

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

November 02, 2012

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2012

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

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Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

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

Taiwan Semiconductor Manufacturing Company Ltd.

Date: November 2, 2012

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

Taiwan Semiconductor Manufacturing

Company Limited

Financial Statements for the

Nine Months Ended September 30, 2012 and 2011 and

Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of September 30, 2012 and 2011, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

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

We have also reviewed, in accordance with Statement on Auditing Standards No. 36, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the nine months ended September 30, 2012 and 2011 on which we have issued an unqualified review report.

October 23, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited
BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

| ASSETS | 2012 | | 2011 | |
|---|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 76,017,828 | 9 | \$ 67,150,733 | 9 |
| Financial assets at fair value through profit or loss (Notes 2, 5 and 23) | 48,169 | - | 583,010 | - |
| Available-for-sale financial assets (Notes 2, 6 and 23) | 1,624,700 | - | 2,735,777 | 1 |
| Held-to-maturity financial assets (Notes 2, 7 and 23) | 700,271 | - | 250,165 | - |
| Receivables from related parties (Notes 3 and 24) | 44,121,922 | 5 | 28,680,784 | 4 |
| Notes and accounts receivable (Note 3) | 20,527,231 | 3 | 21,894,123 | 3 |
| Allowance for doubtful receivables (Notes 2, 3 and 8) | (483,848) | - | (485,120) | - |
| Allowance for sales returns and others (Notes 2 and 8) | (6,628,904) | (1) | (5,916,289) | (1) |
| Other receivables from related parties (Notes 3 and 24) | 241,240 | - | 1,491,316 | - |
| Other financial assets | 106,490 | - | 279,163 | - |
| Inventories (Notes 2 and 9) | 30,805,123 | 4 | 23,262,847 | 3 |
| Deferred income tax assets (Notes 2 and 17) | 2,374,646 | - | 918,938 | - |
| Prepaid expenses and other current assets | 2,000,563 | - | 1,730,515 | 1 |
| Total current assets | 171,455,431 | 20 | 142,575,962 | 20 |
| LONG-TERM INVESTMENTS (Notes 2, 7, 10, 11 and 23) | | | | |
| Investments accounted for using equity method | 132,018,796 | 15 | 124,251,210 | 17 |
| Held-to-maturity financial assets | 701,435 | - | 1,404,002 | - |
| Financial assets carried at cost | 483,759 | - | 497,835 | - |
| Total long-term investments | 133,203,990 | 15 | 126,153,047 | 17 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24) | | | | |
| Cost | | | | |
| Buildings | 171,984,186 | 20 | 147,429,338 | 20 |
| Machinery and equipment | 1,185,755,623 | 136 | 967,085,889 | 133 |
| Office equipment | 15,988,566 | 2 | 13,407,880 | 2 |
| | 1,373,728,375 | 158 | 1,127,923,107 | 155 |
| Accumulated depreciation | (891,718,235) | (103) | (779,461,665) | (107) |
| Advance payments and construction in progress | 65,762,701 | 8 | 88,918,961 | 12 |

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| | | | | |
|---|-----------------------|------------|-----------------------|------------|
| Net property, plant and equipment | 547,772,841 | 63 | 437,380,403 | 60 |
| INTANGIBLE ASSETS | | | | |
| Goodwill (Note 2) | 1,567,756 | - | 1,567,756 | - |
| Deferred charges, net (Notes 2 and 13) | 4,755,321 | 1 | 4,674,675 | 1 |
| Total intangible assets | 6,323,077 | 1 | 6,242,431 | 1 |
| OTHER ASSETS | | | | |
| Deferred income tax assets (Notes 2 and 17) | 8,057,987 | 1 | 11,090,792 | 1 |
| Refundable deposits | 2,298,614 | - | 4,689,418 | 1 |
| Others (Notes 2 and 24) | 931,066 | - | 1,152,898 | - |
| Total other assets | 11,287,667 | 1 | 16,933,108 | 2 |
| TOTAL | \$ 870,043,006 | 100 | \$ 729,284,951 | 100 |

| LIABILITIES AND SHAREHOLDERS EQUITY | 2012 | | 2011 | |
|--|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 14) | \$ 29,749,650 | 3 | \$ 36,019,654 | 5 |
| Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23) | 4,045 | - | 173,829 | - |
| Accounts payable | 12,710,320 | 2 | 8,103,660 | 1 |
| Payables to related parties (Note 24) | 3,403,558 | - | 3,161,048 | - |
| Income tax payable (Notes 2 and 17) | 10,820,869 | 1 | 7,680,498 | 1 |
| Other payables to related parties (Note 24) | - | - | 10,693,900 | 1 |
| Accrued profit sharing to employees and bonus to directors (Notes 2 and 19) | 8,654,015 | 1 | 6,932,701 | 1 |
| Payables to contractors and equipment suppliers | 32,003,649 | 4 | 19,036,040 | 3 |
| Accrued expenses and other current liabilities (Note 23) | 18,367,679 | 2 | 12,029,835 | 2 |
| Current portion of bonds payable (Notes 15 and 23) | - | - | 4,500,000 | 1 |
| Total current liabilities | 115,713,785 | 13 | 108,331,165 | 15 |
| LONG-TERM LIABILITIES | | | | |
| Bonds payable (Notes 15 and 23) | 75,600,000 | 9 | 18,000,000 | 2 |
| Other long-term payables (Note 23) | 54,000 | - | - | - |
| Total long-term liabilities | 75,654,000 | 9 | 18,000,000 | 2 |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 16) | 3,907,065 | - | 3,830,575 | 1 |
| Guarantee deposits | 224,965 | - | 495,013 | - |
| Total other liabilities | 4,132,030 | - | 4,325,588 | 1 |
| Total liabilities | 195,499,815 | 22 | 130,656,753 | 18 |
| CAPITAL STOCK - NT\$10 PAR VALUE (Note 19) | | | | |
| Authorized: 28,050,000 thousand shares | | | | |
| Issued: 25,922,047 thousand shares in 2012 | | | | |
| 25,915,149 thousand shares in 2011 | 259,220,476 | 30 | 259,151,492 | 35 |
| CAPITAL SURPLUS (Notes 2 and 19) | 56,074,435 | 7 | 55,689,739 | 8 |
| RETAINED EARNINGS (Note 19) | | | | |
| Appropriated as legal capital reserve | 115,820,123 | 13 | 102,399,995 | 14 |
| Appropriated as special capital reserve | 7,606,224 | 1 | 6,433,874 | 1 |
| Unappropriated earnings | 245,605,674 | 28 | 181,838,097 | 25 |
| | 369,032,021 | 42 | 290,671,966 | 40 |

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OTHERS

| | | | | |
|--|----------------|-----|----------------|-----|
| Cumulative translation adjustments (Note 2) | (10,052,181) | (1) | (5,586,618) | (1) |
| Unrealized gain/loss on financial instruments (Notes 2 and 23) | 268,440 | - | (1,226,783) | - |
| Treasury stock: 1,000 thousand shares (Notes 2 and 21) | - | - | (71,598) | - |
| | (9,783,741) | (1) | (6,884,999) | (1) |
| Total shareholders equity | 674,543,191 | 78 | 598,628,198 | 82 |
| TOTAL | \$ 870,043,006 | 100 | \$ 729,284,951 | 100 |

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

| | 2012 | | 2011 | |
|---|----------------|-----|----------------|-----|
| | Amount | % | Amount | % |
| GROSS SALES (Notes 2 and 24) | \$ 376,616,735 | | \$ 318,455,856 | |
| SALES RETURNS AND ALLOWANCES (Notes 2 and 8) | 6,230,469 | | 3,242,741 | |
| NET SALES | 370,386,266 | 100 | 315,213,115 | 100 |
| COST OF SALES (Notes 9, 18 and 24) | 195,408,944 | 53 | 175,237,212 | 55 |
| GROSS PROFIT BEFORE AFFILIATES ELIMINATION | 174,977,322 | 47 | 139,975,903 | 45 |
| REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2) | (129,569) | - | 346,768 | - |
| GROSS PROFIT | 174,847,753 | 47 | 140,322,671 | 45 |
| OPERATING EXPENSES (Notes 18 and 24) | | | | |
| Research and development | 28,641,998 | 8 | 23,347,808 | 7 |
| General and administrative | 12,555,530 | 3 | 9,130,402 | 3 |
| Marketing | 1,818,231 | - | 1,756,516 | 1 |
| Total operating expenses | 43,015,759 | 11 | 34,234,726 | 11 |
| INCOME FROM OPERATIONS | 131,831,994 | 36 | 106,087,945 | 34 |
| NON-OPERATING INCOME AND GAINS | | | | |
| Equity in earnings of equity method investees, net (Notes 2 and 10) | 7,410,841 | 2 | 3,531,943 | 1 |
| Interest income | 626,009 | - | 512,604 | - |

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| | | | | |
|--|------------------|----------|------------------|----------|
| Settlement income (Note 26) | 448,275 | - | 492,870 | - |
| Technical service income (Note 24) | 356,971 | - | 325,505 | - |
| Valuation gain on financial instruments, net (Notes 2, 5 and 23) | 117,113 | - | 782,810 | 1 |
| Others (Notes 2 and 24) | 370,044 | - | 663,413 | - |
| Total non-operating income and gains | 9,329,253 | 2 | 6,309,145 | 2 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

| | 2012 | | 2011 | |
|--|-----------------------|-----------|-----------------------|-----------|
| | Amount | % | Amount | % |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Impairment loss of financial assets (Notes 2, 6 and 23) | \$ 2,677,529 | 1 | \$ - | - |
| Interest expense (Note 24) | 629,102 | - | 276,154 | - |
| Impairment loss on idle assets (Note 2) | 418,330 | - | - | - |
| Loss on disposal of property, plant and equipment (Notes 2 and 24) | 104,430 | - | 191,120 | - |
| Foreign exchange loss, net (Note 2) | 17,001 | - | 657,798 | 1 |
| Others (Note 2) | 13,053 | - | 138,653 | - |
| | | | | |
| Total non-operating expenses and losses | 3,859,445 | 1 | 1,263,725 | 1 |
| | | | | |
| INCOME BEFORE INCOME TAX | 137,301,802 | 37 | 111,133,365 | 35 |
| | | | | |
| INCOME TAX EXPENSE (Notes 2 and 17) | 12,712,268 | 3 | 8,510,734 | 2 |
| | | | | |
| NET INCOME | \$ 124,589,534 | 34 | \$ 102,622,631 | 33 |

| | 2012 | | 2011 | |
|---|-------------------------|------------------------|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
| EARNINGS PER SHARE (NT\$, Note 22) | | | | |
| Basic earnings per share | \$ 5.30 | \$ 4.81 | \$ 4.29 | \$ 3.96 |
| Diluted earnings per share | \$ 5.30 | \$ 4.81 | \$ 4.29 | \$ 3.96 |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | 2012 | 2011 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 124,589,534 | \$ 102,622,631 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 90,037,204 | 76,638,870 |
| Unrealized (realized) gross profit from affiliates | 129,569 | (346,768) |
| Amortization of premium/discount of financial assets | 1,721 | 9,120 |
| Gain on disposal of available-for-sale financial assets | (37,923) | (35,151) |
| Loss on disposal of financial assets carried at cost | 269 | - |
| Equity in earnings of equity method investees, net | (7,410,841) | (3,531,943) |
| 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 | 93,515 | 70,696 |
| Impairment loss of financial assets | 2,677,529 | - |
| Impairment loss on idle assets | 418,330 | - |
| Deferred income tax | 2,235,309 | 478,443 |
| Changes in operating assets and liabilities: | | |
| Financial assets and liabilities at fair value through profit or loss | (29,199) | (417,015) |
| Receivables from related parties | (19,344,388) | (3,003,144) |
| Notes and accounts receivable | (632,845) | 356,782 |
| Allowance for doubtful receivables | (1,272) | (2,880) |
| Allowance for sales returns and others | 1,741,025 | (1,425,155) |
| Other receivables from related parties | (71,114) | (100,558) |
| Other financial assets | 15,520 | 139,043 |
| Inventories | (7,951,726) | 2,366,196 |
| Prepaid expenses and other current assets | (274,827) | (387,631) |
| Accounts payable | 1,855,509 | (2,673,005) |
| Payables to related parties | 207,468 | 586,598 |
| Income tax payable | 173,072 | 571,629 |
| Accrued profit sharing to employees and bonus to directors | (401,689) | (4,026,768) |
| Accrued expenses and other current liabilities | 5,121,949 | (1,489,045) |
| Accrued pension cost | 46,167 | 66,557 |
| Net cash provided by operating activities | 194,876,744 | 169,409,050 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Cash contributed related to spin-off | - | (1,270,340) |
| Acquisitions of: | | |
| Property, plant and equipment | (183,020,856) | (175,162,624) |
| Investments accounted for using equity method | (2,241,991) | (2,734,568) |

| | | |
|----------------------------------|---------|---|
| Financial assets carried at cost | (1,093) | - |
|----------------------------------|---------|---|

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | 2012 | 2011 |
|--|--------------------------|--------------------------|
| Proceeds from return of capital by investees | \$ 450,326 | \$ - |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | 314,159 | 1,035,151 |
| Held-to-maturity financial assets | - | 4,539,000 |
| Financial assets carried at cost | 14,900 | - |
| Property, plant and equipment and other assets | 83,739 | 3,055,991 |
| Increase in deferred charges | (1,079,585) | (1,069,352) |
| Decrease in refundable deposits | 2,193,121 | 3,949,331 |
| Decrease (increase) in other assets | 29,000 | (18,200) |
| Net cash used in investing activities | (183,258,280) | (167,675,611) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | 3,823,122 | 5,111,017 |
| Increase in other payables to related parties | - | 10,693,900 |
| Cash dividends | (77,748,668) | (77,730,236) |
| Proceeds from issuance of bonds | 57,600,000 | 18,000,000 |
| Repayment of bonds | (4,500,000) | - |
| Decrease in guarantee deposits | (214,067) | (252,874) |
| Proceeds from exercise of employee stock options | 176,456 | 155,955 |
| Acquisition of treasury stock | - | (71,598) |
| Net cash used in financing activities | (20,863,157) | (44,093,836) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (9,244,693) | (42,360,397) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 85,262,521 | 109,511,130 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 76,017,828 | \$ 67,150,733 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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| | | |
|-----------------|---------------|--------------|
| Interest paid | \$ 630,931 | \$ 292,211 |
| Income tax paid | \$ 10,291,304 | \$ 7,436,712 |

INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS

| | | |
|---|----------------|----------------|
| Acquisition of property, plant and equipment | \$ 182,382,575 | \$ 153,008,625 |
| Decrease in payables to contractors and equipment suppliers | 827,158 | 22,154,481 |
| Increase in payables to related parties | (188,808) | - |
| Nonmonetary exchange trade-out price | (69) | (482) |
| Cash paid | \$ 183,020,856 | \$ 175,162,624 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | 2012 | 2011 |
|--|--------------|--------------|
| Disposal of property, plant and equipment and other assets | \$ 65,906 | \$ 3,173,046 |
| Decrease (increase) in other receivables to related parties | 17,902 | (116,573) |
| Nonmonetary exchange trade-out price | (69) | (482) |
| Cash received | \$ 83,739 | \$ 3,055,991 |
| Acquisition of deferred charges | \$ 1,558,245 | \$ 1,069,352 |
| Increase in accounts payable | (350,960) | - |
| Increase in payables to related parties | (14,700) | - |
| Increase in other long-term payables | (113,000) | - |
| Cash paid | \$ 1,079,585 | \$ 1,069,352 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Idle assets reclassified from property, plant and equipment | \$ 418,330 | \$ - |
| Current portion of other long-term payables (under accrued expenses and other current liabilities) | \$ 59,000 | \$ 816,379 |
| Current portion of bonds payable | \$ - | \$ 4,500,000 |

SUPPLEMENTAL INFORMATION FOR SPIN-OFF BUSINESSES

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

| | TSMC SSL | TSMC Solar | Total |
|--|--------------|---------------|---------------|
| Acquired investments accounted for using equity method | \$ 2,270,000 | \$ 11,180,000 | \$ 13,450,000 |
| Non-cash items transferred | | | |
| Current assets | 36,050 | 18,807 | 54,857 |
| Long-term investments | 2,872 | 7,912,710 | 7,915,582 |
| Property, plant and equipment | 1,929,563 | 2,372,214 | 4,301,777 |
| Other assets | 234,696 | 201,677 | 436,373 |

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| | | | |
|---|-------------|--------------|--------------|
| Current liabilities | (292,728) | (337,439) | (630,167) |
| Other liabilities | (36,272) | (25,218) | (61,490) |
| Capital surplus | - | (56,094) | (56,094) |
| Unrealized gain/loss on financial instruments | - | (3,298) | (3,298) |
| Cumulative translation adjustments | 256 | 221,864 | 222,120 |
| | (1,874,437) | (10,305,223) | (12,179,660) |
| Cash contributed related to spin-off | \$ 395,563 | \$ 874,777 | \$ 1,270,340 |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

1. GENERAL

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, the Company also engages in the researching, developing, designing, manufacturing and selling of solid state lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. In August 2011, the Company transferred its solid state lighting and solar businesses into its wholly-owned, newly incorporated subsidiaries, TSMC 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 September 30, 2012 and 2011, the Company had 32,459 and 29,920 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

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

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

Allowance for Doubtful Receivables

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

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

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

Inventories

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

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

Investments Accounted for Using Equity Method

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

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

Pension Costs

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

Income Tax

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

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

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

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

Stock-based Compensation

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

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

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

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 nine months ended September 30, 2011.

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, Operating Segments. The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, Segment Reporting 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

| | September 30 | |
|---|---------------|---------------|
| | 2012 | 2011 |
| Cash and deposits in banks | \$ 72,643,880 | \$ 63,280,563 |
| Repurchase agreements collateralized by corporate bonds | 2,534,741 | - |
| Repurchase agreements collateralized by government bonds | 439,622 | 3,089,293 |
| Repurchase agreements collateralized by short-term commercial paper | 399,585 | 780,877 |
| | \$ 76,017,828 | \$ 67,150,733 |

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

| | September 30 | |
|--------------------------------------|--------------|------------|
| | 2012 | 2011 |
| <u>Trading financial assets</u> | | |
| Forward exchange contracts | \$ 45,474 | \$ 583,010 |
| Cross currency swap contracts | 2,695 | - |
| | \$ 48,169 | \$ 583,010 |
| <u>Trading financial liabilities</u> | | |
| Forward exchange contracts | \$ 4,045 | \$ 66,378 |
| Cross currency swap contracts | - | 107,451 |
| | \$ 4,045 | \$ 173,829 |

The Company entered into derivative contracts during the nine months ended September 30, 2012 and 2011 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for its derivative contracts.

Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|---------------------------|---------------|-----------------------------------|
| <u>September 30, 2012</u> | | |

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| | | |
|--------------------|--------------|---------------------------|
| Sell US\$/Buy JPY | October 2012 | US\$315,000/JPY24,525,215 |
| Sell US\$/Buy NT\$ | October 2012 | US\$85,000/NT\$2,500,880 |
| Sell US\$/Buy EUR | October 2012 | US\$52,421/EUR40,500 |

September 30, 2011

| | | |
|--------------------|--------------|----------------------------|
| Sell NT\$/Buy US\$ | October 2011 | NT\$10,093,875/US\$350,000 |
| Sell US\$/Buy NT\$ | October 2011 | US\$110,000/NT\$3,292,775 |

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|----------------------------------|---|---|---|
| <u>September 30, 2012</u> | | | |
| October 2012 | US\$170,000/NT\$4,991,030 | 0.10%-0.11% | - |
| <u>September 30, 2011</u> | | | |
| October 2011 | US\$117,000/NT\$3,470,950 | 1.27%-4.40% | - |

For the nine months ended September 30, 2012 and 2011, net gains on derivative financial instruments were NT\$117,113 thousand and NT\$782,810 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets held by the Company are overseas publicly traded stock. For the nine months ended September 30, 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

| | September 30 | |
|-----------------|---------------------|---------------------|
| | 2012 | 2011 |
| Corporate bonds | \$ 1,401,706 | \$ 1,654,167 |
| Current portion | (700,271) | (250,165) |
| | \$ 701,435 | \$ 1,404,002 |

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

| | <u>Nine Months Ended September 30</u> | |
|------------------------------|--|-------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 485,120 | \$ 488,000 |
| Write-off | (1,272) | (2,880) |

| | | |
|------------------------|------------|------------|
| Balance, end of period | \$ 483,848 | \$ 485,120 |
|------------------------|------------|------------|

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

| | <u>Nine Months Ended September 30</u> | |
|------------------------------|---------------------------------------|--------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 4,887,879 | \$ 7,341,444 |
| Provision | 6,230,469 | 3,242,741 |
| Write-off | (4,489,444) | (4,667,896) |
| Balance, end of period | \$ 6,628,904 | \$ 5,916,289 |

9. INVENTORIES

| | <u>September 30</u> | |
|--------------------------|---------------------|---------------|
| | 2012 | 2011 |
| Finished goods | \$ 4,074,123 | \$ 4,260,884 |
| Work in process | 23,395,624 | 16,517,292 |
| Raw materials | 2,211,453 | 1,410,292 |
| Supplies and spare parts | 1,123,923 | 1,074,379 |
| | \$ 30,805,123 | \$ 23,262,847 |

Write-down of inventories to net realizable value in the amount of NT\$1,144,223 thousand and NT\$300,629 thousand, respectively, were included in the cost of sales for the nine months ended September 30, 2012 and 2011.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | <u>September 30</u> | | | |
|--|---------------------|------------------------|---------------|------------------------|
| | 2012 | % of Owner- ship | 2011 | % of Owner- ship |
| Carrying Amount | Carrying Amount | | | |
| TSMC Global Ltd. (TSMC Global) | \$ 43,089,715 | 100 | \$ 44,274,921 | 100 |
| TSMC Partners, Ltd. (TSMC Partners) | 38,058,989 | 100 | 34,888,811 | 100 |
| TSMC China Company Limited (TSMC China) | 16,309,653 | 100 | 8,460,740 | 100 |
| Vanguard International Semiconductor Corporation (VIS) | 9,161,979 | 41 | 8,918,553 | 38 |
| TSMC Solar | 8,045,131 | 99 | 10,847,842 | 100 |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 6,253,232 | 39 | 6,109,136 | 39 |
| TSMC North America | 3,164,974 | 100 | 3,001,878 | 100 |
| TSMC SSL | 2,822,776 | 95 | 2,063,176 | 100 |
| Xintec Inc. (Xintec) | 1,573,654 | 40 | 1,610,795 | 40 |
| Global UniChip Corporation (GUC) | 1,177,159 | 35 | 1,117,076 | 35 |

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| | | | | |
|--|-----------|-----|-----------|-----|
| VentureTech Alliance Fund III, L.P. (VTAF III) | 1,056,641 | 50 | 1,247,111 | 52 |
| VentureTech Alliance Fund II, L.P. (VTAF II) | 654,685 | 98 | 1,022,280 | 98 |
| TSMC Europe B.V. (TSMC Europe) | 223,125 | 100 | 209,723 | 100 |

(Continued)

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| | September 30 | | | |
|--|--------------------|----------------|--------------------|----------------|
| | 2012 | % of | 2011 | % of |
| | Carrying Amount | Owner- ship | Carrying Amount | Owner- ship |
| Emerging Alliance Fund, L.P. (Emerging Alliance) | \$ 169,756 | 99 | \$ 291,196 | 99 |
| TSMC Japan Limited (TSMC Japan) | 160,799 | 100 | 165,630 | 100 |
| TSMC Guang Neng Investment, Ltd. (TSMC GN) | 71,723 | 100 | - | - |
| TSMC Korea Limited (TSMC Korea) | 24,805 | 100 | 22,342 | 100 |
| | \$ 132,018,796 | | \$ 124,251,210 | |

(Concluded)

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 September 30, 2012, the Company's percentages of ownership in TSMC SSL and TSMC Solar were 95% and 99%, respectively.

For the nine months ended September 30, 2012 and 2011, equity in earnings of equity method investees was a net gain of NT\$7,410,841 thousand and NT\$3,531,943 thousand, respectively.

As of September 30, 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\$16,809,981 thousand and NT\$12,574,108 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:

| | <u>Nine Months Ended September 30</u> | |
|------------------------------|---------------------------------------|--------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 275,584 | \$ 2,504,496 |
| Amortizations | (169,943) | (641,656) |
| Effect of spin-off | - | (1,507,430) |
| Balance, end of period | \$ 105,641 | \$ 355,410 |

Movements of the difference allocated to goodwill were as follows:

| | Nine Months Ended September 30 | |
|-------------------------------|--------------------------------|---------------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 1,061,885 | \$ 1,415,565 |
| Effect of spin-off | - | (353,680) |
| Balance, end of period | \$ 1,061,885 | \$ 1,061,885 |

11. FINANCIAL ASSETS CARRIED AT COST

| | September 30 | |
|----------------------------|-------------------|-------------------|
| | 2012 | 2011 |
| Non-publicly traded stocks | \$ 338,584 | \$ 338,584 |
| Mutual funds | 145,175 | 159,251 |
| | \$ 483,759 | \$ 497,835 |

12. PROPERTY, PLANT AND EQUIPMENT

| | Balance, Beginning of Period | Nine Months Ended September 30, 2012 | | | Balance, End of Period |
|---|------------------------------------|--------------------------------------|-----------------------|---------------------|---------------------------|
| | | Additions (Deductions) | Disposals | Reclassification | |
| Cost | | | | | |
| Buildings | \$ 149,495,478 | \$ 22,513,410 | \$ (24,702) | \$ - | \$ 171,984,186 |
| Machinery and equipment | 984,978,666 | 202,291,230 | (865,831) | (648,442) | 1,185,755,623 |
| Office equipment | 13,824,434 | 2,585,681 | (421,549) | - | 15,988,566 |
| | 1,148,298,578 | \$ 227,390,321 | \$ (1,312,082) | \$ (648,442) | 1,373,728,375 |
| Accumulated depreciation | | | | | |
| Buildings | 90,274,267 | \$ 6,962,071 | \$ (23,435) | \$ - | 97,212,903 |
| Machinery and equipment | 704,885,017 | 80,380,237 | (857,279) | (230,112) | 784,177,863 |
| Office equipment | 9,581,513 | 1,167,505 | (421,549) | - | 10,327,469 |
| | 804,740,797 | \$ 88,509,813 | \$ (1,302,263) | \$ (230,112) | 891,718,235 |
| Advance payments and construction in progress | 110,815,752 | \$ (45,007,746) | \$ (45,305) | \$ - | 65,762,701 |

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\$ 454,373,533

\$ 547,772,841

| | Nine Months Ended September 30, 2011 | | | | | Balance, End of Period |
|--|--------------------------------------|----------------|----------------|------------------|-----------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Disposals | Reclassification | Effect of Spin-off | |
| Cost | | | | | | |
| Buildings | \$ 128,646,942 | \$ 20,274,732 | \$ (34,499) | \$ (388) | \$ (1,457,449) | \$ 147,429,338 |
| Machinery and equipment | 852,733,592 | 117,352,327 | (1,672,870) | (27,279) | (1,299,881) | 967,085,889 |
| Office equipment | 11,730,537 | 2,016,312 | (299,897) | - | (39,072) | 13,407,880 |
| | 993,111,071 | \$ 139,643,371 | \$ (2,007,266) | \$ (27,667) | \$ (2,796,402) | 1,127,923,107 |
| Accumulated depreciation | | | | | | |
| Buildings | 81,347,877 | \$ 6,648,533 | \$ (11,864) | \$ (55) | \$ (25,639) | 87,958,852 |
| Machinery and equipment | 616,495,207 | 67,519,124 | (1,619,962) | (15,623) | (192,323) | 682,186,423 |
| Office equipment | 8,762,361 | 857,053 | (299,897) | - | (3,127) | 9,316,390 |
| | 706,605,445 | \$ 75,024,710 | \$ (1,931,723) | \$ (15,678) | \$ (221,089) | 779,461,665 |
| Advance payments and construction in progress | | | | | | |
| | 80,348,673 | \$ 13,365,254 | \$ (3,068,502) | \$ - | \$ (1,726,464) | 88,918,961 |
| | \$ 366,854,299 | | | | | \$ 437,380,403 |

No interest was capitalized during the nine months ended September 30, 2012 and 2011.

