TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 6-K
November 01, 2011

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of October 2011

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant s Name Into English)

No. 8, Li-Hsin Rd. 6,

Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

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: October 27, 2011

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, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010 on which we have issued an unqualified review report.

October 21, 2011

<u>*Notice to Readers*</u>

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, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011 Amount	%	2010 Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 67,150,733	9	$ 90,399,569	14
Financial assets at fair value through profit or loss (Notes 2, 5 and 24)	583,010		14,383	
Available-for-sale financial assets (Notes 2, 6 and 24)	2,735,777	1	4,048,549	1
Held-to-maturity financial assets (Notes 2, 7 and 24)	250,165		5,598,471	1
Receivables from related parties (Notes 3 and 25)	28,680,784	4	25,218,595	4
Notes and accounts receivable (Note 3)	21,894,123	3	27,263,732	4
Allowance for doubtful receivables (Notes 2, 3 and 8)	(485,120)		(540,000)	
Allowance for sales returns and others (Notes 2 and 8)	(5,916,289)	(1)	(6,590,121)	(1)
Other receivables from related parties (Notes 3 and 25)	1,491,316		657,787	
Other financial assets (Note 26)	279,163		282,002	
Inventories (Notes 2 and 9)	23,262,847	3	23,773,530	4
Deferred income tax assets (Notes 2 and 18)	918,938		1,965,666	
Prepaid expenses and other current assets	1,730,515	1	1,243,888	
Total current assets	142,575,962	20	173,336,051	27
LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 24)				
Investments accounted for using equity method	124,251,210	17	115,519,229	18
Available-for-sale financial assets			1,036,502	
Held-to-maturity financial assets	1,404,002		1,658,671	
Financial assets carried at cost	497,835		497,835	
Total long-term investments	126,153,047	17	118,712,237	18
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 25)				
Cost				
Buildings	147,429,338	20	127,695,671	19
Machinery and equipment	967,085,889	133	836,615,885	129
Office equipment	13,407,880	2	11,310,109	2
	1,127,923,107	155	975,621,665	150
Accumulated depreciation	(779,461,665)	(107)	(685,650,928)	(105)
Advance payments and construction in progress	88,918,961	12	40,621,708	6
Net property, plant and equipment	437,380,403	60	330,592,445	51

INTANGIBLE ASSETS				
Goodwill (Note 2)	1,567,756		1,567,756	
Deferred charges, net (Notes 2 and 13)	4,674,675	1	5,608,464	1
Total intangible assets	6,242,431	1	7,176,220	1
OTHER ASSETS				
Deferred income tax assets (Notes 2 and 18)	11,090,792	1	10,200,761	2
Refundable deposits	4,689,418	1	9,059,889	1
Others (Notes 2 and 25)	1,152,898		437,617	
Total other assets	16,933,108	2	19,698,267	3
TOTAL	$ 729,284,951	100	$ 649,515,220	100

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	2011 Amount	%	2010 Amount	%
LIABILITIES AND SHAREHOLDERS EQUITY				
CURRENT LIABILITIES				
Short-term loans (Note 14)	$ 36,019,654	5	$ 37,596,000	6
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 24)	173,829		73,530	
Accounts payable	8,103,660	1	9,645,148	1
Payables to related parties (Note 25)	3,161,048		3,451,537	1
Income tax payable (Notes 2 and 18)	7,680,498	1	5,252,509	1
Other payables to related parties (Note 25)	10,693,900	1		
Accrued profit sharing to employees and bonus to directors (Notes 2 and 20)	6,932,701	1	8,201,440	1
Payables to contractors and equipment suppliers	19,036,040	3	26,017,941	4
Accrued expenses and other current liabilities (Notes 16, 24 and 25)	12,029,835	2	13,471,370	2
Current portion of bonds payable (Notes 15 and 24)	4,500,000	1		
Total current liabilities	108,331,165	15	103,709,475	16
LONG-TERM LIABILITIES				
Bonds payable (Notes 15 and 24)	18,000,000	2	4,500,000	1
Other long-term payables (Notes 16 and 24)			156,650	
Total long-term liabilities	18,000,000	2	4,656,650	1
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 17)	3,830,575	1	3,815,765	
Guarantee deposits (Note 28)	495,013		809,698	
Total other liabilities	4,325,588	1	4,625,463	
Total liabilities	130,656,753	18	112,991,588	17
CAPITAL STOCK - NT$10 PAR VALUE (Note 20)				
Authorized: 28,050,000 thousand shares				
Issued: 25,915,149 thousand shares in 2011				
25,907,344 thousand shares in 2010	259,151,492	35	259,073,440	40
CAPITAL SURPLUS (Notes 2 and 20)	55,689,739	8	55,634,070	9
RETAINED EARNINGS (Note 20)				
Appropriated as legal capital reserve	102,399,995	14	86,239,494	14
Appropriated as special capital reserve	6,433,874	1	1,313,047	
Unappropriated earnings	181,838,097	25	137,506,581	21
	290,671,966	40	225,059,122	35
OTHERS (Notes 2, 22 and 24)				
Cumulative translation adjustments	(5,586,618)	(1)	(3,761,669)	(1)
Unrealized gain (loss) on financial instruments	(1,226,783)		518,669	
Treasury stock: 1,000 thousand shares	(71,598)			
	(6,884,999)	(1)	(3,243,000)	(1)

