

TSMC BUSINESS OVERVIEW 2012



TSMC VISION & CORE VALUES

TSMC's Vision

Our vision is to be the most advanced and largest technology and foundry services provider to fabless companies and IDMs, and in partnership with them, to forge a powerful competitive force in the semiconductor industry.

To realize our vision, we must have a trinity of strengths:

- (1) be a technology leader, competitive with the leading IDMs
- (2) be the manufacturing leader
- (3) be the most reputable, service-oriented and maximum-total-benefits silicon foundry.

TSMC Core Values

Integrity – Integrity is our most basic and most important core value. We tell the truth. We believe the record of our accomplishments is the best proof of our merit. Hence, we do not brag. We do not make commitments lightly. Once we make a commitment, we devote ourselves completely to meeting that commitment. We compete to our fullest within the law, but we do not slander our competitors and we respect the intellectual property rights of others. With vendors, we maintain an objective, consistent, and impartial attitude. We do not tolerate any form of corrupt behavior or politicking. When selecting new employees, we place emphasis on the candidates' qualifications and character, not connections or access.

Commitment – TSMC is committed to the welfare of customers, suppliers, employees, shareholders, and society. These stakeholders all contribute to TSMC's success, and TSMC is dedicated to serving their best interests. In return, TSMC hopes all these stakeholders will make a mutual commitment to the Company.

Innovation – Innovation is the wellspring of TSMC's growth, and is a part of all aspects of our business, from strategic planning, marketing and management, to technology and manufacturing. At TSMC, innovation means more than new ideas, it means putting ideas into practice.

Customer Trust – At TSMC, customers come first. Their success is our success, and we value their ability to compete as we value our own. We strive to build deep and enduring relationships with our customers, who trust and rely on us to be part of their success over the long term.

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Advanced Technologies 65nm and beyond Reached
of Total Wafer Revenues

62%

Share of the Total Semiconductor
Foundry Market Reached

45%

More than **600** Customers Worldwide

Wafer Shipments Reached

14.04

Million

8-inch Equivalent Wafers

1. Letter to Shareholders

In 2012 TSMC achieved record revenue and net profit, despite a decline in world semiconductor industry revenue related to slower global economic growth. Our performance was driven largely by the growing global demand for mobile IC products, such as tablets and smartphones. Designers of these products are rapidly migrating to 28-nanometer technology, where TSMC has commanded a very strong position among the semiconductor foundry players.

As we continued to expand our technology leadership with multiple years of intensified R&D and capital investment, our leadership position in mobile IC was strengthened by our close partnerships with customers, who count on TSMC to deliver the advanced technology nodes that enable their innovative designs with higher speed, lower power consumption and smaller form factor. We believe TSMC is well positioned to meet the strong demand for mobile products in the next several years.

In 2012 we accelerated the installation of 28-nanometer capacity and production at an unprecedented pace in order to meet customers' strong demand. As a result, TSMC's shipment of 28-nanometer wafers increased thirty-fold in 2012 from its 2011 level. Other achievements in 2012 include:

- Our total wafer shipments reached 14.04 million 8-inch equivalent wafers.
- Our advanced technologies (65-nanometer and beyond) reached 62 percent of total wafer revenue.
- Our share of the total semiconductor foundry segment increased for the third consecutive year and reached 45 percent.

2012 Financial Performance

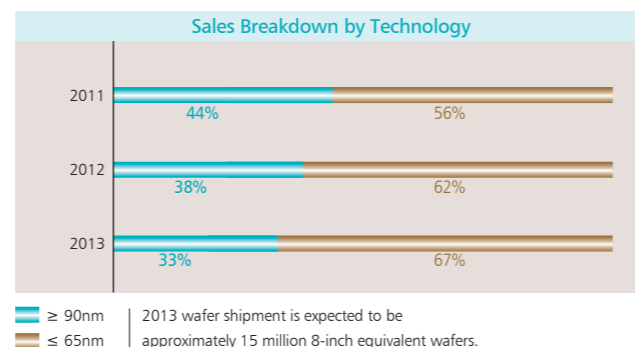
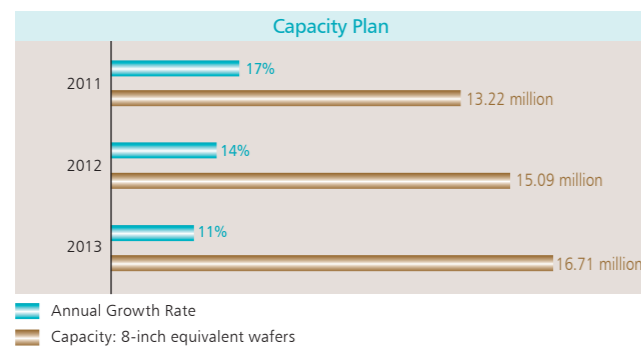
Consolidated revenue totaled NT\$506.25 billion, an increase of 18.5 percent over NT\$427.08 billion in 2011. Net income was NT\$166.16 billion and diluted earnings per share were NT\$6.41, both increased 23.8 percent from the 2011 level of NT\$134.20 billion net income and NT\$5.18 diluted EPS.

