

**Taiwan Semiconductor Manufacturing  
Company Limited**

**Financial Statements for the  
Years Ended December 31, 2012 and 2011 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2012 and 2011, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the year ended December 31, 2012 and 2011 on which we have issued an unqualified opinion.

February 5, 2013

### Notice to Readers

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

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

# Taiwan Semiconductor Manufacturing Company Limited

## BALANCE SHEETS DECEMBER 31, 2012 AND 2011

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

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

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

# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

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

(Continued)

# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

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

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

(Concluded)

## Taiwan Semiconductor Manufacturing Company Limited

### STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock - Common Stock		Capital Surplus	Retained Earnings			Total	Cumulative Translation Adjustments	Others		Treasury Stock	Total Shareholders' Equity
	Shares (In Thousands)	Amount		Legal Capital Reserve	Special Capital Reserve	Unappropriated Earnings			Net Loss Not Recognized as Pension Cost	Unrealized Gain/Loss on Financial Instruments		
BALANCE, JANUARY 1, 2011	25,910,078	\$ 259,100,787	\$ 55,698,434	\$ 86,239,494	\$ 1,313,047	\$ 178,227,030	\$ 265,779,571	\$ (6,543,163)	\$ -	\$ 109,289	\$ -	\$ 574,144,918
Appropriations of prior year's earnings												
Legal capital reserve	-	-	-	16,160,501	-	(16,160,501)	-	-	-	-	-	-
Special capital reserve	-	-	-	-	5,120,827	(5,120,827)	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,730,236)	(77,730,236)	-	-	-	-	(77,730,236)
Net income in 2011	-	-	-	-	-	134,201,279	134,201,279	-	-	-	-	134,201,279
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	59,898	-	-	-	-	-	-	-	-	59,898
Translation adjustments	-	-	-	-	-	-	-	(112,326)	-	-	-	(112,326)
Issuance of stock from exercising employee stock options	7,144	71,439	146,258	-	-	-	-	-	-	-	-	217,697
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(1,112,995)	-	(1,112,995)
Net change in shareholders' equity from equity method investees	-	-	-	-	-	-	-	-	-	(165,851)	-	(165,851)
Acquisition of treasury stock - shareholders executed the appraisal right	-	-	-	-	-	-	-	-	-	-	(71,598)	(71,598)
Retirement of treasury stock	(1,000)	(10,000)	(2,139)	-	-	(59,459)	(59,459)	-	-	-	71,598	-
Effect of spin-off	-	-	(56,094)	-	-	-	-	222,120	-	(3,298)	-	162,728
BALANCE, DECEMBER 31, 2011	25,916,222	259,162,226	55,846,357	102,399,995	6,433,874	213,357,286	322,191,155	(6,433,369)	-	(1,172,855)	-	629,593,514
Appropriations of prior year's earnings												
Legal capital reserve	-	-	-	13,420,128	-	(13,420,128)	-	-	-	-	-	-
Special capital reserve	-	-	-	-	1,172,350	(1,172,350)	-	-	-	-	-	-
Cash dividends to shareholders - NT\$3.00 per share	-	-	-	-	-	(77,748,668)	(77,748,668)	-	-	-	-	(77,748,668)
Net income in 2012	-	-	-	-	-	166,158,802	166,158,802	-	-	-	-	166,158,802
Adjustment arising from changes in percentage of ownership in equity method investees	-	-	131,095	-	-	-	-	-	-	-	-	131,095
Translation adjustments	-	-	-	-	-	-	-	(4,320,394)	-	-	-	(4,320,394)
Issuance of stock from exercising employee stock options	8,213	82,131	160,357	-	-	-	-	-	-	-	-	242,488
Net changes of valuation gain/loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	1,998,347	-	1,998,347
Net change in shareholders' equity from equity method investees	-	-	-	-	-	-	-	-	(5,299)	7,147,829	-	7,142,530
BALANCE, DECEMBER 31, 2012	25,924,435	\$ 259,244,357	\$ 56,137,809	\$ 115,820,123	\$ 7,606,224	\$ 287,174,942	\$ 410,601,289	\$ (10,753,763)	\$ (5,299)	\$ 7,973,321	\$ -	\$ 723,197,714

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

# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

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

# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
Proceeds from return of capital by investees	\$ 587,902	\$ 320,013
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	612,834	1,035,151
Held-to-maturity financial assets	700,000	4,789,000
Financial assets carried at cost	14,900	-
Property, plant and equipment and other assets	93,984	4,650,078
Increase in deferred charges	(1,743,043)	(1,658,296)
Decrease in refundable deposits	2,096,909	4,147,014
Decrease in other assets	<u>17,600</u>	<u>27,600</u>
Net cash used in investing activities	<u>(241,942,919)</u>	<u>(198,108,204)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans	8,788,401	(4,982,109)
Cash dividends	(77,748,668)	(77,730,236)
Proceeds from issuance of bonds	62,000,000	18,000,000
Repayment of bonds	(4,500,000)	-
Decrease in guarantee deposits	(239,717)	(308,855)
Proceeds from exercise of employee stock options	242,488	217,697
Acquisition of treasury stock	<u>-</u>	<u>(71,598)</u>
Net cash used in financing activities	<u>(11,457,496)</u>	<u>(64,875,101)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	23,888,289	(24,248,609)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>85,262,521</u>	<u>109,511,130</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 109,150,810</u>	<u>\$ 85,262,521</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 670,165</u>	<u>\$ 369,085</u>
Income tax paid	<u>\$ 10,312,114</u>	<u>\$ 7,454,386</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Acquisition of property, plant and equipment	\$ 255,108,068	\$ 195,932,728
Decrease (increase) in payables to contractors and equipment suppliers	(12,764,075)	6,827,106
Increase in payables to related parties	(280,256)	-
Nonmonetary exchange trade-out price	(69)	(2,293)
Cash paid	<u>\$ 242,063,668</u>	<u>\$ 202,757,541</u>