Total shareholders equity	598,628,198	82	536,523,632	83
TOTAL	$ 729,284,951	100	$ 649,515,220	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, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011 Amount	%	2010 Amount	%
GROSS SALES (Notes 2 and 25)	$ 318,455,856		$ 308,832,522	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	3,242,741		8,715,191	
NET SALES	315,213,115	100	300,117,331	100
COST OF SALES (Notes 9, 19 and 25)	175,237,212	55	154,784,733	52
GROSS PROFIT	139,975,903	45	145,332,598	48
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2)	346,768		(136,536)	
REALIZED GROSS PROFIT	140,322,671	45	145,196,062	48
OPERATING EXPENSES (Notes 19 and 25)				
Research and development	23,347,808	7	20,084,456	6
General and administrative	9,130,402	3	8,168,276	3
Marketing	1,756,516	1	2,175,006	1
Total operating expenses	34,234,726	11	30,427,738	10
INCOME FROM OPERATIONS	106,087,945	34	114,768,324	38
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	3,531,943	1	4,677,062	2
Valuation gain on financial instruments, net (Notes 2, 5 and 24)	782,810	1	156,175	
Interest income	512,604		555,085	
Settlement income (Note 28)	492,870		6,343,524	2
Technical service income (Note 25)	325,505		354,756	
Others (Notes 2 and 25)	663,413		266,309	
Total non-operating income and gains	6,309,145	2	12,352,911	4

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011 Amount	%	2010 Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	$ 657,798	1	$	
Interest expense (Note 25)	276,154		142,824	
Loss on disposal of property, plant and equipment (Note 2)	191,120		38	
Casualty loss (Note 9)			190,992	
Others	138,653		113,881	
Total non-operating expenses and losses	1,263,725	1	447,735	
INCOME BEFORE INCOME TAX	111,133,365	35	126,673,500	42
INCOME TAX EXPENSE (Notes 2 and 18)	8,510,734	2	5,788,940	2
NET INCOME	$ 102,622,631	33	$ 120,884,560	40

	2011 Before Income Tax	2011 After Income Tax	2010 Before Income Tax	2010 After Income Tax
EARNINGS PER SHARE (NT$, Note 23)				
Basic earnings per share	$ 4.29	$ 3.96	$ 4.89	$ 4.67
Diluted earnings per share	$ 4.29	$ 3.96	$ 4.89	$ 4.66