In US dollars, TSMC generated net income of US\$5.62 billion on consolidated revenue of US\$17.12 billion, compared with net income of US\$4.57 billion on consolidated revenue of US\$14.54 billion for 2011.

Gross profit margin was 48.1 percent compared with 45.4 percent in 2011, and operating profit margin reached 35.8 percent compared with 33.1 percent a year earlier. Net profit margin was 32.8 percent, an increase of 1.4 percentage points from the previous year's 31.4 percent.

Technological Developments

We are augmenting our strong position in 28-nanometer technology with the development of our 20-nanometer System-on-Chip (20-SoC) and 16-nanometer FinFET, or field-effect transistor with three-dimensional architecture. Both 20-nanometer and 16-nanometer FinFET are making progress in R&D and represent state-of-the-art leading-edge technologies, not just in foundry but in the whole semiconductor industry. In November 2012, we began to accept customers' test chips for our 20-nanometer SoC technology, and volume production is scheduled to begin in 2014. In 2012, we completed the 16-nanometer FinFET technology definition and began development, and we successfully taped out process development test vehicle and demonstrated functional yield on the FinFET-based SRAM bit-cells. Risk production of TSMC's 16-FinFET is expected to follow



20-SoC by one year. This is a somewhat faster cadence than our previous generations, enabled by the similarity in interconnect density shared between 20-SoC and 16-FinFET. At the same time, pathfinding for 10-nanometer node has started with multiple patterning on immersion scanners. Innovative processes are being developed to deal with the unique challenges of this technology node.

TSMC became the world's first foundry to provide a full system integration, turn-key solution to customers in 2012. Our backend technologies included advanced interconnect, production-ready fine pitch silicon interposer with through silicon via (TSV) and chip stacking, and advanced wafer-level-chip scale packaging (WLCS). We can offer customers design tools, technology and mass production capability.

TSMC has gained important customer wins and segment share not only through manufacturing excellence, but also through other key competitive advantages, not the least of which is our open design ecosystem, the Open Innovation Platform® (OIP). OIP becomes an even more important competitive advantage for TSMC as customers engage the exploration-solution-validation design cycle at 20- and 16-nanometer geometries, which represent a new frontier in precision technology manufacturing.

Corporate Developments

To accelerate the development of key next-generation lithographic technology, in August 2012 TSMC joined the ASML Holding N.V. Customer Co-Investment Program. The program's scope includes development of extreme ultraviolet (EUV) lithography technology and 450-millimeter lithography tools. Under the agreement with ASML, TSMC made an investment of €838 million to acquire 5 percent of ASML's equity, and will commit €277 million, spread over five years, to ASML's R&D program.

Honors and Awards

TSMC in 2012 received numerous honors and awards for our efforts in sustainability, corporate governance, investor relations, and innovation from *Corporate Governance Asia*, *EuroMoney*, *FinanceAsia*, *Institutional Investor*, *IR Magazine*, *CommonWealth Magazine*, and *Global Views Magazine*.

As a leader in green manufacturing, we were honored that TSMC's Fab 12 Phases 1 and 2 manufacturing facility earned the world's first LEED¹ "Platinum" certification for a semiconductor wafer fab.

Dow Jones Sustainability Indexes (DJSI) not only included TSMC in its index for the 12th consecutive year, but also named TSMC the semiconductor sector leader for the second time since 2010, highlighting our dedication to corporate social responsibility, leadership in adopting international sustainability management standards, and continued innovation in the economic, environmental, and social dimensions.

Outlook

Innovations in mobile computing products have changed the way people live, and advancement of semiconductor technologies enabled these changes. Through our efforts in the past 25 years, TSMC has achieved technology leadership, manufacturing excellence, and the trust of our customers. Allied with our customers, suppliers, and ecosystem partners, we believe TSMC is well positioned to expand the technology frontier, enable innovations further, and to fulfill our mission as the trusted technology and capacity provider for the global logic IC industry for years to come.

Morris Chang
Chairman and Chief Executive Officer



Footnote 1: LEED stands for the "Leadership in Energy and Environmental Design," a rating system run by the U.S. Green Building Council that conducts the certification process.

2012 Revenues NT\$ **506.2** Billion
Reaching Another Record High

2008 Revenues NT\$ **333.2** Billion
Exceeding US\$10 Billion for the First Time

2000 Revenues NT\$ **166.2** Billion
Exceeding NT\$100 Billion for the First Time

1997 Revenues NT\$ **43.9** Billion
ADRs Listed on New York Stock Exchange

1994 Revenues NT\$ **19.3** Billion
Listed on Taiwan Stock Exchange

1988 Revenues NT\$ **1.0** Billion
First Profitable Year

1987 TSMC Founded

2. Introduction to TSMC and Market Overview

2.1 An Introduction to TSMC

TSMC is the world's largest pure-play semiconductor foundry. Founded on February 21, 1987 and headquartered in Hsinchu, Taiwan, TSMC pioneered the business model of focusing solely on manufacturing customers' semiconductor designs. As a pure-play semiconductor foundry, the Company does not design, manufacture, or market semiconductor products under its own brand name, ensuring that TSMC does not compete directly with its customers.