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# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
Disposal of property, plant and equipment and other assets	\$ 91,641	\$ 3,370,165
Decrease in other receivables to related parties	2,412	1,124,206
Decrease in other financial assets	-	158,000
Nonmonetary exchange trade-out price	(69)	(2,293)
Cash received	<u>\$ 93,984</u>	<u>\$ 4,650,078</u>
Acquisition of deferred charges	\$ 2,184,901	\$ 1,658,296
Increase in accounts payable	(303,584)	-
Increase in payables to related parties	(25,274)	-
Increase in other long-term payables	(113,000)	-
Cash paid	<u>\$ 1,743,043</u>	<u>\$ 1,658,296</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Idle assets reclassified from property, plant and equipment	<u>\$ 418,330</u>	<u>\$ -</u>
Current portion of other long-term payables (under accrued expenses and other current liabilities)	<u>\$ 59,000</u>	<u>\$ -</u>
Current portion of bonds payable	<u>\$ -</u>	<u>\$ 4,500,000</u>

### SUPPLEMENTAL INFORMATION FOR SPIN-OFF BUSINESSES

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

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

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

(Concluded)

# Taiwan Semiconductor Manufacturing Company Limited

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

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#### 1. GENERAL

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

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

As of December 31, 2012 and 2011, the Company had 33,341 and 30,113 employees, respectively.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

##### **Foreign-currency Transactions**

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

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

##### **Use of Estimates**

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

## **Classification of Current and Noncurrent Assets and Liabilities**

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

### **Cash Equivalents**

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

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

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

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

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

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

The fair value of overseas publicly traded stock is determined using the closing prices at the end of the year.

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

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

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

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

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

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

Cash dividends are recognized as investment income upon resolution of shareholders of an investee. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

### **Allowance for Doubtful Receivables**

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

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

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

### **Inventories**

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

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

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

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

is identified, the carrying amount of the investment is reduced, with the related impairment loss recognized in earnings.

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

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

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

### **Property, Plant and Equipment, Assets Leased to Others and Idle Assets**

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

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

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

When property, plant and equipment are determined to be idle or useless, they are transferred to idle assets at the lower of the net realizable value or carrying amount. Depreciation on the idle assets is provided continuously, and the idle assets are tested for impairment on a periodical basis.

## **Intangible Assets**

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

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

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

## **Pension Costs**

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

## **Income Tax**

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

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

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

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

## **Stock-based Compensation**

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

## **Treasury Stock**

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

## **Revenue Recognition and Allowance for Sales Returns and Others**

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

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

## **Spin-off**

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

### **3. ACCOUNTING CHANGES**

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

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, "Segment Reporting" and it only changes the disclosure of segment reporting due to the adoption. The Company has conformed to the disclosure requirement and provided the operating segments disclosure in the consolidated financial statements.

#### 4. CASH AND CASH EQUIVALENTS

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

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

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

The Company entered into derivative contracts during the years ended December 31, 2012 and 2011 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2012</u>		
Sell NT\$/Buy EUR	January 2013	NT\$9,417,062/EUR246,000
<u>December 31, 2011</u>		
Sell EUR/Buy NT\$	January 2012	EUR38,600/NT\$1,528,206



Outstanding cross currency swap contracts consisted of the following:

<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>	<b>Range of Interest Rates Paid</b>	<b>Range of Interest Rates Received</b>
<u>December 31, 2012</u>			
January 2013	US\$275,000/NT\$7,986,190	0.14%-0.17%	-

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

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

## 7. HELD-TO-MATURITY FINANCIAL ASSETS

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

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

Movements of the allowance for doubtful receivables were as follows:

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

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

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

## 9. INVENTORIES

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

Write-down of inventories to net realizable value in the amount of NT\$1,341,041 thousand was included in the cost of sales for the year ended December 31, 2012. The reserve for inventory write-downs in the amount of NT\$74,861 thousand was reversed in the cost of sales for the year ended December 31, 2011 when the related inventory items were scrapped or sold.

## 10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

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

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

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

As of December 31, 2012 and 2011, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$17,350,833 thousand and NT\$11,273,200 thousand, respectively.

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

	<b>Years Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Balance, beginning of year	\$ 275,584	\$ 2,504,496
Amortizations	(172,492)	(721,482)
Effect of spin-off	<u>-</u>	<u>(1,507,430)</u>
Balance, end of year	<u>\$ 103,092</u>	<u>\$ 275,584</u>

Movements of the difference allocated to goodwill were as follows:

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

## 11. FINANCIAL ASSETS CARRIED AT COST

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

## 12. PROPERTY, PLANT AND EQUIPMENT

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

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

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

## 13. DEFERRED CHARGES, NET

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

  

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

#### 14. SHORT-TERM LOANS

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

#### 15. BONDS PAYABLE

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

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

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

## 16. PENSION PLANS

The pension mechanism under the Labor Pension Act (the “Act”) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee’s monthly salary to employees’ pension accounts and recognized pension costs of NT\$1,205,642 thousand and NT\$1,119,717 thousand for the years ended December 31, 2012 and 2011, respectively.

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

Due to the spin-off (Note 27), the Company transferred the pension fund and the accrued pension cost in the amount of NT\$46,884 thousand and NT\$60,583 thousand, respectively, to TSMC SSL and TSMC Solar in August 2011.

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

a. Components of net periodic pension cost for the year

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

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

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

	<b>2012</b>	<b>2011</b>
c. Actuarial assumptions at December 31, 2012 and 2011		
Discount rate used in determining present values	1.75%	1.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.00%	2.00%
d. Contributions to the Fund for the year	<u>\$ 214,782</u>	<u>\$ 209,260</u>
e. Payments from the Fund for the year	<u>\$ 26,119</u>	<u>\$ 7,339</u>

## 17. INCOME TAX

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

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

- b. Income tax expense consisted of the following:

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

c. Deferred income tax assets consisted of the following:

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

Effective in May 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010.

