TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
August 30, 2011

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 August 2011

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant s Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(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 x 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 x

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

Taiwan Semiconductor Manufacturing

Company Limited

Financial Statements for the

Six Months Ended June 30, 2011 and 2010 and

Independent Auditors   Report

INDEPENDENT AUDITORS REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2011 and 2010, and the related statements of income, changes in shareholders equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the six months ended June 30, 2011 on which we have issued an unqualified opinion.

July 25, 2011

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited

BALANCE SHEETS

JUNE 30, 2011 AND 2010

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

	2011		2010	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 95,297,486	13	$ 131,854,140	20
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	17,455	-	378	-
Available-for-sale financial assets (Notes 2, 6 and 23)	4,171,309	1	-	-
Held-to-maturity financial assets (Notes 2, 7 and 23)	2,114,955	-	7,031,587	1
Receivables from related parties (Notes 3 and 24)	27,402,025	4	24,822,081	4
Notes and accounts receivable (Note 3)	23,797,744	3	27,261,560	4
Allowance for doubtful receivables (Notes 2, 3 and 8)	(488,000)	-	(523,000)	-
Allowance for sales returns and others (Notes 2 and 8)	(5,641,777)	(1)	(5,982,628)	(1)
Other receivables from related parties (Notes 3 and 24)	3,231,557	-	634,274	-
Other financial assets (Note 25)	423,794	-	718,908	-
Inventories (Notes 2 and 9)	28,404,692	4	22,122,521	3
Deferred income tax assets (Notes 2 and 18)	1,053,036	-	3,216,953	1
Prepaid expenses and other current assets	1,068,001	-	1,134,163	-
Total current assets	180,852,277	24	212,290,937	32
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 23)				
Investments accounted for using equity method	110,458,979	15	115,722,527	17
Available-for-sale financial assets	-	-	1,039,916	-
Held-to-maturity financial assets	1,404,575	-	3,528,645	1
Financial assets carried at cost	497,835	-	497,835	-
Total long-term investments	112,361,389	15	120,788,923	18
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)				
Cost				
Buildings	146,790,740	19	126,586,981	19
Machinery and equipment	950,275,417	124	802,138,783	121
Office equipment	12,915,965	2	11,402,593	2
	1,109,982,122	145	940,128,357	142
Accumulated depreciation	(754,185,331)	(99)	(665,861,387)	(100)
Advance payments and construction in progress	93,045,607	12	36,387,561	5
Net property, plant and equipment	448,842,398	58	310,654,531	47
INTANGIBLE ASSETS				
Goodwill (Note 2)	1,567,756	-	1,567,756	-
Deferred charges, net (Notes 2 and 13)	5,216,575	1	5,504,428	1
Total intangible assets	6,784,331	1	7,072,184	1
OTHER ASSETS				

Deferred income tax assets (Notes 2 and 18)	10,855,491	1	9,600,630	2
Refundable deposits	4,796,851	1	2,381,457	-
Others (Notes 2 and 24)	1,380,133	-	459,256	-
Total other assets	17,032,475	2	12,441,343	2
TOTAL	$ 765,872,870	100	$ 663,247,918	100

	2011		2010	
LIABILITIES AND SHAREHOLDERS EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Note 14)	$ 33,140,881	4	$ 17,759,356	3
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23)	-	-	173,978	-
Accounts payable	10,138,171	1	9,783,999	1
Payables to related parties (Note 24)	3,386,091	-	3,218,130	-
Income tax payable (Notes 2 and 18)	6,076,318	1	3,484,996	-
Cash dividends payable (Note 20)	77,730,236	10	77,708,120	12
Accrued profit sharing to employees and bonus to directors (Notes 2 and 20)	15,859,637	2	11,777,660	2
Payables to contractors and equipment suppliers	34,942,119	5	25,443,411	4
Accrued expenses and other current liabilities (Notes 16 and 23)	11,786,554	2	11,875,119	2
Current portion of bonds payable (Notes 15 and 23)	4,500,000	1	-	-
Total current liabilities	197,560,007	26	161,224,769	24
LONG-TERM LIABILITIES				
Bonds payable (Notes 15 and 23)	-	-	4,500,000	1
Other long-term payables (Notes 16 and 23)	-	-	161,390	-
Total long-term liabilities	-	-	4,661,390	1
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	3,860,459	-	3,805,044	1
Guarantee deposits (Note 27)	502,883	-	872,331	-
Total other liabilities	4,363,342	-	4,677,375	1
Total liabilities	201,923,349	26	170,563,534	26
CAPITAL STOCK - NT$10 PAR VALUE (Note 20)				
Authorized: 28,050,000 thousand shares				
Issued: 25,914,283 thousand shares in 2011 25,905,017 thousand shares in 2010	259,142,831	34	259,050,172	39
CAPITAL SURPLUS (Notes 2 and 20)	55,802,387	7	55,566,995	8
RETAINED EARNINGS (Note 20)				
Appropriated as legal capital reserve	102,399,995	13	86,239,494	13
Appropriated as special capital reserve	6,433,874	1	1,313,047	-
Unappropriated earnings	151,443,573	20	90,567,054	14
	260,277,442	34	178,119,595	27

