413,565,136	1.60%	N/A	N/A	N/A	N/A	None	None
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	271,795,529	1.05%	N/A	N/A	N/A	N/A	None	None
Cathay Life Insurance Co.,Ltd. Chairman: Homg-Tu Tsai	255,515,235	0.99%	N/A	N/A	N/A	N/A	None	None
Polaris Taiwan Top 50 Tracker Fund	237,011,423	0.91%	N/A	N/A	N/A	N/A	None	None
iShares MSCI Emerging Markets Index Fund	229,265,000	0.88%	N/A	N/A	N/A	N/A	None	None
National Westminster Bank plc as Depositary of First State Asia Pacific Leaders Fund a sub fund of First State Investments ICVC	226,137,807	0.87%	N/A	N/A	N/A	N/A	None	None

4.1.9 Long-term Investment Ownership

As of 12/31/2012

Long-term Investment	Ownership by TSMC (1)		Ownership by Directors, Managers and Directly/Indirectly Owned Subsidiaries (2)		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Equity Method:						
TSMC Partners, Ltd.	988,268,244	100%	-	-	988,268,244	100%
TSMC Global Ltd.	1,284	100%	-	-	1,284	100%
TSMC North America	11,000,000	100%	-	-	11,000,000	100%
TSMC Europe B.V.	200	100%	-	-	200	100%
TSMC Japan Limited	6,000	100%	-	-	6,000	100%
TSMC Korea Limited	80,000	100%	-	-	80,000	100%
TSMC China Company Limited	Not Applicable (Note 1)	100%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	100%
TSMC Guang Neng Investment, Ltd.	Not Applicable (Note 1)	100%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	100%
TSMC Solar Ltd.	1,118,000,000	98.58%	5,794,000	0.51%	1,123,794,000	99.09%
TSMC Solid State Lighting Ltd.	430,400,000	95.01%	4,919,500	1.09%	435,319,500	96.10%
Systems on Silicon Manufacturing Co. Pte Ltd.	313,603	38.79%	-	-	313,603	38.79%
Vanguard International Semiconductor Corp.	628,223,493	40.47%	279,239,917	17.99% (Note 2)	907,463,410	58.46%
Xintec Inc.	94,950,005	40.20%	-	-	94,950,005	40.20%
Global UniChip Corporation	46,687,859	34.84%	15,000	-	46,702,859	34.84%
Emerging Alliance Fund, L.P.	Not Applicable (Note 1)	99.50%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	99.50%
VentureTech Alliance Fund II, L.P.	Not Applicable (Note 1)	98.00%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	98.00%
VentureTech Alliance Fund III, L.P.	Not Applicable (Note 1)	50.25%	Not Applicable (Note 1)	48.73%	Not Applicable (Note 1)	98.98%
Cost Method:						
Non-publicly Traded						
United Industrial Gases Co., Ltd.	19,300,377	9.75%	-	-	19,300,377	9.75%
Shin-Etsu Handotai Taiwan Co., Ltd.	10,500,000	7.00%	-	-	10,500,000	7.00%
W.K. Technology Fund IV	4,000,000	1.89%	-	-	4,000,000	1.89%
Funds						
Horizon Ventures Fund I, L.P.	Not Applicable (Note 1)	12.11%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	12.11%
Crimson Asia Capital Ltd., L.P.	Not Applicable (Note 1)	1.07%	Not Applicable (Note 1)	-	Not Applicable (Note 1)	1.07%

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 17.65% while other Directors and Management hold 0.34%.

4.1.10 Share Information

TSMC’s earnings per share increased 23.8% in 2012 to NT\$6.41 per share. The following table details TSMC’s net worth, earnings, dividends and market price per common share in 2012, 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	2011	2012	01/01/2013 ~ 02/28/2013
Market Price Per Share (Note 1)			
Highest Market Price	78.00	99.20	109.00
Lowest Market Price	63.30	74.30	99.00
Average Market Price	72.09	84.08	102.27
Net Worth Per Share			
Before Distribution	24.29	27.90	-
After Distribution	21.29	(Note 5)	-
Earnings Per Share			
Weighted Average Shares (thousand shares)	25,924,682	25,927,936	-
Diluted Earnings Per Share	5.18	6.41 (Note 5)	-

(Continued)

Item	2011	2012	01/01/2013 ~ 02/28/2013
Dividends Per Share			
Cash Dividends	3.00	3.00 (Note 5)	-
Accumulated Undistributed Dividend	-	-	-
Return on Investment			
Price/Earnings Ratio (Note 2)	13.92	(Note 5)	-
Price/Dividend Ratio (Note 3)	24.03	(Note 5)	-
Cash Dividend Yield (Note 4)	4%	(Note 5)	-

Note 1: Referred to TWSE website
Note 2: Price/Earnings Ratio = Average Market Price/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 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 2012 profit distribution at its Meeting on February 5, 2013. The proposal will be effected according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders’ Meeting on June 11, 2013.

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 2013 Annual Shareholders’ Meeting, was recorded as a charge to earnings of proximately 6.7% of net income in year 2012; 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 11, 2013. 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 2012 Profits

Unit: NT\$

Cash Dividends to Common Shareholders (NT\$3.0 per share)	77,773,307,004
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Note: Employees' cash bonus and profit sharing and compensation to directors for the year 2012 which have been expensed under the Company's income statements are listed below:
—NT\$11,115,239,773 distributed employees' cash bonus
—NT\$11,115,239,772 employees' cash profit sharing to be distributed after 2013 Annual Shareholders' Meeting
—NT\$71,351,700 directors' compensation

2011 Directors’ Compensation and Employee Profit Sharing

	Board Resolution (02/14/2012)	Actual Result (Note)
	Amount (NT\$)	Amount (NT\$)
Directors' Compensation (Cash)	62,323,764	62,323,764
Employee's Cash Profit Sharing	8,990,026,475	8,990,026,475
Total	9,052,350,239	9,052,350,239

Note: Each of the above two items, being approved by the Board, has been expensed at the same amount under the Company's 2011 income statements.

4.1.13 Impact to 2013 Business Performance and EPS Resulting from Stock Dividend Distribution: Not applicable.

4.1.14 Buyback of Common Stock: None.

4.2 Issuance of Corporate Bonds

4.2.1 Corporate Bonds

As of 02/28/2013

Issuance	Domestic Unsecured Bond (100-1)		Domestic Unsecured Bond (100-2)	Domestic Unsecured Bond (101-1)	Domestic Unsecured Bond (101-2)	Domestic Unsecured Bond (101-3)	Domestic Unsecured Bond (101-4)	Domestic Unsecured Bond (102-1)
Issuing Date	09/28/2011		01/11/2012	08/02/2012	09/26/2012	10/09/2012	01/04/2013	02/06/2013
Denomination	NT\$10,000,000		NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000	NT\$10,000,000
Offering Price	Par		Par	Par	Par	Par	Par	Par
Total Amount	NT\$18,000,000,000		NT\$17,000,000,000	NT\$18,900,000,000	NT\$21,700,000,000	NT\$4,400,000,000	NT\$23,600,000,000	NT\$21,400,000,000
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.	Tranche A: 1.28% p.a. Tranche B: 1.40% p.a.	Tranche A: 1.28% p.a. Tranche B: 1.39% p.a.	1.53% p.a.	Tranche A: 1.23% p.a. Tranche B: 1.35% p.a. Tranche C: 1.49% p.a.	Tranche A: 1.23% p.a. Tranche B: 1.38% p.a. Tranche C: 1.50% 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	Tranche A: 5 years Maturity: 08/02/2017 Tranche B: 7 years Maturity: 08/02/2019	Tranche A: 5 years Maturity: 09/26/2017 Tranche B: 7 years Maturity: 09/26/2019	Tenor: 10 years Maturity: 10/09/2022	Tranche A: 5 years Maturity: 01/04/2018 Tranche B: 7 years Maturity: 01/04/2020 Tranche C: 10 years Maturity: 01/04/2023	Tranche A: 5 years Maturity: 02/06/2018 Tranche B: 7 years Maturity: 02/06/2020 Tranche C: 10 years Maturity: 02/06/2023
Guarantor	None		None	None	None	None	None	None
Trustee	Mega International Commercial Bank		Mega International Commercial Bank	Mega International Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank	Taipei Fubon Commercial Bank
Underwriter	Not Applicable		Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Legal Counsel	Modern Law Office		Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office	Modern Law Office
Auditor	Deloitte & Touche		Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Repayment	Bullet		Bullet	Bullet	Bullet	Bullet	Bullet	Bullet
Outstanding	NT\$18,000,000,000		NT\$17,000,000,000	NT\$18,900,000,000	NT\$21,700,000,000	NT\$4,400,000,000	NT\$23,600,000,000	NT\$21,400,000,000
Redemption or Early Repayment Clause	None		None	None	None	None	None	None
Covenants	None		None	None	None	None	None	None
Credit Rating	twAAA (Taiwan Ratings Corporation, 08/24/2011)		twAAA (Taiwan Ratings Corporation, 12/06/2011)	twAAA (Taiwan Ratings Corporation, 07/02/2012)	twAAA (Taiwan Ratings Corporation, 08/23/2012)	twAAA (Taiwan Ratings Corporation, 09/04/2012)	twAAA (Taiwan Ratings Corporation, 11/29/2012)	twAAA (Taiwan Ratings Corporation, 12/18/2012)
Other Rights of Bondholders	Conversion Right	None	None	None	None	None	None	None
	Amount of Converted or Exchanged Common Shares, ADRs or Other Securities	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Dilution Effect and Other Adverse Effects on Existing Shareholders	None		None	None	None	None	None	None
Custodian	None		None	None	None	None	None	None

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		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
Issuance & Listing	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE	NYSE		NYSE	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		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
Offering Price Per ADS (US\$)	24.78	15.26	17.75	24.516	28.964	57.79	56.16	35.75		20.63	20.63	16.03	16.75	8.73	10.40	10.77	8.6	10.68
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		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
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		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
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		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
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		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
Trustee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable		Not Applicable	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		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
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		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
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		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
Apportionment of Expenses for Issuance & Maintenance	(Note 3)							(Note 4)	(Note 3)									
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		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
Closing Price Per ADS (US\$)	2012	High	17.27															
		Low	12.57															
		Average	14.56															
	01/01/2013 - 02/28/2013	High	19.15															
		Low	17.52															
		Average	18.14															

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. 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. As of February 28, 2013, total number of outstanding ADSs was 1,091,467,817 after 56,367,388 ADSs were redeemed.

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 feesand accountant fees were borne by TSMC.

4.5 Status of Employee Stock Option Plan

4.5.1 Issuance of Employee Stock Options

As of 02/28/2013

ESOP Granted	First Grant	Second Grant	Third Grant	Fourth Grant	Fifth Grant	Sixth Grant	Seventh Grant	Eighth Grant	Ninth Grant
Approval Date	06/25/2002	06/25/2002	06/25/2002	06/25/2002	10/29/2003	10/29/2003	10/29/2003	10/29/2003	01/06/2005
Issue (Grant) Date	08/22/2002	11/08/2002	03/07/2003	06/06/2003	12/03/2003	02/19/2004	05/11/2004	08/11/2004	05/17/2005
Number of Options Granted	18,909,700	1,085,000	6,489,514	23,090,550	842,900	15,720	11,167,817	135,300	10,742,350
Percentage of Shares Exercisable to Outstanding Common Shares	0.10154%	0.00583%	0.03485%	0.12399%	0.00416%	0.00008%	0.05510%	0.00058%	0.04620%
Option Duration	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years	10 years
Source of Option Shares	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	New Common Share	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%	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%
Shares Exercised	20,585,621	1,416,203	7,385,017	23,363,569	522,185	12,251	9,561,511	128,014	7,445,854
Value of Shares Exercised (NT\$)	696,435,850	45,875,186	170,789,855	807,621,328	26,754,961	592,895	423,881,664	4,982,968	354,649,036
Shares Unexercised	0	0	199,537	1,475,410	60,926	3,165	783,017	0	1,491,228
Original Grant Price Per Share (NT\$)	NT\$53.0	NT\$51.0	NT\$41.6	NT\$58.5	NT\$66.5	NT\$63.5	NT\$57.5	NT\$43.8	NT\$54.3
Adjusted Exercise Price Per Share (NT\$)	NT\$25.6	NT\$24.6	NT\$20.2	NT\$28.3	NT\$50.1	NT\$47.8	NT\$43.2	NT\$38.0	NT\$47.2
Percentage of Shares Unexercised to Outstanding Common Shares	0.00000%	0.00000%	0.00077%	0.00569%	0.00023%	0.00001%	0.00302%	0.00000%	0.00575%
Impact to Shareholders' Equity	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	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

As of 02/28/2013

	Title	Name	Number of Options Granted (Note 3)	% of Shares Exercisable to Outstanding Common Shares	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
Directors	Chairman &Chief Executive Officer	Morris Chang (Note 1)	5,610,424	0.02164%	5,610,424	24.8	139,177,343	0.02164%	0	0.0	0	0.00000%
	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 & Chief Information Officer	Stephen T. Tso (Note 1)										
	Senior Vice President &General Counsel	Richard Thurston (Note 1)										
	Vice President & Chief Technical Officer	Jack Sun (Note 1)										
	Vice President & President of TSMC North America	Rick Cassidy										
	Vice President	L.C. Tu (Note 1 & 2)										
	Vice President	J.K. Lin (Note 1)										
	Vice President	Burn J. LIN (Note 1)										
Employees	Director	Jessica Chou	7,674,288	0.02960%	7,167,464	43.7	313,329,626	0.02765%	506,824	47.2	23,922,093	0.00195%
	Director	Lie-Szu Juang										
	Sr. Vice President of TSMC North America	Pan-Wei Lai										
	Sr. Vice President of TSMC North America	Bradford Paulsen										
	Sr. Vice President of TSMC North America	David Keller										
	Vice President of TSMC North America	Sajiv Dalal										
	President of WaferTech	Kuo Chin Hsu										
	Director of WaferTech	Charlton Ku										
	Program Director of WaferTech	Wayne Yeh										
	Deputy FAB Manager of WaferTech	Tsung Kuo										

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: On March 5, 2013, Vice President of Human Resources Mr. L.C. Tu was appointed as the President of TSMC China, effective March 15, 2013.

Note 3: 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 Employee Restricted Stock

TSMC did not issue employee restricted stock in 2012, and as of the date of this Annual Report.

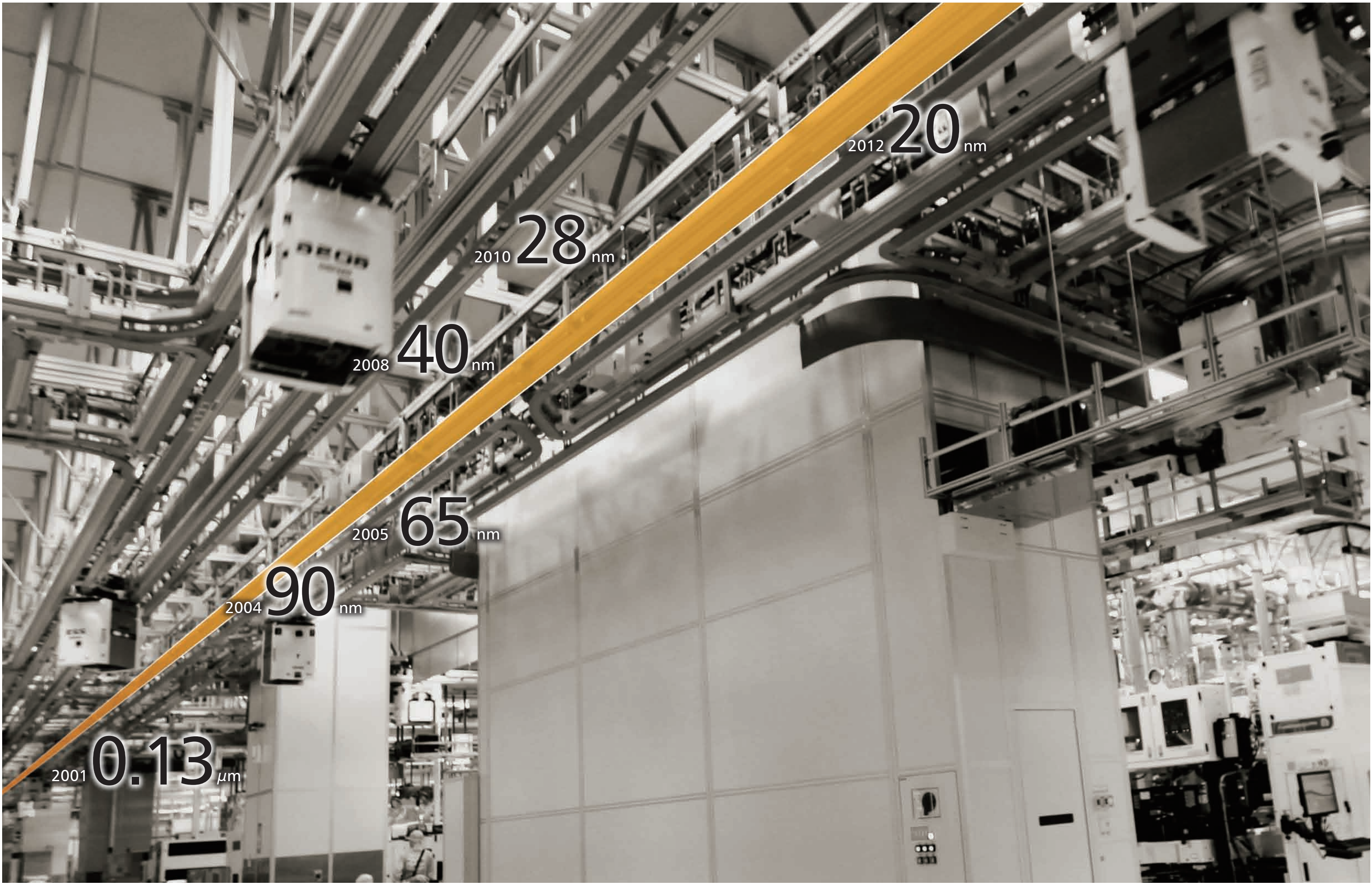
4.6.1 Status of Employee Restricted Stock: Not applicable.

4.6.2 Employee Restricted Stock Granted to Management Team and to Top 10 Employees: Not applicable.

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

TSMC did not issue new shares in connection with mergers or acquisitions during 2012, and as of the date of this Annual Report.

4.8 Financing Plans and Implementation: Not applicable.



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 relationships 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 25 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 2012 and 2011

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

		2012		2011	
		Shipments	Gross Sales	Shipments	Gross Sales
Wafer	Domestic	2,348,115	64,958,354	2,077,487	49,039,389
	Export	11,508,104	401,877,584	10,411,227	340,588,566
Package	Domestic	0	0	0	0
	Export	143,267	6,124,451	24,881	1,045,714
Other	Domestic		4,180,117		4,499,828
	Export		29,557,232		26,298,590
Total	Domestic	2,348,115	69,138,471	2,077,487	53,539,217
	Export	11,651,371	437,559,267	10,436,108	367,932,870

5.1.4 Production in 2012 and 2011

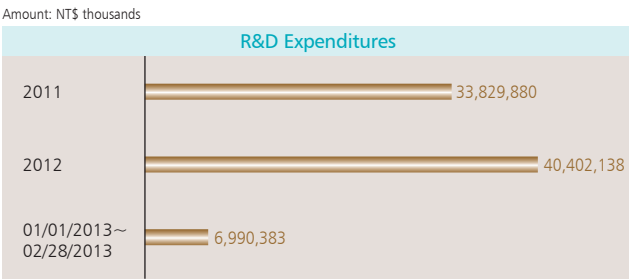
Unit: Capacity / Output (8-inch equivalent wafers) / Amount (NT\$ thousands)

Wafers			
Year	Capacity	Output	Amount
2012	15,090,605	13,875,440	270,740,990
2011	13,221,316	12,019,882	204,927,905

5.2 Technology Leadership

5.2.1 R&D Organization and Investment

TSMC further expanded many aspects of Research and Development in 2012 to strengthen Technology Leadership. In 2012, the total R&D budget was 8.0% of total revenue. This level of R&D investment equals or exceeds that of many leading-edge technology companies. Along with the budget increase, the R&D organization increased staffing by over 27.5%.



TSMC recognizes that the technology challenge required to extend Moore’s Law, the business law behind CMOS scaling, is getting increasingly complex. 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 2012, TSMC worked intensively on ramping 28nm technology, which contributed close to 22% of fourth quarter 2012 revenue and will further increase in 2013.

TSMC accelerated the development of advanced transistors, especially 3D transistors using FinFET structure for 16nm process node, embedded memories, and copper (Cu)/low-K interconnect technologies. During 2012, the R&D organization once again proved its capabilities by developing 20nm technology as well as establishing 16nm transistor leadership capabilities. Furthermore, TSMC broadened the horizon of transistor research by investing R&D in alternative high-speed and low-power channel materials other than silicon, such as germanium and III-V compounds.

TSMC 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 reusable IPs through the advanced technology nodes. TSMC strengthened its collaborations with key development partners on design-process optimization, and 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 2012

R&D Highlights

● **28nm Technology**
In 2012, TSMC’s 28nm technology offering added 28nm High Performance Plus (28HPP) and 28nm High Performance Triple-Gate (28HPT). 28HPP and 28HPT achieved 10% faster speed than that in previous 28nm High Performance (28HP) and 28nm High Performance Mobile Computing (28HPM) offered in 2011. 28HPP was qualified and demonstrated first silicon success in early production. 28HPT received first customer tape out in December 2012, and was scheduled to deliver first silicon success by April 2013.

● **20nm Technology**
In 2012, TSMC continued to focus on 20nm technology development, including process baseline setup and yield learning, design rule definition and enhancement, SPICE model generation, and reliability evaluation. To offer a leading-edge technology for both digital and analog applications, the Company adopted an advanced lithography process for smaller feature size. With the second generation of high-K metal-gate, more Si strain, and new device structure, the intrinsic transistor performance continues to enhance 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, can satisfy high performance System-on-Chip (SoC) applications.

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 2012, TSMC successfully taped out the process development test vehicle, defect reduction vehicle and product-like yield learning vehicle, on which the advanced ARM-core block was included. With the vehicle and process development, TSMC provided V1.0 process flow, design kits (design rules, SPICE models, and PDK files) and intellectual property (IP) to help reduce foundry-access costs in 2012. The Company achieved its outstanding transistor performance target and demonstrated the functional and natural yield of the leading-edge SRAM bit-cells as planned. Besides the internal test vehicles, the Company also launched two public cyber shuttles in April and November 2012. More than 10 customers took the shuttles and verified their IPs. TSMC’s high-performance 20nm process enters risk production in first quarter of 2013.

● 16nm Technology

TSMC completed 16nm technology definition and began 16nm technology development in 2012. In order to further extend Moore’s Law, the FinFET transistor, an advanced 3D device structure, was introduced in the 16nm technology in addition to the third generation of high-K metal gate, the fifth generation of strain technology and advanced 193nm lithography. As a result, the 16nm technology offers substantial power reduction for the same chip performance, a must for advanced mobile applications as compared to technologies built with the traditional planar structure.

In 2012, TSMC achieved significant progress on test vehicle generation, process baseline setup, design rule definition, SPICE model generation and reliability evaluation. TSMC successfully taped out a process development test vehicle, provided customers early design kits (design rules and SPICE models) and demonstrated functional yield on the FinFET-based SRAM bit-cells according to plan.

● Lithography

20nm lithography progressed steadily in 2012. There has been continuous learning and improvement in material quality, process recipe robustness, and litho-cell maintenance that resulted in robust patterning solutions. The achieved defect learning and D0 goals enable successful yield learning on SRAM qualification vehicles and several key customer tape-outs.

Lithography for the 16nm node signifies the introduction of novel patterning techniques to achieve 48nm pitch FinFET, especially to ensure sufficient coverage and planarization of high aspect ratio

topography with the 3D device structures. In addition, TSMC has also developed the patterning solution to delineate the tightest single patterning pitch of 80nm for the metal layer enabling further increase of pattern density for customers. Building on the learning of the 20nm node, TSMC has automated the in-line pilot run process and its control that enable fast cycle time for SRAM development and yield learning.

The pathfinding for 10nm node has been started on immersion scanners. This technology will become more sophisticated and play a key role as the process baseline, based on considerations of cost and next-generation tool availability. Innovative processes are being developed to deal with the process control challenges brought with this technology node. Optical proximity correction has solved the process problem. Both cost and measurement accuracy were greatly improved with this change.

Development of EUV lithography and multiple e-beam direct write is aimed at the 7nm node because of late availability. Nevertheless, the 10nm node will be used to exercise these technologies.

At the front of specialty technology, R&D lithography has further extended the limitation of scanners in the 8-inch fabs, to shrink the design rules and help customers gain more gross dies per wafer to reduce the die cost. R&D has transferred multiple eFlash technologies for manufacturing and delivered eMRAM and eRRAM lithography technologies. For MEMS, R&D has developed and transferred the manufacturing technology for microphones and accelerometers.

TSMC continues to work with exposure-tool partner ASML in the development of immersion and EUV lithographic technologies. Faced with delays in the EUV source technology, capabilities of 193nm immersion scanners are being extended with more resolution-enhancement features, tighter specifications, and higher throughput to enable multiple patterning. In the meantime, using NXE3100 beta-tool in Fab 12, we have been developing single-patterning EUV processes for 10nm and 7nm applications, with associated mask and resist technologies. However, the application of EUV lithography in high-volume manufacturing of these nodes will depend on the success of the EUV source technology to reach over 100 wafers per hour.

The KLA-Tencor REBL multiple-e-beam direct-write tool is being extensively studied for feasibility, performance, and improvements. A TSMC team from the design, CMOS, MEMS, and packaging areas is jointly developing and fabricating the dynamic pattern generation chip for the REBL system. Two test stands for qualification of dynamic pattern generation and resist testing are being built and will be delivered to the TSMC Fab 12 GIGAFAB™ facility in 2013. Two scanner companies are performing sizing feasibility for multiple e-beam direct-write lithography. Multiple e-beam direct-write

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. In 2012, TSMC completed the development of the mask technology for the 20nm node to enable double patterning. TSMC’s R&D mask facility received more state-of-the-art mask processing tools to enable engineers to complete the development of mask technologies for the 16nm and 10nm nodes in the coming years. Development of mask technology for EUV lithography has been underway with its unique requirements in e-beam writing, etching, inspection, repair, and verification. As a core member of SEMATECH and a joint-development partner of EIDEC, TSMC is an active participant in the development of key infrastructure pieces for EUV masks such as the actinic repair verification tool and the actinic inspection tool of EUV blanks.

Integrated Interconnect and Packaging

In 2012, TSMC became the world’s first foundry to provide full system integration turn-key solutions to customers. The Company developed and delivered backend technologies starting from advanced back-end-of-line (BEOL) interconnect, to the production-ready fine pitch silicon interposer with through silicon via (TSV) & chip stacking, and all the way to the advanced wafer-level-chip scale packaging (WLCSP) including fan-in and fan-out, and ultra fine pitch large die lead-free flip chip packaging. TSMC can offer our customers corresponding design tools, technology and mass production capability. Such options were made available to customers in 2012. Advanced BEOL interconnection is further refined and extended with innovative damascene processes. And the flip chip packaging technology envelope was expanded to larger chip size and finer bump pitches for advanced technology nodes (28nm and 20nm). Efforts are also made to include fan-in and fan-out wafer level packaging technology in our offerings to customers. The solution has been qualified by selective customers.

● Advanced Interconnect

Advanced interconnects with low resistance/capacitance RC delay continued to be the primary focus of TSMC BEOL technology development in 2012. For 16nm node and beyond, we have developed a new interconnect scheme to achieve minimum pitch and a new metal patterning to minimize resistance/capacitance RC delay.

At the 20nm node, the effective resistivity of our Cu lines is highly competitive and lower than that projected by the International Technology Roadmap for Semiconductors (ITRS).

● Advanced Package Development

To provide innovative and cost competitive lead-free bumping and packaging solutions in 2012, TSMC developed and qualified 28nm technology node Bump-on-Trace packaging technology with ultra-fine pitch array (100μm pitch) Cu-bump for mobile devices. The Company expanded the lead-free packaging technology envelope to 20nm node and offered a wide variety of lead-free flip chip packaging technologies for both mobile/handheld and high performance applications to enhance customers’ competitiveness.

● 3D IC

In 2012, R&D completed CoWoS™ process and package qualifications and transferred the technology for production. CoWoS™ solution provides a simple integration process for customers to realize their products with the optimized cost and cycle time. We have also developed the 3D IC 28HPM through transistor stacking (TTS) technology, that can enable customers for applications requiring small form factor, high performance and low power dissipation. Realizing the critical nature of 3D IC thermal management, TSMC has also developed thermal solutions associated with the CoWoS™ process and TTS technologies. Overall, TSMC delivers technology solutions to enable SiP design that includes 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). Such integrated solution for product realization is available to customers.

Advanced Transistor Research

Continuous quest for high performance and low power drives innovation and research in transistor architecture in advanced logic technologies across all segments. TSMC invested heavily in alternative high speed and low power channel materials other than silicon, such as germanium and III-V compounds. New concepts of transistor structures employing innovative nanotechnology are also under intensive investigation.

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 developed full scope 28nm oxi-nitride and poly-Si based RFCMOS technology for next generation RF transceivers (ex. 4G LTE) with the advantages of low power & low cost. Besides standard-Vt and low-Vt devices, extreme-low-Vt devices were also included for larger design margins and smaller active-power consumption. TSMC delivered a CMOS process compatible technology for enabling cellular RF switch applications on Si to compete with traditional compound

semiconductor- based process. TSMC enabled production of the IPD (Integrated Passive Device) technology, specifically for rapidly expanding mobile devices.

● **Power IC/BCD Technology**

In 2012, TSMC’s HV/ Power technologies collectively shipped more than 1 million wafers to customers. On top of the production base, R&D team released the second generation of 0.18 BCD technology, and the first product from a partner customer has shipped engineering samples to system customer.

● **Panel Driver Technology**

In 2012, 80HV for smartphone display driver chips was released to production. And a customized derivative of the technology has also supported partner customer’s lead product design. Other than small panel for smartphone, we also have been developing a 0.11μm technology specifically for tablet applications.

● **Micro-electromechanical Systems (MEMS) Technology**

In 2012, TSMC’s modular MEMS technology for accelerometer was released and supported the partner customer production ramping. A microphone project for high-resolution noise cancellation applications was executed.

● **Flash/Embedded Flash Technology**

In 2012, TSMC achieved several milestones in embedded flash technologies at 65/55nm node. The split-gate cell at the 65nm node was qualified for automotive process and is currently in production. For other NOR-type cells, a customer is shipping several prototypes for sampling. For hybrid cells, products for 100k chip card application are in sampling.

At the 40nm node, TSMC has engaged with leading IDMs to develop nitride film storage flash cell and NOR type cell for both automotive and consumer applications.

5.2.3 Technology Platform

TSMC equips modern IC designers with a comprehensive design infrastructure required to optimize 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® initiative to further enhance its technology platforms every year since OIP was launched in 2008.

In October 2012, TSMC announced full delivery of 20nm design ecosystem through OIP collaboration. TSMC’s 20nm design ecosystem is ready with foundation design collaterals such as DRC, LVS, and PDKs; foundation IPs, including standard-cell libraries, standard I/O, e-Fuse and memory compilers; and standard interface IPs 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 satisfy 20nm technology requirements.

TSMC addressed the most critical design challenges through two technology- specific Reference Flows in 2012: 20nm Reference Flow and CoWoS™ Reference Flow. Through these two new reference flows, customers gain access to needed solutions in order to design in TSMC 20nm technology and CoWoS™ technology.

In October 2012, TSMC also announced the foundry segment’s 20nm Custom Design Reference Flow, and the fourth revision of the Radio Frequency Reference Design Kit (RF RDK), providing needed design enablement for custom design and RF design.

To ensure timely enhancement of OIP Ecosystem partners’ tool compliance with new process requirements, TSMC works with EDA partners to proactively certify EDA tool readiness and publish a report on TSMC online.

Starting from 20nm, the coverage of EDA certification further expanded from DRC, LVS, RC extraction, placement and routing, to static timing analysis, electro-migration, IR drop and custom design.

In order to lower the barrier of technology adoption for customers, TSMC introduced the Integrated Sign-Off Flow (ISF) in 65nm/55nm in 2009, announced 40nm ISF in 2011 and 28nm in 2012. ISF is a production-proven design flow based on TSMC’s expertise accumulated over the years. ISF started to bear fruit in 2010, and enabled a large number of first-time customers to leapfrog from 0.13μm node to 65nm/55nm node. The introduction of 40nm ISF has further helped customers seize more business opportunities to jumpstart their product solutions, with examples of successful tape-outs for mobile processor application and 3G/4G communication from China in 2011. The newly revealed 28nm ISF in 2012 helped customers seize opportunities in mobile communication with designs in 28nm node.

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 System-on-Chip (SoC), close technical collaboration between the foundry and the IP provider is imperative to emphasize this critical trade-off.

In 2011, TSMC set up 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 access soft-IP9000 assessment status reports of soft-IPs through TSMC Online. In 2012, the new soft-IP Handoff Package (the soft-IP Kit 2.0) is ready for soft-IP Partners. Soft-IP Kit 2.0 provides an enhanced set of checks that covers such additional design checks as early physical implementation aspects (e.g., area, timing, and congestion) and advanced formal lint checks.

5.2.4 Design Enablement

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

Tech File and PDK

Because of TSMC’s broader, earlier, and deeper collaboration with customers through the OIP initiative, customers gain greater benefit from TSMC tech-files and process design kit (PDK). The benefits are evidenced by a significant increase to more than 100,000 downloads in 2012, from 50,000 downloads in 2011. TSMC also increased resources to meet the high demand on PDK for specialty 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 2012, over 60% 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. The total number of library or IP content in the portfolio, including soft IPs, increased to 5,400 in 2012, compared with 3,740 in 2011.

Design Methodology and Flow

TSMC announced in October 2012 the full delivery of 20nm support within Open Innovation Platform® (OIP) design infrastructure.

TSMC’s 20nm deign ecosystem is ready with foundation design collaterals such as DRC, LVS, and PDKs; foundation IPs, including standard-cell libraries, standard I/O, e-Fuse & memory compilers; and standard interface IPs such as USB, PCI, and DDR/LPDDR. Customers can download these files at TSMC Online. Collaboration with the EDA community for 20nm has been very thorough in order to achieve tool consistency for improved design results.

20nm Reference Flow features new design solutions/capabilities in place-and-route, RC extraction, DRC, timing analysis, electro migration and IR-drop to enable 20nm designs in double patterning and with characteristics that closely match silicon behavior.

CoWoS™ Reference Flow was announced in October 2012. The emerging 3D integration and process technologies allow the designs with multi-technology support. CoWoS™ Reference Flow enables heterogeneous integration across multiple technologies and memory integration through Wide-IO. In order to satisfy the demands of emerging systems for scaling, performance and functionality, the CoWoS™ Reference Flow provides a complete analysis suite for power integrity, thermal analysis, simultaneously switching noise and innovative DFT and place-and-route solution. With cooperating TSMC ecosystem partners, CoWoS™ design methodology provides the most cost-effective solution for the TSMC recommended design environment. The CoWoS™ design platform can take all benefits of advanced nodes and mature technologies in a very flexible way to achieve target design requirements.

20nm Custom Design Reference Flow enables double patterning capability. It provides solutions to process requirements that are significant in 20nm, including a direct link with simulators for the verification of voltage-dependent DRC rules, an integrated layout-dependent-effect solutions and handling of high-K metal-gate edge effect.

The updated RF RDK provides a solution to address common challenges that RF designers encounter. RF RDK 4.0 offers flexible five-terminal MOS device and accurate noise model for slow wave transmission line. RDK4.0 also offers comprehensive electro-magnetic work flow for radio-frequency passive device synthesis through integrated-passive-device, 60GHz and scalable VCO reference example to assist customers in inductor design.

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 2012, TSMC received a record breaking 647 U.S. patents, as well as 300+ issued patents in Taiwan and the PRC, and other patents issued in various other countries. In 2012, TSMC achieved a patent milestone: breaking into the “Top 50” U.S. patent grants in 2012. TSMC’s patent portfolio is now approximately 20,000 patents worldwide (includes patent applications in queue). We continue to implement a unified strategic plan 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 was established to handle MPW (Multi-Project Wafer) access requests by qualified professors at leading research universities worldwide. To 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 0.11μm/0.18μm process nodes for micro-electromechanical system designs. For very advanced logic design and SRAM researches, 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.

Participations in the TSMC University Shuttle Program include the active participation of major university research groups: in the U.S., M.I.T., Stanford University, UC Berkeley, Harvard University, and UCLA; in Taiwan, National Taiwan University, National Chiao-Tung University, and National Tsing-Hua University; in China, Tsing Hua University in Beijing, and Hong Kong University of Science and Technology, and in Singapore, Nanyang Technological University.

The TSMC University Shuttle Program serves as an effective bridge to link motivated professors and graduate students in leading research universities worldwide with enthusiastic directors and managers 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. They have recognized that this Program allows their graduate students to implement exciting designs ranging from low-power memories, analog-to-digital converters and digital designs to advanced radio-frequency and mixed-signal bio-medical systems. This is a truly “win-win” collaboration. In 2012, TSMC received specific letters of appreciation from professors at M.I.T., Stanford University, UC Berkeley, Harvard 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 2012, the Company plans to continue to grow its R&D investments. 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 and to extend our leadership to the 10nm and 7nm nodes. One of TSMC’s goals is to extend Moore’s Law through both innovative in-house work and by collaborating with industry leaders and academia. We seek to push the envelope in finding cost-effective technologies and manufacturing solutions.

TSMC intends to 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 increasingly important to TSMC’s process development efforts at the 10nm, 7nm, and smaller nodes.

TSMC continues to work with mask writing and inspection equipment suppliers to develop viable mask making technology to help ensure that the Company maintains its leadership position in mask quality & cycle time and continues to meet aggressive R&D, prototyping and production requirements.

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

TSMC R&D Future Major Project Summary

Project Name	Description	Risk Production (Estimated Target Schedule)
16nm logic platform technology and applications	Next-generation technology for both digital and analog products	2013
10nm logic platform technology and applications	Exploratory technology for both digital and analog products	2015
3D IC	Cost-effective solution with better form factor and performance for SIP	2013 - 2014
Next-generation lithography	EUV and multiple e-beam to extend Moore’s Law	2014 – 2016
Long-term research	Special SoC technology (including new NVM, MEMS, RF, analog) and 10nm transistors	2013 – 2015
The above plans account for roughly 70% of the total R&D budget in 2013, while total R&D budget is currently estimated to be around 8% of 2013 revenue.		

5.3 Manufacturing Excellence

5.3.1 GIGAFAB™ Facilities

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 3,936,000 12-inch wafers in 2012. Production within these three facilities supports 0.13μm, 90nm, 65nm, 40nm, 28nm, and 20nm process technologies, and their sub-nodes. Part of the capacity is reserved for research and development work and currently supports 16nm, 10nm and beyond technology development. TSMC has developed a centralized fab manufacturing management for the customers’ benefit of consistent quality and reliability performance, greater flexibility of demand fluctuations, faster yield learning and time-to-volume, and minimized costly product re-qualification. It enables Fab 15 to fast ramp 28nm capacity from zero to 50,000 wafers output per month in eight months to satisfy customers’ demand.

5.3.2 Engineering Performance Optimization

Highly sophisticated information technology (IT) solutions, such as advanced equipment control, fault detection and diagnosis, engineering big data mining, and centralized operation platforms, are implemented to optimize TSMC equipment, process and yield performance. They also 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 systems enables 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 performance and productivity monitoring, analysis, diagnosis and control minimize production interruption and maximize cost effectiveness.

5.3.4 450mm Wafer Manufacturing Transition

TSMC joined the Global 450mm Consortium (G450C) located in the College of Nanoscale Science and Engineering (CNSE) of New York University at Albany, New York. The consortium includes five IC makers and CNSE (which represents New York State and provides the clean room facility), as well as key 450mm tool suppliers as associate members.

Currently, TSMC has 16 experienced employees working in the consortium. TSMC has assumed the Operation GM position in the consortium and commits to lead the industry for a cost-effective 450mm transition. The clean room of G450C in Albany has been ready for tool installation since Q1 2013. The majority of the tools will be installed in 2013.