13. DEFERRED CHARGES, NET

| | Nine Months Ended September 30, 2012 | | | | |
|----------------------------------|--------------------------------------|--------------|----------------|------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Amortization | Reclassification | Balance, End of Period |
| | Technology license fees | \$ 1,617,310 | \$ - | \$ (314,765) | \$ - |
| Software and system design costs | 2,316,571 | 1,146,302 | (826,983) | (57,438) | 2,578,452 |
| Patent and others | 785,363 | 411,943 | (380,420) | 57,438 | 874,324 |
| | \$ 4,719,244 | \$ 1,558,245 | \$ (1,522,168) | \$ - | \$ 4,755,321 |

| | Nine Months Ended September 30, 2011 | | | | |
|----------------------------------|--------------------------------------|--------------|----------------|-----------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Amortization | Effect of Spin-off | Balance, End of Period |
| | Technology license fees | \$ 2,277,832 | \$ 10,308 | \$ (502,825) | \$ - |
| Software and system design costs | 2,075,935 | 905,237 | (786,921) | (19,392) | 2,174,859 |
| Patent and others | 1,102,660 | 153,807 | (318,269) | (223,697) | 714,501 |
| | \$ 5,456,427 | \$ 1,069,352 | \$ (1,608,015) | \$ (243,089) | \$ 4,674,675 |

14. SHORT-TERM LOANS

| | September 30 2012 | September 30 2011 |
|---|----------------------|----------------------|
| Unsecured loans: | | |
| US\$1,015,000 thousand, due in October 2012, and annual interest at 0.42%- 0.65% in 2012; | | |
| US\$1,058,200 thousand and EUR88,725 thousand, due by November 2011, and annual interest at 0.40%-1.50% in 2011 | \$ 29,749,650 | \$ 36,019,654 |

15. BONDS PAYABLE

| | September 30 2012 | September 30 2011 |
|----------------------------------|----------------------|----------------------|
| Domestic unsecured bonds: | | |

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

(Continued)

| | September 30 | |
|---|---------------------|---------------|
| | 2012 | 2011 |
| Issued in September 2012 and repayable in September 2017, 1.28% interest payable annually | \$ 12,700,000 | \$ - |
| Issued in September 2012 and repayable in September 2019, 1.39% interest payable annually | 9,000,000 | - |
| Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually | - | 4,500,000 |
| | 75,600,000 | 22,500,000 |
| Current portion | - | (4,500,000) |
| | \$ 75,600,000 | \$ 18,000,000 |

(Concluded)

With the approval from the Financial Supervisory Commission, the Company issued domestic unsecured bonds in the amount of NT\$4,400,000 thousand in October 2012.

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\$878,763 thousand and NT\$843,618 thousand for the nine months ended September 30, 2012 and 2011, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. The Company recognized pension costs of NT\$212,742 thousand and NT\$226,549 thousand for the nine months ended September 30, 2012 and 2011, respectively.

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

| | <u>Nine Months Ended September 30</u> | |
|------------------------------|--|--------------|
| | 2012 | 2011 |
| The Fund | | |
| Balance, beginning of period | \$ 3,017,351 | \$ 2,835,231 |
| Contributions | 163,339 | 161,157 |
| Interest | 26,304 | 27,083 |
| Payments | (23,078) | (7,339) |
| Balance, end of period | \$ 3,183,916 | \$ 3,016,132 |
| Accrued pension cost | | |
| Balance, beginning of period | \$ 3,860,898 | \$ 3,824,601 |
| Accruals | 46,167 | 66,557 |
| Effect of spin-off | - | (60,583) |
| Balance, end of period | \$ 3,907,065 | \$ 3,830,575 |

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:

| | Nine Months Ended September 30 | |
|--|---------------------------------------|---------------|
| | 2012 | 2011 |
| Income tax expense based on income before income tax at statutory rate (17%) | \$ 23,341,306 | \$ 18,892,672 |
| Tax effect of the following: | | |
| Tax-exempt income | (7,327,600) | (10,599,946) |
| Temporary and permanent differences | (1,901,636) | (948,657) |
| Additional income tax under Alternative Minimum Tax Act | - | 116,718 |
| Additional tax at 10% on unappropriated earnings | 4,186,013 | 6,259,344 |
| Income tax credits used | (7,898,861) | (6,259,344) |
| | | |
| Income tax currently payable | \$ 10,399,222 | \$ 7,460,787 |

- b. Income tax expense consisted of the following:

| | Nine Months Ended September 30 | |
|--|---------------------------------------|--------------|
| | 2012 | 2011 |
| Income tax currently payable | \$ 10,399,222 | \$ 7,460,787 |
| Income tax adjustments on prior years | 48,609 | 464,078 |
| Other income tax adjustments | 29,128 | 107,426 |
| Net change in deferred income tax assets | | |
| Investment tax credits | 6,092,545 | 2,367,900 |
| Temporary differences | (528,448) | 229,708 |
| Valuation allowance | (3,328,788) | (2,118,272) |
| Effect of spin-off | - | (893) |
| | | |
| Income tax expense | \$ 12,712,268 | \$ 8,510,734 |

- c. Deferred income tax assets consisted of the following:

| | September 30 | |
|---|---------------------|-------------|
| | 2012 | 2011 |
| Current deferred income tax assets | | |
| Investment tax credits | \$ 492,501 | \$ - |
| Temporary differences | | |
| Allowance for sales returns and others | 795,468 | 502,885 |
| Unrealized loss on financial instruments, net | 359,110 | 288,760 |
| Unrealized loss on inventories | 337,742 | - |
| Others | 389,825 | 127,293 |

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\$ 2,374,646 \$ 918,938

| | | |
|---------------------------------------|---------------|---------------|
| Noncurrent deferred income tax assets | | |
| Investment tax credits | \$ 13,594,914 | \$ 19,607,314 |
| Temporary differences | | |
| Depreciation | 1,177,836 | 1,829,967 |
| Others | 294,540 | 188,001 |
| Valuation allowance | (7,009,303) | (10,534,490) |
| | \$ 8,057,987 | \$ 11,090,792 |

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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, effective on January 1, 2013, when calculating the security transaction income for the securities held for more than three years as regulated under Article 4-1 of the Income Tax Act, an enterprise could deduct the security transaction losses for the securities held for more than three years. If there is any net gain from the security transactions for the year, 50% of such amount will be exempted from income taxes in the current year; however, if there is a net loss, such loss, after the assessment of the tax authorities, can be carried forward over the next five years to offset the security income generated from the sale of the securities held for more than three years. In addition, the standard deduction and the tax rate were amended to be NT\$500 thousand and 12%, respectively. The amendments are effective in 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 nine months ended September 30, 2012.

d. Integrated income tax information:

The balance of the imputation credit account as of September 30, 2012 and 2011 was NT\$8,136,884 thousand and NT\$4,016,138 thousand, respectively.

The estimated and actual creditable ratios for distribution of earnings of 2011 and 2010 were 6.69% and 4.96%, 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 September 30, 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 | \$ 6,503,274 | \$ 6,503,274 | 2013 |
| | | 7,006,655 | 7,006,655 | 2014 |
| | | 482,351 | 482,351 | 2015 |
| | | \$ 13,992,280 | \$ 13,992,280 | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 1,148,374 | \$ - | 2012 |
| | | 4,706,569 | 95,135 | 2013 |
| | | \$ 5,854,943 | \$ 95,135 | |
| Statute for Upgrading Industries | Personnel training expenditures | \$ 17,391 | \$ - | 2012 |

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| | | | | |
|------------------------|--------------------------|--------------|------|------|
| Statute for Industrial | Research and development | \$ 2,121,662 | \$ - | 2012 |
| Innovation | expenditures | | | |

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

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

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

18. LABOR COST, DEPRECIATION AND AMORTIZATION

| | Nine Months Ended September 30, 2012 | | |
|----------------------------|---|---|---------------|
| | Classified as Cost of Sales | Classified as Operating Expenses | Total |
| Labor cost | | | |
| Salary and bonus | \$ 20,507,961 | \$ 14,398,187 | \$ 34,906,148 |
| Labor and health insurance | 1,069,830 | 655,738 | 1,725,568 |
| Pension | 689,476 | 402,029 | 1,091,505 |
| Meal | 499,937 | 219,643 | 719,580 |
| Welfare | 193,499 | 116,380 | 309,879 |
| Others | 29,616 | 44,087 | 73,703 |
| | \$ 22,990,319 | \$ 15,836,064 | \$ 38,826,383 |
| Depreciation | \$ 80,855,320 | \$ 7,654,493 | \$ 88,509,813 |
| Amortization | \$ 973,207 | \$ 548,961 | \$ 1,522,168 |

| | Nine Months Ended September 30, 2011 | | |
|----------------------------|---|---|---------------|
| | Classified as Cost of Sales | Classified as Operating Expenses | Total |
| Labor cost | | | |
| Salary and bonus | \$ 17,952,195 | \$ 12,634,100 | \$ 30,586,295 |
| Labor and health insurance | 930,786 | 531,192 | 1,461,978 |
| Pension | 681,369 | 388,798 | 1,070,167 |
| Meal | 486,450 | 202,667 | 689,117 |
| Welfare | 175,648 | 101,976 | 277,624 |
| Others | 33,348 | 27,488 | 60,836 |
| | \$ 20,259,796 | \$ 13,886,221 | \$ 34,146,017 |

| | | | |
|--------------|---------------|--------------|---------------|
| Depreciation | \$ 70,045,124 | \$ 4,971,754 | \$ 75,016,878 |
| Amortization | \$ 1,044,257 | \$ 563,758 | \$ 1,608,015 |

19. SHAREHOLDERS EQUITY

As of September 30, 2012, 1,091,702 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,458,511 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:

| | September 30 | |
|----------------------------|----------------------|----------------------|
| | 2012 | 2011 |
| Additional paid-in capital | \$ 23,892,456 | \$ 23,734,158 |
| From merger | 22,804,510 | 22,805,390 |
| From convertible bonds | 8,892,847 | 8,893,190 |
| From long-term investments | 484,567 | 256,946 |
| Donations | 55 | 55 |
| | \$ 56,074,435 | \$ 55,689,739 |

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

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals the Company's paid-in capital;
- b. Special capital reserve in accordance with relevant laws or regulations or as requested by the authorities in charge;
- c. Bonus to directors and profit sharing to employees of the Company of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of the Company are not entitled to receive the bonus to directors. The Company may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

The Company's Articles of Incorporation also provide that profits of the Company may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

The Company accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT\$8,333,282 thousand and NT\$6,887,967 thousand for the nine months ended September 30, 2012 and 2011, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

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

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

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

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

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

The 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 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 September 30, 2012.

Information about outstanding options for the nine months ended September 30, 2012 and 2011 was as follows:

| | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|---|--|--|
| <u>Nine months ended September 30, 2012</u> | | |
| Balance, beginning of period | 14,293 | \$ 31.4 |
| Options exercised | (5,825) | 30.3 |
| Options canceled | (135) | 34.6 |
| | | |
| Balance, end of period | 8,333 | 32.6 |
| | | |
| <u>Nine months ended September 30, 2011</u> | | |
| Balance, beginning of period | 21,437 | \$ 31.4 |
| Options exercised | (5,071) | 30.8 |
| | | |
| Balance, end of period | 16,366 | 31.8 |

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

As of September 30, 2012, information about outstanding options was as follows:

| Range of Exercise Price (NT\$) | Options Outstanding | | Weighted-average Exercise Price (NT\$) |
|-----------------------------------|-------------------------------------|--|--|
| | Number of Options (In Thousands) | Weighted-average Remaining Contractual Life (Years) | |
| \$20.2-\$28.3 | 5,569 | 0.6 | \$ 26.0 |
| 38.0- 50.1 | 2,764 | 2.2 | 45.8 |
| | | | |
| | 8,333 | 1.1 | 32.6 |

As of September 30, 2012, all of the above outstanding options were exercisable.

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No compensation cost was recognized under the intrinsic value method for the nine months ended September 30, 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 nine months ended September 30, 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 |

| | Nine Months Ended September 30 | |
|--|--------------------------------|----------------|
| | 2012 | 2011 |
| Net income: | | |
| Net income as reported | \$ 124,589,534 | \$ 102,622,631 |
| Pro forma net income | 124,442,977 | 102,618,784 |
| Earnings per share (EPS) - after income tax (NT\$): | | |
| Basic EPS as reported | \$4.81 | \$3.96 |
| Pro forma basic EPS | 4.80 | 3.96 |
| Diluted EPS as reported | 4.81 | 3.96 |
| Pro forma diluted EPS | 4.80 | 3.96 |

21. TREASURY STOCK

| Purpose of Treasury Stock | (Shares in Thousands) | | |
|---|--|----------|---------------------------------------|
| | Number of Shares, Beginning of Period | Addition | Number of Shares, End of Period |
| <u>Nine months ended September 30, 2011</u> | | | |
| Shareholders executed the appraisal right | - | 1,000 | 1,000 |

In August 2011, at the option of the shareholders of the Company, certain shareholders requested the Company to buy back their shares pursuant to the Company Law. As of September 30, 2011, the book value and market value of treasury stock were NT\$71,598 thousand and NT\$69,998 thousand, respectively. These 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>Nine months ended September 30, 2012</u> | | | | | |
| Basic EPS | | | | | |
| Earnings available to common shareholders | \$ 137,301,802 | \$ 124,589,534 | 25,919,899 | \$ 5.30 | \$ 4.81 |
| Effect of dilutive potential common shares | - | - | 7,139 | | |
| Diluted EPS | | | | | |
| Earnings available to common shareholders (including effect of dilutive potential common shares) | \$ 137,301,802 | \$ 124,589,534 | 25,927,038 | \$ 5.30 | \$ 4.81 |

| | Amounts (Numerator) | | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) | |
|--|----------------------|---------------------|--|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |
| <u>Nine months ended September 30, 2011</u> | | | | | |
| Basic EPS | | | | | |
| Earnings available to common shareholders | \$ 111,133,365 | \$ 102,622,631 | 25,913,755 | \$ 4.29 | \$ 3.96 |
| Effect of dilutive potential common shares | - | - | 10,178 | | |
| Diluted EPS | | | | | |
| Earnings available to common shareholders (including effect of dilutive potential common shares) | \$ 111,133,365 | \$ 102,622,631 | 25,923,933 | \$ 4.29 | \$ 3.96 |

(Concluded)

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:

| | 2012 | | September 30 | | 2011 | |
|--|--------------------|------------|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Assets</u> | | | | | | |
| Financial assets at fair value through profit or loss | \$ 48,169 | \$ 48,169 | \$ 583,010 | \$ 583,010 | \$ 583,010 | \$ 583,010 |
| Available-for-sale financial assets | 1,624,700 | 1,624,700 | 2,735,777 | 2,735,777 | 2,735,777 | 2,735,777 |
| Held-to-maturity financial assets | 1,401,706 | 1,414,407 | 1,654,167 | 1,682,068 | 1,654,167 | 1,682,068 |
| Financial assets carried at cost | 483,759 | - | 497,835 | - | 497,835 | - |
| <u>Liabilities</u> | | | | | | |
| Financial liabilities at fair value through profit or loss | 4,045 | 4,045 | 173,829 | 173,829 | 173,829 | 173,829 |
| Bonds payable (including current portion) | 75,600,000 | 75,940,020 | 22,500,000 | 22,561,211 | 22,500,000 | 22,561,211 |
| Other long-term payables (including current portion) | 113,000 | 113,000 | 816,379 | 816,379 | 816,379 | 816,379 |

- 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\$44,124 thousand and NT\$409,181 thousand for the nine months ended September 30, 2012 and 2011, respectively.
- d. As of September 30, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$1,449,875 thousand and NT\$2,237,177 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$105,353,695 thousand and NT\$58,693,483 thousand, respectively.
- e. Movements of the unrealized gains or losses on financial instruments for the nine months ended September 30, 2012 and 2011 were as follows:

| | Nine Months Ended September 30, 2012 | | |
|---|---|---|----------------|
| | From | | |
| | Available- for-sale Financial Assets | Equity- method Investments | Total |
| Balance, beginning of period | \$ (1,508,301) | \$ 335,446 | \$ (1,172,855) |
| Recognized directly in shareholders equity | (562,968) | (186,610) | (749,578) |
| Removed from shareholders equity and recognized in earnings | 2,190,873 | - | 2,190,873 |
| Balance, end of period | \$ 119,604 | \$ 148,836 | \$ 268,440 |

| | Nine Months Ended September 30, 2011 | | |
|---|---|---|--------------|
| | From | | |
| | Available- for-sale Financial Assets | Equity- method Investments | Total |
| Balance, beginning of period | \$ (395,306) | \$ 504,595 | \$ 109,289 |
| Recognized directly in shareholders equity | (1,035,704) | (261,919) | (1,297,623) |
| Removed from shareholders equity and recognized in earnings | (35,151) | - | (35,151) |
| Effect of spin-off | - | (3,298) | (3,298) |

| | | | |
|------------------------|----------------|------------|----------------|
| Balance, end of period | \$ (1,466,161) | \$ 239,378 | \$ (1,226,783) |
|------------------------|----------------|------------|----------------|

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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 North America

TSMC China

TSMC Europe

TSMC Japan

TSMC Global

b. Investees

Xintec (holding a controlling financial interest)

VIS (accounted for using the equity method)

SSMC (accounted for using the equity method)

GUC (accounted for using the equity method)

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c. Indirect subsidiaries

WaferTech, LLC (WaferTech)

TSMC Technology, Inc. (TSMC Technology)

TSMC Design Technology Canada Inc. (TSMC Canada)

d. Indirect investees

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

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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 | |
| For the nine months ended September 30 | | | | |
| Sales | | | | |
| TSMC North America | \$ 238,620,510 | 63 | \$ 175,631,354 | 55 |
| Others | 3,810,675 | 1 | 3,003,084 | 1 |
| | \$ 242,431,185 | 64 | \$ 178,634,438 | 56 |
| Purchases | | | | |
| TSMC China | \$ 11,401,736 | 26 | \$ 7,576,707 | 20 |
| WaferTech | 6,009,695 | 14 | 5,753,541 | 16 |
| VIS | 3,295,850 | 8 | 4,313,015 | 12 |
| SSMC | 2,759,305 | 6 | 2,963,867 | 8 |
| Others | - | - | 126,405 | - |
| | \$ 23,466,586 | 54 | \$ 20,733,535 | 56 |
| Manufacturing expenses | | | | |
| Xintec (outsourcing and rent) | \$ 126,170 | - | \$ 234,394 | - |
| VisEra (outsourcing) | 12,437 | - | 12,807 | - |
| VIS (rent) | - | - | 5,902 | - |
| Others | 230 | - | - | - |
| | \$ 138,837 | - | \$ 253,103 | - |
| Research and development expenses | | | | |
| TSMC Technology (primarily consulting fee) | \$ 549,422 | 2 | \$ 379,328 | 2 |
| TSMC Canada (primarily consulting fee) | 159,156 | 1 | 134,611 | 1 |
| TSMC Europe (primarily consulting fee) | 37,138 | - | 32,781 | - |
| VIS (rent) | - | - | 1,984 | - |
| Others | 14,058 | - | 27,432 | - |
| | \$ 759,774 | 3 | \$ 576,136 | 3 |
| Marketing expenses - commission | | | | |
| TSMC Europe | \$ 253,956 | 14 | \$ 278,938 | 16 |
| TSMC Japan | 211,785 | 11 | 204,379 | 11 |
| TSMC China | 52,033 | 3 | 48,001 | 3 |
| Others | 16,399 | 1 | 15,239 | 1 |

| | | | | | |
|----|---------|----|----|---------|----|
| \$ | 534,173 | 29 | \$ | 546,557 | 31 |
|----|---------|----|----|---------|----|

| | 2012 | | 2011 | |
|--|---------------|-----|---------------|-----|
| | Amount | % | Amount | % |
| Sales of property, plant and equipment and other assets | | | | |
| TSMC China | \$ 45,982 | 70 | \$ 2,691,880 | 85 |
| VisEra | 9,000 | 13 | - | - |
| WaferTech | - | - | 72,880 | 2 |
| VIS | - | - | 36,008 | 1 |
| Others | 10 | - | 253 | - |
| | \$ 54,992 | 83 | \$ 2,801,021 | 88 |
| Purchases of property, plant and equipment and other asset | | | | |
| TSMC China | \$ 68,455 | - | \$ 70,491 | - |
| GUC | 21,768 | - | - | - |
| Others | 7,961 | - | - | - |
| | \$ 98,184 | - | \$ 70,491 | - |
| Non-operating income and gains | | | | |
| VIS (primarily technical service income) | \$ 190,436 | 2 | \$ 179,067 | 3 |
| SSMC (primarily technical service income) | 163,122 | 2 | 160,376 | 2 |
| TSMC China (primarily technical service income and gains on disposal of property, plant and equipment) | 510 | - | 99,973 | 2 |
| Others | 12,887 | - | 3,716 | - |
| | \$ 366,955 | 4 | \$ 443,132 | 7 |
| Non-operating expenses and losses | | | | |
| TSMC China (losses on disposal of property, plant and equipment) | \$ 14,025 | - | \$ - | - |
| <u>As of September 30</u> | | | | |
| Receivables | | | | |
| TSMC North America | \$ 43,302,832 | 98 | \$ 28,158,589 | 98 |
| Others | 819,090 | 2 | 522,195 | 2 |
| | \$ 44,121,922 | 100 | \$ 28,680,784 | 100 |
| Other receivables | | | | |
| VIS | \$ 102,169 | 42 | \$ 85,453 | 6 |
| TSMC North America | 78,243 | 33 | 22,451 | 2 |
| SSMC | 54,975 | 23 | 47,921 | 3 |
| TSMC China | 508 | - | 1,318,300 | 88 |
| Others | 5,345 | 2 | 17,191 | 1 |
| | \$ 241,240 | 100 | \$ 1,491,316 | 100 |

| | 2012 | | 2011 | |
|-----------------|--------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| Payables | | | | |
| TSMC China | \$ 1,593,552 | 47 | \$ 878,485 | 28 |
| WaferTech | 716,484 | 21 | 657,374 | 21 |
| VIS | 382,552 | 11 | 1,011,671 | 32 |
| SSMC | 377,033 | 11 | 342,654 | 11 |
| Others | 333,937 | 10 | 270,864 | 8 |
| | \$ 3,403,558 | 100 | \$ 3,161,048 | 100 |

| | | | | |
|--|-------------|---|----------|---|
| Other assets (deferred credits) | | | | |
| TSMC China | \$ (12,532) | 1 | \$ 9,048 | 1 |
| VisEra | (1,006) | - | - | - |
| Others | (9) | - | - | - |
| | \$ (13,547) | 1 | \$ 9,048 | 1 |

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, VisEra and others, and then recognized such gains/losses (classified under non-operating gains and losses) over the depreciable lives of the disposed assets.

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

| Financing Name | Maximum Balance | Nine Months Ended September 30, 2012 | | | Interest Payable |
|----------------|-----------------|--------------------------------------|---------------|------------------|------------------|
| | | Ending Balance | Interest Rate | Interest Expense | |
| TSMC Global | \$ 5,862,000 | \$ - | 0.3911% | \$ 4,870 | \$ - |

| Financing Name | Maximum Balance | Nine Months Ended September 30, 2011 | | | Interest Payable |
|----------------|-----------------|--------------------------------------|---------------|------------------|------------------|
| | | Ending Balance | Interest Rate | Interest Expense | |
| TSMC Global | \$ 24,684,000 | \$ 10,693,900 | 0.3544% | \$ 19,771 | \$ 20,398 |

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 December 2012 to July 2032 and can be renewed upon expiration.

As of September 30, 2012, future lease payments were as follows:

| Year | Amount |
|--------------------------------|---------------------|
| 2012 (4 th quarter) | \$ 128,258 |
| 2013 | 485,239 |
| 2014 | 468,057 |
| 2015 | 457,737 |
| 2016 | 447,573 |
| 2017 and thereafter | 4,066,307 |
| | \$ 6,053,171 |

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of September 30, 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

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

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- 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 of the case 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. Both parties also signed the research and development funding agreement and the Company will provide EUR277,000 thousand to ASML's research and development programs from 2013 to 2017.

27. SPIN-OFF BUSINESS INFORMATION

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

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

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

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

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

| | September 30 | | | |
|---|-----------------------|---------------|-----------------------|---------------|
| | 2012 | | 2011 | |
| | Foreign Currencies | Exchange Rate | Foreign Currencies | Exchange Rate |
| | (In Thousands) | (Note) | (In Thousands) | (Note) |
| <u>Financial assets</u> | | | | |
| Monetary items | | | | |
| USD | \$ 2,377,871 | 29.31 | \$ 1,785,057 | 30.554 |
| EUR | 72,500 | 37.82 | 125,219 | 41.56 |
| JPY | 9,536,181 | 0.3776 | 21,473,431 | 0.3996 |
| Non-monetary items | | | | |
| HKD | 429,815 | 3.78 | 697,902 | 3.92 |
| Investments accounted for using equity method | | | | |
| USD | 3,145,905 | 29.31 | 2,964,545 | 30.554 |
| EUR | 5,900 | 37.82 | 5,046 | 41.56 |
| JPY | 425,844 | 0.3776 | 414,489 | 0.3996 |
| RMB | 3,535,149 | 4.62 | 1,765,780 | 4.81 |
| <u>Financial liabilities</u> | | | | |
| Monetary items | | | | |
| USD | 1,905,536 | 29.31 | 1,909,980 | 30.554 |
| EUR | 84,527 | 37.82 | 127,408 | 41.56 |
| JPY | 30,136,800 | 0.3776 | 22,731,973 | 0.3996 |

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 or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- e.

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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;

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- 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 nine months ended September 30, 2012 to manage exposures due to foreign exchange rate fluctuations. No forward exchange contract was outstanding as of September 30, 2012

For the nine months ended September 30, 2012, net losses arising from forward exchange contracts of TSMC China amounted to NT\$1,225 thousand.

2) Xintec

Xintec entered into forward exchange contracts during the nine months ended September 30, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of September 30, 2012 consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------|-------------------------------|---|
| Sell US\$/Buy NT\$ | October 2012 to December 2012 | US\$21,190/NT\$630,894 |

For the nine months ended September 30, 2012, net gains arising from forward exchange contracts of Xintec amounted to NT\$15,051 thousand.

3) TSMC Partners

TSMC Partners entered into forward exchange contracts during the nine months ended September 30, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of September 30, 2012 consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|-------------------|----------------------|---|
| Sell RMB/Buy US\$ | October 2012 | RMB685,056/US\$108,000 |

For the nine months ended September 30, 2012, net losses arising from forward exchange contracts of TSMC Partners amounted to NT\$56,096 thousand.

4) TSMC Solar

TSMC Solar entered into derivative contracts during the nine months ended September 30, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of September 30, 2012 consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------|-------------------------------|---|
| Sell NT\$/Buy US\$ | October 2012 to November 2012 | NT\$380,532/US\$12,700 |
| Sell NT\$/Buy JPY | October 2012 | NT\$23,915/JPY63,000 |
| Sell NT\$/Buy EUR | October 2012 | NT\$7,684/EUR200 |

Outstanding cross currency swap contracts as of September 30, 2012 consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|----------------------|---|---|---|
| October 2012 | NT\$833,013/US\$28,280 | - | 0.04%-0.05% |

For the nine months ended September 30, 2012, net losses arising from derivative financial instruments of TSMC Solar amounted to NT\$24,531 thousand.

5) TSMC SSL

TSMC SSL entered into derivative contracts during the nine months ended September 30, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contracts as of September 30, 2012 consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------|-------------------------------|---|
| Sell NT\$/Buy US\$ | October 2012 | NT\$68,880/US\$2,300 |
| Sell NT\$/Buy JPY | October 2012 to November 2012 | NT\$125,102/JPY330,000 |

No cross currency swap contract was outstanding as of September 30, 2012

For the nine months ended September 30, 2012, net losses arising from derivative financial instruments of TSMC SSL amounted to NT\$6,470 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 nine months ended September 30, 2012, the adjustment for current period 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 derivative contracts during the nine months ended September 30, 2012 to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction. Outstanding forward exchange contracts as of September 30, 2012 consisted of the following:

| | | Maturity Date | Contract Amount (In Thousands) | |
|-------------------|--|---------------|-----------------------------------|--|
| Sell US\$/Buy EUR | | October 2012 | US\$257,759/EUR200,000 | |

| Hedged Item | Hedging Financial Instrument | Fair Value September 30, 2012 | Expected Cash Flow Generated Period | Expected Timing for the Recognition of Gains or Losses from Hedge |
|-----------------------------|------------------------------|-------------------------------------|---|---|
| Expected equity transaction | Forward exchange contract | \$28,189 | 2012 | 2015 and thereafter |

For the nine months ended September 30, 2012, the adjustment for current period to shareholder's equity accounted to a net gain of NT\$28,189 thousand for the above TSMC Global's forward exchange contract.

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 management on October 23, 2012.