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

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

The Company has evaluated the impact from above amendments and adjusted the deferred tax assets with the resulting differences recorded as income tax expense for the year ended December 31, 2012. In addition, the Company evaluated the effect of Alternative Minimum Tax and the applicable year of the profits generated from projects exempt from income tax for a five-year period. As the Company plans to apply the tax-exempt income in later years, income tax payable is anticipated to increase and the Company will utilize available investment tax credits as an offset against income taxes. Since more investment tax credits can be utilized, valuation allowance has been adjusted down accordingly.

d. Integrated income tax information:

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

The estimated and actual creditable ratios for distribution of earnings of 2012 and 2011 were 7.92% and 6.69%, respectively.

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



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

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

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 6,503,176	\$ 916,499	2013
		7,006,655	7,006,655	2014
		<u>482,351</u>	<u>482,351</u>	2015
		<u>\$ 13,992,182</u>	<u>\$ 8,405,505</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,148,374	\$ -	2012
		4,706,569	4,706,569	2013
		<u>\$ 5,854,943</u>	<u>\$ 4,706,569</u>	
Statute for Upgrading Industries	Personnel training expenditures	<u>\$ 17,391</u>	<u>\$ -</u>	2012
Statute for Industrial Innovation	Research and development expenditures	<u>\$ 2,828,300</u>	<u>\$ -</u>	2012

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

	<u>Tax-exemption Period</u>
Construction and expansion of 2004	2008 to 2012
Construction and expansion of 2005	2010 to 2014
Construction and expansion of 2006	2011 to 2015

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

## 18. LABOR COST, DEPRECIATION AND AMORTIZATION

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

	<b>Year Ended December 31, 2011</b>		
	<b>Classified as Cost of Sales</b>	<b>Classified as Operating Expenses</b>	<b>Total</b>
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	<u>294,010</u>	<u>143,151</u>	<u>437,161</u>
	<u>\$ 26,800,941</u>	<u>\$ 18,569,933</u>	<u>\$ 45,370,874</u>
Depreciation	<u>\$ 93,898,048</u>	<u>\$ 6,858,236</u>	<u>\$ 100,756,284</u>
Amortization	<u>\$ 1,407,787</u>	<u>\$ 744,557</u>	<u>\$ 2,152,344</u>

## 19. SHAREHOLDERS' EQUITY

As of December 31, 2012, 1,091,468 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,457,339 thousand (one ADS represents five common shares).

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

Capital surplus consisted of the following:

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Additional paid-in capital	\$ 23,934,607	\$ 23,774,250
From merger	22,804,510	22,804,510
From convertible bonds	8,892,847	8,892,847
From long-term investments	505,790	374,695
Donations	<u>55</u>	<u>55</u>
	<u>\$ 56,137,809</u>	<u>\$ 55,846,357</u>

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

- 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\$11,115,240 thousand and NT\$8,990,026 thousand for the years ended December 31 2012 and 2011, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

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

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

A special capital reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments, unrealized loss on financial instruments and net loss not recognized as pension cost, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent that the net debit balance reverses.

The appropriations of earnings for 2011 and 2010 had been approved in the shareholders' meetings held on June 12, 2012 and June 9, 2011, respectively. The appropriations and dividends per share were as follows:

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

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

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

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

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

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

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

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

## 20. STOCK-BASED COMPENSATION PLANS

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

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

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

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

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

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

<b>Range of Exercise Price (NT\$)</b>	<b>Number of Options (In Thousands)</b>	<b>Options Outstanding</b>	
		<b>Weighted-average Remaining Contractual Life (Years)</b>	<b>Weighted-average Exercise Price (NT\$)</b>
\$20.2-\$28.3	3,362	0.4	\$ 25.9
38.0- 50.1	<u>2,583</u>	2.0	45.8
	<u><u>5,945</u></u>	1.1	34.6

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

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

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

	<b>Years Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Net income:		
Net income as reported	\$ 166,158,802	\$ 134,201,279
Pro forma net income	165,986,009	134,146,490
Earnings per share (EPS) - after income tax (NT\$):		
Basic EPS as reported	\$6.41	\$5.18
Pro forma basic EPS	6.40	5.18
Diluted EPS as reported	6.41	5.18
Pro forma diluted EPS	6.40	5.17

## 21. TREASURY STOCK

(Shares in Thousands)

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

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

## 22. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2012</u>					
Basic EPS					
Earnings available to common shareholders	\$ 183,629,948	\$ 166,158,802	25,920,735	<u>\$ 7.08</u>	<u>\$ 6.41</u>
Effect of dilutive potential common shares	-	-	<u>7,201</u>		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 183,629,948</u>	<u>\$ 166,158,802</u>	<u>25,927,936</u>	<u>\$ 7.08</u>	<u>\$ 6.41</u>
<u>Year ended December 31, 2011</u>					
Basic EPS					
Earnings available to common shareholders	\$ 144,707,844	\$ 134,201,279	25,914,076	<u>\$ 5.58</u>	<u>\$ 5.18</u>
Effect of dilutive potential common shares	-	-	<u>10,606</u>		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	<u>\$ 144,707,844</u>	<u>\$ 134,201,279</u>	<u>25,924,682</u>	<u>\$ 5.58</u>	<u>\$ 5.18</u>

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

## 23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

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

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
  - 2) Except for derivatives, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
  - 3) The fair values of those derivatives are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
  - 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
  - 5) Fair value of bonds payable was based on their quoted market price.
  - 6) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.
- c. Valuation gains/losses arising from changes in fair value of derivatives contracts determined using valuation techniques were recognized as net gains of NT\$32,550 thousand and NT\$14,925 thousand for the years ended December 31, 2012 and 2011, respectively.

