

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

May 04, 2012

1934 Act Registration No. 1-14700

# **SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

## **FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

For the month of May 2012

**Taiwan Semiconductor Manufacturing Company Ltd.**

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

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(Address of Principal Executive Offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If  Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82: .)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Taiwan Semiconductor Manufacturing Company Ltd.

Date: May 4, 2012

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

**Taiwan Semiconductor Manufacturing Company Limited**

**Financial Statements for the**

**Three Months Ended March 31, 2012 and 2011 and**

**Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of March 31, 2012 and 2011, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be 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 reviewed, in accordance with Statement on Auditing Standards No. 36, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the three months ended March 31, 2012 and 2011 on which we have issued an unqualified review report.

April 24, 2012

Notice to Readers

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

*For the convenience of readers, the accountants' review 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 accountants' review report and financial statements shall prevail.*

## Taiwan Semiconductor Manufacturing Company Limited

## BALANCE SHEETS

MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 112,143,813	14	\$ 93,336,868	13
Financial assets at fair value through profit or loss (Notes 2, 5 and 22)			11,605	
Available-for-sale financial assets (Notes 2, 6 and 22)	2,618,029		4,069,307	
Held-to-maturity financial assets (Notes 2, 7 and 22)	700,849		4,792,967	1
Receivables from related parties (Notes 3 and 23)	32,912,671	4	27,778,241	4
Notes and accounts receivable (Note 3)	19,086,220	2	24,160,358	3
Allowance for doubtful receivables (Notes 2, 3 and 8)	(485,120)		(488,000)	
Allowance for sales returns and others (Notes 2 and 8)	(5,239,205)		(6,771,655)	(1)
Other receivables from related parties (Notes 3 and 23)	1,372,293		1,852,676	
Other financial assets	145,151		375,679	
Inventories (Notes 2 and 9)	25,576,575	3	28,893,528	4
Deferred income tax assets (Notes 2 and 17)	6,528,828	1	4,864,903	1
Prepaid expenses and other current assets	2,418,982		1,102,143	
<b>Total current assets</b>	<b>197,779,086</b>	<b>24</b>	<b>183,978,620</b>	<b>25</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 22)</b>				
Investments accounted for using equity method	127,897,713	16	113,973,080	16
Available-for-sale financial assets			1,036,044	
Held-to-maturity financial assets	702,007		1,405,140	
Financial assets carried at cost	497,835		497,835	
<b>Total long-term investments</b>	<b>129,097,555</b>	<b>16</b>	<b>116,912,099</b>	<b>16</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 23)</b>				
<b>Cost</b>				
Buildings	163,888,364	20	144,102,555	20
Machinery and equipment	1,071,297,999	130	919,031,062	125
Office equipment	14,858,272	2	12,397,508	2
	1,250,044,635	152	1,075,531,125	147
Accumulated depreciation	(829,752,709)	(101)	(729,610,275)	(100)
Advance payments and construction in progress	55,232,321	7	65,400,509	9
<b>Net property, plant and equipment</b>	<b>475,524,247</b>	<b>58</b>	<b>411,321,359</b>	<b>56</b>
<b>INTANGIBLE ASSETS</b>				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2 and 13)	4,625,009	1	5,116,739	1

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Total intangible assets	6,192,765	1	6,684,495	1
<b>OTHER ASSETS</b>				
Deferred income tax assets (Notes 2 and 17)	7,015,660	1	6,386,238	1
Refundable deposits	4,501,743		4,793,553	1
Others (Notes 2 and 23)	1,026,245		1,421,263	
Total other assets	12,543,648	1	12,601,054	2
<b>TOTAL</b>	<b>\$ 821,137,301</b>	<b>100</b>	<b>\$ 731,497,627</b>	<b>100</b>

	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Note 14)	\$ 34,687,716	4	\$ 34,176,368	5
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 22)	47,930		15,028	
Accounts payable	12,134,426	2	10,328,555	1
Payables to related parties (Note 23)	2,892,587		3,071,311	
Income tax payable (Notes 2 and 17)	13,415,038	2	9,702,596	1
Accrued profit sharing to employees and bonus to directors (Notes 2 and 19)	11,307,014	1	13,415,809	2
Payables to contractors and equipment suppliers	33,213,318	4	32,410,632	4
Accrued expenses and other current liabilities (Note 22)	13,269,862	2	11,677,636	2
Current portion of bonds payable (Notes 15 and 22)			4,500,000	1
Total current liabilities	120,967,891	15	119,297,935	16
<b>LONG-TERM LIABILITIES</b>				
Bonds payable (Notes 15 and 22)	35,000,000	4		
<b>OTHER LIABILITIES</b>				
Accrued pension cost (Notes 2 and 16)	3,857,150	1	3,830,337	1
Guarantee deposits (Note 25)	379,933		695,472	
Total other liabilities	4,237,083	1	4,525,809	1
Total liabilities	160,204,974	20	123,823,744	17
<b>CAPITAL STOCK - NT\$10 PAR VALUE (Note 19)</b>				
Authorized: 28,050,000 thousand shares				
Issued: 25,920,604 thousand shares in 2012				
25,914,193 thousand shares in 2011	259,206,046	31	259,141,933	35
CAPITAL SURPLUS (Notes 2 and 19)	56,008,374	7	55,781,482	8
<b>RETAINED EARNINGS (Note 19)</b>				
Appropriated as legal capital reserve	102,399,995	12	86,239,494	12
Appropriated as special capital reserve	6,433,874	1	1,313,047	
Unappropriated earnings	246,831,473	30	214,504,803	29
	355,665,342	43	302,057,344	41

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Cumulative translation adjustments (Note 2)	(9,064,188)	(1)	(9,351,749)	(1)
Unrealized gain (loss) on financial instruments (Notes 2 and 22)	(883,247)		44,873	
	(9,947,435)	(1)	(9,306,876)	(1)
Total shareholders' equity	660,932,327	80	607,673,883	83
<b>TOTAL</b>	<b>\$ 821,137,301</b>	<b>100</b>	<b>\$ 731,497,627</b>	<b>100</b>

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



## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 23)	\$ 105,573,837		\$ 103,940,307	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	1,325,101		1,391,829	
NET SALES	104,248,736	100	102,548,478	100
COST OF SALES (Notes 9, 18 and 23)	55,752,853	53	53,489,888	52
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	48,495,883	47	49,058,590	48
REALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	74,029		56,207	
GROSS PROFIT	48,569,912	47	49,114,797	48
OPERATING EXPENSES (Notes 18 and 23)				
Research and development	8,614,378	8	7,314,458	7
General and administrative	4,359,676	4	2,985,064	3
Marketing	555,455	1	664,712	1
Total operating expenses	13,529,509	13	10,964,234	11
INCOME FROM OPERATIONS	35,040,403	34	38,150,563	37
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	984,787	1	1,577,135	2
Foreign exchange gain, net (Note 2)	246,139		380,003	
Interest income	233,789		149,283	
Technical service income (Note 23)	107,336		115,244	
Others (Notes 2 and 23)	8,306		238,143	
Total non-operating income and gains	1,580,357	1	2,459,808	2

(Continued)

## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Impairment loss on idle assets (Note 2)	\$ 438,828	1	\$	
Valuation loss on financial instruments, net (Notes 2, 5 and 22)	221,272		256,988	
Interest expense	191,644		71,582	
Loss on disposal of property, plant and equipment (Notes 2 and 23)	34,864		164,502	
Others (Note 2)	6,870		34,083	
<b>Total non-operating expenses and losses</b>	<b>893,478</b>	<b>1</b>	<b>527,155</b>	
<b>INCOME BEFORE INCOME TAX</b>	<b>35,727,282</b>	<b>34</b>	<b>40,083,216</b>	<b>39</b>
<b>INCOME TAX EXPENSE (Notes 2 and 17)</b>	<b>2,253,095</b>	<b>2</b>	<b>3,805,443</b>	<b>4</b>
<b>NET INCOME</b>	<b>\$ 33,474,187</b>	<b>32</b>	<b>\$ 36,277,773</b>	<b>35</b>
	<b>2012</b>		<b>2011</b>	
	<b>Before</b>		<b>Before</b>	<b>After</b>
	<b>Income</b>	<b>After</b>	<b>Income</b>	<b>Income</b>
	<b>Tax</b>	<b>Income</b>	<b>Tax</b>	<b>Tax</b>
		<b>Tax</b>		
<b>EARNINGS PER SHARE (NT\$, Note 21)</b>				
Basic earnings per share	\$ 1.38	\$ 1.29	\$ 1.55	\$ 1.40
Diluted earnings per share	\$ 1.38	\$ 1.29	\$ 1.55	\$ 1.40

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

(Concluded)

## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 33,474,187	\$ 36,277,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,403,157	23,872,606
Realized gross profit from affiliates	(74,029)	(56,207)
Amortization of premium/discount of financial assets	571	4,180
Equity in earnings of equity method investees, net	(984,787)	(1,577,135)
Loss on disposal of property, plant and equipment and other assets, net	33,385	68,332
Impairment loss on idle assets	438,828	
Deferred income tax	(543,272)	1,011,225
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	62,855	(4,411)
Receivables from related parties	(8,135,137)	(2,044,267)
Notes and accounts receivable	808,166	(1,909,453)
Allowance for sales returns and others	351,326	(569,789)
Other receivables from related parties	(6,729)	(66,347)
Other financial assets	(23,141)	42,527
Inventories	(2,723,178)	(3,247,180)
Prepaid expenses and other current assets	(693,246)	250,101
Accounts payable	1,614,782	(1,521,635)
Payables to related parties	(99,995)	496,861
Income tax payable	2,767,241	2,593,727
Accrued profit sharing to employees and bonus to directors	2,251,310	2,456,340
Accrued expenses and other current liabilities	286,730	(2,177,677)
Accrued pension cost	(3,748)	5,736
Net cash provided by operating activities	55,205,276	53,905,307
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	(47,146,132)	(77,193,490)
Investments accounted for using equity method	(2,151,483)	(423,220)
Proceeds from disposal of:		
Property, plant and equipment and other assets	19,381	553,698
Proceeds from return of capital by investees	21,537	
Increase in deferred charges	(395,772)	(181,158)
Decrease (increase) in refundable deposits	(10,008)	3,845,196
Decrease (increase) in other assets	200	(23,199)
Net cash used in investing activities	(49,662,277)	(73,422,173)



## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	\$ 8,761,188	\$ 3,267,731
Proceeds from issuance of bonds	17,000,000	
Repayment of bonds	(4,500,000)	
Decrease in guarantee deposits	(59,099)	(52,415)
Proceeds from exercise of employee stock options	136,204	127,288
<b>Net cash provided by financing activities</b>	<b>21,338,293</b>	<b>3,342,604</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>26,881,292</b>	<b>(16,174,262)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>85,262,521</b>	<b>109,511,130</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 112,143,813</b>	<b>\$ 93,336,868</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 218,625	\$ 181,409
Income tax paid	\$ 48,229	\$ 213,963
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant and equipment	\$ 47,544,436	\$ 68,902,831
Decrease (increase) in payables to contractors and equipment suppliers	(398,304)	8,290,659
<b>Cash paid</b>	<b>\$ 47,146,132</b>	<b>\$ 77,193,490</b>
Disposal of property, plant and equipment and other assets	\$ 51,500	\$ 1,037,746
Increase in other receivables from related parties	(32,119)	(484,048)
<b>Cash received</b>	<b>\$ 19,381</b>	<b>\$ 553,698</b>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Idle assets reclassified from property, plant and equipment	\$ 438,828	\$
<b>Current portion of bonds payable</b>	<b>\$</b>	<b>\$ 4,500,000</b>
<b>Current portion of other long-term payables (under accrued expenses and other current liabilities)</b>	<b>\$</b>	<b>\$ 912,591</b>

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

(Concluded)

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**Taiwan Semiconductor Manufacturing Company Limited**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

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

**(Reviewed, Not Audited)**

**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 Solid State Lighting Ltd. (TSMC SSL) and TSMC Solar Ltd. (TSMC Solar), respectively.

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

As of March 31, 2012 and 2011, the Company had 30,053 and 30,283 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 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 period. The fair value of debt securities is determined using the average of bid and asked prices at the end of the period.

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

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

### **Held-to-maturity Financial Assets**

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

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

#### **Financial Assets Carried at Cost**

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

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

### **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 period the related revenue is recognized, based on historical experience, management's judgment, and any known factors that would significantly affect the allowance.

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

### **Spin-off**

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

### **3. ACCOUNTING CHANGES**

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

	2012	March 31 2011
Cash and deposits in banks	\$ 109,392,852	\$ 91,709,652
Repurchase agreements collateralized by corporate bonds	1,913,846	
Repurchase agreements collateralized by government bonds	837,115	1,627,216
	\$ 112,143,813	\$ 93,336,868

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

	2012	March 31 2011
<u>Trading financial assets</u>		
Forward exchange contracts	\$	\$ 11,605
<u>Trading financial liabilities</u>		
Forward exchange contracts	\$ 47,930	\$ 15,028

The Company entered into derivative contracts during the three months ended March 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>March 31, 2012</u>		
Sell NT\$/Buy JPY	April 2012	NT\$847,282/JPY2,300,000
Sell US\$/Buy JPY	April 2012	US\$39,743/JPY3,190,365
<u>March 31, 2011</u>		
Sell NT\$/Buy JPY	April 2011	NT\$1,173,256/JPY3,268,300
Sell NT\$/Buy EUR	April 2011	NT\$83,800/EUR2,000
Sell EUR/Buy NT\$	April 2011	EUR59,550/NT\$2,494,130

Net losses on derivative financial instruments for the three months ended March 31, 2012 and 2011 were NT\$221,272 thousand and NT\$256,988 thousand, respectively.

**6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	March 31	
	2012	2011
Overseas publicly traded stock	\$ 2,618,029	\$ 4,069,307
Corporate bonds		1,036,044
	2,618,029	5,105,351
Current portion	(2,618,029)	(4,069,307)
	\$	\$ 1,036,044

**7. HELD-TO-MATURITY FINANCIAL ASSETS**

	March 31	
	2012	2011
Corporate bonds	\$ 1,402,856	\$ 6,198,107
Current portion	(700,849)	(4,792,967)
	\$ 702,007	\$ 1,405,140

**8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS**

As of March 31, 2012 and 2011, the balance of the allowance for doubtful receivables was NT\$485,120 thousand and NT\$488,000 thousand, respectively. There was no additions or deductions of allowances for doubtful receivables for the three months ended March 31, 2012 and 2011.

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

	Three Months Ended March 31	
	2012	2011
Balance, beginning of period	\$ 4,887,879	\$ 7,341,444
Provision	1,325,101	1,391,829
Write-off	(973,775)	(1,961,618)
Balance, end of period	\$ 5,239,205	\$ 6,771,655

**9. INVENTORIES**

	March 31	
	2012	2011
Finished goods	\$ 4,242,403	\$ 6,988,136
Work in process	18,281,729	18,111,238

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Raw materials	2,095,010	2,566,796
Supplies and spare parts	957,433	1,227,358
	\$ 25,576,575	\$ 28,893,528

Write-down of inventories to net realizable value in the amount of NT\$680,850 thousand and NT\$650,892 thousand, respectively, were included in the cost of sales for the three months ended March 31, 2012 and 2011.





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 a portion of the shares were reserved for TSMC GN and the employees of TSMC SSL and TSMC Solar to subscribe, the Company did not subscribe to the shares at a percentage consistent with its pre-existing ownership. As a result, the Company's percentage of ownership in TSMC SSL and TSMC Solar decreased to 95% and 99%, respectively.

For the three months ended March 31, 2012 and 2011, equity in earnings of equity method investees was a net gain of NT\$984,787 thousand and NT\$1,577,135 thousand, respectively.

As of March 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\$13,192,202 thousand and NT\$13,160,444 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:

	<b>Three Months Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
Balance, beginning of period	\$ 275,584	\$ 2,504,496
Amortizations	(63,410)	(238,356)
<b>Balance, end of period</b>	<b>\$ 212,174</b>	<b>\$ 2,266,140</b>

As of March 31, 2012 and 2011, balance of the aforementioned difference allocated to goodwill was NT\$1,061,885 thousand and NT\$1,415,565 thousand, respectively. There was no acquisition or impairment in goodwill for the three months ended March 31, 2012 and 2011.

## 11. FINANCIAL ASSETS CARRIED AT COST

	<b>March 31</b>	
	<b>2012</b>	<b>2011</b>
Non-publicly traded stocks	\$ 338,584	\$ 338,584
Mutual funds	159,251	159,251
<b></b>	<b>\$ 497,835</b>	<b>\$ 497,835</b>

## 12. PROPERTY, PLANT AND EQUIPMENT

	<b>Three Months Ended March 31, 2012</b>				<b>Balance, End of Period</b>
	<b>Balance, Beginning of Period</b>	<b>Additions (Deductions)</b>	<b>Disposals</b>	<b>Reclassification</b>	
<b>Cost</b>					
Buildings	\$ 149,495,478	\$ 14,405,480	\$ (12,594)	\$	\$ 163,888,364
Machinery and equipment	984,978,666	87,369,338	(308,114)	(741,891)	1,071,297,999
Office equipment	13,824,434	1,312,037	(278,199)		14,858,272
	<b>1,148,298,578</b>	<b>\$ 103,086,855</b>	<b>\$ (598,907)</b>	<b>\$ (741,891)</b>	<b>1,250,044,635</b>

(Continued)

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	Three Months Ended March 31, 2012				Balance, End of Period
	Balance, Beginning of Period	Additions (Deductions)	Disposals	Reclassification	
Accumulated depreciation					
Buildings	\$ 90,274,267	\$ 2,247,176	\$ (11,327)	\$	\$ 92,510,116
Machinery and equipment	704,885,017	23,318,864	(306,293)	(303,063)	727,594,525
Office equipment	9,581,513	344,754	(278,199)		9,648,068
	804,740,797	\$ 25,910,794	\$ (595,819)	\$ (303,063)	829,752,709
Advance payments and construction in progress	110,815,752	\$ (55,542,419)	\$ (41,012)	\$	55,232,321
	\$ 454,373,533				\$ 475,524,247

(Concluded)

	Three Months Ended March 31, 2011				Balance, End of Period
	Balance, Beginning of Period	Additions (Deductions)	Disposals	Reclassification	
Cost					
Buildings	\$ 128,646,942	\$ 15,465,320	\$ (9,707)	\$	\$ 144,102,555
Machinery and equipment	852,733,592	66,496,059	(198,589)		919,031,062
Office equipment	11,730,537	805,809	(138,838)		12,397,508
	993,111,071	\$ 82,767,188	\$ (347,134)	\$	1,075,531,125
Accumulated depreciation					
Buildings	81,347,877	\$ 2,112,051	\$ (9,707)	\$	83,450,221
Machinery and equipment	616,495,207	20,975,058	(196,951)		637,273,314
Office equipment	8,762,361	263,217	(138,838)		8,886,740
	706,605,445	\$ 23,350,326	\$ (345,496)	\$	729,610,275
Advance payments and construction in progress	80,348,673	\$ (13,864,357)	\$ (1,083,807)	\$	65,400,509
	\$ 366,854,299				\$ 411,321,359

No interest was capitalized during the three months ended March 31, 2012 and 2011.