TABLE 1**Taiwan Semiconductor Manufacturing Company Limited and Investees****FINANCINGS PROVIDED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Financing Company | Counter-party | Financial Statement Account | Maximum Balance for the Period (US\$ in Thousands) (Note 4) | Ending Balance (US\$ in Thousands) (Note 4) | Amount Actually Drawn (US\$ in Thousands) | Interest Rate | Nature of Financing | Transaction Amounts | Reason for Financing | Collateral | | | Financing Limits for Each Borrowing Company | Financing Company Total Financing Amount Limits (Note 3) |
|-------------------|---------------|--|---|---|---|---------------|-----------------------------------|---------------------|---|------------------------|------|-----------|---|--|
| | | | | | | | | | | Allowance for Bad Debt | Debt | Net Value | | |
| TSMC Partners | TSMC China | Other receivables from related parties | \$ 7,327,500 (US\$ 250,000) | \$ 7,327,500 (US\$ 250,000) | \$ 5,275,800 (US\$ 180,000) | 0.25%-0.26% | The need for short-term financing | \$ - | Purchase equipment | \$ - | - | \$ - | \$ 38,059,496 (Note 1) | \$ 38,059,496 |
| | TSMC Solar | Other receivables from related parties | 1,172,400 (US\$ 40,000) | - | - | - | The need for short-term financing | - | Operating capital | - | - | - | 15,223,798 (Note 1) | 38,059,496 |
| | TSMC SSL | Other receivables from related parties | 879,300 (US\$ 30,000) | 879,300 (US\$ 30,000) | - | - | The need for short-term financing | - | Operating capital | - | - | - | 15,223,798 (Note 1) | 38,059,496 |
| TSMC Development | TSMC Solar | Other receivables from related parties | 2,344,800 (US\$ 80,000) | 2,344,800 (US\$ 80,000) | 1,099,125 (US\$ 37,500) | 0.21% | The need for short-term financing | - | Operating capital | - | - | - | 5,111,393 (Notes 1 and 5) | 12,778,496 (Note 1) |
| TSMC Global | TSMC | Other receivables from related parties | 5,862,000 (US\$ 200,000) | - | - | - | The need for short-term financing | - | Support the parent company's short-term operation requirement | - | - | - | 43,089,715 (Note 2) | 43,089,715 |

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 reviewed financial statements in accordance with local accounting principles.

TABLE 2**Taiwan Semiconductor Manufacturing Company Limited and Investees****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | September 30, 2012 | | Market Value or Net Asset Value (Foreign Currencies in Thousands) | Note |
|-------------------|---|--|---|-----------------------------|--|-----------------------------|---|------|
| | | | | | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | | |
| TSMC | <u>Corporate bond</u> | | | | | | | |
| | Nan Ya Plastics Corporation | - | Held-to-maturity financial assets | - | \$ 1,099,841 | N/A | \$ 1,111,222 | |
| | China Steel Corporation | - | | - | 301,865 | N/A | 303,185 | |
| | <u>Stock</u> | | | | | | | |
| | Semiconductor Manufacturing International Corporation | - | Available-for-sale financial assets | 1,508,122 | 1,624,700 | 5 | 1,624,700 | |
| | TSMC Global | Subsidiary | Investments accounted for using equity method | 1 | 43,089,715 | 100 | 43,089,715 | |
| | TSMC Partners | Subsidiary | | 988,268 | 38,058,989 | 100 | 38,059,496 | |
| | VIS | Investee accounted for using equity method | | 628,223 | 9,161,979 | 41 | 11,370,845 | |
| | TSMC Solar | Subsidiary | | 1,118,000 | 8,045,131 | 99 | 8,032,665 | |
| | SSMC | Investee accounted for using equity method | | 314 | 6,253,232 | 39 | 6,039,249 | |
| | TSMC North America | Subsidiary | | 11,000 | 3,164,974 | 100 | 3,164,974 | |
| | TSMC SSL | Subsidiary | | 430,400 | 2,822,776 | 95 | 2,822,776 | |
| | Xintec | Investee with a controlling financial interest | | 94,950 | 1,573,654 | 40 | 1,573,654 | |
| | GUC | Investee accounted for using equity method | | 46,688 | 1,177,159 | 35 | 5,439,136 | |
| | TSMC Europe | Subsidiary | | - | 223,125 | 100 | 223,125 | |
| | TSMC Japan | Subsidiary | | 6 | 160,799 | 100 | 160,799 | |
| | TSMC Korea | Subsidiary | | 80 | 24,805 | 100 | 24,805 | |
| | United Industrial Gases Co., Ltd. | - | Financial assets carried at cost | 19,300 | 193,584 | 10 | 359,925 | |

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| | | | | | | | |
|----------------|-------------------------------------|--|---|--------|------------|-----|------------|
| | Shin-Etsu Handotai Taiwan Co., Ltd. | - | | 10,500 | 105,000 | 7 | 337,945 |
| | W.K. Technology Fund IV | - | | 4,000 | 40,000 | 2 | 35,545 |
| Fund | | | | | | | |
| | Horizon Ventures Fund | - | Financial assets carried at cost | - | 89,916 | 12 | 89,916 |
| | Crimson Asia Capital | - | | - | 55,259 | 1 | 55,259 |
| Capital | | | | | | | |
| | TSMC China | Subsidiary | Investments accounted for using equity method | - | 16,309,653 | 100 | 16,332,387 |
| | VTAF III | Subsidiary | | - | 1,056,641 | 50 | 1,034,689 |
| | VTAF II | Subsidiary | | - | 654,685 | 98 | 648,615 |
| | Emerging Alliance | Subsidiary | | - | 169,756 | 99 | 169,756 |
| | TSMC GN | Subsidiary | | - | 71,723 | 100 | 71,723 |
| TSMC Solar | Stock | | | | | | |
| | Motech | Investee accounted for using equity method | Investments accounted for using equity method | 87,480 | 4,452,514 | 20 | 2,975,843 |
| | TSMC Solar Europe | Subsidiary | | - | 100,243 | 100 | 100,243 |
| | TSMC Solar NA | Subsidiary | | 1 | (736) | 100 | (736) |
| Capital | | | | | | | |
| | VTAF III | Investee accounted for using equity method | Investments accounted for using equity method | - | 1,627,669 | 49 | 1,627,669 |

(Continued)

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| | | | | | | | | September 30, 2012 | |
|-----------------------|---|---|--|-------------------|---|------------------------|---|---|------|
| Held Company | Marketable | Relationship | Financial | | | | | Market Value or | |
| Name | Securities Type | with the | Statement | Shares/Units | Carrying Value | Percentage | Market Value or | Net Asset Value | Note |
| | and Name | Company | Account | (In Thousands) | (Foreign Currencies in Thousands) | of Ownership (%) | (Foreign Currencies in Thousands) | (Foreign Currencies in Thousands) | |
| TSMC SSL | <u>Stock</u> TSMC Lighting NA | Subsidiary | Investments accounted for using equity method | 1 | \$ 2,890 | 100 | \$ 2,890 | | |
| TSMC GN | <u>Stock</u> TSMC Solar | Investee accounted for using equity method | Investments accounted for using equity method | 4,302 | 30,909 | - | 30,909 | | |
| | TSMC SSL | Investee accounted for using equity method | | 4,680 | 30,691 | 1 | 30,691 | | |
| TSMC Partners | <u>Corporate bond</u> General Elec Cap Corp. Mtn | - | Held-to-maturity financial assets | - | US\$ 19,995 | N/A | US\$ 20,046 | | |
| | <u>Stock</u> TSMC Development, Inc. (TSMC Development) | Subsidiary | Investments accounted for using equity method | 1 | US\$ 581,920 | 100 | US\$ 581,920 | | |
| | VisEra Holding Company | Investee accounted for using equity method | | 43,000 | US\$ 99,406 | 49 | US\$ 99,406 | | |
| | TSMC Technology | Subsidiary | | 1 | US\$ 11,532 | 100 | US\$ 11,532 | | |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | Subsidiary | | 14,153 | US\$ 8,672 | 97 | US\$ 8,672 | | |
| | InveStar Semiconductor Development Fund, Inc. (ISDF) | Subsidiary | | 787 | US\$ 6,336 | 97 | US\$ 6,336 | | |
| | TSMC Canada | Subsidiary | | 2,300 | US\$ 4,554 | 100 | US\$ 4,554 | | |
| | 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\$ 3,216 | - | US\$ 3,216 | | |
| TSMC Development | <u>Corporate bond</u> GE Capital Corp. | - | | - | US\$ 19,993 | N/A | US\$ 20,046 | | |

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| | | Held-to-maturity financial assets | | | | | |
|--------------------------|---|-----------------------------------|---|-------------|--------------|-------------|--------------|
| | JP Morgan Chase & Co. | - | - | US\$ 15,000 | N/A | US\$ 15,006 | |
| Stock | | | | | | | |
| | WaferTech | Subsidiary | Investments accounted for using equity method | 293,640 | US\$ 290,054 | 100 | US\$ 290,054 |
| Emerging Alliance | | | | | | | |
| <u>Common stock</u> | | | | | | | |
| | Audience, Inc. | - | Available-for-sale financial assets | 46 | US\$ 286 | - | US\$ 286 |
| | 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 | 319 | US\$ 1,976 | 2 | US\$ 1,976 |
| | 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 | Shares/Units (In Thousands) | September 30, 2012 | | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | Note |
|----------------------|---|-------------------------------------|---|-----------------------------------|---|--|--------------------------------------|---|------|
| | | | | | Carrying 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 | |
| | Power Analog Microelectronics | - | | 7,330 | US\$ 3,483 | | 21 | US\$ 3,483 | |
| | QST Holdings, LLC | - | | - | US\$ 593 | | 13 | US\$ 593 | |
| | <u>Capital</u> | | | | | | | | |
| | VTA Holdings | Subsidiary | Investments accounted for using equity method | - | - | | 31 | - | |
| VTAF III | <u>Common stock</u> | | | | | | | | |
| | Mutual-Pak Technology Co., Ltd. | Subsidiary | Investments accounted for using equity method | 14,168 | US\$ 1,373 | | 58 | US\$ 1,373 | |
| | InvenSense, Inc. | - | Available-for-sale financial assets | 93 | US\$ 1,115 | | - | US\$ 1,115 | |
| | 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. | - | | 4,031 | US\$ 4,810 | | 4 | US\$ 4,810 | |
| | Powervation, Ltd. | - | | 449 | US\$ 7,030 | | 16 | US\$ 7,030 | |
| | Stion Corp. | - | | 8,152 | US\$ 55,474 | | 17 | US\$ 55,474 | |
| | Tilera, Inc. | - | | 3,890 | US\$ 3,025 | | 2 | US\$ 3,025 | |
| | Validity Sensors, Inc. | - | | 9,340 | US\$ 3,456 | | 4 | US\$ 3,456 | |
| | <u>Capital</u> | | | | | | | | |
| | Growth Fund Limited (Growth Fund) | Subsidiary | Investments accounted for using equity method | - | US\$ 424 | | 100 | US\$ 424 | |
| | VTA Holdings | Subsidiary | | - | - | | 62 | - | |
| Growth Fund | <u>Common stock</u> | | | | | | | | |
| | Veebeam | - | Financial assets carried at cost | 10 | US\$ 25 | | - | US\$ 25 | |
| ISDF | <u>Common stock</u> | | | | | | | | |

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| | | | | | | | | | |
|---------|---------------------------------|---|-------------------------------------|-------|------|-------|----|------|-------|
| | Integrated Memory Logic, Inc. | - | Available-for-sale financial assets | 1,402 | US\$ | 4,772 | 2 | US\$ | 4,772 |
| | Memsic, Inc. | - | | 1,286 | US\$ | 2,044 | 5 | US\$ | 2,044 |
| | <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\$ | 1,705 | 4 | US\$ | 1,705 |
| | 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. | - | | 1,049 | US\$ | 223 | 3 | US\$ | 223 |
| | <u>Preferred stock</u> | | | | | | | | |
| | Sonics, Inc. | - | Financial assets carried at cost | 264 | US\$ | 455 | 3 | US\$ | 455 |

(Continued)

| Held Company Name | Marketable | | September 30, 2012 | | | | Market Value or Net Asset Value (Foreign Currencies in Thousands) | Note |
|-------------------|--|-------------------------------|---|-----------------------------|--|-----------------------------|---|------|
| | Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | | |
| Xintec | <u>Capital</u> Compositech Ltd. | - | Financial assets carried at cost | 587 | \$ - | 3 | \$ - | |
| TSMC Solar Europe | <u>Stock</u> TSMC Solar Europe GmbH | Subsidiary | Investments accounted for using equity method | 1 | EUR 2,554 | 100 | EUR 2,554 | |
| TSMC Global | <u>Corporate bond</u> Aust + Nz Banking Group | - | Held-to-maturity financial assets | 20,000 | US\$ 20,000 | N/A | US\$ 20,041 | |
| | Commonwealth Bank of Australia | - | | 25,000 | US\$ 25,000 | N/A | US\$ 24,871 | |
| | Commonwealth Bank of Australia | - | | 25,000 | US\$ 25,000 | N/A | US\$ 24,935 | |
| | Deutsche Bank AG London | - | | 20,000 | US\$ 19,970 | N/A | US\$ 20,085 | |
| | JP Morgan Chase + Co. | - | | 35,000 | US\$ 35,016 | N/A | US\$ 35,108 | |
| | Westpac Banking Corp. | - | | 25,000 | US\$ 25,000 | N/A | US\$ 24,972 | |
| | Westpac Banking Corp. 12/12 Frn | - | | 5,000 | US\$ 5,000 | N/A | US\$ 5,003 | |

(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 NINE MONTHS ENDED SEPTEMBER 30, 2012

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

| Marketable Securities and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Share/Units (In Thousands) | Disposal (Note 1) | | | Ending Balance |
|---------------------------------------|---|---------------|------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|------------------------------------|---|----------------|
| | | | | Shares/Units (In Thousands) | Amount (US\$ in Thousands) | Shares/Units (In Thousands) | Amount (US\$ in Thousands) | | Amount (US\$ in Thousands) | Carrying Value (US\$ in Thousands) | Gain/Loss on Disposal (US\$ in Thousands) | |
| semiconductor manufacturing operation | Available-for-sale financial assets | - | - | 1,789,493 | \$ 2,617,134 | - | \$ - | 281,371 | \$ 314,159 | \$ 276,236 | \$ 37,923 | 1,508,122 |
| SSL | Investments accounted for using equity method | - | Subsidiary | 227,000 | 1,746,893 | 203,400 | 2,034,000 | - | - | - | - | 430,400 |
| GN | Investments accounted for using equity method | - | Subsidiary | - | - | - | 100,000 | - | - | - | - | - |
| se, nse, | Available-for-sale financial assets | - | - | 796 | US\$ 7,932 | - | - | 703 | US\$ 7,460 | US\$ 861 | US\$ 6,599 | 93 |

Note 1: The data for marketable securities disposed exclude bonds maturities.

Note 2: The ending balance includes translation adjustments, equity in earnings/losses of equity method investees and other adjustments to long-term investments accounted for using equity method.

TABLE 4**Taiwan Semiconductor Manufacturing Company Limited and Investees****ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 Transfer | | | | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|-------------------|---|--------------------|------------------------------|----------------------------------|-------------------------|---|---------------|------|--------|-----------------|------------------------|-------------|
| | | | | | | | Owner | Relationships | Date | Amount | | | |
| SMC | Fab | February 7, 2012 to September 27, 2012 | \$ 150,713 | 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 September 27, 2012 | 124,159 | 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 September 26, 2012 | 3,614,272 | 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 September 27, 2012 | 1,481,350 | 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 September 27, 2012 | 1,943,723 | 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 September 27, 2012 | 279,434 | By the construction progress | Tasa Construction Corporation | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |

TABLE 5**Taiwan Semiconductor Manufacturing Company Limited and Investees****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Company Name | Related Party | Nature of Relationships | Purchases/ Sales | Transaction Details | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | Note |
|--------------------|--------------------|--|---------------------|-------------------------------|------------------|-----------------------------------|----------------------|-------------------------|---|------------------|------|
| | | | | Amount (US\$ in Thousands) | % to Total | Payment Terms | Unit Price (Note) | Payment Terms (Note) | Ending Balance (US\$ in Thousands) | % to Total | |
| TSMC | TSMC North America | Subsidiary | Sales | \$ 238,620,510 | 63 | Net 30 days after invoice date | - | - | \$ 43,302,832 | 67 | |
| | GUC | Investee accounted for using equity method | Sales | 3,653,307 | 1 | Net 30 days after monthly closing | - | - | 818,780 | 1 | |
| | VIS | Investee accounted for using equity method | Sales | 139,247 | - | Net 30 days after monthly closing | - | - | - | - | |
| | TSMC China | Subsidiary | Purchases | 11,401,736 | 26 | Net 30 days after monthly closing | - | - | (1,593,552) | 10 | |
| | WaferTech | Indirect subsidiary | Purchases | 6,009,695 | 14 | Net 30 days after monthly closing | - | - | (716,484) | 4 | |
| | VIS | Investee accounted for using equity method | Purchases | 3,295,850 | 8 | Net 30 days after monthly closing | - | - | (382,552) | 2 | |
| | SSMC | Investee accounted for using equity method | Purchases | 2,759,305 | 6 | Net 30 days after monthly closing | - | - | (377,033) | 2 | |
| TSMC North America | GUC | Investee accounted for using equity method by TSMC | Sales | 415,797 | - | Net 30 days after invoice date | - | - | 34,139 | - | |
| | | | | (US\$ 13,989) | | | | | (US\$ 1,165) | | |
| | Mcube Inc. | Investee accounted for | Sales | 123,926 | - | Net 60 days | - | - | 71,948 | - | |

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| | | using equity method by TSMC | | (US\$ 4,169) | | after invoice date | | (US\$ 2,455) | |
|--------|------------|---|-------|--------------|----|-----------------------------------|---|--------------|------------|
| Xintec | OmniVision | Parent company of director (represented for Xintec) | Sales | 950,178 | 40 | Net 30 days after monthly closing | - | - | 242,205 42 |

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

TABLE 6

Taiwan Semiconductor Manufacturing Company Limited and Investees

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

SEPTEMBER 30, 2012

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

| Company Name | Related Party | Nature of Relationships | Ending Balance | Turnover | Amount | Overdue | Amounts Received | Allowance for Bad Debts |
|------------------|--------------------|---|---------------------|----------|---------------|--------------|----------------------|-------------------------|
| | | | (US\$ in Thousands) | Days | | Action Taken | in Subsequent Period | |
| TSMC | TSMC North America | Subsidiary | \$ 43,381,075 | 39 | \$ 16,828,556 | - | \$ 17,035,623 | \$ - |
| | GUC | Investee accounted for using equity method | 818,780 | 35 | - | - | - | - |
| | VIS | Investee accounted for using equity method | 102,169 | (Note 2) | - | - | - | - |
| TSMC Partners | TSMC China | The same parent company | 5,298,835 | (Note 2) | - | - | - | - |
| | | | (US\$ 180,786) | | | | | |
| TSMC Development | TSMC Solar | The same parent company | 1,099,157 | (Note 2) | - | - | - | - |
| | | | (US\$ 37,501) | | | | | |
| Xintec | OmniVision | Parent company of director (represented for Xintec) | 242,205 | 70 | - | - | - | - |
| TSMC Technology | TSMC | Parent company | 169,554 | (Note 2) | - | - | - | - |
| | | | (US\$ 5,785) | | | | | |
| WaferTech | TSMC | Parent company | 716,484 | 26 | - | - | - | - |
| | | | (US\$ 24,445) | | | | | |

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

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

TABLE 7**Taiwan Semiconductor Manufacturing Company Limited and Investees****NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of September 30, 2012 | | | Carrying Value (Foreign Currencies in Thousands) | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands) |
|--------------------|---------------------------------|---|--|---|----------------------------------|-------------------------|---------------|--|---|--|
| | | | September 30, 2012 (Foreign Currencies in Thousands) | December 31, 2011 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | | | | |
| TSMC Global | Tortola, British Virgin Islands | Investment activities | \$ 42,327,245 | \$ 42,327,245 | 1 | 100 | \$ 43,089,715 | \$ 418,578 | \$ 418,578 | |
| 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 | 38,058,989 | 4,276,782 | 4,276,275 | |
| 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 | 16,309,653 | 3,342,620 | 3,360,919 | |
| 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 | 41 | 9,161,979 | 1,591,018 | 475,957 | |
| 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 | 8,045,131 | (1,992,115) | (2,039,091) | |
| SSMC | Singapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 6,253,232 | 3,389,373 | 1,314,751 | |
| 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 | 3,164,974 | 254,278 | 254,278 | |
| 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 | 2,822,776 | (1,035,798) | (988,095) | |

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| | | | | | | | | | | |
|-------------------|----------------------------|---|-----------|-----------|--------|-----|-----------|-------------|----------|----|
| Xintec | Taoyuan, Taiwan | Wafer level chip size packaging service | 1,357,890 | 1,357,890 | 94,950 | 40 | 1,573,654 | (30,286) | (25,126) | In |
| GUC | Hsin-Chu, Taiwan | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,177,159 | 479,412 | 161,700 | In |
| VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,891,163 | 2,074,155 | - | 50 | 1,056,641 | 139,456 | 141,658 | Su |
| VTAF II | Cayman Islands | Investing in new start-up technology companies | 821,890 | 949,267 | - | 98 | 654,685 | 53,204 | 52,140 | Su |
| TSMC Europe | Amsterdam, the Netherlands | Marketing and engineering supporting activities | 15,749 | 15,749 | - | 100 | 223,125 | 25,780 | 25,780 | Su |
| Emerging Alliance | Cayman Islands | Investing in new start-up technology companies | 860,889 | 892,855 | - | 99 | 169,756 | (7,667) | (7,628) | Su |
| TSMC Japan | Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 160,799 | 4,193 | 4,193 | Su |
| TSMC GN | Taipei, Taiwan | Investment activities | 100,000 | - | - | 100 | 71,723 | (16,617) | (16,617) | Su |
| TSMC Korea | Seoul, Korea | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 24,805 | 1,169 | 1,169 | Su |
| 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 | 4,452,514 | (3,995,140) | Note 2 | In |
| VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,800,466 | 1,795,131 | - | 49 | 1,627,669 | 139,456 | Note 2 | In |
| TSMC Solar Europe | Amsterdam, the Netherlands | Investing in solar related business | 411,032 | 411,032 | - | 100 | 100,243 | (97,325) | Note 2 | Su |
| TSMC Solar NA | Delaware, U.S.A. | Selling and marketing of solar related products | 147,686 | 147,686 | 1 | 100 | (736) | (51,960) | Note 2 | Su |

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| | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of September 30, 2012 | | | | Carrying Value (Foreign Currencies in Thousands) | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands) |
|--------|---------------------------------|--------------------|--|--|---|----------------------------------|-------------------------|--------------|--------------|--|---|--|
| | | | | September 30, 2012 (Foreign Currencies in Thousands) | December 31, 2011 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | | | | | |
| | TSMC Lighting NA | Delaware, U.S.A. | Selling and marketing of solid state lighting related products | \$ 3,133 | \$ 3,133 | 1 | 100 | \$ 2,890 | \$ (7) | Note 2 | See Note 2 | |
| ers | TSMC Development | Delaware, U.S.A. | Investment activities | US\$ 0.001 | US\$ 0.001 | 1 | 100 | US\$ 581,920 | US\$ 121,886 | Note 2 | See Note 2 | |
| | VisEra Holding Company | Cayman Islands | Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry | US\$ 43,000 | US\$ 43,000 | 43,000 | 49 | US\$ 99,406 | US\$ 20,894 | Note 2 | In accordance with management | |
| | TSMC Technology | Delaware, U.S.A. | Engineering support activities | US\$ 0.001 | US\$ 0.001 | 1 | 100 | US\$ 11,532 | US\$ 917 | Note 2 | See Note 2 | |
| | ISDF II | Cayman Islands | Investing in new start-up technology companies | US\$ 14,153 | US\$ 14,153 | 14,153 | 97 | US\$ 8,672 | US\$ (105) | Note 2 | See Note 2 | |
| | ISDF | Cayman Islands | Investing in new start-up technology companies | US\$ 787 | US\$ 787 | 787 | 97 | US\$ 6,336 | US\$ 2,508 | Note 2 | See Note 2 | |
| | TSMC Canada | Ontario, Canada | Engineering support activities | US\$ 2,300 | US\$ 2,300 | 2,300 | 100 | US\$ 4,554 | US\$ 317 | Note 2 | See Note 2 | |
| | Mcube Inc. | Delaware, U.S.A. | Research, development, and sale of micro-semiconductor device | US\$ 1,800 | US\$ 1,800 | 6,333 | 25 | - | US\$ (9,715) | Note 2 | In accordance with management | |
| | WaferTech | Washington, U.S.A. | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | US\$ 280,000 | US\$ 280,000 | 293,640 | 100 | US\$ 290,054 | US\$ 120,398 | Note 2 | See Note 2 | |
| | Mutual-Pak Technology Co., Ltd. | Taipei, Taiwan | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | US\$ 4,718 | US\$ 3,937 | 14,168 | 58 | US\$ 1,373 | US\$ (981) | Note 2 | See Note 2 | |
| | Growth Fund | Cayman Islands | Investing in new start-up technology companies | US\$ 1,830 | US\$ 1,830 | - | 100 | US\$ 424 | US\$ (86) | Note 2 | See Note 2 | |
| | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 62 | - | - | Note 2 | See Note 2 | |
| | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 31 | - | - | Note 2 | See Note 2 | |
| liance | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 7 | - | - | Note 2 | See Note 2 | |
| | TSMC Solar Europe GmbH | Hamburg, Germany | Selling of solar related products and providing customer service | EUR 9,900 | EUR 9,900 | 1 | 100 | EUR 2,554 | EUR (2,548) | Note 2 | See Note 2 | |
| | TSMC Solar | Tai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling | 43,022 | - | 4,302 | - | 30,909 | (1,992,115) | Note 2 | In accordance with management | |

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| | | | | | | | | | | |
|----------|------------------|---|--------|---|-------|---|--------|-------------|--------|------------|
| | | renewable energy and saving related technologies and products | | | | | | | | |
| TSMC SSL | Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 46,825 | - | 4,680 | 1 | 30,691 | (1,035,798) | Note 2 | In ac us m |

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

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

(Concluded)

TABLE 8**Taiwan Semiconductor Manufacturing Company Limited and Investees****INFORMATION ON INVESTMENT IN MAINLAND CHINA****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012**

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

| 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 September 30, 2012 (US\$ in Thousands) | Percentage of Ownership | Equity in the Earnings (Losses) | Carrying Value as of September 30, 2012 (US\$ in Thousands) |
|-----------|---|--|-------------------------|---|------------------|--|---|----------------------------|--|---|
| | | | | Outflow | Inflow | Equity in the Earnings (Losses) | | | | |
| | 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% | \$ 3,360,919 (Note 3) | \$ 16,309,653 |
| den al | 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) | 146,550 (US\$ 5,000) |

**Accumulated Investment
in Mainland China**

| as of September 30, 2012 (US\$ in Thousands) | Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands) | Upper Limit on Investment (US\$ in Thousands) |
|--|---|--|
| \$ 19,087,152 | \$ 19,087,152 | \$ 19,087,152 |
| (US\$ 601,000) | (US\$ 601,000) | (US\$ 601,000) |

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

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

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

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

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Taiwan Semiconductor Manufacturing

Company Limited and Subsidiaries

Consolidated Financial Statements for the

Nine Months Ended September 30, 2012 and 2011 and

Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have reviewed the accompanying consolidated balance sheets of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