OTHERS (Notes 2 and 23)				
Cumulative translation adjustments	(11,461,047)	(1)	(1,034,256)	-
Unrealized gain on financial instruments	187,908	-	981,878	-
	(11,273,139)	(1)	(52,378)	-
Total shareholders equity	563,949,521	74	492,684,384	74
TOTAL	$ 765,872,870	100	$ 663,247,918	100

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	2011 Amount	%	2010 Amount	%
GROSS SALES (Notes 2 and 24)	$ 212,301,752		$ 196,370,319	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	1,907,979		5,560,054	
NET SALES	210,393,773	100	190,810,265	100
COST OF SALES (Notes 9, 19 and 24)	113,265,613	54	98,822,613	52
GROSS PROFIT	97,128,160	46	91,987,652	48
REALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	249,480	-	1,646	-
REALIZED GROSS PROFIT	97,377,640	46	91,989,298	48
OPERATING EXPENSES (Notes 19 and 24)				
Research and development	15,283,607	7	12,596,905	7
General and administrative	6,029,204	3	4,809,249	2
Marketing	1,211,366	1	1,358,880	1
Total operating expenses	22,524,177	11	18,765,034	10
INCOME FROM OPERATIONS	74,853,463	35	73,224,264	38
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	2,914,860	2	2,179,835	1
Settlement income (Note 27)	433,425	-	1,278,400	1
Interest income	402,293	-	388,318	-
Foreign exchange gain, net (Note 2)	322,334	-	92,744	-
Technical service income (Note 24)	224,238	-	236,790	-
Valuation gain on financial instruments, net (Notes 2, 5 and 23)	-	-	29,739	-

Others (Notes 2 and 24)	461,096	-	169,924	-
Total non-operating income and gains	4,758,246	2	4,375,750	2

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	2011 Amount	%	2010 Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Valuation loss on financial instruments, net (Notes 2, 5 and 23)	$ 197,255	-	$ -	-
Loss on disposal of property, plant and equipment (Note 2)	153,131	-	-	-
Interest expense	146,374	-	79,188	-
Casualty loss (Note 9)	-	-	194,137	-
Others	122,232	-	76,974	-
Total non-operating expenses and losses	618,992	-	350,299	-
INCOME BEFORE INCOME TAX	78,992,717	37	77,249,715	40
INCOME TAX EXPENSE (Notes 2 and 18)	6,764,610	3	3,304,682	1
NET INCOME	$ 72,228,107	34	$ 73,945,033	39

	2011 Before Income Tax	2011 After Income Tax	2010 Before Income Tax	2010 After Income Tax
EARNINGS PER SHARE (NT$, Note 22)				
Basic earnings per share	$ 3.05	$ 2.79	$ 2.98	$ 2.85
Diluted earnings per share	$ 3.05	$ 2.79	$ 2.98	$ 2.85

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	Capital Stock - Common Stock			Retained Earnings				Others		
	Shares (In Thousands)	Amount	Capital Surplus	Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) On Financial Instruments	Sha[...] E[...]
1,	25,910,078	$ 259,100,787	$ 55,698,434	$ 86,239,494	$ 1,313,047	$ 178,227,030	$ 265,779,571	$ (6,543,163)	$ 109,289	$ 5
ons of										
l	-	-	-	16,160,501	-	(16,160,501)	-	-	-	
tal	-	-	-	-	5,120,827	(5,120,827)	-	-	-	
nds to , er	-	-	-	-	-	(77,730,236)	(77,730,236)	-	-	(
for hs 30,	-	-	-	-	-	72,228,107	72,228,107	-	-	
f n od	-	-	14,643	-	-	-	-	-	-	
	-	-	-	-	-	-	-	(4,917,884)	-	
stock ing ock	4,205	42,044	89,310	-	-	-	-	-	-	
of -sale ets	-	-	-	-	-	-	-	-	176,970	
n , od	-	-	-	-	-	-	-	-	(98,351)	
	25,914,283	$ 259,142,831	$ 55,802,387	$ 102,399,995	$ 6,433,874	$ 151,443,573	$ 260,277,442	$ (11,461,047)	$ 187,908	$ 5

011

1,	25,902,706	$ 259,027,066	$ 55,486,010	$ 77,317,710	$ -	$ 104,564,972	$ 181,882,682	$ (1,766,667)	$ 453,621	$ 4
ons of										
l	-	-	-	8,921,784	-	(8,921,784)	-	-	-	
tal	-	-	-	-	1,313,047	(1,313,047)	-	-	-	
nds to s er	-	-	-	-	-	(77,708,120)	(77,708,120)	-	-	(
for hs 30,	-	-	-	-	-	73,945,033	73,945,033	-	-	
of n od	-	-	711	-	-	-	-	-	-	
	-	-	-	-	-	-	-	732,411	-	
stock ing ock	2,311	23,106	62,508	-	-	-	-	-	-	
of r-sale ets	-	-	-	-	-	-	-	-	(6,756)	
n s od	-	-	17,766	-	-	-	-	-	535,013	
010	25,905,017	$ 259,050,172	$ 55,566,995	$ 86,239,494	$ 1,313,047	$ 90,567,054	$ 178,119,595	$ (1,034,256)	$ 981,878	$ 4