- d. As of December 31, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$739,970 thousand and NT\$1,418,352 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$114,721,203 thousand and NT\$48,426,528 thousand, respectively.
- e. Movements of the unrealized gains or losses on financial instruments for the years ended December 31, 2012 and 2011 were as follows:

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

	<b>Year Ended December 31, 2011</b>		
	<b>From Available- for-sale Financial Assets</b>	<b>Equity- method Investments</b>	<b>Total</b>
Balance, beginning of year	\$ (395,306)	\$ 504,595	\$ 109,289
Recognized directly in shareholders' equity	(1,077,844)	(165,851)	(1,243,695)
Removed from shareholders' equity and recognized in earnings	(35,151)	-	(35,151)
Effect of spin-off	<u>-</u>	<u>(3,298)</u>	<u>(3,298)</u>
Balance, end of year	<u>\$ (1,508,301)</u>	<u>\$ 335,446</u>	<u>\$ (1,172,855)</u>

f. Information about financial risks

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



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

## 24. RELATED PARTY TRANSACTIONS

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

a. Subsidiaries

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

b. Investees

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

c. Indirect subsidiaries

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

d. Indirect investees

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

e. Others

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

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

	2012		2011	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
TSMC North America	\$ 326,768,469	64	\$ 234,902,043	56
Others	<u>4,567,656</u>	<u>1</u>	<u>3,882,801</u>	<u>1</u>
	<u>\$ 331,336,125</u>	<u>65</u>	<u>\$ 238,784,844</u>	<u>57</u>

	2012		2011	
	Amount	%	Amount	%
Purchases				
TSMC China	\$ 15,708,447	26	\$ 10,392,189	21
WaferTech	8,026,114	14	7,305,879	15
VIS	4,475,674	8	5,577,762	12
SSMC	3,638,633	6	3,949,176	8
Others	-	-	124,673	-
	<u>\$ 31,848,868</u>	<u>54</u>	<u>\$ 27,349,679</u>	<u>56</u>
Manufacturing expenses				
Xintec (outsourcing and rent)	\$ 180,768	-	\$ 260,250	-
VisEra (outsourcing)	14,586	-	14,588	-
VIS (rent)	-	-	5,902	-
Others	230	-	-	-
	<u>\$ 195,584</u>	<u>-</u>	<u>\$ 280,740</u>	<u>-</u>
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 713,323	2	\$ 534,804	2
TSMC Canada (primarily consulting fee)	206,894	1	192,616	1
TSMC Europe (primarily consulting fee)	49,763	-	45,489	-
VIS (rent)	-	-	1,984	-
Others	18,373	-	30,605	-
	<u>\$ 988,353</u>	<u>3</u>	<u>\$ 805,498</u>	<u>3</u>
Marketing expenses - commission				
TSMC Europe	\$ 345,906	14	\$ 357,582	15
TSMC Japan	277,374	12	284,644	12
TSMC China	72,373	3	64,907	3
Others	20,643	1	22,049	1
	<u>\$ 716,296</u>	<u>30</u>	<u>\$ 729,182</u>	<u>31</u>
Sales of property, plant and equipment and other assets				
TSMC China	\$ 46,941	51	\$ 2,885,847	86
VIS	14,531	16	36,008	1
VisEra	9,000	10	-	-
Others	10	-	73,133	2
	<u>\$ 70,482</u>	<u>77</u>	<u>\$ 2,994,988</u>	<u>89</u>
Purchases of property, plant and equipment and other assets				
TSMC China	\$ 216,084	-	\$ 70,491	-
GUC	47,051	-	1,812	-
TSMC Solar	14,448	-	-	-
VIS	-	-	45,473	-
Others	1,224	-	-	-
	<u>\$ 278,807</u>	<u>-</u>	<u>\$ 117,776</u>	<u>-</u>

	2012		2011	
	Amount	%	Amount	%
Non-operating income and gains				
VIS (primarily technical service income)	\$ 261,780	2	\$ 227,024	3
SSMC (primarily technical service income)	221,210	2	193,781	3
TSMC China (primarily technical service income and gains on disposal of property, plant and equipment)	984	-	96,050	1
Others	<u>14,746</u>	<u>-</u>	<u>11,211</u>	<u>-</u>
	<u>\$ 498,720</u>	<u>4</u>	<u>\$ 528,066</u>	<u>7</u>
Non-operating expenses and losses				
TSMC China (losses on disposal of property, plant and equipment)	\$ 18,699	-	\$ -	-
Xintec (settlement loss)	-	-	19,686	1
Others	<u>132</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 18,831</u>	<u>-</u>	<u>\$ 19,686</u>	<u>1</u>
<u>As of December 31</u>				
Receivables				
TSMC North America	\$ 40,748,905	99	\$ 24,661,104	99
Others	<u>238,539</u>	<u>1</u>	<u>116,430</u>	<u>1</u>
	<u>\$ 40,987,444</u>	<u>100</u>	<u>\$ 24,777,534</u>	<u>100</u>
Other receivables				
VIS	\$ 122,893	45	\$ 87,507	46
TSMC North America	88,827	32	23,887	13
SSMC	56,799	21	34,260	18
TSMC China	2,686	1	23,688	13
WaferTech	1,594	1	14,196	8
Others	<u>2,164</u>	<u>-</u>	<u>4,490</u>	<u>2</u>
	<u>\$ 274,963</u>	<u>100</u>	<u>\$ 188,028</u>	<u>100</u>
Payables				
TSMC China	\$ 1,616,342	50	\$ 946,826	32
WaferTech	580,064	18	420,459	14
VIS	364,790	11	987,937	33
SSMC	351,389	11	336,037	11
Others	<u>317,757</u>	<u>10</u>	<u>301,323</u>	<u>10</u>
	<u>\$ 3,230,342</u>	<u>100</u>	<u>\$ 2,992,582</u>	<u>100</u>
Deferred credits (other assets)				
TSMC China	\$ 17,271	2	\$ (1,493)	-
VIS	(7,806)	(1)	-	-
VisEra	948	-	-	-
Others	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,421</u>	<u>1</u>	<u>\$ (1,493)</u>	<u>-</u>

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

The Company leased certain buildings, facilities, and machinery and equipment from Xintec. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under manufacturing expenses. The lease expired in June 2011.