### 13. DEFERRED CHARGES, NET

	Three Months Ended March 31, 2012			Balance, End of Period
	Balance, Beginning of Period	Additions	Amortization	
Technology license fees	\$ 1,617,310	\$	\$ (104,922)	\$ 1,512,388

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Software and system design costs	2,316,571	140,829	(269,288)	2,188,112
Patent and others	785,363	254,943	(115,797)	924,509
	\$ 4,719,244	\$ 395,772	\$ (490,007)	\$ 4,625,009

	Three Months Ended March 31, 2011			Balance, End of Period
	Balance, Beginning of Period	Additions	Amortization	
Technology license fees	\$ 2,277,832	\$	\$ (167,493)	\$ 2,110,339
Software and system design costs	2,075,935	36,691	(252,004)	1,860,622
Patent and others	1,102,660	144,467	(101,349)	1,145,778
	\$ 5,456,427	\$ 181,158	\$ (520,846)	\$ 5,116,739

**14. SHORT-TERM LOANS**

	2012	March 31 2011
<b>Unsecured loans:</b>		
US\$1,174,700 thousand, due in April 2012, and annual interest at 0.41%-0.74% in 2012; US\$1,086,000 thousand and EUR52,000 thousand, due in April 2011, and annual interest at 0.40%-0.87% in 2011	\$ 34,687,716	\$ 34,176,368

**15. BONDS PAYABLE**

	2012	March 31 2011
<b>Domestic unsecured bonds:</b>		
Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually	\$ 10,500,000	\$
Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually	7,500,000	
Issued in January 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 January 2002 and repayable in January 2012, 3.00% interest payable annually		4,500,000
	35,000,000	4,500,000
Current portion		(4,500,000)
	\$ 35,000,000	\$

**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\$280,701 thousand and NT\$281,631 thousand for the three months ended March 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. The Company recognized pension costs of NT\$70,905 thousand and NT\$75,423 thousand for the three months ended March 31, 2012 and 2011, respectively.

Movements of the Fund and accrued pension cost under the defined benefit plan were summarized as follows:

	<b>Three Months Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
<b>The Fund</b>		
Balance, beginning of period	\$ 3,017,351	\$ 2,835,231
Contributions	72,010	71,165
Interest	26,304	27,083
Payments	(4,886)	(3,495)
Balance, end of period	\$ 3,110,779	\$ 2,929,984
<b>Accrued pension cost</b>		
Balance, beginning of period	\$ 3,860,898	\$ 3,824,601
Accruals (deductions)	(3,748)	5,736
Balance, end of period	\$ 3,857,150	\$ 3,830,337

## 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:

	<b>Three Months Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
Income tax expense based on income before income tax at statutory rate (17%)	\$ 6,073,638	\$ 6,814,147
Tax effect of the following:		
Tax-exempt income	(1,870,035)	(3,478,506)
Temporary and permanent differences	(485,734)	(561,554)
Income tax credits used	(950,630)	
Income tax currently payable	\$ 2,767,239	\$ 2,774,087

- b. Income tax expense consisted of the following:

	<b>Three Months Ended March 31</b>	
	<b>2012</b>	<b>2011</b>
Income tax currently payable	\$ 2,767,239	\$ 2,774,087
Other income tax adjustments	29,128	20,131
Net change in deferred income tax assets		
Investment tax credits	361,473	(486,686)
Temporary differences	187,562	166,629
Valuation allowance	(1,092,307)	1,331,282

Income tax expense	\$ 2,253,095	\$ 3,805,443
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c. Net deferred income tax assets consisted of the following:

	March 31	
	2012	2011
<b>Current deferred income tax assets</b>		
Investment tax credits	\$ 5,563,872	\$ 4,182,893
<b>Temporary differences</b>		
Allowance for sales returns and others	523,921	575,591
Unrealized gain/loss on financial instruments	308,777	62,060
Others	132,258	44,359
	<b>\$ 6,528,828</b>	<b>\$ 4,864,903</b>
<b>Noncurrent deferred income tax assets</b>		
Investment tax credits	\$ 14,254,615	\$ 18,279,007
<b>Temporary differences</b>		
Depreciation	1,737,772	1,891,415
Others	269,057	199,860
Valuation allowance	(9,245,784)	(13,984,044)
	<b>\$ 7,015,660</b>	<b>\$ 6,386,238</b>

Under Article 10 of the Statute for Industrial Innovation (SII) legislated and 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 period in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that period. This incentive is retroactive to January 1, 2010 and effective until December 31, 2019.

d. Integrated income tax information:

The balance of the imputation credit account as of March 31, 2012 and 2011 was NT\$4,003,228 thousand and NT\$1,669,533 thousand, respectively.

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

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

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

f. As of March 31, 2012, investment tax credits consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining	Expiry
			Creditable Amount	Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 1,165,765	\$ 804,292	2012
		6,513,605	6,513,605	2013

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	7,006,655	7,006,655	2014
	482,351	482,351	2015
	\$ 15,168,376	\$ 14,806,903	

(Continued)

Law/Statute	Item	Total Creditable Amount	Remaining	
			Creditable Amount	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	\$ 4,994,463	\$ 4,994,463	2013
Statute for Upgrading Industries	Personnel training expenditures	\$ 17,121	\$ 17,121	2013
Statute for Industrial Innovation	Research and development expenditures	\$ 589,157	\$	2012

(Concluded)

- 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 2008. All investment tax credit adjustments assessed by the tax authorities have been recognized accordingly.

## 18. LABOR COST, DEPRECIATION AND AMORTIZATION

	Three Months Ended March 31, 2012		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 5,797,911	\$ 4,368,584	\$ 10,166,495
Labor and health insurance	297,921	194,107	492,028
Pension	213,350	138,256	351,606
Meal	152,266	74,756	227,022
Welfare	53,767	35,961	89,728
Others	9,739	13,578	23,317
	\$ 6,524,954	\$ 4,825,242	\$ 11,350,196
Depreciation	\$ 23,482,941	\$ 2,427,853	\$ 25,910,794
Amortization	\$ 307,786	\$ 182,221	\$ 490,007

	Three Months Ended March 31, 2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	\$ 6,117,303	\$ 4,260,569	\$ 10,377,872
Labor and health insurance	307,843	168,284	476,127
Pension	230,885	126,169	357,054
Meal	165,359	65,669	231,028
Welfare	58,360	32,769	91,129
Others	14,252	7,681	21,933
	\$ 6,894,002	\$ 4,661,141	\$ 11,555,143
Depreciation	\$ 21,800,953	\$ 1,545,577	\$ 23,346,530
Amortization	\$ 324,635	\$ 196,211	\$ 520,846

## 19. SHAREHOLDERS EQUITY

As of March 31, 2012, 1,091,849 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,459,243 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:

	March 31	
	2012	2011
Additional paid-in capital	\$ 23,866,634	\$ 23,715,050
From merger	22,804,510	22,805,390
From convertible bonds	8,892,847	8,893,190
From long-term investments	444,328	367,797
Donations	55	55
	\$ 56,008,374	\$ 55,781,482

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;

- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- c. 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;
- d. 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 period, which amounted to NT\$2,236,553 thousand and NT\$2,443,687 thousand for the three months ended March 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 and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2011 and 2010 had been approved in a Board of Directors' meeting held on February 14, 2012 and a shareholders' meeting held on 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
	\$ 92,341,146	\$ 99,011,564		

The Board of Directors also resolved on February 14, 2012 to appropriate 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. There is no significant difference between the aforementioned resolved amounts and the amounts charged against earnings of 2011.

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

The Company's 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 9, 2011. The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of meeting of the Board of Directors held on February 15, 2011 and same amount had been charged against earnings of 2010.

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 TSE on the grant date.

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of March 31, 2012.

Information about outstanding options for the three months ended March 31, 2012 and 2011 was as follows:

	Number of Options	Weighted-average Exercise Price
	(In Thousands)	(NT\$)
<u>Three months ended March 31, 2012</u>		
Balance, beginning of period	14,293	\$ 32.1
Options exercised	(4,382)	31.1
Balance, end of period	9,911	32.6

(Continued)

	Number of Options	Weighted-average Exercise Price
	(In Thousands)	(NT\$)
<b>Three months ended March 31, 2011</b>		
Balance, beginning of period	21,437	\$ 32.3
Options exercised	(4,115)	30.9
Balance, end of period	17,322	32.6

(Concluded)

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

As of March 31, 2012, information about outstanding options was as follows:

Range of Exercise Price	Number of Options	Options Outstanding	
		Remaining	Weighted-average
(NT\$)	(In Thousands)	Contractual Life	Exercise Price
		(Years)	(NT\$)
\$20.9-\$29.3	6,972	1.1	\$ 27.0
38.0- 50.1	2,939	2.7	45.7
	9,911	1.6	32.6

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

No compensation cost was recognized under the intrinsic value method for the three months ended March 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 three months ended March 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

	Three Months Ended March 31	
	2012	2011
Net income:		
Net income as reported	\$ 33,474,187	\$ 36,277,773
Pro forma net income	33,402,682	36,273,711

Earnings per share (EPS) - after income tax (NT\$):

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Basic EPS as reported	\$	1.29	\$	1.40
Pro forma basic EPS		1.29		1.40
Diluted EPS as reported		1.29		1.40
Pro forma diluted EPS		1.29		1.40

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**21. EARNINGS PER SHARE**

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before	After		Before	After
	Income Tax	Income Tax		Income Tax	Income Tax
<b>Three months ended March 31, 2012</b>					
Basic EPS					
Earnings available to common shareholders	\$ 35,727,282	\$ 33,474,187	25,917,646	\$ 1.38	\$ 1.29
Effect of dilutive potential common shares			8,800		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 35,727,282	\$ 33,474,187	25,926,446	\$ 1.38	\$ 1.29
<b>Three months ended March 31, 2011</b>					
Basic EPS					
Earnings available to common shareholders	\$ 40,083,216	\$ 36,277,773	25,912,506	\$ 1.55	\$ 1.40
Effect of dilutive potential common shares			11,060		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 40,083,216	\$ 36,277,773	25,923,566	\$ 1.55	\$ 1.40

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

The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each of the basic and diluted after income tax EPS for the three months ended March 31, 2011 to remain at NT\$1.40.