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 72,228,107	$ 73,945,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,954,937	39,684,919
Realized gross profit from affiliates	(249,480)	(1,646)
Amortization of premium/discount of financial assets	7,757	8,666
Gain on disposal of available-for-sale financial assets, net	(35,151)	-
Loss on disposal of financial assets carried at cost	-	1,263
Equity in earnings of equity method investees, net	(2,914,860)	(2,179,835)
Cash dividends received from equity method investees	1,914,392	-
Loss (gain) on disposal of property, plant and equipment and other assets, net	10,251	(9,334)
Deferred income tax	336,498	(990,530)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(25,289)	355,343
Receivables from related parties	(1,668,051)	(2,280,308)
Notes and accounts receivable	(1,546,839)	(7,377,040)
Allowance for doubtful receivables	-	92,000
Allowance for sales returns and others	(1,699,667)	(2,601,004)
Other receivables from related parties	(64,293)	33,182
Other financial assets	(5,588)	385,164
Inventories	(2,758,344)	(3,292,305)
Prepaid expenses and other current assets	284,243	(230,184)
Increase (decrease) in:		
Accounts payable	(2,091,732)	492,889
Payables to related parties	811,641	1,178,788
Income tax payable	(1,032,551)	(5,276,124)
Accrued profit sharing to employees and bonus to directors	4,900,168	5,006,322
Accrued expenses and other current liabilities	(1,875,486)	(4,941,797)
Accrued pension cost	35,858	(2,132)
Deferred credits	-	(47,873)
Net cash provided by operating activities	114,516,521	91,953,457
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(139,147,091)	(98,190,906)
Investments accounted for using equity method	(511,390)	(8,018,146)
Financial assets carried at cost	-	(480)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	1,035,151	-
Held-to-maturity financial assets	2,675,000	11,595,000

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
Financial assets carried at cost	$ -	$ 3,370
Property, plant and equipment and other assets	2,068,298	20,903
Increase in deferred charges	(788,025)	(585,185)
Decrease in refundable deposits	3,841,898	316,659
Increase in other assets	(22,600)	-
Net cash used in investing activities	(130,848,759)	(94,858,785)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	2,232,244	17,759,356
Decrease in guarantee deposits	(245,004)	(129,045)
Proceeds from exercise of employee stock options	131,354	85,614
Net cash provided by financing activities	2,118,594	17,715,925
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,213,644)	14,810,597
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	109,511,130	117,043,543
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 95,297,486	$ 131,854,140
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 221,853	$ 145,179
Income tax paid	$ 7,417,035	$ 9,452,574
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	$ 133,768,114	$ 94,612,614
Decrease in payables to contractors and equipment suppliers	5,379,459	3,701,212
Nonmonetary exchange trade-out price	(482)	(122,920)
Cash paid	$ 139,147,091	$ 98,190,906
Disposal of property, plant and equipment and other assets	$ 2,905,302	$ 143,823
Increase in other receivables to related parties	(836,522)	-

Nonmonetary exchange trade-out price		(482)		(122,920)
Cash received	$	2,068,298	$	20,903
NON-CASH FINANCING ACTIVITIES				
Current portion of bonds payable	$	4,500,000	$	-
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$	897,298	$	569,149

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

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, the Company also engages in the researching, developing, designing, manufacturing and selling of solid state lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. 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 June 30, 2011 and 2010, the Company had 30,364 and 24,882 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

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

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

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

The fair value of overseas publicly traded stock is determined using the closing prices at the end of the 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 but are accounted for as a reduction to the original cost of investment if such dividends are declared on the earnings of the investee attributable to the period prior to the purchase of the investment. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Allowance for Doubtful Receivables

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

The Company s provision was originally set at 1% of the amount of outstanding receivables. On January 1, 2011, the Company adopted the third revision of Statement of Financial Accounting Standards (SFAS) No. 34, Financial Instruments: Recognition and Measurement. One of the main revisions is that the impairment of receivables originated by the Company is subject to the provisions of SFAS No. 34. Companies are required to evaluate 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 in loss 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.

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

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

Property, Plant and Equipment and Assets Leased to Others

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

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

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

Intangible Assets

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

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

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

Pension Costs

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

Income Tax

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

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

Adjustments of prior years tax liabilities are added to or deducted from the current 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 Statement of Financial Accounting Standards 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 collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised Statement of Financial Accounting Standards (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 period ended June 30, 2011.