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

5.3.5 Raw Materials and Supply Chain Risk Management

In 2012, 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 90% 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 KANTO-PPC MGC	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 Dow JSR Nissan Shin-Etsu Chemical Sumitomo T.O.K.	These seven 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 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 Fujifilm Planar Solutions Fujimi Hitachi Chemical Kinik 3M	These nine 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	2012			2011		
	Procurement Amount	As % of 2012 Total Net Procurement	Relation to TSMC	Procurement Amount	As % of 2011 Total Net Procurement	Relation to TSMC
Company A	6,708,942	16%	None	5,549,444	22%	None
Company B	5,846,449	14%	None	3,035,441	12%	None
VIS	4,475,674	11%	Investee accounted for using equity method	5,597,895	22%	Investee accounted for using equity method
SSMC	3,638,633	9%	Investee accounted for using equity method	3,949,176	16%	Investee accounted for using equity method
Others	20,710,694	50%		6,775,433	28%	
Total Net Procurement	41,380,392	100%		24,907,389	100%	

5.3.6 Quality and Reliability

A characteristic of TSMC’s industry reputation is its commitment to providing customers with the best quality wafers and service 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. Since 2009, Q&R has worked with R&D and the design service team to improve the quality of design kits through integrated R&D and design quality platform. In 2012, Q&R continued to work with R&D and the design team to develop DRM infrastructure with iEDA layout platform. Q&R also deployed an SRAM cell review system to improve bit cell change quality of third parties and customers. Q&R has been collaborating with SEMI to establish an IC Quality Committee since May in order to enhance product quality of the semiconductor supply chain. For backend technology development, Q&R worked with R&D, BTSD (Backend Technology and Service Division) and Product Engineering to complete the CoWoS™ technology development and production transfer. After establishing Power Cycling capability and methodology in 2011, Q&R will further extend backend characterization by adding system-level temperature cycling, bending, drop and vibration tests in 2013.

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 to enhance manufacturing quality, including matching of facility, metrology and process tools, wafer acceptance test (WAT) data and reliability performance. In 2011, Q&R 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. In addition to adapting analytical techniques to aid in the release and monitoring of advanced Fab tools and processes for advanced technology nodes, state-of-the-art electron microscopy,

chemical analysis and fault isolation equipment were added at a record pace in 2012 to support development activities of the 20nm and 16nm technology nodes.

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 enabled TSMC customers to introduce and ramp lead-free products with excellent assembly quality. In 2012, TSMC Q&R ramped wafer-level Chip Scale Package (CSP) to 20K per month and lead-free to 40K per month without major quality issues. For mainstream technologies, Q&R qualified ultra, extreme low leakage and high endurance embedded Flash IP, IPD (Integrated Passive Device), hybrid of Copper, Copper-Aluminum technology with customers. Q&R continues to build reliability testing and monitoring to ensure excellent manufacturing quality of automotive, high-voltage products, CMOS image sensors and embedded-Flash memory 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 2012, a third-party audit verified the effectiveness of the TSMC quality management system (including R&D labs) 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: Advanced Micro Devices, Inc., Altera Corporation, Broadcom Corporation, Marvell Semiconductor Inc., MediaTek Inc., NVIDIA Corporation, OmniVision Technologies and Qualcomm Inc. IDM customers include: Analog Devices Inc., STMicroelectronics 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 engineering 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 order, fabrication, assembly and testing, and shipping.

Customer Satisfaction

To assess customer satisfaction and to ensure that as many as possible of our 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	2012			2011		
	Net Sales	As % of 2012 Total Net Sales	Relation to TSMC	Net Sales	As % of 2011 Total Net Sales	Relation to TSMC
Customer A	85,357,353	17%	None	59,203,844	14%	None
Others	420,891,227	83%		367,876,801	86%	
Total Net Sales	506,248,580	100%		427,080,645	100%	

5.4.2 Open Innovation Platform® (OIP) Initiative

Innovation has long been both an exciting and challenging proposition. Competition among semiconductor companies is becoming more active and intense in the face of increasing customer consolidation and the commoditization of technology at more mature, conventional levels. Companies must find ways to continue innovating in order to prosper further. Companies innovating openly from the “outside in” as well as from the “inside out” accelerate innovation through active collaborations with external partners. This active collaboration of TSMC with external partners is known as Open Innovation. TSMC has adopted this path to innovate via the Open Innovation Platform® (OIP) initiative.

The TSMC Open Innovation Platform® (OIP) initiative 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 IPs, 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.

TSMC’s Open Innovation model brings together the innovative thinking of customers and partners under the common goal of shortening design time, minimizing time-to-volume and speeding 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 30 electronic design automation (EDA) partners, 41 IP partners, and 26 design service partners. TSMC and its partners proactively work together, and engage much earlier and deeper than before in order to address mounting design challenges at advanced technology nodes. Through this early and intensive collaboration effort, 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 success for the customers to take full advantage of the process technologies once they reach production-ready maturity.

In October 2012, TSMC hosted OIP Ecosystem Forum at San Jose Convention Center in California, with keynote addresses from the executives of TSMC as well as OIP 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’s OIP Partner Management Portal facilitates communication with our ecosystem partners for efficient business productivity. This portal is designed with an intuitive interface and can be linked directly from TSMC-Online.

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 2012, TSMC was named the “Most Admired Company in Taiwan” by *CommonWealth Magazine* for the 16th consecutive year.

At the end of 2012, TSMC had over 37,000 employees worldwide, including 3,614 managers and 15,264 professionals. Female managers comprised 11.4% of all managers, and non-Taiwanese nationals comprised 8.5% of all TSMC managers and professionals. In addition, when consolidating TSMC and all its subsidiaries, we had over 39,000 employees at the end of 2012. The following table summarized TSMC workforce structure at the end of February, 2013:

TSMC Workforce Structure

		12/31/2011	12/31/2012	02/28/2013
Job	Managers	3,374	3,614	3,652
	Professionals	13,111	15,264	15,594
	Assistant Engineer/ Clerical	2,745	3,006	3,084
	Technician	14,439	15,265	15,199
Total		33,669	37,149	37,529
Gender	Male	54.1%	56.2%	56.7%
	Female	45.9%	43.8%	43.3%
Education	Ph.D.	3.5%	3.6%	3.7%
	Master's	32.8%	35.3%	35.7%
	Bachelor's	25.9%	25.6%	25.7%
	Other Higher Education	13.9%	13.0%	12.7%
	High School	23.9%	22.5%	22.2%
Average Age (years)		33.0	33.3	33.4
Average Years of Service (years)		6.2	6.4	6.4

5.5.2 Recruitment

TSMC advocates equal opportunity employment, and its practices center on the principles of open-and-fair recruitment. We consider 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.

Although facing a stagnated global economy, TSMC’s continuous growth requires constant talent sourcing and recruitment activities to support its business. We recruited over 3,600 managers and professionals, and 2,000 assistants and technicians in 2012.

In order to cultivate a 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, U.S., Singapore 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.

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 2012, TSMC conducted 1,377 internal training sessions, for a company-wide total of over 780,000 training hours and a total of 520,000 attendees participating. Employees on average attended 21 hours of training. The total training expenses were almost NT\$60 million. TSMC’s training programs include:

- New Employee Training: includes new employee basic training and job orientation. Furthermore, newcomers’ manager and our well-established Buddy System are actively engaged in the assimilation process.
- 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, and so forth.
- Management Training: programs tailored to the needs of managers at all levels, including New, Experienced, and Senior Manager programs, as well as other elective courses.
- 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.

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

5.5.4 Employee Satisfaction

TSMC is committed to providing above-industry-average quality jobs to its employees, and it is dedicated to foster a dynamic and fun work environment. The Company encourages employees to maintain a healthy and well-balanced life, apart from their time spent working.

TSMC’s commitment in employee caring and its unceasing efforts as an advocator of employees’ work-life balance has earned it the prestigious first place as the “Happiest Corporation” of the Top 10 Happy Corporations, released by China Credit Information Service (CCIS), under its survey released in the second half of 2012.

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

- Diverse employee welfare programs: employees can enjoy 70 hobby clubs, 45 speeches covering diverse topics (in 2012), 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.
- Convenient on-site services: cafeteria, dry-cleaning, convenience store, travel, banking, haircutting service, housing, and commuting assistance are accessible for employees in the fabs, ensuring the highest convenience of daily-life necessities for employees at work.
- Comprehensive health enhancement programs: physical care and psychological consultation services are available to employees to ensure their well-being. Five free counseling sessions are offered to TSMC employees on an annual basis, with extension available depending on the individual’s needs. Additional health enhancement programs provided by TSMC include weight control, medical check-up, smoking secession, exercise camp, massage service, sleep assistance, abdominal and neck x-ray, female care, blood donation, liver disease prevention, monthly seminar, etc.
- Premium Sports Center: with a variety of workout facilities to all employees and their families, as well as exercise sessions conducted by professional instructors available for employees’ choices to promote a healthier lifestyle.
- Flexible Preschool Service: the service, operated as per employees’ working time to meet their need for childcare, is available in Hsinchu and Tainan. In 2012, TSMC’s preschool was recognized as the “Premium Corporate Facility” by Taiwan’s Council of Labor Affairs.

Employee Recognition

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

The various award programs sponsored by TSMC include:

- TSMC Medal of Honor, presented exclusively by Chairman, recognizes those who contribute to the Company’s business performance significantly.
- TSMC Academy recognizes outstanding TSMC scientists and engineers whose individual technical capabilities make significant contributions to the Company.
- Outstanding Engineer Award for each fab and Total Quality Excellence Conference Award recognize employees’ continuous efforts in creating value for the Company.
- Service Award represents TSMC’s appreciation toward senior employees’ dedication and commitment to the Company.
- Excellent Instructor Award praises the outstanding performance and contribution of the Company’s internal instructors in training courses.

In 2012, TSMC employees continued to be recognized through a host of prestigious external awards, including Top 10 National Outstanding Managers Award, Outstanding Engineer Award, Outstanding Young Engineer Award, as well as 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 reinforcing mutual and timely employee communication, based on multiple channels and platforms, which in turn fosters harmonious labor relations and creates a win-win situation for the Company and the employees.

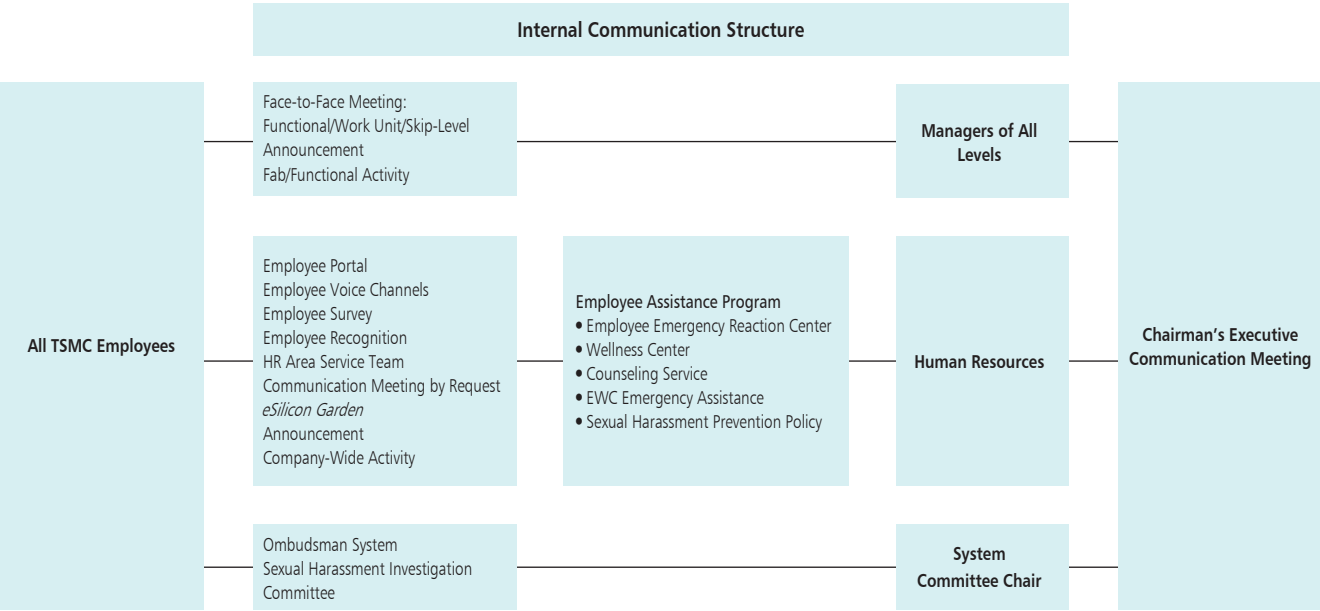
- A host of channels, including both face-to-face and virtual, are leveraged to maintain the unobstructed flow of information between the management level of the Company and the employees, including:
- Regular communication meetings held for the various levels of managers and employees.
 - Periodic employee satisfaction surveys and follow-up actions based on the survey findings.
 - Enhanced corporate employee portal (myTSMC 2.0):
 - Corporate messages, executive interviews, employee activities and so on are posted on the intranet for employees’ timely reference.
 - Important talks from Chairman are webcasted via the intranet to reach employees worldwide.
 - *eSilicon Garden*: The website hosting TSMC’s internal publication, available in both Chinese and English, is updated on a bi-weekly basis with its content ranging from work to run.

To ensure that employees’ opinions and voices are heard, and their issues are addressed and solved, impartial and smooth voice submission mechanisms, including quarterly labor-management communication meetings, 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:
 - The independent Audit Committee; and
 - 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.

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.

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



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 healthy turnover rate of 5.7% for 2012.

5.5.6 Compensation

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

TSMC’s compensation program includes a monthly salary, an employee 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 is to reward employee contributions appropriately, to encourage employees to work consistently toward ensuring 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.

5.6 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.

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.

Investment Agreement & Shareholder Agreement

Term of Investment Agreement:
08/05/2012 - 04/15/2013

Term of Shareholder Agreement:
Effective as of 10/31/2012 and may be terminated as provided in the agreement

Contracting Party:
ASML Holding N.V. (ASML)

Summary:
TSMC joined the Customer Co-Investment Program of ASML Holding N.V. (ASML) and entered into the investment agreement and shareholder agreement. The agreements include an investment of EUR837,815,664 by TSMC Global to acquire a non-voting 5% in ASML’s equity with a lock-up period of 2.5 years.

Research and Development Funding Agreement

Term of Agreement:
10/31/2012 - 12/31/2017

Contracting Party:
ASML Holding N.V. (ASML)

Summary:
TSMC will provide EUR277 million to ASML’s research and development programs from 2013 to 2017.

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 Annual Report (II), Financial Information, page 68-69.

A low-angle, black and white photograph of a complex industrial robotic arm system. The arm is composed of multiple white and grey segments, with a prominent yellow stripe running along its length. It is positioned within a large, industrial facility with a high ceiling and visible structural beams. The lighting is dramatic, with strong highlights and shadows, emphasizing the mechanical complexity of the equipment.

ISO 50001
Energy Management System

QC 080000
Hazardous Substance Process
Management System

OHSAS 18001
Occupational Health and Safety Management System

ISO 14001
Environmental Management System

TOSHMS
Taiwan Occupational Safety and Health
Management System

6. Financial Highlights

6.1 Financial Status and Operating Results

6.1.1 Financial Status

Unconsolidated

Unit: NT\$ thousands

Item	2012	2011	Difference	%
Current Assets	207,815,340	158,563,352	49,251,988	31%
Fixed Assets	586,603,294	454,373,533	132,229,761	29%
Other Assets	12,006,629	19,070,145	(7,063,516)	-37%
Total Assets	946,173,183	761,407,874	184,765,309	24%
Current Liabilities	138,795,878	109,514,430	29,281,448	27%
Long-term Liabilities	84,179,591	22,299,930	61,879,661	277%
Total Liabilities	222,975,469	131,814,360	91,161,109	69%
Capital Stock	259,244,357	259,162,226	82,131	0%
Capital Surplus	56,137,809	55,846,357	291,452	1%
Retained Earnings	410,601,289	322,191,155	88,410,134	27%
Total Shareholders' Equity	723,197,714	629,593,514	93,604,200	15%

- **Analysis of Deviation over 20%**
The increase in current assets was mainly due to increase in cash and cash equivalents and receivables from related parties.
The increase in fixed assets was mainly due to acquisition of advanced technology equipment during 2012.
The decrease in other assets was mainly due to return of refundable deposits and decrease in deferred income tax assets.
The increase in total assets was mainly due to increase in fixed assets.
The increase in current liabilities was mainly due to increase in payables to contractors and equipment suppliers, short-term loans and income tax payable.
The increase in long-term liabilities was mainly due to issuance of corporate bonds of \$62 billion in 2012.
The increase in total liabilities was mainly due to increase in long-term liabilities.
The increase in retained earnings was mainly due to net income of 2012, partially offset by distribution of 2011 earnings.

- **Major Impact on Financial Position**
The above deviations had no major impact on TSMC’s financial position.

- **Future Plan on Financial Position:** Not applicable.

Consolidated

Unit: NT\$ thousands

Item	2012	2011	Difference	%
Current Assets	252,288,635	225,260,396	27,028,239	12%
Fixed Assets	617,529,446	490,374,916	127,154,530	26%
Other Assets	19,430,182	24,171,126	(4,740,944)	-20%
Total Assets	955,034,605	774,264,942	180,769,663	23%
Current Liabilities	142,435,944	117,006,687	25,429,257	22%
Long-term Liabilities	86,844,962	25,214,704	61,630,258	244%
Total Liabilities	229,280,906	142,221,391	87,059,515	61%
Capital Stock	259,244,357	259,162,226	82,131	0%
Capital Surplus	56,137,809	55,846,357	291,452	1%
Retained Earnings	410,601,289	322,191,155	88,410,134	27%
Equity Attributable to Shareholders of the Parent	723,197,714	629,593,514	93,604,200	15%
Total Shareholders' Equity	725,753,699	632,043,551	93,710,148	15%

- **Analysis of Deviation over 20%**
The increase in fixed assets was mainly due to acquisition of advanced technology equipment during 2012.
The decrease in other assets was mainly due to return of refundable deposits and decrease in deferred income tax assets.
The increase in total assets was mainly due to increase in fixed assets and long-term investments.
The increase in current liabilities was mainly due to increase in payables to contractors and equipment suppliers, short-term loans and income tax payable.
The increase in long-term liabilities was mainly due to issuance of corporate bonds of NT\$62 billion in 2012.
The increase in total liabilities was mainly due to increase in long-term liabilities.
The increase in retained earnings was mainly due to net income of 2012, partially offset by distribution of 2011 earnings.

- **Major Impact on Financial Position**
The above deviations had no major impact on TSMC’s financial position.

- **Future Plan on Financial Position:** Not applicable.

6.1.2 Financial Performance

Unconsolidated

Unit: NT\$ thousands

Item	2012	2011	Difference	%
Gross Sales	506,697,738	421,472,087	85,225,651	20%
Sales Returns & Allowances	(6,825,851)	(3,226,594)	(3,599,257)	112%
Net Sales	499,871,887	418,245,493	81,626,394	20%
Cost of Sales	265,538,540	233,083,068	32,455,472	14%
Gross Profit before Affiliates Elimination	234,333,347	185,162,425	49,170,922	27%
Realized (Unrealized) Gross Profit from Affiliates	(25,029)	398,440	(423,469)	-106%
Gross Profit	234,308,318	185,560,865	48,747,453	26%
Operating Expenses	57,506,548	46,655,102	10,851,446	23%
Income from Operations	176,801,770	138,905,763	37,896,007	27%
Non-operating Income & Gains	11,188,077	7,287,046	3,901,031	54%
Non-operating Expenses & Losses	4,359,899	1,484,965	2,874,934	194%
Income before Income Tax	183,629,948	144,707,844	38,922,104	27%
Income Tax Expenses	(17,471,146)	(10,506,565)	(6,964,581)	66%
Net Income	166,158,802	134,201,279	31,957,523	24%

● Analysis of Deviation over 20%

Increase in gross sales and net sales: The increase was the result of higher wafer shipment and growth in 28-nanometer technology during 2012.

Increase in sales returns and allowance: The increase was mainly due to higher provision of sales returns and allowances resulting from higher sales.

Increase in gross profit before affiliates elimination and gross profit: The increase was mainly due to higher wafer shipment during 2012.

Increase in unrealized gross profit from affiliates: The increase was due to higher sales to affiliates in 4Q’12.

Increase in operating expenses: The increase was mainly due to higher research and development expenditures for advanced technologies.

Increase in income from operations: The increase was mainly due to realized gross profit increased at a higher rate than the increase in operating expenses.

Increase in non-operating income and gains: The increase was primarily due to increase in earnings of equity method investees.

Increase in non-operating expenses and losses: The increase was primarily due to impairment loss of financial assets recognized in 2012.

Increase in income before income tax: The increase was mainly due to higher income from operations.

Increase in income tax expenses: The increase was mainly due to higher taxable income and tax rate.

Increase in net income: The increase was mainly due to higher income before income tax.

● Sales Volume Forecast and Related Information

For additional details, please refer to "Letter to Shareholders" on pages 5-7 of this Annual Report.

Consolidated

Unit: NT\$ thousands				
Item	2012	2011	Difference	%
Gross Sales	513,435,603	430,490,500	82,945,103	19%
Sales Returns & Allowances	(7,187,023)	(3,409,855)	(3,777,168)	111%
Net Sales	506,248,580	427,080,645	79,167,935	19%
Cost of Sales	262,628,681	232,937,388	29,691,293	13%
Gross Profit before Affiliates Elimination	243,619,899	194,143,257	49,476,642	25%
Unrealized Gross Profit from Affiliates	(25,029)	(74,029)	49,000	-66%
Gross Profit	243,594,870	194,069,228	49,525,642	26%
Operating Expenses	62,537,677	52,511,810	10,025,867	19%
Income from Operations	181,057,193	141,557,418	39,499,775	28%
Non-operating Income & Gains	6,782,037	5,358,527	1,423,510	27%
Non-operating Expenses & Losses	6,285,254	1,768,268	4,516,986	255%
Income before Income Tax	181,553,976	145,147,677	36,406,299	25%
Income Tax Expenses	(15,590,287)	(10,694,417)	(4,895,870)	46%
Net Income	165,963,689	134,453,260	31,510,429	23%
Net Income Attributable to Shareholders of the Parent	166,158,802	134,201,279	31,957,523	24%

● Analysis of Deviation over 20%

Increase in sales returns and allowance: The increase was mainly due to higher provision of sales returns and allowances resulting from higher sales.

Increase in gross profit before affiliates elimination and gross profit: The increase was mainly due to higher wafer shipment during 2012.

Decrease in unrealized gross profit from affiliates: The decrease was due to lower sales to affiliates in 4Q’12.

Increase in income from operations: The increase was mainly due to gross profit increased at a higher rate than the increase in operating expenses.

Increase in non-operating income and gains: The increase was primarily due to increase in earnings of equity method investees.

Increase in non-operating expenses and losses: The increase was primarily due to higher impairment loss of financial assets.

Increase in income before income tax: The increase was mainly due to higher income from operations.

Increase in income tax expenses: The increase was mainly due to higher taxable income and tax rate.

Increase in net income and net income attributable to shareholders of the parent: The increase was mainly due to higher income before income tax.

● Sales Volume Forecast and Related Information

For additional details, please refer to “Letter to Shareholders”on pages 5-7 of this Annual Report.

6.1.3 Cash Flow

Unconsolidated

Unit: NT\$ thousands					
Cash Balance 12/31/2011	Net Cash Provided by Operating Activities in 2012	Net Cash Used in Investing and Financing Activities in 2012	Cash Balance 12/31/2012	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
85,262,521	277,288,704	(253,400,415)	109,150,810	-	-

● Analysis of Cash Flow

NT\$277.3 billion net cash provided by operating activities: Mainly from net income and depreciation/amortization.

NT\$241.9 billion net cash used in investing activities: Primarily for capital expenditures.

NT\$11.5 billion net cash used in financing activities: Mainly for payment of cash dividends, partially offset by issuance of corporate bonds.

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

● Cash Flow Projection for Next Year: Not applicable.

Consolidated

Unit: NT\$ thousands					
Cash Balance 12/31/2011	Net Cash Provided by Operating Activities in 2012	Net Cash Used in Investing and Financing Activities in 2012	Cash Balance 12/31/2012	Remedy for Cash Shortfall	
				Investment Plan	Financing Plan
143,472,277	289,063,801	(289,125,490)	143,410,588	-	-

● Analysis of Cash Flow

NT\$289.1 billion net cash provided by operating activities: Mainly from net income and depreciation/amortization.

NT\$273.2 billion net cash used in investing activities: Primarily for capital expenditures.

NT\$13.8 billion net cash used in financing activities: Mainly for payment of cash dividends, partially offset by issuance of corporate bonds.

● Remedial Actions for Cash Shortfall: As a result of positive operating cash flows and 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 12/31/2012	Actual Use of Capital			
			2009	2010	2011	2012
Production Facilities and Equipment	Cash flow generated from operations and issuance of corporate bonds	675,249,808	80,923,392	174,490,585	196,936,605	222,899,226
R&D Equipment	Cash flow generated from operations	54,510,161	6,371,056	11,235,029	15,909,970	20,994,106
Others	Cash flow generated from operations	5,069,022	490,458	1,218,589	1,115,946	2,244,029
Total	Cash flow generated from operations	734,828,991	87,784,906	186,944,203	213,962,521	246,137,361

Expected Future Benefits

Based on capital expenditures listed above and projected for 2013, it is estimated that TSMC’s annual production capacity will increase by approximately 1.62 million 8-inch equivalent wafers in 2013.

6.1.5 Long-term Investment Policy and Results

TSMC’s long-term investments, accounted for under the equity method, were all made for strategic purposes; however, when the strategic value of an investment is no longer valid, it may be considered a financial investment. In 2012, the investment gain from these investments amounted to NT\$8,127,748 thousands (NT\$2,028,611 thousands on consolidated basis), increasing significantly compared to 2011 mainly due to the high growth of mobile computing products. For future investments, TSMC will continue to focus on strategic purposes through prudent assessments.

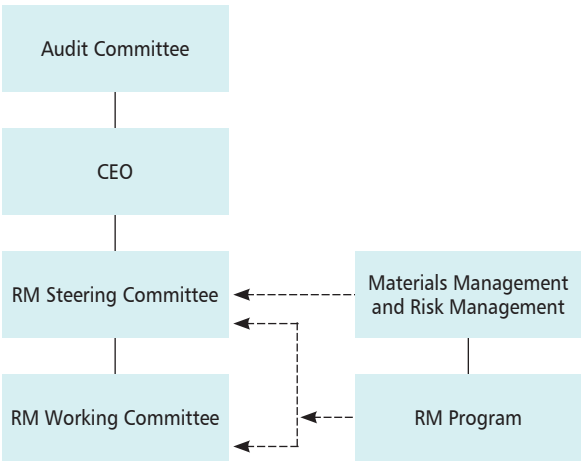
6.2 Risk Management

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 its suppliers. As a result of those efforts, there was no interruption in TSMC’s supply lines in 2012.

As TSMC continued to expand production capacity in 2012, 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 Program

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 electronics industries and semiconductor market 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 electronics and semiconductor industries, within which most of its customers operate. Variations in order levels from customers result in volatility in the Company’s revenues and earnings.

From time to time, the electronics industries and semiconductor 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 electronics and semiconductor companies for its services, periods of downturn and overcapacity in the general electronics and semiconductor industries could lead to reduced demand for overall semiconductor foundry services, including TSMC’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. Furthermore, due to the increasingly complex technological nature of its products and services and the ever uncertain global economic environment, TSMC may need to provide higher accounting provisions on potential sales returns and allowances by its customers that may adversely affect the results of its operations.

Changes in Technology

The semiconductor industry and its technologies are constantly changing. TSMC competes by developing process technologies using increasingly advanced nodes and on manufacturing products with more functions. TSMC also competes by developing new derivative technologies. If it does not anticipate these changes in

technologies 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 foundry services on competitive terms. In addition, TSMC’s customers have significantly decreased the time in which their products or services are launched into the market. If it is unable to meet these shorter product time-to-market, TSMC risks losing these customers. These challenges also place greater demands on its research and development capabilities. If TSMC is unable to innovate new technologies that meet the demands of its customers, its revenues may decline significantly. 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 revenue is derived from customers who use TSMC’s services in communication devices, personal computers, consumer electronics products and industrial/standard product. Any significant decrease in the demand for one of these products may decrease the demand for such other products as well as overall global semiconductor foundry services, including TSMC’s services, and may adversely affect the Company’s revenues. Further, a significant portion of TSMC’s operating costs is fixed because the Company owns most of its manufacturing capacities. In general, these costs do not decline when customer demand or TSMC’s capacity utilization rates drop, and thus declines in customer demand, among other factors, may significantly decrease margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which can improve TSMC’s margins. Additionally, 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 the Company may lead to a reduction of TSMC’s revenues, margin and earnings.

Competition

TSMC competes internationally and domestically with other 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 TSMC, 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. Increases in these

competitive activities may decrease TSMC’s customer base, or TSMC’s average selling prices, or both.

Over the past few years, TSMC has seen the rise of certain companies with the capability of providing foundry services. These companies are committed to attracting TSMC’s customers. If TSMC is unable to compete with these new competitors with better technologies and manufacturing capacity and capabilities, it risks losing customers to these new contenders.

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 number of competitors tends to be more numerous and specialized. 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 management closely monitors all domestic and foreign governmental policies and regulations that might impact TSMC’s business and financial operations. As of February 28, 2013, the following changes or developments in governmental policies and regulations may influence the Company’s business operations:

The Taiwan Financial Supervisory Commission (FSC) requires listed companies, starting from January 1, 2013, to prepare their consolidated financial statements in accordance with Taiwan’s “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and the following FSC endorsed standards and interpretations: “International Financial Reporting Standards,” “International Accounting Standards,” and relevant Interpretations (collectively, “IFRSs”). TSMC has already set up an IFRSs project team in 2009 and is currently implementing its IFRSs adoption plan. In addition, the progress of such adoption is regularly reported to the Board. The impact of IFRSs adoption may include certain changes in the accounting treatment for certain types of transactions and certain modifications to the presentation of financial statements. TSMC will keep monitoring IFRSs updates and the development of related laws and regulations in Taiwan and evaluate the respective impact to the Company. According to FSC’s requirements, TSMC has disclosed its IFRSs project plan, status and the effects arising from the significant differences between IFRSs and its current accounting policy in its 2012 annual and interim consolidated financial statements.

The Taiwan “National Health Insurance Act” was amended in January 2011, to create an obligation for employers and employees to pay an extra 2% “supplementary premium,” effective from January 1, 2013. TSMC will need to pay such extra 2% “supplementary premium” when TSMC distributes employees’ profit sharing and variable bonus. TSMC will continue participating in the seminars and briefings held by the National Health Insurance Bureau to understand the details related to the implementation and take the necessary managerial and financial precautionary steps with respect to such amendment.

According to the “Income Basic Tax Act” (i.e., Alternative Minimum Tax, “AMT”) amended in August, 2012, effective on January 1, 2013, the corporate income tax rate of AMT will be increased from 10% to 12%. As a result of this change, and changes in the various tax credit incentives and exemptions available to the Company, TSMC anticipates its effective tax rate for 2013 will be 14.0%, an increase from 8.7% in 2012, which is anticipated to negatively affect its net income in 2013. TSMC has evaluated the impact of these amendments on its financial statements and will ensure compliance in accordance with the relevant laws.

The “Personal Information Protection Act,” as amended and promulgated in May 2010, for the most part took effect on October 1, 2012. All nature persons, legal entities and other organizations that collect, process and use personal information are now subject to this new law which expands the scope of protected personal information to include both electronically and paper-stored data. Appropriate protective measures must be taken to prevent personal information security breaches. TSMC has had adequate mechanisms in place to properly process and retain personal information and will continue to protect and manage personal information in compliance with applicable laws and regulations.

In addition, the Taiwan legislative authority has been studying relevant laws relating to environmental protection and employee safety and health protection (e.g. “Greenhouse Gas Reduction Act,” “Energy Tax Act” and “Labor Safety and Health Act”). Though the “Greenhouse Gas Reduction Act” has not been passed, TSMC has been implementing various long-term energy saving and carbon reduction programs since 2000. As to the proposed “Energy Tax Act,” there has been no concrete guidance or law issuing from the Taiwan government as of yet, so the impacts of such law are indeterminable at the moment. However, it is very likely that such law may increase the operating costs of the Company. The “Labor Safety and Health Act” will be amended (and renamed “Occupational Safety and Health Act”) to increase the duties of employers to protect the physical and mental health of their employees. TSMC has already developed relevant initiatives and implemented various policies and will continuously improve and maintain the safety and health of its workplace and employees.

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

6.2.3 Operational Risks

Risks Associated with Capacity Expansion

TSMC performs regular long term market demand forecasts to estimate market and general economic conditions for its products and services. Based upon these estimates, TSMC manages its overall capacity in accordance with market demand. Because market conditions may vary significantly and unexpectedly, our market demand forecast may change significantly at any time. Further, since certain manufacturing lines or tools in some of TSMC’s manufacturing facilities may be suspended or shut down temporarily during periods of decreased demand, the Company may not be able to ramp up in a timely manner during periods of increased demand.

Base on demand forecast, TSMC has been adding capacity to its 12-inch wafer fabs in the Hsinchu Science Park, Southern Taiwan Science Park and Central Taiwan Science Park. Total monthly capacity of the Company’s 12-inch wafer fabs was increased from 290,100 wafers as of December 31, 2011 to 366,800 wafers as of December 31, 2012. Overall, TSMC increased its annual production capacity by approximately 1.87 million 8-inch equivalent wafers in 2012. The total average billing utilization rate for 2012 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, and hire and train additional personnel to operate the new equipment. If TSMC cannot generate higher revenue to offset these higher costs, TSMC’s financial performance may be adversely affected.

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

Risks Associated with Sales Concentration

Over the years, TSMC’s customer profile and the nature of its customers’ business have changed dramatically. While it generates revenue from hundreds of customers worldwide, TSMC’s ten largest customers accounted for approximately 56% and 59% of net sales in 2011 and 2012, respectively, and the Company’s largest customer accounted for approximately 14% and 17% of net sales in 2011 and 2012, respectively. This customer concentration results in part from the changing dynamics of the electronics industry with the structural shift to mobile devices and applications and software that provide the content for such devices. There are only a limited number of

customers who are successfully exploiting this new business model paradigm. Also, in order to respond to the new business model paradigm, TSMC has seen the nature of its customers’ business model changes. For example, there is a growing trend toward the rise of system houses that operate in a manner which make their products and services more marketable in a changing consumer market. 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, or change in their manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments, or change in its major customers’ business models may adversely affect TSMC’s results of operations and financial condition.

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 photoresist, on a timely basis. In the past, shortages in the supply of some materials, whether by specific vendors or by the semiconductor industry generally, have resulted in occasional industry-wide price adjustments and delivery delays. Also, since TSMC procures some of its raw materials from sole-source suppliers, there is a risk that its need for such raw materials may not be met when needed or that back-up supplies may not be readily obtainable. 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 reduce the supply chain risk and to manage the cost actively, TSMC is committing resources toward developing new supply sources. In addition, the Company encourages its suppliers to reduce their supply chain risk by decentralizing production plants, and to intensify their cost competitiveness by moving their production site to Taiwan from high-cost areas. The Company believes this benefits both suppliers and TSMC. Moreover, the Company continually refines its planning system and monitors its inventory and replenishment on a daily basis so as to 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 from time to time 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 its equipment suppliers to help them plan their production in advance. The Company has purchased used tools and continues to seek opportunities to acquire relevant used tools. Further, the growing complexities especially in next-generation lithographic technologies may delay the timely availability of the equipments and parts needed to exploit time sensitive business opportunities and also increase the market price for such equipment and parts. If TSMC is unable to obtain equipment in a timely manner to fulfill its customers’ orders, or at a reasonable cost, its financial condition and results of operations could be negatively impacted.

Risks Associated with Intellectual Property Rights

The Company’s ability to compete successfully and to achieve future growth will depend in part on the continued strength of its intellectual property portfolio. While TSMC actively enforces and protects its intellectual property rights, there can be no assurance that its efforts will be adequate to prevent the misappropriation or improper use of its proprietary technologies, trade secrets, software or know-how. Also, the Company cannot assure that, as its business or business models expand into new areas, or otherwise, it will be able to develop independently the technologies, trade secrets, patents, software or know-how necessary to conduct its business or that it can do so without unknowingly infringing the intellectual property rights of others. As a result, TSMC may have to rely increasingly on licensed technologies and patent licenses from others. To the extent that the Company relies on licenses from others, there can be no assurance that it will be able to obtain any or all of the necessary licenses in the future on terms it considers reasonable or at all. The lack of necessary licenses could expose TSMC to claims for damages and/or injunctions from third parties, as well as claims for indemnification by its customers in instances where it has contractually agreed to indemnify its customers against damages resulting from infringement claims.

TSMC has received, from time-to-time, communications from third parties asserting that its technologies, manufacturing processes, the design of the integrated circuits made by TSMC or the use by its customers of semiconductors made by TSMC may infringe upon their patents or other intellectual property rights. Because of the nature of the industry, the Company may continue to receive such communications in the future. In some instances, these disputes have resulted in litigation. Recently, there has been a notable increase in the number of claims or lawsuits initiated by certain litigious, non-practicing entities and these non-practicing entities are also becoming more aggressive in their monetary demands and requests for court-issued injunctions. Such lawsuits or claims may increase TSMC’s cost of doing business and may potentially be extremely disruptive if the plaintiffs succeed in blocking the trade of its products and services. If TSMC fail to obtain or maintain certain government,

technologies or intellectual property licenses and, if litigation relating to alleged intellectual property matters occurs, it could prevent it from manufacturing or selling particular products or applying particular technologies, which could reduce its opportunities to generate revenues.

TSMC has taken other measures to minimize potential loss of shareholder value arising from intellectual property claims and litigation filed against the Company. These measures include: obtaining licenses from certain semiconductor and other technology companies; timely securing of 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 its technologies and business offerings.

Risks Associated with Litigation

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

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 infringing several U.S. patents. The outcome cannot be determined at this time.

Other than the matters described above, TSMC was not involved in any other material litigation in 2012 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, the services and contributions of some of these personnel and it cannot adequately replace them. The Company may be required to increase or reduce the number of employees in connection with any business expansion or contraction, in accordance with market demand for its products and services. Since there is intense competition for the recruitment of these personnel, the Company cannot ensure it will be able to fulfill its personnel requirements in a timely manner during an economic upturn.

Therefore, TSMC provides a varied and 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. TSMC believes that by rewarding employees’ hard work in a timely fashion, it not only encourages employees to contribute consistently to ensure the success of TSMC, but also links their interests with those of TSMC’s shareholders.

Future R&D Plans and Expected R&D Spending

For additional details, please refer to “5.2.7 Future R&D Plans” on page 70 of this Annual Report.

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

TSMC has established an excellent corporate image around the world based on its core values of “Integrity, Commitment, Innovation, and Customer Trust,” as well as its outstanding operations, rigorous corporate governance, and dedication to corporate social responsibility to pursue sustainable development, equality and justice, and a harmonious society to live and work.

TSMC’s corporate image was further strengthened in 2012 with a number of awards. The Company was once again recognized as Semiconductor Sector Leader by the Dow Jones Sustainability Index, and was selected as an index component for a 12th consecutive year.

In addition, TSMC received the R.O.C. Environmental Protection Administration (EPA) National Enterprise Environmental Protection Award, the EPA Energy Conservation and Carbon Reduction Action Mark, and the Science Park Low-Carbon Enterprise Achievement Award. TSMC was also recognized as the Most Admired Company in Taiwan by *CommonWealth Magazine*, and won the CommonWealth Corporate Citizenship Award as well as the first prize in the Environmental Protection category for the *GlobalViews Magazine* Corporate Social Responsibility Award. The Company was named as “Best Managed Company in Asia - Technology Sector” by Euromoney, the Most Recognized Foundry in the EETimes China Fabless Awards, ranked first place in the China Credit Information Service poll of “Top 10 Happiest Companies” in Taiwan, first place in the Asia Corporate Governance Association and CLSA Asia-Pacific Markets survey of Corporate Governance in Asia, and received the “Best-Managed Company in Taiwan and Hong Kong,” “Best Corporate Governance, Taiwan,” and “Best Corporate Social Responsibility, Taiwan” Awards from *FinanceAsia*.