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, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 102,622,631	$ 120,884,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	76,638,870	61,013,582
Unrealized (realized) gross profit from affiliates	(346,768)	136,536
Amortization of premium/discount of financial assets	9,120	13,756
Gain on disposal of available-for-sale financial assets, net	(35,151)	
Loss on disposal of financial assets carried at cost		1,263
Equity in earnings of equity method investees, net	(3,531,943)	(4,677,062)
Cash dividends received from equity method investees	2,941,548	422,490
Loss (gain) on disposal of property, plant and equipment and other assets, net	70,696	(40,510)
Settlement income from receiving equity securities		(4,434,364)
Deferred income tax	478,443	(273,785)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(417,015)	240,890
Receivables from related parties	(3,003,144)	(2,676,822)
Notes and accounts receivable	356,782	(7,379,212)
Allowance for doubtful receivables	(2,880)	109,000
Allowance for sales returns and others	(1,425,155)	(1,993,511)
Other receivables from related parties	(100,558)	23,875
Other financial assets	139,043	822,070
Inventories	2,366,196	(4,943,314)
Prepaid expenses and other current assets	(387,631)	(339,265)
Increase (decrease) in:		
Accounts payable	(2,673,005)	456,994
Payables to related parties	586,598	1,412,195
Income tax payable	571,629	(3,508,611)
Accrued profit sharing to employees and bonus to directors	(4,026,768)	1,430,102
Accrued expenses and other current liabilities	(1,489,045)	(3,522,931)
Accrued pension cost	66,557	8,589
Deferred credits		(47,873)
Net cash provided by operating activities	169,409,050	153,138,642

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributed related to spin-off	$ (1,270,340)	$
Acquisitions of:		
Property, plant and equipment	(175,162,624)	(138,922,267)
Investments accounted for using equity method	(2,734,568)	(8,125,980)
Financial assets carried at cost		(480)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	1,035,151	
Held-to-maturity financial assets	4,539,000	14,893,000
Financial assets carried at cost		3,370
Property, plant and equipment and other assets	3,055,991	62,293
Increase in deferred charges	(1,069,352)	(1,177,741)
Decrease (increase) in refundable deposits	3,949,331	(6,361,773)
Increase in other assets	(18,200)	
Net cash used in investing activities	(167,675,611)	(139,629,578)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	5,111,017	37,596,000
Increase in other payables to related parties	10,693,900	
Proceeds from issuance of bonds	18,000,000	
Decrease in guarantee deposits	(252,874)	(191,678)
Proceeds from exercise of employee stock options	155,955	150,760
Acquisition of treasury stock	(71,598)	
Cash dividends	(77,730,236)	(77,708,120)
Net cash used in financing activities	(44,093,836)	(40,153,038)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42,360,397)	(26,643,974)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	109,511,130	117,043,543
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 67,150,733	$ 90,399,569
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 292,211	$ 171,888
Income tax paid	$ 7,436,712	$ 9,477,093

INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	$ 153,008,625	$ 135,815,549
Decrease in payables to contractors and equipment suppliers	22,154,481	3,229,638
Nonmonetary exchange trade-out price	(482)	(122,920)
Cash paid	$ 175,162,624	$ 138,922,267

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2011	2010
Disposal of property, plant and equipment and other assets	$ 3,173,046	$ 620,872
Increase in other receivables from related parties	(116,573)	(435,659)
Nonmonetary exchange trade-out price	(482)	(122,920)
Cash received	$ 3,055,991	$ 62,293
NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	$ 4,500,000	$
Current portion of other long-term payables (under accrued expenses and other current liabilities)	$ 816,379	$ 614,061

SUPPLEMENTAL INFORMATION FOR SPIN-OFF BUSINESSES

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

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

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

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

As of September 30, 2011 and 2010, the Company had 29,920 and 28,953 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

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

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

Use of Estimates

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

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Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

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

Allowance for Doubtful Receivables

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

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

Because of the Company s short average collection period, the amount of the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad debt 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.

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

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

Property, Plant and Equipment and Assets Leased to Others

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

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

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

Intangible Assets

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

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

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

Pension Costs

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

Income Tax

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

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

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

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

Stock-based Compensation

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with 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

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

3. ACCOUNTING CHANGES

On January 1, 2011, the Company prospectively adopted the newly revised SFAS No. 34, Financial Instruments: Recognition and Measurement. The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change did not have a significant effect on the Company s financial statements as of and for the 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. The Company conformed to the disclosure requirements as of and for the nine months ended September 30, 2011. The information for the nine months ended September 30, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH AND CASH EQUIVALENTS

	September 30 2011	2010
Cash and deposits in banks	$ 63,280,563	$ 87,348,689
Repurchase agreements collateralized by government bonds	3,870,170	3,050,880
	$ 67,150,733	$ 90,399,569