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

October 23, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

| | 2012 | | 2011 | |
|---|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 138,738,113 | 16 | \$ 114,836,459 | 16 |
| Financial assets at fair value through profit or loss (Notes 2, 5 and 26) | 58,690 | - | 606,492 | - |
| Available-for-sale financial assets (Notes 2, 6 and 26) | 2,067,730 | - | 3,255,050 | - |
| Held-to-maturity financial assets (Notes 2, 7 and 26) | 6,854,611 | 1 | 1,566,469 | - |
| Hedging derivative financial assets (Notes 2, 11 and 26) | 28,189 | - | - | - |
| Receivables from related parties (Notes 3 and 27) | 925,245 | - | 578,676 | - |
| Notes and accounts receivable (Note 3) | 64,876,527 | 8 | 51,497,741 | 7 |
| Allowance for doubtful receivables (Notes 2, 3 and 8) | (489,590) | - | (490,973) | - |
| Allowance for sales returns and others (Notes 2 and 8) | (6,900,184) | (1) | (6,126,174) | (1) |
| Other receivables from related parties (Notes 3 and 27) | 157,144 | - | 133,899 | - |
| Other financial assets (Note 28) | 469,979 | - | 960,903 | - |
| Inventories (Notes 2 and 9) | 33,249,045 | 4 | 25,692,239 | 4 |
| Deferred income tax assets (Notes 2 and 20) | 2,650,432 | - | 1,093,295 | - |
| Prepaid expenses and other current assets | 2,639,414 | - | 3,332,485 | 1 |
| Total current assets | 245,325,345 | 28 | 196,936,561 | 27 |
| LONG-TERM INVESTMENTS (Notes 2, 7, 10, 12 and 26) | | | | |
| Investments accounted for using equity method | 23,958,462 | 3 | 24,864,502 | 3 |
| Held-to-maturity financial assets | 701,435 | - | 7,216,789 | 1 |
| Financial assets carried at cost | 3,981,251 | - | 4,392,806 | 1 |
| Total long-term investments | 28,641,148 | 3 | 36,474,097 | 5 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13 and 27) | | | | |
| Cost | | | | |
| Land and land improvements | 1,534,197 | - | 1,548,045 | - |
| Buildings | 195,773,774 | 22 | 170,322,976 | 23 |
| Machinery and equipment | 1,261,982,852 | 144 | 1,036,774,966 | 141 |
| Office equipment | 19,211,920 | 2 | 16,498,166 | 3 |
| Leased assets | 760,263 | - | 731,744 | - |
| | 1,479,263,006 | 168 | 1,225,875,897 | 167 |
| Accumulated depreciation | (965,627,433) | (110) | (850,006,367) | (116) |
| Advance payments and construction in progress | 66,444,314 | 8 | 97,083,692 | 13 |

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| | | | | |
|--|-----------------------|------------|-----------------------|------------|
| Net property, plant and equipment | 580,079,887 | 66 | 472,953,222 | 64 |
| INTANGIBLE ASSETS | | | | |
| Goodwill (Note 2) | 5,560,762 | 1 | 5,730,237 | 1 |
| Deferred charges, net (Notes 2 and 14) | 5,328,092 | - | 5,133,989 | 1 |
| Total intangible assets | 10,888,854 | 1 | 10,864,226 | 2 |
| OTHER ASSETS | | | | |
| Deferred income tax assets, net (Notes 2 and 20) | 10,137,266 | 1 | 11,281,440 | 1 |
| Refundable deposits (Note 27) | 2,331,966 | 1 | 4,716,699 | 1 |
| Others (Note 2) | 1,247,304 | - | 1,414,842 | - |
| Total other assets | 13,716,536 | 2 | 17,412,981 | 2 |
| TOTAL | \$ 878,651,770 | 100 | \$ 734,641,087 | 100 |

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

| | 2012 | | 2011 | |
|---|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 15) | \$ 29,749,650 | 3 | \$ 36,019,654 | 5 |
| Financial liabilities at fair value through profit or loss (Notes 2, 5 and 26) | 20,013 | - | 210,610 | - |
| Hedging derivative financial liabilities (Notes 2, 11 and 26) | - | - | 356 | - |
| Accounts payable | 13,773,108 | 2 | 9,163,393 | 1 |
| Payables to related parties (Note 27) | 783,253 | - | 1,361,191 | - |
| Income tax payable (Notes 2 and 20) | 10,855,245 | 1 | 7,692,817 | 1 |
| Accrued profit sharing to employees and bonus to directors and supervisors (Notes 2 and 22) | 8,654,015 | 1 | 6,985,989 | 1 |
| Payables to contractors and equipment suppliers | 32,785,881 | 4 | 21,179,608 | 3 |
| Accrued expenses and other current liabilities (Notes 13, 18, 26 and 30) | 22,306,318 | 3 | 21,219,689 | 3 |
| Current portion of bonds payable and long-term bank loans (Notes 16, 17 and 26) | 125,000 | - | 4,531,250 | 1 |
| Total current liabilities | 119,052,483 | 14 | 108,364,557 | 15 |
| LONG-TERM LIABILITIES | | | | |
| Bonds payable (Notes 16 and 26) | 75,600,000 | 9 | 18,000,000 | 3 |
| Long-term bank loans (Notes 17, 26 and 28) | 1,393,750 | - | 1,618,750 | - |
| Other long-term payables (Notes 18, 26 and 30) | 54,000 | - | - | - |
| Obligations under capital leases (Notes 2, 13 and 26) | 737,034 | - | 725,137 | - |
| Total long-term liabilities | 77,784,784 | 9 | 20,343,887 | 3 |
| OTHER LIABILITIES | | | | |
| Accrued pension cost (Notes 2 and 19) | 3,955,056 | - | 3,889,475 | - |
| Guarantee deposits | 229,212 | - | 512,224 | - |
| Others (Note 27) | 484,178 | - | 407,734 | - |
| Total other liabilities | 4,668,446 | - | 4,809,433 | - |
| Total liabilities | 201,505,713 | 23 | 133,517,877 | 18 |

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT

Capital stock - NT\$10 par value (Note 22)

Authorized: 28,050,000 thousand shares

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| | | | | |
|--|----------------|-----|----------------|-----|
| Issued: 25,922,047 thousand shares in 2012 | | | | |
| 25,915,149 thousand shares in 2011 | 259,220,476 | 30 | 259,151,492 | 35 |
| Capital surplus (Notes 2 and 22) | 56,074,435 | 6 | 55,689,739 | 8 |
| Retained earnings (Note 22) | | | | |
| Appropriated as legal capital reserve | 115,820,123 | 13 | 102,399,995 | 14 |
| Appropriated as special capital reserve | 7,606,224 | 1 | 6,433,874 | 1 |
| Unappropriated earnings | 245,605,674 | 28 | 181,838,097 | 25 |
| | 369,032,021 | 42 | 290,671,966 | 40 |
| Others | | | | |
| Cumulative translation adjustments (Note 2) | (10,052,181) | (1) | (5,586,618) | (1) |
| Unrealized gain/loss on financial instruments (Notes 2, 11 and 26) | 268,440 | - | (1,226,783) | - |
| Treasury stock: 1,000 thousand shares (Notes 2 and 24) | - | - | (71,598) | - |
| | (9,783,741) | (1) | (6,884,999) | (1) |
| Equity attributable to shareholders of the parent | 674,543,191 | 77 | 598,628,198 | 82 |
| MINORITY INTERESTS (Note 2) | 2,602,866 | - | 2,495,012 | - |
| Total shareholders equity | 677,146,057 | 77 | 601,123,210 | 82 |
| TOTAL | \$ 878,651,770 | 100 | \$ 734,641,087 | 100 |

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

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

| | 2012 | | 2011 | |
|---|----------------|-----|----------------|-----|
| | Amount | % | Amount | % |
| GROSS SALES (Notes 2 and 27) | \$ 381,406,692 | | \$ 325,782,899 | |
| SALES RETURNS AND ALLOWANCES (Notes 2 and 8) | 6,462,738 | | 3,413,421 | |
| NET SALES (Note 34) | 374,943,954 | 100 | 322,369,478 | 100 |
| COST OF SALES (Notes 9, 21 and 27) | 193,167,804 | 52 | 175,072,145 | 54 |
| GROSS PROFIT BEFORE AFFILIATES ELIMINATION | 181,776,150 | 48 | 147,297,333 | 46 |
| UNREALIZED GROSS PROFIT FROM AFFILIATES (Note 2) | (129,569) | - | - | - |
| GROSS PROFIT | 181,646,581 | 48 | 147,297,333 | 46 |
| OPERATING EXPENSES (Notes 21 and 27) | | | | |
| Research and development | 29,897,315 | 8 | 25,076,000 | 8 |
| General and administrative | 13,505,479 | 3 | 10,253,597 | 3 |
| Marketing | 3,441,269 | 1 | 3,340,375 | 1 |
| Total operating expenses | 46,844,063 | 12 | 38,669,972 | 12 |
| INCOME FROM OPERATIONS (Note 34) | 134,802,518 | 36 | 108,627,361 | 34 |
| NON-OPERATING INCOME AND GAINS | | | | |
| Equity in earnings of equity method investees, net (Notes 2 and 10) | 1,305,776 | 1 | 916,644 | - |
| Interest income | 1,294,864 | - | 1,011,613 | 1 |
| Gain on settlement and disposal of financial assets, net (Notes 2 and 26) | 449,060 | - | 204,810 | - |

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| | | | | |
|--|-----------|---|-----------|---|
| Settlement income (Note 30) | 448,275 | - | 492,870 | - |
| Technical service income (Note 27) | 356,461 | - | 325,194 | - |
| Foreign exchange gain, net (Note 2) | 208,125 | - | - | - |
| Valuation gain on financial instruments, net (Notes 2, 5 and 26) | 43,842 | - | 600,902 | - |
| Gain on disposal of property, plant and equipment and other assets (Notes 2 and 27) | 21,749 | - | 191,588 | - |
| Others | 481,489 | - | 628,659 | - |
| | | | | |
| Total non-operating income and gains | 4,609,641 | 1 | 4,372,280 | 1 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

| | 2012 | | 2011 | |
|---|-----------------------|-----------|-----------------------|-----------|
| | Amount | % | Amount | % |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Impairment loss of financial assets (Notes 2, 6, 12 and 26) | \$ 2,748,616 | 1 | \$ 104,981 | - |
| Interest expense | 685,418 | - | 420,714 | - |
| Impairment loss on idle assets (Note 2) | 422,323 | - | 68,629 | - |
| Loss on disposal of property, plant and equipment (Note 2) | 21,486 | - | 194,539 | - |
| Foreign exchange loss, net (Note 2) | - | - | 384,776 | - |
| Others (Note 2) | 227,760 | - | 298,944 | - |
| Total non-operating expenses and losses | 4,105,603 | 1 | 1,472,583 | - |
| INCOME BEFORE INCOME TAX | 135,306,556 | 36 | 111,527,058 | 35 |
| INCOME TAX EXPENSE (Notes 2 and 20) | 10,827,255 | 3 | 8,638,264 | 3 |
| NET INCOME | \$ 124,479,301 | 33 | \$ 102,888,794 | 32 |
| ATTRIBUTABLE TO: | | | | |
| Shareholders of the parent | \$ 124,589,534 | 33 | \$ 102,622,631 | 32 |
| Minority interests | (110,233) | - | 266,163 | - |
| | \$ 124,479,301 | 33 | \$ 102,888,794 | 32 |

| 2012 | | 2011 | |
|---|--|---|--|
| Income Attributable to Shareholders of the Parent Before Income Tax | Income Attributable to Shareholders of the Parent After Income Tax | Income Attributable to Shareholders of the Parent Before Income Tax | Income Attributable to Shareholders of the Parent After Income Tax |
| | | | |

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EARNINGS PER SHARE (NT\$, Note 25)

| | | | | | | | | |
|----------------------------|----|------|----|------|----|------|----|------|
| Basic earnings per share | \$ | 5.22 | \$ | 4.81 | \$ | 4.29 | \$ | 3.96 |
| Diluted earnings per share | \$ | 5.22 | \$ | 4.81 | \$ | 4.29 | \$ | 3.96 |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | 2012 | 2011 |
|---|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income attributable to shareholders of the parent | \$ 124,589,534 | \$ 102,622,631 |
| Net income (loss) attributable to minority interests | (110,233) | 266,163 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 95,144,291 | 79,939,775 |
| Unrealized gross profit from affiliates | 129,569 | - |
| Amortization of premium/discount of financial assets | 5,000 | 20,134 |
| Stock option compensation cost | 3,372 | - |
| Impairment loss of financial assets | 2,748,616 | 104,981 |
| Gain on disposal of available-for-sale financial assets, net | (321,580) | (185,381) |
| Gain on disposal of financial assets carried at cost, net | (127,480) | (19,429) |
| Equity in earnings of equity method investees, net | (1,305,776) | (916,644) |
| Cash dividends received from equity method investees | 2,088,472 | 2,848,141 |
| Loss (gain) on disposal of property, plant and equipment and other assets, net | (263) | 2,951 |
| Income from receiving equity securities | (886) | (155,548) |
| Impairment loss on idle assets | 422,323 | 68,629 |
| Deferred income tax | 260,686 | 487,181 |
| Changes in operating assets and liabilities: | | |
| Financial assets and liabilities at fair value through profit or loss | (37,059) | (407,998) |
| Receivables from related parties | (739,481) | (269,647) |
| Notes and accounts receivable | (18,555,287) | (1,549,391) |
| Allowance for doubtful receivables | (1,275) | (12,823) |
| Allowance for sales returns and others | 1,838,457 | (1,420,090) |
| Other receivables from related parties | (34,852) | (9,313) |
| Other financial assets | 148,267 | 104,434 |
| Inventories | (8,408,463) | 1,759,640 |
| Prepaid expenses and other current assets | (465,400) | (1,562,233) |
| Accounts payable | 1,855,503 | (2,778,661) |
| Payables to related parties | (559,968) | 495,248 |
| Income tax payable | 199,121 | 526,961 |
| Accrued profit sharing to employees and bonus to directors and supervisors | (427,278) | (4,020,898) |
| Accrued expenses and other current liabilities | 5,267,949 | (1,268,302) |
| Accrued pension cost | 46,548 | 79,882 |
| | | |
| Net cash provided by operating activities | 203,652,427 | 174,750,393 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | 2012 | 2011 |
|--|------------------|------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Property, plant and equipment | \$ (186,371,680) | \$ (184,191,039) |
| Available-for-sale financial assets | (4,434) | (34,741,877) |
| Financial assets carried at cost | (6,833) | (158,302) |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | 616,757 | 58,618,498 |
| Held-to-maturity financial assets | 1,278,089 | 4,539,000 |
| Financial assets carried at cost | 236,735 | 207,425 |
| Property, plant and equipment and other assets | 116,748 | 506,912 |
| Increase in deferred charges | (1,106,734) | (1,110,402) |
| Decrease in refundable deposits | 2,186,897 | 3,951,707 |
| Decrease in other assets | 8,259 | 1,759 |
| | | |
| Net cash used in investing activities | (183,046,196) | (152,376,319) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | 3,823,122 | 4,805,710 |
| Cash dividends | (77,748,668) | (77,730,236) |
| Proceeds from long-term bank loans | 50,000 | 2,250,000 |
| Repayment of long-term bank loans | (181,250) | (1,142,968) |
| Proceeds from issuance of bonds | 57,600,000 | 18,000,000 |
| Repayment of bonds | (4,500,000) | - |
| Decrease in obligations under capital leases | (124,923) | - |
| Decrease in other long-term payables | (2,367,866) | (890,000) |
| Decrease in guarantee deposits | (214,771) | (274,001) |
| Proceeds from exercise of employee stock options | 176,456 | 155,955 |
| Acquisition of treasury stock | - | (71,598) |
| Increase (decrease) in minority interests | 273,920 | (114,414) |
| | | |
| Net cash used in financing activities | (23,213,980) | (55,011,552) |

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| | | |
|--|----------------|----------------|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (2,607,749) | (32,637,478) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (2,126,415) | 1,059,563 |
| EFFECT OF CHANGES IN CONSOLIDATED ENTITIES | - | (1,472,581) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 143,472,277 | 147,886,955 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 138,738,113 | \$ 114,836,459 |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

| | 2012 | 2011 |
|--|----------------|----------------|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | \$ 683,003 | \$ 424,385 |
| Capitalized interest | (6,442) | (6,009) |
| Interest paid (excluding capitalized interest) | \$ 676,561 | \$ 418,376 |
| Income tax paid | \$ 10,355,944 | \$ 7,630,317 |
| INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS | | |
| Acquisition of property, plant and equipment | \$ 184,653,262 | \$ 162,427,539 |
| Decrease in payables to contractors and equipment suppliers | 1,718,487 | 21,764,853 |
| Nonmonetary exchange trade-out price | (69) | (1,353) |
| Cash paid | \$ 186,371,680 | \$ 184,191,039 |
| Acquisition of available-for-sale financial assets | \$ 4,434 | \$ 34,679,092 |
| Decrease in accrued expenses and other current liabilities | - | 62,785 |
| Cash paid | \$ 4,434 | \$ 34,741,877 |
| Disposal of available-for-sale financial assets | \$ 638,913 | \$ 58,690,351 |
| Increase in other financial assets | (22,156) | (71,853) |
| Cash received | \$ 616,757 | \$ 58,618,498 |
| Disposal of property, plant and equipment and other assets | \$ 116,817 | \$ 508,265 |
| Nonmonetary exchange trade-out price | (69) | (1,353) |
| Cash received | \$ 116,748 | \$ 506,912 |

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| | | | | |
|---|----|-----------|----|-----------|
| Acquisition of deferred charges | \$ | 1,614,959 | \$ | 1,110,402 |
| Increase in accounts payable | | (350,960) | | - |
| Increase in payables to related parties | | (14,700) | | - |
| Increase in other long-term payables | | (142,565) | | - |
| Cash paid | \$ | 1,106,734 | \$ | 1,110,402 |

NON-CASH INVESTING AND FINANCING ACTIVITIES

| | | | | |
|--|----|---------|----|-----------|
| Idle assets reclassified from property, plant and equipment | \$ | 422,323 | \$ | 68,629 |
| Current portion of other long-term payables (under accrued expenses and other current liabilities) | \$ | 906,671 | \$ | 7,275,104 |
| Current portion of bonds payable | \$ | - | \$ | 4,500,000 |
| Current portion of long-term bank loans | \$ | 125,000 | \$ | 31,250 |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

1. GENERAL

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

On September 5, 1994, TSMC's shares were listed on the Taiwan Stock Exchange (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 September 30, 2012 and 2011, TSMC and its subsidiaries had 38,291 and 35,382 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of TSMC, and the accounts of investees in which TSMC's ownership percentage is less than 50% but over which TSMC has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

| Name of Investor | Name of Investee | Percentage of Ownership | | Remark |
|--|---|-------------------------|---|---|
| | | 2012 | 2011 | |
| TSMC | TSMC North America | 100% | 100% | - |
| | TSMC Japan Limited (TSMC Japan) | 100% | 100% | - |
| | TSMC Partners, Ltd. (TSMC Partners) | 100% | 100% | - |
| | TSMC Korea Limited (TSMC Korea) | 100% | 100% | - |
| | TSMC Europe B.V. (TSMC Europe) | 100% | 100% | - |
| | TSMC Global, Ltd. (TSMC Global) | 100% | 100% | - |
| | TSMC China Company Limited (TSMC China) | 100% | 100% | - |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | 50% | 52% | (Note 1) |
| | VentureTech Alliance Fund II, L.P. (VTAF II) | 98% | 98% | - |
| | Emerging Alliance Fund, L.P. (Emerging Alliance) | 99.5% | 99.5% | - |
| | Global Unichip Corporation (GUC) | (Note 2) | (Note 2) | - |
| | Xintec Inc. (Xintec) | 40% | 40% | TSMC obtained three out of five director positions and has a controlling interest in Xintec |
| | TSMC SSL | 95% | 100% | Established in August 2011 TSMC and TSMC GN aggregately have a controlling interest of 96% in TSMC SSL |
| TSMC Solar | 99% | 100% | Established in August 2011 TSMC and TSMC GN aggregately have a controlling interest of 99% in TSMC Solar | |
| TSMC Guang Neng Investment, Ltd. (TSMC GN) | 100% | - | Established in January 2012 | |
| TSMC Partners | TSMC Design Technology Canada Inc. (TSMC Canada) | 100% | 100% | - |
| | TSMC Technology, Inc. (TSMC Technology) | 100% | 100% | - |
| | TSMC Development, Inc. (TSMC Development) | 100% | 100% | - |
| | InveStar Semiconductor Development Fund, Inc. (ISDF) | 97% | 97% | - |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | 97% | 97% | - |
| TSMC Development | WaferTech, LLC (WaferTech) | 100% | 100% | - |
| VTAF III | Mutual-Pak Technology Co., Ltd. (Mutual-Pak) | 58% | 57% | - |
| | Growth Fund Limited (Growth Fund) | 100% | 100% | - |
| VTAF III, VTAF II and Emerging Alliance | VentureTech Alliance Holdings, LLC (VTA Holdings) | 100% | 100% | - |
| GUC | Global Unichip Corp.-NA (GUC-NA) | (Note 2) | (Note 2) | - |
| | Global Unichip Japan Co., Ltd. (GUC-Japan) | (Note 2) | (Note 2) | - |
| | Global Unichip Europe B.V. (GUC-Europe) | (Note 2) | (Note 2) | - |
| | Global Unichip (BVI) Corp. (GUC-BVI) | (Note 2) | (Note 2) | - |
| GUC-BVI | Global Unichip (Shanghai) Company, Limited (GUC-Shanghai) | (Note 2) | (Note 2) | - |

| Name of Investor | Name of Investee | Percentage of Ownership | | Remark |
|-------------------|--|-------------------------|------|-------------------------|
| | | September 30 2012 | 2011 | |
| TSMC SSL | TSMC Lighting North America, Inc. (TSMC Lighting NA) | 100% | 100% | (Note 1) |
| TSMC Solar | TSMC Solar North America, Inc. (TSMC Solar NA) | 100% | 100% | (Note 1) |
| | TSMC Solar Europe B.V. (TSMC Solar Europe) | 100% | 100% | (Note 1) |
| | VentureTech Alliance Fund III, L.P. (VTAF III) | 49% | 47% | (Note 1) |
| TSMC Solar Europe | TSMC Solar Europe GmbH | 100% | 100% | (Note 1) (Concluded) |

Note 1: In August 2011, TSMC adjusted its investment structure by transferring TSMC Lighting NA to TSMC SSL and transferring TSMC Solar Europe, TSMC Solar NA and part of VTAF III to TSMC Solar.

Note 2: Since July 2011, TSMC is no longer deemed to be a controlling entity of GUC and its subsidiaries due to the termination of a Shareholders Agreement. As a result, GUC and its subsidiaries are no longer consolidated and are accounted for using the equity method.

The following diagram presents information regarding the relationship and ownership percentages between TSMC and its consolidated investees as of September 30, 2012:

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

TSMC North America is engaged in selling and marketing of integrated circuits and semiconductor devices. TSMC Japan, TSMC Korea and TSMC Europe are engaged mainly in marketing or customer service, engineering and technical supporting activities. TSMC Partners is engaged in investment in companies involved in the design, manufacture, and other related business in the semiconductor industry. TSMC Global, TSMC Development and TSMC GN are engaged in investing activities. TSMC China is engaged in the manufacturing and selling of integrated circuits pursuant to the orders from and product design specifications provided by customers. Emerging Alliance, VTAF II, VTAF III, VTA Holdings, ISDF, ISDF II and Growth Fund are engaged in investing in new start-up technology companies. TSMC Canada and TSMC Technology are engaged mainly in engineering support activities. WaferTech is engaged in the manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices. Xintec is engaged in the provision of wafer packaging service. TSMC SSL is engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems. TSMC Lighting NA is engaged in selling and marketing of solid state lighting related products. TSMC Solar is engaged in researching, developing, designing, manufacturing and selling renewable energy and energy saving related technologies and products. TSMC

Solar NA is engaged in selling and marketing of solar related products. TSMC Solar Europe is engaged in investing activities of solar related business. TSMC Solar Europe GmbH is engaged in the selling and customer service of solar cell modules and related products. Mutual-Pak is engaged in the manufacturing and selling of electronic parts and researching, developing and testing of RFID.

TSMC together with its subsidiaries are hereinafter referred to collectively as the Company.

Minority interests in the aforementioned subsidiaries are presented as a separate component of shareholders' equity.

Foreign-currency Transactions and Translation of Foreign-currency Financial Statements

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

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

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - spot rates at period-end; shareholders' equity - historical rates; income and expenses - average rates during the period. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

Held-to-maturity Financial Assets

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

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

Hedging Derivative Financial Instruments

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

Financial Assets Carried at Cost

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

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

Allowance for Doubtful Receivables

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

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

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

Inventories

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

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

Investments Accounted for Using Equity Method

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

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

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

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

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

Property, plant and equipment and assets leased to others are stated at cost less accumulated depreciation. Properties covered by agreements qualifying as capital leases are carried at the lower of the leased equipment's market value or the present value of the minimum lease payments at the inception date of the lease, with the corresponding amount recorded as obligations under capital leases. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Significant additions, renewals and betterments incurred during the construction period are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method over the following estimated service lives: land improvements - 20 years; buildings - 10 to 20 years; machinery and equipment - 3 to 5 years; office equipment - 3 to 15 years; and leased assets - 20 years.

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

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

Intangible Assets

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

Deferred charges consist of technology license fees, software and system design costs and patent and others. The amounts are amortized over the following periods: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 2 to 5 years; patent and others - the economic life or contract period. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the previously recognized impairment loss would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of amortization, as if no impairment loss had been recognized.

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

Pension Costs

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

Income Tax

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

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

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

Income tax on unappropriated earnings (excluding earnings from foreign consolidated subsidiaries) at a rate of 10% is expensed in the year of shareholder approval which is the year subsequent to the year the earnings are generated.

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with SFAS No. 39, Accounting for Share-based Payment. Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Treasury Stock

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised SFAS No. 34, Financial Instruments: Recognition and Measurement. The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company's consolidated financial statements as of and for the nine months ended September 30, 2011.

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

4. CASH AND CASH EQUIVALENTS

| | September 30 | |
|---|-----------------------|-----------------------|
| | 2012 | 2011 |
| Cash and deposits in banks | \$ 135,330,257 | \$ 110,380,268 |
| Repurchase agreements collateralized by corporate bonds | 2,534,741 | - |
| Repurchase agreements collateralized by government bonds | 473,530 | 3,675,314 |
| Repurchase agreements collateralized by short-term commercial paper | 399,585 | 780,877 |
| | \$ 138,738,113 | \$ 114,836,459 |

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

| | September 30 | |
|--------------------------------------|--------------|------------|
| | 2012 | 2011 |
| Trading financial assets | | |
| Forward exchange contracts | \$ 55,995 | \$ 606,492 |
| Cross currency swap contracts | 2,695 | - |
| | \$ 58,690 | \$ 606,492 |
| Trading financial liabilities | | |
| Forward exchange contracts | \$ 16,045 | \$ 103,159 |
| Cross currency swap contracts | 3,968 | 107,451 |
| | \$ 20,013 | \$ 210,610 |

The Company entered into derivative contracts during the nine months ended September 30, 2012 and 2011 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the Company did not meet the criteria for hedge accounting. Therefore, the Company did not apply hedge accounting treatment for derivative contracts.

Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|---------------------------|-------------------------------|-----------------------------------|
| September 30, 2012 | | |
| Sell US\$/Buy JPY | October 2012 | US\$315,000/JPY24,525,215 |
| Sell US\$/Buy NT\$ | October 2012 to December 2012 | US\$106,190/NT\$3,131,774 |
| Sell US\$/Buy EUR | October 2012 | US\$52,421/EUR40,500 |
| Sell RMB/Buy US\$ | October 2012 | RMB685,056/US\$108,000 |
| Sell NT\$/Buy US\$ | October 2012 to November 2012 | NT\$449,412/US\$15,000 |
| Sell NT\$/Buy JPY | October 2012 to November 2012 | NT\$149,017/JPY393,000 |
| Sell NT\$/Buy EUR | October 2012 | NT\$7,684/EUR200 |
| September 30, 2011 | | |
| Sell NT\$/Buy US\$ | October 2011 to December 2011 | NT\$10,500,980/US\$363,700 |
| Sell NT\$/Buy JPY | November 2011 | NT\$92,277/JPY240,000 |
| Sell NT\$/Buy EUR | November 2011 | NT\$41,400/EUR1,000 |
| Sell US\$/Buy JPY | October 2011 | US\$7,023/JPY543,111 |
| Sell US\$/Buy NT\$ | October 2011 to November 2011 | US\$128,070/NT\$3,819,932 |
| Sell US\$/Buy EUR | October 2011 | US\$10,212/EUR7,412 |
| Sell RMB/Buy US\$ | October 2011 | RMB1,826,625/US\$286,000 |
| Sell EUR/Buy US\$ | October 2011 | EUR3,530/US\$4,955 |
| Sell JPY/Buy NT\$ | October 2011 to November 2011 | JPY64,300/NT\$25,640 |

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|---------------------------|---|---|---|
| September 30, 2012 | | | |
| October 2012 | US\$170,000/NT\$4,991,030 | 0.10%-0.11% | - |
| October 2012 | NT\$833,013/US\$28,280 | - | 0.04%-0.05% |
| September 30, 2011 | | | |
| October 2011 | US\$117,000/NT\$3,470,950 | 1.27%-4.40% | - |

Net gains on derivative financial instruments for the nine months ended September 30, 2012 and 2011, were NT\$43,842 thousand and NT\$600,902 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | September 30 | |
|------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| Publicly traded stocks | \$ 2,067,730 | \$ 3,254,034 |
| Money market funds | - | 1,016 |
| | \$ 2,067,730 | \$ 3,255,050 |

For the nine months ended September 30, 2012, the Company recognized an impairment loss on partial overseas publicly traded stocks in the amount of NT\$2,677,529 thousand due to the significant decline in fair value.