**22. DISCLOSURES FOR FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

	March 31			
	2012			2011
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$	\$	\$ 11,605	\$ 11,605
Available-for-sale financial assets	2,618,029	2,618,029	5,105,351	5,105,351
Held-to-maturity financial assets	1,402,856	1,422,299	6,198,107	6,253,752
Financial assets carried at cost	497,835		497,835	
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	47,930	47,930	15,028	15,028
Bonds payable (including current portion)	35,000,000	35,248,224	4,500,000	4,542,890
Other long-term payables (including current portion)			912,591	912,591

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 losses of NT\$47,930 thousand and NT\$3,423 thousand for the three months ended March 31, 2012 and 2011, respectively.

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- d. As of March 31, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$1,402,856 thousand and NT\$7,245,756 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$69,735,646 thousand and NT\$38,691,396 thousand, respectively.

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- e. Movements of the unrealized gains or losses on financial instruments for the three months ended March 31, 2012 and 2011 were as follows:

	Three Months Ended March 31, 2012		
	From		
	Available-		
	for-sale	Equity-method	
	Financial Assets	Investments	Total
Balance, beginning of period	\$ (1,511,599)	\$ 338,744	\$ (1,172,855)
Recognized directly in shareholders' equity	743	288,865	289,608
Balance, end of period	\$ (1,510,856)	\$ 627,609	\$ (883,247)

	Three Months Ended March 31, 2011		
	From		
	Available-		
	for-sale	Equity-method	
	Financial Assets	Investments	Total
Balance, beginning of period	\$ (395,306)	\$ 504,595	\$ 109,289
Recognized directly in shareholders' equity	128,353	(192,769)	(64,416)
Balance, end of period	\$ (266,953)	\$ 311,826	\$ 44,873

- f. Information about financial risks

- 1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the market exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market exchange rate risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities and overseas publicly traded stock; therefore, the fluctuations in market interest rates and market prices will result in changes in fair values of these debt securities.
- 2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The Company evaluated whether the financial instruments for any possible counter-parties or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company's exposure to credit risk was not significant.
- 3) Liquidity risk. The Company has sufficient operating capital and bank facilities to meet cash needs upon settlement of derivative financial instruments and bonds payable. Therefore, the liquidity risk is low.
- 4) Cash flow interest rate risk. The Company mainly invests in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.



**23. RELATED PARTY TRANSACTIONS**

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

a. Subsidiaries

TSMC North America

TSMC China

TSMC Europe

TSMC Japan

b. Investees

Xintec (holding a controlling financial interest)

SSMC (accounted for using the equity method)

VIS (accounted for using the equity method)

c. Indirect subsidiaries

WaferTech, LLC (WaferTech)

TSMC Technology, Inc. (TSMC Technology)

TSMC Design Technology Canada, Inc. (TSMC Canada)

d. Indirect investee

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

e. Others

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

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

	2012		2011	
	Amount	%	Amount	%
<u>For the three months ended March 31</u>				
Sales				
TSMC North America	\$ 64,861,377	61	\$ 57,007,986	55
Others	994,464	1	567,051	

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	\$ 65,855,841	62	\$ 57,575,037	55
Purchases				
TSMC China	\$ 3,192,921	25	\$ 2,419,959	19
WaferTech	1,623,602	12	1,770,429	14
SSMC	873,056	7	955,937	7
VIS	732,490	6	1,325,127	10
Others			65,792	1
	\$ 6,422,069	50	\$ 6,537,244	51

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	2012		2011	
	Amount	%	Amount	%
<b>Manufacturing expenses</b>				
Xintec (outsourcing and rent)	\$ 23,487		\$ 84,600	
VisEra (outsourcing)	4,024		5,937	
VIS (rent)			7,104	
Others			770	
	\$ 27,511		\$ 98,411	
<b>Research and development expenses</b>				
TSMC Technology (primarily consulting fee)	\$ 148,681	2	\$ 113,013	2
TSMC Canada (primarily consulting fee)	52,350	1	42,489	
TSMC Europe (primarily consulting fee)	13,513		8,774	
VIS (primarily rent)			1,999	
Others	2,556		13,476	
	\$ 217,100	3	\$ 179,751	2
<b>Marketing expenses - commission</b>				
TSMC Europe	\$ 82,247	15	\$ 90,915	14
TSMC Japan	71,086	13	66,614	10
TSMC China	16,450	3	16,320	2
Others	5,190	1	5,375	1
	\$ 174,973	32	\$ 179,224	27
<b>Sales of property, plant and equipment and other assets</b>				
TSMC China	\$ 41,011	80	\$ 592,339	57
VisEra	9,000	17		
WaferTech			64,255	6
VIS			35,208	4
Others	10			
	\$ 50,021	97	\$ 691,802	67
<b>Non-operating income and gains</b>				
VIS (primarily technical service income)	\$ 54,829	4	\$ 68,905	3
SSMC (primarily technical service income)	52,326	3	44,817	2
TSMC China (primarily technical service income and gains on disposal of property, plant and equipment)	181		6,801	
Others	3,189			
	\$ 110,525	7	\$ 120,523	5
<b>Non-operating expenses and losses</b>				
TSMC China (primarily losses on disposal of property, plant and equipment)	\$ 4,675		\$	



	2012		2011	
	Amount	%	Amount	%
<b>As of March 31</b>				
Receivables				
TSMC North America	\$ 32,359,734	98	\$ 27,517,143	99
Others	552,937	2	261,098	1
	\$ 32,912,671	100	\$ 27,778,241	100
Other receivables				
SSMC	\$ 1,192,278	87	\$ 45,415	3
VIS	99,977	7	153,680	8
TSMC China	43,296	3	1,593,520	86
Others	36,742	3	60,061	3
	\$ 1,372,293	100	\$ 1,852,676	100
Payables				
TSMC China	\$ 1,137,485	39	\$ 855,485	28
WaferTech	576,902	20	550,219	18
VIS	519,259	18	953,003	31
SSMC	382,415	13	395,820	13
Others	276,526	10	316,784	10
	\$ 2,892,587	100	\$ 3,071,311	100
Other assets (deferred credits)				
TSMC China	\$ (3,182)		\$ 33,833	2
VisEra	(1,122)			
Others	(10)			
	\$ (4,314)		\$ 33,833	2

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

The Company leased certain buildings, facilities, and machinery and equipment from Xintec. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under manufacturing expenses. The 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 and VisEra, and then recognized such gains/losses (classified under non-operating gains and losses) over the depreciable lives of the disposed assets.

**24. SIGNIFICANT LONG-TERM LEASES**

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from December 2012 to January 2032 and can be renewed upon expiration.

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

Year	Amount
2012 (2 <sup>nd</sup> to 4 <sup>th</sup> quarter)	\$ 347,649
2013	439,841
2014	425,328
2015	415,008
2016	404,844
2017 and thereafter	3,400,454
	<b>\$ 5,433,124</b>

**25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

Significant commitments and contingencies of the Company as of March 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 several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of March 31, 2012, the Company had a total of US\$11,330 thousand of guarantee deposits.
- c. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- d. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as SMIC) in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People's High Court ruled in favor of TSMC and dismissed SMIC's lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both



breached the 2005 settlement agreement and misappropriated TSMC's trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC's appeal against the Beijing High Court's finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares in July 2010, which are recorded within available for sale financial assets, and obtained the subsequent cash settlement income in accordance with the agreement.

- e. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single case in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined at this time.
- f. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing six U.S. patents. This litigation is in its very early stages and therefore the outcome of the case cannot be determined at this time.

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

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

	2012		March 31		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
	(In Thousands)	(Note)	(In Thousands)	(Note)	(In Thousands)	(Note)
<b>Financial assets</b>						
Monetary items						
USD	\$ 1,983,180	29.529	\$ 1,919,150	29.468		
EUR	177,041	39.26	127,036	41.81		
JPY	23,367,649	0.3579	29,399,539	0.3541		
Non-monetary items						
HKD	688,955	3.80	1,073,696	3.79		
Investments accounted for using equity method						
USD	2,992,576	29.529	3,022,391	29.468		
EUR	5,447	39.26	14,318	41.81		
JPY	418,722	0.3579	407,297	0.3541		
RMB	3,009,759	4.69	1,049,606	4.50		

(Continued)

	March 31			
	2012		2011	
	Foreign Currencies	Exchange Rate	Foreign Currencies	Exchange Rate
	(In Thousands)	(Note)	(In Thousands)	(Note)
<b>Financial liabilities</b>				
Monetary items				
USD	\$ 1,969,944	29.529	\$ 1,915,005	29.468
EUR	181,806	39.26	163,964	41.81
JPY	30,416,402	0.3579	32,211,580	0.3541

(Concluded)

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

## 27. ADDITIONAL DISCLOSURES

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

- a. Financings provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 2 attached;
- d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. 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 the Company exercises significant influence: Please see Table 7 attached;

j. Information about derivatives of investees over which the Company has a controlling interest:  
Do not meet the criteria for hedge accounting

1) TSMC China

TSMC China entered into forward exchange contracts during the three months ended March 31, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contract as of March 31, 2012 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy EUR	April 2012	US\$1,565/EUR1,200
Sell US\$/Buy JPY	April 2012	US\$2,584/JPY213,257

For the three months ended March 31, 2012, net gains arising from forward exchange contracts of TSMC China amounted to NT\$2,855 thousand.

2) Xintec

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

	Maturity Date	Contract Amount (In Thousands)
Sell US\$/Buy NT\$	April 2012 to May 2012	US\$10,800/NT\$318,434

For the three months ended March 31, 2012, net gains arising from forward exchange contracts of Xintec amounted to NT\$10,057 thousand.