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

	September 30 2011	2010
Trading financial assets		
Forward exchange contracts	$ 583,010	$ 3,241
Cross currency swap contracts		11,142
	$ 583,010	$ 14,383
Trading financial liabilities		
Forward exchange contracts	$ 66,378	$ 73,530
Cross currency swap contracts	107,451	
	$ 173,829	$ 73,530

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

Outstanding forward exchange contracts consisted of the following:

	Maturity Date	Contract Amount (In Thousands)
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$3,292,775
September 30, 2010		
Sell EUR/Buy NT$	October 2010	EUR139,000/NT$5,851,568
Sell US$/Buy NT$	October 2010	US$30,000/NT$939,400

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, 2011			
October 2011	US$117,000/NT$3,470,950	1.27%-4.40%	0.00%-0.00%
September 30, 2010			
October 2010	US$90,000/NT$2,830,540	0.46%	0.00%-0.00%

For the nine months ended September 30, 2011 and 2010, changes in fair value related to derivative financial instruments recognized in earnings was a net gain of NT$782,810 thousand and NT$156,175 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30 2011	2010
Overseas publicly traded stock	$ 2,735,777	$ 4,048,549
Corporate bonds		1,036,502
	2,735,777	5,085,051
Current portion	(2,735,777)	(4,048,549)
	$	$ 1,036,502

7. HELD-TO-MATURITY FINANCIAL ASSETS

	September 30 2011	2010
Corporate bonds	$ 1,654,167	$ 7,257,142
Current portion	(250,165)	(5,598,471)
	$ 1,404,002	$ 1,658,671

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

	Nine Months Ended September 30 2011	2010
Balance, beginning of period	$ 488,000	$ 431,000

Provision		109,000
Write-off	(2,880)	
Balance, end of period	$ 485,120	$ 540,000

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

	Nine Months Ended September 30	
	2011	2010
Balance, beginning of period	$ 7,341,444	$ 8,583,632
Provision	3,242,741	8,715,191
Write-off	(4,667,896)	(10,708,702)
Balance, end of period	$ 5,916,289	$ 6,590,121

9. INVENTORIES

	September 30	
	2011	2010
Finished goods	$ 4,260,884	$ 3,007,453
Work in process	16,517,292	18,087,605
Raw materials	1,410,292	1,490,972
Supplies and spare parts	1,074,379	1,187,500
	$ 23,262,847	$ 23,773,530

Write-down of inventories to net realizable value in the amount of NT$300,629 thousand and NT$582,149 thousand, respectively, were included in the cost of sales for the nine months ended September 30, 2011 and 2010. Inventory losses related to earthquake in the amount of NT$190,992 thousand were classified under non-operating expenses and losses for the nine months ended September 30, 2010.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	September 30			
	2011		2010	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
TSMC Global Ltd. (TSMC Global)	$ 44,274,921	100	$ 44,892,711	100
TSMC Partners, Ltd. (TSMC Partners)	34,888,811	100	33,943,317	100
TSMC Solar	10,847,842	100		
Vanguard International Semiconductor Corporation (VIS)	8,918,553	38	9,424,817	38
TSMC China Company Limited (TSMC China)	8,460,740	100	3,654,158	100
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	6,109,136	39	6,890,171	39
TSMC North America	3,001,878	100	2,827,009	100
TSMC SSL	2,063,176	100		
Xintec Inc. (Xintec)	1,610,795	40	1,618,701	41
VentureTech Alliance Fund III, L.P. (VTAF III)	1,247,111	52	2,852,802	99
Global UniChip Corporation (GUC)	1,117,076	35	1,061,303	35

(Continued)

	September 30			
	2011		2010	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
VentureTech Alliance Fund II, L.P. (VTAF II)	$ 1,022,280	98	$ 1,093,417	98
Emerging Alliance Fund, L.P. (Emerging Alliance)	291,196	99	320,426	99
TSMC Europe B.V. (TSMC Europe)	209,723	100	182,022	100
TSMC Japan Limited (TSMC Japan)	165,630	100	150,896	100
TSMC Korea Limited (TSMC Korea)	22,342	100	20,559	100
Motech Industries Inc. (Motech)			6,533,432	20
TSMC Solar Europe B.V. (TSMC Solar Europe)			25,638	100
TSMC Solar North America, Inc. (TSMC Solar NA)			24,717	100
TSMC Lighting North America, Inc. (TSMC Lighting NA)			3,133	100
	$ 124,251,210		$ 115,519,229	

(Concluded)

In the third quarter of 2011, the Company increased its investment in TSMC China for the amount of NT$2,176,000 thousand, and the Company has received the approval from the Investment Commission of Ministry of Economic Affairs.

