TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
March 08, 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 March 2012

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: .)

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: March 8, 2012

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

Taiwan Semiconductor Manufacturing Company Limited

Financial Statements for the

Years Ended December 31, 2011 and 2010 and

Independent Auditors Report

INDEPENDENT AUDITORS REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

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

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

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

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

February 14, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

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

	2011 Amount	%	2010 Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 85,262,521	11	$ 109,511,130	15
Financial assets at fair value through profit or loss (Notes 2, 5 and 24)	14,925			
Available-for-sale financial assets (Notes 2, 6 and 24)	2,617,134		3,918,274	
Held-to-maturity financial assets (Notes 2, 7 and 24)	701,136		4,796,589	1
Receivables from related parties (Notes 3 and 25)	24,777,534	3	25,733,974	4
Notes and accounts receivable (Note 3)	19,894,386	3	22,250,905	3
Allowance for doubtful receivables (Notes 2, 3 and 8)	(485,120)		(488,000)	
Allowance for sales returns and others (Notes 2 and 8)	(4,887,879)		(7,341,444)	(1)
Other receivables from related parties (Notes 3 and 25)	188,028		1,302,281	
Other financial assets (Note 26)	122,010		418,206	
Inventories (Notes 2 and 9)	22,853,397	3	25,646,348	4
Deferred income tax assets (Notes 2 and 18)	5,779,544	1	5,133,775	1
Prepaid expenses and other current assets	1,725,736		1,352,244	
Total current assets	158,563,352	21	192,234,282	27
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 24)				
Investments accounted for using equity method	128,200,718	17	114,977,174	17
Available-for-sale financial assets			1,033,049	
Held-to-maturity financial assets	702,291		1,405,698	
Financial assets carried at cost	497,835		497,835	
Total long-term investments	129,400,844	17	117,913,756	17
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 25)				
Cost				
Buildings	149,495,478	20	128,646,942	18
Machinery and equipment	984,978,666	129	852,733,592	122
Office equipment	13,824,434	2	11,730,537	2
	1,148,298,578	151	993,111,071	142
Accumulated depreciation	(804,740,797)	(106)	(706,605,445)	(101)
Advance payments and construction in progress	110,815,752	14	80,348,673	11
Net property, plant and equipment	454,373,533	59	366,854,299	52
INTANGIBLE ASSETS				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2 and 13)	4,719,244	1	5,456,427	1
Total intangible assets	6,287,000	1	7,024,183	1

OTHER ASSETS				
Deferred income tax assets (Notes 2 and 18)	7,221,824	1	7,154,266	1
Refundable deposits	4,491,735	1	8,638,749	2
Others (Notes 2 and 25)	1,069,586		1,420,131	
Total other assets	12,783,145	2	17,213,146	3
TOTAL	$ 761,407,874	100	$ 701,239,666	100

	2011 Amount	%	2010 Amount	%
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 14)	$ 25,926,528	3	$ 30,908,637	4
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 24)			7,834	
Accounts payable	9,522,688	1	10,559,283	2
Payables to related parties (Note 25)	2,992,582		2,574,450	
Income tax payable (Notes 2 and 18)	10,647,797	1	7,108,869	1
Accrued profit sharing to employees and bonus to directors (Notes 2 and 20)	9,055,704	1	10,959,469	2
Payables to contractors and equipment suppliers	33,811,970	5	41,992,198	6
Accrued expenses and other current liabilities (Notes 16, 24 and 25)	13,057,161	2	13,911,520	2
Current portion of bonds payable (Notes 15 and 24)	4,500,000	1		
Total current liabilities	109,514,430	14	118,022,260	17
LONG-TERM LIABILITIES				
Bonds payable (Notes 15 and 24)	18,000,000	2	4,500,000	
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	3,860,898	1	3,824,601	1
Guarantee deposits (Note 28)	439,032		747,887	
Total other liabilities	4,299,930	1	4,572,488	1
Total liabilities	131,814,360	17	127,094,748	18
CAPITAL STOCK - NT$10 PAR VALUE (Note 20)				
Authorized: 28,050,000 thousand shares				
Issued: 25,916,222 thousand shares in 2011				
25,910,078 thousand shares in 2010	259,162,226	34	259,100,787	37
CAPITAL SURPLUS (Notes 2 and 20)	55,846,357	8	55,698,434	8
RETAINED EARNINGS (Note 20)				
Appropriated as legal capital reserve	102,399,995	13	86,239,494	12
Appropriated as special capital reserve	6,433,874	1	1,313,047	
Unappropriated earnings	213,357,286	28	178,227,030	26
	322,191,155	42	265,779,571	38
OTHERS (Notes 2, 22 and 24)				
Cumulative translation adjustments	(6,433,369)	(1)	(6,543,163)	(1)
Unrealized gain (loss) on financial instruments	(1,172,855)		109,289	
	(7,606,224)	(1)	(6,433,874)	(1)
Total shareholders equity	629,593,514	83	574,144,918	82
TOTAL	$ 761,407,874	100	$ 701,239,666	100