With a diverse global customer base, TSMC-manufactured microchips are used in a broad variety of applications that cover various segments of the computer, communications, consumer, industrial and other electronics markets.

Annual capacity of the manufacturing facilities managed by TSMC, including subsidiaries and joint ventures, totaled 15.09 million 8-inch equivalent wafers in 2012. In Taiwan, TSMC operates three advanced 12-inch wafer fabs, four 8-inch wafer fabs, and one 6-inch wafer fab. TSMC also manages two 8-inch fabs at wholly owned subsidiaries: WaferTech in the United States and TSMC China Company Limited. In addition, TSMC obtains 8-inch wafer capacity from other companies in which the Company has an equity interest.

TSMC provides customer service through its account management and engineering services offices in North America, Europe, Japan, China, South Korea, and India. The Company employed more than 37,000 people worldwide as of the end of 2012.

TSMC continued to lead the foundry segment of the semiconductor industry in both advanced and "More-than-Moore" process technologies. Already the first foundry to provide 65nm and 40nm production capacity, TSMC in 2012 also reached full volume production of 28nm featuring 28HP & 28HPM for high performance and 28LP & 28HPL for low power, and began the initial customer tape out of 20nm technology. In addition to general-purpose logic process technology, TSMC supports the wide-ranging needs of its customers with embedded non-volatile memory, embedded DRAM, Mixed Signal/RF, high voltage, CMOS image sensor, color filter, MEMS, silicon germanium technologies and automotive service packages.

TSMC's subsidiaries "TSMC Solid State Lighting Ltd." and "TSMC Solar Ltd." also respectively engage in the researching, developing, designing, manufacturing and selling of solid state lighting devices as well as related products and systems, and solar-related technologies and products.

The Company is listed on the Taiwan Stock Exchange (TWSE) under ticker number 2330, and its American Depositary Shares trade on the New York Stock Exchange (NYSE) under the symbol "TSM".

2.2 TSMC Achievements

In 2012, TSMC maintained its leading position in the total foundry segment of the global semiconductor industry, with an estimated market segment share of 45%. TSMC achieved this result amid intense competition from both established players and relatively new entrants to the business.

Leadership in advanced process technologies is a key factor in TSMC's strong market position. In 2012, 77% of TSMC's wafer revenue came from manufacturing processes with geometries of 0.13 μ m and below; 62% of TSMC's wafer revenue came from 65nm processes and below.

With TSMC's focus on customer trust, the Company continuously strengthened its Open Innovation Platform[®] (OIP) initiative in 2012 with additional innovative services. During the 2012 TSMC Technology Symposium and the 2012 Design Automation Conference of IEEE/ACM, the Company revealed TSMC 20nm Reference Flow, CoWoS[™] Reference Flow, the fourth revision of radio frequency (RF) reference design kit, and 20nm Custom Design Reference Flow, to highlight the success of design enablement through OIP. The OIP Ecosystem Forum, which was held in October 2012 at San Jose, California, was well attended by both customers and ecosystem partners to demonstrate the value of collaboration through OIP to foster innovations.

TSMC continued to advance the semiconductor roadmap in 2012. Examples of technologies the Company either developed or rolled out include:

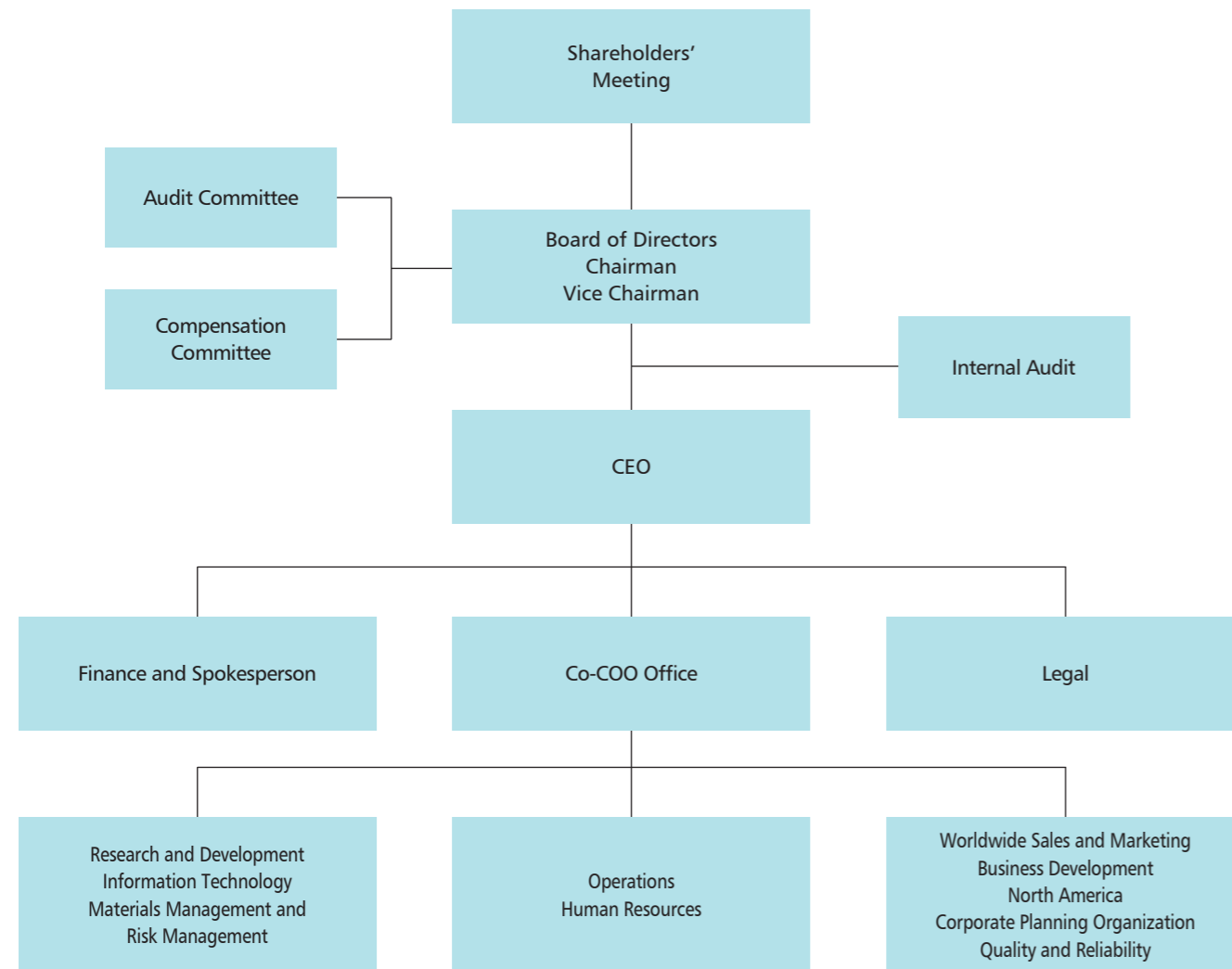
- 16nm FinFET technology (16FF) is under development to provide best value in speed/power optimization to meet next generation product requirements in CPU (Central Processing Unit), GPU (Graphics Processing Unit), APU (Accelerated Processing Unit), FPGA (Field-Programmable Gate Array), Networking and mobile computing applications, including smartphones, tablets and high-end SoC (System-on-Chip) devices.
- 20nm System-on-Chip technology (20-SoC) is under development to provide the migration path from 28nm for both performance-driven products and mobile computing applications.
- 28nm High Performance (28HP) technology for performance-driven markets like CPU, GPU, APU, FPGA and high-speed networking applications.
- 28nm High Performance Mobile computing (28HPM) technology for tablets, smartphones, and high-end SoC applications.
- 28nm Low Power (28LP & 28HPL) and RF (28HPL-RF) technology for mainstream smartphones, application processors, tablets, home entertainment and digital consumer applications.
- 40nm general purpose technology for performance-driven markets like CPU, GPU, FPGA, HDD, Game Console, Network Processor and Gigabit Ethernet applications.
- 40nm low power and RF technology for smartphones, DTV (Digital Television), STB (Set-Top-Box), game and wireless connectivity applications.
- 40nm eFlash for non-volatile memory technologies under joint development for high-end automotive application.
- 55nm low power RF technology for WLAN (Wireless Local Area Network), Bluetooth and other handheld applications.
- 55nm & 65nm 5V LDMOS (Laterally Diffused Metal Oxide Semiconductor) for power management application.
- 55nm and 85nm ultra-low power technology for flash controller applications.
- 65nm joint developed eFlash technology qualified and in production for industrial/automotive microcontroller and smartcard applications.

- 80nm & 0.11 μ m high voltage process for high resolution HD720 and FHD display driver IC, which could support Retina to Super Retina display quality in smartphones.
- 90nm uLL (Ultra Low Leakage) eFlash technology qualified and in production for ASIC (Application-Specific Integrated Circuit) and microcontroller applications.
- 0.13 μ m new generation BCD (Binary Coded Decimal) process for mobile computing is in risk production stage. It offers world-class competitive power LDMOS Rds(on) performance for better power efficiency and allows micro controller integration to further increase battery life.
- 0.18 μ m BCD second generation is in risk production stage. It offers worldwide competitive power LDMOS Rds(on) performance and with wide voltage spectrum from 6V to 70V for multiple applications in Computing, Communication and Consumer markets.
- 0.18 μ m and 0.25 μ m high-precision analog process was fully released, and offers TFR (Thin Film Resistor) and high linearity MIM (Metal-Insulator-Metal) for performance-driven mixed-signal applications.

In addition, TSMC further strengthened its comprehensive development of specialty technologies in 2012, including the release of 0.5 μ m ultra high voltage power IC technology, 90nm/65nm smartcard, 40nm automotive and Backside Illumination CMOS Image Sensor (BSI CIS), which successfully migrated to 65nm from 0.11 μ m and to volume production in 12-inch fabs. In 2012, TSMC offered a motion sensor 3D modular MEMS (Micro Electro Mechanical Systems) with 30 μ m thick MEMS structure and wafer level bonding for hermetic seal of the MEMS devices. First wave customers have adapted the modular MEMS structure with separate ASIC driver chip for accelerometer applications, and are now in production. TSMC will offer fully integrated CMOS 3D modular MEMS with design rule in the first quarter 2013 as a general offering. These specialty technologies are key differentiators from our competitors and provide customers more added value.