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

For the year ended December 31, 2010, the Company increased its investment in VTAF III for the amount of NT$1,862,278 thousand, and the Company s percentage of ownership in VTAF III increased from 98% to 99%. Primarily due to the aforementioned transfer, the Company s percentage of ownership further decreased to 52%.

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

For the nine months ended September 30, 2011 and 2010, equity in earnings/losses of equity method investees was a net gain of NT$3,531,943 thousand and NT$4,677,062 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the reviewed financial statements, except those of Emerging Alliance, TSMC Europe, TSMC Japan and TSMC Korea for the nine months ended September 30, 2011 and those of VTAF II, Emerging Alliance, TSMC Europe, TSMC Japan and TSMC Korea for the nine months ended September 30, 2010. The Company believes that, had the aforementioned equity method investees financial statements been reviewed, any adjustments arising would have no material effect on the Company s financial statements.

As of September 30, 2011 and 2010, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT$12,574,108 thousand and NT$13,789,014 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:

	Nine Months Ended September 30	
	2011	2010
Balance, beginning of period	$ 2,504,496	$ 1,429,118
Additions		2,055,660
Amortizations	(641,656)	(726,392)
Effect of spin-off	(1,507,430)	
Balance, end of period	$ 355,410	$ 2,758,386

Movements of the difference allocated to goodwill were as follows:

	Nine Months Ended September 30	
	2011	2010
Balance, beginning of period	$ 1,415,565	$ 1,061,885
Additions		353,680
Effect of spin-off	(353,680)	
Balance, end of period	$ 1,061,885	$ 1,415,565

11. FINANCIAL ASSETS CARRIED AT COST

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

12. PROPERTY, PLANT AND EQUIPMENT

	Nine Months Ended September 30, 2011					
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Effect of Spin-off	Balance, End of Period
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

	Nine Months Ended September 30, 2010				
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	$ 124,522,047	$ 3,309,121	$ (135,497)	$	$ 127,695,671
Machinery and equipment	713,426,126	124,067,387	(1,017,470)	139,842	836,615,885
Office equipment	10,781,099	1,185,072	(655,620)	(442)	11,310,109
	848,729,272	$ 128,561,580	$ (1,808,587)	$ 139,400	975,621,665
Accumulated depreciation					
Buildings	73,525,160	$ 6,012,896	$ (128,466)	$	79,409,590
Machinery and equipment	545,693,910	52,869,076	(1,017,066)	139,842	597,685,762
Office equipment	8,545,253	666,347	(655,582)	(442)	8,555,576
	627,764,323	$ 59,548,319	$ (1,801,114)	$ 139,400	685,650,928
Advance payments and construction in progress	33,786,577	$ 7,253,969	$ (418,838)	$	40,621,708
	$ 254,751,526				$ 330,592,445

No interest was capitalized during the nine months ended September 30, 2011 and 2010.

13. DEFERRED CHARGES, NET

	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)	$	$ 1,785,315
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

	Nine Months Ended September 30, 2010			
	Balance, Beginning of Period	Additions	Amortization	Balance, End of Period
Technology license fees	$ 2,979,801	$	$ (534,476)	$ 2,445,325
Software and system design costs	1,646,973	966,623	(652,432)	1,961,164
Patent and others	1,264,911	211,118	(274,054)	1,201,975
	$ 5,891,685	$ 1,177,741	$ (1,460,962)	$ 5,608,464

14. SHORT-TERM LOANS

	September 30 2011	2010
Unsecured loans:		
US$1,058,200 thousand and EUR88,725 thousand, due by November 2011, and annual interest at 0.40%-1.50% in 2011; US$1,200,000 thousand, due by October 2010, and annual interest at 0.39%-0.54% in 2010	$ 36,019,654	$ 37,596,000

15. BONDS PAYABLE

	September 30 2011	2010
Domestic unsecured bonds:		
Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually	$ 10,500,000	$
Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually	7,500,000	
Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually	4,500,000	4,500,000
	22,500,000	4,500,000
Current portion	(4,500,000)	
	$ 18,000,000	$ 4,500,000

16. OTHER LONG-TERM PAYABLES

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

As of September 30, 2011, future payments for other long-term payables (classified under accrued expenses and other current liabilities) due within one year amounted to NT$816,379 thousand.