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, Operating Segments. The statement requires identification and disclosure of operating segments on the basis of how the Company s chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, Segment Reporting. The Company conformed to the disclosure requirements as of and for the six months ended June 30, 2011. The information for the six months ended June 30, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH AND CASH EQUIVALENTS

	000000000000	000000000000
	June 30	
	2011	**2010**
Cash and deposits in banks	$ 91,164,818	$ 129,953,580
Repurchase agreements collateralized by government bonds	4,132,668	1,900,560
	$ 95,297,486	$ 131,854,140

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

	00000000	00000000
	June 30	
	2011	**2010**
Trading financial assets		
Cross currency swap contracts	$ 17,455	$ 378
Trading financial liabilities		
	$ -	$ 13,893
Forward exchange contracts	-	160,085
Cross currency swap contracts		
	$ -	$ 173,978

The Company entered into derivative contracts during the six months ended June 30, 2011 and 2010 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	**Contract Amount (In Thousands)**
June 30, 2010		
Sell EUR/Buy NT$	July 2010	EUR14,000/NT$549,304
Sell US$/Buy NT$	July 2010	US$40,000/NT$1,277,000

Outstanding cross currency swap contracts consisted of the following:

Maturity Date	**Contract Amount (In Thousands)**	**Range of Interest Rates Paid**	**Range of Interest Rates Received**
June 30, 2011			
July 2011	US$128,000/NT$3,699,250	0.46%-1.01%	0.00%-0.00%
June 30, 2010			
July 2010 to August 2010	US$615,000/NT$19,689,710	0.41%-0.67%	0.00%-0.00%

For the six months ended June 30, 2011 and 2010, changes in fair value related to derivative financial instruments recognized in earnings was a net loss of NT$197,255 thousand and a net gain of NT$29,739 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	000000000	000000000
	June 30	
	2011	**2010**
Overseas publicly traded stock	$ 4,171,309	$ -
Corporate bonds	-	1,039,916
	4,171,309	1,039,916
Current portion	(4,171,309)	-
	$ -	$ 1,039,916

7. HELD-TO-MATURITY FINANCIAL ASSETS

	0000000000	0000000000
	June 30	
	2011	**2010**
Corporate bonds	$ 3,519,530	$ 9,560,232
Structured time deposits	-	1,000,000
	3,519,530	10,560,232
Current portion	(2,114,955)	(7,031,587)
	$ 1,404,575	$ 3,528,645

Structured time deposits categorized as held-to-maturity financial assets consisted of the following:

	0000000000	0000000000	0000000000	0000000000
	Principal Amount	**Interest Receivable**	**Range of Interest Rates**	**Maturity Date**
June 30, 2010				
Callable domestic deposits	$ 1,000,000	$ 819	0.36%	July 2010

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	000000000	000000000
	Six Months Ended June 30	
	2011	**2010**
Balance, beginning of period	$ 488,000	$ 431,000

Provision	-	92,000
Balance, end of period	$ 488,000	$ 523,000

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

	0000000000	0000000000
	Six Months Ended June 30	
	2011	**2010**
Balance, beginning of period	$ 7,341,444	$ 8,583,632
Provision	1,907,979	5,560,054
Write-off	(3,607,646)	(8,161,058)
Balance, end of period	$ 5,641,777	$ 5,982,628

9. INVENTORIES

	June 30	
	2011	2010
Finished goods	$ 6,952,784	$ 2,266,830
Work in process	17,713,682	16,884,693
Raw materials	2,221,347	1,953,960
Supplies and spare parts	1,516,879	1,017,038
	$ 28,404,692	$ 22,122,521

Write-down of inventories to net realizable value in the amount of NT$258,871 thousand and NT$47,183 thousand, respectively, were included in the cost of sales for the six months ended June 30, 2011 and 2010. Inventories losses related to earthquake in the amount of NT$194,137 thousand were classified under non-operating expenses and losses for the six months ended June 30, 2010.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30			
	2011		2010	
	Carrying Amount	% of Owner-ship	Carrying Amount	% of Owner-ship
TSMC Global Ltd. (TSMC Global)	$ 41,617,880	100	$ 46,004,067	100
TSMC Partners, Ltd. (TSMC Partners)	32,657,501	100	34,361,272	100
Vanguard International Semiconductor Corporation (VIS)	9,110,898	38	9,233,879	38
Motech Industries Inc. (Motech)	6,132,395	20	6,225,880	20
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	5,519,534	39	6,727,380	39
TSMC China Company Limited (TSMC China)	5,198,868	100	3,134,321	100
TSMC North America	2,830,777	100	2,800,334	100
VentureTech Alliance Fund III, L.P. (VTAF III)	2,587,484	99	2,890,551	99
Xintec Inc. (Xintec)	1,596,809	41	1,576,835	41
Global UniChip Corporation (GUC)	1,064,925	35	1,000,709	35
VentureTech Alliance Fund II, L.P. (VTAF II)	1,015,748	98	1,128,923	98
TSMC Solar Europe B.V. (TSMC Solar Europe)	391,148	100	-	-
Emerging Alliance Fund, L.P. (Emerging Alliance)	277,059	99	315,832	99
TSMC Europe B.V. (TSMC Europe)	201,892	100	156,985	100
TSMC Japan Limited (TSMC Japan)	146,863	100	146,335	100
TSMC Solar North America, Inc. (TSMC Solar NA)	83,704	100	-	-
TSMC Korea Limited (TSMC Korea)	22,622	100	19,224	100
TSMC Lighting North America, Inc. (TSMC Lighting NA)	2,872	100	-	-
	$ 110,458,979		$ 115,722,527	

For the renewable energy and efficiency related businesses development, the Company established wholly-owned subsidiaries, TSMC Solar NA, TSMC Solar Europe and TSMC Lighting NA, in the third quarter of 2010. In addition, the Company will transfer solar and solid state lighting businesses to its wholly-owned, newly incorporated subsidiaries as part of the strategic planning in the third quarter of 2011.