In addition, TSMC has departments such as Brand Management, Customer Service, Public Relations, Employee Relations, Investor Relations, Risk Management, Fab Industrial Safety and Environmental Protection, Internal Audit, and the TSMC Foundation to coordinate the Company’s resources and further enhance TSMC’s positive corporate image. To address potential events that may affect the Company’s public image, including natural disasters, fires, workplace accidents, power outages, water shortages and workplace injuries, these departments have established emergency response procedures, hold regular drills, and continue to improve emergency performance. In the event of emergencies, early warning procedures eliminate or reduce casualties and minimize impact on the surrounding environment, company property, and manufacturing operations. The Public Relations department is also involved in the first stage of emergency response to communicate with stakeholders and act as a single point of contact with outside parties to maintain the Company’s reputation.

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 issuance of long-term, fixed-rate debt. On the asset side, we place our cash on hand mainly in very short tenor time deposits. Furthermore, the primary objective of TSMC’s cash 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 one-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. In 2012, more than 90% of the Company’s sales were denominated in US dollars and currencies other than NT dollars. Therefore, any significant fluctuation to its 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 US dollar depreciated 8.9% against the NT dollar, which had a negative impact on the Company’s results of operations. Specifically, based on TSMC’s 2012 results, every 1% depreciation of the US dollar against the NT dollar exchange rate may result 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 exposure.

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

The world economy is becoming more vulnerable to sudden unexpected fluctuations in inflationary and deflationary market expectations and conditions. For example, certain structural changes that resulted from the global financial crisis in 2008-2009 and EU sovereign debt crises, such as highly accommodative monetary

policies by major central banks worldwide, may cause variations in the expectation of inflation or deflation. Both high inflation and deflation adversely affect an economy, at both the macro and micro levels, by reducing economic efficiency, disrupting saving and investment decisions and reducing the efficiency of the market prices as a mechanism to allocate resources. Such fluctuations may negatively affect the costs of TSMC’s operations and the business operations of its customers who may be forced to plan their purchases of TSMC’s goods and services within an uncertain macro and micro economy. Therefore, the demand for TSMC’s products and services could unexpectedly fluctuate severely in accordance with market and consumer expectations of inflation or deflation.

Risks Associated with External Financing

Capital requirements are difficult to plan in the highly dynamic, cyclical and rapidly changing semiconductor industry. From time to time and increasingly so for the foreseeable next few years, TSMC will continue to need significant capital to fund its operations and manage its capacity in accordance with market demand. TSMC’s continued ability to obtain sufficient external financing is subject to a variety of uncertainties, including:

- its future financial condition, results of operations and cash flow;
- general market conditions for financing activities;
- market conditions for financing activities of semiconductor companies; and
- social, economic, financial, political and other conditions in Taiwan and elsewhere.

Sufficient external financing may not be available to the Company on a timely basis, on reasonable market terms, or at all. As a result, TSMC may be forced to curtail its expansion and modification plans or delay the deployment of new or expanded services until it obtains such financing.

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

TSMC did not make high-risk or high-leveraged financial investments during 2012 and up to the date of this report. The Board approved TSMC’s provision of a guarantee to TSMC Global, a wholly-owned subsidiary of TSMC, for its issuance of US dollar-denominated senior unsecured corporate bonds for an amount not to exceed US\$1,500 million at its Meeting on February 5, 2013. As of February 28, 2013, TSMC had an intercompany loan of US\$160.5 million arranged among the Company’s 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 page 53 and 55 of Annual Report (II), Financial Information. 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 Strategic Investments

From time to time, TSMC has made or will make a series of strategic investments that serve two major purposes. Firstly, some of TSMC’s major strategic investments were (or will be) made to help the Company open new sources of revenues and innovate alternative business models that target to generate additional shareholders’ value going forward in the future. For example, in order to help the Company grow into next generation business areas, TSMC has invested to develop potential businesses in solid state lighting, solar power and other renewable sources of energy. The Company believes these investments into these areas will generate new sources of revenues as the transition into consuming cleaner sources of power is generally expected gradually. For further information on these investments, please refer to “8. *Subsidiary Information and Other Special Notes*” on page 112-117 of this Annual Report. Secondly, some of TSMC’s significant strategic investments were (or will be) made to help the Company grow its existing business by augmenting key technology development. For example, to accelerate the development of next-generation lithographic technology, in August 2012, TSMC joined the ASML Holding N.V. Customer Co-Investment Program (along with other major technology firms). The program’s scope includes development of extreme ultraviolet (EUV) lithography technology and 450-millimeter (450mm) lithography tools. Under the agreement with ASML, TSMC invested EUR838 million to acquire 5% of ASML’s equity and has committed EUR277 million to be spread over five years, to ASML’s research and development program. The Company is exposed to share price fluctuations arising from the investments in ASML, especially when its equity investment is subject to a lock-up period of 2.5 years. In the future, TSMC may make more strategic investments in various forms, whether through stock

purchases, assets purchases, licensing of major intellectual property rights, joint investments or research and development projects, outright mergers and acquisitions, private equity transactions or receiving investments from a consortium of large institutional, public or private investors, etc. Any such investment will incur risks, which may result in losses if not carefully managed. Any such loss resulting from such investments may result in significant impairment charges, lower profit margin and ultimately lower distributable earnings.

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 investments, long-lived assets and intangible assets for impairment whenever triggering events or changes in circumstances indicate that the asset may be impaired. If certain criteria are met, TSMC is required to record an impairment charge. TSMC is also required under R.O.C. GAAP and U.S. GAAP to evaluate goodwill for impairment at least on an annual basis or more frequently whenever triggering events or changes in circumstances indicate that goodwill may be impaired and the carrying value may not be recoverable. For example, TSMC holds certain investments in publicly listed companies, some of which have incurred certain impairment charges disclosed in Annual Report (II), Financial Information, page 54-55.

The determination of an impairment charge at any given time is based significantly 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, the safety of people, and the 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 the 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, service 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 periodic risk assessment, risk mitigation , 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 capability in order to establish resilience and flexibility in both their supply chain and insurance placement. For the year 2012, 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.

TSMC and many of its suppliers use highly combustible and toxic materials in its manufacturing processes and are therefore subject to the risk of loss arising from explosion, fire, or environmental influences which cannot be completely eliminated. Although 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, TSMC’s risk management and insurance coverage may not be sufficient to cover all of the Company’s potential losses. If any of TSMC’s fabs or vendor facilities were to be damaged, or cease operations as a result of an explosion, fire or environmental influences, it could reduce the Company’s manufacturing capacity and may cause it to lose important customers, thereby having a potentially adverse and material 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

The manufacturing, assembling and testing of our products require the use of chemicals and materials that are subject to environmental, climate-related, and health and safety laws and regulations issued worldwide. Although TSMC may be eligible for various exemptions and/or extensions of time for compliance, our failure to comply with any of these applicable laws or regulations could result in:

- significant penalties and legal liabilities, such as the denial of import permits;
- the temporary or permanent suspension of production of the affected products;
- unfavorable alterations in our manufacturing, fabrication and assembly and test processes; and
- restrictions on our operations or sales.

Existing and future environmental and climate related laws and regulations as well as applicable international accords to which TSMC are subject, could also require it, among other things, to do the following: (a) purchase, use or install expensive pollution control, reduction or remediation equipment; (b) implement climate change mitigation programs and “abatement or reduction of greenhouse

gas emissions” programs, or “carbon credit trading” programs; (c) modify our product designs and manufacturing processes, or incur other significant expenses associated with such laws and regulations such as obtaining substitute raw materials or chemicals that may cost more or be less available for our operations. It is still unclear whether such necessary actions would affect the reliability or efficiency of our products and services.

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 the Company’s business and operational results by increasing expenses or requiring TSMC to alter its manufacturing, assembly and test processes.

Increasing climate change and environmental concerns could affect the results of TSMC’s operations if any of its customers request that TSMC exceed any standard(s) set for environmentally compliant products and services. For example, TSMC has been working on an on-going basis with our suppliers, customers, and several industry consortia to develop and provide products that are compliant with the EU “RoHS” (European Union Restriction of Hazardous Substances) Directive. Even though TSMC are entitled to rely on various exemptions under RoHS, some of our customers might request that we provide products that exceed the legal standard set by RoHS without using any of the exemptions still permitted under RoHS. If TSMC is unable to offer such products or offer products that are compliant, but are not as reliable due to the lack of reasonably available alternative technologies or materials, it may lose market share to our competitors.

Further, energy costs in general could increase significantly due to future climate change and other regulations. Therefore, TSMC’s energy costs may increase significantly if utility or power companies pass on their costs, either fully or partially, such as those associated with carbon taxes, emission caps and carbon credit trading programs.

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 28, 2013, 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 2012 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.

The **World's First LEED Platinum**
Certification for a Semiconductor Wafer Fab

Dow Jones Sustainability Indexes

**Semiconductor
Sector Leader**

First Certified Green Campus in Taiwan

Globalviews Magazine

1st Prize in Environmental Protection,
CSR Award

Taiwan EEWB Diamond Certification

First to Gain Taiwan

Green Factory Mark



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, employees, customers, 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	▼	▼					
Law Compliance				▼			
Anti-Corruption Anti-Bribery Anti-Cronyism	▼	▼		▼			
Environmental Protection Climate Control Energy Conservation				▼	▼		
Corporate Governance		▼	▼	▼			
Provide Well-paying Jobs			▼			▼	
Good Shareholder Return			▼				
Employees' Work-life Balance						▼	
Encourage Innovation		▼	▼				
Good Work Environment						▼	
Volunteers Organization					▼	▼	▼
Education and Culture Foundation							▼

7.1 Environmental, Safety and Health (ESH) Management

TSMC believes its environmental, safety and health practices must not only comply with legal requirements, but also measure up to or exceed recognized international practices. In 2010, the Company’s 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. The Company’s 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 its related corporate social responsibilities.

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. In 2012, Fab 12 Phase 4/5 and Fab 14 Phase 3/4 also earned the ISO 50001 certifications.

TSMC regularly 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 TSMC’s 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 the Company’s supply chain regarding ESH-related issues such as carbon and water footprinting, and conflict mineral management. TSMC not only performs on-site ESH audits at its suppliers manufacturing sites, but also proactively assists them with improving ESH performance.

Reducing the carbon and water footprints of TSMC’s supply chain is essential to the Company’s green supply chain ideals. Since 2009, TSMC has required 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, the Company completed a carbon footprint of both TSMC and suppliers’ products. In addition to 12-inch, TSMC continued to set up 8-inch wafer and 6-inch wafer product carbon footprints and received PAS2050 certifications in 2011 and 2012.

TSMC also monitors potential water shortages in the supply chain and investigates 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 conduct 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.

7.1.1 Environmental Protection

Greenhouse Gas (GHG) Emission Reduction

TSMC is an active participant in international environmental regulatory and protection programs. TSMC achieved its voluntary PFC emissions reduction goal as per its 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 it was proud to 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 has not only adopted energy-conserving designs for both its manufacturing fabs and offices, but has also continuously improved the energy efficiency of facilities during operation. These efforts simultaneously reduce both carbon dioxide gas emissions and costs.

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.

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. TSMC uses an intranet website to collect and measure water recycling volumes 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 92% waste recycling rate in 2012, surpassing its goal of 90%. The Company’s landfill rate has been remained less than 1% since 2008.

Environmental Accounting

The purpose of TSMC’s environmental accounting system is to identify and calculate environmental costs for internal management. At the same time, we can also evaluate the cost reduction or economic benefits of environmental protection programs so as

to promote economically efficient programs. With environmental costs expected to continue growing, environmental accounting can help us manage more effectively. TSMC’s environmental accounting measures are to define the various environmental costs and set up independent environmental account codes, then provide these to all units for use in annual budgeting. This online system can output data for environmental cost statistics.

Our economic benefit evaluation calculates cost savings for reduction of energy, water or wastes and waste recycling benefits according to our environmental protection programs.

The environmental benefits disclosed in this report include real income from projects such as waste recycling and savings from major environmental projects. In 2012, 101 environmental projects were completed and the total benefits including waste recycling are more than NT\$1,368 million.

2012 Environmental Cost of TSMC Fabs in Taiwan

Unit: NT\$ thousands

Classification	Description	Investment	Expense
1. Direct Cost for Reducing Environmental Impact			
(1) Pollution Control	Fees for air pollution control, water pollution control, and others	3,799,276	2,579,410
(2) Resource Conservation	Costs for resource (e.g. water) conservation	1,420,032	85,522
(3) Waste Disposal and Recycling	Costs for waste treatment (including recycling, incineration and landfill)	0	411,730
2. Indirect Cost for Reducing Environmental Impact (Managerial Cost)	(1) Cost of training (2) Environmental management system and certification expenditures (3) Environmental measurement and monitoring fees (4) Environmental protection product costs (5) Environmental protection organization fees	217,302	170,893
3. Other Environment-Related Costs	(1) Costs for decontamination and remediation (2) Environmental damage insurance and environmental taxes (3) Costs related to environmental settlement, compensations, penalties and lawsuits	0	0
4.Total		5,436,610	3,247,555

2012 Environmental Efficiency of TSMC Fabs in Taiwan

Unit: NT\$ thousands

Catrgory	Description	Efficiency
Cost Saving of Environmental Protection Projects	Energy saving: completed 37 projects	607,300
	Water saving: completed 6 projects	70,400
	Waste reduction: completed 8 projects	26,900
	Material reduction: completed 50 projects	467,700
Real Income of Industrial Waste Recycling	Recycling of used chemicals, wafers, targets, batteries, lamps, packaging materials, paper cardboard, metals, plastics, and other wastes	195,722
Total		1,368,022

Other Environmental Protection Programs

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 U.S. 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 planed to upgrade existing office buildings to comply with the LEED standard each year. From 2008 to 2012, seven of TSMC’s fabs and office buildings (Fab 14 Phase 3&4 manufacturing facility, Fab 14 Phase 3 office building, Fab 12 Phase 4 manufacturing facility and office building, and Fab 12 Phase 1&2 manufacturing facility and office building) achieved LEED certifications. Four of them also won Taiwan’s EEWH Diamond class 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, TSMC freely shares its practical experience with industry, government, and academia. As of the end of 2012, more than 4,628 visitors from 112 different industry, government, academia and general community groups contacted TSMC to gain understanding on the Company’s green factory practices. 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”. In 2012, TSMC received Taiwan’s first “Green Factory Label” from the government and three labels in total for Fab 12 Phase 4, Fab 14 Phase 3 and Fab 14 Phase 4.

Environmental Compliance Record

As of February 28, 2013, TSMC had not received any environmental penalties or fines during or related to 2012 and early 2013.

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 2012, TSMC strengthened industry-academy cooperation to enhance the Company’s capability on occupational management. TSMC and the National Taiwan University (NTU) College of Public Health signed a memorandum of understanding (MOU) to collaborate on occupational health enhancement. This MOU marked as an important step in the long-term industry-academy cooperation in the field of occupational health. Under this MOU, both TSMC and NTU held the second Workplace Health Improvement Forum on October 12, 2012, inviting representatives from government, industry, and academia to join an in-depth discussion on improving occupational health. The forum has become an important platform for dialog. The theme of 2012 forum is “New Labor Health Policies and Prevention of Occupational Illness” and “Promoting Work/Life Balance,” focusing industry and academic attention on a timely issue of public concern in the fields of employee health and safety and human resources.

TSMC also developed occupational management tools tailored for TSMC by industry-academic cooperation, including the promotion of personnel stress management and the measurement of radio frequency (RF) exposure to wireless network antennas and mobile phone in the offices. 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 company-level prevention committees and procedures 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 Equipment Safety and Health Management

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 Company employees. TSMC also requests employees to use personal protective equipment (PPE) to prevent hazard exposures.

As office work is primarily performed on computers, 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 measurements or events happen, 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

TSMC has 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), TSMC convened the Corporate Influenza Response Committee to develop the Company’s strategies. These strategies include educating 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 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 Tainan-site fabs initiated quarterly spot drills, which have been recognized as good practices. 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, cost effectiveness, delivery performance and sustainability on environmental protection, safety and health. 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 better performance and 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.

●Supply Chain Sustainability

As one of the global leaders in semiconductor industry, TSMC has been working together with our suppliers in several fields of sustainable development, such as greening our supply chain, carbon management for climate change, ESH management and business continuity plans for natural disasters. In 2012, TSMC announced our sustainability standard for suppliers and encouraged our suppliers to create sustainable value in these fields. To enhance the supply chain sustainability and partnership with our suppliers, TSMC also shared its experience and practice at the TSMC 2012 Supply Chain Sustainability and Risk Management Forum.

Environmental, Safety and Health-related Awards in 2012

TSMC was honored to be chosen for membership in the Dow Jones Sustainability World Index for a 12th consecutive year in 2012, and be the semiconductor sector leader in 2010 and 2012. The Company’s Environmental, Safety and Health-related Awards in 2012 are listed as follows.

TSMC Fab	Governmental Organization	Award
Environmental Protection		
F5, F12 P4	Taiwan EPA	Enterprise Environmental Protection Award
F12 P1/P4, F14, F15	Taiwan EPA	Energy Conservation and Carbon Reduction Action Mark
F12 P1	Taiwan EPA	Excellence in Waste Resource Management Award
F14	Taiwan MOEA	Energy Conservation Award
F2&5, F3	Taiwan MOEA	Excellence in Greenhouse Gas Reduction Award
F3	Taiwan MOEA	Water Conservation Award
F2&5, F8	Hsinchu SPA	Low Carbon Enterprise Award
F6	Tainan SPA	Excellence in Environmental Protection Award
F8	Hsinchu City EPB	National Environmental Education Award
Safety and Health		
F2&5, F8	Hsinchu SPA	Excellence in Labor Safety and Hygiene Award
F14	Taiwan BHP	Health Leading Award
Tainan Site	Taiwan BHP	Annual Special Contribution Award
Tainan Site	Taiwan BHP	Outstanding Work Place for Weight Loss

Note:
1. EPA: Environmental Protection Administration
2. MOEA: Ministry of Economic Affairs
3. SPA: Science Park Administration
4. EPB: Environmental Protection Bureau
5. BHP: Bureau of Health Promotion

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, promotion of art and culture events, community building, and the employee volunteer program.

In 2012, the TSMC Foundation continued to contribute NT\$63 million to its long-term projects of promoting education and arts. In science education, “Lifting the Ability of High School Physics Experiments,” cooperated with Wu Chien-shiung Education Foundation and the Ministry of Education, this public/private partnership gained overwhelmingly responses from school teachers. The TSMC Foundation also supported National Tsing-hua University to hold “Senior High School Academic Train” to promote lecture courses for academic knowledge in senior high schools. In art education, TSMC brought 10,000 students to visit the exhibition “King Wu Ding and Lady Hao: Art and Culture of the Late Shang Dynasty” in National Palace Museum. And the TSMC Foundation continued its support of the Taipei Fine Arts Museum to build up the “TSMC Children’s Art Education Center,” which will be operated in 2013. Aside from financial sponsorships, the TSMC Foundation supports TSMC Volunteer Society, organizing the employees to devote themselves to the caring of the underprivileged of the communities.

Commitment to Aesthetic and Scientific Education

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

At the primary-school level, the TSMC Foundation’s focus is on aesthetic education. To bridge the urban-rural gap, we launched the “TSMC Aesthetic Tour” to take children from remote townships to visit National Palace Museum, Taipei Fine Arts Museum, and the exhibitions for inspiring their interest in art. This year, in addition to the annual visitation plan, the TSMC Foundation took more than 10,000 students from junior high schools and primary schools to visit the exhibition “King Wu Ding and Lady Hao: Art and Culture of the Late Shang Dynasty” for increasing their understanding of Chinese Ancient Art and Culture. Over the last 10 years, over 70,000 students have participated in the tour to cultivate their appreciation of art.

As part of TSMC’s aesthetic education plan, the TSMC Foundation continued to support the Taipei Fine Arts Museum to expand the “TSMC Children’s Art Education Center,” which will be the most important base for promoting children’s art education in Taiwan.

At the high school level, TSMC emphasizes the need for a balanced education in both science and the humanities. In science, collaborating with the Education Prime Minister and the Wu Chien-Shiung Foundation, the TSMC Foundation continued the project “Lifting the Ability of High School Physics Experiments” for the third consecutive year. One week’s training offered science teachers a chance to enhance their teaching skills and experimental abilities. As of the end of 2012, the program has provided professional development for 159 science teachers, reaching over 30,000 high school students nationwide. In addition to the teachers’ training, TSMC brought science knowledge to the campuses. This year the TSMC Foundation supported National Tsing-hua University to launch the “Senior High School Academic Train,” inviting professors from the University to introduce senior high school students to the latest knowledge of technology and common knowledge for daily life and science. The courses will be held in twelve senior high schools located in northern, central, southern, eastern and Kinmen areas. At the same time the TSMC Foundation continued to sponsor science camps for talented science students to meet with world-class scholars for inspiring their scientific potential.

In the humanities, the TSMC Foundation organized the fifth “TSMC Youth Calligraphy Contest,” holding three workshops at three high schools to inspire the students to appreciate the beauty and cultural richness of calligraphy. The TSMC Foundation also continued the TSMC Youth Literature Award to encourage talented young writer to create new works for nine years. In addition to the competition, we also invited famous writers to held lectures for students and the public to increase their appreciation for literature.

At the college level, in 2012 the TSMC Foundation continued its “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 TSMC 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 TSMC 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 for years devoted its efforts to the promotion of Taiwan Art Groups. This year, the TSMC Foundation supported the National Symphony Orchestra to perform Opera Australia Production “Madama Butterfly,” one of Giacomo Puccini’s masterpieces. The performance showcased not only Taiwan Artists’ phenomenal performance but also the paradigm of sino-western art and culture exchange.

Promoting Chinese Philosophy is also the core program of the TSMC Foundation. After Confucius Analects, the TSMC Foundation continued to promote another Chinese Classic, Chung-tzu. We invited Professor Hsin Yih-yun to produce the broadcasting program “Analects in Chung-tzu’s View”. Through Professor Hsin Yih-yun’s rich knowledge and vivid examples, the TSMC Foundation hopes that more people can understand Chung-tzu’s philosophy, and gain wisdom from it. Noting the importance of preserving historic sites, the TSMC 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 TSMC Foundation continues to promote arts and cultural activities in our site communities. 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. This year is the 10th anniversary of the TSMC Hsin-chu Arts Festival. In past years, through the TSMC Foundation’s invitation, numerous masters had been gathered at the festival. Such as Chinese Opera performers Pai Hsien-yung, Wu Hsing-kuo, Wei Hai-ming, and Li Bao-chun as well as the great classical music masters Lin Cho-liang, Li Yun-dj, Ann-Sophie Mutter, James Galway and Kun Woo Paik brought the inhabitants marvelous performances and concerts. For the last ten years, more than 230,000 participants enjoyed the programs presented by the TSMC Hsin-chu Festival.

This year, following the steps of TSMC’s building sites, the Hsin-chu Art Festival was held not only at Hsinchu and Tainan, but also Taichung. For Chinese opera fans the TSMC Foundation hosted the “One Hundred Years on Stage” performed by the Guoguang Opera Company. Gathering together Taiwan’s most fantastic performers, the play led the audience to look at the history of Chinese opera through a web of love, lust and hatred among operatic performers/characters on and off the stage. Two Taiwan major orchestras gathered at the festival for the first time. National Symphony Orchestra performed H. Berlioz’s masterpiece “Symphonie

Fantastique” at Hsinchu, and National Taiwan Symphony Orchestra with the French Pianist Jean-Yves Thibaudet performed E. Grieg piano concerto in a minor. In addition to the theater performances, the TSMC Foundation also organized two activities at the public space of our communities, the children concert “The Animal Festival” held at Hsinchu Zoo Park, and the children drama “Visiting Little Confucius” held at the Confucius Temples located at both Hsinchu and Tainan. By infusing the art energy, TSMC hopes to revive the public space of our homes. More than 40 performances of the 2012 Hsin-chu Festival nurtured over 15,000 inhabitants of Hsinchu, Taichung and Tainan.

7.3 TSMC Volunteer Program

Social responsibility has been a feature of TSMC’s culture since its founding. The TSMC Foundation is dedicated to promoting education and culture, providing aid for the underprivileged, advocating energy saving, and caring for communities. The TSMC Foundation launched an employee volunteer program in 2003 as a channel through which its most valuable asset, high-tech professional employees, give to the society. Employees and their family members have been invited to participate in the following programs:

- TSMC Volunteer Docent Program
- TSMC Book Reading Volunteer Program
- TSMC Energy-saving Volunteer Program
- TSMC Community Volunteer Program
- TSMC Ecology Volunteer Program (2012 new initiative)

TSMC Volunteer Docent Program

One important way in which a corporation can serve and respond to its communities is to share its knowledge. 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 that explain semiconductor principles, the development of integrated circuits, and the important role the IC industry plays in 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. Youth volunteers were added in 2006, and employees were encouraged to invite their high school children to join the Volunteer Docent Program. In 2007, the program was expanded to recruit new blood from TSMC-affiliated companies, including Vanguard, VisEra, Xintec, and Global Unichip. The docent’s 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.

When the new “The World of Semiconductor” opened in 2011 the TSMC volunteer program recruited around 500 volunteers. In 2012, the number grew to more than 700 volunteers.

TSMC Book Reading Volunteer Program

TSMC believes the future hope and competitiveness of Taiwan lies in the children of the next generation, and education is the key to the development of these children. Hoping to help reduce the disparity of educational resources between rural and urban schools, TSMC Foundation has sponsored the Hope Reading Program organized by the *CommonWealth Magazine* since 2004. Besides donating 20,000 books annually to 200 schools in remote rural areas, the TSMC Foundation recruited employees and their family members to form a volunteer team to read to 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. Now more than 100 people travel to the remote schools to tell stories to the children on a regular basis. With increasing participants, the program was extended to Tainan in 2006. Volunteers encourage children to read and to make use of the books donated through the Hope Reading Program.

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, many volunteers have developed profound friendships with the children.

The selfless service of Book Reading Volunteer Program participants 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 2012, TSMC expanded its service scope to eight schools from five. Today, 318 volunteers read books with children in Hsinchu, Taichung and Tainan. They have served for eight 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 a global common goal. TSMC recruited employees with expertise in energy conservation to start the Energy-Saving Volunteer Program, and has provided schools in the 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.

Formed in 2008 by 25 TSMC employees, the Energy-Saving Volunteer Program initially served neighborhood schools. Two high schools in Hsinchu were chosen, and a team was 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 proposed energy-saving plans and ways to reduce carbon emissions to the schools

The Energy-Saving volunteers not only endeavor to save energy for the Company and Taiwan but also wish to do what they can to preserve the earth. The program expanded service to Taichung in 2011 in to achieve its promise: “Where TSMC is, their volunteers are also”. In 2012, volunteers input 950 hours in the Hsinchu, Taichung and Tainan areas.

TSMC Community Volunteer Program

When the TSMC Community Volunteer Program started recruiting employees, a central focus was to continually deploy their expertise to help those who need them the most.

When Typhoon Morakot struck southern Taiwan in 2009, TSMC employees, deeply saddened by the suffering it caused, immediately established the Typhoon Morakot Project Team and provided assistance and relief measures to the typhoon victims. The experience prompted TSMC employees to ponder what else could be done to help the community and, consequently, the Typhoon Morakot Project Team became the Community Volunteer Program in 2010, aiming to reach out to the needy.

The needy, the elderly and children are the focus of TSMC Community volunteers partly because Taiwan is an aging society with more than two million people over the age of 65, among whom one fifth need nursing care. Because of rapid changes in society, it is critical for children – the future of the country – to build their characters at an early age. It is important for children to have productive interactions with their parents, something often lacking in dysfunctional families, whose children 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. In 2012, there are 404 volunteers. The elderly, the children, and the volunteers are closely linked through regular activities.

Hsinchu Veterans Home activities: In 2012, a total of 308 TSMC volunteers visited 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.

In 2012, TSMC Volunteer Program organized one holiday volunteer event on December 8 in Hsinchu Veterans Home. Over 200 employees and families participated to join lunch banquet. TSMC Volunteer Program also invited symphony to perform for the elderly.

St. Teresa Children Center activities: There are 62 volunteers serving at the Center, giving warm and timely care to the children. Among their accomplishments:

- 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 three-day camps in Kaohsiung. The children have thus become closer to the volunteers.
- Tom’s Bear & McDonald Happy Hour: All the children were invited to Tom’s Bear amusement @ Big City Mall in Hsinchu for a treat, and they spent one happy afternoon participating in all sorts of activities.

Taitung Project activities: There are 36 volunteers accompanied with children in Taitung who suffered type 1 diabetes. 2012 results as following:

- First contact: Volunteers hosted a gathering between volunteers and children in April in Taitung, first mixing as one mass and then reforming into five subgroups (families). Each family developed their own activities to maintain close connection.
- Summer vacation activities: Each family hosted their own summer camps in July and August. After that, their sensibilities become tighter then before.
- Dream come true plan: Qualified children were invited to join two-day events: “Dream come true activity” in early 2013.

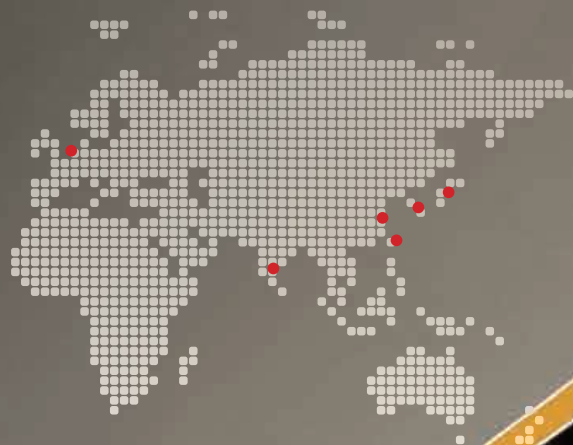
TSMC Ecology Volunteer Program

In 2012, TSMC launched a new volunteer initiative: the Ecology Volunteer Program. Two groups of employees who are interested in natural ecology donate their time to environmental protection service at ecology parks in Taichung & Tainan. Volunteers are trained as ecology docents popularize natural ecology concepts with school children and the public visiting the two parks.

- Taichung Fab 15 ecology park docent: With 47 employees joining the subgroup, TSMC Volunteer Program hosted three advanced training courses to enhance skills and abilities of the volunteers. Their task is to be docents to guide visitors to Fab 15 ecology park in Taichung. They guided Ju-Liu elementary school through Fab 15 ecology park for the first visit at the end of 2012.
- Tainan Jacana ecology education park docent: TSMC Volunteer Program recruited 91 employees and their family members to serve as volunteer docents at the Jacana ecology education park on weekends and holidays.

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

Item	Implementation Status	Non-implentation 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” on page 98-109 of this Annual Report. (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 “3.4 Code of Ethics and Business Conduct” on page 39-42 of this Annual Report.	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 refer to “7.1.1 Environmental Protection” on page 100-102 of this Annual Report.	None
3. Promotion of social welfare (1) Compliance with labor regulations, international recognized human right principles, protection of employee rights and employment fairness, and appropriate management measures and procedures (2) Safety and health in working environment (3) Mechanism of periodical communication with employees, and reasonable notice measures regarding significant operational changes which might cause signifigant impacts to employees. (4) Disclosure of consumer rights policy, and official channel for consumer complaints (5) Collaboration with suppliers (6) Participation in community development and charities through commercial activities, donations or volunteers	(1) Please refer to “5.5 Employees” on page 75-78 of this Annual Report. (2) Please refer to “7.1.2 Safety and Health” on page 102-104 of this Annual Report. (3) Please refer to “5.5 Employees” on page 75-78 of this Annual Report. (4) Please refer to “5.4 Customer Trust” on page 73-75 of this Annual Report. (5) 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 (6) Please refer to “7. Corporate Social Responsibility” on page 98-109 of this Annual Report.	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 “Corpoarte 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” on page 98-109 of this Annual Report 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.		



More than **37,000**
Employees Worldwide

Three Advanced 12-inch GIGAFAB™ Facilities,
Four 8-inch Fabs, and One 6-inch Fab in Taiwan

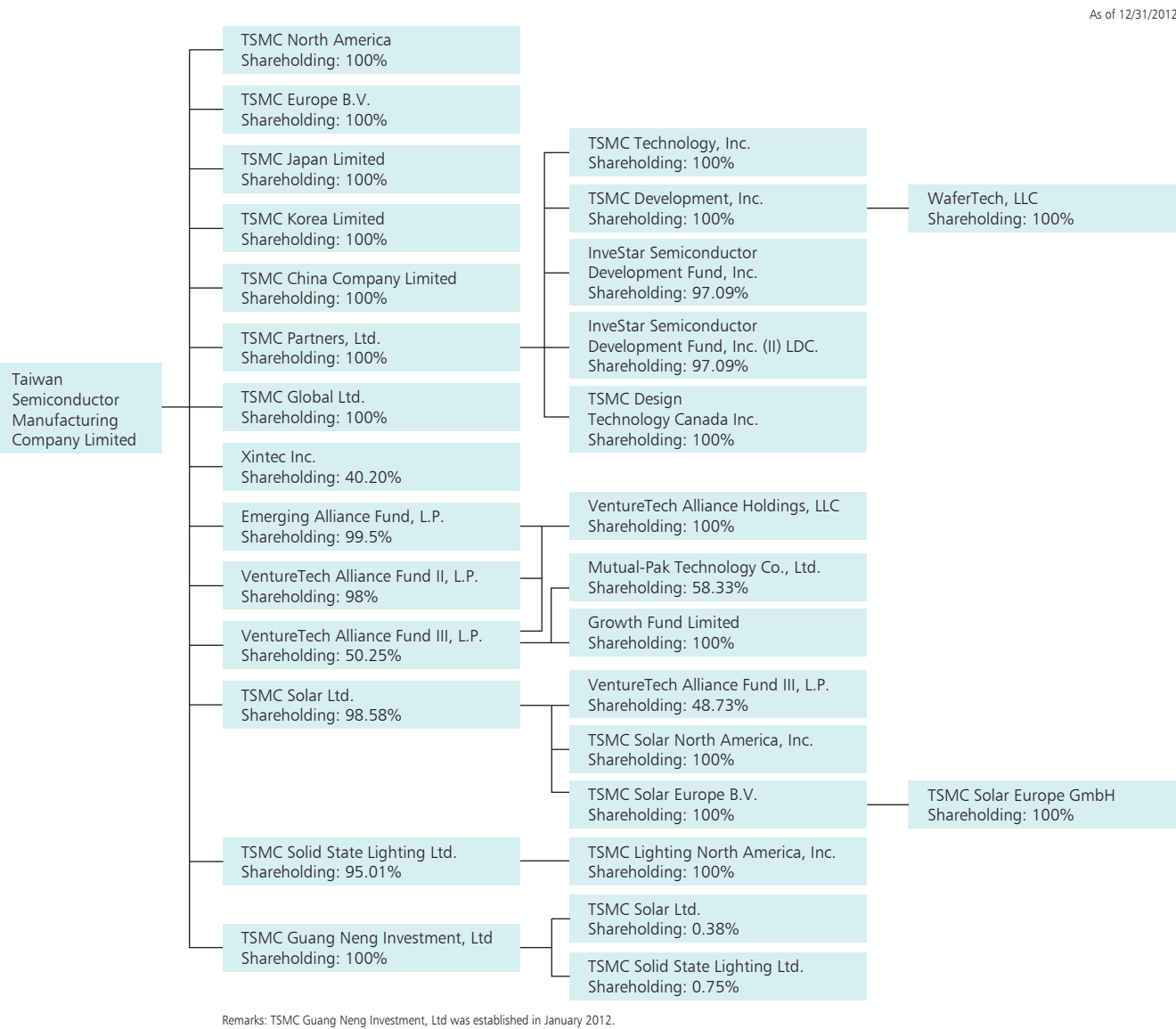
TSMC Serves Customers through Offices in America, Canada,
Europe, Japan, China, South Korea, and India



8. Subsidiary Information and Other Special Notes

8.1 Subsidiaries

8.1.1 TSMC Subsidiaries Chart



8.1.2 Business Scope of TSMC and Its Subsidiaries

TSMC and its subsidiaries strive to provide the best foundry services in the industry. Sales or engineering support offices in North America, Europe, Japan, China, and South Korea are dedicated to servicing TSMC customers worldwide. WaferTech in the United States and TSMC China Company Limited provide additional 8-inch wafer capacity. Other subsidiaries support the Company's 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 products and systems, and solar-related technologies and products.