7. HELD-TO-MATURITY FINANCIAL ASSETS

| | September 30 | |
|------------------|---------------------|------------------|
| | 2012 | 2011 |
| Corporate bonds | \$ 7,556,046 | \$ 8,324,948 |
| Government bonds | - | 458,310 |
| | 7,556,046 | 8,783,258 |
| Current portion | (6,854,611) | (1,566,469) |

| | |
|------------|--------------|
| \$ 701,435 | \$ 7,216,789 |
|------------|--------------|

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8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

| | <u>Nine Months Ended September 30</u> | |
|--|--|-------------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 490,952 | \$ 504,029 |
| Reversal | (3) | (3,133) |
| Write-off | (1,272) | (9,707) |
| Effect of changes in consolidated entities | - | (233) |
| Effect of exchange rate changes | <u>(87)</u> | <u>17</u> |
| Balance, end of period | <u>\$ 489,590</u> | <u>\$ 490,973</u> |

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

| | <u>Nine Months Ended September 30</u> | |
|---------------------------------|--|---------------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 5,068,263 | \$ 7,546,264 |
| Provision | 6,462,738 | 3,413,421 |
| Write-off | (4,624,281) | (4,837,655) |
| Effect of exchange rate changes | <u>(6,536)</u> | <u>4,144</u> |
| Balance, end of period | <u>\$ 6,900,184</u> | <u>\$ 6,126,174</u> |

9. INVENTORIES

| | <u>September 30</u> | |
|--------------------------|----------------------------|----------------------|
| | 2012 | 2011 |
| Finished goods | \$ 4,255,500 | \$ 4,606,350 |
| Work in process | 24,686,231 | 17,566,112 |
| Raw materials | 2,429,431 | 1,675,825 |
| Supplies and spare parts | <u>1,877,883</u> | <u>1,843,952</u> |
| | <u>\$ 33,249,045</u> | <u>\$ 25,692,239</u> |

Write-down of inventories to net realizable value in the amount of NT\$1,485,371 thousand and NT\$388,175 thousand, respectively, were included in the cost of sales for the nine months ended September 30, 2012 and 2011.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | September 30 | | | |
|--|---------------|--------|---------------|--------|
| | 2012 | % of | 2011 | % of |
| | Carrying | Owner- | Carrying | Owner- |
| | Amount | ship | Amount | ship |
| Vanguard International Semiconductor Corporation (VIS) | \$ 9,161,979 | 41 | \$ 8,918,553 | 38 |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 6,253,232 | 39 | 6,109,136 | 39 |
| Motech Industries Inc. (Motech) | 4,452,514 | 20 | 5,999,173 | 20 |
| VisEra Holding Company (VisEra Holding) | 2,913,578 | 49 | 2,720,564 | 49 |
| GUC | 1,177,159 | 35 | 1,117,076 | 35 |
| Mcube Inc. (Mcube) | - | 25 | - | 26 |
| | \$ 23,958,462 | | \$ 24,864,502 | |

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

For the nine months ended September 30, 2012 and 2011, equity in earnings of equity method investees was a net gain of NT\$1,305,776 thousand and NT\$916,644 thousand, respectively.

As of September 30, 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\$16,809,981 thousand and NT\$12,574,108 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:

| | <u>Nine Months Ended September 30</u> | |
|------------------------------|---------------------------------------|---------------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 1,645,810 | \$ 2,491,891 |
| Amortization | <u>(416,907)</u> | <u>(629,051)</u> |
| Balance, end of period | <u>\$ 1,228,903</u> | <u>\$ 1,862,840</u> |

As of September 30, 2012 and 2011, balance of the aforementioned difference allocated to goodwill was NT\$1,415,565 thousand. There was no acquisition or impairment in goodwill for the nine months ended September 30, 2012 and 2011.

11. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

| | September 30 | |
|---|--------------|--------|
| | 2012 | 2011 |
| <u>Hedging derivative financial assets</u> | | |
| Forward exchange contract | \$ 28,189 | \$ - |
| <u>Hedging derivative financial liabilities</u> | | |
| Interest rate swap contract | \$ - | \$ 356 |

The Company entered into derivative contracts to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction in September 2012. Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|---|---------------|-----------------------------------|
| <u>September 30, 2012</u> | | |
| Sell US\$/Buy EUR | October 2012 | US\$257,759/EUR200,000 |
| For the nine months ended September 30, 2012, the adjustment for current period to shareholder's equity from the above forward exchange contract amounted to a net gain of NT\$28,189 thousand. | | |

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

The outstanding interest rate swap contract consisted of the following:

| Contract Amount (In Thousands) | Maturity Date | Range of Interest Rates Paid | Range of Interest Rates Received |
|---|-----------------|---------------------------------|-------------------------------------|
| <u>September 30, 2011</u> | | | |
| NT\$92,000 | August 31, 2012 | 1.38% | 0.63%-0.85% |
| For the nine months ended September 30, 2012 and 2011, the adjustment for the current period to shareholders' equity amounted to a net gain of NT\$5 thousand and a net loss of NT\$106 thousand, respectively; and the amount removed from shareholders' equity and recognized as a loss from the above interest rate swap contract amounted to NT\$227 thousand and NT\$564 thousand, respectively. | | | |

12. FINANCIAL ASSETS CARRIED AT COST

| | September 30 | |
|----------------------------|---------------------|---------------------|
| | 2012 | 2011 |
| Non-publicly traded stocks | \$ 3,689,527 | \$ 4,080,786 |
| Mutual funds | 291,724 | 312,020 |
| | \$ 3,981,251 | \$ 4,392,806 |

The common stock of InvenSense, Inc. and Audience, Inc. was listed on the NYSE and NASDAQ in November 2011 and in May 2012, respectively. Thus, the Company reclassified the aforementioned investments from financial assets carried at cost to available-for-sale financial assets.

For the nine months ended September 30, 2012 and 2011, the Company recognized impairment on financial assets carried at cost of NT\$71,087 thousand and NT\$104,981 thousand, respectively.

13. PROPERTY, PLANT AND EQUIPMENT

| | Balance, Beginning of Period | Nine Months Ended September 30, 2012 | | | | Effect of Exchange Rate Changes | Balance, End of Period |
|---|------------------------------------|--------------------------------------|----------------|------------------|----------------|---------------------------------------|---------------------------|
| | | Additions (Deductions) | Disposals | Reclassification | | | |
| Cost | | | | | | | |
| Land and land improvements | \$ 1,541,128 | \$ 18,500 | \$ - | \$ - | \$ (25,431) | \$ 1,534,197 | |
| Buildings | 172,872,550 | 23,699,216 | (25,820) | - | (772,172) | 195,773,774 | |
| Machinery and equipment | 1,057,588,736 | 208,463,387 | (1,045,615) | (668,784) | (2,354,872) | 1,261,982,852 | |
| Office equipment | 16,969,266 | 2,790,915 | (472,763) | 35 | (75,533) | 19,211,920 | |
| Leased asset | 791,480 | - | - | - | (31,217) | 760,263 | |
| | 1,249,763,160 | \$ 234,972,018 | \$ (1,544,198) | \$ (668,749) | \$ (3,259,225) | 1,479,263,006 | |
| Accumulated depreciation | | | | | | | |
| Land and land improvements | 355,555 | \$ 20,335 | \$ - | \$ - | \$ (11,764) | 364,126 | |
| Buildings | 101,004,047 | 8,242,820 | (23,559) | - | (398,090) | 108,825,218 | |
| Machinery and equipment | 762,774,355 | 83,843,149 | (948,360) | (246,434) | (1,953,326) | 843,469,384 | |
| Office equipment | 11,820,728 | 1,359,994 | (464,794) | 8 | (62,712) | 12,653,224 | |
| Leased asset | 297,535 | 30,166 | - | - | (12,220) | 315,481 | |
| | 876,252,220 | \$ 93,496,464 | \$ (1,436,713) | \$ (246,426) | \$ (2,438,112) | 965,627,433 | |
| Advance payments and construction in progress | 116,863,976 | \$ (50,318,756) | \$ - | \$ (2,086) | \$ (98,820) | 66,444,314 | |
| | \$ 490,374,916 | | | | | \$ 580,079,887 | |

| | Balance, Beginning of Period | Nine Months Ended September 30, 2011 | | | | | Effect of Exchange Rate Changes | Balance, End of Period |
|----------------------------|------------------------------------|--------------------------------------|-------------|------------------|---|-----------|---------------------------------------|---------------------------|
| | | Additions | Disposals | Reclassification | Effect of Changes in Consolidated Entities | | | |
| Cost | | | | | | | | |
| Land and land improvements | \$ 891,197 | \$ 652,011 | \$ - | \$ - | \$ - | \$ 4,837 | \$ 1,548,045 | |
| Buildings | 145,966,024 | 23,937,530 | (45,073) | (388) | (242,718) | 707,601 | 170,322,976 | |
| Machinery and equipment | 913,155,252 | 124,397,892 | (1,808,103) | (61,121) | (375,702) | 1,466,748 | 1,036,774,966 | |

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| | | | | | | | |
|------------------|---------------|----------------|----------------|--------------|--------------|--------------|---------------|
| Office equipment | 14,856,582 | 2,256,434 | (349,529) | (72,041) | (236,153) | 42,873 | 16,498,166 |
| Leased asset | 701,552 | - | - | - | - | 30,192 | 731,744 |
| | 1,075,570,607 | \$ 151,243,867 | \$ (2,202,705) | \$ (133,550) | \$ (854,573) | \$ 2,252,251 | 1,225,875,897 |

Accumulated depreciation

| | | | | | | | |
|----------------------------|-------------|---------------|----------------|-------------|--------------|--------------|-------------|
| Land and land improvements | 328,792 | \$ 19,902 | \$ - | \$ - | \$ - | \$ 3,015 | 351,709 |
| Buildings | 90,472,703 | 7,611,721 | (18,913) | (55) | (32,791) | 279,706 | 98,312,371 |
| Machinery and equipment | 671,268,636 | 69,471,928 | (1,782,567) | (39,313) | (293,605) | 901,939 | 739,527,018 |
| Office equipment | 10,957,676 | 1,042,931 | (345,382) | (13,563) | (148,862) | 34,342 | 11,527,142 |
| Leased asset | 250,350 | 25,297 | - | - | - | 12,480 | 288,127 |
| | 773,278,157 | \$ 78,171,779 | \$ (2,146,862) | \$ (52,931) | \$ (475,258) | \$ 1,231,482 | 850,006,367 |

| | | | | | | | |
|---|------------|---------------|--------------|----------|------|------------|------------|
| Advance payments and construction in progress | 86,151,573 | \$ 11,183,672 | \$ (455,373) | \$ 1,610 | \$ - | \$ 202,210 | 97,083,692 |
|---|------------|---------------|--------------|----------|------|------------|------------|

\$ 388,444,023

\$ 472,953,222

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

As of September 30, 2012, future lease payments were as follows:

| Year | Amount |
|---------------------|------------|
| 2013 | \$ 26,809 |
| 2014 | 26,809 |
| 2015 | 26,809 |
| 2016 | 26,809 |
| 2017 and thereafter | 750,112 |
| | \$ 857,348 |

During the nine months ended September 30, 2012 and 2011, the Company capitalized the borrowing costs directly attributable to the acquisition or construction of property, plant and equipment. Information about capitalized interest was as follows:

| | Nine Months Ended September 30 | |
|----------------------|--------------------------------|-------------|
| | 2012 | 2011 |
| Capitalized interest | \$ 6,442 | \$ 6,009 |
| Capitalization rates | 1.08%-1.20% | 1.07%-1.29% |

14. DEFERRED CHARGES, NET

| | Nine Months Ended September 30, 2012 | | | | | Balance, End of Period |
|----------------------------------|--------------------------------------|--------------|----------------|------------------|---------------------------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Amortization | Reclassification | Effect of Exchange Rate Changes | |
| Technology license fee | \$ 1,682,892 | \$ 29,565 | \$ (354,029) | \$ 191,580 | \$ (1,115) | \$ 1,548,893 |
| Software and system design costs | 2,366,483 | 1,162,867 | (846,409) | (55,352) | (431) | 2,627,158 |
| Patent and others | 1,118,189 | 422,527 | (442,166) | 57,438 | (3,947) | 1,152,041 |
| | \$ 5,167,564 | \$ 1,614,959 | \$ (1,642,604) | \$ 193,666 | \$ (5,493) | \$ 5,328,092 |

| | Nine Months Ended September 30, 2011 | | | | | | Balance, End of Period |
|----------------------------------|--------------------------------------|--------------|----------------|------------------|---|---------------------------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Amortization | Reclassification | Effect of Changes in Consolidated Entities | Effect of Exchange Rate Changes | |
| Technology license fees | \$ 2,455,348 | \$ 10,308 | \$ (543,192) | \$ - | \$ (66,186) | \$ (587) | \$ 1,855,691 |
| Software and system design costs | 2,333,271 | 930,821 | (868,812) | (1,610) | (177,916) | 488 | 2,216,242 |
| Patent and others | 1,238,466 | 169,273 | (349,845) | - | - | 4,162 | 1,062,056 |
| | \$ 6,027,085 | \$ 1,110,402 | \$ (1,761,849) | \$ (1,610) | \$ (244,102) | \$ 4,063 | \$ 5,133,989 |

15. SHORT-TERM LOANS

| September 30 | |
|--------------|------|
| 2012 | 2011 |

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Unsecured loans

US\$1,015,000 thousand, due in October 2012, and annual interest at 0.42%-0.65% in 2012;

US\$1,058,200 thousand and EUR88,725 thousand, due by November 2011, and annual interest at 0.40%-1.50% in 2011.

\$ 29,749,650 \$ 36,019,654

16. BONDS PAYABLE

| | September 30 | |
|---|---------------|---------------|
| | 2012 | 2011 |
| Domestic unsecured bonds: | | |
| Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually | \$ 10,500,000 | \$ 10,500,000 |
| Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually | 7,500,000 | 7,500,000 |
| | | (Continued) |

| | September 30 | |
|---|---------------|---------------|
| | 2012 | 2011 |
| 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 January 2002 and repayable in January 2012, 3.00% interest payable annually | - | 4,500,000 |
| | 75,600,000 | 22,500,000 |
| Current portion | - | (4,500,000) |
| | \$ 75,600,000 | \$ 18,000,000 |
| (Concluded) | | |

With the approval from the Financial Supervisory Commission (FSC), the Company issued domestic unsecured bonds in the amount of NT\$4,400,000 thousand in October 2012.

17. LONG-TERM BANK LOANS

| | September 30 | |
|--|--------------|--------------|
| | 2012 | 2011 |
| Bank loans for working capital: | | |
| Repayable in full in one lump sum payment in June 2016, annual interest at 1.08%-1.20% in 2012 and 1.00%-1.07% in 2011 | \$ 550,000 | \$ 650,000 |
| Repayable in full in one lump sum payment in March 2014, annual interest at 1.16%-1.18% in 2012 and 1.02%-1.16% in 2011 | 450,000 | 500,000 |
| Repayable from July 2012 in 16 quarterly installments, annual interest at 1.21%-1.24% in 2012 and 1.11%-1.19% in 2011 | 281,250 | 300,000 |
| Repayable from September 2012 in 16 quarterly installments, annual interest at 1.21%-1.24% in 2012 and 1.13%-1.20% in 2011 | 187,500 | 200,000 |
| Repayable from October 2012 in 16 quarterly installments, annual interest at 1.23% in 2012 | 50,000 | - |
| | 1,518,750 | 1,650,000 |
| Current portion | (125,000) | (31,250) |
| | \$ 1,393,750 | \$ 1,618,750 |

Pursuant to the loan agreements, financial ratios calculated based on semi-annual and annual financial statements of Xintec must comply with predetermined financial covenants.

As of September 30, 2012, future principal repayments for the long-term bank loans were as follows:

| Year of Repayment | Amount |
|--------------------------------|--------------|
| 2012 (4 th quarter) | \$ 31,250 |
| 2013 | 128,125 |
| 2014 | 587,500 |
| 2015 | 137,500 |
| 2016 | 625,000 |
| 2017 and thereafter | 9,375 |
| | \$ 1,518,750 |

18. OTHER LONG-TERM PAYABLES

| | September 30 | |
|---|--------------|--------------|
| | 2012 | 2011 |
| Payables for acquisition of property, plant and equipment (Note 30g) | \$ 818,361 | \$ 6,458,725 |
| Payables for technology transfer | 29,310 | - |
| Payables for royalties | - | 816,379 |
| Others | 113,000 | - |
| | 960,671 | 7,275,104 |
| Current portion (classified under accrued expenses and other current liabilities) | (906,671) | (7,275,104) |
| | \$ 54,000 | \$ - |

The payables for royalties were primarily attributable to several license arrangements that the Company entered into for certain semiconductor-related patents.

As of September 30, 2012, future payments for other long-term payables were as follows:

| Year of Payment | Amount |
|--------------------------------|------------|
| 2012 (4 th quarter) | \$ 29,310 |
| 2013 | 877,361 |
| 2014 | 18,000 |
| 2015 | 18,000 |
| 2016 | 18,000 |
| | \$ 960,671 |

19. PENSION PLANS

The pension mechanism under the Labor Pension Act (the Act) is deemed a defined contribution plan. Pursuant to the Act, TSMC, GUC, Xintec, Mutual-Pak, TSMC SSL and TSMC Solar have made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts. Furthermore, TSMC North America, TSMC China, TSMC Europe, TSMC Canada, TSMC Solar NA and TSMC Solar Europe GmbH are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the Company recognized pension costs of NT\$1,031,294 thousand and NT\$963,043 thousand for the nine months ended September 30, 2012 and 2011, respectively.

TSMC, GUC, Xintec, TSMC SSL and TSMC Solar have defined benefit plans under the Labor Standards Law that provide benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The aforementioned companies contribute an amount equal to 2% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. The Company recognized pension costs of NT\$220,319 thousand and NT\$246,249 thousand for the nine months ended September 30, 2012 and 2011, respectively.

Movements of the Funds and accrued pension cost under the defined benefit plans were summarized as follows:

| | <u>Nine Months Ended September 30</u> | |
|--|--|--------------|
| | 2012 | 2011 |
| The Funds | | |
| Balance, beginning of period | \$ 3,098,039 | \$ 2,888,852 |
| Contributions | 168,512 | 163,589 |
| Interest | 26,304 | 27,247 |
| Payments | (23,078) | (7,339) |
| Effect of changes in consolidated entities | - | (23,952) |
| | | |
| Balance, end of period | \$ 3,269,777 | \$ 3,048,397 |
| | | |
| Accrued pension cost | | |
| Balance, beginning of period | \$ 3,908,508 | \$ 3,812,351 |
| Accruals | 46,548 | 79,882 |
| Effect of changes in consolidated entities | - | (2,758) |
| | | |
| Balance, end of period | \$ 3,955,056 | \$ 3,889,475 |

20. INCOME TAX

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

| | <u>Nine Months Ended September 30</u> | |
|---|--|---------------|
| | 2012 | 2011 |
| Income tax expense based on income before income tax at statutory rates | \$ 25,298,555 | \$ 20,083,496 |
| Tax effect of the following: | | |
| Tax-exempt income | (8,575,286) | (11,148,952) |
| Temporary and permanent differences | (2,082,763) | (1,066,175) |
| Additional income tax under the Alternative Minimum Tax Act | - | 116,718 |
| Additional tax at 10% on unappropriated earnings | 4,193,497 | 6,293,384 |
| Net operating loss carryforwards used | (457,693) | (397,791) |
| Investment tax credits used | (7,906,345) | (6,317,607) |

| | | |
|------------------------------|---------------|--------------|
| Income tax currently payable | \$ 10,469,965 | \$ 7,563,073 |
|------------------------------|---------------|--------------|

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- b. Income tax expense consisted of the following:

| | Nine Months Ended September 30 | |
|--|---------------------------------------|---------------------|
| | 2012 | 2011 |
| Income tax currently payable | \$ 10,469,965 | \$ 7,563,073 |
| Income tax adjustments on prior years | 51,273 | 470,225 |
| Other income tax adjustments | 45,331 | 114,262 |
| Net change in deferred income tax assets | | |
| Investment tax credits | 6,096,581 | 2,835,178 |
| Net operating loss carryforwards | 59,450 | 393,582 |
| Temporary differences | (490,457) | 144,921 |
| Valuation allowance | (5,404,888) | (2,808,008) |
| Effect of changes in consolidated entities | <u>-</u> | <u>(74,969)</u> |
| Income tax expense | <u>\$ 10,827,255</u> | <u>\$ 8,638,264</u> |

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

| | September 30 | |
|---|----------------------|----------------------|
| | 2012 | 2011 |
| Current deferred income tax assets | | |
| Investment tax credits | \$ 521,366 | \$ 31,029 |
| Temporary differences | | |
| Allowance for sales returns and others | 821,868 | 530,745 |
| Unrealized loss on financial instruments, net | 357,437 | 288,760 |
| Unrealized loss on inventories | 383,395 | 40,659 |
| Others | 595,231 | 341,464 |
| Valuation allowance | <u>(28,865)</u> | <u>(139,362)</u> |
| | <u>\$ 2,650,432</u> | <u>\$ 1,093,295</u> |
| Noncurrent deferred income tax assets | | |
| Investment tax credits | \$ 13,695,402 | \$ 19,760,374 |
| Net operating loss carryforwards | 2,363,383 | 2,338,081 |
| Temporary differences | | |
| Depreciation | 1,373,603 | 2,064,547 |
| Others | 740,927 | 606,173 |
| Valuation allowance | <u>(8,036,049)</u> | <u>(13,487,735)</u> |
| | <u>\$ 10,137,266</u> | <u>\$ 11,281,440</u> |

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, effective on January 1, 2013, when calculating the security transaction income for the securities held for more than three years as regulated under Article 4-1 of the Income Tax Act, an enterprise could deduct the security transaction losses for the securities held for more than three years. If there is any net gain from the security transactions for the year, 50% of such amount will be exempted from income taxes in the current year; however, if there is a net loss, such loss, after the assessment of the tax authorities, can be carried forward over the next five years to offset the security income generated from the sale of the securities held for more than three years. In addition, the standard deduction and the tax rate were amended to be NT\$500 thousand and 12%, respectively. The amendments are effective in 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 nine months ended September 30, 2012.

As of September 30, 2012, the net operating loss carryforwards generated by WaferTech, Xintec, Mutual-Pak, TSMC SSL and TSMC Solar would expire on various dates through 2023.

d. Integrated income tax information:

The balance of the imputation credit account of TSMC as of September 30, 2012 and 2011 was NT\$8,136,884 thousand and NT\$4,016,138 thousand, respectively.

The estimated and actual creditable ratios for distribution of TSMC's earnings of 2011 and 2010 were 6.69% and 4.96%, respectively.

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

e. All of TSMC's earnings generated prior to December 31, 1997 have been appropriated.

f. As of September 30, 2012, investment tax credits of TSMC, Xintec, Mutual-Pak and TSMC SSL consisted of the following:

| Law/Statute | Item | Total Creditable Amount | Remaining Creditable Amount | Expiry Year |
|----------------------------------|---------------------------------------|-------------------------|-----------------------------|-------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment | \$ 6,961 | \$ 6,961 | 2012 |
| | | 6,514,324 | 6,514,324 | 2013 |
| | | 7,045,590 | 7,045,590 | 2014 |
| | | 505,215 | 505,215 | 2015 |
| | | \$ 14,072,090 | \$ 14,072,090 | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 1,179,808 | \$ 23,950 | 2012 |
| | | 4,732,147 | 120,713 | 2013 |
| | | \$ 5,911,955 | \$ 144,663 | |
| Statute for Upgrading Industries | Personnel training expenditures | \$ 17,406 | \$ 15 | 2012 |
| Statute for Industrial | Research and development | \$ 2,121,662 | \$ - | 2012 |

Innovation

expenditures

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

| | Tax-exemption Period |
|---|-----------------------------|
| Construction and expansion of 2004 by TSMC | 2008 to 2012 |
| Construction and expansion of 2005 by TSMC | 2010 to 2014 |
| Construction and expansion of 2006 by TSMC | 2011 to 2015 |
| Construction and expansion of 2003 and 2006 by Xintec | 2010 to 2014 |

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

21. LABOR COST, DEPRECIATION AND AMORTIZATION

| | Nine Months Ended September 30, 2012 | | |
|----------------------------|---|---|----------------------|
| | Classified as Cost of Sales | Classified as Operating Expenses | Total |
| Labor cost | | | |
| Salary and bonus | \$ 23,176,906 | \$ 17,323,329 | \$ 40,500,235 |
| Labor and health insurance | 1,148,229 | 831,278 | 1,979,507 |
| Pension | 766,572 | 485,041 | 1,251,613 |
| Meal | 564,226 | 234,968 | 799,194 |
| Welfare | 586,614 | 219,949 | 806,563 |
| Others | 81,267 | 236,905 | 318,172 |
| | \$ 26,323,814 | \$ 19,331,470 | \$ 45,655,284 |

| | | | |
|--------------|---------------|--------------|---------------|
| Depreciation | \$ 85,505,984 | \$ 7,990,480 | \$ 93,496,464 |
| Amortization | \$ 1,026,093 | \$ 616,511 | \$ 1,642,604 |

| | Nine Months Ended September 30, 2011 | | |
|----------------------------|---|---|----------------------|
| | Classified as Cost of Sales | Classified as Operating Expenses | Total |
| Labor cost | | | |
| Salary and bonus | \$ 20,258,717 | \$ 15,450,048 | \$ 35,708,765 |
| Labor and health insurance | 1,000,030 | 686,043 | 1,686,073 |
| Pension | 732,693 | 476,599 | 1,209,292 |
| Meal | 538,041 | 217,379 | 755,420 |
| Welfare | 546,903 | 201,640 | 748,543 |
| Others | 67,183 | 202,429 | 269,612 |
| | \$ 23,143,567 | \$ 17,234,138 | \$ 40,377,705 |

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| | | | |
|--------------|---------------|--------------|---------------|
| Depreciation | \$ 72,967,191 | \$ 5,196,753 | \$ 78,163,944 |
| Amortization | \$ 1,089,810 | \$ 672,039 | \$ 1,761,849 |

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22. SHAREHOLDERS EQUITY

As of September 30, 2012, 1,091,702 thousand ADSs of TSMC were traded on the NYSE. The number of common shares represented by the ADSs was 5,458,511 thousand (one ADS represents five common shares).

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

Capital surplus consisted of the following:

| | September 30 | |
|----------------------------|---------------|---------------|
| | 2012 | 2011 |
| Additional paid-in capital | \$ 23,892,456 | \$ 23,734,158 |
| From merger | 22,804,510 | 22,805,390 |
| From convertible bonds | 8,892,847 | 8,893,190 |
| From long-term investments | 484,567 | 256,946 |
| Donations | 55 | 55 |
| | \$ 56,074,435 | \$ 55,689,739 |

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

- a. Legal capital reserve at 10% of the profits left over, until the accumulated legal capital reserve equals TSMC'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 TSMC of not more than 0.3% and not less than 1% of the remainder, respectively. Directors who also serve as executive officers of TSMC are not entitled to receive the bonus to directors. TSMC may issue profit sharing to employees in stock of an affiliated company meeting the conditions set by the Board of Directors or, by the person duly authorized by the Board of Directors;
- d. Any balance left over shall be allocated according to the resolution of the shareholders' meeting.

TSMC's Articles of Incorporation also provide that profits of TSMC may be distributed by way of cash dividend and/or stock dividend. However, distribution of profits shall be made preferably by way of cash dividend. Distribution of profits may also be made by way of stock dividend; provided that the ratio for stock dividend shall not exceed 50% of the total distribution.

Any appropriations of the profits are subject to shareholders' approval in the following year.

TSMC accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT\$8,333,282 thousand and NT\$6,887,967 thousand for the nine months ended September 30, 2012 and 2011, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

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

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

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

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

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

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

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

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

23. STOCK-BASED COMPENSATION PLANS

a. Under Intrinsic Value Method

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

Options of the plans that had never been granted or had been granted but subsequently canceled had expired as of September 30, 2012.