For the year ended December 31, 2010, the Company increased its investment in VTAF III for the amount of NT$1,862,278 thousand, and the Company s percentage of ownership in VTAF III increased from 98% to 99%.

In February 2010, the Company subscribed to 75,316 thousand shares of Motech through a private placement for NT$6,228,661 thousand; after the subscription, the Company s percentage of ownership in Motech was 20%. Transfer of the aforementioned common shares within three years is prohibited according to the related regulations.

For the six months ended June 30, 2011 and 2010, equity in earnings of equity method investees was a net gain of NT$2,914,860 thousand and NT$2,179,835 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the audited financial statements, except those of TSMC Solar Europe, Emerging Alliance, TSMC Europe, TSMC Japan, TSMC Solar NA, TSMC Korea and TSMC Lighting NA for the six months ended June 30, 2011 and those of Emerging Alliance, TSMC Europe, TSMC Japan and TSMC Korea for the six months ended June 30, 2010. The Company believes that, had the aforementioned equity method investees financial statements been audited, any adjustments arising would have no material effect on the Company s financial statements.

As of June 30, 2011 and 2010, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT$14,691,013 thousand and NT$13,692,207 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:

	Six Months Ended June 30	
	2011	**2010**
Balance, beginning of period	$ 2,504,496	$ 1,429,118
Additions	-	2,055,660
Amortizations	(476,809)	(472,501)
Balance, end of period	$ 2,027,687	$ 3,012,277

Movements of the difference allocated to goodwill were as follows:

	Six Months Ended June 30	
	2011	**2010**
Balance, beginning of period	$ 1,415,565	$ 1,061,885
Additions	-	353,680
Balance, end of period	$ 1,415,565	$ 1,415,565

11. FINANCIAL ASSETS CARRIED AT COST

	00000000	00000000
	June 30	
	2011	2010
Non-publicly traded stocks	$ 338,584	$ 338,584
Mutual funds	159,251	159,251
	$ 497,835	$ 497,835

12. PROPERTY, PLANT AND EQUIPMENT

	00000000000000	00000000000000	00000000000000	00000000000000	00000000000000
	Six Months Ended June 30, 2011				
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	$ 128,646,942	$ 18,154,973	$ (11,175)	$ -	$ 146,790,740
Machinery and equipment	852,733,592	98,688,934	(1,119,442)	(27,667)	950,275,417
Office equipment	11,730,537	1,424,494	(239,066)	-	12,915,965
	993,111,071	$ 118,268,401	$ (1,369,683)	$ (27,667)	1,109,982,122
Accumulated depreciation					
Buildings	81,347,877	$ 4,360,111	$ (9,762)	$ -	85,698,226
Machinery and equipment	616,495,207	44,015,931	(1,079,340)	(15,678)	659,416,120
Office equipment	8,762,361	547,690	(239,066)	-	9,070,985
	706,605,445	$ 48,923,732	$ (1,328,168)	$ (15,678)	754,185,331
Advance payments and construction in progress	80,348,673	$ 15,499,713	$ (2,802,779)	$ -	93,045,607
	$ 366,854,299				$ 448,842,398

	Six Months Ended June 30, 2010				
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	$ 124,522,047	$ 2,065,029	$ (95)	$ -	$ 126,586,981
Machinery and equipment	713,426,126	89,052,436	(479,621)	139,842	802,138,783
Office equipment	10,781,099	894,165	(272,229)	(442)	11,402,593
	848,729,272	$ 92,011,630	$ (751,945)	$ 139,400	940,128,357
Accumulated depreciation					
Buildings	73,525,160	$ 4,059,404	$ (95)	$ -	77,584,469
Machinery and equipment	545,693,910	34,213,131	(479,621)	139,842	579,567,262
Office equipment	8,545,253	437,074	(272,229)	(442)	8,709,656

		627,764,323	$	38,709,609	$	(751,945)	$	139,400	665,861,387
Advance payments and construction in progress		33,786,577	$	2,600,984	$	-	$	-	36,387,561
	$	254,751,526						$	310,654,531

No interest was capitalized during the six months ended June 30, 2011 and 2010.

13. DEFERRED CHARGES, NET

	Six Months Ended June 30, 2011			
	Balance, Beginning of Period	Additions	Amortization	Balance, End of Period
	0000000000	0000000000	0000000000	0000000000
Technology license fees	$ 2,277,832	$ -	$ (334,985)	$ 1,942,847
Software and system design costs	2,075,935	672,362	(507,499)	2,240,798
Patent and others	1,102,660	115,663	(185,393)	1,032,930
	$ 5,456,427	$ 788,025	$ (1,027,877)	$ 5,216,575

	Six Months Ended June 30, 2010			
	Balance, Beginning of Period	Additions	Amortization	Balance, End of Period
Technology license fees	$ 2,979,801	$ -	$ (366,983)	$ 2,612,818
Software and system design costs	1,646,973	585,185	(425,060)	1,807,098
Patent and others	1,264,911	-	(180,399)	1,084,512
	$ 5,891,685	$ 585,185	$ (972,442)	$ 5,504,428