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

- 2 -

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

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

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011 Amount	%	2010 Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	$ 673,085		$ 58,737	
Interest expense (Note 25)	445,887		214,641	
Loss on disposal of property, plant and equipment (Note 2)	202,901		838,750	
Casualty loss (Note 9)			190,992	
Others	163,092		161,152	
Total non-operating expenses and losses	1,484,965		1,464,272	
INCOME BEFORE INCOME TAX	144,707,844	35	169,290,204	42
INCOME TAX EXPENSE (Notes 2 and 18)	10,506,565	3	7,685,195	2
NET INCOME	$ 134,201,279	32	$ 161,605,009	40

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (NT$, Note 23)				
Basic earnings per share	$ 5.58	$ 5.18	$ 6.53	$ 6.24
Diluted earnings per share	$ 5.58	$ 5.18	$ 6.53	$ 6.23

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

- 4 -

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	Capital Stock - Common Stock			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	Treasury Stock	Tota Sharehol Equit
NCE, ARY 1, 2010	25,902,706	$ 259,027,066	$ 55,486,010	$ 77,317,710	$	$ 104,564,972	$ 181,882,682	$ (1,766,667)	$ 453,621	$	$ 495,082
oriations of prior earnings											
capital reserve				8,921,784		(8,921,784)					
l capital reserve					1,313,047	(1,313,047)					
ividends to olders NT$3.00 re						(77,708,120)	(77,708,120)				(77,708
come in 2010						161,605,009	161,605,009				161,605
ment arising hanges in tage of ship in equity l investees			(17,885)								(17
ation nents								(4,776,496)			(4,776
ce of stock from ing employee options	7,372	73,721	171,103								244
anges of on gain/loss on ble-for-sale al assets									(441,978)		(441
ange in olders equity quity method es			59,206						97,646		156
NCE, MBER 31, 2010	25,910,078	259,100,787	55,698,434	86,239,494	1,313,047	178,227,030	265,779,571	(6,543,163)	109,289		574,144
oriations of prior earnings											
capital reserve				16,160,501		(16,160,501)					
l capital reserve					5,120,827	(5,120,827)					
ividends to olders-NT$3.00 re						(77,730,236)	(77,730,236)				(77,730
come in 2011						134,201,279	134,201,279				134,201
ment arising hanges in tage of ship in equity l investees			59,898								59
								(112,326)			(112

ation ments											
ce of stock from ing employee ptions	7,144	71,439	146,258								21
anges of on gain/loss on le-for-sale al assets									(1,112,995)		(1,11
ange in olders equity quity method es									(165,851)		(16
ition of treasury hareholders ed the appraisal										(71,598)	(7
ment of treasury	(1,000)	(10,000)	(2,139)			(59,459)	(59,459)			71,598	
of spin-off			(56,094)					222,120	(3,298)		16
NCE, MBER 31, 2011	25,916,222	$ 259,162,226	$ 55,846,357	$ 102,399,995	$ 6,433,874	$ 213,357,286	$ 322,191,155	$ (6,433,369)	$ (1,172,855)	$	$ 629,59