2.3 Organization

2.3.1 Organization Chart



2.3.2 Major Corporate Functions

Research and Development

- Advanced and mainstream technology research and development, exploratory research and development, design services and technology platform development

Information Technology

- Technology system integration, business system integration, IT infrastructure and communication service, IT security, IT productivity and quality management

Materials Management and Risk Management

- Purchasing, warehousing, import and export, logistics support, environmental protection, industrial safety, health management, and risk management

Operations

- Product development, manufacturing technology, mainstream fabs, 300mm fabs, affiliate fabs, and back-end technology and service

Human Resources

- Human resources management and organizational development
- Proprietary information protection (PIP) and physical security management

Worldwide Sales and Marketing

- Brand management, market analysis & forecast, customer service and regional sales operations or service and field technical support for Japan, Asia, China and Europe

Business Development

- Develop semiconductor foundry business in mobile computing, computer, consumer electronics, communication and industrial related products; identify new applications and markets, and solidify customer relationship

North America

- Sales operations, market development, field technical support and service for North America customers

Corporate Planning Organization

- Operation resources planning, production and demand planning, and business process integration

Quality and Reliability

- Quality and reliability management

Finance and Spokesperson

- Corporate finance, accounting, investor relations, public relations, tax, financial planning, investment management, and strategic program
- Corporate spokesperson

Legal

- Corporate legal affairs, litigation, commercial transactions, patents and other intellectual property management, compliance and regulatory work

Internal Audit

- Internal control risk monitoring and independent assessment of compliance

2.4 Market Overview

We estimate that the worldwide semiconductor market in 2012 reached US\$308 billion in revenue, a 2% decline compared to 2011. Total foundry, a manufacturing sub-segment of the semiconductor industry, generated total revenues of US\$34 billion in 2012, or 16% YoY growth.

2.4.1 Industry Outlook

Industry Demand and Supply Outlook

Following 5% growth in 2011, foundry segment growth accelerated significantly by 16% in 2012, mainly driven by fabless market share gain over IDM and process technology advancement.

We forecast total semiconductor market to grow 3% YoY in 2013. Longer term, due to increasing semiconductor content in electronics devices, continuing market share gain of fabless, and increasing in-house ASIC from system companies, foundry sales are expected to display much stronger growth than the projected 4% compound annual growth rate (CAGR) for the total semiconductor industry from 2012 through 2017.

As an upstream supplier in the semiconductor supply chain, the condition of the foundry segment is tightly correlated with the market health of the 3Cs: communications, computer and consumer.

● **Communications**

The communications sector, particularly the handset segment, posted a modest 5% growth in unit shipments for 2012. Smartphones, which have much higher semiconductor content, have been leading the growth of the sector.

The continuing transition to 4G/LTE handsets will bring positive momentum to the market. Smartphones with increasing performance, lower power and more intelligent features will continue to propel buying interest in new handsets in 2013. The growing popularity of low-end smartphones in emerging countries is also a new catalyst driving the growth of the sector.

Low power IC is an essential requirement among handset manufacturers. The System-on-Chip (SoC) design for more optimized cost, power and form-factor (i.e. device footprint), plus the appetite for higher performance to run complicated software, will continue to accelerate the migration to advanced process technologies in which TSMC is already the leader.

● **Computer**

The computer sector's unit shipment growth declined 3% YoY in 2012 after a close to flat year in 2011. Cautious spending in developed countries and budget competition from tablet products were among the factors causing the weak demand.

Moving into 2013, PC market will decline. While pessimism regarding the economic outlook will overhang the sector, new innovative features and form-factors such as detachable keyboard, hybrid notebook and the introduction of the new Windows 8 operating system are expected to stimulate PC demand.

Requirements of lower power, higher performance and integration for key computer components such as CPU, GPU, Chipset, etc., should drive product design demand for leading process technologies.

● **Consumer**

After flat sales in 2011, the consumer sector lost momentum in 2012 with a decline of 2% in aggregated unit shipment growth YoY. Economic uncertainties have stifled buyers' appetite for consumer electronics products, and the growth of mobile computing devices has also impacted consumer electronics sales.

Moving forward, new product launches such as the introduction of a new generation of game consoles will stimulate new interest in video games. Low-priced, large screen TVs will kindle end-consumer buying interest. And, government subsidy programs in multiple countries should drive the adoption of DTV.

Meanwhile, increasing innovations in the consumer sector have also encouraged new usage models, such as integration of touch sensing, motion recognition, high-resolution and 3D display. Besides the need for advanced technologies, "More-than-Moore" technologies such as CMOS Image Sensor (CIS), High-Voltage (HV) drivers, embedded memory, micro-controller and MEMS are becoming prominent requirements. With its comprehensive technology portfolio, TSMC will be able to capitalize on these trends.

Emerging Applications

Emerging new applications such as tablets are increasing contributions to foundry segment revenue. Led by Apple's iPad, around 155 million tablets shipped in 2012 compared with 68 million units in 2011. The strong sales momentum will continue in 2013 as more models are introduced by other OEMs. We forecast the tablet market will grow with a 23% CAGR from 2012 through 2017, and become a strong growth driver for both the semiconductor industry and foundry segment.