3) TSMC Partners

TSMC Partners entered into forward exchange contracts during the three months ended March 31, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of March 31, 2012 consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
Sell RMB/Buy US\$	April 2012	RMB1,230,782/US\$195,000

For the three months ended March 31, 2012, net losses arising from forward exchange contracts of TSMC Partners amounted to NT\$14,647 thousand.

4) TSMC Solar

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

	Maturity Date	Contract Amount (In Thousands)
Sell NT\$/Buy US\$	April 2012	NT\$128,180/US\$4,340
Sell NT\$/Buy JPY	April 2012	NT\$9,441/JPY26,000

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

Maturity Date	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
April 2012	NT\$604,165/US\$20,450	0.00%	0.07%-0.20%

For the three months ended March 31, 2012, net losses arising from derivative financial instruments of TSMC Solar amounted to NT\$14,747 thousand.

5) TSMC SSL

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

	Maturity Date	Contract Amount (In Thousands)
Sell NT\$/Buy US\$	April 2012 to May 2012	NT\$59,240/US\$2,010
Sell NT\$/Buy JPY	April 2012	NT\$13,068/JPY36,000

For the three months ended March 31, 2012, net losses arising from forward exchange contracts of TSMC SSL amounted to NT\$7,251 thousand.

Meet the criteria for hedge accounting

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

Xintec is exposed to interest rate risk because its long-term bank loans bear floating interest rates. Accordingly, Xintec enters into interest rate swap contract to hedge such a cash flow interest rate risk. As of March 31, 2012, the outstanding interest rate swap contract of Xintec consisted of the following:

Hedged Item	Hedging Financial Instrument	Fair Value March 31, 2012	Expected Cash Flow Generated Period	Expected Timing for the Recognition of Gains or Losses from Hedge
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Long-term bank loans	Interest rate swap contract	\$	(135)	2011 to 2012	2011 to 2012
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For the three months ended March 31, 2012, the adjustment for current period to shareholder's equity amounted to a loss of NT\$1 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\$98 thousand.

k. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 23.

**28. OPERATING SEGMENTS INFORMATION**

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

**29. THE AUTHORIZATION OF FINANCIAL STATEMENTS**

The financial statements were approved by the management on April 24, 2012.

**TABLE 1****Taiwan Semiconductor Manufacturing Company Limited and Investees****FINANCINGS PROVIDED****FOR THE THREE MONTHS ENDED MARCH 31, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Financing Company	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousands) (Note 3)	Ending Balance (US\$ in Thousands) (Note 3)	Amount Actually Drawn (US\$ in Thousands)	Interest Rate	Nature of Financing	Reason for Transaction	Allowance for Bad Debt	Collateral	Financing Limits for Each Borrowing Company (Note 1)	Financing Total Financing Limits (Note 2)
										Item		
TSMC Partners	TSMC China	Long-term receivables from related parties	\$ 7,382,250 (US\$ 250,000)	\$ 7,382,250 (US\$ 250,000)	\$ 7,382,250 (US\$ 250,000)	0.25%-0.26%	The need for short-term financing	Purchase equipment			\$ 34,664,194	\$ 34,664,194
	TSMC Solar	Other receivables from related parties	1,181,160 (US\$ 40,000)	1,181,160 (US\$ 40,000)	723,461 (US\$ 24,500)	0.4017%-0.4757%	The need for short-term financing	Operating capital			3,466,419	
	TSMC SSL	Other receivables from related parties	885,870 (US\$ 30,000)	885,870 (US\$ 30,000)		0.4545%	The need for short-term financing	Operating capital			3,466,419	

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. While offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions. The restriction of thirty percent (30%) of the borrower's net worth will not apply to subsidiaries whose voting shares are 90% or more owned, directly or indirectly, by TSMC.

Note 2: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners.

Note 3: The maximum balance for the period and ending balance represents the amounts approved by Board of Directors.

**TABLE 2****Taiwan Semiconductor Manufacturing Company Limited and Investees****MARKETABLE SECURITIES HELD****MARCH 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	Shares/Units (In Thousands)	March 31, 2012			Note
					Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
TSMC	<u>Corporate bond</u>							
	Nan Ya Plastics Corporation		Held-to-maturity financial assets		\$ 1,099,699	N/A	\$ 1,117,010	
	China Steel Corporation				303,157	N/A	305,289	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation		Available-for-sale financial assets	1,789,493	2,618,029	7	2,618,029	
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	43,137,920	100	43,137,920	
	TSMC Partners	Subsidiary		988,268	34,664,194	100	34,664,194	
	TSMC Solar	Subsidiary		1,118,000	9,456,531	99	9,456,531	
	VIS	Investee accounted for using equity method		628,223	8,986,165	41	8,009,850	
	SSMC	Investee accounted for using equity method		314	5,388,363	39	5,174,379	
	TSMC SSL	Subsidiary		430,400	3,541,201	95	3,541,201	
	TSMC North America	Subsidiary		11,000	3,035,002	100	3,035,002	
	Xintec	Investee with a controlling financial interest		94,011	1,546,668	40	1,546,668	
	GUC	Investee accounted for using equity method		46,688	1,191,165	35	5,182,352	
	TSMC Europe	Subsidiary			213,849	100	213,849	
	TSMC Japan	Subsidiary		6	149,861	100	149,861	
	TSMC Korea	Subsidiary		80	23,468	100	23,468	
	United Industrial Gases Co., Ltd.		Financial assets carried at cost	16,783	193,584	10	372,714	
	Shin-Etsu Handotai Taiwan Co., Ltd.			10,500	105,000	7	348,269	
	W.K. Technology Fund IV			4,000	40,000	2	42,581	
	<u>Fund</u>							
	Horizon Ventures Fund		Financial assets carried at cost		103,992	12	103,992	
	Crimson Asia Capital				55,259	1	55,259	
	<u>Capital</u>							
	TSMC China	Subsidiary			14,095,161	100	14,115,767	

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		Investments accounted for using equity method				
	VTAF III	Subsidiary		1,437,397	53	1,416,270
	VTAF II	Subsidiary		740,533	98	734,522
	Emerging Alliance	Subsidiary		205,484	99	205,484
	TSMC GN	Subsidiary		84,751	100	84,751
TSMC Solar	<u>Stock</u>					
		Investee accounted for using equity method	Investments accounted for using equity method			
	Motech		87,480	5,219,263	20	3,576,900
	TSMC Solar Europe	Subsidiary		168,129	100	168,129
	TSMC Solar NA	Subsidiary	1	35,897	100	35,897
	<u>Capital</u>					
	VTAF III	Investee accounted for using equity method	Investments accounted for using equity method	1,640,461	46	1,640,461

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 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 SSL	<u>Stock</u> TSMC Lighting NA	Subsidiary	Investments accounted for using equity method	1	\$ 2,912	100	\$ 2,912	
TSMC GN	<u>Stock</u> TSMC Solar	Subsidiary	Investments accounted for using equity method	3,759	31,755		31,755	
	TSMC SSL	Subsidiary		5,425	44,838	1	44,838	
TSMC Partners	<u>Corporate bond</u> General Elec Cap Corp. Mtn		Held-to-maturity financial assets		US\$ 20,038	N/A	US\$ 20,496	
	<u>Stock</u> TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 470,564	100	US\$ 470,564	
	VisEra Holding Company	Investee accounted for using equity method		43,000	US\$ 96,445	49	US\$ 96,445	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary		787	US\$ 14,041	97	US\$ 14,041	
	TSMC Technology	Subsidiary		1	US\$ 10,942	100	US\$ 10,942	
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Subsidiary		14,153	US\$ 11,455	97	US\$ 11,455	
	TSMC Canada	Subsidiary		2,300	US\$ 4,258	100	US\$ 4,258	
	Mcube Inc.	Investee accounted for using equity method		6,333		25		
	<u>Fund</u> Shanghai Walden Venture Capital Enterprise		Financial assets carried at cost		US\$ 5,000	8	US\$ 5,000	
TSMC North America	<u>Stock</u> Spanion Inc.		Available-for-sale financial assets	270	US\$ 3,287		US\$ 3,287	
TSMC Development	<u>Corporate bond</u> GE Capital Corp.		Held-to-maturity financial assets		US\$ 20,059	N/A	US\$ 20,496	
	JP Morgan Chase & Co.				US\$ 15,000	N/A	US\$ 14,850	
	<u>Stock</u> WaferTech	Subsidiary	Investments accounted for using equity method	293,640	US\$ 229,723	100	US\$ 229,723	
Emerging Alliance	<u>Common stock</u> RichWave Technology Corp.		Financial assets carried at cost	4,074	US\$ 1,545	10	US\$ 1,545	
	Global Investment Holding Inc.			11,124	US\$ 3,065	6	US\$ 3,065	
	<u>Preferred stock</u> Audience, Inc.		Financial assets carried at cost	1,654	US\$ 250		US\$ 250	
	Next IO, Inc.			8	US\$ 500		US\$ 500	
	Pixim, Inc.			4,641	US\$ 1,137	2	US\$ 1,137	
	QST Holdings, LLC				US\$ 142	4	US\$ 142	