8.1.3 TSMC Subsidiaries

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

As of 12/31/2012

Company	Date of Incorporation	Place of Registration	Capital Stock	Business Activities
TSMC North America	Jan. 18, 1988	San Jose, California, U.S.	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.	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.	US\$ 0.001	Investment activities
WaferTech, LLC	Jun. 03, 1996	Washington, U.S.	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\$ 2,362,079	Wafer level chip size packaging service
Mutual-Pak Technology Co., Ltd.	Mar. 22, 2006	Taipei, Taiwan	NT\$ 268,184	Manufacturing and selling of electronic parts and researching, developing and testing of RFID
Emerging Alliance Fund, L.P.	Jan. 10, 2001	Cayman Islands	US\$ 24,507	Investing in new start-up technology companies
VentureTech Alliance Fund II, L.P.	Feb. 27, 2004	Cayman Islands	US\$ 18,106	Investing in new start-up technology companies
VentureTech Alliance Fund III, L.P.	Mar. 25, 2006	Cayman Islands	US\$ 115,111	Investing in new start-up technology companies
Growth Fund Limited	May 30, 2007	Cayman Islands	US\$ 1,830	Investing in new start-up technology companies
VentureTech Alliance Holdings, LLC	Apr. 25, 2007	Delaware, U.S.	N/A	Investing in new start-up technology companies
TSMC Solar Ltd.	Aug. 16, 2011	Tai-Chung, Taiwan	NT\$ 11,341,000	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.	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\$ 4,530,000	Researching, developing, designing, manufacturing and selling solid state lighting devices and related products and systems
TSMC Lighting North America, Inc.	Sep. 03, 2010	Delaware, U.S.	US\$ 1	Selling and marketing of solid state lighting related products
TSMC Guang Neng Investment, Ltd.	Jan. 19, 2012	Taipei, Taiwan	NT\$ 100,000	Investment activities

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 12/31/2012

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 10 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 10 shares	100%
WaferTech, LLC	Director	M.C. Tzeng	-	-
	Director	Steve Tso	-	-
	President	Kuo-Chin Hsu	-	-
			TSMC Development, Inc.holds 293,636,833 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	94,950,005 shares	40.20%
	Director	Representative of TSMC: C.C. Wei	94,950,005 shares	40.20%
	Director	Representative of TSMC: Lora Ho	94,950,005 shares	40.20%
	Director	Representative of OmniVision Investment Holding Inc.: Xiaoying Hong	9,809,211 shares	4.15%
	Director	Tzun Eing Chen	882,350 shares	0.37%
	Supervisor	Representative of VisEra Holding Company: Cheng Ho	37,235,172 shares	15.76%
	Supervisor	Representative of VisEra Holding Company: W.M. Sheng	37,235,172 shares	15.76%
	President	Robert Kuan	0 shares	0.00%
Mutual-Pak Technology Co., Ltd.	Chairman	Hsu-Tung Chen	1,107,010 shares	4.13%
	Director	Lewis Hwang	2,508,000 shares	9.35%
	Director	Representative of VentureTech Alliance Fund III, L.P.: Juine-Kai Tseng	15,643,347 shares	58.33%
	Supervisor	Wei-Pong Lin	30,000 shares	0.11%
	President	Lewis Hwang	2,508,000 shares	9.35%
Emerging Alliance Fund, L.P.	None	None	(TSMC’s investment US\$24,384,811)	(99.5%)
VentureTech Alliance Fund II, L.P.	None	None	(TSMC’s investment US\$17,743,610)	(98%)
VentureTech Alliance Fund III, L.P.	None	None	(TSMC’s investment US\$57,840,721) (TSMC Solar Ltd.’s investment US\$56,090,001)	(50.25%) (48.73%)
Growth Fund Limited	None	None	(VentureTech Alliance Fund III, L.P.’s investment US\$1,830,000)	(100%)
VentureTech Alliance Holdings, LLC	None	None	None	(100%)
TSMC Solar Ltd.	Chairman	Rick Tsai	1,500,000 shares	0.13%
	Director	F.C. Tseng	-	-
	Director	Richard Thurston	-	-
	Supervisor	Lora Ho	-	-
			TSMC holds 1,118,000,000 shares TSMC Guang Neng Investment, Ltd. holds 4,294,000 shares	98.58% 0.38%
	President	Yíng-Chen Chao	1,200,000 shares	0.11%
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	Stephen Mkenery	-	-
	Director	Yíng-Chen Chao	-	-
			TSMC Solar Europe B.V. holds 200 shares	100%
TSMC Solid State Lighting Ltd.	Chairman	Rick Tsai	1,500,000 shares	0.33%
	Director	F.C. Tseng	-	-
	Director	Richard Thurston	-	-
	Supervisor	Lora Ho	-	-
			TSMC holds 430,400,000 shares TSMC Guang Neng Investment, Ltd. holds 3,419,500 shares	95.01% 0.75%
	President	Jacob Tarn	1,100,000 shares	0.24%
TSMC Lighting North America, Inc.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
	President	Rick Tsai	-	-
			TSMC Solid State Lighting Ltd. holds 1,000 shares	100%
TSMC Guang Neng Investment, Ltd.	Director	Lora Ho	-	-
	Director	Richard Thurston	-	-
			(TSMC’s investment NT\$100,000,000)	100%

8.1.6 Operational Highlights of TSMC Subsidiaries (Note)

Unit: NT\$ thousands, except EPS (\$)As of 12/31/2012

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Sales	Income (Loss) from Operation	Net Income (Loss)	Basic Earning (Loss) Per Share
TSMC North America	319,418	45,816,861	42,607,573	3,209,288	329,949,024	251,575	312,232	28.38
TSMC Europe B.V.	3,839	323,400	87,639	235,761	396,350	42,231	34,931	174,653.71
TSMC Japan Limited	100,560	190,387	47,975	142,412	271,084	12,294	3,786	631.02
TSMC Korea Limited	10,840	28,534	1,599	26,935	20,146	1,844	2,602	32.52
TSMC China Company Limited	20,979,693	24,868,744	6,982,430	17,886,314	15,846,546	4,483,920	4,757,121	N/A
TSMC Technology, Inc.	0.03	437,624	97,261	340,363	738,589	35,171	32,721	3,272,090.62
InveStar Semiconductor Development Fund, Inc.	23,536	271,037	37,592	233,445	87,483	73,766	73,740	93.72
InveStar Semiconductor Development Fund, Inc. (II) LDC.	423,304	313,560	159	313,401	2,257	(3,564)	(3,564)	(0.25)
TSMC Development, Inc.	0.03	17,549,612	-	17,549,612	4,253,142	4,270,444	4,269,368	426,936,768.69
WaferTech, LLC	8,130,640	8,656,151	747,096	7,909,055	8,008,777	2,218,336	4,216,650	14.36
TSMC Partners, Ltd.	28,697,333	38,635,609	-	38,635,609	5,089,829	5,089,586	5,088,931	5.15
TSMC Design Technology Canada Inc.	71,142	167,761	34,504	133,257	208,086	18,917	12,472	5.42
TSMC Global Ltd.	37,284,792	49,954,509	123	49,954,386	474,384	470,909	469,933	365,991.08
Xintec Inc.	2,362,079	6,029,008	2,172,281	3,856,727	3,139,385	(82,101)	(91,177)	(0.39)
Mutual-Pak Technology Co., Ltd.	268,184	74,268	15,543	58,725	24,703	(39,094)	(42,056)	(2.03)
Emerging Alliance Fund, L.P.	711,644	168,276	76	168,200	43,558	30,430	(2,940)	N/A
VentureTech Alliance Fund II, L.P.	525,754	573,979	5,745	568,234	272,644	92,641	62,349	N/A
VentureTech Alliance Fund III, L.P.	3,342,597	2,370,773	2,550	2,368,223	272,034	(177,152)	(177,152)	N/A
Growth Fund Limited	53,140	12,184	1,482	10,702	-	(3,453)	(4,185)	N/A
VentureTech Alliance Holdings, LLC	-	-	-	-	-	-	-	N/A
TSMC Solar North America, Inc.	29	67,289	23,252	44,037	1,890	(64,961)	(65,268)	(65,268.07)
TSMC Lighting North America, Inc.	29	2,904	40	2,864	-	(7)	(7)	(7.00)
TSMC Solar Europe B.V.	3,839	175,286	270	175,016	-	(263)	(119,668)	(598,341.12)
TSMC Solar Europe GmbH	3,839	185,765	14,182	171,583	50,149	(48,041)	(119,403)	(597,015.78)
TSMC Solar Ltd.	11,341,000	7,857,963	1,763,356	6,094,607	88,455	(1,050,889)	(4,037,825)	(3.56)
TSMC Solid State Lighting Ltd.	4,530,000	3,119,709	581,824	2,537,885	54,223	(1,485,589)	(1,466,733)	(3.24)
TSMC Guang Neng Investment, Ltd.	100,000	65,007	-	65,007	-	(57)	(24,928)	N/A

Note: Foreign exchange rates for balance sheet amounts are as follows: \$1 USD = \$29.038 NT, \$1 EUR = \$38.39 NT, \$1 JPY = \$0.3552 NT, \$1 RMB = \$4.66 NT, \$1 KRW = \$0.0271 NT, \$1 CAD = \$29.23 NT
Foreign exchange rates for income statement amounts are as follows: \$1 USD = \$29.580 NT, \$1 EUR = \$38.11 NT, \$1 JPY = \$0.372 NT, \$1 RMB = \$4.69 NT, \$1 KRW = \$0.0263 NT, \$1 CAD = \$29.63 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 2012 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 2012 and as of the Date of this Annual Report

The competent authorities fined a minor fine totaling NT\$109,200 for very few isolated incidents of administrative errors and noncompliance with relevant rules concerning employee attendance. After communicating with the authorities, TSMC has been implementing relevant remedial measures.

8.3.3 Any Events in 2012 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.

TSMC ANNUAL REPORT 2012 (II) FINANCIAL INFORMATION

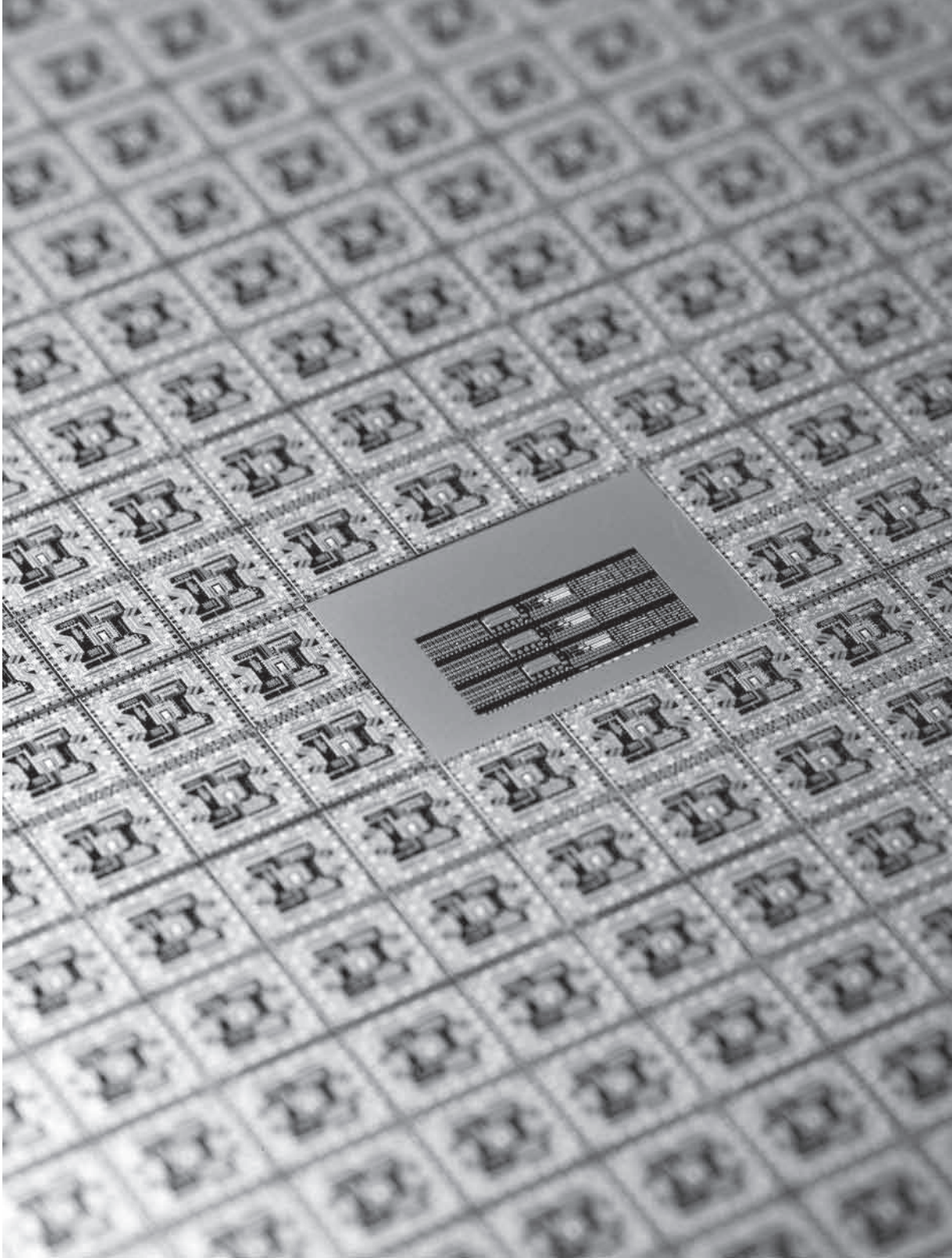


TABLE OF CONTENTS

1. Condensed Balance Sheet	2
2. Condensed Statement of Income	3
3. Financial Analysis	4
4. Auditors' Opinions from 2008 to 2012	6
5. Audit Committee's Report	6
6. Financial Difficulties	6
7. Financial Statements for the Years Ended December 31, 2012 and 2011 and Independent Auditors' Report	7
8. Consolidated Financial Statements for the Years Ended December 31, 2012 and 2011 and Independent Auditors' Report	42
9. U.S. GAAP Financial Information	94

1. Condensed Balance Sheet

1.1 Condensed Balance Sheet from 2008 to 2012 (Unconsolidated)

Unit: NT\$ thousands

Item	2008	2009	2010	2011	2012
Current Assets	179,849,479	185,831,537	192,234,282	158,563,352	207,815,340
Long-term Investments	124,184,663	118,427,813	117,913,756	129,400,844	139,747,920
Fixed Assets	219,282,502	254,751,526	366,854,299	454,373,533	586,603,294
Other Assets	17,242,603	18,415,746	24,237,329	19,070,145	12,006,629
Total Assets	540,559,247	577,426,622	701,239,666	761,407,874	946,173,183
Current Liabilities					
Before distribution	53,099,467	72,571,095	118,022,260	109,514,430	138,795,878
After distribution	129,975,779	150,279,215	195,752,496	187,263,098	*
Long-term Liabilities	5,431,252	4,916,390	4,500,000	18,000,000	80,054,000
Other Liabilities	5,651,417	4,856,425	4,572,488	4,299,930	4,125,591
Capital Stock	256,254,373	259,027,066	259,100,787	259,162,226	259,244,357
Capital Surplus	49,875,255	55,486,010	55,698,434	55,846,357	56,137,809
Retained Earnings					
Before distribution	170,053,667	181,882,682	265,779,571	322,191,155	410,601,289
After distribution	92,664,846	104,174,562	188,049,335	244,442,487	*
Cumulative Transaction Adjustments	481,158	(1,766,667)	(6,543,163)	(6,433,369)	(10,753,763)
Net Loss Not Recognized as Pension Cost	-	-	-	-	(5,299)
Unrealized Gain/Loss on Financial Instruments	(287,342)	453,621	109,289	(1,172,855)	7,973,321
Total Liabilities					
Before distribution	64,182,136	82,343,910	127,094,748	131,814,360	222,975,469
After distribution	141,058,448	160,052,030	204,824,984	209,563,028	*
Total Equity					
Before distribution	476,377,111	495,082,712	574,144,918	629,593,514	723,197,714
After distribution	399,500,799	417,374,592	496,414,682	551,844,846	*

*Pending shareholders' approval

1.2 Condensed Balance Sheet from 2008 to 2012 (Consolidated)

Unit: NT\$ thousands

Item	2008	2009	2010	2011	2012
Current Assets	252,618,431	259,803,748	261,519,317	225,260,396	252,288,635
Long-term Investments	39,981,515	37,845,503	39,775,528	34,458,504	65,786,342
Fixed Assets	243,645,350	273,674,787	388,444,023	490,374,916	617,529,446
Other Assets	22,671,293	23,372,182	29,190,036	24,171,126	19,430,182
Total Assets	558,916,589	594,696,220	718,928,904	774,264,942	955,034,605
Current Liabilities					
Before distribution	56,806,756	79,133,288	123,191,113	117,006,687	142,435,944
After distribution	133,683,068	156,841,408	200,921,349	194,755,355	*
Long-term Liabilities	16,191,041	11,388,479	12,050,755	20,458,493	82,161,490
Other Liabilities	5,546,325	5,125,905	4,982,631	4,756,211	4,683,472
Capital Stock	256,254,373	259,027,066	259,100,787	259,162,226	259,244,357
Capital Surplus	49,875,255	55,486,010	55,698,434	55,846,357	56,137,809
Retained Earnings					
Before distribution	170,053,667	181,882,682	265,779,571	322,191,155	410,601,289
After distribution	92,664,846	104,174,562	188,049,335	244,442,487	*
Cumulative Transaction Adjustments	481,158	(1,766,667)	(6,543,163)	(6,433,369)	(10,753,763)
Net Loss Not Recognized as Pension Cost	-	-	-	-	(5,299)
Unrealized Gain/Loss on Financial Instruments	(287,342)	453,621	109,289	(1,172,855)	7,973,321
Total Liabilities					
Before distribution	78,544,122	95,647,672	140,224,499	142,221,391	229,280,906
After distribution	155,420,434	173,355,792	217,954,735	219,970,059	*
Equity Attributable to Shareholders of the Parent					
Before distribution	476,377,111	495,082,712	574,144,918	629,593,514	723,197,714
After distribution	399,500,799	417,374,592	496,414,682	551,844,846	*
Minority Interests	3,995,356	3,965,836	4,559,487	2,450,037	2,555,985
Total Equity					
Before distribution	480,372,467	499,048,548	578,704,405	632,043,551	725,753,699
After distribution	403,496,155	421,340,428	500,974,169	554,294,883	*

*Pending shareholders' approval

2. Condensed Statement of Income

2.1 Condensed Statement of Income from 2008 to 2012 (Unconsolidated)

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

Item	2008	2009	2010	2011	2012
Net Sales	321,767,083	285,742,868	406,963,312	418,245,493	499,871,887
Gross Profit	138,177,615	126,475,970	196,989,302	185,560,865	234,308,318
Income from Operations	106,290,232	94,522,353	154,846,508	138,905,763	176,801,770
Non-operating Income and Gains	6,725,625	4,121,509	15,907,968	7,287,046	11,188,077
Non-operating Expenses and Losses	2,257,039	3,662,840	1,464,272	1,484,965	4,359,899
Interest Revenue	2,728,892	1,117,374	764,027	697,196	867,227
Interest Expense	355,056	142,026	214,641	445,887	945,114
Income before Income Tax	110,758,818	94,981,022	169,290,204	144,707,844	183,629,948
Net Income	99,933,168	89,217,836	161,605,009	134,201,279	166,158,802
Basic Earnings Per Share	3.86 *	3.45 *	6.24 *	5.18 *	6.41 *
Adjusted Basic Earnings Per Share	3.84 **	3.45	6.24	5.18	-
Capitalized Interest	-	-	-	-	-

* Based on weighted average shares outstanding in each year

** Retroactively adjusted for stock dividends for earning year 2008

2.2 Condensed Statement of Income from 2008 to 2012 (Consolidated)

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

Item	2008	2009	2010	2011	2012
Net Sales	333,157,660	295,742,239	419,537,911	427,080,645	506,248,580
Gross Profit	141,749,561	129,328,611	207,053,591	194,069,228	243,594,870
Income from Operations	104,435,368	91,961,886	159,175,335	141,557,418	181,057,193
Non-operating Income and Gains	10,821,449	5,653,548	13,136,072	5,358,527	6,782,037
Non-operating Expenses and Losses	3,784,571	2,152,787	2,041,012	1,768,268	6,285,254
Interest Revenue	5,373,823	2,600,925	1,665,193	1,479,514	1,645,036
Interest Expense	614,988	391,479	425,356	626,725	1,020,422
Income before Income Tax	111,472,246	95,462,647	170,270,395	145,147,677	181,553,976
Net Income	100,523,237	89,466,223	162,281,930	134,453,260	165,963,689
Net Income Attributable to Shareholders of the Parent	99,933,168	89,217,836	161,605,009	134,201,279	166,158,802
Basic Earnings Per Share	3.86 *	3.45 *	6.24 *	5.18 *	6.41 *
Adjusted Basic Earnings Per Share	3.84 **	3.45	6.24	5.18	-
Capitalized Interest	-	-	-	9,093	6,442

* Based on weighted average shares outstanding in each year

** Retroactively adjusted for stock dividends for earning year 2008

3. Financial Analysis

3.1 Financial Analysis from 2008 to 2012 (Unconsolidated)

		2008	2009	2010	2011	2012
Capital Structure Analysis	Debt Ratio (%)	11.87	14.26	18.12	17.31	23.57
	Long-term Fund to Fixed Assets Ratio (%)	219.72	196.27	157.73	142.52	136.93
Liquidity Analysis	Current Ratio (%)	338.70	256.07	162.88	144.79	149.73
	Quick Ratio (%)	312.83	228.94	140.07	122.41	122.85
	Times Interest Earned (times)	312.95	669.76	789.71	325.54	195.29
Operating Performance Analysis	Average Collection Turnover (times)	11.08	11.17	10.93	10.40	11.01
	Days Sales Outstanding	32.93	32.66	33.40	35.09	33.14
	Average Inventory Turnover (times)	10.86	10.06	9.44	9.61	9.13
	Average Inventory Turnover Days	33.59	36.29	38.67	37.97	39.97
	Average Payment Turnover (times)	20.40	18.46	16.89	18.17	18.23
	Fixed Assets Turnover (times)	1.47	1.12	1.11	0.92	0.85
	Total Assets Turnover (times)	0.60	0.49	0.58	0.55	0.53
Profitability Analysis	Return on Total Assets (%)	18.35	15.98	25.31	18.40	19.56
	Return on Equity (%)	20.74	18.37	30.23	22.30	24.57
	Operating Income to Paid-in Capital Ratio (%)	41.48	36.49	59.76	53.60	68.20
	Pre-tax Income to Paid-in Capital Ratio (%)	43.22	36.67	65.34	55.84	70.83
	Net Margin (%)	31.06	31.22	39.71	32.09	33.24
	Basic Earnings Per Share (NT\$) (Note)	3.84	3.45	6.24	5.18	6.41
	Diluted Earnings Per Share (NT\$) (Note)	3.81	3.44	6.23	5.18	6.41
Cash Flow	Cash Flow Ratio (%)	399.16	214.83	188.12	217.99	199.78
	Cash Flow Adequacy Ratio (%)	134.79	122.02	109.98	99.13	93.47
	Cash Flow Reinvestment Ratio (%)	12.95	6.99	11.20	11.07	11.53
Leverage	Operating Leverage	2.50	2.46	2.17	2.54	2.37
	Financial Leverage	1.00	1.00	1.00	1.00	1.01

Analysis of deviation of 2012 vs. 2011 over 20% :

1. The debt ratio increased by 36% as a result of increase in bonds payable.
2. The times interest earned decreased by 40%, primarily due to increase in interest expense.
3. The operating income to paid-in capital ratio increased by 27%, mainly due to increase in operating income.
4. The pre-tax income to paid-in capital ratio increased by 27%, primarily due to increase in pre-tax income.
5. The basic and diluted earnings per share both increased by 24%, mainly due to increase in net income.

Note: Retroactively adjusted for stock dividends for earning year 2008.

*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

(2) Cash Flow Adequacy Ratio

(3) Cash Flow Reinvestment Ratio

6. Leverage

(1) Operating Leverage

(2) Financial Leverage

= 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)

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

= Income from Operations / (Income from Operations - Interest Expenses)

3.2 Financial Analysis from 2008 to 2012 (Consolidated)

		2008	2009	2010	2011	2012
Capital Structure Analysis	Debts Ratio (%)	14.05	16.08	19.50	18.37	24.01
	Long-term Fund to Fixed Assets (%)	203.81	186.51	152.08	133.06	130.83
Liquidity Analysis	Current Ratio (%)	444.70	328.31	212.29	192.52	177.12
	Quick Ratio (%)	415.32	300.15	187.57	170.06	149.81
	Times Interest Earned (times)	182.26	244.85	401.30	229.27	177.80
Operating Performance Analysis	Average Collection Turnover (times)	10.73	10.78	10.57	10.06	10.77
	Days Sales Outstanding	34.01	33.86	34.54	36.29	33.89
	Average Inventory Turnover (times)	9.88	9.30	8.62	8.75	8.38
	Average Inventory Turnover Days	36.94	39.25	42.36	41.70	43.55
	Average Payment Turnover (times)	20.02	18.77	17.23	18.77	19.39
	Fixed Assets Turnover (times)	1.37	1.08	1.08	0.87	0.82
	Total Assets Turnover (times)	0.60	0.50	0.58	0.55	0.53
Profitability Analysis	Return on Total Assets (%)	17.89	15.57	24.77	18.08	19.30
	Return on Equity (%)	20.74	18.37	30.23	22.30	24.57
	Operating Income to Paid-in Capital Ratio (%)	40.75	35.50	61.43	54.62	69.84
	Pre-tax Income to Paid-in Capital Ratio (%)	43.50	36.85	65.72	56.01	70.03
	Net Margin (%)	30.17	30.25	38.68	31.48	32.78
	Basic Earnings Per Share (NT\$) (Note 1)	3.84	3.45	6.24	5.18	6.41
	Diluted Earnings Per Share (NT\$) (Note 1)	3.81	3.44	6.23	5.18	6.41
Cash Flow	Cash Flow Ratio (%)	389.91	202.15	186.28	211.60	202.94
	Cash Flow Adequacy Ratio (%)	139.50	126.39	113.91	101.93	95.97
	Cash Flow Reinvestment Ratio (%)	12.98	6.90	11.13	11.12	11.69
Leverage	Operating Leverage	2.53	2.53	2.12	2.50	2.31
	Financial Leverage	1.01	1.00	1.00	1.00	1.01
Industry Specific Key Performance Indicator	Billing Utilization Rate (%)	88 (Note 2)	75 (Note 2)	101 (Note 2)	91 (Note 2)	91 (Note 2)
	Advanced Technologies (65-nanometer and below) Percentage of Wafer Sales (%)	21	33	46	56	62
	Sales Growth (%)	3.3	-11.2	41.9	1.8	18.5
	Net Income Growth (%)	-8.5	-10.7	81.1	-17.0	23.8

Analysis of deviation of 2012 vs. 2011 over 20% :

1. The debt ratio increased by 31% as a result of increase in bonds payable.
2. The times interest earned decreased by 22%, primarily due to increase in interest expense.
3. The operating income to paid-in capital ratio increased by 28%, mainly due to increase in operating income.
4. The pre-tax income to paid-in capital ratio increased by 25%, primarily due to increase in pre-tax income.
5. The basic and diluted earnings per share both increased by 24%, mainly due to increase in net income.

Note 1: Retroactively adjusted for stock dividends for earning year 2008.

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 = 365 / Average Inventory Turnover
 (6) Fixed Assets Turnover = Cost of Sales / Average Trade Payables
 (7) Total Assets Turnover = Net Sales / Net Fixed Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
 (2) Return on Equity = Net Income / Average Shareholders' Equity
 (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
 (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
 (5) Net Margin = Net Income / Net Sales
 (6) Earnings Per Share = (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 2008 to 2012

Year	CPA	Audit 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
2012	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 2012 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 5, 2013

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 2012 and as of the date of this Annual Report: None

7. Financial Statements for the Years Ended December 31, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011 on which we have issued an unqualified opinion.

Deloitte & Touche

February 5, 2013

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, 2012 AND 2011

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

ASSETS	2012		2011		LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 109,150,810	12	\$ 85,262,521	11	Short-term loans (Note 14)	\$ 34,714,929	4	\$ 25,926,528	3
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	38,824	-	14,925	-	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23)	6,274	-	-	-
Available-for-sale financial assets (Notes 2, 6 and 23)	1,845,052	-	2,617,134	-	Accounts payable	13,392,221	1	9,522,688	1
Held-to-maturity financial assets (Notes 2, 7 and 23)	701,146	-	701,136	-	Payables to related parties (Note 24)	3,230,342	-	2,992,582	-
Receivables from related parties (Notes 3 and 24)	40,987,444	4	24,777,534	3	Income tax payable (Notes 2 and 17)	15,196,399	2	10,647,797	1
Notes and accounts receivable (Note 3)	15,726,431	2	19,894,386	3	Accrued profit sharing to employees and bonus to directors (Note 19)	11,186,591	1	9,055,704	1
Allowance for doubtful receivables (Notes 2, 3 and 8)	(474,037)	-	(485,120)	-	Payables to contractors and equipment suppliers	44,371,108	5	33,811,970	5
Allowance for sales returns and others (Notes 2 and 8)	(5,732,738)	(1)	(4,887,879)	-	Accrued expenses and other current liabilities (Note 23)	16,698,014	2	13,057,161	2
Other receivables from related parties (Notes 3 and 24)	274,963	-	188,028	-	Current portion of bonds payable (Notes 15 and 23)	-	-	4,500,000	1
Other financial assets	175,261	-	122,010	-					
Inventories (Notes 2 and 9)	35,296,391	4	22,853,397	3	Total current liabilities	138,795,878	15	109,514,430	14
Deferred income tax assets (Notes 2 and 17)	7,728,464	1	5,779,544	1					
Prepaid expenses and other current assets	2,097,329	-	1,725,736	-	LONG-TERM LIABILITIES				
					Bonds payable (Notes 15 and 23)	80,000,000	9	18,000,000	2
Total current assets	207,815,340	22	158,563,352	21	Other long-term payables (Note 23)	54,000	-	-	-
LONG-TERM INVESTMENTS (Notes 2, 7, 10, 11 and 23)					Total long-term liabilities	80,054,000	9	18,000,000	2
Investments accounted for using equity method	139,264,161	15	128,200,718	17					
Held-to-maturity financial assets	-	-	702,291	-	OTHER LIABILITIES				
Financial assets carried at cost	483,759	-	497,835	-	Accrued pension cost (Notes 2 and 16)	3,926,276	-	3,860,898	1
					Guarantee deposits	199,315	-	439,032	-
Total long-term investments	139,747,920	15	129,400,844	17					
					Total other liabilities	4,125,591	-	4,299,930	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)									
Cost					Total liabilities	222,975,469	24	131,814,360	17
Buildings	173,344,932	18	149,495,478	20					
Machinery and equipment	1,202,761,097	127	984,978,666	129	CAPITAL STOCK - NT\$10 PAR VALUE (Note 19)				
Office equipment	16,683,484	2	13,824,434	2	Authorized: 28,050,000 thousand shares				
	1,392,789,513	147	1,148,298,578	151	Issued: 25,924,435 thousand shares in 2012				
Accumulated depreciation	(924,961,566)	(98)	(804,740,797)	(106)	25,916,222 thousand shares in 2011	259,244,357	27	259,162,226	34
Advance payments and construction in progress	118,775,347	13	110,815,752	14					
					CAPITAL SURPLUS (Notes 2 and 19)	56,137,809	6	55,846,357	8
Net property, plant and equipment	586,603,294	62	454,373,533	59					
					RETAINED EARNINGS (Note 19)				
INTANGIBLE ASSETS					Appropriated as legal capital reserve	115,820,123	12	102,399,995	13
Goodwill (Note 2)	1,567,756	-	1,567,756	-	Appropriated as special capital reserve	7,606,224	1	6,433,874	1
Deferred charges, net (Notes 2 and 13)	4,882,081	1	4,719,244	1	Unappropriated earnings	287,174,942	30	213,357,286	28
Total intangible assets	6,449,837	1	6,287,000	1		410,601,289	43	322,191,155	42
OTHER ASSETS					OTHERS				
Refundable deposits	2,394,826	-	4,491,735	1	Cumulative translation adjustments (Note 2)	(10,753,763)	(1)	(6,433,369)	(1)
Deferred income tax assets (Notes 2 and 17)	2,244,947	-	7,221,824	1	Net loss not recognized as pension cost	(5,299)	-	-	-
Others (Notes 2 and 24)	917,019	-	1,069,586	-	Unrealized gain/loss on financial instruments (Notes 2 and 23)	7,973,321	1	(1,172,855)	-
Total other assets	5,556,792	-	12,783,145	2		(2,785,741)	-	(7,606,224)	(1)
					Total shareholders' equity	723,197,714	76	629,593,514	83
TOTAL	\$ 946,173,183	100	\$ 761,407,874	100	TOTAL	\$ 946,173,183	100	\$ 761,407,874	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, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 24)	\$ 506,697,738		\$ 421,472,087	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	<u>6,825,851</u>		<u>3,226,594</u>	
NET SALES	499,871,887	100	418,245,493	100
COST OF SALES (Notes 9, 18 and 24)	<u>265,538,540</u>	<u>53</u>	<u>233,083,068</u>	<u>56</u>
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	234,333,347	47	185,162,425	44
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2)	<u>(25,029)</u>	<u>-</u>	<u>398,440</u>	<u>-</u>
GROSS PROFIT	<u>234,308,318</u>	<u>47</u>	<u>185,560,865</u>	<u>44</u>
OPERATING EXPENSES (Notes 18 and 24)				
Research and development	38,788,245	8	31,594,034	7
General and administrative	16,330,060	3	12,715,339	3
Marketing	<u>2,388,243</u>	<u>-</u>	<u>2,345,729</u>	<u>1</u>
Total operating expenses	<u>57,506,548</u>	<u>11</u>	<u>46,655,102</u>	<u>11</u>
INCOME FROM OPERATIONS	<u>176,801,770</u>	<u>36</u>	<u>138,905,763</u>	<u>33</u>
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	8,127,748	2	3,778,083	1
Settlement income (Note 26)	883,845	-	947,340	1
Interest income	867,227	-	697,196	-
Technical service income (Note 24)	497,638	-	408,153	-
Valuation gain on financial instruments, net (Notes 2, 5 and 23)	-	-	801,195	-
Others (Notes 2 and 24)	<u>811,619</u>	<u>-</u>	<u>655,079</u>	<u>-</u>
Total non-operating income and gains	<u>11,188,077</u>	<u>2</u>	<u>7,287,046</u>	<u>2</u>

(Continued)

	2012		2011	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Impairment loss of financial assets (Notes 2, 6 and 23)	\$ 2,677,529	1	\$ -	-
Interest expense (Note 24)	945,114	-	445,887	-
Impairment loss on idle assets (Note 2)	418,330	-	-	-
Loss on disposal of property, plant and equipment (Notes 2 and 24)	146,647	-	202,901	-
Foreign exchange loss, net (Note 2)	-	-	673,085	-
Others (Note 2)	<u>172,279</u>	<u>-</u>	<u>163,092</u>	<u>-</u>
Total non-operating expenses and losses	<u>4,359,899</u>	<u>1</u>	<u>1,484,965</u>	<u>-</u>
INCOME BEFORE INCOME TAX	183,629,948	37	144,707,844	35
INCOME TAX EXPENSE (Notes 2 and 17)	<u>17,471,146</u>	<u>4</u>	<u>10,506,565</u>	<u>3</u>
NET INCOME	<u>\$ 166,158,802</u>	<u>33</u>	<u>\$ 134,201,279</u>	<u>32</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT\$, Note 22)				
Basic earnings per share	\$ 7.08	\$ 6.41	\$ 5.58	\$ 5.18
Diluted earnings per share	<u>\$ 7.08</u>	<u>\$ 6.41</u>	<u>\$ 5.58</u>	<u>\$ 5.18</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, 2012 AND 2011

(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	Net Loss Not Recognized as Pension Cost	Unrealized Gain/Loss on Financial Instruments	Treasury Stock	
BALANCE, JANUARY 1, 2011	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
Appropriations of prior year's earnings												
Legal capital reserve	-	-	-	13,420,128	-	(13,420,128)	-	-	-	-	-	-
Special capital reserve	-	-	-	-	1,172,350	(1,172,350)	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,748,668)	(77,748,668)	-	-	-	-	(77,748,668)
Net income in 2012	-	-	-	-	-	166,158,802	166,158,802	-	-	-	-	166,158,802
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	131,095	-	-	-	-	-	-	-	-	131,095
Translation adjustments	-	-	-	-	-	-	-	(4,320,394)	-	-	-	(4,320,394)
Issuance of stock from exercising employee stock options	8,213	82,131	160,357	-	-	-	-	-	-	-	-	242,488
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	1,998,347	-	1,998,347
Net change in shareholders' equity from equity method investees	-	-	-	-	-	-	-	-	(5,299)	7,147,829	-	7,142,530
BALANCE, DECEMBER 31, 2012	25,924,435	\$ 259,244,357	\$ 56,137,809	\$ 115,820,123	\$ 7,606,224	\$ 287,174,942	\$ 410,601,289	\$ (10,753,763)	\$ (5,299)	\$ 7,973,321	\$ -	\$ 723,197,714

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, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 166,158,802	\$ 134,201,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	124,399,879	102,925,423
Unrealized (realized) gross profit from affiliates	25,029	(398,440)
Amortization of premium/discount of financial assets	2,281	9,860
Gain on disposal of available-for-sale financial assets	(110,634)	(35,151)
Loss on disposal of financial assets carried at cost	269	-
Equity in earnings of equity method investees, net	(8,127,748)	(3,778,083)
Cash dividends received from equity method investees	1,688,878	2,941,548
Loss on disposal of property, plant and equipment and other assets, net	125,488	99,884
Impairment loss of financial assets	2,677,529	-
Impairment loss on idle assets	418,330	-
Deferred income tax	2,618,657	(493,026)
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(17,625)	(22,759)
Receivables from related parties	(16,209,910)	956,440
Notes and accounts receivable	4,167,955	2,356,519
Allowance for doubtful receivables	(11,083)	(2,880)
Allowance for sales returns and others	844,859	(2,453,565)
Other receivables from related parties	(89,347)	(38,049)
Other financial assets	(53,251)	138,196
Inventories	(12,442,994)	2,775,646
Prepaid expenses and other current assets	(371,593)	(382,852)
Accounts payable	1,361,012	(1,805,422)
Payables to related parties	(67,770)	418,132
Income tax payable	4,548,602	3,538,928
Accrued profit sharing to employees and bonus to directors	2,130,887	(1,903,765)
Accrued expenses and other current liabilities	3,556,824	(410,047)
Accrued pension cost	65,378	96,880
Net cash provided by operating activities	<u>277,288,704</u>	<u>238,734,696</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributed related to spin-off	-	(1,270,340)
Acquisitions of:		
Property, plant and equipment	(242,063,668)	(202,757,541)
Investments accounted for using equity method	(2,259,244)	(7,390,883)
Financial assets carried at cost	(1,093)	-
Proceeds from return of capital by investees	587,902	320,013
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	612,834	1,035,151
Held-to-maturity financial assets	700,000	4,789,000
Financial assets carried at cost	14,900	-
Property, plant and equipment and other assets	93,984	4,650,078
Increase in deferred charges	(1,743,043)	(1,658,296)
Decrease in refundable deposits	2,096,909	4,147,014
Decrease in other assets	17,600	27,600
Net cash used in investing activities	<u>(241,942,919)</u>	<u>(198,108,204)</u>

(Continued)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	\$ 8,788,401	\$ (4,982,109)
Cash dividends	(77,748,668)	(77,730,236)
Proceeds from issuance of bonds	62,000,000	18,000,000
Repayment of bonds	(4,500,000)	-
Decrease in guarantee deposits	(239,717)	(308,855)
Proceeds from exercise of employee stock options	242,488	217,697
Acquisition of treasury stock	-	(71,598)
Net cash used in financing activities	<u>(11,457,496)</u>	<u>(64,875,101)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>23,888,289</u>	<u>(24,248,609)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>85,262,521</u>	<u>109,511,130</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 109,150,810</u>	<u>\$ 85,262,521</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 670,165	\$ 369,085
Income tax paid	\$ 10,312,114	\$ 7,454,386
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 255,108,068	\$ 195,932,728
Decrease (increase) in payables to contractors and equipment suppliers	(12,764,075)	6,827,106
Increase in payables to related parties	(280,256)	-
Nonmonetary exchange trade-out price	(69)	(2,293)
Cash paid	<u>\$ 242,063,668</u>	<u>\$ 202,757,541</u>
Disposal of property, plant and equipment and other assets	\$ 91,641	\$ 3,370,165
Decrease in other receivables to related parties	2,412	1,124,206
Decrease in other financial assets	-	158,000
Nonmonetary exchange trade-out price	(69)	(2,293)
Cash received	<u>\$ 93,984</u>	<u>\$ 4,650,078</u>
Acquisition of deferred charges	\$ 2,184,901	\$ 1,658,296
Increase in accounts payable	(303,584)	-
Increase in payables to related parties	(25,274)	-
Increase in other long-term payables	(113,000)	-
Cash paid	<u>\$ 1,743,043</u>	<u>\$ 1,658,296</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Idle assets reclassified from property, plant and equipment	\$ 418,330	\$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 59,000	\$ -
Current portion of bonds payable	\$ -	\$ 4,500,000

(Continued)

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
	(1,874,437)	(10,305,223)	(12,179,660)
Cash contributed related to spin-off	\$ 395,563	\$ 874,777	\$ 1,270,340

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, 2012 AND 2011

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

As of December 31, 2012 and 2011, the Company had 33,341 and 30,113 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 corporate bonds, short-term commercial paper and 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.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. For equity securities, if the fair value subsequently increases, the increase in value is recorded in shareholders' equity.

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. 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, Assets Leased to Others and Idle Assets

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.

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 - 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. While disposing of the treasury stock, the treasury stock shall be reversed, and if the disposal value 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.

Spin-off

For the Company's organization realignment, when the Company contributes 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" and it only changes the disclosure of segment reporting due to the adoption. The Company has conformed to the disclosure requirement and provided the operating segments disclosure in the consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	2011
Cash and deposits in banks	\$ 105,873,048	\$ 81,467,607
Repurchase agreements collateralized by corporate bonds	2,660,042	-
Repurchase agreements collateralized by short-term commercial paper	349,341	-
Repurchase agreements collateralized by government bonds	268,379	3,794,914
	<u>\$ 109,150,810</u>	<u>\$ 85,262,521</u>

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

	December 31	
	2012	2011
<u>Trading financial assets</u>		
Forward exchange contracts	\$ 37,877	\$ 14,925
Cross currency swap contracts	947	-
	<u>\$ 38,824</u>	<u>\$ 14,925</u>
<u>Trading financial liabilities</u>		
Forward exchange contracts	\$ 3,572	\$ -
Cross currency swap contracts	2,702	-
	<u>\$ 6,274</u>	<u>\$ -</u>

The Company entered into derivative contracts during the years ended December 31, 2012 and 2011 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, 2012</u>		
Sell NT\$/Buy EUR	January 2013	NT\$9,417,062/EUR246,000
<u>December 31, 2011</u>		
Sell EUR/Buy NT\$	January 2012	EUR38,600/NT\$1,528,206

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, 2012</u>			
January 2013	US\$275,000/NT\$7,986,190	0.14%-0.17%	-

For the years ended December 31, 2012 and 2011, a net loss on derivative financial instruments was NT\$152,814 thousand and a net gain on derivative financial instruments was NT\$801,195 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets held by the Company are overseas publicly traded stock. For the year ended December 31, 2012, the Company recognized an impairment loss on available-for-sale financial assets of NT\$2,677,529 thousand due to the significant decline in fair value.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2012	2011
Corporate bonds	\$ 701,146	\$ 1,403,427
Current portion	<u>(701,146)</u>	<u>(701,136)</u>
	<u>\$ -</u>	<u>\$ 702,291</u>

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2012	2011
Balance, beginning of year	\$ 485,120	\$ 488,000
Write-off	<u>(11,083)</u>	<u>(2,880)</u>
Balance, end of year	<u>\$ 474,037</u>	<u>\$ 485,120</u>

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

	Years Ended December 31	
	2012	2011
Balance, beginning of year	\$ 4,887,879	\$ 7,341,444
Provision	6,825,851	3,226,594
Write-off	<u>(5,980,992)</u>	<u>(5,680,159)</u>
Balance, end of year	<u>\$ 5,732,738</u>	<u>\$ 4,887,879</u>

9. INVENTORIES

	December 31	
	2012	2011
Finished goods	\$ 5,936,018	\$ 3,250,637
Work in process	24,442,123	16,971,209
Raw materials	3,666,048	1,593,393
Supplies and spare parts	<u>1,252,202</u>	<u>1,038,158</u>
	<u>\$ 35,296,391</u>	<u>\$ 22,853,397</u>

Write-down of inventories to net realizable value in the amount of NT\$1,341,041 thousand was included in the cost of sales for the year ended December 31, 2012. 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.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
TSMC Global Ltd. (TSMC Global)	\$ 49,954,386	100	\$ 44,071,845	100
TSMC Partners, Ltd. (TSMC Partners)	38,635,129	100	34,986,964	100
TSMC China Company Limited (TSMC China)	17,828,683	100	13,542,181	100
Vanguard International Semiconductor Corporation (VIS)	9,462,038	40	8,988,007	39
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,710,956	39	6,289,429	39
TSMC Solar	6,031,369	99	10,153,244	100
TSMC North America	3,209,288	100	2,981,639	100
TSMC SSL	2,411,212	95	1,746,893	100
Xintec Inc. (Xintec)	1,550,313	40	1,606,694	40
Global UniChip Corporation (GUC)	1,222,972	35	1,157,188	35
VentureTech Alliance Fund III, L.P. (VTAF III)	1,047,285	50	1,311,044	53
VentureTech Alliance Fund II, L.P. (VTAF II)	563,056	98	762,135	98
TSMC Europe B.V. (TSMC Europe)	235,761	100	205,171	100
Emerging Alliance Fund, L.P. (Emerging Alliance)	167,359	99	213,235	99
TSMC Japan Limited (TSMC Japan)	142,412	100	161,601	100
TSMC Guang Neng Investment, Ltd. (TSMC GN)	65,007	100	-	-
TSMC Korea Limited (TSMC Korea)	26,935	100	23,448	100
	<u>\$ 139,264,161</u>		<u>\$ 128,200,718</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.