Information about TSMC's outstanding options for the nine months ended September 30, 2012 and 2011 was as follows:

| | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|---|---|--|
| <u>Nine months ended September 30, 2012</u> | | |
| Balance, beginning of period | 14,293 | \$31.4 |
| Options exercised | (5,825) | 30.3 |
| Options canceled | (135) | 34.6 |
| | | |
| Balance, end of period | 8,333 | 32.6 |
| <u>Nine months ended September 30, 2011</u> | | |
| Balance, beginning of period | 21,437 | \$31.4 |
| Options exercised | (5,071) | 30.8 |
| | | |
| Balance, end of period | 16,366 | 31.8 |

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

As of September 30, 2012, information about TSMC's outstanding options was as follows:

| Range of Exercise Price | Number of Options | Options Outstanding |
|--------------------------------|--------------------------|----------------------------|
|--------------------------------|--------------------------|----------------------------|

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| (NT\$) | (In Thousands) | Weighted-average Remaining Contractual Life (Years) | Weighted-average Exercise Price (NT\$) |
|---------------|-------------------|--|--|
| \$20.2-\$28.3 | 5,569 | 0.6 | \$ 26.0 |
| 38.0- 50.1 | <u>2,764</u> | 2.2 | 45.8 |
| | <u>8,333</u> | 1.1 | 32.6 |

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As of September 30, 2012, all of the above outstanding options were exercisable.

Xintec's Employee Stock Option Plans, consisting of the Xintec 2007 Plan and Xintec 2006 Plan, were approved by the SFB on June 26, 2007 and July 3, 2006, respectively. The maximum number of options authorized to be granted under the Xintec 2007 Plan and Xintec 2006 Plan was 6,000 thousand each, with each option eligible to subscribe for one common share of Xintec when exercised. The options may be granted to qualified employees of Xintec or any of its subsidiaries. The options of Xintec 2007 Plan and Xintec 2006 Plan are valid for ten years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about Xintec's outstanding options for the nine months ended September 30, 2012 and 2011 was as follows:

| | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|---|--|--|
| <u>Nine months ended September 30, 2012</u> | | |
| Balance, beginning of period | 825 | \$15.1 |
| Options exercised | (287) | 17.2 |
| Options canceled | (7) | 17.5 |
| | | |
| Balance, end of period | 531 | 13.8 |
| <u>Nine months ended September 30, 2011</u> | | |
| Balance, beginning of period | 1,832 | \$15.1 |
| Options exercised | (965) | 14.4 |
| Options canceled | (27) | 17.1 |
| | | |
| Balance, end of period | 840 | 16.0 |

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

As of September 30, 2012, information about Xintec's outstanding and exercisable options was as follows:

| Range of Exercise Price (NT\$) | Options Outstanding | | | Options Exercisable | |
|--------------------------------------|--|--|---|--|---|
| | Number of Options (In Thousands) | Weighted- average Remaining Contractual Life (Years) | Weighted- average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
| \$10.7-\$ 12.5 | 208 | 4.0 | \$ 10.7 | 205 | \$ 10.7 |
| 14.8- 18.6 | <u>323</u> | 4.9 | 15.8 | <u>323</u> | 15.8 |
| | <u>531</u> | 4.5 | 13.8 | <u>528</u> | 13.8 |

No compensation cost was recognized under the intrinsic value method for the nine months ended September 30, 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 nine months ended September 30, 2012 and 2011 would have been as follows:

| | TSMC | Xintec |
|---|---------------------------------------|----------------|
| Valuation assumptions: | | |
| Expected dividend yield | 1.00%- 3.44% | 0.80% |
| Expected volatility | 43.77%- 46.15% | 31.79%- 47.42% |
| Risk free interest rate | 3.07%- 3.85% | 1.88%- 2.45% |
| Expected life | 5 years | 3 years |
| | Nine Months Ended September 30 | 2012 |
| | | 2011 |
| Net income attributable to shareholders of the parent: | | |
| As reported | \$ 124,589,534 | \$ 102,622,631 |
| Pro forma | 124,442,977 | 102,618,784 |
| Earnings per share (EPS) - after income tax (NT\$): | | |
| Basic EPS as reported | \$4.81 | \$3.96 |
| Pro forma basic EPS | 4.80 | 3.96 |
| Diluted EPS as reported | 4.81 | 3.96 |
| Pro forma diluted EPS | 4.80 | 3.96 |

b. Under Fair Value Method

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

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

| | TSMC SSL | | TSMC Solar | |
|------------------------------|--|--|--|--|
| | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
| Nine months ended | | | | |
| <u>September 30, 2012</u> | | | | |
| Balance, beginning of period | - | \$ - | - | \$ - |
| Options granted | 17,175 | 10.0 | 12,341 | 10.0 |
| Options exercised | (17,175) | 10.0 | (12,341) | 10.0 |
| Balance, end of period | - | - | - | - |

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

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

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

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

Xintec's Employee Stock Option Plan, Xintec 2011 Plan, was approved by the SFB on January 10, 2012. The maximum number of options authorized to be granted under the Xintec 2011 Plan was 6,000 thousand, with each option eligible to subscribe for one common share of Xintec when exercised. The options may be granted to qualified employees of Xintec or any of its subsidiaries. The options of Xintec 2011 Plan are valid for five years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

| | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) |
|---|-------------------------------------|--|
| <u>Nine months ended September 30, 2012</u> | | |
| Balance, beginning of period | - | \$ - |
| Options granted | 6,000 | 22.3 |
| Options canceled | (364) | 22.1 |
| Balance, end of period | 5,636 | 22.1 |
| Weighted-average fair value of options granted (NT\$) | \$ 5.82 | |

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

As of September 30, 2012, information about the outstanding and exercisable options of Xintec 2011 Plan was as follows:

| Range of Exercise Price (NT\$) | Options Outstanding | | Weighted-average Exercise Price (NT\$) | Options Exercisable | |
|--------------------------------|----------------------------------|---|--|----------------------------------|--|
| | Number of Options (In Thousands) | Weighted-average Remaining Contractual Life (Years) | | Number of Options (In Thousands) | Weighted-average Exercise Price (NT\$) |

| | | | | | |
|---------|--------------|-----|---------|----------|------|
| \$ 22.1 | <u>5.636</u> | 4.7 | \$ 22.1 | <u>-</u> | \$ - |
|---------|--------------|-----|---------|----------|------|

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

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

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

For the nine months ended September 30, 2012, Xintec recognized compensation cost of the above stock option in the amount of NT\$3,372 thousand.

24. TREASURY STOCK

| Purpose of Treasury Stock | (Shares in Thousands) | | |
|---|--|-----------------|--|
| | Number of Shares, Beginning of Period | Addition | Number of Shares, End of Period |
| <u>Nine months ended September 30, 2011</u> | | | |
| Shareholders executed the appraisal right | - | 1,000 | 1,000 |

In August 2011, at the option of the shareholders of TSMC, certain shareholders requested TSMC to buy back their shares pursuant to the Company Law. As of September 30, 2011, the book value and market value of treasury stock were NT\$71,598 thousand and NT\$69,998 thousand, respectively. These shares were subsequently retired in November 2011.

25. EARNINGS PER SHARE

EPS is computed as follows:

| Amounts (Numerator) | | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) | |
|------------------------------|-----------------------------|--|----------------------------------|---------------------------------|
| | | | Before Income Tax | After Income Tax |
| Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |

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Nine months ended September 30, 2012

Basic EPS

| | | | | | |
|---|----------------|----------------|------------|---------|---------|
| Earnings available to common shareholders of the parent | \$ 135,420,901 | \$ 124,589,534 | 25,919,899 | | |
| Effect of dilutive potential common shares | - | - | 7,139 | \$ 5.22 | \$ 4.81 |

Diluted EPS

| | | | | | |
|--|----------------|----------------|------------|---------|---------|
| Earnings available to common shareholders of the parent (including effect of dilutive potential common shares) | \$ 135,420,901 | \$ 124,589,534 | 25,927,038 | \$ 5.22 | \$ 4.81 |
|--|----------------|----------------|------------|---------|---------|

(Continued)

| | Amounts (Numerator) | | Number of Shares (Denominator) (In Thousands) | EPS (NT\$) | |
|--|----------------------|---------------------|--|-------------------------|------------------------|
| | Before Income Tax | After Income Tax | | Before Income Tax | After Income Tax |
| Nine months ended September 30, 2011 | | | | | |
| Basic EPS | | | | | |
| Earnings available to common shareholders of the parent | \$ 111,217,377 | \$ 102,622,631 | 25,913,755 | \$ 4.29 | \$ 3.96 |
| Effect of dilutive potential common shares | - | - | 10,178 | | |
| Diluted EPS | | | | | |
| Earnings available to common shareholders of the parent (including effect of dilutive potential common shares) | \$ 111,217,377 | \$ 102,622,631 | 25,923,933 | \$ 4.29 | \$ 3.96 |
| | | | | | (Concluded) |

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

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments were as follows:

| | September 30 | | | |
|--|--------------------|------------|--------------------|------------|
| | 2012 | | 2011 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | |
| Financial assets at fair value through profit or loss | \$ 58,690 | \$ 58,690 | \$ 606,492 | \$ 606,492 |
| Available-for-sale financial assets | 2,067,730 | 2,067,730 | 3,255,050 | 3,255,050 |
| Held-to-maturity financial assets | 7,556,046 | 7,572,791 | 8,783,258 | 8,848,693 |
| Hedging derivative financial assets | 28,189 | 28,189 | - | - |
| Financial assets carried at cost | 3,981,251 | - | 4,392,806 | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 20,013 | 20,013 | 210,610 | 210,610 |
| Hedging derivative financial liabilities | - | - | 356 | 356 |
| Bonds payable (including current portion) | 75,600,000 | 75,940,020 | 22,500,000 | 22,561,211 |
| Long-term bank loans (including current portion) | 1,518,750 | 1,518,750 | 1,650,000 | 1,650,000 |
| Other long-term payables (including current portion) | 960,671 | 960,671 | 7,275,104 | 7,275,104 |
| Obligations under capital leases (including current portion) | 745,104 | 745,104 | 725,137 | 725,137 |

- b. Methods and assumptions used in the estimation of fair values of financial instruments
- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
 - 2) Except for derivatives, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
 - 3) The fair values of those derivatives are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
 - 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
 - 5) Fair value of bonds payable was based on their quoted market price.
 - 6) Fair values of long-term bank loans, other long-term payables and obligations under capital leases were based on the present value of expected cash flows, which approximate their carrying amounts.
- c. Valuation gains/losses arising from changes in fair value of derivatives contracts determined using valuation techniques were recognized as net gains of NT\$38,677 thousand and NT\$395,882 thousand for the nine months ended September 30, 2012 and 2011, respectively.
- d. As of September 30, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$7,614,736 thousand and NT\$9,390,766 thousand, respectively; financial liabilities exposed to fair value interest rate risk were NT\$106,933,128 thousand and NT\$65,914,126 thousand, respectively; financial assets exposed to cash flow interest rate and foreign currency risks were NT\$28,189 thousand and nil, respectively; and financial liabilities exposed to cash flow interest rate risk were NT\$1,518,750 thousand and NT\$1,650,356 thousand, respectively.
- e. Movements of the unrealized gains or losses on financial instruments for the nine months ended September 30, 2012 and 2011 were as follows:

| | Nine Months Ended September 30, 2012 | | | |
|--|--|--|--|----------------|
| | From Available- for-sale Financial Assets | Equity Method Investments | Gain (Loss) on Cash Flow Hedges | Total |
| Balance, beginning of period | \$ (1,155,091) | \$ (17,671) | \$ (93) | \$ (1,172,855) |
| Recognized directly in shareholders' equity | (528,053) | 29,202 | 28,191 | (470,660) |
| Removed from shareholders' equity and recognized in earnings | 1,911,864 | - | 91 | 1,911,955 |

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| | | | | | | | | |
|------------------------|----|---------|----|--------|----|--------|----|---------|
| Balance, end of period | \$ | 228,720 | \$ | 11,531 | \$ | 28,189 | \$ | 268,440 |
|------------------------|----|---------|----|--------|----|--------|----|---------|

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| | Nine Months Ended September 30, 2011 | | | |
|--|--|-------------------------------------|---------------------------------------|-----------------------|
| | From Available- for-sale Financial Assets | Equity Method Investments | Gain (Loss) on Cash Flow Hedges | Total |
| Balance, beginning of period | \$ 86,158 | \$ 23,462 | \$ (331) | \$ 109,289 |
| Recognized directly in shareholders' equity | (1,113,956) | (42,035) | (39) | (1,156,030) |
| Removed from shareholders' equity and recognized in earnings | (180,269) | - | 227 | (180,042) |
| Effect of changes in consolidated entities | (269) | 269 | - | - |
| Balance, end of period | \$ (1,208,336) | \$ (18,304) | \$ (143) | \$ (1,226,783) |

f. Information about financial risks

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

- g. The Company seeks to reduce the effects of future cash flow related interest rate and currency changes by primarily using derivative financial instruments.

In September 2012, the Company entered into derivative contracts to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction. Information about outstanding forward exchange contracts consisted of the following:

| Hedged Item | Hedging Financial Instrument | Fair Value | Expected Cash Flow Generated Period | Expected Timing for the Recognition of Gains or Losses from Hedge |
|-----------------------------|-------------------------------------|-------------------|--|--|
| September 30, 2012 | | | | |
| Expected equity transaction | Forward exchange contract | \$ 28,189 | 2012 | 2015 and thereafter |

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

| Hedged Item | Hedging Financial Instrument | Fair Value | Expected Cash Flow Generated Period | Expected Timing for the Recognition of Gains or Losses from Hedge |
|---------------------------|-------------------------------------|-------------------|--|--|
| September 30, 2011 | | | | |
| Long-term bank loans | Interest rate swap contract | \$ (356) | 2011 to 2012 | 2011 to 2012 |

27. RELATED PARTY TRANSACTIONS

Except as disclosed in the consolidated financial statements and other notes, the following is a summary of significant related party transactions:

a. Investees of TSMC

GUC (prior to July 2011, GUC was a subsidiary. Since July 2011, GUC is accounted for using the equity method.)

VIS (accounted for using the equity method)

SSMC (accounted for using the equity method)

b. Indirect investees

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

Mcube (accounted for using the equity method)

c. Others

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

| | 2012 Amount | % | 2011 Amount | % |
|--|----------------|---|----------------|---|
| For the nine months ended September 30 | | | | |
| Sales | | | | |
| GUC | \$ 4,069,104 | 1 | \$ 1,586,731 | - |
| VIS | 139,338 | - | 225,091 | - |
| Mcube | 123,926 | - | - | - |
| Others | 3,172 | - | 26,116 | - |
| | \$ 4,335,540 | 1 | \$ 1,837,938 | - |
| Purchases | | | | |
| VIS | \$ 3,295,850 | 2 | \$ 4,333,148 | 2 |
| SSMC | 2,759,305 | 1 | 2,963,867 | 2 |
| Others | - | - | 124,673 | - |
| | \$ 6,055,155 | 3 | \$ 7,421,688 | 4 |
| Manufacturing expenses | | | | |
| VisEra (primarily outsourcing and rent) | \$ 13,391 | - | \$ 46,543 | - |
| VIS (rent) | 4,784 | - | 5,902 | - |
| Others | 77 | - | - | - |
| | \$ 18,252 | - | \$ 52,445 | - |
| Research and development expenses | | | | |
| VisEra | \$ 6,669 | - | \$ 17,206 | - |
| VIS (rent) | - | - | 1,984 | - |
| Others | 4,656 | - | - | - |
| | \$ 11,325 | - | \$ 19,190 | - |
| Sales of property, plant and equipment and other assets | | | | |
| VisEra | \$ 9,000 | 8 | \$ - | - |
| VIS | - | - | 36,008 | 7 |
| | \$ 9,000 | 8 | \$ 36,008 | 7 |

| | | | | | |
|--|----|--------|---|--------|--------|
| Purchase of property, plant and equipment and other assets | | | | | |
| GUC | \$ | 21,768 | - | \$ | - |
| VisEra | | 1,224 | - | 11,110 | - |
| | \$ | 22,992 | - | \$ | 11,110 |

| | 2012 | | 2011 | |
|---|------------|-----|--------------|-----|
| | Amount | % | Amount | % |
| Non-operating income and gains | | | | |
| VIS (primarily technical service income) | \$ 190,470 | 4 | \$ 179,067 | 4 |
| SSMC (primarily technical service income) | 163,122 | 4 | 163,131 | 4 |
| VisEra (rent) | - | - | 2,200 | - |
| Others | 2,394 | - | - | - |
| | \$ 355,986 | 8 | \$ 344,398 | 8 |
| As of September 30 | | | | |
| Receivables | | | | |
| GUC | \$ 852,919 | 92 | \$ 569,928 | 99 |
| Mcube | 71,948 | 8 | - | - |
| Others | 378 | - | 8,748 | 1 |
| | \$ 925,245 | 100 | \$ 578,676 | 100 |
| Other receivables | | | | |
| VIS | \$ 102,169 | 65 | \$ 85,453 | 64 |
| SSMC | 54,975 | 35 | 47,921 | 36 |
| Others | - | - | 525 | - |
| | \$ 157,144 | 100 | \$ 133,899 | 100 |
| Refundable deposits | | | | |
| VIS | \$ 5,813 | - | \$ - | - |
| Others | 4 | - | - | - |
| | \$ 5,817 | - | \$ - | - |
| Payables | | | | |
| VIS | \$ 384,364 | 49 | \$ 1,011,671 | 74 |
| SSMC | 377,033 | 48 | 342,654 | 25 |
| Others | 21,856 | 3 | 6,866 | 1 |
| | \$ 783,253 | 100 | \$ 1,361,191 | 100 |
| Deferred credits | | | | |
| VisEra | \$ 1,006 | - | \$ - | - |

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

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

The Company leased certain factory building from VisEra. The lease terms and prices were determined in accordance with mutual agreements. The rental expense was paid monthly and the related expenses were classified under manufacturing expenses. The lease expired in June 2011.

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

28. PLEDGED OR MORTGAGED ASSETS

The Company provided certain assets as collateral mainly for long-term bank loans, land lease agreements and customs duty guarantee, which were as follows:

| | September 30 | |
|------------------------|--------------|------------|
| | 2012 | 2011 |
| Other financial assets | \$ 120,761 | \$ 139,320 |

29. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land, factory and office premises from the Science Park Administration and Jhongli Industrial Park Service Center. These operating leases expire on various dates from December 2012 to July 2032 and can be renewed upon expiration.

The Company entered into lease agreements for its office premises and certain office equipment located in the United States, Japan, Shanghai and Taiwan. These operating leases expire between 2012 and 2020 and can be renewed upon expiration.

As of September 30, 2012, future lease payments were as follows:

| Year | Amount |
|--------------------------------|--------------|
| 2012 (4 th quarter) | \$ 177,739 |
| 2013 | 679,354 |
| 2014 | 645,979 |
| 2015 | 634,600 |
| 2016 | 606,937 |
| 2017 and thereafter | 4,687,683 |
| | \$ 7,432,292 |

30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of September 30, 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 TSMC can use up to 35% of TSMC's capacity if TSMC's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.

- 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. TSMC's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. TSMC and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, TSMC and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. TSMC and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but TSMC alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.

- c. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as SMIC) in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People's High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People's High Court ruled in favor of TSMC and dismissed SMIC's lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC's trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC's appeal against the Beijing High Court's finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares in July 2010, which are recorded within available for sale financial assets, and obtained the subsequent cash settlement income in accordance with the agreement.

- 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 of the case cannot be determined at this time.

- f. TSMC 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. Both parties also signed the research and development funding agreement and TSMC will provide EUR277,000 thousand to ASML's research and development programs from 2013 to 2017.

- g. TSMC entered into an agreement with a counterparty in 2003 whereby TSMC China is obligated to purchase certain property, plant and equipment at the agreed-upon price within the contract period. If the purchase is not completed, TSMC China is obligated to compensate the counterparty for the loss incurred. The property, plant and equipment have been in use by TSMC China since 2004 and are being depreciated over their estimated service lives. The related obligation totaled NT\$818,361 thousand and NT\$6,458,725 thousand as of September 30, 2012 and 2011, respectively, which is included in other long-term payables.
- h. Amounts available under unused letters of credit as of September 30, 2012 were NT\$87,930 thousand.

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

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

| | September 30 | | | |
|---|-----------------------|---------------|-----------------------|---------------|
| | 2012 | | 2011 | |
| | Foreign Currencies | Exchange Rate | Foreign Currencies | Exchange Rate |
| | (In Thousands) | (Note) | (In Thousands) | (Note) |
| Financial assets | | | | |
| Monetary items | | | | |
| USD | \$ 4,497,012 | 29.31 | \$ 3,518,408 | 30.554 |
| EUR | 80,269 | 37.82-37.89 | 135,214 | 41.56 |
| JPY | 10,086,700 | 0.3776-0.3777 | 21,799,356 | 0.3996 |
| RMB | 66,627 | 4.62 | 220,424 | 4.81 |
| Non-monetary items | | | | |
| USD | 345,383 | 29.31 | 135,950 | 30.554 |
| HKD | 429,815 | 3.78 | 697,902 | 3.92 |
| Investments accounted for using equity method | | | | |
| USD | 305,453 | 29.31 | 281,446 | 30.554 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| USD | 1,919,805 | 29.31 | 1,743,088 | 30.554 |
| EUR | 86,661 | 37.82-37.89 | 135,963 | 41.56 |
| JPY | 30,796,781 | 0.3776-0.3777 | 23,521,541 | 0.3996 |
| RMB | 213,842 | 4.62 | 372,707 | 4.81 |

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

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

According to the Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company is required to provide pre-disclosure regarding the adoption of the International Financial Reporting Standards (IFRSs) in the consolidated financial statements as follows.

- a. On May 14, 2009, the FSC announced the roadmap of IFRSs adoption for R.O.C. companies. Accordingly, starting 2013, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare the consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, International Accounting Standards (IASs), interpretations as well as related guidance translated by Accounting Research and Development Foundation (ARDF) and issued by the FSC. To comply with the aforementioned amendments, the Company established a taskforce to monitor and execute the IFRSs adoption plan. The important plan items, responsible divisions and plan progress are listed as follows.

| Plan Item | Responsible Division | Plan Progress |
|--|--|----------------------|
| 1) Establish the IFRSs taskforce | Accounting division | Finished |
| 2) Complete the identification of GAAP differences and impact | Accounting division, finance division and employee benefit and payroll section | Finished |
| 3) Complete the identification of consolidated entities under IFRSs | Accounting division | Finished |
| 4) Evaluate potential effect to business operations | Accounting division, finance division, employee benefit and payroll section and business system integration division | Finished |
| 5) Complete the preliminary evaluation of resources and budget needed for IFRSs adoption | Accounting division and business system integration division | Finished |
| 6) Set up a work plan for IFRSs adoption | Accounting division and business system integration division | Finished |
| 7) Personnel training | Accounting division | Finished |
| 8) Determine IFRSs accounting policies | Accounting division, finance division and employee benefit and payroll section | Finished |
| 9) Develop financial statement template under IFRSs | Accounting division and finance division | Finished |

(Continued)

| 4Plan Item | Responsible Division | Plan Progress |
|--|--|--|
| 10) Complete evaluation, configuration and testing of the IT systems | Accounting division and business system integration division | Finished |
| 11) Communicate with related departments on the impact of IFRSs adoption | Accounting division | Finished |
| 12) Complete the preparation of opening balance sheet under IFRSs | Accounting division | Finished |
| 13) Complete modification to the relevant internal controls | Accounting division and internal audit division | Finished |
| 14) Prepare comparative financial information under IFRSs for 2012 | Accounting division and finance division | In progress according to the plan (Concluded) |

b. Exemptions from IFRS 1

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

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

- c. As of September 30, 2012, based on the Company's assessment, the significant differences between the Company's current accounting policies under R.O.C. GAAP and the ones under IFRSs are stated as follows:

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

| R.O.C. GAAP Item | Amount | Effect of Transition to IFRSs Recognition and | | Amount | IFRSs Item | Note |
|---|--------------------|--|----------------------------|--------------------|---|-----------|
| | | Measurement Difference | Presentation Difference | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 143,472,277 | \$ - | \$ - | \$ 143,472,277 | Cash and cash equivalents | |
| Financial assets at fair value through profit or loss | 15,360 | - | - | 15,360 | Financial assets at fair value through profit or loss | |
| Available-for-sale financial assets | 3,308,770 | - | - | 3,308,770 | Available-for-sale financial assets | |
| Held-to-maturity financial assets | 3,825,680 | - | - | 3,825,680 | Held-to-maturity financial assets | |
| Receivables from related parties | 185,764 | - | - | 185,764 | Receivables from related parties | |
| Notes and accounts receivable | 46,321,240 | - | (490,952) | 45,830,288 | Notes and accounts receivable | |
| Allowance for doubtful receivables | (490,952) | - | 490,952 | - | - | |
| Allowance for sales returns and others | (5,068,263) | - | 5,068,263 | - | - | a) |
| Other receivables from related parties | 122,292 | - | - | 122,292 | Other receivables from related parties | |
| Other financial assets | 617,142 | - | - | 617,142 | Other financial assets | |
| Inventories | 24,840,582 | - | - | 24,840,582 | Inventories | |
| Deferred income tax assets | 5,936,490 | - | (5,936,490) | - | - | b) |
| Prepaid expenses and other current assets | 2,174,014 | - | - | 2,174,014 | Other current asset | |
| Total current assets | 225,260,396 | - | (868,227) | 224,392,169 | Total current assets | |
| Long-term investments | | | | | | |
| Investments accounted for using equity method | 24,900,332 | (13,401) | - | 24,886,931 | Investments accounted for using equity method | e) |
| Held-to-maturity financial assets | 5,243,167 | - | - | 5,243,167 | Held-to-maturity financial assets | |
| Financial assets carried at cost | 4,315,005 | - | - | 4,315,005 | Financial assets carried at cost | |
| Total long-term investments | 34,458,504 | (13,401) | - | 34,445,103 | Total long-term investments | |
| Net property, plant and equipment | 490,374,916 | - | 47,237 | 490,422,153 | Property, plant and equipment | c) |
| Intangible assets | 10,861,563 | - | - | 10,861,563 | Intangible assets | |
| Other assets | | | | | | |
| Deferred income tax assets | 7,436,717 | 231,011 | 5,936,490 | 13,604,218 | Deferred income tax assets | b), d) |
| Refundable deposits | 4,518,863 | - | - | 4,518,863 | Refundable deposits | |
| Others | 1,353,983 | - | (47,237) | 1,306,746 | Others | c) |

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| | | | | | |
|--|----------------|------------|--------------|----------------|--|
| Total other assets | 13,309,563 | 231,011 | 5,889,253 | 19,429,827 | Total other assets |
| Total | \$ 774,264,942 | \$ 217,610 | \$ 5,068,263 | \$ 779,550,815 | Total |
| Current liabilities | | | | | |
| Short-term loans | \$ 25,926,528 | \$ - | \$ - | \$ 25,926,528 | Short-term loans |
| Financial liabilities at fair value through profit or loss | 13,742 | - | - | 13,742 | Financial liabilities at fair value through profit or loss |
| Hedging derivative financial liabilities | 232 | - | - | 232 | Hedging derivative financial liabilities |
| Accounts payable | 10,530,487 | - | - | 10,530,487 | Accounts payable |
| Payables to related parties | 1,328,521 | - | - | 1,328,521 | Payables to related parties |
| Income tax payable | 10,656,124 | - | - | 10,656,124 | Income tax payable |
| Salary and bonus payable | 6,148,499 | - | - | 6,148,499 | Salary and bonus payable |
| Accrued profit sharing to employees and bonus to directors and supervisors | 9,081,293 | - | - | 9,081,293 | Accrued profit sharing to employees and bonus to directors and supervisors |
| Payables to contractors and equipment suppliers | 35,540,526 | - | - | 35,540,526 | Payables to contractors and equipment suppliers |