14. SHORT-TERM LOANS

	0000000000	0000000000
	June 30	
Unsecured loans:	2011	2010
US$922,000 thousand and EUR158,350 thousand, due in July 2011, and annual interest at 0.35%-1.53% in 2011; US$550,200 thousand, due in July 2010, and annual interest at 0.51%-0.75% in 2010	$ 33,140,881	$ 17,759,356

15. BONDS PAYABLE

	0000000000	0000000000
	June 30	
	2011	2010
Domestic unsecured bonds:		
Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	$ 4,500,000	$ 4,500,000
Current portion	(4,500,000)	-
	$ -	$ 4,500,000

16. OTHER LONG-TERM PAYABLES

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

As of June 30, 2011, future payments for other long-term payables (classified under accrued expenses and other current liabilities) due within one year amounted to NT$897,298 thousand.

17. PENSION PLANS

The pension mechanism under the Labor Pension Act (the Act) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee s monthly salary to employees pension accounts and recognized pension costs of NT$555,524 thousand and NT$408,072 thousand for the six months ended June 30, 2011 and 2010, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee s name in the Bank of Taiwan. The Company recognized pension costs of NT$150,832 thousand and NT$118,159 thousand for the six months ended June 30, 2011 and 2010, respectively.

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

	Six Months Ended June 30	
	2011	**2010**
The Fund		
Balance, beginning of period	$ 2,835,231	$ 2,595,717
Contributions	116,010	112,906
Interest	27,083	41,105
Payments	(3,833)	(7,690)
Balance, end of period	$ 2,974,491	$ 2,742,038
Accrued pension cost		
Balance, beginning of period	$ 3,824,601	$ 3,807,176
Accruals (payments)	35,858	(2,132)
Balance, end of period	$ 3,860,459	$ 3,805,044

18. INCOME TAX

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

	Six Months Ended June 30	
	2011	**2010**
Income tax expense based on income before income tax at statutory rate (17%)	$ 13,428,762	$ 13,132,452
Tax effect of the following:		
Tax-exempt income	(7,114,959)	(7,108,909)
Temporary and permanent differences	(1,064,087)	(405,323)
Additional income tax under the Alterative Minimum Tax Act	102,078	-
Additional tax at 10% on unappropriated earnings	6,259,344	127,489
Income tax credits used	(5,754,530)	(2,441,073)
Income tax currently payable	$ 5,856,608	$ 3,304,636

b. Income tax expense consisted of the following:

	Six Months Ended June 30	
	2011	**2010**
Income tax currently payable	$ 5,856,608	$ 3,304,636
Income tax adjustments on prior years	464,078	980,428
Other income tax adjustments	107,426	10,148
Net change in deferred income tax assets		

Investment tax credits	2,877,767	(4,859,385)
Temporary differences	342,984	69,029
Valuation allowance	(2,884,253)	3,799,826
Income tax expense	$ 6,764,610	$ 3,304,682

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

	June 30	
	2011	2010
Current deferred income tax assets		
Investment tax credits	$ 504,814	$ 2,512,000
Temporary differences		
Allowance for sales returns and others	479,551	520,488
Unrealized gain/loss on financial instruments	44,719	-
Others	23,952	184,465
	$ 1,053,036	$ 3,216,953
Noncurrent deferred income tax assets		
Investment tax credits	$ 18,592,633	$ 17,079,126
Temporary differences		
Depreciation	1,843,188	2,026,861
Others	188,179	93,801
Valuation allowance	(9,768,509)	(9,599,158)
	$ 10,855,491	$ 9,600,630

Effective in June 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010. The Company recalculated its deferred tax assets in accordance with the new amended Article and adjusted the resulting difference as an income tax expense in 2010. Furthermore, due to the reduced corporate income tax rate, the Company anticipated a decrease in future tax credits allowed for deduction, therefore resulting in higher adjustment to the valuation allowance balance.

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 June 30, 2011 and 2010 was NT$8,826,775 thousand and NT$10,284,010 thousand, respectively.

The estimated and actual creditable ratios for distribution of earnings of 2010 and 2009 were 4.95% and 9.85%, respectively.

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

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

f. As of June 30, 2011, investment tax credits consisted of the following:

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 3,212,912	$ 292,677	2012
		6,521,334	6,521,334	2013
		7,004,056	7,004,056	2014
		267,796	267,796	2015
		$ 17,006,098	$ 14,085,863	
Statute for Upgrading Industries	Research and development expenditures	$ 1,772,824	$ -	2012
		4,994,463	4,994,463	2013
		$ 6,767,287	$ 4,994,463	
Statute for Upgrading Industries	Personnel training expenditures	$ 17,391	$ -	2012
		17,121	17,121	2013
		$ 34,512	$ 17,121	
Statute for Industrial Innovation	Research and development expenditures	$ 1,044,080	$ -	2011

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

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

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

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Six Months Ended June 30, 2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total