The Company leased certain office space and facilities from VIS. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under research and development expenses and manufacturing expenses. The lease expired in April 2011.

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

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

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

  

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

Compensation of directors and management personnel:

	<b>Years Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
Salaries, incentives and special compensation	\$ 757,984	\$ 654,972
Bonus	<u>538,077</u>	<u>445,681</u>
	<u>\$ 1,296,061</u>	<u>\$ 1,100,653</u>

The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting. Total compensation expense for the year ended December 31, 2012 includes estimated profit sharing to employees and bonus to directors of the Company that relate to 2012 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2013. The total compensation for the year ended December 31, 2011 included the bonuses appropriated from earnings of 2011 which was approved by the shareholders' meeting held in 2012.

## 25. SIGNIFICANT LONG-TERM LEASES

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

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

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

## 26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of December 31, 2012, excluding those disclosed in other notes, were as follows:

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity if the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- b. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.
- c. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as "SMIC") in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People's High Court ruled in favor of TSMC and dismissed SMIC's lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC's trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC's appeal against the Beijing High Court's finding in favor of TSMC. Under the

new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has acquired the above mentioned common shares in July 2010, which are recorded within available for sale financial assets, and obtained the subsequent cash settlement income in accordance with the agreement.

- d. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single case in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined at this time.
- e. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing several U.S. patents. The outcome cannot be determined at this time.
- f. The Company joined the Customer Co-Investment Program of ASML Holding N.V. (ASML) and entered into the investment agreement in August 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML's equity with a lock-up period of 2.5 years. TSMC Global has acquired the aforementioned equity in October 2012. Both parties also signed the research and development funding agreement and the Company will provide EUR277,000 thousand to ASML's research and development programs from 2013 to 2017.

## 27. SPIN-OFF BUSINESS INFORMATION

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

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

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

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

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

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

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

## 29. ADDITIONAL DISCLOSURES

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

- a. Financings provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 2 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;

- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;
- j. Information about derivatives of investees over which the Company has a controlling interest:

Do not meet the criteria for hedge accounting

1) TSMC China

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

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

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

2) Xintec

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

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

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

3) TSMC Partners

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

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



4) TSMC Solar

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

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

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

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

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

5) TSMC SSL

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

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

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

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

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

Meet the criteria for hedge accounting

1) Xintec

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

Xintec is exposed to interest rate risk because its long-term bank loans bear floating interest rates. Accordingly, Xintec enters into interest rate swap contract to hedge such a cash flow interest rate risk. The interest rate swap contract of Xintec was due in August 2012.

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

2) TSMC Global

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

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

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

k. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 24.

### **30. OPERATING SEGMENTS INFORMATION**

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

### **31. THE AUTHORIZATION OF FINANCIAL STATEMENTS**

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

## Taiwan Semiconductor Manufacturing Company Limited and Investees

## FINANCINGS PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2012

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

No.	Financing Company	Counter-party	Financial Statement Account	Maximum Balance for the Period (US\$ in Thousands) (Note 4)	Ending Balance (US\$ in Thousands) (Note 4)	Amount Actually Drawn (US\$ in Thousands)	Interest Rate	Nature for Financing	Transaction Amounts	Reason for Financing	Allowance for Bad Debt	Collateral		Financing Limits for Each Borrowing Company	Financing Company's Total Financing Amount Limits (Note 3)
												Item	Value		
1	TSMC Partners	TSMC China	Other receivables from related parties	\$ 7,259,500 (US\$ 250,000)	\$ 3,774,940 (US\$ 130,000)	\$ 3,774,940 (US\$ 130,000)	0.25%-0.26%	The need for short-term financing	\$ -	Purchase equipment	\$ -	-	\$ -	\$ 38,635,609 (Note 1)	\$ 38,635,609
		TSMC Solar	Other receivables from related parties	1,161,520 (US\$ 40,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	15,454,244 (Note 1)	38,635,609
		TSMC SSL	Other receivables from related parties	871,140 (US\$ 30,000)	-	-	-	The need for short-term financing	-	Operating capital	-	-	-	15,454,244 (Note 1)	38,635,609
2	TSMC Development	TSMC Solar	Other receivables from related parties	2,323,040 (US\$ 80,000)	2,323,040 (US\$ 80,000)	1,495,457 (US\$ 51,500)	0.21%-0.23%	The need for short-term financing	-	Operating capital	-	-	-	5,322,907 (Notes 1 and 5)	13,307,266 (Note 5)
		TSMC SSL	Other receivables from related parties	2,613,420 (US\$ 90,000)	2,613,420 (US\$ 90,000)	203,266 (US\$ 7,000)	0.24%	The need for short-term financing	-	Operating capital	-	-	-	5,322,907 (Notes 1 and 5)	13,307,266 (Note 5)
3	TSMC Global	TSMC	Other receivables from related parties	5,807,600 (US\$ 200,000)	-	-	-	The need for short-term financing	-	Support the parent company's short-term operation requirement	-	-	-	49,954,386 (Note 2)	49,954,386

Note 1: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Partners and TSMC Development, respectively. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. TSMC or offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions. The restriction of thirty percent (30%) of the borrower's net worth will not apply to subsidiaries whose voting shares are 90% or more owned, directly or indirectly, by TSMC. However, financing limits for those subsidiaries shall be no more than forty percent (40%) of the lender's net worth.