Supply Chain

The electronics industry consists of a long and complex supply chain, the elements of which are highly dependent and correlated with each other. At the upstream IC manufacturing level, it is important for IC vendors to have sufficient and flexible supply to support the dynamic market situation. The foundry vendors are playing an important role to ensure the health of the supply chain. As a leader in the foundry segment, TSMC provides leading technologies and large-scale capacity to complement the innovations created along the downstream chain.

3. Corporate Governance

TSMC advocates and acts upon the principles of operational transparency and respect for shareholder rights. We believe that the basis for successful corporate governance is a sound and effective Board of Directors. In line with this principle, the TSMC Board delegates various responsibilities and authority to two Board Committees: the Audit Committee and Compensation Committee. Each Committee has a written charter approved by the Board. Each Committee's chairperson regularly reports to the Board on the activities and actions of the relevant committee. The Audit Committee and Compensation Committee consist solely of independent directors.

2012 Corporate Governance Awards

Organization	Awards
Corporate Governance Asia	8 th Recognition Awards 2012 - The Best of Asia - Taiwan Companies
FinanceAsia	- Asia's Best Managed Companies in Hong Kong and Taiwan - Best Managed Company - Ranked No. 1 in Taiwan - Best Corporate Governance Company - Ranked No.1 in Taiwan
Asian Corporate Governance Association (ACGA)	No. 1 Corporate Governance Ranking in Asia Pacific
R.O.C. Securities & Futures Institute	9 th Information Disclosure of Public Companies Ranking - Ranked A ⁺⁺

3.1 Board of Directors

Board Structure

TSMC's 12th Board of Directors was elected at TSMC's 2012 Annual Shareholders' Meeting. All Directors continue in office. TSMC's Board of Directors consists of nine distinguished members with a great breadth of experience as world-class business leaders or scholars. We rely on them for their diverse knowledge, personal perspectives, and solid business judgment. Five of the nine members are independent directors: former British Telecommunications Chief Executive Officer, Sir Peter Bonfield; former Acer Group Chairman, Mr. Stan Shih; former Texas Instruments Inc. Chairman of the Board, Mr. Thomas J. Engibous; Professor of Princeton University, Gregory C. Chow; and advisor to the Taiwan Executive Yuan and the Taipei City Government, Ms. Kok-Choo Chen. The number of Independent Directors is more than 50% of the total number of Directors.

Board Responsibilities

Under the leadership of Chairman Morris Chang, TSMC's Board of Directors takes a serious and forthright approach to its duties and is a dedicated, competent and independent Board.

In the spirit of Chairman Chang's approach to corporate governance, a board of directors' primary duty is to supervise. The Board should supervise the Company's: compliance with relevant laws and regulations;

financial transparency; timely disclosure of material information, and maintaining of the highest integrity within the Company.

TSMC's Board of Directors strives to perform these responsibilities through the Audit Committee and the Compensation Committee, the hiring of a financial expert for the Audit Committee, and coordination with the Internal Audit department.

The second duty of the Board of Directors is to provide guidance to the management team of the Company. Quarterly, TSMC's management reports to the Board on a variety of subjects. The management also reviews the Company's business strategies with the Board, and updates TSMC's Board on the progress of those strategies, obtaining Board guidance as appropriate.

The third duty of the Board of Directors is to evaluate the management's performance and to dismiss officers of the Company when necessary. TSMC's management has maintained a healthy and functional communication with the Board of Directors, has been devoted in executing guidance of the Board, and is dedicated in running the business operations, all to achieve the best interests for TSMC shareholders.

3.1.1 Audit and Compensation Committees

Under R.O.C. law, the membership of Audit Committee shall consist of all independent Directors. TSMC's Audit Committee satisfies this statutory requirement. The Committee also engaged a financial expert consultant in accordance with the rules of the U.S. Securities and Exchange Commission. The Audit Committee annually conducts self-evaluation to assess the Committee's performance and identify areas for further attention.

TSMC's Audit Committee is empowered by its Charter to conduct any study or investigation it deems appropriate to fulfill its responsibilities. It has direct access to TSMC's internal auditors, the Company's independent auditors, and all employees of the Company. The Committee is authorized to retain and oversee special legal, accounting, or other consultants as it deems appropriate to fulfill its mandate. The Audit Committee Charter is available on TSMC's corporate website.

The Compensation Committee assists the Board in discharging its responsibilities related to TSMC's compensation and benefits policies, plans and programs, and in the evaluation and compensation of TSMC's directors of the Board and executives.

The members of the Compensation Committee are appointed by the Board as required by R.O.C. law. According to TSMC's

Compensation Committee Charter, the Committee shall consist of no fewer than three independent directors of the Board. Currently, the Compensation Committee is comprised of all five independent directors; the Chairman of the Board, Dr. Morris Chang, is invited by the Committee to attend all meetings and is excused from the Committee's discussion of his own compensation.

TSMC's Compensation Committee is authorized by its Charter to retain an independent consultant to assist in the evaluation of CEO, or executive officer compensation. The Compensation Committee Charter is available on TSMC's corporate website.