Labor cost			
Salary and bonus	$ 12,307,288	$ 8,604,243	$ 20,911,531
Labor and health insurance	622,318	348,469	970,787
Pension	452,941	253,415	706,356
Meal	328,234	134,064	462,298
Welfare	117,756	67,701	185,457
Others	28,121	16,350	44,471
	$ 13,856,658	$ 9,424,242	$ 23,280,900
Depreciation	$ 45,678,813	$ 3,238,520	$ 48,917,333
Amortization	$ 653,237	$ 374,640	$ 1,027,877

	Six Months Ended June 30, 2010		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	$ 11,079,255	$ 8,196,609	$ 19,275,864
Labor and health insurance	405,536	236,761	642,297
Pension	332,212	194,019	526,231
Meal	254,042	106,506	360,548
Welfare	101,229	60,505	161,734
Others	33,161	7,935	41,096
	$ 12,205,435	$ 8,802,335	$ 21,007,770
Depreciation	$ 36,299,789	$ 2,401,688	$ 38,701,477
Amortization	$ 627,488	$ 344,954	$ 972,442

20. SHAREHOLDERS EQUITY

As of June 30, 2011, 1,093,731 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,468,654 thousand (one ADS represents five common shares).

Capital surplus can only 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.

Capital surplus consisted of the following:

	June 30	
	2011	2010
Additional paid-in capital	$ 23,718,218	$ 23,520,313
From merger	22,805,390	22,805,390
From convertible bonds	8,893,190	8,893,190
From long-term investments	385,534	348,047
Donations	55	55
	$ 55,802,387	$ 55,566,995

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:

a. 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$4,873,630 thousand and NT$4,988,630 thousand for the six months ended June 2011 and 2010, respectively. Bonuses to directors were accrued 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.

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 and bonuses for the portion in excess of 50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company s paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company s paid-in capital, up to 50% of the reserve may be transferred to capital.

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

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

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

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

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

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

21. STOCK-BASED COMPENSATION PLANS

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

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of June 30, 2011.

Information about outstanding options for the six months ended June 30, 2011 and 2010 was as follows:

	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Six months ended June 30, 2011		
Balance, beginning of period	21,437	$31.4
Options exercised	(4,205)	31.2
Balance, end of period	17,232	31.6
Six months ended June 30, 2010		
Balance, beginning of period	28,810	$33.5
Options exercised	(2,311)	37.1
Balance, end of period	26,499	33.1

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

As of June 30, 2011, information about outstanding options was as follows:

		Options Outstanding	
Range of Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT$)
$20.9-$29.3	13,183	1.74	$ 27.3
38.0- 50.1	4,049	3.43	45.7
	17,232	2.13	31.6

As of June 30, 2011, all of the above outstanding options were exercisable.

No compensation cost was recognized under the intrinsic value method for the six months ended June 30, 2011 and 2010. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions at the various grant dates and pro forma results of the Company for the six months ended June 30, 2011 and 2010 would have been as follows:

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

	Six Months Ended June 30	
	2011	2010
Net income:		
Net income as reported	$ 72,228,107	$ 73,945,033
Pro forma net income	72,182,896	73,996,839
Earnings per share (EPS) - after income tax (NT$):		
Basic EPS as reported	$2.79	$2.85
Pro forma basic EPS	2.79	2.86
Diluted EPS as reported	2.79	2.85
Pro forma diluted EPS	2.78	2.86

22. EARNINGS PER SHARE

EPS is computed as follows:

	0000000000	0000000000	0000000000	0000000000	0000000000
			Number of	**EPS (NT$)**	
	Amounts (Numerator)			**Before**	**After**
	Before	**After**	**Shares**	**Income**	**Income**
	Income Tax	**Income Tax**	**(Denominator) (In Thousands)**	**Tax**	**Tax**
Six months ended June 30, 2011					
Basic EPS					
Earnings available to common shareholders	$ 78,992,717	$ 72,228,107	25,913,396	$ 3.05	$ 2.79
Effect of dilutive potential common shares	-	-	10,331		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	$ 78,992,717	$ 72,228,107	25,923,727	$ 3.05	$ 2.79
Six months ended June 30, 2010					
Basic EPS					
Earnings available to common shareholders	$ 77,249,715	$ 73,945,033	25,904,196	$ 2.98	$ 2.85
Effect of dilutive potential common shares	-	-	12,245		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	$ 77,249,715	$ 73,945,033	25,916,441	$ 2.98	$ 2.85

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 six months ended June 30, 2010 to remain at NT$2.85.

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	0000000000	0000000000	0000000000	0000000000
	June 30			
	2011		**2010**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Financial assets at fair value through profit or loss	$ 17,455	$ 17,455	$ 378	$ 378
Available-for-sale financial assets	4,171,309	4,171,309	1,039,916	1,039,916
Held-to-maturity financial assets	3,519,530	3,554,538	10,560,232	10,668,153
Financial assets carried at cost	497,835	-	497,835	-
Liabilities				
Financial liabilities at fair value through profit or loss	-	-	173,978	173,978
Bonds payable (including current portion)	4,500,000	4,528,220	4,500,000	4,556,853
Other long-term payables (including current portion)	897,298	897,298	730,539	730,539

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 and structured time deposits, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.