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 North America, Inc. (TSMC Lighting NA) to TSMC SSL and transferring Motech Industries, Inc. (Motech), TSMC Solar Europe B.V. (TSMC Solar Europe), TSMC Solar North America, Inc. (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.

In January 2012, the Company invested NT\$100,000 thousand and established a wholly-owned subsidiary, TSMC GN, which engages mainly in investment activities. In February 2012, the Company participated directly or through TSMC GN in the issuance of new shares by TSMC SSL and TSMC Solar for cash. As of December 31, 2012, the Company's percentages of ownership in TSMC SSL and TSMC Solar were 95% and 99%, respectively.

For the years ended December 31, 2012 and 2011, equity in earnings of equity method investees was a net gain of NT\$8,127,748 thousand and NT\$3,778,083 thousand, respectively.

As of December 31, 2012 and 2011, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$17,350,833 thousand and NT\$11,273,200 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	
	2012	2011
Balance, beginning of year	\$ 275,584	\$ 2,504,496
Amortizations	(172,492)	(721,482)
Effect of spin-off	-	(1,507,430)
Balance, end of year	<u>\$ 103,092</u>	<u>\$ 275,584</u>

Movements of the difference allocated to goodwill were as follows:

	Years Ended December 31	
	2012	2011
Balance, beginning of year	\$ 1,061,885	\$ 1,415,565
Effect of spin-off	-	(353,680)
Balance, end of year	<u>\$ 1,061,885</u>	<u>\$ 1,061,885</u>

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2012	2011
Non-publicly traded stocks	\$ 338,584	\$ 338,584
Mutual funds	145,175	159,251
	<u>\$ 483,759</u>	<u>\$ 497,835</u>

12. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2012				
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Balance, End of Year
Cost					
Buildings	\$ 149,495,478	\$ 23,886,199	\$ (25,671)	\$ (11,074)	\$ 173,344,932
Machinery and equipment	984,978,666	219,868,105	(1,649,440)	(436,234)	1,202,761,097
Office equipment	13,824,434	3,348,864	(489,814)	-	16,683,484
	<u>1,148,298,578</u>	<u>\$ 247,103,168</u>	<u>\$ (2,164,925)</u>	<u>\$ (447,308)</u>	<u>1,392,789,513</u>
Accumulated depreciation					
Buildings	90,274,267	\$ 9,428,212	\$ (24,403)	\$ (164)	99,677,912
Machinery and equipment	704,885,017	111,325,894	(1,607,195)	(28,814)	814,574,902
Office equipment	9,581,513	1,617,053	(489,814)	-	10,708,752
	<u>804,740,797</u>	<u>\$ 122,371,159</u>	<u>\$ (2,121,412)</u>	<u>\$ (28,978)</u>	<u>924,961,566</u>
Advance payments and construction in progress	<u>110,815,752</u>	<u>\$ 8,004,900</u>	<u>\$ (45,305)</u>	<u>\$ -</u>	<u>118,775,347</u>
	<u>\$ 454,373,533</u>				<u>\$ 586,603,294</u>

	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>

No interest was capitalized during the years ended December 31, 2012 and 2011.

13. DEFERRED CHARGES, NET

	Year Ended December 31, 2012				
	Balance, Beginning of Year	Additions	Amortization	Reclassification	Balance, End of Year
Technology license fees	\$ 1,617,310	\$ -	\$ (390,723)	\$ -	\$ 1,226,587
Software and system design costs	2,316,571	1,772,958	(1,117,478)	(57,438)	2,914,613
Patent and others	785,363	411,943	(513,863)	57,438	740,881
	<u>\$ 4,719,244</u>	<u>\$ 2,184,901</u>	<u>\$ (2,022,064)</u>	<u>\$ -</u>	<u>\$ 4,882,081</u>

	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>

14. SHORT-TERM LOANS

	December 31	
	2012	2011
Unsecured loans: US\$1,195,500 thousand, due in January 2013, and annual interest at 0.39%-0.58% in 2012; US\$856,000 thousand, due by February 2012, and annual interest at 0.45%-1.00% in 2011	<u>\$ 34,714,929</u>	<u>\$ 25,926,528</u>

15. BONDS PAYABLE

	December 31	
	2012	2011
Domestic unsecured bonds:		
Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually	\$ 10,500,000	\$ 10,500,000
Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually	7,500,000	7,500,000
Issued in January 2012 and repayable in January 2017, 1.29% interest payable annually	10,000,000	-
Issued in January 2012 and repayable in January 2019, 1.46% interest payable annually	7,000,000	-
Issued in August 2012 and repayable in August 2017, 1.28% interest payable annually	9,900,000	-
Issued in August 2012 and repayable in August 2019, 1.40% interest payable annually	9,000,000	-
Issued in September 2012 and repayable in September 2017, 1.28% interest payable annually	12,700,000	-
Issued in September 2012 and repayable in September 2019, 1.39% interest payable annually	9,000,000	-
Issued in October 2012 and repayable in October 2022, 1.53% interest payable annually	4,400,000	-
Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	-	4,500,000
	<u>80,000,000</u>	<u>22,500,000</u>
Current portion	-	(4,500,000)
	<u>\$ 80,000,000</u>	<u>\$ 18,000,000</u>

With the approval from the Financial Supervisory Commission, the Company issued domestic unsecured bonds in the amount of NT\$23,600,000 thousand in January 2013 and is expected to issue domestic unsecured bonds in the amount of NT\$21,400,000 thousand in February 2013.

The provision of a loan guarantee to TSMC Global, a subsidiary of TSMC, for its issuance of unsecured corporate bonds for an amount not to exceed US\$1,500,000 thousand had been approved in the meeting of the Board of Directors of TSMC held on February 5, 2013.

16. 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\$1,205,642 thousand and NT\$1,119,717 thousand for the years ended December 31, 2012 and 2011, 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 (Note 27), 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

	2012	2011
Service cost	\$ 125,895	\$ 131,975
Interest cost	156,773	164,372
Projected return on plan assets	(61,664)	(67,051)
Amortization	62,694	73,306
Net periodic pension cost	<u>\$ 283,698</u>	<u>\$ 302,602</u>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2012 and 2011

	2012	2011
Benefit obligation		
Vested benefit obligation	\$ 375,523	\$ 280,629
Nonvested benefit obligation	5,971,564	5,356,405
Accumulated benefit obligation	6,347,087	5,637,034
Additional benefits based on future salaries	3,584,608	3,389,649
Projected benefit obligation	9,931,695	9,026,683
Fair value of plan assets	(3,264,786)	(3,039,871)
Funded status	6,666,909	5,986,812
Unrecognized net transition obligation	(65,429)	(73,599)
Prior service cost	138,133	145,259
Unrecognized net loss	(2,813,337)	(2,197,574)
Accrued pension cost	<u>\$ 3,926,276</u>	<u>\$ 3,860,898</u>
Vested benefit	<u>\$ 420,158</u>	<u>\$ 312,213</u>

c. Actuarial assumptions at December 31, 2012 and 2011

	2012	2011
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%	2.00%

d. Contributions to the Fund for the year

	2012	2011
	<u>\$ 214,782</u>	<u>\$ 209,260</u>

e. Payments from the Fund for the year

	2012	2011
	<u>\$ 26,119</u>	<u>\$ 7,339</u>

17. 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	
	2012	2011
Income tax expense based on "income before income tax" at statutory rate (17%)	\$ 31,217,091	\$ 24,600,334
Tax effect of the following:		
Tax-exempt income	(8,360,834)	(13,231,821)
Temporary and permanent differences	(2,852,308)	(1,429,188)
Additional income tax under the Alternative Minimum Tax Act	-	286,827
Additional tax at 10% on unappropriated earnings	4,186,013	6,259,344
Income tax credits used	(9,580,742)	(6,259,344)
Income tax currently payable	<u>\$ 14,609,220</u>	<u>\$ 10,226,152</u>

b. Income tax expense consisted of the following:

	Years Ended December 31	
	2012	2011
Income tax currently payable	\$ 14,609,220	\$ 10,226,152
Income tax adjustments on prior years	48,609	464,078
Other income tax adjustments	194,660	309,361
Net change in deferred income tax assets		
Investment tax credits	7,067,886	1,795,254
Temporary differences	81,752	27,284
Valuation allowance	(4,530,981)	(2,314,671)
Effect of spin-off	-	(893)
Income tax expense	<u>\$ 17,471,146</u>	<u>\$ 10,506,565</u>

c. Deferred income tax assets consisted of the following:

	December 31	
	2012	2011
Current deferred income tax assets		
Investment tax credits	\$ 6,179,000	\$ 4,892,158
Temporary differences		
Allowance for sales returns and others	687,929	488,788
Unrealized loss on inventories	359,823	-
Unrealized loss on financial instruments, net	224,694	308,929
Others	<u>277,018</u>	<u>89,669</u>
	<u>\$ 7,728,464</u>	<u>\$ 5,779,544</u>
Noncurrent deferred income tax assets		
Investment tax credits	\$ 6,933,074	\$ 15,287,802
Temporary differences		
Depreciation	819,231	2,044,680
Others	299,752	227,433
Valuation allowance	<u>(5,807,110)</u>	<u>(10,338,091)</u>
	<u>\$ 2,244,947</u>	<u>\$ 7,221,824</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.

Under the Article 10 of the Statute for Industrial Innovation (SII), 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.

Under the Income Basic Tax Act amended in August 2012, the standard deduction and the tax rate of Alternative Minimum Tax were amended from NT\$1,000 thousand to be NT\$500 thousand and from 10% to 12%, respectively. The amended Income Basic Tax Act is effective on January 1, 2013.

The Company has evaluated the impact from above amendments and adjusted the deferred tax assets with the resulting differences recorded as income tax expense for the year ended December 31, 2012. In addition, the Company evaluated the effect of Alternative Minimum Tax and the 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.

d. Integrated income tax information:

The balance of the imputation credit account as of December 31, 2012 and 2011 was NT\$8,130,060 thousand and NT\$4,003,228 thousand, respectively.

The estimated and actual creditable ratios for distribution of earnings of 2012 and 2011 were 7.92% and 6.69%, 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 earnings generated prior to December 31, 1997 have been appropriated.

f. As of December 31, 2012, 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	\$ 6,503,176	\$ 916,499	2013 2014 2015
		7,006,655	7,006,655	
		<u>482,351</u>	<u>482,351</u>	
		<u>\$ 13,992,182</u>	<u>\$ 8,405,505</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,148,374	\$ -	2012 2013
		4,706,569	4,706,569	
		<u>5,854,943</u>	<u>4,706,569</u>	
Statute for Upgrading Industries	Personnel training expenditures	<u>\$ 17,391</u>	<u>\$ -</u>	2012
Statute for Industrial Innovation	Research and development expenditures	<u>\$ 2,828,300</u>	<u>\$ -</u>	2012

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 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 2009. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

18. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2012		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 27,681,298	\$ 19,198,385	\$ 46,879,683
Labor and health insurance	1,509,487	920,024	2,429,511
Pension	946,117	543,174	1,489,291
Meal	678,279	293,917	972,196
Welfare	259,656	153,907	413,563
Others	36,051	57,676	93,727
	<u>\$ 31,110,888</u>	<u>\$ 21,167,083</u>	<u>\$ 52,277,971</u>
Depreciation	<u>\$ 111,929,312</u>	<u>\$ 10,441,847</u>	<u>\$ 122,371,159</u>
Amortization	<u>\$ 1,273,689</u>	<u>\$ 748,375</u>	<u>\$ 2,022,064</u>

	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>

19. SHAREHOLDERS' EQUITY

As of December 31, 2012, 1,091,468 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,457,339 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	
	2012	2011
Additional paid-in capital	\$ 23,934,607	\$ 23,774,250
From merger	22,804,510	22,804,510
From convertible bonds	8,892,847	8,892,847
From long-term investments	505,790	374,695
Donations	<u>55</u>	<u>55</u>
	<u>\$ 56,137,809</u>	<u>\$ 55,846,357</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\$11,115,240 thousand and NT\$8,990,026 thousand for the years ended December 31 2012 and 2011, 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, unrealized loss on financial instruments and net loss not recognized as pension cost, 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 2011 and 2010 had been approved in the shareholders' meetings held on June 12, 2012 and June 9, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2011	For Fiscal Year 2010	For Fiscal Year 2011	For Fiscal Year 2010
Legal capital reserve	\$ 13,420,128	\$ 16,160,501		
Special capital reserve	1,172,350	5,120,827		
Cash dividends to shareholders	77,748,668	77,730,236	\$ 3.00	\$ 3.00
	<u>\$ 92,341,146</u>	<u>\$ 99,011,564</u>		

The Company's profit sharing to employees and bonus to directors in the amounts of NT\$8,990,026 thousand and NT\$62,324 thousand in cash for 2011, respectively, and profit sharing to employees and bonus to directors in the amounts of NT\$10,908,338 thousand and NT\$51,131 thousand in cash for 2010, respectively, had been approved in the shareholders' meeting held on June 12, 2012 and June 9, 2011, 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 14, 2012 and February 15, 2011 and same amount had been charged against earnings of 2011 and 2010, respectively.

The appropriations of earnings for 2012 had been resolved in the meeting of the Board of Directors held on February 5, 2013. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
	For Fiscal Year 2012	For Fiscal Year 2012
Legal capital reserve	\$ 16,615,880	
Special capital reserve	(4,820,483)	
Cash dividends to shareholders	<u>77,773,307</u>	\$ 3.00
	<u>\$ 89,568,704</u>	

The Board of Directors also resolved to appropriate profit sharing to employees and bonus to directors in the amounts of NT\$11,115,240 thousand and NT\$71,351 thousand in cash for 2012, respectively. There is no significant difference between the aforementioned resolved amounts and the amounts charged against earnings of 2012.

The appropriations of earnings, profit sharing to employees and bonus to directors for 2012 are to be resolved in the shareholders' meeting held on June 11, 2013 (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.

20. 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 TWSE 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, 2012.

Information about outstanding options for the years ended December 31, 2012 and 2011 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2012</u>		
Balance, beginning of year	14,293	\$ 31.4
Options exercised	(8,213)	29.5
Options canceled	<u>(135)</u>	34.6
Balance, end of year	<u>5,945</u>	34.6
<u>Year ended December 31, 2011</u>		
Balance, beginning of year	21,437	\$ 31.4
Options exercised	<u>(7,144)</u>	30.5
Balance, end of year	<u>14,293</u>	32.1

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, 2012, 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\$)
\$20.2-\$28.3	3,362	0.4	\$ 25.9
38.0- 50.1	2,583	2.0	45.8
	<u>5,945</u>	1.1	34.6

As of December 31, 2012, all of the above outstanding options were exercisable.

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2012 and 2011. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the valuation assumptions at the various grant dates and pro forma results of the Company for the years ended December 31, 2012 and 2011 would have been as follows:

Valuation 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	
	2012	2011
Net income:		
Net income as reported	\$ 166,158,802	\$ 134,201,279
Pro forma net income	165,986,009	134,146,490
Earnings per share (EPS) - after income tax (NT\$):		
Basic EPS as reported	\$ 6.41	\$ 5.18
Pro forma basic EPS	6.40	5.18
Diluted EPS as reported	6.41	5.18
Pro forma diluted EPS	6.40	5.17

21. TREASURY STOCK

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

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

22. 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
Year ended December 31, 2012					
Basic EPS					
Earnings available to common shareholders	\$ 183,629,948	\$ 166,158,802	25,920,735	\$ 7.08	\$ 6.41
Effect of dilutive potential common shares	-	-	7,201		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 183,629,948	\$ 166,158,802	25,927,936	\$ 7.08	\$ 6.41
Year ended December 31, 2011					
Basic EPS					
Earnings available to common shareholders	\$ 144,707,844	\$ 134,201,279	25,914,076	\$ 5.58	\$ 5.18
Effect of dilutive potential common shares	-	-	10,606		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 144,707,844	\$ 134,201,279	25,924,682	\$ 5.58	\$ 5.18

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.

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 38,824	\$ 38,824	\$ 14,925	\$ 14,925
Available-for-sale financial assets	1,845,052	1,845,052	2,617,134	2,617,134
Held-to-maturity financial assets	701,146	708,973	1,403,427	1,426,474
Financial assets carried at cost	483,759	-	497,835	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	6,274	6,274	-	-
Bonds payable (including current portion)	80,000,000	80,343,413	22,500,000	22,597,115
Other long-term payables (including current portion)	113,000	113,000	-	-

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 net gains of NT\$32,550 thousand and NT\$14,925 thousand for the years ended December 31, 2012 and 2011, respectively.

d. As of December 31, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$739,970 thousand and NT\$1,418,352 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$114,721,203 thousand and NT\$48,426,528 thousand, respectively.

e. Movements of the unrealized gains or losses on financial instruments for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31, 2012		
	From Available-for-sale Financial Assets	Equity-method Investments	Total
Balance, beginning of year	\$ (1,508,301)	\$ 335,446	\$ (1,172,855)
Recognized directly in shareholders' equity	(132,176)	7,147,829	7,015,653
Removed from shareholders' equity and recognized in earnings	2,130,523	-	2,130,523
Balance, end of year	<u>\$ 490,046</u>	<u>\$ 7,483,275</u>	<u>\$ 7,973,321</u>

	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>\$ (1,508,301)</u>	<u>\$ 335,446</u>	<u>\$ (1,172,855)</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 and the fluctuations in market prices will result in changes in fair values of overseas publicly traded stock.

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.

24. RELATED PARTY TRANSACTIONS

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

a. Subsidiaries

TSMC China
TSMC Solar
TSMC Europe
TSMC Global
TSMC Japan
TSMC North America

b. Investees

Xintec (holding a controlling financial interest)
VIS (accounted for using the equity method)
GUC (accounted for using the equity method)
SSMC (accounted for using the equity method)

c. Indirect subsidiaries

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

d. Indirect investees

VisEra Technology Company, Ltd. (VisEra) (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:

	2012		2011	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
TSMC North America	\$ 326,768,469	64	\$ 234,902,043	56
Others	4,567,656	1	3,882,801	1
	<u>\$ 331,336,125</u>	<u>65</u>	<u>\$ 238,784,844</u>	<u>57</u>
Purchases				
TSMC China	\$ 15,708,447	26	\$ 10,392,189	21
WaferTech	8,026,114	14	7,305,879	15
VIS	4,475,674	8	5,577,762	12
SSMC	3,638,633	6	3,949,176	8
Others	-	-	124,673	-
	<u>\$ 31,848,868</u>	<u>54</u>	<u>\$ 27,349,679</u>	<u>56</u>
Manufacturing expenses				
Xintec (outsourcing and rent)	\$ 180,768	-	\$ 260,250	-
VisEra (outsourcing)	14,586	-	14,588	-
VIS (rent)	-	-	5,902	-
Others	230	-	-	-
	<u>\$ 195,584</u>	<u>-</u>	<u>\$ 280,740</u>	<u>-</u>

(Continued)

	2012		2011	
	Amount	%	Amount	%
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 713,323	2	\$ 534,804	2
TSMC Canada (primarily consulting fee)	206,894	1	192,616	1
TSMC Europe (primarily consulting fee)	49,763	-	45,489	-
VIS (rent)	-	-	1,984	-
Others	18,373	-	30,605	-
	<u>\$ 988,353</u>	<u>3</u>	<u>\$ 805,498</u>	<u>3</u>
Marketing expenses - commission				
TSMC Europe	\$ 345,906	14	\$ 357,582	15
TSMC Japan	277,374	12	284,644	12
TSMC China	72,373	3	64,907	3
Others	20,643	1	22,049	1
	<u>\$ 716,296</u>	<u>30</u>	<u>\$ 729,182</u>	<u>31</u>
Sales of property, plant and equipment and other assets				
TSMC China	\$ 46,941	51	\$ 2,885,847	86
VIS	14,531	16	36,008	1
VisEra	9,000	10	-	-
Others	10	-	73,133	2
	<u>\$ 70,482</u>	<u>77</u>	<u>\$ 2,994,988</u>	<u>89</u>
Purchases of property, plant and equipment and other assets				
TSMC China	\$ 216,084	-	\$ 70,491	-
GUC	47,051	-	1,812	-
TSMC Solar	14,448	-	-	-
VIS	-	-	45,473	-
Others	1,224	-	-	-
	<u>\$ 278,807</u>	<u>-</u>	<u>\$ 117,776</u>	<u>-</u>
Non-operating income and gains				
VIS (primarily technical service income)	\$ 261,780	2	\$ 227,024	3
SSMC (primarily technical service income)	221,210	2	193,781	3
TSMC China (primarily technical service income and gains on disposal of property, plant and equipment)	984	-	96,050	1
Others	14,746	-	11,211	-
	<u>\$ 498,720</u>	<u>4</u>	<u>\$ 528,066</u>	<u>7</u>
Non-operating expenses and losses				
TSMC China (losses on disposal of property, plant and equipment)	\$ 18,699	-	\$ -	-
Xintec (settlement loss)	-	-	19,686	1
Others	132	-	-	-
	<u>\$ 18,831</u>	<u>-</u>	<u>\$ 19,686</u>	<u>1</u>
<u>As of December 31</u>				
Receivables				
TSMC North America	\$ 40,748,905	99	\$ 24,661,104	99
Others	238,539	1	116,430	1
	<u>\$ 40,987,444</u>	<u>100</u>	<u>\$ 24,777,534</u>	<u>100</u>

(Continued)

	2012		2011	
	Amount	%	Amount	%
Other receivables				
VIS	\$ 122,893	45	\$ 87,507	46
TSMC North America	88,827	32	23,887	13
SSMC	56,799	21	34,260	18
TSMC China	2,686	1	23,688	13
WaferTech	1,594	1	14,196	8
Others	2,164	-	4,490	2
	<u>\$ 274,963</u>	<u>100</u>	<u>\$ 188,028</u>	<u>100</u>
Payables				
TSMC China	\$ 1,616,342	50	\$ 946,826	32
WaferTech	580,064	18	420,459	14
VIS	364,790	11	987,937	33
SSMC	351,389	11	336,037	11
Others	317,757	10	301,323	10
	<u>\$ 3,230,342</u>	<u>100</u>	<u>\$ 2,992,582</u>	<u>100</u>
Deferred credits (other assets)				
TSMC China	\$ 17,271	2	\$ (1,493)	-
VIS	(7,806)	(1)	-	-
VisEra	948	-	-	-
Others	8	-	-	-
	<u>\$ 10,421</u>	<u>1</u>	<u>\$ (1,493)</u>	<u>-</u>

(Concluded)

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 lease expired in June 2011.

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 lease expired in April 2011.

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

The Company borrowed funds from related parties (classified under other payables to related parties). Additional disclosures consisted of the following:

Financing Name	Year Ended December 31, 2012				
	Maximum Balance (In Thousands)	Ending Balance	Interest Rate	Interest Expense	Interest Payable
TSMC Global	<u>\$ 5,807,600</u> (US\$ 200,000)	<u>\$ -</u>	0.3911%	<u>\$ 4,870</u>	<u>\$ -</u>

Financing Name	Year Ended December 31, 2011				
	Maximum Balance (In Thousands)	Ending Balance	Interest Rate	Interest Expense	Interest Payable
TSMC Global	<u>\$ 24,684,000</u> (US\$ 850,000)	<u>\$ -</u>	0.3544%	<u>\$ 22,293</u>	<u>\$ -</u>

Compensation of directors and management personnel:

	Years Ended December 31	
	2012	2011
Salaries, incentives and special compensation	\$ 757,984	\$ 654,972
Bonus	<u>538,077</u>	<u>445,681</u>
	<u>\$ 1,296,061</u>	<u>\$ 1,100,653</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, 2012 includes estimated profit sharing to employees and bonus to directors of the Company that relate to 2012 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2013. The total compensation for the year ended December 31, 2011 included the bonuses appropriated from earnings of 2011 which was approved by the shareholders' meeting held in 2012.

25. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from March 2013 to July 2032 and can be renewed upon expiration.

As of December 31, 2012, future lease payments were as follows:

Year	Amount
2013	\$ 485,963
2014	468,143
2015	457,694
2016	447,531
2017	409,829
2018 and thereafter	<u>3,655,825</u>
	<u>\$ 5,924,985</u>

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2012, 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 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.
- b. 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.
- c. 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 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.

- d. 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.
- e. 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 several U.S. patents. The outcome cannot be determined at this time.
- f. The Company joined the Customer Co-Investment Program of ASML Holding N.V. (ASML) and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML's equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity in October 2012. Both parties also signed the research and development funding agreement and the Company will provide EUR277,000 thousand to ASML's research and development programs from 2013 to 2017.

27. 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>

28. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

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

	December 31			
	2012		2011	
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Foreign Currencies (In Thousands)	Exchange Rate (Note)
<u>Financial assets</u>				
Monetary items				
USD	\$ 2,255,391	29.038	\$ 1,566,212	30.288
EUR	117,136	38.39	124,425	39.27
JPY	35,290,837	0.3352	33,073,336	0.3897
Non-monetary items				
HKD	492,014	3.75	671,060	3.90
Investments accounted for using equity method				
USD	3,445,339	29.038	2,983,866	30.288
EUR	6,141	38.39	5,225	39.27
JPY	424,858	0.3352	414,680	0.3897
RMB	3,838,265	4.66	2,823,953	4.81
<u>Financial liabilities</u>				
Monetary items				
USD	2,171,316	29.038	1,626,129	30.288
EUR	245,237	38.39	106,931	39.27
JPY	43,052,403	0.3352	34,942,421	0.3897

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

29. ADDITIONAL DISCLOSURES

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

- Financings provided: Please see Table 1 attached;
- Endorsement/guarantee provided: None;
- Marketable securities held: Please see Table 2 attached;
- Marketable securities acquired and 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;
- Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- 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;

- Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;
- 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, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2012 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy RMB	January 2013	US\$20,000/RMB124,735

For the year ended December 31, 2012, net losses arising from forward exchange contracts of TSMC China amounted to NT\$5,068 thousand.

2) Xintec

Xintec entered into forward exchange contracts during the year ended December 31, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2012 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy NT\$	January 2013 to March 2013	US\$13,700/NT\$398,239

For the year ended December 31, 2012, net gains arising from forward exchange contracts of Xintec amounted to NT\$19,339 thousand.

3) TSMC Partners

TSMC Partners entered into forward exchange contracts during the year ended December 31, 2012 to manage exposures due to foreign exchange rate fluctuations. No forward exchange contract was outstanding as of December 31, 2012.

For the year ended December 31, 2012, net losses arising from forward exchange contracts of TSMC Partners amounted to NT\$62,282 thousand.

4) TSMC Solar

TSMC Solar entered into derivative contracts during the year ended December 31, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2012 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell NT\$/Buy US\$	January 2013	NT\$457,394/US\$15,800
Sell NT\$/Buy JPY	January 2013	NT\$22,055/JPY65,000

Outstanding cross currency swap contracts as of December 31, 2012 consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
January 2013	NT\$1,025,039/US\$35,280	-	0.06%

For the year ended December 31, 2012, net losses arising from derivative financial instruments of TSMC Solar amounted to NT\$37,824 thousand.

5) TSMC SSL

TSMC SSL entered into derivative contracts during the year ended December 31, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of December 31, 2012 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell NT\$/Buy US\$	January 2013	NT\$133,009/US\$4,600
Sell NT\$/Buy JPY	January 2013	NT\$22,055/JPY65,000

Outstanding cross currency swap contracts as of December 31, 2012 consisted of the following:

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
January 2013	NT\$58,100/US\$2,000	-	0.06%

For the year ended December 31, 2012, net losses arising from derivative financial instruments of TSMC SSL amounted to NT\$13,882 thousand.

Meet the criteria for hedge accounting

1) Xintec

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. The interest rate swap contract of Xintec was due in August 2012.

For the year ended December 31, 2012, the adjustment to shareholder's equity amounted to a net gain of NT\$5 thousand for the above Xintec's interest rate swap contract. The amount removed from shareholder's equity and recognized as a loss amounted to NT\$227 thousand.

2) TSMC Global

TSMC Global monitors and manages the financial risk through the analysis of business environment and evaluation of entity's financial risks. Further, TSMC Global seeks to reduce the effects of future cash flow related exchange rate exposures by primarily using derivative financial instruments.

TSMC Global entered into forward exchange contracts to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction. The forward exchange contracts of TSMC Global were due in October 2012.

For the year ended December 31, 2012, the adjustment to shareholder's equity amounted to a net gain of NT\$8,833 thousand for the above TSMC Global's forward exchange contracts.

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 24.

30. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements.

31. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on February 5, 2013.

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Investees

FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2012

(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	Financing Company's Total Financing Amount Limits (Note 3)
												Item	Value		
1	TSMC Partners	TSMC China	Other receivables from related parties	\$ 7,259,500 (US\$ 250,000)	\$ 3,774,940 (US\$ 130,000)	\$ 3,774,940 (US\$ 130,000)	0.25%-0.26%	The need for short-term financing	\$ -	Purchase equipment	\$ -	-	\$ -	\$ 38,635,609 (Note 1)	\$ 38,635,609
		TSMC Solar	Other receivables from related parties	1,161,520 (US\$ 40,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	15,454,244 (Note 1)	38,635,609
		TSMC SSL	Other receivables from related parties	871,140 (US\$ 30,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	15,454,244 (Note 1)	38,635,609
2	TSMC Development	TSMC Solar	Other receivables from related parties	2,323,040 (US\$ 80,000)	2,323,040 (US\$ 80,000)	1,495,457 (US\$ 51,500)	0.21%-0.23%	The need for short-term financing	-	Operating capital	-	-	-	5,322,907 (Notes 1 and 5)	13,307,266 (Note 5)
		TSMC SSL	Other receivables from related parties	2,613,420 (US\$ 90,000)	2,613,420 (US\$ 90,000)	203,266 (US\$ 7,000)	0.24%	The need for short-term financing	-	Operating capital	-	-	-	5,322,907 (Notes 1 and 5)	13,307,266 (Note 5)
3	TSMC Global	TSMC	Other receivables from related parties	5,807,600 (US\$ 200,000)	-	-	-	The need for short-term financing	-	Support the parent company's short-term operation requirement	-	-	-	49,954,386 (Note 2)	49,954,386

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 and TSMC Development, respectively. 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. 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. However, financing limits for those subsidiaries shall be no more than forty percent (40%) of the lender's net worth.

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, TSMC Development and TSMC Global, respectively.

Note 4: The maximum balance for the period and ending balance represents the amounts approved by Board of Directors.

Note 5: The amount was determined based on the audited financial statements in accordance with local accounting principles.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES HELD

DECEMBER 31, 2012

(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, 2012				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	-	\$ 549,881	N/A	\$ 557,900	
	China Steel Corporation	-	"	-	151,265	N/A	151,073	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation	-	Available-for-sale financial assets	1,277,958	1,845,502	4	1,845,052	
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	49,954,386	100	49,954,386	
	TSMC Partners	Subsidiary	"	988,268	38,635,129	100	38,635,609	
	VIS	Investee accounted for using equity method	"	628,223	9,462,038	40	12,658,703	
	SSMC	Investee accounted for using equity method	"	314	6,710,956	39	6,496,972	
	TSMC Solar	Subsidiary	"	1,118,000	6,031,369	99	6,008,087	
	TSMC North America	Subsidiary	"	11,000	3,209,288	100	3,209,288	
	TSMC SSL	Subsidiary	"	430,400	2,411,212	95	2,411,212	
	Xintec	Investee with a controlling financial interest	"	94,950	1,550,313	40	1,550,313	
	GUC	Investee accounted for using equity method	"	46,688	1,222,972	35	4,692,130	
	TSMC Europe	Subsidiary	"	-	235,761	100	253,761	
	TSMC Japan	Subsidiary	"	6	142,412	100	142,412	
	TSMC Korea	Subsidiary	"	80	26,935	100	26,935	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	19,300	193,584	10	390,210	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	341,742	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	34,221	
	<u>Fund</u>							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	89,916	12	89,916	
	Crimson Asia Capital	-	"	-	55,259	1	55,259	
	<u>Capital</u>							
	TSMC China	Subsidiary	Investments accounted for using equity method	-	17,828,683	100	17,886,314	
	VTAF III	Subsidiary	"	-	1,047,285	50	1,025,275	
	VTAF II	Subsidiary	"	-	563,056	98	556,869	
	Emerging Alliance	Subsidiary	"	-	167,359	99	167,359	
	TSMC GN	Subsidiary	"	-	65,007	100	65,007	
TSMC Solar	<u>Stock</u>							
	Motech	Investee accounted for using equity method	Investments accounted for using equity method	87,480	2,998,413	20	2,761,393	
	TSMC Solar Europe	Subsidiary	"	-	175,016	100	175,016	
	TSMC Solar NA	Subsidiary	"	1	44,037	100	44,037	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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 Solar	Capital VTAF III	Investee accounted for using equity method	Investments accounted for using equity method	-	\$ 1,322,024	49	\$ 1,322,024	
TSMC SSL	Stock TSMC Lighting NA	Subsidiary	Investments accounted for using equity method	1	2,864	100	2,864	
TSMC GN	Stock TSMC Solar	Investee accounted for using equity method	Investments accounted for using equity method	4,294	23,076	-	23,076	
	TSMC SSL	Investee accounted for using equity method	"	3,420	19,157	1	19,157	
TSMC Partners	Stock TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	-	US\$ 604,367	100	US\$ 604,367	
	VisEra Holding Company	Investee accounted for using equity method	"	43,000	US\$ 104,540	49	US\$ 104,540	
	TSMC Technology	Subsidiary	"	-	US\$ 11,721	100	US\$ 11,721	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Subsidiary	"	14,153	US\$ 10,479	97	US\$ 10,479	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary	"	787	US\$ 7,805	97	US\$ 7,805	
	TSMC Canada	Subsidiary	"	2,300	US\$ 4,589	100	US\$ 4,589	
	Mcube Inc.	Investee accounted for using equity method	"	6,333	-	25	-	
	Fund Shanghai Walden Venture Capital Enterprise	-	Financial assets carried at cost	-	US\$ 5,000	6	US\$ 5,000	
	Stock Spansion Inc.	-	Available-for-sale financial assets	270	US\$ 3,753	-	US\$ 3,753	
	Stock WaferTech	Subsidiary	Investments accounted for using equity method	293,637	US\$ 262,053	100	US\$ 262,053	
Emerging Alliance	Common stock Audience, Inc.	-	Available-for-sale financial assets	32	US\$ 335	-	US\$ 335	
	Global Investment Holding Inc.	-	Financial assets carried at cost	11,124	US\$ 3,065	6	US\$ 3,065	
	RichWave Technology Corp.	-	"	4,074	US\$ 1,545	10	US\$ 1,545	
	Preferred stock Next IO, Inc.	-	Financial assets carried at cost	8	US\$ 500	-	US\$ 500	
	QST Holdings, LLC	-	"	-	US\$ 142	4	US\$ 142	
	Capital VentureTech Alliance Holdings, LLC (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	7	-	
VTAF II	Common stock Audience, Inc.	-	Available-for-sale financial assets	203	US\$ 2,107	1	US\$ 2,107	
	Sentelic	-	Financial assets carried at cost	1,806	US\$ 2,607	9	US\$ 2,607	
	Aether Systems, Inc.	-	"	1,800	US\$ 1,701	23	US\$ 1,701	
	RichWave Technology Corp.	-	"	1,267	US\$ 1,036	3	US\$ 1,036	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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>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	2	US\$ 4,316	
	Cresta Technology Corporation	-	"	92	US\$ 28	-	US\$ 28	
	Impinj, Inc.	-	"	711	US\$ 1,100	-	US\$ 1,100	
	Next IO, Inc.	-	"	179	US\$ 1,219	1	US\$ 1,219	
	QST Holdings, LLC	-	"	-	US\$ 593	13	US\$ 593	
	<u>Capital</u> VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	31	-	
VTAF III	<u>Common stock</u> Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,643	US\$ 2,120	58	US\$ 2,120	
	InvenSense, Inc.	-	Available-for-sale financial assets	93	US\$ 1,037	-	US\$ 1,037	
	Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$ 315	6	US\$ 315	
	<u>Preferred stock</u> BridgeLux, Inc.	-	Financial assets carried at cost	7,522	US\$ 9,379	3	US\$ 9,379	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
	Neoconix, Inc.	-	"	4,147	US\$ 4,841	4	US\$ 4,841	
	Powervation, Ltd.	-	"	509	US\$ 7,938	16	US\$ 7,938	
	Stion Corp.	-	"	8,152	US\$ 45,467	15	US\$ 45,467	
	Tilera, Inc.	-	"	3,890	US\$ 3,025	2	US\$ 3,025	
	Validity Sensors, Inc.	-	"	11,192	US\$ 4,197	4	US\$ 4,197	
	<u>Capital</u> Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 368	100	US\$ 368	
	VTA Holdings	Subsidiary	"	-	-	62	-	
	<u>Common stock</u> Integrated Memory Logic, Inc.	-	Available-for-sale financial assets	1,402	US\$ 4,322	2	US\$ 4,322	
	Memic, Inc.	-	"	1,286	US\$ 4,294	5	US\$ 4,294	
	<u>Preferred stock</u> Sonics, Inc.	-	Financial assets carried at cost	230	US\$ 497	2	US\$ 497	
ISDF II	<u>Common stock</u> Memic, Inc.	-	Available-for-sale financial assets	1,072	US\$ 3,581	4	US\$ 3,581	
	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.	-	"	1,035	US\$ 220	3	US\$ 220	
	<u>Preferred stock</u> Sonics, Inc.	-	Financial assets carried at cost	264	US\$ 455	3	US\$ 455	
	<u>Capital</u> Compositech 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	-	EUR 4,469	100	EUR 4,469	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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 Global	Stock ASML	-	Available-for-sale financial assets	20,993	US\$ 1,334,501	5	US\$ 1,334,501	
	Money market fund Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	50	US\$ 50	N/A	US\$ 50	
	Corporate bond Aust + Nz Banking Group	-	Held-to-maturity financial assets	20,000	US\$ 19,999	N/A	US\$ 20,033	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 25,006	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 25,043	
	Deutsche Bank AG London	-	"	20,000	US\$ 19,999	N/A	US\$ 20,007	
	JP Morgan Chase + Co.	-	"	35,000	US\$ 35,006	N/A	US\$ 34,956	
	Westpac Banking Corp.	-	"	25,000	US\$ 25,000	N/A	US\$ 25,013	

(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, 2012

(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				Ending Balance (Note)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	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	Corporate bond Nan Ya Plastics Corporation	Held-to-maturity financial assets	-	-	-	\$ 1,099,629	-	\$ -	-	\$ 550,000	\$ 550,000	\$ -	-	\$ 549,881
	China Steel Corporation	"	-	-	-	303,798	-	-	-	150,000	150,000	-	-	151,265
	Stock Semiconductor Manufacturing International Corporation	Available-for-sale financial assets	-	-	1,789,493	2,617,134	-	-	511,535	612,834	502,200	110,634	1,277,958	1,845,052
	TSMC SSL	Investments accounted for using equity method	-	Subsidiary	227,000	1,746,893	203,400	2,034,000	-	-	-	-	430,400	2,411,212
	Capital TSMC GN	Investments accounted for using equity method	-	Subsidiary	-	-	-	100,000	-	-	-	-	-	65,007
TSMC Partners	Corporate bond General Elec Cap Corp. Mtn	Held-to-maturity financial assets	-	-	-	US\$ 20,012	-	-	-	US\$ 20,000	US\$ 20,000	-	-	-
	General Elec Cap Corp. Mtn	"	-	-	-	US\$ 20,059	-	-	-	US\$ 20,000	US\$ 20,000	-	-	-
VTAF II	Preferred stock Power Analog Microelectronics	Financial assets carried at cost	-	-	7,330	US\$ 3,482	-	-	7,330	US\$ 3,345	US\$ 3,482	US\$ (137)	-	-
VTAF III	Stock InvenSense, Inc.	Available-for-sale financial assets	-	-	796	US\$ 7,932	-	-	703	US\$ 7,460	US\$ 861	US\$ 6,599	93	US\$ 1,037
TSMC Global	Stock ASML	Available-for-sale financial assets	-	-	-	-	20,993	US\$ 1,085,474	-	-	-	-	20,993	US\$ 1,334,501
	Government bond Societe De Financement De Lec	Held-to-maturity financial assets	-	-	15,000	US\$ 15,000	-	-	15,000	US\$ 15,000	US\$ 15,000	-	-	-
	Corporate bond Nationwide Building Society-UK	Held-to-maturity financial assets	-	-	8,000	US\$ 8,000	-	-	8,000	US\$ 8,000	US\$ 8,000	-	-	-
	Government Guarantee Westpac Banking Corp. 12/12 Frn	"	-	-	5,000	US\$ 5,000	-	-	5,000	US\$ 5,000	US\$ 5,000	-	-	-
ISDF	Common stock Integrated Memory Logic, Inc.	Available-for-sale financial assets	-	-	2,161	US\$ 6,289	127	-	886	US\$ 3,152	US\$ 207	US\$ 2,945	1,402	US\$ 4,322
TSMC Solar Europe	Stock TSMC Solar Europe GmbH	Investments accounted for using equity method	-	Subsidiary	-	EUR 5,103	-	EUR 2,500	-	-	-	-	-	EUR 4,469

Note: The ending balance includes the amortization of premium/discount on bonds investments, translation adjustments, equity in earnings/losses of equity method investees and other adjustments to long-term investments accounted for using equity method.