17. PENSION PLANS

The pension mechanism under the Labor Pension Act (the Act) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee s monthly salary to employees pension accounts and recognized pension costs of NT$843,618 thousand and NT$672,785 thousand for the nine months ended September 30, 2011 and 2010, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee s length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee s name in the Bank of Taiwan. The Company recognized pension costs of NT$226,549 thousand and NT$177,084 thousand for the nine months ended September 30, 2011 and 2010, respectively.

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

	Nine Months Ended September 30	
	2011	**2010**
The Fund		
Balance, beginning of period	$ 2,835,231	$ 2,595,717
Contributions	161,157	159,705
Interest	27,083	41,105
Payments	(7,339)	(11,050)
Balance, end of period	$ 3,016,132	$ 2,785,477
Accrued pension cost		
Balance, beginning of period	$ 3,824,601	$ 3,807,176
Accruals	66,557	8,589
Effect of spin-off	(60,583)	
Balance, end of period	$ 3,830,575	$ 3,815,765

18. INCOME TAX

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

	Nine Months Ended September 30	
	2011	**2010**
Income tax expense based on income before income tax at statutory rate (17%)	$ 18,892,672	$ 21,534,495
Tax effect of the following:		
Tax-exempt income	(10,599,946)	(12,295,454)
Temporary and permanent differences	(948,657)	(616,048)
Additional income tax under Alternative Minimum Tax Act	116,718	
Additional tax at 10% on unappropriated earnings	6,259,344	127,489
Income tax credits used	(6,259,344)	(3,678,333)
Income tax currently payable	$ 7,460,787	$ 5,072,149

b. Income tax expense consisted of the following:

	Nine Months Ended September 30	
	2011	**2010**
Income tax currently payable	$ 7,460,787	$ 5,072,149
Income tax adjustments on prior years	464,078	980,428
Other income tax adjustments	107,426	10,148

Net change in deferred income tax assets		
Investment tax credits	2,367,900	(6,965,003)
Temporary differences	229,708	65,697
Valuation allowance	(2,118,272)	6,625,521
Effect of spin-off	(893)	
Income tax expense	$ 8,510,734	$ 5,788,940

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

	September 30 2011	2010
Current deferred income tax assets		
Investment tax credits	$	$ 1,096,995
Temporary differences		
Allowance for sales returns and others	502,885	566,750
Unrealized gain/loss on financial instruments	288,760	65,589
Others	127,293	236,332
	$ 918,938	$ 1,965,666
Noncurrent deferred income tax assets		
Investment tax credits	$ 19,607,314	$ 20,599,749
Temporary differences		
Depreciation	1,829,967	1,990,080
Others	188,001	35,785
Valuation allowance	(10,534,490)	(12,424,853)
	$ 11,090,792	$ 10,200,761

Effective in May 2010, the Article 5 of the Income Tax Law of the Republic of China was amended, in which the income tax rate of profit-seeking enterprises would be reduced from 20% to 17%. The last amended income tax rate of 17% is retroactively applied on January 1, 2010. The Company recalculated its deferred tax assets in accordance with the new amended Article and adjusted the resulting difference as an income tax expense in 2010.

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

d. Integrated income tax information:

The balance of the imputation credit account as of September 30, 2011 and 2010 was NT$4,016,138 thousand and NT$1,669,533 thousand, respectively.