3.2 Major Resolutions of Shareholder Meeting and Board Meetings

Major Resolutions of Shareholders' Meeting and Implementation Status

TSMC's 2012 Annual Shareholders' Meeting was held in Hsinchu, Taiwan on June 12, 2012. At the meeting, shareholders present in person or by proxy approved the following resolutions:

- (1) The 2011 Business Report and Financial Statements;
- (2) The distribution of 2011 profits;
- (3) The revisions to the Articles of Incorporation;
- (4) The revisions to the Rules for Election of Directors; and
- (5) Election of nine directors (including five independent directors).

All the resolutions of the Shareholders' Meeting have been fully implemented in accordance with the resolutions.

The nine newly elected directors were Morris Chang, F.C. Tseng, Sir Peter Leahy Bonfield (Independent Director), Stan Shih (Independent Director), Thomas J. Engibous (Independent Director), Gregory C. Chow (Independent Director), Kok-Choo Chen (Independent Director), Johnsee Lee (representative of National Development Fund, Executive Yuan) and Rick Tsai.

Major Resolutions of Board Meetings

During the 2012 calendar year, and as of the date of this Annual Report, major resolutions approved at Board meetings are summarized below:

- (1) Regular Board Meeting of February 13 & 14, 2012:
 - approving 2011 business report and financial statements;
 - approving distribution of 2011 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$1,395.49 million;
 - approving R&D capital appropriation of US\$239.6 million; and
 - convening the 2012 Annual Shareholders' Meeting, at which shareholders will hold an election for TSMC's nine-member Board of Directors, including five independent directors.
- (2) Special Board Meeting of March 2, 2012:
 - approving the appointment of Senior Vice President of R&D Dr. Shang-yi Chiang, Senior Vice President of Operations Dr. Mark

Liu, and Senior Vice President of Business Development Dr. C.C. Wei as Executive Vice Presidents and Co-Chief Operating Officers of TSMC.

Following these appointments, the three Executive Vice Presidents and Co-COOs, as well as TSMC's Finance and Legal organizations, will report directly to Chairman and Chief Executive Officer Dr. Morris Chang. All other organizations will report to the three Executive Vice Presidents and Co-COOs. The new organizational structure will take effect on March 5, 2012.

- (3) Special Board Meeting of April 26, 2012:
 - approving capital appropriations of US\$1,814.2 million; and
 - listing five qualified candidates for independent directors to stand for election at TSMC's 2012 Annual Shareholders' Meeting.
- (4) Regular Board Meeting of June 12 & 13, 2012:
 - re-election of Dr. Morris Chang as the Chairman and Dr. F.C. Tseng as the Vice Chairman of the Board of Directors;
 - approving the appointment of the five independent Directors, Stan Shih, Sir Peter Leahy Bonfield, Thomas J. Engibous, Gregory C. Chow and Kok-Choo Chen, as members of the Compensation Committee;
 - approving capital appropriations of US\$3,176.65 million;
 - approving R&D capital appropriation of US\$233.2 million; and
 - approving issuance of an unsecured straight corporate bond in the domestic market for an amount not exceeding NT\$45 billion.
- (5) Regular Board Meeting of August 13 & 14, 2012:
 - approving 2012 semi-annual financial statements; and
 - approving capital appropriations of US\$2,786.53 million.
- (6) Regular Board Meeting of November 12 & 13, 2012:
 - approving capital appropriations of US\$2,975 million;
 - approving R&D capital appropriation and 2013 sustaining capital appropriation totaling approximately US\$209.5 million;
 - approving issuance of an unsecured straight corporate bond in the domestic market for an amount not exceeding NT\$45 billion;
 - approving the subscription of NT\$1,243 million in new shares to be issued by TSMC Solid State Lighting Ltd. in 2013; and
 - approving the subscription of NT\$636 million in new shares to be issued by TSMC Solar Ltd. in 2013.
- (7) Regular Board Meeting of February 4 & 5, 2013:
 - approving 2012 business report and financial statements;
 - approving distribution of 2012 profits, and cash dividends, employee cash bonus and employee profit sharing;
 - approving capital appropriations of US\$2,714.76 million;
 - approving R&D capital appropriations of US\$103.6 million;
 - approving the provision of a loan guarantee to wholly-owned subsidiary TSMC Global for its issuance of US dollar-denominated senior unsecured corporate bonds for an amount not to exceed US\$1.5 billion; and
 - convening the 2013 Annual Shareholders' Meeting.

4. Operational Highlights

As the founder and a leader of the dedicated semiconductor foundry segment, TSMC has built its reputation by offering advanced and "More-than-Moore" wafer production processes and unparalleled manufacturing efficiency. TSMC strives to provide the best overall value to its customers, and the success of TSMC's business is manifested in the success of its customers.

TSMC provides a full range of integrated semiconductor foundry services that fulfill the increasing variety of customer needs. In the process, it has experienced strong growth by building close relationships with customers. Semiconductor suppliers from around the world trust TSMC with their manufacturing needs, thanks to its unique integration of cutting-edge process technologies, pioneering design services, manufacturing productivity and product quality.