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 134,201,279	$ 161,605,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,925,423	83,366,121
Unrealized (realized) gross profit from affiliates	(398,440)	52,742
Amortization of premium/discount of financial assets	9,860	18,611
Gain on disposal of available-for-sale financial assets, net	(35,151)	
Loss on disposal of financial assets carried at cost		1,263
Equity in earnings of equity method investees, net	(3,778,083)	(7,111,443)
Cash dividends received from equity method investees	2,941,548	422,490
Loss on disposal of property, plant and equipment and other assets, net	99,884	761,298
Settlement income from receiving equity securities		(4,434,364)
Deferred income tax	(493,026)	(373,253)
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(22,759)	189,577
Receivables from related parties	956,440	(3,192,201)
Notes and accounts receivable	2,356,519	(2,366,385)
Allowance for doubtful receivables	(2,880)	57,000
Allowance for sales returns and others	(2,453,565)	(1,242,188)
Other receivables from related parties	(38,049)	85,830
Other financial assets	138,196	904,157
Inventories	2,775,646	(6,816,132)
Prepaid expenses and other current assets	(382,852)	(445,797)
Accounts payable	(1,805,422)	624,608
Payables to related parties	418,132	535,108
Income tax payable	3,538,928	(1,652,251)
Accrued profit sharing to employees and bonus to directors	(1,903,765)	4,188,131
Accrued expenses and other current liabilities	(410,047)	(3,124,307)
Accrued pension cost	96,880	17,425
Deferred credits		(47,873)
Net cash provided by operating activities	238,734,696	222,023,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributed related to spin-off	(1,270,340)	
Acquisitions of:		
Property, plant and equipment	(202,757,541)	(182,335,032)
Investments accounted for using equity method	(7,390,883)	(8,262,519)
Financial assets carried at cost		(480)

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	$ 1,035,151	$
Held-to-maturity financial assets	4,789,000	15,943,000
Financial assets carried at cost		3,370
Property, plant and equipment and other assets	4,650,078	387,735
Proceeds from return of capital by investees	320,013	
Increase in deferred charges	(1,658,296)	(1,538,301)
Decrease (increase) in refundable deposits	4,147,014	(5,940,633)
Decrease (increase) in other assets	27,600	(1,004,581)
Net cash used in investing activities	(198,108,204)	(182,747,441)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	(4,982,109)	30,908,637
Proceeds from issuance of bonds	18,000,000	
Decrease in guarantee deposits	(308,855)	(253,489)
Proceeds from exercise of employee stock options	217,697	244,824
Acquisition of treasury stock	(71,598)	
Cash dividends	(77,730,236)	(77,708,120)
Net cash used in financing activities	(64,875,101)	(46,808,148)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,248,609)	(7,532,413)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	109,511,130	117,043,543
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 85,262,521	$ 109,511,130
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 369,085	$ 200,892
Income tax paid	$ 7,454,386	$ 9,640,396
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	$ 195,932,728	$ 195,950,918
Decrease (increase) in payables to contractors and equipment suppliers	6,827,106	(13,491,140)
Nonmonetary exchange trade-out price	(2,293)	(124,746)
Cash paid	$ 202,757,541	$ 182,335,032
Disposal of property, plant and equipment and other assets	$ 3,370,165	$ 1,872,880
Decrease (increase) in other receivables from related parties	1,124,206	(1,142,108)
Decrease (increase) in other financial assets	158,000	(218,291)
Nonmonetary exchange trade-out price	(2,293)	(124,746)
Cash received	$ 4,650,078	$ 387,735

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
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)	$	$ 718,637

SUPPLEMENTAL INFORMATION FOR SPIN-OFF BUSINESSES

In August 2011, the Company transferred the solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC Solid State Lighting Ltd. (TSMC SSL) and TSMC Solar Ltd. (TSMC Solar), respectively. The relevant information about spin-off was as follows:

	TSMC SSL	TSMC Solar	Total
Acquired investments accounted for using equity method	$ 2,270,000	$ 11,180,000	$ 13,450,000
Non-cash items transferred			
Current assets	36,050	18,807	54,857
Long-term investments	2,872	7,912,710	7,915,582
Property, plant and equipment	1,929,563	2,372,214	4,301,777
Other assets	234,696	201,677	436,373
Current liabilities	(292,728)	(337,439)	(630,167)
Other liabilities	(36,272)	(25,218)	(61,490)
Capital surplus		(56,094)	(56,094)
Unrealized gain (loss) on financial instruments		(3,298)	(3,298)
Cumulative translation adjustments	256	221,864	222,120
	(1,874,437)	(10,305,223)	(12,179,660)
Cash contributed related to spin-off	$ 395,563	$ 874,777	$ 1,270,340