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

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

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

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

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 3,202,253	$ 597,292	2012
		6,513,605	6,513,605	2013
		7,002,482	7,002,482	2014
		482,351	482,351	2015
		$ 17,200,691	$ 14,595,730	
Statute for Upgrading Industries	Research and development expenditures	$ 1,772,824	$	2012
		4,994,463	4,994,463	2013
		$ 6,767,287	$ 4,994,463	
Statute for Upgrading Industries	Personnel training expenditures	$ 17,391	$	2012
		17,121	17,121	2013
		$ 34,512	$ 17,121	
Statute for Industrial Innovation	Research and development expenditures	$ 1,864,168	$	2011

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

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

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

19. LABOR COST, DEPRECIATION AND AMORTIZATION

	Nine Months Ended September 30, 2011		
	Classified as Cost of Sales	Classified as Operating	Total

		Expenses	
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

(Continued)

	Nine Months Ended September 30, 2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
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

(Concluded)

	Nine Months Ended September 30, 2010		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary and bonus	$ 17,941,777	$ 13,265,190	$ 31,206,967
Labor and health insurance	670,276	382,460	1,052,736
Pension	540,957	308,912	849,869
Meal	403,413	163,910	567,323
Welfare	161,132	95,271	256,403
Others	50,792	18,560	69,352
	$ 19,768,347	$ 14,234,303	$ 34,002,650
Depreciation	$ 55,796,317	$ 3,739,803	$ 59,536,120
Amortization	$ 933,660	$ 527,302	$ 1,460,962

20. SHAREHOLDERS EQUITY

As of September 30, 2011, 1,092,313 thousand ADSs of the Company were traded on the NYSE. The number of common shares represented by the ADSs was 5,461,567 thousand (one ADS represents five common shares).

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

Capital surplus consisted of the following:

	September 30 2011	September 30 2010
Additional paid-in capital	$ 23,734,158	$ 23,562,191
From merger	22,805,390	22,805,390
From convertible bonds	8,893,190	8,893,190
From long-term investments	256,946	373,244
Donations	55	55
	$ 55,689,739	$ 55,634,070

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$6,887,967 thousand and NT$8,162,440 thousand for the nine months ended September 30, 2011 and 2010, respectively. Bonuses to directors were accrued based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders meeting.

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

The appropriation for legal capital reserve shall be made until the reserve equals the Company s paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company s paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company s paid-in capital, up to 50% of the reserve may be transferred to capital.

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

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

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

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

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

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

21. STOCK-BASED COMPENSATION PLANS

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

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

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

	Number of Options (In Thousands)	**Weighted-average Exercise Price (NT$)**
Nine months ended September 30, 2011		
Balance, beginning of period	21,437	$ 31.4
Options exercised	(5,071)	30.8
Balance, end of period	16,366	31.8
Nine months ended September 30, 2010		
Balance, beginning of period	28,810	$ 32.4
Options exercised	(4,638)	32.5
Balance, end of period	24,172	32.5

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, 2011, information about outstanding options was as follows:

	Options Outstanding		
Range of Exercise Price (NT$)	**Number of Options (In Thousands)**	**Weighted-average Remaining Contractual Life (Years)**	**Weighted-average Exercise Price (NT$)**
$20.9-$29.3	12,361	1.5	$ 27.3
38.0- 50.1	4,005	3.2	45.7
	16,366	1.9	31.8

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

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

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

Expected life	5 years

	Nine Months Ended September 30 2011	2010
Net income:		
Net income as reported	$ 102,622,631	$ 120,884,560
Pro forma net income	102,618,784	120,871,974
Earnings per share (EPS) - after income tax (NT$):		
Basic EPS as reported	$ 3.96	$ 4.67
Pro forma basic EPS	3.96	4.67
Diluted EPS as reported	3.96	4.66
Pro forma diluted EPS	3.96	4.66

22. TREASURY STOCK

Purpose of Treasury Stock	Number of Shares, Beginning of Period	(Shares in Thousands) Addition	Number of Shares, End of Period
Nine months ended September 30, 2011			
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.

Under the Securities and Exchange Act, the Company shall neither pledge treasury stock nor exercise shareholders rights on these shares, such as rights to dividends and to vote.

23. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of	EPS (NT$)	
			Shares	Before	After
	Before	After	(Denominator)	Income	Income
	Income Tax	Income Tax	(In Thousands)	Tax	Tax
Nine months ended September 30, 2011					
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

(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, 2010					
Basic EPS					
Earnings available to common shareholders	$ 126,673,500	$ 120,884,560	25,904,889	$ 4.89	$ 4.67
Effect of dilutive potential common shares			12,923		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	$ 126,673,500	$ 120,884,560	25,917,812	$ 4.89	$ 4.66

(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.