(Continued)

| Effect of Transition to IFRSs Recognition and | | | | | | | |
|---|--------------------|---------------------------|-------------------------------|--------------------|--|--|--------|
| R.O.C. GAAP Item | R.O.C. GAAP | | Effect of Transition to IFRSs | | IFRSs | | Note |
| | Amount | Measurement Difference | Presentation Difference | Amount | Item | | |
| Accrued expenses and other current liabilities | \$ 13,218,235 | \$ - | \$ - | \$ 13,218,235 | Accrued expenses and other current liabilities | | |
| Current portion of bonds payable and long-term bank loans | 4,562,500 | - | - | 4,562,500 | Current portion of bonds payable and long-term bank loans | | |
| - | - | - | 5,068,263 | 5,068,263 | Provisions | | a) |
| Total current liabilities | 117,006,687 | - | 5,068,263 | 122,074,950 | Total current liabilities | | |
| Long-term liabilities | | | | | | | |
| Bonds payable | 18,000,000 | - | - | 18,000,000 | Bonds payable | | |
| Long-term bank loans | 1,587,500 | - | - | 1,587,500 | Long-term bank loans | | |
| Obligations under capital leases | 870,993 | - | - | 870,993 | Obligations under capital leases | | |
| Total long-term liabilities | 20,458,493 | - | - | 20,458,493 | Total long-term liabilities | | |
| Other liabilities | | | | | | | |
| Accrued pension cost | 3,908,508 | 2,332,516 | - | 6,241,024 | Accrued pension cost | | d) |
| Guarantee deposits | 443,983 | - | - | 443,983 | Guarantee deposits | | |
| - | - | - | 2,889 | 2,889 | Provisions | | |
| Others | 403,720 | - | (2,889) | 400,831 | Others | | |
| Total other liabilities | 4,756,211 | 2,332,516 | - | 7,088,727 | Total other liabilities | | |
| Total liabilities | 142,221,391 | 2,332,516 | 5,068,263 | 149,622,170 | Total liabilities | | |
| Equity attributable to shareholders of the parent | | | | | | | |
| Capital stock | 259,162,226 | - | - | 259,162,226 | Capital stock | | |
| Capital surplus | 55,846,357 | (374,695) | - | 55,471,662 | Capital surplus | | e) |
| Retained earnings | 322,191,155 | (1,726,828) | - | 320,464,327 | Retained earnings | | d), e) |
| Others | | | | | | | |
| Cumulative translation adjustments | (6,433,369) | 5 | - | (6,433,364) | Foreign currency translation reserve | | e) |
| Unrealized gain (loss) on financial instruments | (1,172,855) | - | 93 | (1,172,762) | Unrealized gain (loss) from available-for-sales financial assets | | |
| - | - | - | (93) | (93) | Cash flow hedging reserve | | |
| | (7,606,224) | 5 | - | (7,606,219) | | | |
| Equity attributable to shareholders of the parent | 629,593,514 | (2,101,518) | - | 627,491,996 | Equity attributable to shareholders of the parent | | |
| Minority interests | 2,450,037 | (13,388) | - | 2,436,649 | Noncontrolling interests | | |
| Total shareholders equity | 632,043,551 | (2,114,906) | - | 629,928,645 | Total shareholders equity | | |

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| | | | | | |
|-------|----------------|------------|--------------|----------------|-------|
| Total | \$ 774,264,942 | \$ 217,610 | \$ 5,068,263 | \$ 779,550,815 | Total |
|-------|----------------|------------|--------------|----------------|-------|

(Concluded)

2) Reconciliation of consolidated balance sheet as of September 30, 2012

| R.O.C. GAAP Item | Amount | Effect of Transition to IFRSs Recognition and | | Amount | IFRSs Item | Note |
|---|----------------|--|----------------------------|----------------|---|------|
| | | Measurement Difference | Presentation Difference | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | \$ 138,738,113 | \$ - | \$ - | \$ 138,738,113 | Cash and cash equivalents | |
| Financial assets at fair value through profit or loss | 58,690 | - | - | 58,690 | Financial assets at fair value through profit or loss | |
| Available-for-sale financial assets | 2,067,730 | - | - | 2,067,730 | Available-for-sale financial assets | |
| Held-to-maturity financial assets | 6,854,611 | - | - | 6,854,611 | Held-to-maturity financial assets | |
| Hedging derivative financial assets | 28,189 | - | - | 28,189 | Hedging derivative financial assets | |
| Receivables from related parties | 925,245 | - | - | 925,245 | Receivables from related parties | |
| Notes and accounts receivable | 64,876,527 | - | (489,590) | 64,386,937 | Notes and accounts receivable | |
| Allowance for doubtful receivables | (489,590) | - | 489,590 | - | - | |
| Allowance for sales returns and others | (6,900,184) | - | 6,900,184 | - | - | a) |
| Other receivables from related parties | 157,144 | - | - | 157,144 | Other receivables from related parties | |
| Other financial assets | 469,979 | - | - | 469,979 | Other financial assets | |
| Inventories | 33,249,045 | - | - | 33,249,045 | Inventories | |

(Continued)

| Effect of Transition to IFRSs Recognition and | | | | | | | |
|--|-----------------------|---------------------------|----------------------------|-----------------------|--|--------|--|
| R.O.C. GAAP Item | Amount | Measurement Difference | Presentation Difference | Amount | IFRSs Item | Note | |
| Deferred income tax assets | \$ 2,650,432 | \$ - | \$ (2,650,432) | \$ - | - | b) | |
| Prepaid expenses and other current assets | 2,639,414 | - | - | 2,639,414 | Other current assets | | |
| Total current assets | 245,325,345 | - | 4,249,752 | 249,575,097 | Total current assets | | |
| Long-term investments | | | | | | | |
| Investments accounted for using equity method | 23,958,462 | (51,304) | - | 23,907,158 | Investments accounted for using equity method | e) | |
| Held-to-maturity financial assets | 701,435 | - | - | 701,435 | Held-to-maturity financial assets | | |
| Financial assets carried at cost | 3,981,251 | - | - | 3,981,251 | Financial assets carried at cost | | |
| Total long-term investments | 28,641,148 | (51,304) | - | 28,589,844 | Total long-term investments | | |
| Net property, plant and equipment | 580,079,887 | - | 34,175 | 580,114,062 | Property, plant and equipment | c) | |
| Intangible assets | 10,888,854 | - | - | 10,888,854 | Intangible assets | | |
| Other assets | | | | | | | |
| Deferred income tax assets | 10,137,266 | 270,786 | 2,650,432 | 13,058,484 | Deferred income tax assets | b), d) | |
| Refundable deposits | 2,331,966 | - | - | 2,331,966 | Refundable deposits | | |
| Others | 1,247,304 | - | (34,175) | 1,213,129 | Others | c) | |
| Total other assets | 13,716,536 | 270,786 | 2,616,257 | 16,603,579 | Total other assets | | |
| Total | \$ 878,651,770 | \$ 219,482 | \$ 6,900,184 | \$ 885,771,436 | Total | | |
| Current liabilities | | | | | | | |
| Short-term loans | \$ 29,749,650 | \$ - | \$ - | \$ 29,749,650 | Short-term loans | | |
| Financial liabilities at fair value through profit or loss | 20,013 | - | - | 20,013 | Financial liabilities at fair value through profit or loss | | |
| Accounts payable | 13,773,108 | - | - | 13,773,108 | Accounts payable | | |
| Payables to related parties | 783,253 | - | - | 783,253 | Payables to related parties | | |
| Income tax payable | 10,855,245 | - | - | 10,855,245 | Income tax payable | | |
| Accrued profit sharing to employees and bonus to directors and supervisors | 8,654,015 | - | - | 8,654,015 | Accrued profit sharing to employees and bonus to directors and supervisors | | |
| Payables to contractors and equipment suppliers | 32,785,881 | - | - | 32,785,881 | Payables to contractors and equipment suppliers | | |
| Accrued expenses and other current liabilities | 22,306,318 | - | - | 22,306,318 | Accrued expenses and other current liabilities | | |
| Current portion of bonds payable and long-term bank loans | 125,000 | - | - | 125,000 | Current portion of bonds payable and long-term bank loans | | |
| - | - | - | 6,900,184 | 6,900,184 | Provisions | a) | |
| Total current liabilities | 119,052,483 | - | 6,900,184 | 125,952,667 | Total current liabilities | | |

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| | | | | | |
|--|--------------------|------------------|------------------|--------------------|------------------------------------|
| Long-term liabilities | | | | | |
| Bonds payable | 75,600,000 | - | - | 75,600,000 | Bonds payable |
| Long-term bank loans | 1,393,750 | - | - | 1,393,750 | Long-term bank loans |
| Other long-term payable | 54,000 | - | - | 54,000 | Other long-term payable |
| Obligations under capital leases | 737,034 | - | - | 737,034 | Obligations under capital leases |
| Total long-term liabilities | 77,784,784 | - | - | 77,784,784 | Total long-term liabilities |
| Other liabilities | | | | | |
| Accrued pension cost | 3,955,056 | 2,278,222 | - | 6,233,278 | Accrued pension cost d) |
| Guarantee deposits | 229,212 | - | - | 229,212 | Guarantee deposits |
| - | - | - | 3,619 | 3,619 | Provisions |
| Others | 484,178 | - | (3,619) | 480,559 | Others |
| Total other liabilities | 4,668,446 | 2,278,222 | - | 6,946,668 | Total other liabilities |
| Total liabilities | 201,505,713 | 2,278,222 | 6,900,184 | 210,684,119 | Total liabilities |
| Equity attributable to shareholders of the parent | | | | | |
| Capital stock | 259,220,476 | - | - | 259,220,476 | Capital stock |
| Capital surplus | 56,074,435 | (444,010) | - | 55,630,425 | Capital surplus e) |
| Retained earnings | 369,032,021 | (1,601,756) | - | 367,430,265 | Retained earnings d), e) |

(Continued)

| R.O.C. GAAP Item | Effect of Transition to IFRSs Recognition and | | | | IFRSs Item | Note |
|---|--|---------------------------|----------------------------|-----------------|--|------|
| | Amount | Measurement Difference | Presentation Difference | Amount | | |
| Others | | | | | | |
| Cumulative translation adjustments | \$ (10,052,181) | \$ (59) | \$ - | \$ (10,052,240) | Foreign currency translation reserve | e) |
| Unrealized gain (loss) on financial instruments | 268,440 | - | (28,189) | 240,251 | Unrealized gain (loss) from available-for-sales financial assets | |
| - | - | - | 28,189 | 28,189 | Cash flow hedging reserve | |
| | (9,783,741) | (59) | - | (9,783,800) | | |
| Equity attributable to shareholders of the parent | 674,543,191 | (2,045,825) | - | 672,497,366 | Equity attributable to shareholders of the parent | |
| Minority interests | 2,602,866 | (12,915) | - | 2,589,951 | Noncontrolling interests | |
| Total shareholders equity | 677,146,057 | (2,058,740) | - | 675,087,317 | Total shareholders equity | |
| Total | \$ 878,651,770 | \$ 219,482 | \$ 6,900,184 | \$ 885,771,436 | Total | |

(Concluded)

3) Reconciliation of consolidated statement of comprehensive income for the nine months ended September 30, 2012

| R.O.C. GAAP Item | Effect of Transition to IFRSs Recognition and | | | | IFRSs Item | Note |
|--|--|---------------------------|----------------------------|----------------|--|------|
| | Amount | Measurement Difference | Presentation Difference | Amount | | |
| Net sales | \$ 374,943,954 | \$ - | \$ 356,461 | \$ 375,300,415 | Net sales | f) |
| Cost of sales | 193,167,804 | (33,945) | - | 193,133,859 | Cost of sales | d) |
| Gross profit before affiliates elimination | 181,776,150 | 33,945 | 356,461 | 182,166,556 | Gross profit before affiliates elimination | |
| Realized gross profit from affiliates | (129,569) | - | - | (129,569) | Realized profit from affiliates | |
| Gross profit | 181,646,581 | 33,945 | 356,461 | 182,036,987 | Gross profit | |
| Operating expenses | | | | | | |
| Research and development | 29,897,315 | (14,218) | - | 29,883,097 | Research and development | d) |
| General and administrative | 13,505,479 | (5,020) | - | 13,500,459 | General and administrative | d) |
| Marketing | 3,441,269 | (1,111) | - | 3,440,158 | Marketing | d) |
| Total operating expenses | 46,844,063 | (20,349) | - | 46,823,714 | | |
| - | - | - | (426,059) | (426,059) | Other operating gains and losses | f) |
| Income from operations | 134,802,518 | 54,294 | (69,598) | 134,787,214 | Income from operations | |

| | | | | | | |
|--|-----------|---------|-------------|-------------|--|--------|
| Non-operating income and gains | | | | | | |
| Equity in earnings of equity method investees, net | 1,305,776 | 32,485 | - | 1,338,261 | Equity in earnings of equity method investees, net | e) |
| Interest income | 1,294,864 | - | (1,294,864) | - | - | f) |
| Disposal of financial assets, net | 449,060 | - | (449,060) | - | - | f) |
| Settlement income | 448,275 | - | (448,275) | - | - | f) |
| Technical service income | 356,461 | - | (356,461) | - | - | f) |
| Foreign exchange gain, net | 208,125 | - | - | 208,125 | Foreign exchange gain, net | |
| Valuation gain on financial instruments, net | 43,842 | - | (43,842) | - | - | f) |
| Gain on disposal of property, plant and equipment and other assets | 21,749 | - | (21,749) | - | - | f) |
| Others | 481,489 | - | (481,489) | - | - | f) |
| - | - | - | 1,364,540 | 1,364,540 | Other income | f) |
| - | - | (1,009) | (1,619,387) | (1,620,396) | Other gains and losses | e), f) |
| | 4,609,641 | 31,476 | (3,350,587) | 1,290,530 | | |
| Non-operating expenses and losses | | | | | | |
| Impairment of financial assets | 2,748,616 | - | (2,748,616) | - | - | f) |
| Interest expense | 685,418 | - | - | 685,418 | Finance cost | |
| Impairment loss on idle assets | 422,323 | - | (422,323) | - | - | f) |

(Continued)

| R.O.C. GAAP Item | Effect of Transition to IFRSs Recognition and | | | Amount | IFRSs Item | Note |
|---|--|---------------------------|----------------------------|----------------|---|------|
| | Amount | Measurement Difference | Presentation Difference | | | |
| Loss on disposal of property, plant and equipment | \$ 21,486 | \$ - | \$ (21,486) | \$ - | - | f) |
| Others | 227,760 | - | (227,760) | - | - | f) |
| | 4,105,603 | - | (3,420,185) | 685,418 | | |
| Income before income tax | 135,306,556 | 85,770 | - | 135,392,326 | Income before income tax | |
| Income tax expense | 10,827,255 | (39,775) | - | 10,787,480 | Income tax expense | d) |
| Net income | \$ 124,479,301 | \$ 125,545 | \$ - | 124,604,846 | Net income | |
| | | | | (3,627,600) | Exchange differences on translating foreign operations | |
| | | | | 28,421 | Cash flow hedges | |
| | | | | 1,376,863 | Net valuation gain on available-for-sale financial assets | |
| | | | | 68,461 | Share of other comprehensive income of associates and joint venture | |
| | | | | (2,153,855) | Other comprehensive income for the period, net of tax effect | |
| | | | | \$ 122,450,991 | Total comprehensive income for the period | |

(Concluded)

4) Notes to the reconciliation of the significant differences:

a) Allowance for sales returns and others

Under R.O.C. GAAP, provisions for estimated sales returns and others are recognized as a reduction in revenue in the period the related revenue is recognized based on historical experience. Allowance for sales returns and others is recorded as a deduction in accounts receivable. Under IFRSs, the allowance for sales returns and others is a present obligation with uncertain timing and an amount that arises from past events and is therefore reclassified as provisions (classified under current liabilities) in accordance with IAS No. 37, Provisions, Contingent Liabilities and Contingent Assets.

As of September 30, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and others to provisions were NT\$6,900,184 thousand and NT\$5,068,263 thousand, respectively.

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

Under R.O.C. GAAP, a deferred tax asset and liability is classified as current or non-current in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRSs, a deferred tax asset

and liability is classified as non-current asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. In accordance with IAS No. 12, Income Taxes, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

As of September 30, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to non-current assets were NT\$2,650,432 thousand and NT\$5,936,490 thousand, respectively.

c) The classification of leased assets and idle assets

Under R.O.C. GAAP, leased assets and idle assets are classified under other assets. Under IFRSs, the aforementioned items are classified as property, plant and equipment according to their nature. Leased assets are mainly dormitories leased to employees and factories leased to suppliers. In accordance with IAS No. 40, Investment Property, the dormitories leased to employees are not classified as investment properties; factories leased to suppliers are not considered as investment properties since they cannot be sold separately and comprise only an insignificant portion of the plant.

As of September 30, 2012 and January 1, 2012, the amounts reclassified from leased assets and idle assets to property, plant and equipment were NT\$34,175 thousand and NT\$47,237 thousand, respectively.

d) Employee benefits

The Company had previously applied an actuarial valuation on its defined benefit obligation and recognized the related pension cost and retirement benefit obligation in conformity with R.O.C. GAAP. Under IFRSs, the Company should carry out actuarial valuation on defined benefit obligation in accordance with IAS No. 19, Employee Benefits.

In addition, under R.O.C. GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees.

Under IAS No. 19, Employee Benefits, the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

At the transition date, the Company performed the actuarial valuation under IAS No. 19, Employee Benefits, and recognized the valuation difference directly to retained earnings under the requirement of IFRS 1. As of September 30, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of NT\$2,278,222 thousand and NT\$2,332,516 thousand, respectively; deferred income tax assets were adjusted for an increase of NT\$270,786 thousand and NT\$231,011 thousand, respectively. Pension cost and income tax expense for the nine months ended September 30, 2012 were also adjusted for a decrease of NT\$54,294 thousand and NT\$39,775 thousand, respectively.

e) Investments accounted for using the equity method

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

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

As of September 30, 2012 and January 1, 2012, as a result of the differences mentioned above, investment accounted for using the equity method was adjusted for a decrease of NT\$51,304 thousand and NT\$13,401 thousand, respectively; cumulative translation adjustments was adjusted for a decrease of NT\$59 thousand and an increase of NT\$5 thousand, respectively; capital surplus was adjusted for a decrease of NT\$444,010 thousand and NT\$374,695 thousand, respectively. In addition, equity in earnings of equity method investees was adjusted for an increase of NT\$32,485 thousand; other gains and losses was adjusted for a loss of NT\$1,009 thousand due from the deemed disposal for the nine months ended September 30, 2012.

f) The reclassification of line items in the consolidated statement of comprehensive income

In accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers before its amendment due to the adoption of IFRSs, income from operations in the consolidated income statement only includes net sales, cost of sales and operating expenses. Under IFRSs, based on the nature of operating transactions, technical service income is reclassified under net sales; rental revenue, depreciation of rental assets, net gain or loss on disposal of property, plant and equipment and other assets, and impairment loss on idle assets, are reclassified under other operating gains and losses, which are reflected in income from operations.

Under IFRSs, based on the nature of operating transactions, the Company reclassified technical service income of NT\$356,461 thousand for the nine months ended September 30, 2012 to net sales, rental revenue of NT\$338 thousand, net gain on disposal of property, plant and equipment and other assets of NT\$263 thousand, other income of NT\$886 thousand, depreciation of rental assets of NT\$5,223 thousand and impairment loss on idle assets of NT\$422,323 thousand to other operating gains and losses. In addition, interest income of NT\$1,294,864 thousand and dividend income of NT\$69,676 thousand were also reclassified to other income; settlement income of NT\$448,275 thousand, net gain of disposal of financial assets of NT\$449,060 thousand, net valuation gain on financial instruments of NT\$43,842 thousand, others of NT\$410,589 thousand (under non-operating income and gains), impairment of financial assets of NT\$2,748,616 thousand as well as others of NT\$222,537 thousand (under non-operating expenses and losses) were reclassified to other gains and losses for the nine months ended September 30, 2012.

- d. The Company's aforementioned assessment is based on the 2010 version of IFRSs translated by ARDF and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by FSC on December 22, 2011. However, the assessment result may be impacted as FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

33. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for TSMC and its investees in which all significant intercompany balances and transactions are eliminated upon consolidation:

- a. Financings provided: Please see Table 1 attached;
- b. Endorsement/guarantee provided: None;
- c. Marketable securities held: Please see Table 2 attached;
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Please see Table 3 attached;
- e. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;
- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;
- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees over which TSMC exercises significant influence: Please see Table 7 attached;
- j. Information on investment in Mainland China
 - 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
 - 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Table 9 attached.
- k. Intercompany relationships and significant intercompany transactions: Please see Table 9 attached.

34. OPERATING SEGMENTS INFORMATION

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The Company's only reportable segment is the foundry segment. The foundry segment engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. The Company also had other operating segments that did not exceed the quantitative threshold for separate reporting. These segments mainly engage in the researching, developing, and providing SoC (System on Chip) design and also engage in the researching, developing, designing, manufacturing and selling of solid state lighting devices and renewable energy and efficiency related technologies and products.

The Company uses the operating profit as the measurement for segment profit and the basis of performance assessment. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 2.

The Company's operating segments information was as follows:

| | Foundry | Others | Elimination | Total |
|--|----------------|-------------|-------------|----------------|
| <u>Nine months ended September 30, 2012</u> | | | | |
| Sales from external customers | \$ 374,867,846 | \$ 76,108 | \$ - | \$ 374,943,954 |
| Sales among intersegments | - | 6,967 | (6,967) | - |
| Operating profit (loss) | 136,723,313 | (1,920,795) | - | 134,802,518 |
| <u>Nine months ended September 30, 2011</u> | | | | |
| Sales from external customers | 318,125,953 | 4,243,525 | - | 322,369,478 |
| Sales among intersegments | 1,588,601 | 6,224 | (1,594,825) | - |
| Operating profit (loss) | 109,734,169 | (1,106,808) | - | 108,627,361 |

35. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the management on October 23, 2012.

TABLE 1**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****FINANCINGS PROVIDED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Financing Company | Counter-party | Financial Statement Account | Maximum Balance for the Period (US\$ in Thousands) (Note 4) | Ending Balance (US\$ in Thousands) (Note 4) | Amount Actually Drawn (US\$ in Thousands) | Interest Rate | Nature of Financing | Transaction Amounts | Collateral | | | Financing Limits for Each Borrowing Company | Financing Company Total Financing Amounts Limits (Note 3) | |
|-------------------|---------------|--|---|---|---|---------------|-----------------------------------|---------------------|---|------------------------|------------|---|---|------------------------|
| | | | | | | | | | Reason for Financing | Allowance for Bad Debt | Item Value | | | |
| TSMC Partners | TSMC China | Other receivables from related parties | \$ 7,327,500 (US\$ 250,000) | \$ 7,327,500 (US\$ 250,000) | \$ 5,275,800 (US\$ 180,000) | 0.25%-0.26% | The need for short-term financing | \$ - | Purchase equipment | \$ - | \$ - | \$ - | \$ 38,059,496 (Note 1) | \$ 38,059,496 |
| | TSMC Solar | Other receivables from related parties | 1,172,400 (US\$ 40,000) | - | - | - | The need for short-term financing | - | Operating capital | - | - | - | 15,223,798 (Note 1) | 38,059,496 |
| | TSMC SSL | Other receivables from related parties | 879,300 (US\$ 30,000) | 879,300 (US\$ 30,000) | - | - | The need for short-term financing | - | Operating capital | - | - | - | 15,223,798 (Note 1) | 38,059,496 |
| TSMC Development | TSMC Solar | Other receivables from related parties | 2,344,800 (US\$ 80,000) | 2,344,800 (US\$ 80,000) | 1,099,125 (US\$ 37,500) | 0.21% | The need for short-term financing | - | Operating capital | - | - | - | 5,111,393 (Notes 1 and 5) | 12,778,893 (Note 3) |
| TSMC Global | TSMC | Other receivables from related parties | 5,862,000 (US\$ 200,000) | - | - | - | The need for short-term financing | - | Support the parent company's short-term operation requirement | - | - | - | 43,089,715 (Note 2) | 43,089,715 |

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

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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 reviewed financial statements in accordance with local accounting principles.

TABLE 2**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 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 | September 30, 2012 | | | Market Value or Net Asset Value (Foreign Currencies in Thousands) | Note |
|-------------------|---|--|---|-----------------------------|--|-----------------------------|---|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | | |
| TSMC | <u>Corporate bond</u> | | | | | | | |
| | Nan Ya Plastics Corporation | - | Held-to-maturity financial assets | - | \$ 1,099,841 | N/A | \$ 1,111,222 | |
| | China Steel Corporation | - | | - | 301,865 | N/A | 303,185 | |
| | <u>Stock</u> | | | | | | | |
| | Semiconductor Manufacturing International Corporation | - | Available-for-sale financial assets | 1,508,122 | 1,624,700 | 5 | 1,624,700 | |
| | TSMC Global | Subsidiary | Investments accounted for using equity method | 1 | 43,089,715 | 100 | 43,089,715 | |
| | TSMC Partners | Subsidiary | Investee accounted for using equity method | 988,268 | 38,058,989 | 100 | 38,059,496 | |
| | VIS | Subsidiary | Investee accounted for using equity method | 628,223 | 9,161,979 | 41 | 11,370,845 | |
| | TSMC Solar | Subsidiary | Investee accounted for using equity method | 1,118,000 | 8,045,131 | 99 | 8,032,665 | |
| | SSMC | | | 314 | 6,253,232 | 39 | 6,039,249 | |
| | TSMC North America | Subsidiary | | 11,000 | 3,164,974 | 100 | 3,164,974 | |
| | TSMC SSL | Subsidiary | | 430,400 | 2,822,776 | 95 | 2,822,776 | |
| | Xintec | Investee with a controlling financial interest | | 94,950 | 1,573,654 | 40 | 1,573,654 | |
| | GUC | Investee accounted for using equity method | | 46,688 | 1,177,159 | 35 | 5,439,136 | |
| | TSMC Europe | Subsidiary | | - | 223,125 | 100 | 223,125 | |
| | TSMC Japan | Subsidiary | | 6 | 160,799 | 100 | 160,799 | |
| | TSMC Korea | Subsidiary | | 80 | 24,805 | 100 | 24,805 | |
| | United Industrial Gases Co., Ltd. | - | Financial assets carried at cost | 19,300 | 193,584 | 10 | 359,925 | |
| | Shin-Etsu Handotai Taiwan Co., Ltd. | - | | 10,500 | 105,000 | 7 | 337,945 | |
| | W.K. Technology Fund IV | - | | 4,000 | 40,000 | 2 | 35,545 | |

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| <u>Fund</u> | | | | | | |
|----------------------|---|--|--------------------------|---|--------|--------|
| Horizon Ventures | | | Financial assets carried | | | |
| Fund | - | | at cost | - | 89,916 | 12 |
| Crimson Asia Capital | - | | | - | 55,259 | 1 |
| | | | | | | 89,916 |
| | | | | | | 55,259 |

| <u>Capital</u> | | | | | | |
|-------------------|------------|--|-----------------------|---|------------|------------|
| TSMC China | Subsidiary | | Investments accounted | | | |
| | | | for using equity | | | |
| | | | method | - | 16,309,653 | 100 |
| | | | | | | 16,332,387 |
| VTAF III | Subsidiary | | | - | 1,056,641 | 50 |
| | | | | | | 1,034,689 |
| VTAF II | Subsidiary | | | - | 654,685 | 98 |
| | | | | | | 648,615 |
| Emerging Alliance | Subsidiary | | | - | 169,756 | 99 |
| | | | | | | 169,756 |
| TSMC GN | Subsidiary | | | - | 71,723 | 100 |
| | | | | | | 71,723 |

| TSMC Solar | | | | | | |
|-------------------|--------------------|--|-----------------------|--------|-----------|-----------|
| <u>Stock</u> | | | | | | |
| Motech | Investee accounted | | Investments accounted | | | |
| | for using equity | | for using equity | | | |
| | method | | method | 87,480 | 4,452,514 | 20 |
| | | | | | | 2,975,843 |
| TSMC Solar Europe | Subsidiary | | | - | 100,243 | 100 |
| | | | | | | 100,243 |
| TSMC Solar NA | Subsidiary | | | 1 | (736) | 100 |
| | | | | | | (736) |

| <u>Capital</u> | | | | | | |
|----------------|--------------------|--|-----------------------|---|-----------|-----------|
| VTAF III | Investee accounted | | Investments accounted | | | |
| | for using equity | | for using equity | | | |
| | method | | method | - | 1,627,669 | 49 |
| | | | | | | 1,627,669 |

(Continued)

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| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | September 30, 2012 | | Market Value or Net Asset Value (Foreign Currencies in Thousands) | Note |
|--------------------|---|--|---|-----------------------------|--|-----------------------------|---|--------------|
| | | | | | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | | |
| TSMC SSL | <u>Stock</u> TSMC Lighting NA | Subsidiary | Investments accounted for using equity method | 1 | \$ | 2,890 | 100 | \$ 2,890 |
| TSMC GN | <u>Stock</u> TSMC Solar | Investee accounted for using equity method | Investments accounted for using equity method | 4,302 | | 30,909 | - | 30,909 |
| | TSMC SSL | Investee accounted for using equity method | | 4,680 | | 30,691 | 1 | 30,691 |
| TSMC Partners | <u>Corporate bond</u> General Elec Cap Corp. Mtn | - | Held-to-maturity financial assets | - | US\$ | 19,995 | N/A | US\$ 20,046 |
| | <u>Stock</u> TSMC Development, Inc. (TSMC Development) | Subsidiary | Investments accounted for using equity method | 1 | US\$ | 581,920 | 100 | US\$ 581,920 |
| | VisEra Holding Company | Investee accounted for using equity method | | 43,000 | US\$ | 99,406 | 49 | US\$ 99,406 |
| | TSMC Technology | Subsidiary | | 1 | US\$ | 11,532 | 100 | US\$ 11,532 |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | Subsidiary | | 14,153 | US\$ | 8,672 | 97 | US\$ 8,672 |
| | InveStar Semiconductor Development Fund, Inc. (ISDF) | Subsidiary | | 787 | US\$ | 6,336 | 97 | US\$ 6,336 |
| | TSMC Canada | Subsidiary | | 2,300 | US\$ | 4,554 | 100 | US\$ 4,554 |
| | 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\$ | 3,216 | - | US\$ 3,216 |
| TSMC Development | <u>Corporate bond</u> GE Capital Corp. | - | | - | US\$ | 19,993 | N/A | US\$ 20,046 |