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<u>Capital</u>										
VentureTech Alliance Holdings, LLC (VTA Holdings)	Subsidiary	Investments accounted for using equity method						7		
VTAF II	<u>Common stock</u>									
Aether Systems, Inc.		Financial assets carried at cost		1,800	US\$	1,701	23	US\$	1,701	
RichWave Technology Corp.				1,267	US\$	1,036	3	US\$	1,036	
Sentelic				1,806	US\$	2,607	9	US\$	2,607	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2012			Market Value or Net Asset Value (Foreign Currencies) in Thousands	Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies) in Thousands	Percentage of Ownership (%)		
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	3	US\$ 4,316	
	Audience, Inc.			12,378	US\$ 2,378	3	US\$ 2,378	
	Impinj, Inc.			475	US\$ 1,000		US\$ 1,000	
	Next IO, Inc.			132	US\$ 1,110	2	US\$ 1,110	
	Pixim, Inc.			33,347	US\$ 1,878	2	US\$ 1,878	
	Power Analog Microelectronics			7,330	US\$ 3,482	21	US\$ 3,482	
	QST Holdings, LLC				US\$ 593	13	US\$ 593	
	<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	14,168	US\$ 1,771	58	US\$ 1,771	
	InvenSense, Inc.		Available-for-sale financial assets	796	US\$ 14,415	1	US\$ 14,415	
	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.			3,916	US\$ 4,779	4	US\$ 4,779	
	Powervation, Ltd.			449	US\$ 7,030	16	US\$ 7,030	
	Stion Corp.			8,152	US\$ 55,474	20	US\$ 55,474	
	Tilera, Inc.			3,890	US\$ 3,025	2	US\$ 3,025	
	Validity Sensors, Inc.			9,340	US\$ 3,456	4	US\$ 3,456	
	<u>Capital</u>							
	Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method		US\$ 480	100	US\$ 480	
	VTA Holdings	Subsidiary				62		
Growth Fund	<u>Common stock</u>							
	Veebeam		Financial assets carried at cost	10	US\$ 25		US\$ 25	
ISDF	<u>Common stock</u>							
	Integrated Memory Logic, Inc.		Available-for-sale financial assets	1,320	US\$ 4,743	2	US\$ 4,743	
	Memsic, Inc.			1,286	US\$ 5,412	5	US\$ 5,412	
	<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\$ 4,513	5	US\$ 4,513	
	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	

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Goyatek Technology, Corp.		745	US\$	163	6	US\$	163
Auden Technology MFG. Co., Ltd.		1,049	US\$	223	3	US\$	223
<u>Preferred stock</u>							
Sonics, Inc.	Financial assets carried at cost	264	US\$	455	3	US\$	455

(Continued)



Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousands)	March 31, 2012			Market Value or Net Asset Value (Foreign Currencies in Thousands)	Note
					Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)			
Xintec	<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	1		EUR 4,186	100		EUR 4,186
TSMC Global	<u>Corporate bond</u>								
	Aust + Nz Banking Group		Held-to-maturity financial assets	20,000	US\$	20,000	N/A	US\$	19,995
	Commonwealth Bank of Australia			25,000	US\$	25,000	N/A	US\$	24,796
	Commonwealth Bank of Australia			25,000	US\$	25,000	N/A	US\$	24,898
	Deutsche Bank AG London			20,000	US\$	19,913	N/A	US\$	20,225
	JP Morgan Chase + Co.			35,000	US\$	35,036	N/A	US\$	35,216
	Nationwide Building Society-UK								
	Government Guarantee			8,000	US\$	8,000	N/A	US\$	8,001
	Westpac Banking Corp.			25,000	US\$	25,000	N/A	US\$	24,884
	Westpac Banking Corp. 12/12 Frn			5,000	US\$	5,000	N/A	US\$	5,012
	<u>Government bond</u>								
	Societe De Financement De Lec		Held-to-maturity financial assets	15,000	US\$	15,000	N/A	US\$	15,003
	<u>Money market fund</u>								
	Ssga Cash Mgmt Global Offshore		Available-for-sale financial assets	133	US\$	133	N/A	US\$	133

(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 THREE MONTHS ENDED MARCH 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 2)	
					Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands) (Note 1)	Amount (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)	Gain (Loss) Carrying on Disposal (Foreign Currencies in Thousands)	Shares/Units (In Thousands)	Amount (Foreign Currencies in Thousands)
TSMC	Stock												
	TSMC SSL	Investments accounted for using equity method		Subsidiary	227,000	\$ 1,746,893	203,400	\$ 2,034,000	\$	\$	\$	430,400	\$ 3,541,201
	TSMC GN			Subsidiary				100,000					84,751

Note 1: The shares/units and amount of marketable securities acquired do not include stock dividends from investees.

Note 2: The ending balance includes 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 THREE MONTHS ENDED MARCH 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	January 1, 2012 to March 30, 2012	\$ 950,083	By the construction progress	Da Cin Construction Co., Ltd.		N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 7, 2012 to March 29, 2012	372,426	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 March 29, 2012	394,839	By the construction progress	China Steel Structure Co., Ltd.		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 THREE MONTHS ENDED MARCH 31, 2012****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationships	Purchases/ Sales	Transaction Details		Abnormal Transaction Unit Payment Price Terms (Note) (Note)	Notes/Accounts Payable or Receivable		Note
				Amount	% to Total		Ending Balance	% to Total	
TSMC	TSMC North America	Subsidiary	Sales	\$ 64,861,377	61	Net 30 days after invoice date	\$ 32,359,734	62	
	GUC	Investee accounted for using equity method	Sales	920,220	1	Net 30 days after monthly closing	552,558	1	
	TSMC China	Subsidiary	Purchases	3,192,921	25	Net 30 days after monthly closing	(1,137,485)	8	
	WaferTech	Indirect subsidiary	Purchases	1,623,602	12	Net 30 days after monthly closing	(576,902)	4	
	SSMC	Investee accounted for using equity method	Purchases	873,056	7	Net 30 days after monthly closing	(382,415)	3	
	VIS	Investee accounted for using equity method	Purchases	732,490	6	Net 30 days after monthly closing	(519,259)	3	
Xintec	Omni Vision	Parent company of director (represented for Xintec)	Sales	191,163	33	Net 30 days after monthly closing	107,690	40	

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****MARCH 31, 2012****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationships	Ending Balance	Turnover Days (Note 1)	Overdue		Allowance	
					Amount	Action Taken	Amounts Received in Subsequent Period	for Bad Debts
TSMC	TSMC North America	Subsidiary	\$ 32,379,073	40	\$ 10,263,324		\$ 12,832,204	\$
	SSMC	Investee accounted for using equity method	1,192,278	(Note 2)				
	GUC	Investee accounted for using equity method	552,558	33	535		283,209	
Xintec	OmniVision	Parent company of director (represented for Xintec)	107,690	83				

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 INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**

MARCH 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 March 31, 2012		Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note	
				March 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (Foreign Currencies in Thousands)	Shares (In Thousands)	Ownership Percentage (In Percentage)				
TSMC	TSMC Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 43,137,920	\$ 171,518	\$ 171,518	Subsidiary
	TSMC Partners	Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	34,664,194	427,678	427,678	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	14,095,161	875,143	895,570	Subsidiary
	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	11,180,000	1,118,000	99	9,456,531	(563,533)	(640,173)	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture,	13,232,288	13,232,288	628,223	41	8,986,165	24,096	(53,605)	Investee accounted for using equity

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			packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts								method
SSMC	Singapore		Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	5,388,363	1,027,831	398,701	Investee accounted for using equity method
TSMC North America	San Jose, California, U.S.A.		Selling and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	3,035,002	97,510	97,510	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	3,541,201	(279,037)	(265,677)	Subsidiary
Xintec	Taoyuan, Taiwan		Wafer level chip size packaging service	1,357,890	1,357,890	94,011	40	1,546,668	(117,292)	(60,118)	Investee with a controlling financial interest
VTAF III	Cayman Islands		Investing in new start-up technology companies	2,070,101	2,074,155		53	1,437,397	(25,475)	(23,509)	Subsidiary
GUC	Hsin-Chu, Taiwan		Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,191,165	99,536	35,056	Investee accounted for using equity method
VTAF II	Cayman Islands		Investing in new start-up technology companies	949,267	949,267		98	740,533	(2,725)	(2,671)	Subsidiary
Emerging Alliance	Cayman Islands		Investing in new start-up technology companies	892,855	892,855		99	205,484	(2,434)	(2,422)	Subsidiary
TSMC Europe	Amsterdam, the Netherlands		Marketing and engineering supporting activities	15,749	15,749		100	213,849	8,682	8,682	Subsidiary
TSMC Japan	Yokohama, Japan		Marketing activities	83,760	83,760	6	100	149,861	1,523	1,523	Subsidiary
TSMC Korea	Seoul, Korea		Customer service and technical supporting activities	13,656	13,656	80	100	23,468	110	110	Subsidiary
TSMC GN	Taipei, Taiwan		Investment activities	100,000			100	84,751	(3,386)	(3,386)	Subsidiary
TSMC Solar	Motech Taipei, Taiwan		Manufacturing and sales of	6,228,661	6,228,661	87,480	20	5,219,263	(988,198)	Note 2	Investee accounted

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			solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems								for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,797,496	1,795,131		46	1,640,461	(25,475)	Note 2	Investee accounted for using equity method
	TSMC Solar Europe	Amsterdam, the Netherlands	Investing in solar related business	411,032	411,032		100	168,129	(35,781)	Note 2	Subsidiary
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	147,686	147,686	1	100	35,897	(15,073)	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	2,912	(7)	Note 2	Subsidiary (Continued)



Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2012				Equity in the Earnings (Losses) of the Investee (Note 1)		Note
				March 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)	Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	(Losses) of the Investee (Foreign Currencies in Thousands)		
TSMC Partners	TSMC Development	Delaware, U.S.A.	Investment activities	US\$ 0.001	US\$ 0.001	1	100	US\$ 470,564	US\$ 10,529	Note 2	Subsidiary	
	VisEra Holding Company	Cayman Islands	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\$ 96,445	US\$ 281	Note 2	Investee accounted for using equity method	
	ISDF	Cayman Islands	Investing in new start-up technology companies	US\$ 787	US\$ 787	787	97	US\$ 14,041	US\$ 2,456	Note 2	Subsidiary	
	TSMC Technology	Delaware, U.S.A.	Engineering support activities	US\$ 0.001	US\$ 0.001	1	100	US\$ 10,942	US\$ 327	Note 2	Subsidiary	
	ISDF II	Cayman Islands	Investing in new start-up technology companies	US\$ 14,153	US\$ 14,153	14,153	97	US\$ 11,455	US\$ (47)	Note 2	Subsidiary	
	TSMC Canada	Ontario, Canada	Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 4,258	US\$ 99	Note 2	Subsidiary	
	Mcube Inc.	Delaware, U.S.A.	Research, development, and sale of micro-semiconductor device	US\$ 1,800	US\$ 1,800	6,333	25		US\$ (3,224)	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	293,640	100	US\$ 229,723	US\$ 9,604	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\$ 4,718	US\$ 3,937	14,168	58	US\$ 1,771	US\$ (281)	Note 2	Subsidiary	
	Growth Fund	Cayman Islands	Investing in new start-up technology companies	US\$ 1,830	US\$ 1,830		100	US\$ 480	US\$ (30)	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 9,900	EUR 9,900	1	100	EUR 4,186	EUR (916)	Note 2	Subsidiary	

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TSMC GN	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	\$	37,590	\$	3,759	\$	31,755	\$	(563,533)	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		54,254		5,425	1	44,838		(279,037)	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 THREE MONTHS ENDED MARCH 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 Thousand)	Investment Flows Outflow (US\$ in Thousand)	Accumulated Outflow of Investment from Taiwan as of March 31, 2012 (US\$ in Thousands)	Percentage of Ownership	Equity in the (Losses)	Carrying Value as of March 31, 2012 (US\$ in Thousands)	Accumulated Inward Remittance of Earnings as of March 31, 2012 (US\$ in Thousands)
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)	\$ \$ \$ (US\$ 596,000)	\$ 18,939,667 (US\$ 596,000)	100%	\$ 895,570	\$ 14,095,161	\$
Shanghai Walden Venture Capital Enterprise	Investing in new start-up technology companies	953,709 (US\$ 31,488)	(Note 2)	147,485 (US\$ 5,000)		147,485 (US\$ 5,000)	8%	(Note 3)	147,645 (US\$ 5,000)	

**Accumulated Investment****in Mainland China**

as of March 31, 2012

(US\$ in Thousand)

\$ 19,087,152

(US\$ 601,000)

**Investment Amounts**

Authorized by

Investment Commission, MOEA  
(US\$ in Thousand)

\$ 19,087,152

(US\$ 601,000)

Upper Limit on Investment  
(US\$ in Thousand)

\$ 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: TSMC Partners invested in financial assets carried at cost, equity in the earnings from which was not recognized.

**Taiwan Semiconductor Manufacturing**

**Company Limited and Subsidiaries**

**Consolidated Financial Statements for the**

**Three Months Ended March 31, 2012 and 2011 and**

**Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

April 24, 2012

Notice to Readers

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

*For the convenience of readers, the accountants' review 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 accountants' review report and consolidated financial statements shall prevail.*

## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 170,819,939	21	\$ 129,445,000	17
Financial assets at fair value through profit or loss (Notes 2, 5 and 25)	1,658		12,283	
Available-for-sale financial assets (Notes 2, 6 and 25)	3,577,801	1	28,564,518	4
Held-to-maturity financial assets (Notes 2, 7 and 25)	6,253,618	1	5,388,732	1
Receivables from related parties (Notes 3 and 26)	647,314		1,301	
Notes and accounts receivable (Note 3)	53,286,548	6	54,283,659	7
Allowance for doubtful receivables (Notes 2, 3 and 8)	(490,882)		(503,093)	
Allowance for sales returns and others (Notes 2 and 8)	(5,428,410)	(1)	(6,955,928)	(1)
Other receivables from related parties (Notes 3 and 26)	1,301,705		199,095	
Other financial assets (Note 27)	571,010		1,248,098	
Inventories (Notes 2 and 9)	27,759,150	3	31,787,239	4
Deferred income tax assets (Notes 2 and 20)	6,736,065	1	5,099,667	1
Prepaid expenses and other current assets	3,087,516		1,962,700	
<b>Total current assets</b>	<b>268,123,032</b>	<b>32</b>	<b>250,533,271</b>	<b>33</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 12 and 25)</b>				
Investments accounted for using equity method	23,632,874	3	25,995,552	3
Available-for-sale financial assets			1,036,044	
Held-to-maturity financial assets	2,030,812		7,692,591	1
Financial assets carried at cost	4,180,185	1	4,209,597	1
<b>Total long-term investments</b>	<b>29,843,871</b>	<b>4</b>	<b>38,933,784</b>	<b>5</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 26 and 27)</b>				
<b>Cost</b>				
Land and land improvements	1,535,861		1,519,805	
Buildings	186,907,290	22	161,757,008	21
Machinery and equipment	1,144,854,551	138	979,510,419	131
Office equipment	17,982,711	2	15,531,932	2
Leased assets	771,734		684,775	
	1,352,052,147	162	1,159,003,939	154
Accumulated depreciation	(901,040,978)	(108)	(795,326,356)	(106)
Advance payments and construction in progress	58,905,293	7	72,911,797	10
<b>Net property, plant and equipment</b>	<b>509,916,462</b>	<b>61</b>	<b>436,589,380</b>	<b>58</b>

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INTANGIBLE ASSETS				
Goodwill (Note 2)	5,590,597	1	5,582,287	1
Deferred charges, net (Notes 2 and 14)	5,378,539		5,628,037	1
Total intangible assets	10,969,136	1	11,210,324	2
OTHER ASSETS				
Deferred income tax assets, net (Notes 2 and 20)	7,245,201	1	6,599,175	1
Refundable deposits	4,527,507	1	4,831,356	1
Others (Notes 2 and 27)	1,265,176		1,428,676	
Total other assets	13,037,884	2	12,859,207	2
<b>TOTAL</b>	<b>\$ 831,890,385</b>	<b>100</b>	<b>\$ 750,125,966</b>	<b>100</b>
	<b>2012</b>		<b>2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 15)	\$ 34,687,716	4	\$ 34,176,368	5
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 25)	61,038		48,850	
Hedging derivative financial liabilities (Notes 2, 11 and 25)	135		676	
Accounts payable	13,262,122	2	11,923,131	2
Payables to related parties (Note 26)	906,317		1,427,800	
Income tax payable (Notes 2 and 20)	13,511,557	2	9,844,973	1
Accrued profit sharing to employees and bonus to directors and supervisors (Notes 2 and 22)	11,327,679	1	13,586,113	2
Payables to contractors and equipment suppliers	34,070,990	4	33,906,105	4
Accrued expenses and other current liabilities (Notes 13, 18, 25 and 29)	18,279,337	2	17,602,638	2
Current portion of bonds payable and long-term bank loans (Notes 16, 17, 25 and 27)	93,750		4,740,759	1
Total current liabilities	126,200,641	15	127,257,413	17
LONG-TERM LIABILITIES				
Bonds payable (Notes 16 and 25)	35,000,000	4		
Long-term bank loans (Notes 17, 25 and 27)	1,556,250		1,040,562	
Other long-term payables (Notes 18, 25 and 29)	59,058		3,849,674	1
Obligations under capital leases (Notes 2, 13, and 25)	742,931		678,403	
Total long-term liabilities	37,358,239	4	5,568,639	1
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	3,903,634	1	3,817,717	
Guarantee deposits (Note 29)	405,594		714,643	
Others	439,868		375,595	
Total other liabilities	4,749,096	1	4,907,955	
Total liabilities	168,307,976	20	137,734,007	18
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Capital stock - NT\$10 par value (Note 22)				
Authorized: 28,050,000 thousand shares				
Issued: 25,920,604 thousand shares in 2012				
25,914,193 thousand shares in 2011	259,206,046	31	259,141,933	35

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Capital surplus (Notes 2 and 22)	56,008,374	7	55,781,482	7
Retained earnings (Note 22)				
Appropriated as legal capital reserve	102,399,995	12	86,239,494	11
Appropriated as special capital reserve	6,433,874	1	1,313,047	
Unappropriated earnings	246,831,473	30	214,504,803	29
	355,665,342	43	302,057,344	40
Others				
Cumulative translation adjustments (Note 2)	(9,064,188)	(1)	(9,351,749)	(1)
Unrealized gain (loss) on financial instruments (Notes 2, 11 and 25)	(883,247)		44,873	
	(9,947,435)	(1)	(9,306,876)	(1)
Equity attributable to shareholders of the parent	660,932,327	80	607,673,883	81
MINORITY INTERESTS (Note 2)	2,650,082		4,718,076	1
Total shareholders equity	663,582,409	80	612,391,959	82
TOTAL	\$ 831,890,385	100	\$ 750,125,966	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 THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 26)	\$ 106,877,069		\$ 106,835,757	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	1,369,394		1,458,262	
NET SALES (Note 33)	105,507,675	100	105,377,495	100
COST OF SALES (Notes 9, 21 and 26)	55,221,092	52	53,706,783	51
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	50,286,583	48	51,670,712	49
REALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	74,029			
GROSS PROFIT	50,360,612	48	51,670,712	49
OPERATING EXPENSES (Notes 21 and 26)				
Research and development	9,162,781	9	7,963,628	8
General and administrative	4,659,024	4	3,342,828	3
Marketing	1,100,839	1	1,201,276	1
Total operating expenses	14,922,644	14	12,507,732	12
INCOME FROM OPERATIONS (Note 33)	35,437,968	34	39,162,980	37
NON-OPERATING INCOME AND GAINS				
Interest income	501,236	1	373,284	
Foreign exchange gain, net (Note 2)	429,743		403,081	1
Technical service income (Notes 26 and 29)	107,156		114,949	
Gain on settlement and disposal of financial assets, net (Notes 2 and 25)	73,591		124,926	
Equity in earnings of equity method investees, net (Notes 2 and 10)	20,952		520,109	1
Gain on disposal of property, plant and equipment and other assets (Notes 2 and 26)	2,235		96,311	
Others	67,292		200,121	
Total non-operating income and gains	1,202,205	1	1,832,781	2