Note 2: The total amount for lending to a company for funding for a short-term period shall not exceed ten percent (10%) of the net worth of TSMC Global. In addition, the total amount lendable to any one borrower shall be no more than thirty percent (30%) of the borrower's net worth. TSMC or offshore subsidiaries whose voting shares are 100% owned, directly or indirectly, by TSMC are not subject to the above restrictions.

Note 3: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners, TSMC Development and TSMC Global, respectively.

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

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

## Taiwan Semiconductor Manufacturing Company Limited and Investees

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2012

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
TSMC	<u>Corporate bond</u>							
	Nan Ya Plastics Corporation	-	Held-to-maturity financial assets	-	\$ 549,881	N/A	\$ 557,900	
	China Steel Corporation	-	"	-	151,265	N/A	151,073	
	<u>Stock</u>							
	Semiconductor Manufacturing International Corporation	-	Available-for-sale financial assets	1,277,958	1,845,502	4	1,845,052	
	TSMC Global	Subsidiary	Investments accounted for using equity method	1	49,954,386	100	49,954,386	
	TSMC Partners	Subsidiary	"	988,268	38,635,129	100	38,635,609	
	VIS	Investee accounted for using equity method	"	628,223	9,462,038	40	12,658,703	
	SSMC	Investee accounted for using equity method	"	314	6,710,956	39	6,496,972	
	TSMC Solar	Subsidiary	"	1,118,000	6,031,369	99	6,008,087	
	TSMC North America	Subsidiary	"	11,000	3,209,288	100	3,209,288	
	TSMC SSL	Subsidiary	"	430,400	2,411,212	95	2,411,212	
	Xintec	Investee with a controlling financial interest	"	94,950	1,550,313	40	1,550,313	
	GUC	Investee accounted for using equity method	"	46,688	1,222,972	35	4,692,130	
	TSMC Europe	Subsidiary	"	-	235,761	100	253,761	
	TSMC Japan	Subsidiary	"	6	142,412	100	142,412	
	TSMC Korea	Subsidiary	"	80	26,935	100	26,935	
	United Industrial Gases Co., Ltd.	-	Financial assets carried at cost	19,300	193,584	10	390,210	
	Shin-Etsu Handotai Taiwan Co., Ltd.	-	"	10,500	105,000	7	341,742	
	W.K. Technology Fund IV	-	"	4,000	40,000	2	34,221	
	<u>Fund</u>							
	Horizon Ventures Fund	-	Financial assets carried at cost	-	89,916	12	89,916	
	Crimson Asia Capital	-	"	-	55,259	1	55,259	
<u>Capital</u>								
TSMC China	Subsidiary	Investments accounted for using equity method	-	17,828,683	100	17,886,314		
VTAF III	Subsidiary	"	-	1,047,285	50	1,025,275		
VTAF II	Subsidiary	"	-	563,056	98	556,869		
Emerging Alliance	Subsidiary	"	-	167,359	99	167,359		
TSMC GN	Subsidiary	"	-	65,007	100	65,007		
TSMC Solar	<u>Stock</u>							
	Motech	Investee accounted for using equity method	Investments accounted for using equity method	87,480	2,998,413	20	2,761,393	
	TSMC Solar Europe	Subsidiary	"	-	175,016	100	175,016	
	TSMC Solar NA	Subsidiary	"	1	44,037	100	44,037	
<u>Capital</u>								
VTAF III	Investee accounted for using equity method	Investments accounted for using equity method	-	1,322,024	49	1,322,024		

(Continued)

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

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				Note	
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)		
VTAF II	<u>Preferred stock</u>								
	5V Technologies, Inc.	-	Financial assets carried at cost	2,890	US\$ 2,168	4	US\$ 2,168		
	Aquantia	-	"	4,556	US\$ 4,316	2	US\$ 4,316		
	Cresta Technology Corporation	-	"	92	US\$ 28	-	US\$ 28		
	Impinj, Inc.	-	"	711	US\$ 1,100	-	US\$ 1,100		
	Next IO, Inc.	-	"	179	US\$ 1,219	1	US\$ 1,219		
	QST Holdings, LLC	-	"	-	US\$ 593	13	US\$ 593		
	<u>Capital</u>								
	VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	31	-		
VTAF III	<u>Common stock</u>								
	Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,643	US\$ 2,120	58	US\$ 2,120		
	InvenSense, Inc.	-	Available-for-sale financial assets	93	US\$ 1,037	-	US\$ 1,037		
	Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$ 315	6	US\$ 315		
		<u>Preferred stock</u>							
	BridgeLux, Inc.	-	Financial assets carried at cost	7,522	US\$ 9,379	3	US\$ 9,379		
	GTBF, Inc.	-	"	1,154	US\$ 1,500	N/A	US\$ 1,500		
	LiquidLeds Lighting Corp.	-	"	1,600	US\$ 800	11	US\$ 800		
	Neoconix, Inc.	-	"	4,147	US\$ 4,841	4	US\$ 4,841		
	Powervation, Ltd.	-	"	509	US\$ 7,938	16	US\$ 7,938		
	Stion Corp.	-	"	8,152	US\$ 45,467	15	US\$ 45,467		
	Tilera, Inc.	-	"	3,890	US\$ 3,025	2	US\$ 3,025		
	Validity Sensors, Inc.	-	"	11,192	US\$ 4,197	4	US\$ 4,197		
		<u>Capital</u>							
		Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$ 368	100	US\$ 368	
	VTA Holdings	Subsidiary	"	-	-	62	-		
ISDF	<u>Common stock</u>								
	Integrated Memory Logic, Inc.	-	Available-for-sale financial assets	1,402	US\$ 4,322	2	US\$ 4,322		
	Memsic, Inc.	-	"	1,286	US\$ 4,294	5	US\$ 4,294		
	<u>Preferred stock</u>								
	Sonics, Inc.	-	Financial assets carried at cost	230	US\$ 497	2	US\$ 497		
ISDF II	<u>Common stock</u>								
	Memsic, Inc.	-	Available-for-sale financial assets	1,072	US\$ 3,581	4	US\$ 3,581		
	Alchip Technologies Limited	-	Financial assets carried at cost	7,520	US\$ 3,664	14	US\$ 3,664		
	Sonics, Inc.	-	"	278	US\$ 10	3	US\$ 10		
	Goyatek Technology, Corp.	-	"	745	US\$ 163	6	US\$ 163		
	Auden Technology MFG. Co., Ltd.	-	"	1,035	US\$ 220	3	US\$ 220		
		<u>Preferred stock</u>							
	Sonics, Inc.	-	Financial assets carried at cost	264	US\$ 455	3	US\$ 455		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2012				Note
				Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	
Xintec	<u>Capital</u> Compositech Ltd.	-	Financial assets carried at cost	587	\$ -	3	\$ -	
TSMC Solar Europe	<u>Stock</u> TSMC Solar Europe GmbH	Subsidiary	Investments accounted for using equity method	-	EUR 4,469	100	EUR 4,469	
TSMC Global	<u>Stock</u> ASML	-	Available-for-sale financial assets	20,993	US\$ 1,334,501	5	US\$ 1,334,501	
	<u>Money market fund</u> Ssga Cash Mgmt Global Offshore	-	Available-for-sale financial assets	50	US\$ 50	N/A	US\$ 50	
	<u>Corporate bond</u> Aust + Nz Banking Group	-	Held-to-maturity financial assets	20,000	US\$ 19,999	N/A	US\$ 20,033	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 25,006	
	Commonwealth Bank of Australia	-	"	25,000	US\$ 25,000	N/A	US\$ 25,043	
	Deutsche Bank AG London	-	"	20,000	US\$ 19,999	N/A	US\$ 20,007	
	JP Morgan Chase + Co.	-	"	35,000	US\$ 35,006	N/A	US\$ 34,956	
	Westpac Banking Corp.	-	"	25,000	US\$ 25,000	N/A	US\$ 25,013	