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

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. GENERAL

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

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

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

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

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

Allowance for Doubtful Receivables

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

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

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

Inventories

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

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

Investments Accounted for Using Equity Method

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

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

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

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

Property, Plant and Equipment and Assets Leased to Others

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

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

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

Intangible Assets

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

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

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

Pension Costs

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

Income Tax

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

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

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

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

Stock-based Compensation

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

Treasury Stock

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Spin-off

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

3. ACCOUNTING CHANGES

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

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

4. CASH AND CASH EQUIVALENTS

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

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

	December 31	
	2011	2010
Trading financial assets		
Forward exchange contracts	$ 14,925	$
Trading financial liabilities		
Forward exchange contracts	$	$ 7,834

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

Outstanding forward exchange contracts consisted of the following:

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

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	$	$ 1,033,049

7. HELD-TO-MATURITY FINANCIAL ASSETS

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

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

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

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

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

9. INVENTORIES

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

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

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

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

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

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

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

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

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

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

Movements of the difference allocated to goodwill were as follows:

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

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	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

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

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

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

13. DEFERRED CHARGES, NET

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

	Year Ended December 31, 2010			
	Balance, Beginning of Year	Additions	Amortization	Balance, End of Year
Technology license fees	$ 2,979,801	$	$ (701,969)	$ 2,277,832
Software and system design costs	1,646,973	1,327,183	(898,221)	2,075,935
Patent and others	1,264,911	211,118	(373,369)	1,102,660
	$ 5,891,685	$ 1,538,301	$ (1,973,5599)	$ 5,456,427

14. SHORT-TERM LOANS

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

15. BONDS PAYABLE

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

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

16. OTHER LONG-TERM PAYABLES

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

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

17. PENSION PLANS

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

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

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

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

a. Components of net periodic pension cost for the year

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

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

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

	2011	2010
c. Actuarial assumptions at December 31, 2011 and 2010		
Discount rate used in determining present values	1.75%	1.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.00%	2.50%
d. Contributions to the Fund for the year	$ 209,260	$ 209,459
e. Payments from the Fund for the year	$ 7,339	$ 19,991

18. INCOME TAX

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

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

b. Income tax expense consisted of the following:

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

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

	December 31	
	2011	2010
Current deferred income tax assets		
Investment tax credits	$ 4,892,158	$ 4,182,893
Temporary differences		
Allowance for sales returns and others	488,788	624,023
Unrealized gain/loss on financial instruments	308,929	87,735
Others	89,669	239,124
	$ 5,779,544	$ 5,133,775
Noncurrent deferred income tax assets		
Investment tax credits	$ 15,287,802	$ 17,792,321
Temporary differences		

Depreciation	2,044,680	1,981,915
Others	227,433	32,792
Valuation allowance	(10,338,091)	(12,652,762)
	$ 7,221,824	$ 7,154,266

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

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

d. Integrated income tax information:

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

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

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

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

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

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 3,202,253	$ 1,165,765	2012
		6,513,605	6,513,605	2013
		7,006,655	7,006,655	2014
		482,351	482,351	2015
		$ 17,204,864	$ 15,168,376	
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	$ 2,432,641	$	2011

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

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

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

19. LABOR COST, DEPRECIATION AND AMORTIZATION

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

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

20. SHAREHOLDERS EQUITY

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

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

Capital surplus consisted of the following:

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

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

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

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

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

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

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Fiscal Year 2010	For Fiscal Year 2009	For Fiscal Year 2010	For Fiscal Year 2009
Legal capital reserve	$ 16,160,501	$ 8,921,784		
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 appropriations of earnings for 2011 had been resolved in the meeting of the Board of Directors held on February 14, 2012. The appropriations and dividends per share were as follows:

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

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

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

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

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

21. STOCK-BASED COMPENSATION PLANS

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

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

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

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

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

As of December 31, 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	10,584	1.2	$ 27.4
38.0- 50.1	3,709	2.9	45.7
	14,293	1.7	32.1

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

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

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

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

22. TREASURY STOCK

(Shares in Thousands)

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

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

23. EARNINGS PER SHARE

EPS is computed as follows:

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

Effect of dilutive potential common shares			13,982		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	$ 169,290,204	$ 161,605,009	25,919,814	$ 6.53	$ 6.23

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

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

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	$ 14,925	$ 14,925	$	$
Available-for-sale financial assets	2,617,134			