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, 2012

(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	February 7, 2012 to December 27, 2012	\$ 249,912	By the construction progress	MandarTech Interiors Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 7, 2012 to December 27, 2012	219,807	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to December 28, 2012	5,015,656	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to December 27, 2012	1,766,332	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to December 27, 2012	2,958,930	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to July 27, 2012	185,115	By the construction progress	Toko Steel Structure Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	May 28, 2012 to November 27, 2012	320,705	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	August 28, 2012 to December 26, 2012	131,678	By the construction progress	Shiny G&M Associated Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Land	November 21, 2012	963,600	By the contract	Miaoli County Government	-	N/A	N/A	N/A	N/A	Public bidding	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, 2012

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

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount (US\$ in Thousands)	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance (US\$ in Thousands)	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 326,768,469	64	Net 30 days after invoice date	-	-	\$ 40,748,905	72	
	GUC	Investee accounted for using equity method	Sales	4,370,617	1	Net 30 days after monthly closing	-	-	238,380	-	
	VIS	Investee accounted for using equity method	Sales	177,331	-	Net 30 days after monthly closing	-	-	-	-	
	TSMC China	Subsidiary	Purchases	15,708,447	26	Net 30 days after monthly closing	-	-	(1,616,342)	10	
	WaferTech	Indirect subsidiary	Purchases	8,026,114	14	Net 30 days after monthly closing	-	-	(580,064)	3	
	VIS	Investee accounted for using equity method	Purchases	4,475,674	8	Net 30 days after monthly closing	-	-	(364,790)	2	
	SSMC	Investee accounted for using equity method	Purchases	3,638,633	6	Net 30 days after monthly closing	-	-	(351,389)	2	
TSMC North America	GUC	Investee accounted for using equity method by TSMC	Sales	509,890	-	Net 30 days after invoice date	-	-	35,032	-	
				(US\$ 17,238)					(US\$ 1,206)		
	Mcube Inc.	Investee accounted for using equity method by TSMC	Sales	249,375	-	Net 60 days after invoice date	-	-	80,212	-	
				(US\$ 8,431)					(US\$ 2,762)		
Xintec	OmniVision	Parent company of director (represented for Xintec)	Sales	1,261,163	40	Net 30 days after monthly closing	-	-	215,403	50	

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, 2012

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

Company Name	Related Party	Nature of Relationships	Ending Balance (US\$ in Thousands)	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC North America	Subsidiary	\$ 40,837,732	37	\$ 15,905,710	-	\$ 17,191,890	\$ -
	GUC	Investee accounted for using equity method	238,380	15	-	-	-	-
	VIS	Investee accounted for using equity method	122,893	(Note 2)	-	-	-	-
TSMC Partners	TSMC China	The same parent company	3,793,421	(Note 2)	-	-	-	-
			(US\$ 130,636)					
TSMC Development	TSMC Solar	The same parent company	1,496,194	(Note 2)	-	-	-	-
			(US\$ 51,525)					
	TSMC SSL	The same parent company	203,277	(Note 2)	-	-	-	-
			(US\$ 7,000)					
Xintec	OmniVision	Parent company of director (represented for Xintec)	215,403	66	-	-	-	-
TSMC Technology	TSMC	Parent company	117,283	(Note 2)	-	-	-	-
			(US\$ 4,039)					
WaferTech	TSMC	Parent company	580,064	16	-	-	-	-
			(US\$ 19,976)					

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2: The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

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, 2012

(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, 2012			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (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	\$ 49,954,386	\$ 469,933	\$ 469,933	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	38,635,129	5,088,931	5,088,451	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	18,939,667	-	100	17,828,683	4,757,121	4,740,524	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	40	9,462,038	2,329,808	770,379	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	6,710,956	4,721,908	1,831,634	Investee accounted for using equity method
	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	11,180,000	1,118,000	99	6,031,369	(4,037,825)	(4,044,944)	Subsidiary
	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	3,209,288	312,232	312,232	Subsidiary
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	4,304,000	2,270,000	430,400	95	2,411,212	(1,466,733)	(1,397,589)	Subsidiary
	Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,950	40	1,550,313	(91,177)	(49,604)	Investee with a controlling financial interest
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,222,972	612,369	209,312	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,896,914	2,074,155	-	50	1,047,285	(177,152)	122,852	Subsidiary
	VTAF II	Cayman Islands	Investing in new start-up technology companies	704,447	949,267	-	98	563,056	62,349	61,102	Subsidiary
	TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	235,761	34,931	34,931	Subsidiary
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	852,258	892,855	-	99	167,359	(2,940)	(2,925)	Subsidiary
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	142,412	3,786	3,786	Subsidiary
	TSMC GN	Taipei, Taiwan	Investment activities	100,000	-	-	100	65,007	(24,928)	(24,928)	Subsidiary
	TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	26,935	2,602	2,602	Subsidiary
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	6,228,661	87,480	20	2,998,413	(5,037,203)	Note 2	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,801,918	1,795,131	-	49	1,322,024	(177,152)	Note 2	Investee accounted for using equity method
	TSMC Solar Europe	Amsterdam, the Netherlands	Investing in solar related business	504,107	411,032	-	100	175,016	(119,668)	Note 2	Subsidiary
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	205,772	147,686	1	100	44,037	(65,268)	Note 2	Subsidiary
TSMC SSL	TSMC Lighting NA	Delaware, U.S.A.	Selling and marketing of solid state lighting related products	3,133	3,133	1	100	2,864	(7)	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2012			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (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	-	100	US\$ 604,367	US\$ 144,333	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\$ 104,540	US\$ 30,091	Note 2	
	TSMC Technology ISDF II ISDF TSMC Canada Mcube Inc.	Delaware, U.S.A. Cayman Islands Cayman Islands Ontario, Canada Delaware, U.S.A.	Engineering support activities	US\$ 0,001	US\$ 0,001	-	100	US\$ 11,721	US\$ 1,106	Note 2	Subsidiary
			Investing in new start-up technology companies	US\$ 14,153	US\$ 14,153	14,153	97	US\$ 10,479	US\$ (121)	Note 2	Subsidiary
			Investing in new start-up technology companies	US\$ 787	US\$ 787	787	97	US\$ 7,805	US\$ 2,493	Note 2	Subsidiary
			Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 4,589	US\$ 422	Note 2	Subsidiary
			Research, development, and sale of micro-semiconductor device	US\$ 1,800	US\$ 1,800	6,333	25	-	US\$ (12,599)	Note 2	Investee accounted for using equity method
	TSMC Development	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$ 280,000	US\$ 280,000	293,637	100	US\$ 262,053	US\$ 142,551	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\$ 5,212	US\$ 3,937	15,643	58	US\$ 2,120	US\$ (1,422)	Note 2	Subsidiary
	Growth Fund	Cayman Islands	Investing in new start-up technology companies	US\$ 1,830	US\$ 1,830	-	100	US\$ 368	US\$ (141)	Note 2	Subsidiary
	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	62	-	-	Note 2	Subsidiary
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	31	-	-	Note 2	Subsidiary
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	7	-	-	Note 2	Subsidiary
TSMC Solar Europe	TSMC Solar Europe GmbH	Hamburg, Germany	Selling of solar related products and providing customer service	EUR 12,400	EUR 9,900	-	100	EUR 4,469	EUR (3,133)	Note 2	Subsidiary
TSMC GN	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	\$ 42,945	\$ -	4,294	-	\$ 23,076	\$ (4,037,825)	Note 2	Investee accounted for using equity method
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	34,266	-	3,420	1	19,157	(1,466,733)	Note 2	Investee accounted for using equity method

Note 1: Equity in earnings/losses of investees includes 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.

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Investees

INFORMATION ON INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2012

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

Investee 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, 2012 (US\$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2012 (US\$ in Thousands)
					Outflow	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)	\$ 18,939,667 (US\$ 596,000)	\$ -	\$ -	\$ 18,939,667 (US\$ 596,000)
Shanghai Walden Venture Capital Enterprise	Investing in new start-up technology companies	2,324,062 (US\$ 78,791)	(Note 2)	147,485 (US\$ 5,000)	-	-	147,485 (US\$ 5,000)

Investee Company	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2012 (US\$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2012
TSMC China	100%	\$ 4,740,524 (Note 3)	\$ 17,828,683	\$ -
Shanghai Walden Venture Capital Enterprise	6%	(Note 4)	145,190 (US\$ 5,000)	-

Accumulated Investment in Mainland China as of December 31, 2012 (US\$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on Investment (US\$ in Thousands)
\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)

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, 2012 and 2011 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, 2012, 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 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



MORRIS CHANG

Chairman

February 5, 2013

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, 2012 and 2011, 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, 2012 and 2011, 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 5, 2013

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, 2012 AND 2011

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

ASSETS	2012		2011		LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 143,410,588	15	\$ 143,472,277	19	Short-term loans (Note 15)	\$ 34,714,929	4	\$ 25,926,528	3
Financial assets at fair value through profit or loss (Notes 2, 5 and 26)	39,554	-	15,360	-	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 26)	15,625	-	13,742	-
Available-for-sale financial assets (Notes 2, 6 and 26)	2,410,635	-	3,308,770	-	Hedging derivative financial liabilities (Notes 2, 11 and 26)	-	-	232	-
Held-to-maturity financial assets (Notes 2, 7 and 26)	5,056,973	1	3,825,680	1	Accounts payable	14,490,429	1	10,530,487	1
Receivables from related parties (Notes 3 and 27)	353,811	-	185,764	-	Payables to related parties (Note 27)	748,613	-	1,328,521	-
Notes and accounts receivable (Note 3)	58,257,798	6	46,321,240	6	Income tax payable (Notes 2 and 20)	15,635,594	2	10,656,124	1
Allowance for doubtful receivables (Notes 2, 3 and 8)	(480,212)	-	(490,952)	-	Salary and bonus payable	7,535,296	1	6,148,499	1
Allowance for sales returns and others (Notes 2 and 8)	(6,038,003)	(1)	(5,068,263)	(1)	Accrued profit sharing to employees and bonus to directors and supervisors (Notes 2 and 22)	11,186,591	1	9,081,293	1
Other receivables from related parties (Notes 3 and 27)	185,550	-	122,292	-	Payables to contractors and equipment suppliers	44,831,798	5	35,540,526	5
Other financial assets (Note 28)	473,833	-	617,142	-	Accrued expenses and other current liabilities (Notes 13, 18, 26 and 30)	13,148,944	1	13,218,235	2
Inventories (Notes 2 and 9)	37,830,498	4	24,840,582	3	Current portion of bonds payable and long-term bank loans (Notes 16, 17 and 26)	128,125	-	4,562,500	1
Deferred income tax assets (Notes 2 and 20)	8,001,202	1	5,936,490	1					
Prepaid expenses and other current assets	2,786,408	-	2,174,014	-					
					Total current liabilities	142,435,944	15	117,006,687	15
Total current assets	252,288,635	26	225,260,396	29					
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 12 and 26)					LONG-TERM LIABILITIES				
Investments accounted for using equity method	23,430,020	3	24,900,332	3	Bonds payable (Notes 16 and 26)	80,000,000	9	18,000,000	3
Available-for-sale financial assets	38,751,245	4	-	-	Long-term bank loans (Notes 17, 26 and 28)	1,359,375	-	1,587,500	-
Held-to-maturity financial assets	-	-	5,243,167	1	Other long-term payables (Notes 18, 26 and 30)	54,000	-	-	-
Financial assets carried at cost	3,605,077	-	4,315,005	1	Obligations under capital leases (Notes 2, 13 and 26)	748,115	-	870,993	-
Total long-term investments	65,786,342	7	34,458,504	5	Total long-term liabilities	82,161,490	9	20,458,493	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13 and 27)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 19)	3,979,541	-	3,908,508	-
Land and land improvements	1,527,124	-	1,541,128	-	Guarantee deposits	203,890	-	443,983	-
Buildings	197,314,677	21	172,872,550	22	Others (Note 27)	500,041	-	403,720	-
Machinery and equipment	1,279,167,719	134	1,057,588,736	137					
Office equipment	19,973,722	2	16,969,266	2	Total other liabilities	4,683,472	-	4,756,211	-
Leased assets	766,732	-	791,480	-					
	1,498,749,974	157	1,249,763,160	161	Total liabilities	229,280,906	24	142,221,391	18
Accumulated depreciation	(1,000,284,504)	(105)	(876,252,220)	(113)	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Advance payments and construction in progress	119,063,976	13	116,863,976	15	Capital stock - NT\$10 par value (Note 22)				
					Authorized: 28,050,000 thousand shares				
Net property, plant and equipment	617,529,446	65	490,374,916	63	Issued: 25,924,435 thousand shares in 2012	259,244,357	27	259,162,226	33
					25,916,222 thousand shares in 2011	56,137,809	6	55,846,357	7
INTANGIBLE ASSETS					Capital surplus (Notes 2 and 22)				
Goodwill (Note 2)	5,523,707	1	5,693,999	1	Retained earnings (Note 22)				
Deferred charges, net (Notes 2 and 14)	5,435,862	-	5,167,564	-	Appropriated as legal capital reserve	115,820,123	12	102,399,995	13
					Appropriated as special capital reserve	7,606,224	1	6,433,874	1
Total intangible assets	10,959,569	1	10,861,563	1	Unappropriated earnings	287,174,942	30	213,357,286	28
						410,601,289	43	322,191,155	42
OTHER ASSETS					Others				
Deferred income tax assets, net (Notes 2 and 20)	4,776,015	1	7,436,717	1	Cumulative translation adjustments (Note 2)	(10,753,763)	(1)	(6,433,369)	(1)
Refundable deposits (Note 27)	2,426,712	-	4,518,863	1	Net loss not recognized as pension cost (Note 2)	(5,299)	-	-	-
Others (Notes 2 and 27)	1,267,886	-	1,353,983	-	Unrealized gain/loss on financial instruments (Notes 2, 11 and 26)	7,973,321	1	(1,172,855)	-
						(2,785,741)	-	(7,606,224)	(1)
Total other assets	8,470,613	1	13,309,563	2	Equity attributable to shareholders of the parent	723,197,714	76	629,593,514	81
TOTAL	\$ 955,034,605	100	\$ 774,264,942	100	MINORITY INTERESTS (Note 2)	2,555,985	-	2,450,037	1
					Total shareholders' equity	725,753,699	76	632,043,551	82
					TOTAL	\$ 955,034,605	100	\$ 774,264,942	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, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 27)	\$ 513,435,603		\$ 430,490,500	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	<u>7,187,023</u>		<u>3,409,855</u>	
NET SALES (Note 34)	506,248,580	100	427,080,645	100
COST OF SALES (Notes 9, 21 and 27)	<u>262,628,681</u>	<u>52</u>	<u>232,937,388</u>	<u>55</u>
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	243,619,899	48	194,143,257	45
UNREALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	<u>(25,029)</u>	<u>-</u>	<u>(74,029)</u>	<u>-</u>
GROSS PROFIT	<u>243,594,870</u>	<u>48</u>	<u>194,069,228</u>	<u>45</u>
OPERATING EXPENSES (Notes 21 and 27)				
Research and development	40,402,138	8	33,829,880	8
General and administrative	17,638,088	3	14,164,114	3
Marketing	<u>4,497,451</u>	<u>1</u>	<u>4,517,816</u>	<u>1</u>
Total operating expenses	<u>62,537,677</u>	<u>12</u>	<u>52,511,810</u>	<u>12</u>
INCOME FROM OPERATIONS (Note 34)	<u>181,057,193</u>	<u>36</u>	<u>141,557,418</u>	<u>33</u>
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	2,028,611	1	897,611	-
Interest income	1,645,036	-	1,479,514	1
Settlement income (Note 30)	883,845	-	947,340	-
Foreign exchange gain, net (Note 2)	582,498	-	-	-
Gain on settlement and disposal of financial assets, net (Notes 2 and 26)	541,089	-	233,214	-
Technical service income (Note 27)	496,654	-	407,089	-
Valuation gain on financial instruments, net (Notes 2, 5 and 26)	-	-	507,432	-
Others (Notes 2 and 27)	<u>604,304</u>	<u>-</u>	<u>886,327</u>	<u>-</u>
Total non-operating income and gains	<u>6,782,037</u>	<u>1</u>	<u>5,358,527</u>	<u>1</u>

(Continued)

	2012		2011	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Impairment of financial assets (Notes 2, 6, 10, 12 and 26)	\$ 4,231,602	1	\$ 265,515	-
Interest expense	1,020,422	-	626,725	-
Impairment loss on idle assets (Note 2)	444,505	-	98,009	-
Loss on disposal of property, plant and equipment (Note 2)	31,816	-	200,673	-
Foreign exchange loss, net (Note 2)	-	-	185,555	-
Others (Notes 2, 5 and 26)	<u>556,909</u>	<u>-</u>	<u>391,791</u>	<u>-</u>
Total non-operating expenses and losses	<u>6,285,254</u>	<u>1</u>	<u>1,768,268</u>	<u>-</u>
INCOME BEFORE INCOME TAX	181,553,976	36	145,147,677	34
INCOME TAX EXPENSE (Notes 2 and 20)	<u>15,590,287</u>	<u>3</u>	<u>10,694,417</u>	<u>3</u>
NET INCOME	<u>\$ 165,963,689</u>	<u>33</u>	<u>\$ 134,453,260</u>	<u>31</u>
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 166,158,802	33	\$ 134,201,279	31
Minority interests	<u>(195,113)</u>	<u>-</u>	<u>251,981</u>	<u>-</u>
	<u>\$ 165,963,689</u>	<u>33</u>	<u>\$ 134,453,260</u>	<u>31</u>
	2012		2011	
	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	\$ 7.01	\$ 6.41	\$ 5.59	\$ 5.18
Diluted earnings per share	<u>\$ 7.01</u>	<u>\$ 6.41</u>	<u>\$ 5.59</u>	<u>\$ 5.18</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, 2012 AND 2011

(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	Net Loss not Recognized as Pension Cost	Unrealized Gain/Loss on Financial Instruments	Treasury Stock			
BALANCE, JANUARY 1, 2011	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
Appropriations of prior year's earnings														
Legal capital reserve	-	-	-	13,420,128	-	(13,420,128)	-	-	-	-	-	-	-	-
Special capital reserve	-	-	-	-	1,172,350	(1,172,350)	-	-	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,748,668)	(77,748,668)	-	-	-	-	(77,748,668)	-	(77,748,668)
Net income in 2012	-	-	-	-	-	166,158,802	166,158,802	-	-	-	-	166,158,802	(195,113)	165,963,689
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	128,595	-	-	-	-	-	-	-	-	128,595	(38,233)	90,362
Translation adjustments	-	-	-	-	-	-	-	(4,320,394)	-	-	-	(4,320,394)	52,900	(4,267,494)
Net loss not recognized as pension cost	-	-	-	-	-	-	-	-	(4,416)	-	-	(4,416)	-	(4,416)
Issuance of stock from exercising employee stock options	8,213	82,131	160,357	-	-	-	-	-	-	-	-	242,488	-	242,488
Stock option compensation cost	-	-	2,500	-	-	-	-	-	-	-	-	2,500	3,719	6,219
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	9,128,633	-	9,128,633	(3,664)	9,124,969
Net change in shareholders' equity from equity method investees	-	-	-	-	-	-	-	-	(883)	17,450	-	16,567	-	16,567
Net change in unrealized gain/loss on hedging derivative financial instruments	-	-	-	-	-	-	-	-	-	93	-	93	139	232
Increase in minority interests	-	-	-	-	-	-	-	-	-	-	-	-	286,200	286,200
BALANCE, DECEMBER 31, 2012	25,924,435	\$ 259,244,357	\$ 56,137,809	\$ 115,820,123	\$ 7,606,224	\$ 287,174,942	\$ 410,601,289	\$ (10,753,763)	\$ (5,299)	\$ 7,973,321	\$ -	\$ 723,197,714	\$ 2,555,985	\$ 725,753,699

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, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 166,158,802	\$ 134,201,279
Net income (loss) attributable to minority interests	(195,113)	251,981
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131,349,289	107,681,521
Unrealized gross profit from affiliates	25,029	74,029
Amortization of premium/discount of financial assets	4,850	24,711
Stock option compensation cost	6,219	-
Impairment loss of financial assets	4,231,602	265,515
Gain on disposal of available-for-sale financial assets, net	(399,598)	(212,442)
Gain on disposal of financial assets carried at cost, net	(141,491)	(20,772)
Equity in earnings of equity method investees, net	(2,028,611)	(897,611)
Cash dividends received from equity method investees	2,088,472	2,848,141
Gain on disposal of property, plant and equipment and other assets, net	(103)	(3,286)
Settlement income from receiving equity securities	(886)	(158,779)
Impairment loss on idle assets	444,505	98,009
Deferred income tax	573,234	(491,122)
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(22,311)	(13,734)
Receivables from related parties	(168,047)	123,265
Notes and accounts receivable	(11,936,558)	3,627,110
Allowance for doubtful receivables	(10,633)	(12,844)
Allowance for sales returns and others	975,853	(2,478,001)
Other receivables from related parties	(63,258)	2,294
Other financial assets	122,322	376,342
Inventories	(12,989,916)	2,611,297
Prepaid expenses and other current assets	(626,405)	(403,762)
Accounts payable	1,395,907	(1,968,820)
Payables to related parties	(605,182)	462,578
Income tax payable	4,979,470	3,490,268
Salary and bonus payable	1,386,797	(275,565)
Accrued profit sharing to employees and bonus to directors and supervisors	2,105,298	(1,925,594)
Accrued expenses and other current liabilities	2,337,647	212,128
Accrued pension cost	66,617	98,915
Net cash provided by operating activities	<u>289,063,801</u>	<u>247,587,051</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(246,137,361)	(213,962,521)
Available-for-sale financial assets	(31,525,876)	(35,088,394)
Held-to-maturity financial assets	-	(584,280)
Financial assets carried at cost	(56,512)	(403,908)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	964,367	59,305,023
Held-to-maturity financial assets	2,711,440	4,789,000
Financial assets carried at cost	353,656	226,226
Property, plant and equipment and other assets	157,484	698,055
Increase in deferred charges	(1,782,299)	(1,715,892)
Decrease in refundable deposits	2,092,151	4,149,543
Decrease in other assets	26,688	63,723
Net cash used in investing activities	<u>(273,196,262)</u>	<u>(182,523,425)</u>

(Continued)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	\$ 8,788,401	\$ (5,287,416)
Cash dividends	(77,748,668)	(77,730,236)
Proceeds from long-term bank loans	50,000	2,250,000
Repayment of long-term bank loans	(212,500)	(1,142,968)
Proceeds from issuance of bonds	62,000,000	18,000,000
Repayment of bonds	(4,500,000)	-
Decrease in obligations under capital leases	(108,863)	-
Decrease in other long-term payables	(2,367,866)	(3,633,052)
Decrease in guarantee deposits	(240,093)	(342,242)
Proceeds from exercise of employee stock options	242,488	217,697
Acquisition of treasury stock	-	(71,598)
Increase (decrease) in minority interests	286,200	(118,226)
Net cash used in financing activities	<u>(13,810,901)</u>	<u>(67,858,041)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,056,638	(2,794,415)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,118,327)	(147,682)
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	-	(1,472,581)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>143,472,277</u>	<u>147,886,955</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 143,410,588</u>	<u>\$ 143,472,277</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 736,607	\$ 540,611
Capitalized interest	(6,442)	(9,093)
Interest paid (excluding capitalized interest)	<u>\$ 730,165</u>	<u>\$ 531,518</u>
Income tax paid	<u>\$ 11,312,039</u>	<u>\$ 7,677,085</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 257,689,153	\$ 207,175,565
Decrease (increase) in payables to contractors and equipment suppliers	(11,551,723)	6,846,682
Nonmonetary exchange trade-out price	(69)	(3,164)
Increase in other liabilities	-	(56,562)
Cash paid	<u>\$ 246,137,361</u>	<u>\$ 213,962,521</u>
Disposal of property, plant and equipment and other assets	\$ 157,553	\$ 543,219
Decrease in other financial assets	-	158,000
Nonmonetary exchange trade-out price	(69)	(3,164)
Cash received	<u>\$ 157,484</u>	<u>\$ 698,055</u>
Acquisition of deferred charges	\$ 2,253,722	\$ 1,715,892
Increase in accounts payable	(303,584)	-
Increase in payables to related parties	(25,274)	-
Increase in other long-term payables	(142,565)	-
Cash paid	<u>\$ 1,782,299</u>	<u>\$ 1,715,892</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Idle assets reclassified from property, plant and equipment	\$ 444,505	\$ 98,009
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ 913,485</u>	<u>\$ 3,399,855</u>
Current portion of bonds payable	<u>\$ -</u>	<u>\$ 4,500,000</u>
Current portion of long-term bank loans	<u>\$ 128,125</u>	<u>\$ 62,500</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, 2012 AND 2011

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

As of December 31, 2012 and 2011, TSMC and its subsidiaries had 39,267 and 35,457 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.

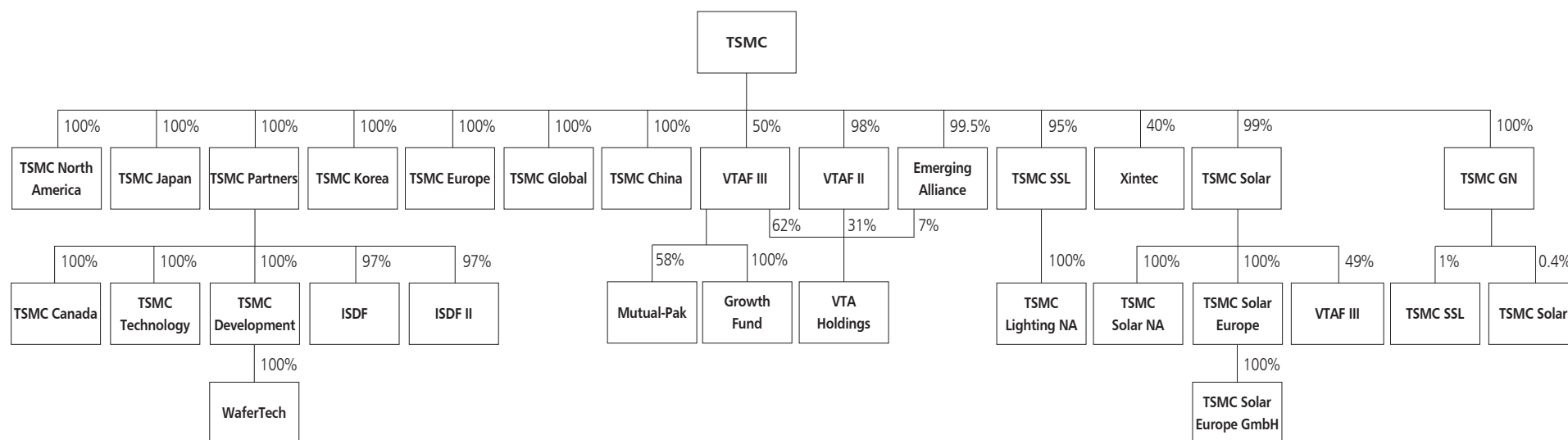
The consolidated entities were as follows:

Name of Investor	Name of Investee	Percentage of Ownership December 31		Remark
		2012	2011	
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)	50%	53%	(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)	(Note 2)	-
	Xintec Inc. (Xintec)	40%	40%	TSMC obtained three out of five director positions and has a controlling interest in Xintec
	TSMC SSL	95%	100%	Established in August 2011 TSMC and TSMC GN aggregately have a controlling interest of 96% in TSMC SSL
TSMC Partners	TSMC Solar	99%	100%	Established in August 2011 TSMC and TSMC GN aggregately have a controlling interest of 99% in TSMC Solar
	TSMC Guang Neng Investment, Ltd. (TSMC GN)	100%	-	Established in January 2012
	TSMC Design Technology Canada Inc. (TSMC Canada)	100%	100%	-
	TSMC Technology, Inc. (TSMC Technology)	100%	100%	-
TSMC Development	TSMC Development, Inc. (TSMC Development)	100%	100%	-
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	97%	-
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	97%	97%	-
TSMC Development	WaferTech, LLC (WaferTech)	100%	100%	-
VTAF III	Mutual-Pak Technology Co., Ltd. (Mutual-Pak)	58%	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)	(Note 2)	-
	Global Unichip Japan Co., Ltd. (GUC-Japan)	(Note 2)	(Note 2)	-
	Global Unichip Europe B.V. (GUC-Europe)	(Note 2)	(Note 2)	-
	Global Unichip (BVI) Corp.(GUC-BVI)	(Note 2)	(Note 2)	-
GUC-BVI	Global Unichip (Shanghai) Company, Limited (GUC-Shanghai)	(Note 2)	(Note 2)	-
TSMC SSL	TSMC Lighting North America, Inc. (TSMC Lighting NA)	100%	100%	(Note 1)
TSMC Solar	TSMC Solar North America, Inc. (TSMC Solar NA)	100%	100%	(Note 1)
	TSMC Solar Europe B.V. (TSMC Solar Europe)	100%	100%	(Note 1)
	VentureTech Alliance Fund III, L.P. (VTAF III)	49%	46%	(Note 1)
TSMC Solar Europe	TSMC Solar Europe GmbH	100%	100%	(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: Since July 2011, TSMC is no longer deemed to be a controlling entity of GUC and its subsidiaries due to the termination of a Shareholders' Agreement. As a result, GUC and its subsidiaries are no longer consolidated and are accounted for using the equity method.

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of December 31, 2012:



Since July 2011, TSMC is no longer deemed to be a controlling entity of GUC and its subsidiaries due to the termination of a Shareholders' Agreement. 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, TSMC Development and TSMC GN 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.

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 corporate bonds, short-term commercial paper and 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.

Fair value is determined as follows: Money market funds - net asset values at the end of the year; and publicly traded stocks - closing prices at the end of the year.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee. 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.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. For equity securities, if the fair value subsequently increases, the increase in value is recorded in shareholders' equity.

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 by the difference of the carrying amount (including goodwill) of each investment and its own recoverable amount, with the related impairment loss recognized in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain.

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, Assets Leased to Others and Idle Assets

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.

If additional accrued pension cost based on actuarial calculation is not in excess of the sum of the unamortized balance of prior service costs and unrecognized net transition obligation, "deferred pension cost" will be debited. Otherwise, the excess amount should be debited to "net loss not recognized as pension cost" as a deduction in stockholders' equity.

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." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

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. While disposing of the treasury stock, the treasury stock shall be reversed, and if the disposal value 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" and the Company conformed to the disclosure requirement and provided the operating segments disclosure in the consolidated financial statements accordingly.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	2011
Cash and deposits in banks	\$ 140,072,294	\$ 139,637,363
Repurchase agreements collateralized by corporate bonds	2,691,042	-
Repurchase agreements collateralized by short-term commercial paper	349,341	-
Repurchase agreements collateralized by government bonds	297,911	3,834,914
	<u>\$ 143,410,588</u>	<u>\$ 143,472,277</u>

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

	December 31	
	2012	2011
<u>Trading financial assets</u>		
Forward exchange contracts	\$ 38,607	\$ 15,360
Cross currency swap contracts	947	-
	<u>\$ 39,554</u>	<u>\$ 15,360</u>
<u>Trading financial liabilities</u>		
Forward exchange contracts	\$ 12,174	\$ 13,623
Cross currency swap contracts	3,451	119
	<u>\$ 15,625</u>	<u>\$ 13,742</u>

The Company entered into derivative contracts during the years ended December 31, 2012 and 2011 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, 2012</u>		
Sell NT\$/Buy EUR	January 2013	NT\$9,417,062/EUR246,000
Sell US\$/Buy RMB	January 2013	US\$20,000/RMB124,735
Sell US\$/Buy NT\$	January 2013 to March 2013	US\$13,700/NT\$398,239
Sell NT\$/Buy US\$	January 2013	NT\$590,403/US\$20,400
Sell NT\$/Buy JPY	January 2013	NT\$44,110/JPY130,000
<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

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, 2012</u>			
January 2013	US\$275,000/NT\$7,986,190	0.14%-0.17%	-
January 2013	NT\$1,083,139/US\$37,280	-	0.06%
<u>December 31, 2011</u>			
January 2012	NT\$420,431/US\$13,880	-	0.48%

For the years ended December 31, 2012 and 2011, a net loss on derivative financial instruments was NT\$252,531 thousand and a net gain on derivative financial instruments was NT\$507,432 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Publicly traded stocks	\$ 41,160,437	\$ 3,306,248
Money market funds	1,443	2,522
	41,161,880	3,308,770
Current portion	(2,410,635)	(3,308,770)
	<u>\$ 38,751,245</u>	<u>\$ -</u>

In October 2012, the Company invested ASML Holding N.V. (ASML) for EUR837,816 thousand to acquire 5% of equity with a lock-up period of 2.5 years.

For the year ended December 31, 2012, the Company recognized an impairment loss on some of the overseas publicly traded stocks in the amount of NT\$2,677,529 thousand due to the significant decline in fair value.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2012	2011
Corporate bonds	\$ 5,056,973	\$ 8,614,527
Government bonds	-	454,320
	5,056,973	9,068,847
Current portion	(5,056,973)	(3,825,680)
	<u>\$ -</u>	<u>\$ 5,243,167</u>

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Years Ended December 31	
	2012	2011
Balance, beginning of year	\$ 490,952	\$ 504,029
Provision (reversal)	450	(3,130)
Write-off	(11,083)	(9,707)
Effect of changes in consolidated entities	-	(233)
Effect of exchange rate changes	(107)	(7)
Balance, end of year	<u>\$ 480,212</u>	<u>\$ 490,952</u>

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

	Years Ended December 31	
	2012	2011
Balance, beginning of year	\$ 5,068,263	\$ 7,546,264
Provision	7,187,023	3,409,855
Write-off	(6,211,170)	(5,890,416)
Effect of exchange rate changes	(6,113)	2,560
Balance, end of year	<u>\$ 6,038,003</u>	<u>\$ 5,068,263</u>

9. INVENTORIES

	December 31	
	2012	2011
Finished goods	\$ 6,244,824	\$ 3,347,849
Work in process	25,713,217	17,940,960
Raw materials	3,864,105	1,808,615
Supplies and spare parts	2,008,352	1,743,158
	<u>\$ 37,830,498</u>	<u>\$ 24,840,582</u>

Write-down of inventories to net realizable value in the amount of NT\$1,558,915 thousand and NT\$35,316 thousand, respectively, were included in the cost of sales for the years ended December 31, 2012 and 2011.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Vanguard International Semiconductor Corporation (VIS)	\$ 9,462,038	40	\$ 8,988,007	39
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,710,956	39	6,289,429	39
Motech Industries, Inc. (Motech)	2,998,413	20	5,612,344	20
VisEra Holding Company (VisEra Holding)	3,035,641	49	2,853,364	49
GUC	1,222,972	35	1,157,188	35
Mcube Inc. (Mcube)	-	25	-	25
	<u>\$ 23,430,020</u>		<u>\$ 24,900,332</u>	

Since July 2011, TSMC is no longer deemed to be a controlling entity of GUC and its subsidiaries due to the termination of a Shareholders' Agreement. As a result, GUC and its subsidiaries are no longer consolidated and are accounted for using the equity method.

For the year ended December 31, 2012, the Company recognized an impairment loss in the amount of NT\$1,186,674 thousand, due to the lower estimated recoverable amount compared with the carrying amount of its investments in stocks traded on the Taiwan GreTai Securities Market.

For the years ended December 31, 2012 and 2011, equity in earnings of equity method investees was a net gain of NT\$2,028,611 thousand and NT\$897,611 thousand, respectively.

As of December 31, 2012 and 2011, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$17,350,833 thousand and NT\$11,273,200 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	
	2012	2011
Balance, beginning of year	\$ 1,645,810	\$ 2,491,891
Amortization	(501,779)	(846,081)
Balance, end of year	<u>\$ 1,144,031</u>	<u>\$ 1,645,810</u>

As of December 31, 2012 and 2011, balance of the aforementioned difference allocated to goodwill was NT\$1,415,565 thousand. There was no acquisition or impairment in goodwill for the years ended December 31, 2012 and 2011.

11. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

	December 31	
	2012	2011
<u>Hedging derivative financial liabilities</u>		
Interest rate swap contract	<u>\$ -</u>	<u>\$ 232</u>

The Company entered into forward exchange contracts to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity security transaction. The forward exchange contract was due in October 2012. For the year ended December 31, 2012, the adjustment to shareholders' equity amounted to a net gain of NT\$8,833 thousand for the above forward exchange contracts.

The Company's long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. The interest rate swap contract of the Company was due in August 2012.

The outstanding interest rate swap contract consisted of the following:

Contract Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
<u>December 31, 2011</u>			
NT\$80,000	August 31, 2012	1.38%	0.63%-0.86%

For the years ended December 31, 2012 and 2011, the adjustment to shareholders' equity amounted to a net gain of NT\$5 thousand and a net loss of NT\$98 thousand, respectively; and the amount removed from shareholders' equity and recognized as a loss from the above interest rate swap contract amounted to NT\$227 thousand and NT\$680 thousand, respectively.

12. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2012	2011
Non-publicly traded stocks	\$ 3,314,713	\$ 4,004,314
Mutual funds	<u>290,364</u>	<u>310,691</u>
	<u>\$ 3,605,077</u>	<u>\$ 4,315,005</u>

The common stock of InvenSense, Inc. and Audience, Inc. was listed on the NYSE and NASDAQ in November 2011 and in May 2012, 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, 2012 and 2011, the Company recognized impairment on financial assets carried at cost of NT\$367,399 thousand and NT\$265,515 thousand, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

	Year Ended December 31, 2012					
	Balance, Beginning of Year	Additions	Disposals	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Cost						
Land and land improvements	\$ 1,541,128	\$ 18,500	\$ -	\$ -	\$ (32,504)	\$ 1,527,124
Buildings	172,872,550	25,183,927	(26,789)	(11,074)	(703,937)	197,314,677
Machinery and equipment	1,057,588,736	226,497,664	(2,024,948)	(456,577)	(2,437,156)	1,279,167,719
Office equipment	16,969,266	3,658,525	(563,454)	35	(90,650)	19,973,722
Leased asset	791,480	-	-	-	(24,748)	766,732
	<u>1,249,763,160</u>	<u>\$ 255,358,616</u>	<u>\$ (2,615,191)</u>	<u>\$ (467,616)</u>	<u>\$ (3,288,995)</u>	<u>1,498,749,974</u>
Accumulated depreciation						
Land and land improvements	355,555	\$ 26,983	\$ -	\$ -	\$ (15,169)	367,369
Buildings	101,004,047	11,148,134	(24,528)	(164)	(390,192)	111,737,297
Machinery and equipment	762,774,355	116,070,821	(1,886,797)	(45,137)	(2,127,820)	874,785,422
Office equipment	11,820,728	1,875,785	(555,485)	8	(74,689)	13,066,347
Leased asset	297,535	40,135	-	-	(9,601)	328,069
	<u>876,252,220</u>	<u>\$ 129,161,858</u>	<u>\$ (2,466,810)</u>	<u>\$ (45,293)</u>	<u>\$ (2,617,471)</u>	<u>1,000,284,504</u>
Advance payments and construction in progress	<u>116,863,976</u>	<u>\$ 2,330,537</u>	<u>\$ -</u>	<u>\$ (30,707)</u>	<u>\$ (99,830)</u>	<u>119,063,976</u>
	<u>\$ 490,374,916</u>					<u>\$ 617,529,446</u>

	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>

The Company entered into agreements to lease buildings that qualify as capital leases. The term of the leases is from December 2003 to November 2018.

As of December 31, 2012, future lease payments were as follows:

Year	Amount
2013	\$ 27,042
2014	27,042
2015	27,042
2016	27,042
2017	27,042
2018 and thereafter	<u>729,566</u>
	<u>\$ 864,776</u>

During the years ended December 31, 2012 and 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:

	Years Ended December 31	
	2012	2011
Capitalized interest	\$ 6,442	\$ 9,093
Capitalization rates	1.08%-1.20%	1.07%-1.29%

14. DEFERRED CHARGES, NET

	Year Ended December 31, 2012					
	Balance, Beginning of Year	Additions	Amortization	Reclassification	Effect of Exchange Rate Changes	Balance, End of Year
Technology license fees	\$ 1,682,892	\$ 31,022	\$ (442,467)	\$ 191,580	\$ (1,134)	\$ 1,461,893
Software and system design costs	2,366,483	1,795,360	(1,143,493)	(48,912)	(496)	2,968,942
Patent and others	<u>1,118,189</u>	<u>427,340</u>	<u>(594,815)</u>	<u>57,438</u>	<u>(3,125)</u>	<u>1,005,027</u>
	<u>\$ 5,167,564</u>	<u>\$ 2,253,722</u>	<u>\$ (2,180,775)</u>	<u>\$ 200,106</u>	<u>\$ (4,755)</u>	<u>\$ 5,435,862</u>

	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>

15. SHORT-TERM LOANS

	December 31	
	2012	2011
Unsecured loans: US\$1,195,500 thousand, due in January 2013, and annual interest at 0.39%-0.58% in 2012; US\$856,000 thousand, due by February 2012, and annual interest at 0.45%-1.00% in 2011.	<u>\$ 34,714,929</u>	<u>\$ 25,926,528</u>

16. BONDS PAYABLE

	December 31	
	2012	2011
Domestic unsecured bonds:		
Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually	\$ 10,500,000	\$ 10,500,000
Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually	7,500,000	7,500,000
Issued in January 2012 and repayable in January 2017, 1.29% interest payable annually	10,000,000	-
Issued in January 2012 and repayable in January 2019, 1.46% interest payable annually	7,000,000	-
Issued in August 2012 and repayable in August 2017, 1.28% interest payable annually	9,900,000	-
Issued in August 2012 and repayable in August 2019, 1.40% interest payable annually	9,000,000	-

(Continued)

	December 31	
	2012	2011
Issued in September 2012 and repayable in September 2017, 1.28% interest payable annually	\$ 12,700,000	\$ -
Issued in September 2012 and repayable in September 2019, 1.39% interest payable annually	9,000,000	-
Issued in October 2012 and repayable in October 2022, 1.53% interest payable annually	4,400,000	-
Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	-	4,500,000
Current portion	80,000,000	22,500,000
	-	(4,500,000)
	<u>\$ 80,000,000</u>	<u>\$ 18,000,000</u>

With the approval from the Financial Supervisory Commission (FSC), the Company issued domestic unsecured bonds in the amount of NT\$23,600,000 thousand in January 2013 and is expected to issue domestic unsecured bonds in the amount of NT\$21,400,000 thousand in February 2013.

The provision of a loan guarantee to TSMC Global, a subsidiary of TSMC, for its issuance of unsecured corporate bonds for an amount not to exceed US\$1,500,000 thousand had been approved in the meeting of the Board of Directors of TSMC held on February 5, 2013.

17. LONG-TERM BANK LOANS

	December 31	
	2012	2011
Bank loans for working capital:		
Repayable in full in one lump sum payment in June 2016, annual interest at 1.08%-1.21% in 2012 and 1.00%-1.08% in 2011	\$ 550,000	\$ 650,000
Repayable in full in one lump sum payment in March 2014, annual interest at 1.16%-1.18% in 2012 and 1.02%-1.16% in 2011	450,000	500,000
Repayable from July 2012 in 16 quarterly installments, annual interest at 1.21%-1.24% in 2012 and 1.11%-1.21% in 2011	262,500	300,000
Repayable from September 2012 in 16 quarterly installments, annual interest at 1.21%-1.24% in 2012 and 1.13%-1.21% in 2011	175,000	200,000
Repayable from October 2013 in 16 quarterly installments, annual interest at 1.23%-1.24% in 2012	50,000	-
	<u>1,487,500</u>	<u>1,650,000</u>
Current portion	<u>(128,125)</u>	<u>(62,500)</u>
	<u>\$ 1,359,375</u>	<u>\$ 1,587,500</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, 2012, Xintec was in compliance with all such financial covenants.

As of December 31, 2012, future principal repayments for the long-term bank loans were as follows:

Year of Repayment	Amount
2013	\$ 128,125
2014	587,500
2015	137,500
2016	625,000
2017	<u>9,375</u>
	<u>\$ 1,487,500</u>

18. OTHER LONG-TERM PAYABLES

	December 31	
	2012	2011
Payables for acquisition of property, plant and equipment (Note 30g)	\$ 825,447	\$ 3,399,855
Payables for software and system design costs	113,000	-
Payables for technology transfer	<u>29,038</u>	<u>-</u>
	967,485	3,399,855
Current portion (classified under accrued expenses and other current liabilities)	<u>(913,485)</u>	<u>(3,399,855)</u>
	<u>\$ 54,000</u>	<u>\$ -</u>

As of December 31, 2012, future payments for other long-term payables were as follows:

Year of Payment	Amount
2013	\$ 913,485
2014	18,000
2015	18,000
2016	<u>18,000</u>
	<u>\$ 967,485</u>

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\$1,403,507 thousand and NT\$1,297,583 thousand for the years ended December 31, 2012 and 2011, 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

	2012	2011
Service cost	\$ 129,217	\$ 132,995
Interest cost	160,018	167,911
Projected return on plan assets	(63,279)	(68,067)
Amortization	<u>65,146</u>	<u>74,814</u>
Net periodic pension cost	<u>\$ 291,102</u>	<u>\$ 307,653</u>

b. Reconciliation of funded status of the plans and accrued pension cost at December 31, 2012 and 2011

	2012	2011
Benefit obligation		
Vested benefit obligation	\$ 427,874	\$ 313,463
Nonvested benefit obligation	6,069,738	5,456,913
Accumulated benefit obligation	6,497,612	5,770,376
Additional benefits based on future salaries	3,635,749	3,443,749
Projected benefit obligation	10,133,361	9,214,125
Fair value of plan assets	(3,352,567)	(3,120,665)
Funded status	6,780,794	6,093,460
Unrecognized net transition obligation	(66,444)	(74,766)
Prior service cost	140,324	147,564
Unrecognized net loss	(2,879,665)	(2,257,750)
Additional liability	4,532	-
Accrued pension cost	\$ 3,979,541	\$ 3,908,508
Vested benefit	\$ 479,621	\$ 349,981
Net loss not recognized as pension cost	\$ 4,532	\$ -

c. Actuarial assumptions at December 31, 2012 and 2011

	2012	2011
Discount rate used in determining present values	1.50%-1.75%	1.75%
Future salary increase rate	2.00%-3.00%	2.50%-3.00%
Expected rate of return on plan assets	1.75%-2.00%	2.00%

d. Contributions to the Funds for the year

	2012	2011
	\$ 221,063	\$ 211,963

e. Payments from the Funds for the year

	2012	2011
	\$ 26,119	\$ 7,339

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	
	2012	2011
Income tax expense based on "income before income tax" at statutory rates	\$ 33,654,070	\$ 25,964,235
Tax effect of the following:		
Tax-exempt income	(9,830,280)	(13,832,239)
Temporary and permanent differences	(3,020,685)	(1,597,357)
Additional income tax under the Alternative Minimum Tax Act	-	286,827
Additional tax at 10% on unappropriated earnings	4,193,497	6,293,384
Net operating loss carryforwards used	(647,755)	(395,258)
Investment tax credits used	(9,588,226)	(6,318,215)
Income tax currently payable	\$ 14,760,621	\$ 10,401,377

b. Income tax expense consisted of the following:

	Years Ended December 31	
	2012	2011
Income tax currently payable	\$ 14,760,621	\$ 10,401,377
Income tax adjustments on prior years	55,313	470,376
Other income tax adjustments	201,119	312,999
Net change in deferred income tax assets		
Investment tax credits	7,102,848	2,304,884
Net operating loss carryforwards	182,797	224,141
Temporary differences	74,324	(71,013)
Valuation allowance	(6,786,735)	(2,873,378)
Effect of changes in consolidated entities	-	(74,969)
Income tax expense	\$ 15,590,287	\$ 10,694,417

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

	December 31	
	2012	2011
Current deferred income tax assets		
Investment tax credits	\$ 6,214,708	\$ 4,913,791
Temporary differences		
Allowance for sales returns and others	718,044	506,172
Unrealized loss on inventories	416,555	44,013
Unrealized loss on financial instruments, net	224,618	308,929
Others	473,688	304,066
Valuation allowance	(46,411)	(140,481)
	\$ 8,001,202	\$ 5,936,490

(Continued)

	December 31	
	2012	2011
Noncurrent deferred income tax assets		
Investment tax credits	\$ 6,995,793	\$ 15,399,558
Net operating loss carryforwards	2,224,264	2,491,708
Temporary differences		
Depreciation	1,420,778	2,280,923
Others	759,698	654,672
Valuation allowance	(6,624,518)	(13,390,144)
	<u>\$ 4,776,015</u>	<u>\$ 7,436,717</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.

Under the Article 10 of the Statute for Industrial Innovation (SII), 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.

Under the Income Basic Tax Act amended in August 2012, the standard deduction and the tax rate of Alternative Minimum Tax were amended from NT\$1,000 thousand to be NT\$500 thousand and from 10% to 12%, respectively. The amended Income Basic Tax Act is effective on January 1, 2013.

The Company has evaluated the impact from above amendments and adjusted the deferred tax assets with the resulting differences recorded as income tax expense for the year ended December 31, 2012. In addition, the Company evaluated the effect of Alternative Minimum Tax and the 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.

As of December 31, 2012, the net operating loss carryforwards generated by WaferTech, Xintec, 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, 2012 and 2011 was NT\$8,130,060 thousand and NT\$4,003,228 thousand, respectively.

The estimated and actual creditable ratios for distribution of TSMC's earnings of 2012 and 2011 were 7.92% and 6.69%, 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, 2012, 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	\$ 6,961	\$ -	2012
		6,514,226	927,549	2013
		7,045,590	7,045,590	2014
		<u>505,215</u>	<u>505,215</u>	2015
		<u>\$ 14,071,992</u>	<u>\$ 8,478,354</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,179,808	\$ -	2012
		<u>4,732,147</u>	<u>4,732,147</u>	2013
		<u>\$ 5,911,955</u>	<u>\$ 4,732,147</u>	
Statute for Upgrading Industries	Personnel training expenditures	<u>\$ 17,406</u>	<u>\$ -</u>	2012
Statute for Industrial Innovation	Research and development expenditures	<u>\$ 2,828,300</u>	<u>\$ -</u>	2012

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 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 and 2006 by Xintec	2010 to 2014

h. The tax authorities have examined income tax returns of TSMC through 2009. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

21. LABOR COST, DEPRECIATION AND AMORTIZATION

	Year Ended December 31, 2012		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 31,326,400	\$ 23,070,244	\$ 54,396,644
Labor and health insurance	1,618,274	1,153,028	2,771,302
Pension	1,053,125	641,435	1,694,560
Meal	765,476	314,279	1,079,755
Welfare	747,446	277,803	1,025,249
Others	<u>96,385</u>	<u>305,116</u>	<u>401,501</u>
	<u>\$ 35,607,106</u>	<u>\$ 25,761,905</u>	<u>\$ 61,369,011</u>
Depreciation	\$ 118,313,581	\$ 10,848,277	\$ 129,161,858
Amortization	<u>\$ 1,344,819</u>	<u>\$ 835,956</u>	<u>\$ 2,180,775</u>

	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	341,156	372,673	713,829
	<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>

22. SHAREHOLDERS' EQUITY

As of December 31, 2012, 1,091,468 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,457,339 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	
	2012	2011
Additional paid-in capital	\$ 23,934,607	\$ 23,774,250
From merger	22,804,510	22,804,510
From convertible bonds	8,892,847	8,892,847
From long-term investments	503,290	374,695
From employee stock options	2,500	-
Donations	55	55
	<u>\$ 56,137,809</u>	<u>\$ 55,846,357</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\$11,115,240 thousand and NT\$8,990,026 thousand for the years ended December 31, 2012 and 2011, 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, unrealized loss on financial instruments and net loss not recognized as pension cost, 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 2011 and 2010 had been approved in the TSMC's shareholders' meetings held on June 12, 2012 and June 9, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Fiscal Year 2011	For Fiscal Year 2010	For Fiscal Year 2011	For Fiscal Year 2010
Legal capital reserve	\$ 13,420,128	\$ 16,160,501		
Special capital reserve	1,172,350	5,120,827		
Cash dividends to shareholders	<u>77,748,668</u>	<u>77,730,236</u>	\$ 3.00	\$ 3.00
	<u>\$ 92,341,146</u>	<u>\$ 99,011,564</u>		

TSMC's profit sharing to employees and bonus to directors in the amounts of NT\$8,990,026 thousand and NT\$62,324 thousand in cash for 2011, respectively, and profit sharing to employees and bonus to directors in the amounts of NT\$10,908,338 thousand and NT\$51,131 thousand in cash for 2010, respectively, had been approved in the shareholders' meeting held on June 12, 2012 and June 9, 2011, 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 14, 2012 and February 15, 2011 and same amount had been charged against earnings of 2011 and 2010, respectively.

TSMC's appropriations of earnings for 2012 had been resolved in the meeting of the Board of Directors held on February 5, 2013. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
	For Fiscal Year 2012	For Fiscal Year 2012
Legal capital reserve	\$ 16,615,880	
Special capital reserve	(4,820,483)	
Cash dividends to shareholders	<u>77,773,307</u>	\$ 3.00
	<u>\$ 89,568,704</u>	

The Board of Directors of TSMC also resolved to appropriate profit sharing to employees and bonus to directors in the amounts of NT\$11,115,240 thousand and NT\$71,351 thousand in cash for 2012, respectively. There is no significant difference between the aforementioned resolved amounts and the amounts charged against earnings of 2012.

The appropriations of earnings, profit sharing to employees and bonus to directors for 2012 are to be resolved in the TSMC's shareholders' meeting held on June 11, 2013 (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, the R.O.C. resident shareholders are allowed a tax credit for their proportionate share of the income tax paid by TSMC on earnings generated since January 1, 1998.

23. STOCK-BASED COMPENSATION PLANS

a. Under Intrinsic Value Method

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 TWSE 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, 2012.

Information about TSMC's outstanding options for the years ended December 31, 2012 and 2011 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2012</u>		
Balance, beginning of year	14,293	\$ 31.4
Options exercised	(8,213)	29.5
Options canceled	<u>(135)</u>	34.6
Balance, end of year	<u>5,945</u>	34.6
<u>Year ended December 31, 2011</u>		
Balance, beginning of year	21,437	\$ 31.4
Options exercised	<u>(7,144)</u>	30.5
Balance, end of year	<u>14,293</u>	32.1

The numbers 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, 2012, 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\$)
\$20.2-\$28.3	3,362	0.4	\$ 25.9
38.0- 50.1	<u>2,583</u>	2.0	45.8
	<u>5,945</u>	1.1	34.6

As of December 31, 2012, 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 Xintec 2007 Plan and Xintec 2006 Plan 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, 2012 and 2011 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2012</u>		
Balance, beginning of year	825	\$ 15.0
Options exercised	(291)	17.1
Options canceled	(19)	15.0
Balance, end of year	<u>515</u>	13.8
<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	<u>825</u>	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, 2012, 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\$)
\$10.7-\$12.5	201	3.7	\$ 10.7	198	\$ 10.7
14.8- 18.6	<u>314</u>	4.6	15.8	<u>314</u>	15.8
	<u>515</u>	4.2	13.8	<u>512</u>	13.8

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2012 and 2011. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the valuation assumptions at the various grant dates and pro forma results of the Company for the years ended December 31, 2012 and 2011 would have been as follows:

	TSMC	Xintec
Valuation assumptions:		
Expected dividend yield	1.00%- 3.44%	0.80%
Expected volatility	43.77%- 46.15%	31.79%- 47.42%
Risk free interest rate	3.07%- 3.85%	1.88%- 2.45%
Expected life	5 years	3 years

	Years Ended December 31	
	2012	2011
Net income attributable to shareholders of the parent:		
As reported	\$ 166,158,802	\$ 134,201,279
Pro forma	165,986,009	134,146,490
Earnings per share (EPS) - after income tax (NT\$):		
Basic EPS as reported	\$ 6.41	\$ 5.18
Pro forma basic EPS	6.40	5.18
Diluted EPS as reported	6.41	5.18
Pro forma diluted EPS	6.40	5.17

b. Under Fair Value Method

The Board of Directors of TSMC SSL and TSMC Solar resolved on November 21, 2011 to issue new shares for cash and reserved 17,175 thousand shares and 12,341 thousand shares, respectively, for their employees to subscribe to, according to the Company Law. The aforementioned shares were fully vested on the grant date.

Information about TSMC SSL's and TSMC Solar's employee stock options related to the aforementioned new shares issued was as follows:

	TSMC SSL		TSMC Solar	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2012</u>				
Balance, beginning of year	-	\$ -	-	\$ -
Options granted	17,175	10.0	12,341	10.0
Options exercised	<u>(17,175)</u>	10.0	<u>(12,341)</u>	10.0
Balance, end of year	<u>-</u>	-	<u>-</u>	-

The grant date of aforementioned stock options was January 9, 2012. TSMC SSL and TSMC Solar used the Black-Scholes model to determine the fair value of the options. The valuation assumptions were as follows:

	TSMC SSL	TSMC Solar
Valuation assumptions:		
Stock price on grant date (NT\$/share)	\$ 8.9	\$ 9.0
Exercise price (NT\$/share)	\$ 10.0	\$ 10.0
Expected volatility	40.32%	40.32%
Expected life	40 days	40 days
Risk free interest rate	0.76%	0.76%

The stock price on grant date was determined based on the cost approach. The expected volatility was calculated using the historical rate of return based on the TWSE Optoelectronic Index.

The fair value of the aforementioned stock option was close to nil, and accordingly, no compensation cost was recognized.

Xintec's Employee Stock Option Plan was approved by the SFB on January 10, 2012 (the "Xintec 2011 Plan"). The maximum number of options authorized to be granted under the Xintec 2011 Plan was 6,000 thousand, 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 Xintec 2011 Plan are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>Year ended December 31, 2012</u>		
Balance, beginning of year	-	\$ -
Options granted	6,000	22.3
Options canceled	(472)	22.1
Balance, end of year	<u>5,528</u>	22.1
Weighted-average fair value of options granted (NT\$)	<u>\$ 5.82</u>	

The exercise prices have been adjusted to reflect the distribution of earnings by Xintec in accordance with the plan.

As of December 31, 2012, information about the outstanding and exercisable options of Xintec 2011 Plan 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\$)
\$ 22.1	<u>5,528</u>	4.5	\$ 22.1	<u>-</u>	\$ -

The grant date of Xintec 2011 Plan was June 14, 2012. Xintec used the Black-Scholes model to determine the fair value of the option. The valuation assumptions were as follow:

	Xintec
Valuation assumptions:	
Stock price on grant date (NT\$/share)	\$ 19.42
Exercise price (NT\$/share)	\$ 22.30
Expected volatility	43.73%
Expected life	3.875 years
Expected dividend yield	-
Risk free interest rate	0.96%

The stock price on grant date was determined based on the market approach. The expected volatility was calculated based on the historical stock prices of the comparative companies of Xintec.

For the year ended December 31, 2012, Xintec recognized compensation costs of the above stock option in the amount of NT\$6,219 thousand.

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, at the option of the shareholders of TSMC, certain shareholders requested TSMC to buy back their shares pursuant to the Company Law, 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, 2012</u>					
Basic EPS					
Earnings available to common shareholders of the parent	\$ 181,756,619	\$ 166,158,802	25,920,735	<u>\$ 7.01</u>	<u>\$ 6.41</u>
Effect of dilutive potential common shares	<u>-</u>	<u>-</u>	<u>7,201</u>		
Diluted EPS					
Earnings available to common shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 181,756,619</u>	<u>\$ 166,158,802</u>	<u>25,927,936</u>	<u>\$ 7.01</u>	<u>\$ 6.41</u>
<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	<u>-</u>	<u>-</u>	<u>10,606</u>		
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>

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.

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$ 39,554	\$ 39,554	\$ 15,360	\$ 15,360
Available-for-sale financial assets	41,161,880	41,161,880	3,308,770	3,308,770
Held-to-maturity financial assets	5,056,973	5,066,363	9,068,847	9,128,063
Financial assets carried at cost	3,605,077	-	4,315,005	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	15,625	15,625	13,742	13,742
Hedging derivative financial liabilities	-	-	232	232
Bonds payable (including current portion)	80,000,000	80,343,413	22,500,000	22,597,115
Long-term bank loans (including current portion)	1,487,500	1,487,500	1,650,000	1,650,000
Other long-term payables (including current portion)	967,485	967,485	3,399,855	3,399,855
Obligations under capital leases (including current portion)	756,305	756,305	870,993	870,993

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 net gains of NT\$23,929 thousand and NT\$1,618 thousand for the years ended December 31, 2012 and 2011, respectively.

d. As of December 31, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$5,097,970 thousand and NT\$9,086,729 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$116,312,306 thousand and NT\$52,711,118 thousand, respectively; and financial liabilities exposed to cash flow interest rate risks were NT\$1,487,500 thousand and NT\$1,650,232 thousand, respectively.

e. Movements of the unrealized gains or losses on financial instruments for the years ended December 31, 2012 and 2011 were as follows:

	Year Ended December 31, 2012			
	From Available-for-sale Financial Assets	Equity Method Investments	Gain (Loss) on Cash Flow Hedges	Total
Balance, beginning of year	\$ (1,155,091)	\$ (17,671)	\$ (93)	\$ (1,172,855)
Recognized directly in shareholders' equity	7,282,331	17,450	2	7,299,783
Removed from shareholders' equity and recognized in earnings	1,846,302	-	91	1,846,393
Balance, end of year	<u>\$ 7,973,542</u>	<u>\$ (221)</u>	<u>\$ -</u>	<u>\$ 7,973,321</u>

	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>

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 and the fluctuations in market prices will result in changes in fair values of publicly traded stocks.

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 entered into forward exchange contracts to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction. The forward exchange contract was due in October 2012.

The Company's long-term bank loans bear floating interest rates; therefore, changes in the market interest rate may cause future cash flows to be volatile. Accordingly, the Company entered into an interest rate swap contract in order to hedge cash flow risk caused by floating interest rates. The interest rate swap contract of the Company was due in August 2012. 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
December 31, 2011				
Long-term bank loans	Interest rate swap contract	\$ (232)	2011 to 2012	2011 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.)

VIS (accounted for using the equity method)

SSMC (accounted for using the equity method)

b. Indirect investees

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

Mcube (accounted for using the equity method)

c. Others

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

	2012		2011	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
GUC	\$ 4,880,507	1	\$ 2,461,345	1
VIS	177,514	-	302,844	-
Others	253,010	-	61,227	-
	<u>\$ 5,311,031</u>	<u>1</u>	<u>\$ 2,825,416</u>	<u>1</u>
Purchases				
VIS	\$ 4,475,674	2	\$ 5,597,895	2
SSMC	3,638,633	1	3,949,176	2
Others	-	-	124,673	-
	<u>\$ 8,114,307</u>	<u>3</u>	<u>\$ 9,671,744</u>	<u>4</u>
Manufacturing expenses				
VisEra (primarily outsourcing and rent)	\$ 15,544	-	\$ 49,155	-
VIS (rent)	8,270	-	5,902	-
Others	77	-	-	-
	<u>\$ 23,891</u>	<u>-</u>	<u>\$ 55,057</u>	<u>-</u>

(Continued)

	2012		2011	
	Amount	%	Amount	%
Research and development expenses				
VisEra	\$ 8,911	-	\$ 19,018	-
GUC	4,521	-	-	-
VIS (rent)	-	-	1,984	-
Others	123	-	-	-
	<u>\$ 13,555</u>	<u>-</u>	<u>\$ 21,002</u>	<u>-</u>
Sales of property, plant and equipment and other assets				
VIS	\$ 20,380	13	\$ 36,008	7
VisEra	9,000	6	-	-
	<u>\$ 29,380</u>	<u>19</u>	<u>\$ 36,008</u>	<u>7</u>
Purchase of property, plant and equipment and other assets				
GUC	\$ 47,051	-	\$ 1,812	-
VisEra	1,224	-	11,110	-
VIS	-	-	45,473	-
	<u>\$ 48,275</u>	<u>-</u>	<u>\$ 58,395</u>	<u>-</u>
Non-operating income and gains				
VIS (primarily technical service income)	\$ 261,836	4	\$ 227,024	4
SSMC (primarily technical service income)	221,210	3	199,377	4
Others	2,452	-	4,054	-
	<u>\$ 485,498</u>	<u>7</u>	<u>\$ 430,455</u>	<u>8</u>
<u>As of December 31</u>				
Receivables				
GUC	\$ 273,412	77	\$ 154,086	83
Mcube	80,212	23	31,466	17
Others	187	-	212	-
	<u>\$ 353,811</u>	<u>100</u>	<u>\$ 185,764</u>	<u>100</u>
Other receivables				
VIS	\$ 128,751	69	\$ 87,507	72
SSMC	56,799	31	34,260	28
Others	-	-	525	-
	<u>\$ 185,550</u>	<u>100</u>	<u>\$ 122,292</u>	<u>100</u>
Refundable deposits				
VIS	\$ 5,813	-	\$ -	-
Others	4	-	-	-
	<u>\$ 5,817</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Payables				
VIS	\$ 368,617	49	\$ 987,937	75
SSMC	351,389	47	336,037	25
Others	28,607	4	4,547	-
	<u>\$ 748,613</u>	<u>100</u>	<u>\$ 1,328,521</u>	<u>100</u>
Deferred credits (other assets)				
VIS	\$ (7,806)	(1)	\$ -	-
VisEra	948	-	-	-
	<u>\$ (6,858)</u>	<u>(1)</u>	<u>\$ -</u>	<u>-</u>

(Concluded)

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 the related expenses were classified under manufacturing expenses. The lease expired in June 2011.

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

Compensation of directors and management personnel:

	Years Ended December 31	
	2012	2011
Salaries, incentives and special compensation	\$ 883,177	\$ 752,767
Bonus	<u>538,077</u>	<u>445,681</u>
	<u>\$ 1,421,254</u>	<u>\$ 1,198,448</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, 2012 includes estimated profit sharing to employees and bonus to directors of the Company that relate to 2012 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2013. The total compensation for the year ended December 31, 2011 included the bonuses appropriated from earnings of 2011 which was approved by the shareholders' meeting held in 2012.

28. PLEDGED OR MORTGAGED ASSETS

The Company provided other financial assets as collateral mainly for building lease agreements. As of December 31, 2012 and 2011, the aforementioned other financial assets amounted to NT\$119,710 thousand and NT\$121,140 thousand, respectively.

29. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land, factory and office premises from the Science Park Administration and Jhongli Industrial Park Service Center. These operating leases expire on various dates from March 2013 to July 2032 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 2013 and 2020 and can be renewed upon expiration.

As of December 31, 2012, future lease payments were as follows:

Year	Amount
2013	\$ 693,758
2014	651,339
2015	639,099
2016	625,243
2017	562,762
2018 and thereafter	<u>4,221,524</u>
	<u>\$ 7,393,725</u>

30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2012, 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 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.
- 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.

c. 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 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.

d. 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.

e. 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 several U.S. patents. The outcome cannot be determined at this time.

f. TSMC joined the Customer Co-Investment Program of ASML and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML’s equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity in October 2012. Both parties also signed the research and development funding agreement and TSMC will provide EUR277,000 thousand to ASML’s research and development programs from 2013 to 2017.

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\$825,447 thousand and NT\$3,399,855 thousand as of December 31, 2012 and 2011, respectively, which is included in accrued expenses and other current liabilities.

h. Amounts available under unused letters of credit as of December 31, 2012 were NT\$99,671 thousand.

31. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

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

	December 31			
	2012		2011	
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	Foreign Currencies (In Thousands)	Exchange Rate (Note)
<u>Financial assets</u>				
Monetary items				
USD	\$ 3,437,165	29.038	\$ 3,744,817	30.288
EUR	125,973	38.39-38.49	135,857	39.18-39.27
JPY	35,734,874	0.3352-0.3364	37,276,671	0.3897-0.3906
RMB	102,995	4.66	201,385	4.81
Non-monetary items				
USD	1,611,474	29.038	141,498	30.288
HKD	492,014	3.75	671,060	3.90
Investments accounted for using equity method				
USD	328,281	29.038	294,797	30.288
<u>Financial liabilities</u>				
Monetary items				
USD	2,193,343	29.038	1,744,746	30.288
EUR	247,052	38.39-38.49	111,750	39.18-39.27
JPY	43,311,360	0.3352-0.3364	35,349,169	0.3897-0.3906
RMB	205,930	4.66	278,877	4.81

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

32. PRE-DISCLOSURE OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Rule No. 0990004943 issued by the 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. Accordingly, starting 2013, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare the consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, International Accounting Standards (IASs), interpretations as well as related guidance translated by Accounting Research and Development Foundation (ARDF) and issued by the FSC. To comply with the 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 preliminary 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	Finished
12) Complete the preparation of opening balance sheet under IFRSs	Accounting division	Finished
13) Complete modification to the relevant internal controls	Accounting division and internal audit division	Finished
14) Prepare comparative financial information under IFRSs for 2012	Accounting division and finance division	In progress according to the plan

b. Exemptions from IFRS 1

IFRS 1, "First-time Adoption of International Financial Reporting Standards," establishes the procedures for the Company's first consolidated financial statements prepared in accordance with IFRSs. According to IFRS 1, the Company is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in its opening balance sheet at the date of transition to IFRSs (January 1, 2012; the transition date); except for optional exemptions and mandatory exceptions to such retrospective application provided under IFRS 1. The main optional exemptions the Company adopted are summarized as follows:

- 1) Business combinations. The Company elected not to apply IFRS 3, "Business Combinations," retrospectively to business combinations occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same compared with the one under R.O.C. GAAP as of December 31, 2011.
- 2) Employee benefits. The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2012. In addition, the Company elected to apply the exemption disclosure requirement provided by IFRS 1, in which the amounts of present value of defined benefit obligations, the fair value of plan assets, the surplus or deficit in the plan and the experience adjustments are determined for each accounting period prospectively from the transition date.
- 3) Share-based payment. The Company elected to take the optional exemption from applying IFRS 2, "Share-based Payment," retrospectively for the share-based payment transactions granted and vested before January 1, 2012.

- c. As of December 31, 2012, based on 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:

1) Reconciliation of consolidated balance sheet as of January 1, 2012

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Current assets						
Cash and cash equivalents	\$ 143,472,277	\$ -	\$ -	\$ 143,472,277	Cash and cash equivalents	
Financial assets at fair value through profit or loss	15,360	-	-	15,360	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	3,308,770	-	-	3,308,770	Available-for-sale financial assets	
Held-to-maturity financial assets	3,825,680	-	-	3,825,680	Held-to-maturity financial assets	
Receivables from related parties	185,764	-	-	185,764	Receivables from related parties	
Notes and accounts receivable	46,321,240	-	(490,952)	45,830,288	Notes and accounts receivable	
Allowance for doubtful receivables	(490,952)	-	490,952	-	-	
Allowance for sales returns and others	(5,068,263)	-	5,068,263	-	-	a)
Other receivables from related parties	122,292	-	-	122,292	Other receivables from related parties	
Other financial assets	617,142	-	-	617,142	Other financial assets	
Inventories	24,840,582	-	-	24,840,582	Inventories	
Deferred income tax assets	5,936,490	-	(5,936,490)	-	-	b)
Prepaid expenses and other current assets	2,174,014	-	-	2,174,014	Other current asset	
Total current assets	225,260,396	-	(868,227)	224,392,169	Total current assets	
Long-term investments						
Investments accounted for using equity method	24,900,332	(13,401)	-	24,886,931	Investments accounted for using equity method	e)
Held-to-maturity financial assets	5,243,167	-	-	5,243,167	Held-to-maturity financial assets	
Financial assets carried at cost	4,315,005	-	-	4,315,005	Financial assets carried at cost	
Total long-term investments	34,458,504	(13,401)	-	34,445,103	Total long-term investments	
Net property, plant and equipment	490,374,916	-	47,237	490,422,153	Property, plant and equipment	c)
Intangible assets	10,861,563	-	-	10,861,563	Intangible assets	
Other assets						
Deferred income tax assets	7,436,717	231,011	5,936,490	13,604,218	Deferred income tax assets	b), d)
Refundable deposits	4,518,863	-	-	4,518,863	Refundable deposits	
Others	1,353,983	-	(47,237)	1,306,746	Others	c)
Total other assets	13,309,563	231,011	5,889,253	19,429,827	Total other assets	
Total	\$ 774,264,942	\$ 217,610	\$ 5,068,263	\$ 779,550,815	Total	
Current liabilities						
Short-term loans	\$ 25,926,528	\$ -	\$ -	\$ 25,926,528	Short-term loans	
Financial liabilities at fair value through profit or loss	13,742	-	-	13,742	Financial liabilities at fair value through profit or loss	
Hedging derivative financial liabilities	232	-	-	232	Hedging derivative financial liabilities	
Accounts payable	10,530,487	-	-	10,530,487	Accounts payable	
Payables to related parties	1,328,521	-	-	1,328,521	Payables to related parties	
Income tax payable	10,656,124	-	-	10,656,124	Income tax payable	
Salary and bonus payable	6,148,499	-	-	6,148,499	Salary and bonus payable	
Accrued profit sharing to employees and bonus to directors and supervisors	9,081,293	-	-	9,081,293	Accrued profit sharing to employees and bonus to directors and supervisors	
Payables to contractors and equipment suppliers	35,540,526	-	-	35,540,526	Payables to contractors and equipment suppliers	
Accrued expenses and other current liabilities	13,218,235	-	-	13,218,235	Accrued expenses and other current liabilities	
Current portion of bonds payable and long-term bank loans	4,562,500	-	-	4,562,500	Current portion of bonds payable and long-term bank loans	
-	-	-	5,068,263	5,068,263	Provisions	a)
Total current liabilities	117,006,687	-	5,068,263	122,074,950	Total current liabilities	
Long-term liabilities						
Bonds payable	18,000,000	-	-	18,000,000	Bonds payable	
Long-term bank loans	1,587,500	-	-	1,587,500	Long-term bank loans	
Obligations under capital leases	870,993	-	-	870,993	Obligations under capital leases	
Total long-term liabilities	20,458,493	-	-	20,458,493	Total long-term liabilities	
Other liabilities						
Accrued pension cost	3,908,508	2,332,516	-	6,241,024	Accrued pension cost	d)
Guarantee deposits	443,983	-	-	443,983	Guarantee deposits	
-	-	-	2,889	2,889	Provisions	
Others	403,720	-	(2,889)	400,831	Others	
Total other liabilities	4,756,211	2,332,516	-	7,088,727	Total other liabilities	
Total liabilities	142,221,391	2,332,516	5,068,263	149,622,170	Total liabilities	

(Continued)

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Equity attributable to shareholders of the parent						
Capital stock	\$ 259,162,226	\$ -	\$ -	\$ 259,162,226	Capital stock	
Capital surplus	55,846,357	(374,695)	-	55,471,662	Capital surplus	e)
Retained earnings	322,191,155	(1,726,828)	-	320,464,327	Retained earnings	d), e)
Others						
Cumulative translation adjustments	(6,433,369)	5	-	(6,433,364)	Foreign currency translation reserve	e)
Unrealized gain/loss on financial instruments	(1,172,855)	-	93	(1,172,762)	Unrealized gain/loss from available-for-sales financial assets	
-	-	-	(93)	(93)	Cash flow hedging reserve	
	(7,606,224)	5	-	(7,606,219)		
Equity attributable to shareholders of the parent	629,593,514	(2,101,518)	-	627,491,996	Equity attributable to shareholders of the parent	
Minority interests	2,450,037	(13,388)	-	2,436,649	Noncontrolling interests	d)
Total shareholders' equity	632,043,551	(2,114,906)	-	629,928,645	Total shareholders' equity	
Total	\$ 774,264,942	\$ 217,610	\$ 5,068,263	\$ 779,550,815	Total	

2) Reconciliation of consolidated balance sheet as of December 31, 2012

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Current assets						
Cash and cash equivalents	\$ 143,410,588	\$ -	\$ -	\$ 143,410,588	Cash and cash equivalents	
Financial assets at fair value through profit or loss	39,554	-	-	39,554	Financial assets at fair value through profit or loss	
Available-for-sale financial assets	2,410,635	-	-	2,410,635	Available-for-sale financial assets	
Held-to-maturity financial assets	5,056,973	-	-	5,056,973	Held-to-maturity financial assets	
Receivables from related parties	353,811	-	-	353,811	Receivables from related parties	
Notes and accounts receivable	58,257,798	-	(480,212)	57,777,586	Notes and accounts receivable	
Allowance for doubtful receivables	(480,212)	-	480,212	-	-	
Allowance for sales returns and others	(6,038,003)	-	6,038,003	-	-	a)
Other receivables from related parties	185,550	-	-	185,550	Other receivables from related parties	
Other financial assets	473,833	-	-	473,833	Other financial assets	
Inventories	37,830,498	-	-	37,830,498	Inventories	
Deferred income tax assets	8,001,202	-	(8,001,202)	-	-	b)
Prepaid expenses and other current assets	2,786,408	-	-	2,786,408	Other current assets	
Total current assets	252,288,635	-	(1,963,199)	250,325,436	Total current assets	
Long-term investments						
Investments accounted for using equity method	23,430,020	(69,102)	-	23,360,918	Investments accounted for using equity method	e)
Available-for-sale financial assets	38,751,245	-	-	38,751,245	Available-for-sale financial assets	
Financial assets carried at cost	3,605,077	-	-	3,605,077	Financial assets carried at cost	
Total long-term investments	65,786,342	(69,102)	-	65,717,240	Total long-term investments	
Net property, plant and equipment	617,529,446	-	32,742	617,562,188	Property, plant and equipment	c)
Intangible assets	10,959,569	-	-	10,959,569	Intangible assets	
Other assets						
Deferred income tax assets	4,776,015	351,002	8,001,202	13,128,219	Deferred income tax assets	b), d)
Refundable deposits	2,426,712	-	-	2,426,712	Refundable deposits	
Others	1,267,886	-	(32,742)	1,235,144	Others	c)
Total other assets	8,470,613	351,002	7,968,460	16,790,075	Total other assets	
Total	\$ 955,034,605	\$ 281,900	\$ 6,038,003	\$ 961,354,508	Total	
Current liabilities						
Short-term loans	\$ 34,714,929	\$ -	\$ -	\$ 34,714,929	Short-term loans	
Financial liabilities at fair value through profit or loss	15,625	-	-	15,625	Financial liabilities at fair value through profit or loss	
Accounts payable	14,490,429	-	-	14,490,429	Accounts payable	
Payables to related parties	748,613	-	-	748,613	Payables to related parties	
Income tax payable	15,635,594	-	-	15,635,594	Income tax payable	