(Concluded)

TABLE 3

## Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2012  
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

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

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



**Taiwan Semiconductor Manufacturing Company Limited and Investees**

**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2012**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
TSMC	Fab	February 7, 2012 to December 27, 2012	\$ 249,912	By the construction progress	MandarTech Interiors Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 7, 2012 to December 27, 2012	219,807	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to December 28, 2012	5,015,656	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to December 27, 2012	1,766,332	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to December 27, 2012	2,958,930	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to July 27, 2012	185,115	By the construction progress	Toko Steel Structure Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	May 28, 2012 to November 27, 2012	320,705	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	August 28, 2012 to December 26, 2012	131,678	By the construction progress	Shiny G&M Associated Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Land	November 21, 2012	963,600	By the contract	Miaoli County Government	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

## Taiwan Semiconductor Manufacturing Company Limited and Investees

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2012

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

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

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

**Taiwan Semiconductor Manufacturing Company Limited and Investees**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
DECEMBER 31, 2012**

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

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

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

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

## Taiwan Semiconductor Manufacturing Company Limited and Investees

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEs OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

DECEMBER 31, 2012

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2012			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC	TSMC Global	Tortola, British Virgin Islands	Investment activities	\$ 42,327,245	\$ 42,327,245	1	100	\$ 49,954,386	\$ 469,933	\$ 469,933	Subsidiary
	TSMC Partners	Tortola, British Virgin Islands	Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry	31,456,130	31,456,130	988,268	100	38,635,129	5,088,931	5,088,451	Subsidiary
	TSMC China	Shanghai, China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	18,939,667	18,939,667	-	100	17,828,683	4,757,121	4,740,524	Subsidiary
	VIS	Hsin-Chu, Taiwan	Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts	13,232,288	13,232,288	628,223	40	9,462,038	2,329,808	770,379	Investee accounted for using equity method
	SSMC	Singapore	Fabrication and supply of integrated circuits	5,120,028	5,120,028	314	39	6,710,956	4,721,908	1,831,634	Investee accounted for using equity method
	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	11,180,000	11,180,000	1,118,000	99	6,031,369	(4,037,825)	(4,044,944)	Subsidiary
	TSMC North America	San Jose, California, U.S.A.	Selling and marketing of integrated circuits and semiconductor devices	333,718	333,718	11,000	100	3,209,288	312,232	312,232	Subsidiary
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	4,304,000	2,270,000	430,400	95	2,411,212	(1,466,733)	(1,397,589)	Subsidiary
	Xintec	Taoyuan, Taiwan	Wafer level chip size packaging service	1,357,890	1,357,890	94,950	40	1,550,313	(91,177)	(49,604)	Investee with a controlling financial interest
	GUC	Hsin-Chu, Taiwan	Researching, developing, manufacturing, testing and marketing of integrated circuits	386,568	386,568	46,688	35	1,222,972	612,369	209,312	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,896,914	2,074,155	-	50	1,047,285	(177,152)	122,852	Subsidiary
	VTAF II	Cayman Islands	Investing in new start-up technology companies	704,447	949,267	-	98	563,056	62,349	61,102	Subsidiary
	TSMC Europe	Amsterdam, the Netherlands	Marketing and engineering supporting activities	15,749	15,749	-	100	235,761	34,931	34,931	Subsidiary
	Emerging Alliance	Cayman Islands	Investing in new start-up technology companies	852,258	892,855	-	99	167,359	(2,940)	(2,925)	Subsidiary
	TSMC Japan	Yokohama, Japan	Marketing activities	83,760	83,760	6	100	142,412	3,786	3,786	Subsidiary
	TSMC GN	Taipei, Taiwan	Investment activities	100,000	-	-	100	65,007	(24,928)	(24,928)	Subsidiary
	TSMC Korea	Seoul, Korea	Customer service and technical supporting activities	13,656	13,656	80	100	26,935	2,602	2,602	Subsidiary
TSMC Solar	Motech	Taipei, Taiwan	Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems	6,228,661	6,228,661	87,480	20	2,998,413	(5,037,203)	Note 2	Investee accounted for using equity method
	VTAF III	Cayman Islands	Investing in new start-up technology companies	1,801,918	1,795,131	-	49	1,322,024	(177,152)	Note 2	Investee accounted for using equity method
	TSMC Solar Europe	Amsterdam, the Netherlands	Investing in solar related business	504,107	411,032	-	100	175,016	(119,668)	Note 2	Subsidiary
	TSMC Solar NA	Delaware, U.S.A.	Selling and marketing of solar related products	205,772	147,686	1	100	44,037	(65,268)	Note 2	Subsidiary