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| | | Held-to-maturity financial assets | | | | | |
|--------------------------|---|--------------------------------------|---|---------|--------------|-----|--------------|
| | JP Morgan Chase & Co. | - | - | US\$ | 15,000 | N/A | US\$ 15,006 |
| <u>Stock</u> | | | | | | | |
| | WaferTech | Subsidiary | Investments accounted for using equity method | 293,640 | US\$ 290,054 | 100 | US\$ 290,054 |
| <u>Emerging Alliance</u> | | | | | | | |
| <u>Common stock</u> | | | | | | | |
| | Audience, Inc. | - | Available-for-sale financial assets | 46 | US\$ 286 | - | US\$ 286 |
| | 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 | - |
| <u>VTAF II</u> | | | | | | | |
| <u>Common stock</u> | | | | | | | |
| | Audience, Inc. | - | Available-for-sale financial assets | 319 | US\$ 1,976 | 2 | US\$ 1,976 |
| | 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)

| | | September 30, 2012 | | | | | | | |
|-------------------|-------------------------------------|-------------------------------|---|-----------------------------|--|-----------------------------|---|--|------|
| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | | Note |
| | | | | | | | | | |
| TAF 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 | | |
| | Power Analog Microelectronics | - | | 7,330 | US\$ 3,483 | 21 | US\$ 3,483 | | |
| | QST Holdings, LLC | - | | - | US\$ 593 | 13 | US\$ 593 | | |
| | <u>Capital</u> | | | | | | | | |
| | VTA Holdings | Subsidiary | Investments accounted for using equity method | - | - | 31 | - | | |
| TAF III | <u>Common stock</u> | | | | | | | | |
| | Mutual-Pak Technology Co., Ltd. | Subsidiary | Investments accounted for using equity method | 14,168 | US\$ 1,373 | 58 | US\$ 1,373 | | |
| | InvenSense, Inc. | - | Available-for-sale financial assets | 93 | US\$ 1,115 | - | US\$ 1,115 | | |
| | 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. | - | | 4,031 | US\$ 4,810 | 4 | US\$ 4,810 | | |
| | Powervation, Ltd. | - | | 449 | US\$ 7,030 | 16 | US\$ 7,030 | | |
| | Stion Corp. | - | | 8,152 | US\$ 55,474 | 17 | US\$ 55,474 | | |
| | Tilera, Inc. | - | | 3,890 | US\$ 3,025 | 2 | US\$ 3,025 | | |
| | Validity Sensors, Inc. | - | | 9,340 | US\$ 3,456 | 4 | US\$ 3,456 | | |
| | <u>Capital</u> | | | | | | | | |
| | Growth Fund Limited (Growth Fund) | Subsidiary | Investments accounted for using equity method | - | US\$ 424 | 100 | US\$ 424 | | |
| | VTA Holdings | Subsidiary | | - | - | 62 | - | | |
| Growth Fund | <u>Common stock</u> | | | | | | | | |
| | Veebeam | - | Financial assets carried at cost | 10 | US\$ 25 | - | US\$ 25 | | |
| DF | <u>Common stock</u> | | | | | | | | |
| | Integrated Memory Logic, Inc. | - | Available-for-sale financial assets | 1,402 | US\$ 4,772 | 2 | US\$ 4,772 | | |
| | Memsic, Inc. | - | | 1,286 | US\$ 2,044 | 5 | US\$ 2,044 | | |
| | <u>Preferred stock</u> | | | | | | | | |
| | Sonics, Inc. | - | Financial assets carried at cost | 230 | US\$ 497 | 2 | US\$ 497 | | |
| DF II | <u>Common stock</u> | | | | | | | | |
| | Memsic, Inc. | - | Available-for-sale financial assets | 1,072 | US\$ 1,705 | 4 | US\$ 1,705 | | |
| | 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 | | |

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

(Continued)

September 30, 2012

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | | Note |
|-------------------|--|----------------------------------|---|-----------------------------------|--|--------------------------------|---|--------|------|
| | | | | | | | | | |
| Xintec | <u>Capital</u> Compositech Ltd. | - | Financial assets carried at cost | 587 | \$ - | 3 | \$ | - | |
| TSMC Solar Europe | <u>Stock</u> TSMC Solar Europe GmbH | Subsidiary | Investments accounted for using equity method | 1 | EUR 2,554 | 100 | EUR | 2,554 | |
| TSMC Global | <u>Corporate bond</u> Aust + Nz Banking Group | - | Held-to-maturity financial assets | 20,000 | US\$ 20,000 | N/A | US\$ | 20,041 | |
| | Commonwealth Bank of Australia | - | | 25,000 | US\$ 25,000 | N/A | US\$ | 24,871 | |
| | Commonwealth Bank of Australia | - | | 25,000 | US\$ 25,000 | N/A | US\$ | 24,935 | |
| | Deutsche Bank AG London | - | | 20,000 | US\$ 19,970 | N/A | US\$ | 20,085 | |
| | JP Morgan Chase + Co. | - | | 35,000 | US\$ 35,016 | N/A | US\$ | 35,108 | |
| | Westpac Banking Corp. | - | | 25,000 | US\$ 25,000 | N/A | US\$ | 24,972 | |
| | Westpac Banking Corp. 12/12 Frn | - | | 5,000 | US\$ 5,000 | N/A | US\$ | 5,003 | |

(Concluded)

TABLE 3**Taiwan Semiconductor Manufacturing Company Limited and subsidiaries****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal (Note 1) | | | Gain/Loss | Ending Balance |
|---|---|---------------|------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|------------------------------------|---------------------------------|-----------------------------|
| | | | | Shares/Units (In Thousands) | Amount (US\$ in Thousands) | Shares/Units (In Thousands) | Amount (US\$ in Thousands) | Shares/Units (In Thousands) | Amount (US\$ in Thousands) | Carrying Value (US\$ in Thousands) | on Disposal (US\$ in Thousands) | Shares/Units (In Thousands) |
| Semiconductor Manufacturing International Corporation | Available-for-sale financial assets | - | - | 1,789,493 | \$ 2,617,134 | - | \$ - | 281,371 | \$ 314,159 | \$ 276,236 | \$ 37,923 | 1,508,122 |
| SSL | Investments accounted for using equity method | - | Subsidiary | 227,000 | 1,746,893 | 203,400 | 2,034,000 | - | - | - | - | 430,400 |
| GN | Investments accounted for using equity method | - | Subsidiary | - | - | - | 100,000 | - | - | - | - | - |
| Defense | Available-for-sale financial assets | - | - | 796 | US\$ 7,932 | - | - | 703 | US\$ 7,460 | US\$ 861 | US\$ 6,599 | 9 |

Note 1: The data for marketable securities disposed exclude bonds maturities.

Note 2: The ending balance includes translation adjustments, equity in earnings/losses of equity method investees and other adjustments to long-term investments accounted for using equity method.

TABLE 4**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 Owner | Transaction of Related Counter-party Relationships | Transfer Date | Amount | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|-------------------|---|--------------------|------------------------------|----------------------------------|-------------------------|-------------------------|--|---------------|--------|-----------------|------------------------|-------------|
| SMC | Fab | February 7, 2012 to September 27, 2012 | \$ 150,713 | 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 September 27, 2012 | 124,159 | 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 September 26, 2012 | 3,614,272 | 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 September 27, 2012 | 1,481,350 | 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 September 27, 2012 | 1,943,723 | 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 September 27, 2012 | 279,434 | By the construction progress | Tasa Construction Corporation | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |

TABLE 5

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

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

| Company Name | Related Party | Nature of Relationships | Purchases/Sales | Transaction Details | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | Note |
|--------------------|--------------------|---|-----------------|----------------------------|------------|-----------------------------------|----------------------|----------------------|--------------------------------------|------------|------|
| | | | | Amount (US\$ in Thousands) | % to Total | Payment Terms | Unit Price (Note) | Payment Terms (Note) | Ending Balance (US\$ in Thousands) | % to Total | |
| TSMC | TSMC North America | Subsidiary | Sales | \$ 238,620,510 | 63 | Net 30 days after invoice date | - | - | \$ 43,302,832 | 67 | |
| | GUC | Investee accounted for using equity method | Sales | 3,653,307 | 1 | Net 30 days after monthly closing | - | - | 818,780 | 1 | |
| | VIS | Investee accounted for using equity method | Sales | 139,247 | - | Net 30 days after monthly closing | - | - | - | - | |
| | TSMC China | Subsidiary | Purchases | 11,401,736 | 26 | Net 30 days after monthly closing | - | - | (1,593,552) | 10 | |
| | WaferTech | Indirect subsidiary | Purchases | 6,009,695 | 14 | Net 30 days after monthly closing | - | - | (716,484) | 4 | |
| | VIS | Investee accounted for using equity method | Purchases | 3,295,850 | 8 | Net 30 days after monthly closing | - | - | (382,552) | 2 | |
| | SSMC | Investee accounted for using equity method | Purchases | 2,759,305 | 6 | Net 30 days after monthly closing | - | - | (377,033) | 2 | |
| TSMC North America | GUC | Investee accounted for using equity method by TSMC | Sales | 415,797 | - | Net 30 days after invoice date | - | - | 34,139 | - | |
| | | | | (US\$ 13,989) | | | | | (US\$ 1,165) | | |
| | Mcube Inc. | Investee accounted for using equity method by TSMC | Sales | 123,926 | - | Net 60 days after invoice date | - | - | 71,948 | - | |
| | | | | (US\$ 4,169) | | | | | (US\$ 2,455) | | |
| Xintec | OmniVision | Parent company of director (represented for Xintec) | Sales | 950,178 | 40 | Net 30 days after monthly closing | - | - | 242,205 | 42 | |

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

TABLE 6**Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

SEPTEMBER 30, 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 Amount | Action Taken | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|---------------------|--------------------------|---|--|------------------------------|-------------------|--------------|--|----------------------------|
| TSMC | TSMC North America | Subsidiary | \$ 43,381,075 | 39 | \$16,828,556 | - | \$ 17,035,623 | \$ - |
| | GUC | Investee accounted for using equity method | 818,780 | 35 | - | - | - | - |
| | VIS | Investee accounted for using equity method | 102,169 | (Note 2) | - | - | - | - |
| TSMC Partners | TSMC China | The same parent company | 5,298,835 (US\$ 180,786) | (Note 2) | - | - | - | - |
| TSMC Development | TSMC Solar | The same parent company | 1,099,157 (US\$ 37,501) | (Note 2) | - | - | - | - |
| Xintec | OmniVision | Parent company of director (represented for Xintec) | 242,205 | 70 | - | - | - | - |
| TSMC Technology | TSMC | Parent company | 169,554 (US\$ 5,785) | (Note 2) | - | - | - | - |
| WaferTech | TSMC | Parent company | 716,484 (US\$ 24,445) | 26 | - | - | - | - |

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.

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TABLE 7

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

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

SEPTEMBER 30, 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 September 30, 2012 | | Carrying Value (Foreign Currencies in Thousands) | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands) | Notes |
|------------------|------------------|---------------------------------|--|--|---|----------------------------------|-------------------------|--|---|--|--|
| | | | | September 30, 2012 (Foreign Currencies in Thousands) | December 31, 2011 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | | | | |
| TSMC | TSMC Global | Tortola, British Virgin Islands | Investment activities | \$ 42,327,245 | \$ 42,327,245 | 1 | 100 | \$ 43,089,715 | \$ 418,578 | \$ 418,578 | Subsidiary |
| TSMC | 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 | 38,058,989 | 4,276,782 | 4,276,275 | Subsidiary |
| TSMC | 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 | 16,309,653 | 3,342,620 | 3,360,919 | Subsidiary |
| VIS | 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 | 41 | 9,161,979 | 1,591,018 | 475,957 | Investee account for using equity method |
| TSMC | TSMC Solar | Tai-Chung, Taiwan | Engaged in researching, developing, | 11,180,000 | 11,180,000 | 1,118,000 | 99 | 8,045,131 | (1,992,115) | (2,039,091) | Subsidiary |

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| | | | | | | | | | | | |
|--------------------|------------------------------|--|---|-----------|-----------|---------|-----|-----------|-------------|-----------|--|
| | | | designing, manufacturing and selling renewable energy and saving related technologies and products | | | | | | | | |
| SSMC | Singapore | | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 6,253,232 | 3,389,373 | 1,314,751 | Invested account for using equity method |
| TSMC North America | San Jose, California, U.S.A. | | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 3,164,974 | 254,278 | 254,278 | 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 | 2,822,776 | (1,035,798) | (988,095) | Subsidiary |
| Xintec | Taoyuan, Taiwan | | Wafer level chip size packaging service | 1,357,890 | 1,357,890 | 94,950 | 40 | 1,573,654 | (30,286) | (25,126) | Invested 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 | 1,177,159 | 479,412 | 161,700 | Invested account for using equity method |
| VTAF III | Cayman Islands | | Investing in new start-up technology companies | 1,891,163 | 2,074,155 | - | 50 | 1,056,641 | 139,456 | 141,658 | Subsidiary |
| VTAF II | Cayman Islands | | Investing in new start-up technology companies | 821,890 | 949,267 | - | 98 | 654,685 | 53,204 | 52,140 | Subsidiary |
| TSMC Europe | Amsterdam, the Netherlands | | Marketing and engineering supporting activities | 15,749 | 15,749 | - | 100 | 223,125 | 25,780 | 25,780 | Subsidiary |
| Emerging Alliance | Cayman Islands | | Investing in new start-up technology companies | 860,889 | 892,855 | - | 99 | 169,756 | (7,667) | (7,628) | Subsidiary |
| TSMC Japan | Yokohama, Japan | | Marketing activities | 83,760 | 83,760 | 6 | 100 | 160,799 | 4,193 | 4,193 | Subsidiary |
| TSMC GN | Taipei, Taiwan | | Investment activities | 100,000 | - | - | 100 | 71,723 | (16,617) | (16,617) | Subsidiary |
| TSMC Korea | Seoul, Korea | | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 24,805 | 1,169 | 1,169 | Subsidiary |

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| | | | | | | | | | | | |
|----------|-------------------|----------------------------|---|-----------|-----------|--------|-----|-----------|-------------|--------|--|
| MC 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 | 4,452,514 | (3,995,140) | Note 2 | Investee account for using equity method |
| | VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,800,466 | 1,795,131 | - | 49 | 1,627,669 | 139,456 | Note 2 | Investee account for using equity method |
| | TSMC Solar Europe | Amsterdam, the Netherlands | Investing in solar related business | 411,032 | 411,032 | - | 100 | 100,243 | (97,325) | Note 2 | Subsidiary |
| | TSMC Solar NA | Delaware, U.S.A. | Selling and marketing of solar related products | 147,686 | 147,686 | 1 | 100 | (736) | (51,960) | Note 2 | Subsidiary |

(Continued)

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| Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of September 30, 2012 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands) | |
|------------|---------------------------------|--------------------|--|--|---|----------------------------------|-------------------------|--|---|--|-----------------|
| | | | | September 30, 2012 (Foreign Currencies in Thousands) | December 31, 2011 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | | | |
| SL | TSMC Lighting NA | Delaware, U.S.A. | Selling and marketing of solid state lighting related products | \$ 3,133 | \$ 3,133 | 1 | 100 | \$ 2,890 | \$ (7) | Note 2 | Su |
| Partners | TSMC Development | Delaware, U.S.A. | Investment activities | US\$ 0.001 | US\$ 0.001 | 1 | 100 | US\$ 581,920 | US\$ 121,886 | Note 2 | Su |
| | VisEra Holding Company | Cayman Islands | Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry | US\$ 43,000 | US\$ 43,000 | 43,000 | 49 | US\$ 99,406 | US\$ 20,894 | Note 2 | Inv ac for eq m |
| | TSMC Technology | Delaware, U.S.A. | Engineering support activities | US\$ 0.001 | US\$ 0.001 | 1 | 100 | US\$ 11,532 | US\$ 917 | Note 2 | Su |
| | ISDF II | Cayman Islands | Investing in new start-up technology companies | US\$ 14,153 | US\$ 14,153 | 14,153 | 97 | US\$ 8,672 | US\$ (105) | Note 2 | Su |
| | ISDF | Cayman Islands | Investing in new start-up technology companies | US\$ 787 | US\$ 787 | 787 | 97 | US\$ 6,336 | US\$ 2,508 | Note 2 | Su |
| | TSMC Canada | Ontario, Canada | Engineering support activities | US\$ 2,300 | US\$ 2,300 | 2,300 | 100 | US\$ 4,554 | US\$ 317 | Note 2 | Su |
| | Mcube Inc. | Delaware, U.S.A. | Research, development, and sale of micro-semiconductor device | US\$ 1,800 | US\$ 1,800 | 6,333 | 25 | - | US\$ (9,715) | Note 2 | Inv ac for eq m |
| ment | WaferTech | Washington, U.S.A. | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | US\$ 280,000 | US\$ 280,000 | 293,640 | 100 | US\$ 290,054 | US\$ 120,398 | Note 2 | Su |
| I | Mutual-Pak Technology Co., Ltd. | Taipei, Taiwan | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | US\$ 4,718 | US\$ 3,937 | 14,168 | 58 | US\$ 1,373 | US\$ (981) | Note 2 | Su |
| | Growth Fund | Cayman Islands | Investing in new start-up technology companies | US\$ 1,830 | US\$ 1,830 | - | 100 | US\$ 424 | US\$ (86) | Note 2 | Su |
| | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 62 | - | - | Note 2 | Su |
| | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 31 | - | - | Note 2 | Su |
| g Alliance | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 7 | - | - | Note 2 | Su |

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| | | | | | | | | | | | | | | | |
|-------------|------------------------|-------------------|---|-----|--------|-----|-------|-------|-----|-----|--------|-----|-------------|--------|-----------------|
| olar Europe | TSMC Solar Europe GmbH | Hamburg, Germany | Selling of solar related products and providing customer service | EUR | 9,900 | EUR | 9,900 | 1 | 100 | EUR | 2,554 | EUR | (2,548) | Note 2 | Su |
| GN | TSMC Solar | Tai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | | 43,022 | | - | 4,302 | - | | 30,909 | | (1,992,115) | Note 2 | In ac for eq me |
| | TSMC SSL | Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | | 46,825 | | - | 4,680 | 1 | | 30,691 | | (1,035,798) | Note 2 | In ac for eq me |

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

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

(Concluded)

TABLE 8

Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INFORMATION ON INVESTMENT IN MAINLAND CHINA

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 Flow | Outflow | Accumulated Outflow of Investment from Taiwan as of September 30, 2012 (US\$ in Thousands) | Percentage of Ownership | Equity in the Earnings (Losses) | Carrying Value as of September 30, 2012 (US\$ in Thousands) | Accumulated Inward Remittance as of September 30, 2012 |
|--|--|---|----------------------|---|-----------------|---------|--|-------------------------|---------------------------------|---|--|
| 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% | \$ 3,360,919 (Note 3) | \$ 16,309,653 | \$ - |
| 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) | 146,550 (US\$ 5,000) | - |

Accumulated Investment

| in Mainland China as of September 30, 2012 (US\$ in Thousands) | Investment Amounts Authorized by Investment Commission, MOEA (US\$ in Thousands) | Upper Limit on Investment (US\$ in Thousands) |
|--|--|---|
| \$ 19,087,152 | \$ 19,087,152 | \$ 19,087,152 |
| (US\$ 601,000) | (US\$ 601,000) | (US\$ 601,000) |

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

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

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

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

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Taiwan Semiconductor Manufacturing Company Limited and Subsidiaries

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

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

A. For the nine months ended September 30, 2012

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Financial Statements Item | Intercompany Transactions | | Percentage of Consolidated Total Gross Sales or Total Assets |
|-----|--------------|--------------------|------------------------------------|--|---------------------------|----------------|--|
| | | | | | Amount | Terms (Note 2) | |
| 0 | TSMC | TSMC North America | 1 | Sales | \$ 238,620,510 | - | 63% |
| | | | | Receivables from related parties | 43,302,832 | - | 5% |
| | | | | Other receivables from related parties | 78,243 | - | - |
| | | | | Payables to related parties | 28,495 | - | - |
| | | TSMC China | 1 | Sales | 2,204 | - | - |
| | | | | Purchase | 11,401,736 | - | 3% |
| | | | | Marketing expenses - commission | 52,033 | - | - |
| | | | | Disposal of property, plant and equipment | 45,982 | - | - |
| | | | | Purchase of property, plant and equipment | 68,455 | - | - |
| | | | | Loss on disposal of property, plant and equipment, net | 14,025 | - | - |
| | | | | Payables to related parties | 1,593,552 | - | - |
| | | | | Deferred credits | 12,532 | - | - |
| | | TSMC Japan | 1 | Marketing expenses - commission | 211,785 | - | - |
| | | | | Payables to related parties | 23,425 | - | - |
| | | TSMC Europe | 1 | Marketing expenses - commission | 253,956 | - | - |
| | | | | Research and development expenses | 37,138 | - | - |
| | | | | Payables to related parties | 36,630 | - | - |
| | | TSMC Korea | 1 | Marketing expenses - commission | 16,399 | - | - |
| | | | | Payables to related parties | 1,143 | - | - |
| | | TSMC Technology | 1 | Research and development expenses | 549,422 | - | - |
| | | | | Payables to related parties | 169,554 | - | - |
| | | WaferTech | 1 | Sales | 12,372 | - | - |
| | | | | Purchases | 6,009,695 | - | 2% |
| | | | | Other receivables from related parties | 1,403 | - | - |
| | | | | Payables to related parties | 716,484 | - | - |
| | | TSMC Canada | 1 | Research and development expenses | 159,156 | - | - |
| | | | | Payables to related parties | 14,003 | - | - |
| | | Xintec | 1 | Manufacturing expenses | 126,170 | - | - |
| | | | | Research and development expenses | 3,224 | - | - |

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| | | | | | |
|----------|---|--|--------|---|---|
| | | Miscellaneous revenue | 1,042 | - | - |
| | | Payables to related parties | 34,932 | - | - |
| TSMC SSL | 1 | Miscellaneous revenue | 4,725 | - | - |
| | | Other receivables from related parties | 1,741 | - | - |

(Continued)

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Financial Statements Item | Intercompany Transactions | | Percentage of Consolidated Total Gross Sales or Total Assets |
|-----|------------------|------------------------|------------------------------------|--|---------------------------|----------------|--|
| | | | | | Amount | Terms (Note 2) | |
| 0 | TSMC | TSMC Solar | 1 | General and administrative expenses | \$ 1,539 | - | - |
| | | | | Purchases of property, plant and equipment | 6,737 | - | - |
| | | | | Miscellaneous revenue | 4,725 | - | - |
| | | | | Other receivables from related parties | 1,741 | - | - |
| | | | | Payables to related parties | 4,065 | - | - |
| | | TSMC Global | 1 | Interest expenses | 4,870 | - | - |
| 1 | TSMC Partners | TSMC China | 3 | Other receivables from related parties | 5,298,835 | - | 1% |
| | | | | Interest income | 13,925 | - | - |
| | | TSMC Solar | 3 | Interest income | 2,570 | - | - |
| 2 | TSMC Solar | TSMC Solar Europe GmbH | 1 | Sales | 7,633 | - | - |
| | | | | Receivables from related parties | 2,648 | - | - |
| | | TSMC Solar NA | 1 | Sales | 2,310 | - | - |
| | | | | Receivables from related parties | 2,257 | - | - |
| | | TSMC Development | 3 | Other payable to related parties | 1,099,157 | - | - |
| 3 | TSMC Development | WaferTech | 3 | Other receivables from related parties | 42,552 | - | - |

Note 1: No. 1 represents the transactions from parent company to subsidiary.
No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

(Continued)

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B. For the nine months ended September 30, 2011

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Financial Statements Item | Intercompany Transactions | | Percentage of Consolidated Total Gross Sales or Total Assets |
|-----|--------------|------------------------|------------------------------------|---|---------------------------|----------------|--|
| | | | | | Amount | Terms (Note 2) | |
| 0 | TSMC | TSMC North America | 1 | Sales | \$ 175,631,354 | - | 54% |
| | | | | Receivables from related parties | 28,158,589 | - | 4% |
| | | | | Other receivables from related parties | 22,451 | - | - |
| | | | | Payables to related parties | 18,988 | - | - |
| | | TSMC China | 1 | Sales | 5,412 | - | - |
| | | | | Purchases | 7,576,707 | - | 2% |
| | | | | Marketing expenses - commission | 48,001 | - | - |
| | | | | Sales of property, plant and equipment | 2,691,880 | - | 1% |
| | | | | Purchases of property, plant and equipment | 70,491 | - | - |
| | | | | Gain on disposal of property, plant and equipment | 99,662 | - | - |
| | | | | Other receivables from related parties | 1,318,300 | - | - |
| | | | | Payables to related parties | 878,485 | - | - |
| | | | | Other assets | 9,048 | - | - |
| | | TSMC Japan | 1 | Marketing expenses - commission | 204,379 | - | - |
| | | | | Payables to related parties | 59,130 | - | - |
| | | TSMC Europe | 1 | Marketing expenses - commission | 278,938 | - | - |
| | | | | Research and development expenses | 32,781 | - | - |
| | | | | Payables to related parties | 39,913 | - | - |
| | | TSMC Korea | 1 | Marketing expenses - commission | 15,239 | - | - |
| | | | | Payables to related parties | 1,407 | - | - |
| | | GUC (Note 3) | 1 | Sales | 1,158,302 | - | - |
| | | | | Research and development expenses | 5,718 | - | - |
| | | TSMC Technology | 1 | Research and development expenses | 379,328 | - | - |
| | | | | Payables to related parties | 86,055 | - | - |
| | | WaferTech | 1 | Sales | 12,690 | - | - |
| | | | | Purchases | 5,753,541 | - | 2% |
| | | | | Sales of property, plant and equipment | 72,880 | - | - |
| | | | | Gain on disposal of property, plant and equipment | 1,463 | - | - |
| | | | | Other receivables from related parties | 10,058 | - | - |
| | | | | Payables to related parties | 657,374 | - | - |
| | | TSMC Canada | 1 | Research and development expenses | 134,611 | - | - |
| | | | | Payables to related parties | 17,865 | - | - |
| | | Xintec | 1 | Purchases | 1,732 | - | - |
| | | | | Research and development expenses | 5,868 | - | - |
| | | | | Manufacturing overhead | 234,394 | - | - |
| | | | | Payables to related parties | 41,917 | - | - |
| | | TSMC Solar Europe GmbH | 1 | Sales | 148,898 | - | - |
| | | TSMC Solar | 1 | Other receivables from related parties | 5,754 | - | - |
| | | TSMC Global | 1 | Interest expenses | 19,771 | - | - |

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| | | | |
|-----------------------------------|------------|---|----|
| Other payables to related parties | 10,693,900 | - | 1% |
| Interest payable | 20,398 | - | - |

(Continued)

| No. | Company Name | Counter Party | Nature of Relationship (Note 1) | Intercompany Transactions | | | | | |
|-----|---------------|--------------------|------------------------------------|--|------------|--|--|---|---|
| | | | | Financial Statements Item | Amount | Terms (Note 2) | Percentage of Consolidated Total Gross Sales or Total Assets | | |
| 1 | GUC (Note 3) | TSMC North America | 3 | Purchases | \$ 296,462 | - | - | | |
| | | | | Manufacturing overhead | 120,408 | - | - | | |
| | GUC-NA | 3 | Operating expenses | 61,369 | - | - | | | |
| | | | Manufacturing overhead | 30,583 | - | - | | | |
| | | | Operating expenses | 21,826 | - | - | | | |
| 2 | TSMC Partners | TSMC China | 3 | Long-term receivables from related parties | 7,653,143 | - | 1% | | |
| | | | | TSMC Solar | 3 | Other receivables from related parties | 168,047 | - | - |
| | | | | | | | | | |

Note 1: No. 1 represents the transactions from parent company to subsidiary.
No. 3 represents the transactions between subsidiaries.

Note 2: The sales prices and payment terms of intercompany sales are not significantly different from those to third parties. For other intercompany transactions, prices and terms are determined in accordance with mutual agreements.

Note 3: The Company has no controlling interest over the financial, operating and personnel hiring policy decisions of GUC and its subsidiaries since July 2011. As a result, GUC and its subsidiaries are no longer consolidated and are accounted for using the equity method.

(Concluded)