3) The fair values of those derivatives and structured time deposits 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. The changes in fair value of derivatives contracts for the six months ended June 30, 2011 and 2010 estimated using valuation techniques were recognized as a net gain of NT$17,455 thousand and a net loss of NT$173,600 thousand, respectively.

d. As of June 30, 2011 and 2010, financial assets exposed to fair value interest rate risk were NT$3,536,985 thousand and NT$11,600,526 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT$37,640,881 thousand and NT$22,433,334 thousand, respectively.

e. Movements of the unrealized gains or losses on financial instruments for the six months ended June 30, 2011 and 2010 were as follows:

	0000000000	0000000000	0000000000
	Six Months Ended June 30, 2011		
	From Available-for-sale Financial Assets	**Equity-method Investments**	**Total**
Balance, beginning of period	$ (395,306)	$ 504,595	$ 109,289
Recognized directly in shareholders equity	212,121	(98,351)	113,770
Removed from shareholders equity and recognized in earnings	(35,151)	-	(35,151)
Balance, end of period	$ (218,336)	$ 406,244	$ 187,908

	Six Months Ended June 30, 2010		
	From Available-for-sale Financial Assets	**Equity-method Investments**	**Total**
Balance, beginning of period	$ 46,672	$ 406,949	$ 453,621
Recognized directly in shareholders equity	(6,756)	535,013	528,257
Balance, end of period	$ 39,916	$ 941,962	$ 981,878

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 price 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-party or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company s exposure to credit risk was not significant.

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

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

24. RELATED PARTY TRANSACTIONS

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

a. Subsidiaries

TSMC North America

TSMC China

TSMC Europe

TSMC Japan

b. Investees

GUC (with a controlling financial interest)

Xintec (with a controlling financial interest)

VIS (accounted for using equity method)

SSMC (accounted for using equity method)

Motech (accounted for using 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 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:

	000000000000	000000000000	000000000000	000000000000
	2011		**2010**	
	Amount	**%**	**Amount**	**%**
For the six months ended June 30				

Sales						
TSMC North America	$	115,627,277	54	$	102,705,311	52
Others		1,474,631	1		1,051,606	1
	$	117,101,908	55	$	103,756,917	53
Purchases						
TSMC China	$	4,935,280	19	$	3,691,579	16
WaferTech		3,763,210	15		3,743,351	17
VIS		2,829,238	11		2,094,567	9
SSMC		1,994,243	8		2,211,401	10
Others		124,673	-		-	-
	$	13,646,644	53	$	11,740,898	52

	2011		2010	
	Amount	%	Amount	%
Manufacturing expenses				
Xintec (rent and outsourcing)	$ 177,596	-	$ 113,104	-
VisEra (outsourcing)	8,111	-	11,625	-
VIS (rent)	5,902	-	-	-
	$ 191,609	-	$ 124,729	-
Marketing expenses - commission				
TSMC Europe	$ 189,792	16	$ 206,214	15
TSMC Japan	130,927	11	128,234	9
TSMC China	31,876	2	25,404	2
Others	11,287	1	10,139	1
	$ 363,882	30	$ 369,991	27
Research and development expenses				
TSMC Technology (primarily consulting fee)	$ 252,450	2	$ 289,788	2
TSMC Canada (primarily consulting fee)	88,283	1	95,047	1
VIS (primarily rent)	1,984	-	5,291	-
Others	41,493	-	17,349	-
	$ 384,210	3	$ 407,475	3
Sales of property, plant and equipment and other assets				
TSMC China	$ 2,427,178	84	$ 11,224	8
WaferTech	72,880	2	9,655	7
VIS	36,008	1	15,940	11
Others	253	-	-	-
	$ 2,536,319	87	$ 36,819	26
Purchases of property, plant and equipment				
TSMC China	$ 70,491	-	$ 63,525	-
VIS	-	-	15,865	-
WaferTech	-	-	9,624	-
	$ 70,491	-	$ 89,014	-
Non-operating income and gains				
VIS (primarily technical service income)	$ 124,055	3	$ 158,021	4
TSMC China	96,138	2	36,232	1
SSMC (primarily technical service income)	94,255	2	96,783	2
VisEra (rent)	700	-	-	-
Others	1,516	-	9,643	-
	$ 316,664	7	$ 300,679	7

	0000000000	0000000000	0000000000	0000000000
	2011		**2010**	
	Amount	**%**	**Amount**	**%**
As of June 30				
Receivables				
TSMC North America	$ 27,063,064	99	$ 24,563,831	99
Others	338,961	1	258,250	1
	$ 27,402,025	100	$ 24,822,081	100
Other receivables				
TSMC China	$ 1,979,030	61	$ 13,836	2
VIS	512,256	16	378,802	60
Motech	436,600	14	67,785	11
GUC	142,943	4	93,255	15
SSMC	47,445	1	49,217	8
Others	113,283	4	31,379	4
	$ 3,231,557	100	$ 634,274	100
Payables				
VIS	$ 1,087,485	32	$ 853,331	27
TSMC China	955,093	28	899,850	28
WaferTech	620,389	18	750,706	23
SSMC	440,314	13	447,822	14
Others	282,810	9		