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2012			Net Income (Losses) of the Investee (Foreign Currencies in Thousands)	Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands)	Note
				December 31, 2012 (Foreign Currencies in Thousands)	December 31, 2011 (Foreign Currencies in Thousands)	Shares (In Thousands)	Percentage of Ownership	Carrying Value (Foreign Currencies in Thousands)			
TSMC SSL	TSMC Lighting NA	Delaware, U.S.A.	Selling and marketing of solid state lighting related products	\$ 3,133	\$ 3,133	1	100	\$ 2,864	\$ (7)	Note 2	Subsidiary
TSMC Partners	TSMC Development VisEra Holding Company	Delaware, U.S.A.	Investment activities	US\$ 0.001	US\$ 0.001	-	100	US\$ 604,367	US\$ 144,333	Note 2	Subsidiary
		Cayman Islands	Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry	US\$ 43,000	US\$ 43,000	43,000	49	US\$ 104,540	US\$ 30,091	Note 2	Investee accounted for using equity method
	TSMC Technology ISDF II ISDF TSMC Canada Mcube Inc.	Delaware, U.S.A.	Engineering support activities	US\$ 0.001	US\$ 0.001	-	100	US\$ 11,721	US\$ 1,106	Note 2	Subsidiary
		Cayman Islands	Investing in new start-up technology companies	US\$ 14,153	US\$ 14,153	14,153	97	US\$ 10,479	US\$ (121)	Note 2	Subsidiary
		Cayman Islands	Investing in new start-up technology companies	US\$ 787	US\$ 787	787	97	US\$ 7,805	US\$ 2,493	Note 2	Subsidiary
	Ontario, Canada	Engineering support activities	US\$ 2,300	US\$ 2,300	2,300	100	US\$ 4,589	US\$ 422	Note 2	Subsidiary	
	Delaware, U.S.A.	Research, development, and sale of micro-semiconductor device	US\$ 1,800	US\$ 1,800	6,333	25	-	US\$ (12,599)	Note 2	Investee accounted for using equity method	
TSMC Development	WaferTech	Washington, U.S.A.	Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices	US\$ 280,000	US\$ 280,000	293,637	100	US\$ 262,053	US\$ 142,551	Note 2	Subsidiary
VTAF III	Mutual-Pak Technology Co., Ltd.	Taipei, Taiwan	Manufacturing and selling of electronic parts and researching, developing, and testing of RFID	US\$ 5,212	US\$ 3,937	15,643	58	US\$ 2,120	US\$ (1,422)	Note 2	Subsidiary
		Cayman Islands	Investing in new start-up technology companies	US\$ 1,830	US\$ 1,830	-	100	US\$ 368	US\$ (141)	Note 2	Subsidiary
	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	62	-	-	Note 2	Subsidiary	
VTAF II	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	31	-	-	Note 2	Subsidiary
Emerging Alliance	VTA Holdings	Delaware, U.S.A.	Investing in new start-up technology companies	-	-	-	7	-	-	Note 2	Subsidiary
TSMC Solar Europe	TSMC Solar Europe GmbH	Hamburg, Germany	Selling of solar related products and providing customer service	EUR 12,400	EUR 9,900	-	100	EUR 4,469	EUR (3,133)	Note 2	Subsidiary
TSMC GN	TSMC Solar	Tai-Chung, Taiwan	Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products	\$ 42,945	\$ -	4,294	-	\$ 23,076	\$ (4,037,825)	Note 2	Investee accounted for using equity method
	TSMC SSL	Hsin-Chu, Taiwan	Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems	34,266	-	3,420	1	19,157	(1,466,733)	Note 2	Investee accounted for using equity method

Note 1: Equity in earnings/losses of investees includes the effect of unrealized gross profit from affiliates.

Note 2: The equity in the earnings/losses of the investee company is not reflected herein as such amount is already included in the equity in the earnings/losses of the investor company.

(Concluded)

## Taiwan Semiconductor Manufacturing Company Limited and Investees

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

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

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (Foreign Currencies in Thousands)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2012 (US\$ in Thousands)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2012 (US\$ in Thousands)	Percentage of Ownership	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2012 (US\$ in Thousands)	Accumulated Inward Remittance of Earnings as of December 31, 2012
					Outflow	Inflow					
TSMC China	Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers	\$ 18,939,667 (RMB 4,502,080)	(Note 1)	\$ 18,939,667 (US\$ 596,000)	\$ -	\$ -	\$ 18,939,667 (US\$ 596,000)	100%	\$ 4,740,524 (Note 3)	\$ 17,828,683	\$ -
Shanghai Walden Venture Capital Enterprise	Investing in new start-up technology companies	2,324,062 (US\$ 78,791)	(Note 2)	147,485 (US\$ 5,000)	-	-	147,485 (US\$ 5,000)	6%	(Note 4)	145,190 (US\$ 5,000)	-

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

Note 1: TSMC directly invested US\$596,000 thousand in TSMC China.

Note 2: TSMC indirectly invested in China company through third region, TSMC Partners.

Note 3: Amount was recognized based on the audited financial statements.

Note 4: TSMC Partners invested in financial assets carried at cost, equity in the earnings from which was not recognized.