(Continued)

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Salary and bonus payable	\$ 7,535,296	\$ -	\$ -	\$ 7,535,296	Salary and bonus payable	a)
Accrued profit sharing to employees and bonus to directors and supervisors	11,186,591	-	-	11,186,591	Accrued profit sharing to employees and bonus to directors and supervisors	
Payables to contractors and equipment suppliers	44,831,798	-	-	44,831,798	Payables to contractors and equipment suppliers	
Accrued expenses and other current liabilities	13,148,944	-	-	13,148,944	Accrued expenses and other current liabilities	
Current portion of bonds payable and long-term bank loans	128,125	-	-	128,125	Current portion of bonds payable and long-term bank loans	
-	-	-	6,038,003	6,038,003	Provisions	
Total current liabilities	142,435,944	-	6,038,003	148,473,947	Total current liabilities	
Long-term liabilities						
Bonds payable	80,000,000	-	-	80,000,000	Bonds payable	
Long-term bank loans	1,359,375	-	-	1,359,375	Long-term bank loans	
Other long-term payable	54,000	-	-	54,000	Other long-term payable	d)
Obligations under capital leases	748,115	-	-	748,115	Obligations under capital leases	
Total long-term liabilities	82,161,490	-	-	82,161,490	Total long-term liabilities	
Other liabilities						
Accrued pension cost	3,979,541	2,941,693	-	6,921,234	Accrued pension cost	
Guarantee deposits	203,890	-	-	203,890	Guarantee deposits	
-	-	-	4,891	4,891	Provisions	
Others	500,041	-	(4,891)	495,150	Others	
Total other liabilities	4,683,472	2,941,693	-	7,625,165	Total other liabilities	
Total liabilities	229,280,906	2,941,693	6,038,003	238,260,602	Total liabilities	
Equity attributable to shareholders of the parent						e) d), e)
Capital stock	259,244,357	-	-	259,244,357	Capital stock	
Capital surplus	56,137,809	(462,469)	-	55,675,340	Capital surplus	
Retained earnings	410,601,289	(2,189,821)	-	408,411,468	Retained earnings	
Others						
Cumulative translation adjustments	(10,753,763)	(43)	-	(10,753,806)	Foreign currency translation reserve	
Net loss not recognized as pension cost	(5,299)	5,299	-	-	-	
Unrealized gain/loss on financial instruments	7,973,321	-	-	7,973,321	Unrealized gain/loss from available-for-sales financial assets	
-	(2,785,741)	5,256	-	(2,780,485)	-	
Equity attributable to shareholders of the parent	723,197,714	(2,647,034)	-	720,550,680	Equity attributable to shareholders of the parent	
Minority interests	2,555,985	(12,759)	-	2,543,226	Noncontrolling interests	d)
Total shareholders' equity	725,753,699	(2,659,793)	-	723,093,906	Total shareholders' equity	
Total	\$ 955,034,605	\$ 281,900	\$ 6,038,003	\$ 961,354,508	Total	

3) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Net sales	\$ 506,248,580	\$ -	\$ 496,654	\$ 506,745,234	Net sales	f)
Cost of sales	262,628,681	(45,583)	-	262,583,098	Cost of sales	d)
Gross profit before affiliates elimination	243,619,899	45,583	496,654	244,162,136	Gross profit before affiliates elimination	
Unrealized gross profit from affiliates	(25,029)	-	-	(25,029)	Unrealized profit from affiliates	
Gross profit	243,594,870	45,583	496,654	244,137,107	Gross profit	
Operating expenses						d) d) d)
Research and development	40,402,138	(18,943)	-	40,383,195	Research and development	
General and administrative	17,638,088	(6,394)	-	17,631,694	General and administrative	
Marketing	4,497,451	(1,465)	-	4,495,986	Marketing	
Total operating expenses	62,537,677	(26,802)	-	62,510,875		f)
-	-	-	(449,364)	(449,364)	Other operating gains and losses	
Income from operations	181,057,193	72,385	47,290	181,176,868	Income from operations	e) f)
Non-operating income and gains						
Equity in earnings of equity method investees, net	2,028,611	45,118	-	2,073,729	Equity in earnings of equity method investees, net	
Interest income	1,645,036	-	(1,645,036)	-	-	

(Continued)

R.O.C. GAAP		Effect of Transition to IFRSs		IFRSs		Note
Item	Amount	Recognition and Measurement Difference	Presentation Difference	Amount	Item	
Settlement income	\$ 883,845	\$ -	\$ (883,845)	\$ -	-	f)
Foreign exchange gain, net	582,498	-	-	582,498	Foreign exchange gain, net	
Gain on settlement and disposal of financial assets, net	541,089	-	(541,089)	-	-	f)
Technical service income	496,654	-	(496,654)	-	-	f)
Others	604,304	-	(604,304)	-	-	f)
-	-	-	1,715,824	1,715,824	Other income	f)
-	-	4,977	(2,857,018)	(2,852,041)	Other gains and losses	e), f)
	<u>6,782,037</u>	<u>50,095</u>	<u>(5,312,122)</u>	<u>1,520,010</u>		
Non-operating expenses and losses						
Impairment of financial assets	4,231,602	-	(4,231,602)	-	-	f)
Interest expense	1,020,422	-	-	1,020,422	Finance cost	
Impairment loss on idle assets	444,505	-	(444,505)	-	-	f)
Loss on disposal of property, plant and equipment	31,816	-	(31,816)	-	-	f)
Others	556,909	-	(556,909)	-	-	f)
	<u>6,285,254</u>	<u>-</u>	<u>(5,264,832)</u>	<u>1,020,422</u>		
Income before income tax	181,553,976	122,480	-	181,676,456	Income before income tax	
Income tax expense	15,590,287	(37,633)	-	15,552,654	Income tax expense	d)
Net income	<u>\$ 165,963,689</u>	<u>\$ 160,113</u>	<u>\$ -</u>	<u>166,123,802</u>	Net income	
				(4,322,697)	Exchange differences on translating foreign operations	
				232	Cash flow hedges	
				9,534,269	Net valuation gain on available-for-sale financial assets	
				53,748	Share of other comprehensive income of associates and joint venture	d)
				(685,978)	Actuarial loss from defined benefit pension	d)
				(326,942)	Income tax expense relating to components of other comprehensive income	d)
				<u>4,252,632</u>	Other comprehensive income for the year, net of tax effect	
				<u>\$ 170,376,434</u>	Total comprehensive income for the year	

4) Notes to the reconciliation of the significant differences:

a) 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) in accordance with IAS No. 37, "Provisions, Contingent Liabilities and Contingent Assets."

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provisions were NT\$6,038,003 thousand and NT\$5,068,263 thousand, respectively.

b) Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, a deferred tax asset and 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 and 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. In accordance with IAS No. 12, "Income Taxes," 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.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to non-current assets were NT\$8,001,202 thousand and NT\$5,936,490 thousand, respectively.

c) 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 IAS No. 40, "Investment Property," 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.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from leased assets and idle assets to property, plant and equipment were NT\$32,742 thousand and NT\$47,237 thousand, respectively.

d) 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."

In addition, 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 elects to 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.

At the transition date, the Company performed the actuarial valuation under IAS No. 19, "Employee Benefits," and recognized the valuation difference directly to retained earnings under the requirement of IFRS 1.

In addition, under R.O.C. GAAP, the minimum pension liability should be recognized in the balance sheet. If the accrued pension cost is less than the minimum amount, the difference should be recognized as an additional liability. Under IFRSs, there is no aforementioned requirement of minimum pension liability.

As of December 31, 2012 and January 1, 2012, accrued pension cost of the Company was adjusted from the aforementioned differences for an increase of NT\$2,941,693 thousand and NT\$2,332,516 thousand, respectively; deferred income tax assets were adjusted for an increase of NT\$351,002 thousand and NT\$231,011 thousand, respectively. As of December 31, 2012, net loss not recognized as pension cost was adjusted for a decrease of NT\$4,416 thousand. Pension cost and income tax expense for the year ended December 31, 2012 were also adjusted for a decrease of NT\$72,385 thousand and NT\$37,633 thousand, respectively; actuarial loss from defined benefit plans and associated tax benefit were recognized in the amount of NT\$685,978 thousand and NT\$82,358 thousand, respectively.

e) Investments accounted for using the equity method

The Company has evaluated significant differences between current accounting policies and IFRSs for the Company's associates and joint ventures accounted for using the equity method. The significant difference is mainly due to the adjustment to employee benefits.

In addition, if the investing company subscribes for additional investee's shares at a percentage different from its existing ownership percentage that results in a decrease in the investing company's holding percentage in the investee, the resulting carrying amount of the investment in the investee differs from the amount of its share in the investee's equity. Under R.O.C. GAAP, the investing company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. Under IFRSs, such transaction is deemed a disposal and aforementioned difference is recognized in earnings accordingly.

As of December 31, 2012 and January 1, 2012, as a result of the differences mentioned above, investment accounted for using the equity method was adjusted for a decrease of NT\$69,102 thousand and NT\$13,401 thousand, respectively; cumulative translation adjustments was adjusted for a decrease of NT\$43 thousand and an increase of NT\$5 thousand, respectively; capital surplus was adjusted for a decrease of NT\$462,469 thousand and NT\$374,695 thousand, respectively. As of December 31, 2012, net loss not recognized as pension cost was adjusted for a decrease of NT\$883 thousand. In addition, equity in earnings of equity method investees and share of other comprehensive income of associates and joint venture were adjusted for an increase of NT\$45,118 thousand and for a decrease of NT\$18,905 thousand, respectively; other gains and losses was adjusted for a gain of NT\$4,977 thousand due from the deemed disposal for the year ended December 31, 2012.

f) The reclassification of line items in the consolidated 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 net sales, cost of sales and operating expenses. Under IFRSs, based on the nature of operating transactions, technical service income is reclassified under net sales; rental revenue, depreciation of rental assets, net gain or loss on disposal of property, plant and equipment and other assets, and impairment loss on idle assets, are reclassified under other operating gains and losses, which are reflected in income from operations.

Under IFRSs, based on the nature of operating transactions, the Company reclassified technical service income of NT\$496,654 thousand for the year ended December 31, 2012 to net sales, rental revenue of NT\$808 thousand, net gain on disposal of property, plant and equipment and other assets of NT\$103 thousand, other income of NT\$886 thousand, depreciation of rental assets of NT\$6,656 thousand and impairment loss on idle assets of NT\$444,505 thousand to other operating gains and losses. In addition, interest income of NT\$1,645,036 thousand and dividend income of NT\$70,788 thousand were also reclassified to other income; settlement income of NT\$883,845 thousand, net gain of disposal of financial assets of NT\$541,089 thousand, others of NT\$499,903 thousand (under non-operating income and gains), net valuation loss on financial instruments of NT\$252,530 thousand, impairment of financial assets of NT\$4,231,602 thousand as well as others of NT\$297,723 thousand (under non-operating expenses and losses) were reclassified to other gains and losses for the year ended December 31, 2012.

d. 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 as FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

33. 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:

- 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 and 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. Receivables 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.

34. OPERATING SEGMENTS 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 for separate reporting. 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, 2012</u>				
Sales from external customers	\$ 506,097,932	\$ 150,648	\$ -	\$ 506,248,580
Sales among intersegments	-	14,678	(14,678)	-
Operating profit (loss)	183,682,972	(2,625,779)	-	181,057,193
Equity in earnings (losses) of equity method investees, net	3,428,408	(1,399,797)	-	2,028,611
Income tax expense	15,590,287	-	-	15,590,287
<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

b. Geographic information

	Years Ended December 31			
	Sales to Other Than Consolidated Entities		Non-current Assets	
	2012	2011	2012	2011
Taiwan	\$ 64,744,102	\$ 49,798,532	\$ 603,844,829	\$ 472,168,728
United States	334,704,735	250,811,666	7,699,344	8,284,575
Asia	72,953,214	75,946,671	18,196,790	22,121,979
Europe	30,476,592	48,982,743	15,938	15,180
Others	3,369,937	1,541,033	-	-
	<u>\$ 506,248,580</u>	<u>\$ 427,080,645</u>	<u>\$ 629,756,901</u>	<u>\$ 502,590,462</u>

The geographic information is presented by billed regions. Non-current assets include property, plant and equipment, intangible assets and other assets, but do not include financial instruments and deferred income tax assets.

c. Production information

Production	Years Ended December 31	
	2012	2011
Wafer	\$ 462,970,436	\$ 384,632,494
Mask	26,266,912	23,818,656
Others	<u>17,011,232</u>	<u>18,629,495</u>
	<u>\$ 506,248,580</u>	<u>\$ 427,080,645</u>

d. Major customers representing at least 10% of gross sales

	Years Ended December 31			
	2012		2011	
	Amount	%	Amount	%
Customer A	\$ 87,099,340	17	\$ 60,412,085	14

35. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on February 5, 2013.

TABLE 1

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2012

(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	Financing Company's Total Financing Amount Limits (Note 3)
												Item	Value		
1	TSMC Partners	TSMC China	Other receivables from related parties	\$ 7,259,500 (US\$ 250,000)	\$ 3,774,940 (US\$ 130,000)	\$ 3,774,940 (US\$ 130,000)	0.25%-0.26%	The need for short-term financing	\$ -	Purchase equipment	\$ -	-	\$ -	\$ 38,635,609 (Note 1)	\$ 38,635,609
		TSMC Solar	Other receivables from related parties	1,161,520 (US\$ 40,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	15,454,244 (Note 1)	38,635,609
		TSMC SSL	Other receivables from related parties	871,140 (US\$ 30,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	15,454,244 (Note 1)	38,635,609
2	TSMC Development	TSMC Solar	Other receivables from related parties	2,323,040 (US\$ 80,000)	2,323,040 (US\$ 80,000)	1,495,457 (US\$ 51,500)	0.21%-0.23%	The need for short-term financing	-	Operating capital	-	-	-	5,322,907 (Notes 1 and 5)	13,307,266 (Note 5)
		TSMC SSL	Other receivables from related parties	2,613,420 (US\$ 90,000)	2,613,420 (US\$ 90,000)	203,266 (US\$ 7,000)	0.24%	The need for short-term financing	-	Operating capital	-	-	-	5,322,907 (Notes 1 and 5)	13,307,266 (Note 5)
3	TSMC Global	TSMC	Other receivables from related parties	5,807,600 (US\$ 200,000)	-	-	-	The need for short-term financing	-	Support the parent company's short-term operation requirement	-	-	-	49,954,386 (Note 2)	49,954,386

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 and TSMC Development, respectively. 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. 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. However, financing limits for those subsidiaries shall be no more than forty percent (40%) of the lender's net worth.

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, TSMC Development and TSMC Global, respectively.

Note 4: The maximum balance for the period and ending balance represents the amounts approved by Board of Directors.

Note 5: The amount was determined based on the audited financial statements in accordance with local accounting principles.

TABLE 2

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

MARKETABLE SECURITIES HELD

DECEMBER 31, 2012

(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, 2012				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	-	\$ 549,881	N/A	\$ 557,900	
	China Steel Corporation	-	"	-	151,265	N/A	151,073	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation	-	Available-for-sale financial assets	1,277,958	1,845,502	4	1,845,052	
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	49,954,386	100	49,954,386	
	TSMC Partners	Subsidiary	"	988,268	38,635,129	100	38,635,609	
	VIS	Investee accounted for using equity method	"	628,223	9,462,038	40	12,658,703	
	SSMC	Investee accounted for using equity method	"	314	6,710,956	39	6,496,972	
	TSMC Solar	Subsidiary	"	1,118,000	6,031,369	99	6,008,087	
	TSMC North America	Subsidiary	"	11,000	3,209,288	100	3,209,288	
	TSMC SSL	Subsidiary	"	430,400	2,411,212	95	2,411,212	
	Xintec	Investee with a controlling financial interest	"	94,950	1,550,313	40	1,550,313	
	GUC	Investee accounted for using equity method	"	46,688	1,222,972	35	4,692,130	
	TSMC Europe	Subsidiary	"	-	235,761	100	253,761	
	TSMC Japan	Subsidiary	"	6	142,412	100	142,412	
	TSMC Korea	Subsidiary	"	80	26,935	100	26,935	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	19,300	193,584	10	390,210	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	341,742	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	34,221	
	<u>Fund</u>							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	89,916	12	89,916	
	Crimson Asia Capital	-	"	-	55,259	1	55,259	
	<u>Capital</u>							
	TSMC China	Subsidiary	Investments accounted for using equity method	-	17,828,683	100	17,886,314	
	VTAF III	Subsidiary	"	-	1,047,285	50	1,025,275	
	VTAF II	Subsidiary	"	-	563,056	98	556,869	
	Emerging Alliance	Subsidiary	"	-	167,359	99	167,359	
	TSMC GN	Subsidiary	"	-	65,007	100	65,007	
TSMC Solar	<u>Stock</u>							
	Motech	Investee accounted for using equity method	Investments accounted for using equity method	87,480	2,998,413	20	2,761,393	
	TSMC Solar Europe	Subsidiary	"	-	175,016	100	175,016	
	TSMC Solar NA	Subsidiary	"	1	44,037	100	44,037	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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 Solar	Capital VTAF III	Investee accounted for using equity method	Investments accounted for using equity method	-	\$ 1,322,024	49	\$ 1,322,024	
TSMC SSL	Stock TSMC Lighting NA	Subsidiary	Investments accounted for using equity method	1	2,864	100	2,864	
TSMC GN	Stock TSMC Solar	Investee accounted for using equity method	Investments accounted for using equity method	4,294	23,076	-	23,076	
	TSMC SSL	Investee accounted for using equity method	"	3,420	19,157	1	19,157	
TSMC Partners	Stock TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	-	US\$ 604,367	100	US\$ 604,367	
	VisEra Holding Company	Investee accounted for using equity method	"	43,000	US\$ 104,540	49	US\$ 104,540	
	TSMC Technology	Subsidiary	"	-	US\$ 11,721	100	US\$ 11,721	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Subsidiary	"	14,153	US\$ 10,479	97	US\$ 10,479	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary	"	787	US\$ 7,805	97	US\$ 7,805	
	TSMC Canada	Subsidiary	"	2,300	US\$ 4,589	100	US\$ 4,589	
	Mcube Inc.	Investee accounted for using equity method	"	6,333	-	25	-	
	Fund Shanghai Walden Venture Capital Enterprise	-	Financial assets carried at cost	-	US\$ 5,000	6	US\$ 5,000	
TSMC North America	Stock Spansion Inc.	-	Available-for-sale financial assets	270	US\$ 3,753	-	US\$ 3,753	
TSMC Development	Stock WaferTech	Subsidiary	Investments accounted for using equity method	293,637	US\$ 262,053	100	US\$ 262,053	
Emerging Alliance	Common stock Audience, Inc.	-	Available-for-sale financial assets	32	US\$ 335	-	US\$ 335	
	Global Investment Holding Inc.	-	Financial assets carried at cost	11,124	US\$ 3,065	6	US\$ 3,065	
	RichWave Technology Corp.	-	"	4,074	US\$ 1,545	10	US\$ 1,545	
	Preferred stock Next IO, Inc.	-	Financial assets carried at cost	8	US\$ 500	-	US\$ 500	
	QST Holdings, LLC	-	"	-	US\$ 142	4	US\$ 142	
	Capital VentureTech Alliance Holdings, LLC (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	7	-	
VTAF II	Common stock Audience, Inc.	-	Available-for-sale financial assets	203	US\$ 2,107	1	US\$ 2,107	
	Sentelic	-	Financial assets carried at cost	1,806	US\$ 2,607	9	US\$ 2,607	
	Aether Systems, Inc.	-	"	1,800	US\$ 1,701	23	US\$ 1,701	
	RichWave Technology Corp.	-	"	1,267	US\$ 1,036	3	US\$ 1,036	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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>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	2	US\$ 4,316	
	Cresta Technology Corporation	-	"	92	US\$ 28	-	US\$ 28	
	Impinj, Inc.	-	"	711	US\$ 1,100	-	US\$ 1,100	
	Next IO, Inc.	-	"	179	US\$ 1,219	1	US\$ 1,219	
	QST Holdings, LLC	-	"	-	US\$ 593	13	US\$ 593	
	<u>Capital</u> VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	31	-	
VTAF III	<u>Common stock</u> Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,643	US\$ 2,120	58	US\$ 2,120	
	InvenSense, Inc.	-	Available-for-sale financial assets	93	US\$ 1,037	-	US\$ 1,037	
	Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$ 315	6	US\$ 315	
	<u>Preferred stock</u> BridgeLux, Inc.	-	Financial assets carried at cost	7,522	US\$ 9,379	3	US\$ 9,379	
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500	
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800	
	Neoconix, Inc.	-	"	4,147	US\$ 4,841	4	US\$ 4,841	
	Powervation, Ltd.	-	"	509	US\$ 7,938	16	US\$ 7,938	
	Stion Corp.	-	"	8,152	US\$ 45,467	15	US\$ 45,467	
	Tilera, Inc.	-	"	3,890	US\$ 3,025	2	US\$ 3,025	
	Validity Sensors, Inc.	-	"	11,192	US\$ 4,197	4	US\$ 4,197	
	<u>Capital</u> Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 368	100	US\$ 368	
	VTA Holdings	Subsidiary	"	-	-	62	-	
	<u>Common stock</u> Integrated Memory Logic, Inc.	-	Available-for-sale financial assets	1,402	US\$ 4,322	2	US\$ 4,322	
	Memsic, Inc.	-	"	1,286	US\$ 4,294	5	US\$ 4,294	
ISDF	<u>Preferred stock</u> Sonics, Inc.	-	Financial assets carried at cost	230	US\$ 497	2	US\$ 497	
ISDF II	<u>Common stock</u> Memsic, Inc.	-	Available-for-sale financial assets	1,072	US\$ 3,581	4	US\$ 3,581	
	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.	-	"	1,035	US\$ 220	3	US\$ 220	
	<u>Preferred stock</u> Sonics, Inc.	-	Financial assets carried at cost	264	US\$ 455	3	US\$ 455	
Xintec	<u>Capital</u> Compositech Ltd.	-	Financial assets carried at cost	587	-	3	-	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				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 Solar Europe	<u>Stock</u> TSMC Solar Europe GmbH	Subsidiary	Investments accounted for using equity method	-	EUR 4,469	100	EUR 4,469	
TSMC Global	<u>Stock</u> ASML	-	Available-for-sale financial assets	20,993	US\$ 1,334,501	5	US\$ 1,334,501	
	Money market fund Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	50	US\$ 50	N/A	US\$ 50	
	<u>Corporate bond</u> Aust + Nz Banking Group	-	Held-to-maturity financial assets	20,000	US\$ 19,999	N/A	US\$ 20,033	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 25,006	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 25,043	
	Deutsche Bank AG London	-	"	20,000	US\$ 19,999	N/A	US\$ 20,007	
	JP Morgan Chase + Co.	-	"	35,000	US\$ 35,006	N/A	US\$ 34,956	
	Westpac Banking Corp.	-	"	25,000	US\$ 25,000	N/A	US\$ 25,013	

(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, 2012

(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				Ending Balance (Note)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	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	Corporate bond Nan Ya Plastics Corporation	Held-to-maturity financial assets	-	-	-	\$ 1,099,629	-	\$ -	-	\$ 550,000	\$ 550,000	\$ -	-	\$ 549,881
	China Steel Corporation	"	-	-	-	303,798	-	-	-	150,000	150,000	-	-	151,265
	Stock Semiconductor Manufacturing International Corporation	Available-for-sale financial assets	-	-	1,789,493	2,617,134	-	-	511,535	612,834	502,200	110,634	1,277,958	1,845,052
	TSMC SSL	Investments accounted for using equity method	-	Subsidiary	227,000	1,746,893	203,400	2,034,000	-	-	-	-	430,400	2,411,212
	Capital TSMC GN	Investments accounted for using equity method	-	Subsidiary	-	-	-	100,000	-	-	-	-	-	65,007
TSMC Partners	Corporate bond General Elec Cap Corp. Mtn	Held-to-maturity financial assets	-	-	-	US\$ 20,012	-	-	-	US\$ 20,000	US\$ 20,000	-	-	-
	General Elec Cap Corp. Mtn	"	-	-	-	US\$ 20,059	-	-	-	US\$ 20,000	US\$ 20,000	-	-	-
VTAF II	Preferred stock Power Analog Microelectronics	Financial assets carried at cost	-	-	7,330	US\$ 3,482	-	-	7,330	US\$ 3,345	US\$ 3,482	US\$ (137)	-	-
VTAF III	Stock InvenSense, Inc.	Available-for-sale financial assets	-	-	796	US\$ 7,932	-	-	703	US\$ 7,460	US\$ 861	US\$ 6,599	93	US\$ 1,037
TSMC Global	Stock ASML	Available-for-sale financial assets	-	-	-	-	20,993	US\$ 1,085,474	-	-	-	-	20,993	US\$ 1,334,501
	Government bond Societe De Financement De Lec	Held-to-maturity financial assets	-	-	15,000	US\$ 15,000	-	-	15,000	US\$ 15,000	US\$ 15,000	-	-	-
	Corporate bond Nationwide Building Society-UK	Held-to-maturity financial assets	-	-	8,000	US\$ 8,000	-	-	8,000	US\$ 8,000	US\$ 8,000	-	-	-
	Government Guarantee Westpac Banking Corp. 12/12 Frn	"	-	-	5,000	US\$ 5,000	-	-	5,000	US\$ 5,000	US\$ 5,000	-	-	-
ISDF	Common stock Integrated Memory Logic, Inc.	Available-for-sale financial assets	-	-	2,161	US\$ 6,289	127	-	886	US\$ 3,152	US\$ 207	US\$ 2,945	1,402	US\$ 4,322
TSMC Solar Europe	Stock TSMC Solar Europe GmbH	Investments accounted for using equity method	-	Subsidiary	-	EUR 5,103	-	EUR 2,500	-	-	-	-	-	EUR 4,469

Note: The ending balance includes the amortization of premium/discount on bonds investments, translation adjustments, equity in earnings/losses of equity method investees and other adjustments to long-term investments accounted for using equity method.

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, 2012

(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	February 7, 2012 to December 27, 2012	\$ 249,912	By the construction progress	MandarTech Interiors Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 7, 2012 to December 27, 2012	219,807	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to December 28, 2012	5,015,656	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to December 27, 2012	1,766,332	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to December 27, 2012	2,958,930	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to July 27, 2012	185,115	By the construction progress	Toko Steel Structure Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	May 28, 2012 to November 27, 2012	320,705	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	August 28, 2012 to December 26, 2012	131,678	By the construction progress	Shiny G&M Associated Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Land	November 21, 2012	963,600	By the contract	Miaoli County Government	-	N/A	N/A	N/A	N/A	Public bidding	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, 2012

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

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/Sales	Amount (US\$ in Thousands)	% to Total	Payment Terms	Unit Price (Note)	Payment Terms (Note)	Ending Balance (US\$ in Thousands)	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 326,768,469	64	Net 30 days after invoice date	-	-	\$ 40,748,905	72	
	GUC	Investee accounted for using equity method	Sales	4,370,617	1	Net 30 days after monthly closing	-	-	238,380	-	
	VIS	Investee accounted for using equity method	Sales	177,331	-	Net 30 days after monthly closing	-	-	-	-	
	TSMC China	Subsidiary	Purchases	15,708,447	26	Net 30 days after monthly closing	-	-	(1,616,342)	10	
	WaferTech	Indirect subsidiary	Purchases	8,026,114	14	Net 30 days after monthly closing	-	-	(580,064)	3	
	VIS	Investee accounted for using equity method	Purchases	4,475,674	8	Net 30 days after monthly closing	-	-	(364,790)	2	
	SSMC	Investee accounted for using equity method	Purchases	3,638,633	6	Net 30 days after monthly closing	-	-	(351,389)	2	
TSMC North America	GUC	Investee accounted for using equity method by TSMC	Sales	509,890	-	Net 30 days after invoice date	-	-	35,032	-	
				(US\$ 17,238)					(US\$ 1,206)		
	Mcube Inc.	Investee accounted for using equity method by TSMC	Sales	249,375	-	Net 60 days after invoice date	-	-	80,212	-	
				(US\$ 8,431)					(US\$ 2,762)		
Xintec	OmniVision	Parent company of director (represented for Xintec)	Sales	1,261,163	40	Net 30 days after monthly closing	-	-	215,403	50	

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, 2012

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

Company Name	Related Party	Nature of Relationships	Ending Balance (US\$ in Thousands)	Turnover Days (Note 1)	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
TSMC	TSMC North America	Subsidiary	\$ 40,837,732	37	\$ 15,905,710	-	\$ 17,191,890	\$ -
	GUC	Investee accounted for using equity method	238,380	15	-	-	-	-
	VIS	Investee accounted for using equity method	122,893	(Note 2)	-	-	-	-
TSMC Partners	TSMC China	The same parent company	3,793,421	(Note 2)	-	-	-	-
			(US\$ 130,636)					
TSMC Development	TSMC Solar	The same parent company	1,496,194	(Note 2)	-	-	-	-
			(US\$ 51,525)					
	TSMC SSL	The same parent company	203,277	(Note 2)	-	-	-	-
			(US\$ 7,000)					
Xintec	OmniVision	Parent company of director (represented for Xintec)	215,403	66	-	-	-	-
TSMC Technology	TSMC	Parent company	117,283	(Note 2)	-	-	-	-
			(US\$ 4,039)					
WaferTech	TSMC	Parent company	580,064	16	-	-	-	-
			(US\$ 19,976)					

Note 1: The calculation of turnover days excludes other receivables from related parties.

Note 2: The ending balance is primarily consisted of other receivables, which is not applicable for the calculation of turnover days.

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, 2012

(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, 2012			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (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	\$ 49,954,386	\$ 469,933	\$ 469,933	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	38,635,129	5,088,931	5,088,451	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	18,939,667	-	100	17,828,683	4,757,121	4,740,524	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	40	9,462,038	2,329,808	770,379	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	6,710,956	4,721,908	1,831,634	Investee accounted for using equity method
	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	11,180,000	1,118,000	99	6,031,369	(4,037,825)	(4,044,944)	Subsidiary
	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	3,209,288	312,232	312,232	Subsidiary
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	4,304,000	2,270,000	430,400	95	2,411,212	(1,466,733)	(1,397,589)	Subsidiary
	Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,950	40	1,550,313	(91,177)	(49,604)	Investee with a controlling financial interest
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,222,972	612,369	209,312	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,896,914	2,074,155	-	50	1,047,285	(177,152)	122,852	Subsidiary
	VTAF II	Cayman Islands	Investing in new start-up technology companies	704,447	949,267	-	98	563,056	62,349	61,102	Subsidiary
	TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	235,761	34,931	34,931	Subsidiary
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	852,258	892,855	-	99	167,359	(2,940)	(2,925)	Subsidiary
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	142,412	3,786	3,786	Subsidiary
	TSMC GN	Taipei, Taiwan	Investment activities	100,000	-	-	100	65,007	(24,928)	(24,928)	Subsidiary
	TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	26,935	2,602	2,602	Subsidiary
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	6,228,661	87,480	20	2,998,413	(5,037,203)	Note 2	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,801,918	1,795,131	-	49	1,322,024	(177,152)	Note 2	Investee accounted for using equity method
	TSMC Solar Europe	Amsterdam, the Netherlands	Investing in solar related business	504,107	411,032	-	100	175,016	(119,668)	Note 2	Subsidiary
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	205,772	147,686	1	100	44,037	(65,268)	Note 2	Subsidiary
TSMC SSL	TSMC Lighting NA	Delaware, U.S.A.	Selling and marketing of solid state lighting related products	3,133	3,133	1	100	2,864	(7)	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2012			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (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	-	100	US\$ 604,367	US\$ 144,333	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\$ 104,540	US\$ 30,091	Note 2	
	TSMC Technology ISDF II ISDF TSMC Canada Mcube Inc.	Delaware, U.S.A. Cayman Islands Cayman Islands Ontario, Canada Delaware, U.S.A.	Engineering support activities	US\$ 0.001	US\$ 0.001	-	100	US\$ 11,721	US\$ 1,106	Note 2	Subsidiary
			Investing in new start-up technology companies	US\$ 14,153	US\$ 14,153	14,153	97	US\$ 10,479	US\$ (121)	Note 2	Subsidiary
			Investing in new start-up technology companies	US\$ 787	US\$ 787	787	97	US\$ 7,805	US\$ 2,493	Note 2	Subsidiary
			Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 4,589	US\$ 422	Note 2	Subsidiary
			Research, development, and sale of micro-semiconductor device	US\$ 1,800	US\$ 1,800	6,333	25	-	US\$ (12,599)	Note 2	Investee accounted for using equity method
TSMC Development	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	293,637	100	US\$ 262,053	US\$ 142,551	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\$ 5,212	US\$ 3,937	15,643	58	US\$ 2,120	US\$ (1,422)	Note 2	Subsidiary
	Growth Fund	Cayman Islands	Investing in new start-up technology companies	US\$ 1,830	US\$ 1,830	-	100	US\$ 368	US\$ (141)	Note 2	Subsidiary
	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	62	-	-	Note 2	Subsidiary
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	31	-	-	Note 2	Subsidiary
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	7	-	-	Note 2	Subsidiary
TSMC Solar Europe	TSMC Solar Europe GmbH	Hamburg, Germany	Selling of solar related products and providing customer service	EUR 12,400	EUR 9,900	-	100	EUR 4,469	EUR (3,133)	Note 2	Subsidiary
TSMC GN	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	\$ 42,945	\$ -	4,294	-	\$ 23,076	\$ (4,037,825)	Note 2	Investee accounted for using equity method
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	34,266	-	3,420	1	19,157	(1,466,733)	Note 2	Investee accounted for using equity method

Note 1: Equity in earnings/losses of investees includes 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.

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INFORMATION ON INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2012

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

Investee 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, 2012 (US\$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2012 (US\$ in Thousands)
					Outflow	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)	\$ 18,939,667 (US\$ 596,000)	\$ -	\$ -	\$ 18,939,667 (US\$ 596,000)
Shanghai Walden Venture Capital Enterprise	Investing in new start-up technology companies	2,324,062 (US\$ 78,791)	(Note 2)	147,485 (US\$ 5,000)	-	-	147,485 (US\$ 5,000)

Investee Company	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2012 (US\$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2012
TSMC China	100%	\$ 4,740,524 (Note 3)	\$ 17,828,683	\$ -
Shanghai Walden Venture Capital Enterprise	6%	(Note 4)	145,190 (US\$ 5,000)	-

Accumulated Investment in Mainland China as of December 31, 2012 (US\$ in Thousands)	Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands)	Upper Limit on Investment(US\$ in Thousands)
\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)	\$ 19,087,152 (US\$ 601,000)

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, 2012

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	\$ 326,768,469	-	64%
				Receivables from related parties	40,748,905	-	4%
				Other receivables from related parties	88,827	-	-
				Payables to related parties	37,972	-	-
		TSMC China	1	Sales	2,956	-	-
				Purchases	15,708,447	-	3%
				Marketing expenses - commission	72,373	-	-
				Disposal of property, plant and equipment	46,941	-	-
				Purchases of property, plant and equipment	216,084	-	-
				Loss on disposal of property, plant and equipment, net	18,699	-	-
				Other receivables from related parties	2,686	-	-
				Payables to related parties	1,616,342	-	-
				Deferred credits	17,271	-	-
		TSMC Japan	1	Marketing expenses - commission	277,374	-	-
				Payables to related parties	41,532	-	-
		TSMC Europe	1	Marketing expenses - commission	345,906	-	-
				Research and development expenses	49,763	-	-
				Payables to related parties	32,226	-	-
		TSMC Korea	1	Marketing expenses - commission	20,643	-	-
		TSMC Technology	1	Research and development expenses	713,323	-	-
				Payables to related parties	117,283	-	-
		WaferTech	1	Sales	12,745	-	-
				Purchases	8,026,114	-	2%
				Payables to related parties	580,064	-	-
		TSMC Canada	1	Research and development expenses	206,894	-	-
				Payables to related parties	14,388	-	-
		Xintec	1	Manufacturing expenses	180,768	-	-
				Research and development expenses	5,023	-	-
				Payables to related parties	36,434	-	-
		TSMC SSL	1	Miscellaneous revenue	5,625	-	-

(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 Solar	1	General and administrative expenses	\$ 2,694	-	-
				Purchases of property, plant and equipment	14,448	-	-
				Miscellaneous revenue	5,625	-	-
				Payables to related parties	7,373	-	-
		TSMC Global	1	Interest expenses	4,870	-	-
1	TSMC Partners	TSMC China	3	Other receivables from related parties	3,793,421	-	-
				Interest income	16,905	-	-
		TSMC Solar	3	Interest income	2,558	-	-
2	TSMC Solar	TSMC Solar Europe GmbH	1	Sales	23,771	-	-
				Receivables from related parties	3,659	-	-
		TSMC Solar NA	1	Sales	3,897	-	-
		TSMC Development	3	Other payable to related parties	1,496,194	-	-
3	TSMC SSL	TSMC Development	3	Other payable to related parties	203,277	-	-
3	TSMC Development	WaferTech	1	Other receivables from related parties	35,416	-	-

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.

(Continued)

B. 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	-	-
		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	-	-

(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 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 expense	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	-	-
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.

(Concluded)

9. U.S. GAAP Financial Information

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LIMITED AND SUBSIDIARIES

U.S. GAAP RECONCILIATIONS OF SHAREHOLDERS' EQUITY

December 31, 2012 and 2011

(In Thousand New Taiwan Dollars)

	2012	2011
Total shareholders' equity based on R.O.C. GAAP	\$ 725,753,699	\$ 632,043,551
Adjustments		
- U.S. GAAP adjustments on equity-method investees	(939,111)	(626,983)
- 10% tax on undistributed earnings	(9,629,231)	(2,808,380)
- 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	(11,643,424)	(11,507,850)
- Accrued pension cost	(19,742)	(23,683)
- Accrual for deferred pension loss	(2,734,595)	(2,108,370)
- Reversal of the increase in pension liability resulted from net loss not recognized as pension cost under R.O.C. GAAP	4,416	-
- Gain from deconsolidation of GUC	4,304,106	4,304,106
- Income tax effect of U.S. GAAP adjustments	107,197	127,484
Net adjustment	<u>31,662,348</u>	<u>39,569,056</u>
Total equity based on U.S. GAAP	<u>\$ 757,416,047</u>	<u>\$ 671,612,607</u>
Attributable to		
Shareholders of the parent	754,860,062	669,162,570
Noncontrolling interests	2,555,985	2,450,037
	<u>\$ 757,416,047</u>	<u>\$ 671,612,607</u>

TAIWAN SEMICONDUCTOR MANUFACTURING COMPANY LTD. AND SUBSIDIARIES

U.S. GAAP RECONCILIATIONS OF NET INCOME

For the Years Ended December 31, 2012 and 2011

(In Thousand New Taiwan Dollars)

	2012	2011
Net income		
Consolidated net income based on R.O.C. GAAP	\$ 165,963,689	\$ 134,453,260
Adjustments		
- U.S. GAAP adjustments on equity-method investees	(319,519)	(127,210)
- 10% tax on undistributed earnings	(6,820,850)	(1,428,775)
- Profit sharing to employees - Fair market value adjustment of prior year accrual	-	(30,610)
- Pension expense	3,940	3,762
- Stock-based compensation	(157,655)	(60,074)
- Gain from deconsolidation of GUC	-	4,304,106
- Income tax effect of U.S. GAAP adjustments	(15,138)	(11,145)
Net adjustment	<u>(7,309,222)</u>	<u>2,650,054</u>
Consolidated net income based on U.S. GAAP	<u>\$ 158,654,467</u>	<u>\$ 137,103,314</u>
Attributable to		
Shareholders of the parent	158,849,580	136,872,746
Noncontrolling interests	(195,113)	230,568
	<u>\$ 158,654,467</u>	<u>\$ 137,103,314</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://mops.twse.com.tw>



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Morris Chang, Chairman