The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each of the basic and diluted after income tax EPS for the nine months ended September 30, 2010 to remain at NT$4.67 and NT$4.66, respectively.

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	$ 583,010	$ 583,010	$ 14,383	$ 14,383
Available-for-sale financial assets	2,735,777	2,735,777	5,085,051	5,085,051
Held-to-maturity financial assets	1,654,167	1,682,068	7,257,142	7,348,294
Financial assets carried at cost	497,835		497,835	
Liabilities				
Financial liabilities at fair value through profit or loss	173,829	173,829	73,530	73,530
Bonds payable (including current portion)	22,500,000	22,561,211	4,500,000	4,547,696
Other long-term payables (including current portion)	816,379	816,379	770,711	770,711

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. The changes in fair value of derivatives contracts for the nine months ended September 30, 2011 and 2010 estimated using valuation techniques were recognized as a net gain of NT$409,181 thousand and a net loss of NT$59,147 thousand, respectively.

d. As of September 30, 2011 and 2010, financial assets exposed to fair value interest rate risk were NT$2,237,177 thousand and NT$8,308,027 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT$58,693,483 thousand and NT$42,169,530 thousand, respectively.

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

	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	$ (1,469,459)	$ 242,676	$ (1,226,783)

	Nine Months Ended September 30, 2010		
	From Available-	**Equity-method**	**Total**

	for-sale Financial Assets	Investments	
Balance, beginning of period	$ 46,672	$ 406,949	$ 453,621
Recognized directly in shareholders equity	(330,396)	395,444	65,048
Balance, end of period	$ (283,724)	$ 802,393	$ 518,669

f. Information about financial risks

1) Market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the market exchange rate fluctuations of foreign-currency assets and liabilities; therefore, the market exchange rate risk of derivatives will be offset by the foreign exchange risk of these hedged items. Available-for-sale financial assets and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities and overseas publicly traded stock; therefore, the fluctuations in market interest rates and market prices will result in changes in fair values of these debt securities.

2) Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The Company evaluated whether the financial instruments for any possible counter-parties or third-parties are reputable financial institutions, business enterprises, and government agencies and accordingly, the Company believed that the Company s exposure to credit risk was not significant.

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

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

25. 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)

GUC (accounted for using the equity method, as the Company had no controlling interest in GUC since July 2011)

VIS (accounted for using the equity method)

SSMC (accounted for using the equity method)

c. Indirect subsidiaries

WaferTech, LLC (WaferTech)

TSMC Technology, Inc. (TSMC Technology)

TSMC Design Technology Canada Inc. (TSMC Canada)

d. Indirect investee

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

e. Others

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

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

	2011 Amount	%	2010 Amount	%
For the nine months ended September 30				
Sales				
TSMC North America	$ 175,631,354	55	$ 160,415,902	52
Others	3,003,084	1	2,094,763	1
	$ 178,634,438	56	$ 162,510,665	53
Purchases				
TSMC China	$ 7,576,707	20	$ 6,206,526	17
WaferTech	5,753,541	16	5,958,529	17
VIS	4,313,015	12	3,643,305	10
SSMC	2,963,867	8	3,383,596	10
Others	126,405			
	$ 20,733,535	56	$ 19,191,956	54
Manufacturing expenses				
Xintec (rent and outsourcing)	$ 234,394		$ 214,590	
VisEra (outsourcing)	12,807		34,434	
VIS (rent)	5,902			
	$ 253,103		$ 249,024	
Marketing expenses - commission				
TSMC Europe	$ 278,938	16	$ 321,483	15
TSMC Japan	204,379	11	196,939	9
TSMC China	48,001	3	42,140	2
Others	15,239	1	14,362	
	$ 546,557	31	$ 574,924	26
Research and development expenses				
TSMC Technology (primarily consulting fee)	$ 379,328	2	$ 425,892	2
TSMC Canada (primarily consulting fee)	134,611	1	141,212	1
TSMC Europe	32,781		18,989	
VIS (primarily rent)	1,984		8,730	
Others	27,432		19,961	

$	576,136	3	$	614,784	3