(Continued)



## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Impairment loss on idle assets (Note 2)	\$ 442,312	1	\$	
Valuation loss on financial instruments, net (Notes 2, 5 and 25)	245,005		282,237	1
Interest expense	217,691		119,922	
Impairment of financial assets (Notes 2, 12 and 25)	4,390		58,537	
Loss on disposal of property, plant and equipment (Note 2)	3,730		145,476	
Others (Note 2)	73,341		77,147	
Total non-operating expenses and losses	986,469	1	683,319	1
<b>INCOME BEFORE INCOME TAX</b>	<b>35,653,704</b>	<b>34</b>	<b>40,312,442</b>	<b>38</b>
INCOME TAX EXPENSE (Notes 2 and 20)	2,288,372	2	3,885,350	3
<b>NET INCOME</b>	<b>\$ 33,365,332</b>	<b>32</b>	<b>\$ 36,427,092</b>	<b>35</b>
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ 33,474,187	32	\$ 36,277,773	35
Minority interests	(108,855)		149,319	
	\$ 33,365,332	32	\$ 36,427,092	35

	2012		2011	
	Income Attributable to Shareholders of the Parent After		Income Attributable to Shareholders of the Parent After	
	Before Income Tax	Income Tax	Before Income Tax	Income Tax
<b>EARNINGS PER SHARE (NT\$, Note 24)</b>				
Basic earnings per share	\$ 1.38	\$ 1.29	\$ 1.55	\$ 1.40
Diluted earnings per share	\$ 1.38	\$ 1.29	\$ 1.55	\$ 1.40

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

(Concluded)

## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income attributable to shareholders of the parent	\$ 33,474,187	\$ 36,277,773
Net income (loss) attributable to minority interests	(108,855)	149,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,005,407	24,816,388
Realized gross profit from affiliates	(74,029)	
Amortization of premium/discount of financial assets	1,753	7,797
Impairment of financial assets	4,390	58,537
Gain on disposal of available-for-sale financial assets, net	(82,376)	(111,511)
Loss (gain) on disposal of financial assets carried at cost, net	8,785	(13,415)
Equity in earnings of equity method investees, net	(20,952)	(520,109)
Loss on disposal of property, plant and equipment and other assets, net	1,495	49,165
Impairment loss on idle assets	442,312	
Deferred income tax	(608,211)	1,037,018
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	60,998	24,451
Receivables from related parties	(461,550)	1,421
Notes and accounts receivable	(6,965,308)	(3,253,774)
Allowance for doubtful receivables	(3)	(936)
Allowance for sales returns and others	363,803	(590,336)
Other receivables from related parties	(33,996)	(74,509)
Other financial assets	46,132	(39,472)
Inventories	(2,918,568)	(3,381,255)
Prepaid expenses and other current assets	(995,057)	74,947
Accounts payable	1,733,684	(1,476,564)
Payables to related parties	(422,204)	560,715
Income tax payable	2,855,433	2,660,276
Accrued profit sharing to employees and bonus to directors and supervisors	2,246,386	2,489,966
Accrued expenses and other current liabilities	499,872	(2,273,179)
Accrued pension cost	(4,874)	5,366
<b>Net cash provided by operating activities</b>	<b>57,048,654</b>	<b>56,478,079</b>

(Continued)

## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	\$ (48,570,613)	\$ (81,262,394)
Available-for-sale financial assets	(1,477)	(13,865,070)
Financial assets carried at cost		(1,670)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	89,733	13,459,391
Held-to-maturity financial assets	594,140	
Financial assets carried at cost	45,053	63,254
Property, plant and equipment and other assets	13,155	381,310
Increase in deferred charges	(403,491)	(188,183)
Decrease (increase) in refundable deposits	(8,644)	3,846,614
Increase in other assets	(6,987)	(5,992)
Net cash used in investing activities	(48,249,131)	(77,572,740)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	8,761,188	2,962,424
Proceed from long-term bank loans		800,000
Repayment of long-term bank loans		(61,943)
Proceeds from issuance of bonds	17,000,000	
Repayment of bonds	(4,500,000)	
Decrease in obligations under capital leases	(81,995)	
Decrease in other long-term payables	(1,434,277)	
Decrease in guarantee deposits	(38,389)	(74,455)
Proceeds from exercise of employee stock options	136,204	127,288
Increase in minority interests	298,654	15,840
Net cash provided by financing activities	20,141,385	3,769,154
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>28,940,908</b>	<b>(17,325,507)</b>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,593,246)	(1,116,448)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	143,472,277	147,886,955
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 170,819,939	\$ 129,445,000

(Continued)



## Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 235,441	\$ 221,837
Income tax paid	\$ 48,354	\$ 218,178
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant and equipment	\$ 48,099,028	\$ 73,205,035
Decrease in payables to contractors and equipment suppliers	471,585	8,058,230
Nonmonetary exchange trade-out price		(871)
Cash paid	\$ 48,570,613	\$ 81,262,394
Disposal of property, plant and equipment and other assets	\$ 13,155	\$ 382,181
Nonmonetary exchange trade-out price		(871)
Cash received	\$ 13,155	\$ 381,310
Acquisition of available-for-sale financial assets	\$ 1,477	\$ 13,989,666
Increase in accrued expenses and other current liabilities		(124,596)
Cash paid	\$ 1,477	\$ 13,865,070
Disposal of available-for-sale financial assets	\$ 89,733	\$ 13,646,465
Increase in other financial assets		(187,074)
Cash received	\$ 89,733	\$ 13,459,391
<b>NON-CASH FINANCING ACTIVITIES</b>		
Idle assets reclassified from property, plant and equipment	\$ 442,312	\$
Current portion of bonds payable	\$	\$ 4,500,000
Current portion of long-term bank loans	\$ 93,750	\$ 240,759
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 1,850,950	\$ 4,134,622



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 THREE MONTHS ENDED MARCH 31, 2012 AND 2011**

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

**(Reviewed, Not Audited)**

**1. GENERAL**

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

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

As of March 31, 2012 and 2011, TSMC and its subsidiaries had 35,594 and 35,665 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.

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The consolidated entities were as follows:

Name of Investor	Name of Investee	Percentage of Ownership March 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)	53%	99%	(Note 1)
	VentureTech Alliance Fund II, L.P. (VTAF II)	98%	98%	
	Emerging Alliance Fund, L.P. (Emerging Alliance)	99.5%	99.5%	
	Global Unichip Corporation (GUC)	(Note 2)	35%	
	Xintec Inc. (Xintec)	40%	41%	TSMC obtained three out of five director positions and has a controlling interest in Xintec Established in August 2011
	TSMC SSL	95%		TSMC and TSMC GN aggregately has a controlling interest of 96% in TSMC SSL Established in August 2011
TSMC Solar	99%		TSMC and TSMC GN aggregately has a controlling interest of 99% in TSMC Solar	
TSMC Guang Neng Investment, Ltd. (TSMC GN)	100%		Established in January 2012	
TSMC Partners	TSMC Design Technology Canada Inc. (TSMC Canada)	100%	100%	
	TSMC Technology, Inc. (TSMC Technology)	100%	100%	
	TSMC Development, Inc. (TSMC Development)	100%	100%	
	InveStar Semiconductor Development Fund, Inc. (ISDF)	97%	97%	
	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%	

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VTAF III, VTAF II and Emerging Alliance	VentureTech Alliance Holdings, LLC (VTA Holdings)	100%	100%
GUC	Global Unichip Corp.-NA (GUC-NA)	(Note 2)	100%
	Global Unichip Japan Co., Ltd. (GUC-Japan)	(Note 2)	100%
	Global Unichip Europe B.V. (GUC-Europe)	(Note 2)	100%
GUC-BVI	Global Unichip (BVI) Corp. (GUC-BVI)	(Note 2)	100%
	Global Unichip (Shanghai) Company, Limited (GUC-Shanghai)	(Note 2)	100%

(Continued)

Name of Investor	Name of Investee	Percentage of Ownership March 31		Remark
		2012	2011	
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)	46%		(Note 1)
TSMC Solar Europe	TSMC Solar Europe GmbH	100%	100%	(Note 1)

(Concluded)

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 March 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.

To foster a stronger sense of corporate entrepreneurship and facilitate business specializations in order to strengthen overall profitability and operational efficiency, TSMC transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC SSL and TSMC Solar, in August 2011. In February 2012, TSMC SSL and TSMC Solar issued new shares for cash, in which a portion of shares were subscribed by their employees and TSMC GN. As a result, the Company's percentage of ownership in TSMC SSL and TSMC Solar decreased to 96% and 99%, respectively.

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 period-end; shareholders' equity - historical rates; income and expenses - average rates during the period. 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 and government bonds, corporate bonds, and agency bonds acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value due to their short term nature.

#### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

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

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

#### **Available-for-sale Financial Assets**

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

Fair value is determined as follows: Open-end mutual funds and money market funds - net asset values at the end of the period; publicly traded stocks - closing prices at the end of the period; and other debt securities - average of bid and asked prices at the end of the period.

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.

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

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

#### **Held-to-maturity Financial Assets**

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

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

### **Hedging Derivative Financial Instruments**

Hedge derivatives are mainly derivatives instruments that are for cash flow hedge purposes and determined to be an effective hedge. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same period or period during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

### **Financial Assets Carried at Cost**

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

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

### **Allowance for Doubtful Receivables**

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

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

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

### **Inventories**

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

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



### **Investments Accounted for Using Equity Method**

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

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

Gains or losses on sales from the Company to equity method investees or from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until such gains or losses are realized through transactions with third parties.