In May 2009, TSMC established the New Businesses organization to explore non-foundry related business opportunities. In August 2011, the New Businesses organization was formally separated from the main TSMC organization as two subsidiaries, TSMC Solid State Lighting Ltd. and TSMC Solar Ltd., responsible for solid state lighting and solar business activities, respectively.

Over the past 25 years, more than 600 customers worldwide have relied on TSMC to manufacture chips that are used across the entire spectrum of electronic applications, including computers and peripherals, information appliances, wired and wireless communications systems, automotive and industrial equipment, consumer electronics such as DVDs, digital TVs, game consoles, digital still cameras (DSCs), and many other applications.

The rapid evolution of end products drives our customers to utilize TSMC's innovative technologies and services, while at the same time spurring TSMC's own development of technology. As always, success depends on leading rather than following industry trends.

4.1 Technology Leadership

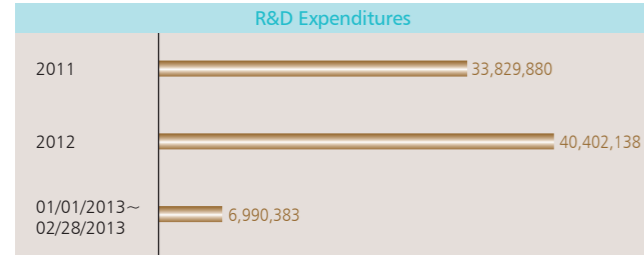
TSMC further expanded many aspects of Research and Development in 2012 to strengthen Technology Leadership. In 2012, the total R&D budget was 8.0% of total revenue. This level of R&D investment equals or exceeds that of many leading-edge technology companies. Along with the budget increase, the R&D organization increased staffing by over 27.5%.

TSMC recognizes that the technology challenge required to extend Moore's Law, the business law behind CMOS scaling, is getting increasingly complex. R&D Vice Presidents bring their rich industry experiences to lead the strengthening of the R&D team and to navigate through the technological and competitive challenges ahead. In 2012, TSMC worked intensively on ramping 28nm technology, which contributed close to 22% of fourth quarter 2012 revenue and will further increase in 2013.

TSMC accelerated the development of advanced transistors, especially 3D transistors using FinFET structure for 16nm process node, embedded memories, and copper (Cu)/low-K interconnect technologies. During 2012, the R&D organization once again proved its capabilities by developing 20nm technology as well as establishing 16nm transistor leadership capabilities. Furthermore, TSMC broadened the horizon of transistor research by investing R&D in alternative high-speed and low-power channel materials other than silicon, such as germanium and III-V compounds.

TSMC also expanded its external R&D partnerships and alliances with world-class research institutions. For example, TSMC is a core partner of IMEC in Belgium, the respected European R&D consortium. TSMC also has strategic agreements with IP providers to enable the development of reusable IPs through advanced technology nodes. TSMC strengthened its collaborations with key development

Amount: NT\$ thousands



partners on design-process optimization, and provides funding for nanotechnology researches at leading research universities worldwide to promote innovations and the advancement of technology.

These research efforts enable the Company to continuously offer its customers the foundry-leading, first-to-market technologies and design solutions that contribute to their product success in today's complex and challenging market environment.

4.1.1 Open Innovation Platform Initiative

The TSMC Open Innovation Platform® (OIP) initiative is a comprehensive design technology infrastructure that encompasses all critical IC implementation areas to reduce design barriers and improve first-time silicon success. OIP promotes the speedy implementation of innovation amongst the semiconductor design community and its ecosystem partners with TSMC's IPs, design implementation and DFM capabilities, process technology and backend services.

A key element of OIP is a set of ecosystem interfaces and collaborative components initiated and supported by TSMC that more efficiently empowers innovation throughout the supply chain. TSMC's Active Accuracy Assurance (AAA) initiative is critical to OIP, providing the accuracy and quality required by the ecosystem interfaces and collaborative components.

TSMC's Open Innovation model offers:

- The foundry segment's largest, most comprehensive and robust silicon-proven intellectual properties (IPs) and library portfolio;
- Advanced design methodology delivery through reference flows, design for manufacturing (DFM), and process design kits; and
- Comprehensive design ecosystem alliance programs covering market-leading EDA, library, IPs, and design service partners.

TSMC's OIP Alliance brings together 30 electronic design automation (EDA) partners, 41 IP partners, and 26 design service partners under the common goal of shortening design time, minimizing time-to-volume and speeding time-to-market and, ultimately, time-to-revenue. Through this early and intensive collaboration effort, TSMC OIP is able to deliver the needed design infrastructure with timely enhancement of EDA tools, early availability of critical IPs and quality design services when customers need them. This is critical to success for the customers to take full advantage of the process technologies once they reach production-ready maturity.

4.2 Manufacturing Excellence

4.2.1 GIGAFAB™ Facilities

TSMC's 12-inch fabs are a key part of its manufacturing strategy.

TSMC currently operates three 12-inch GIGAFAB™ fabrication facilities – Fab 12, Fab 14, and Fab 15 – whose combined capacity reached 3,936,000 12-inch wafers in 2012. Production within these three facilities supports 0.13μm, 90nm, 65nm, 40nm, 28nm, and 20nm process technologies, and their sub-nodes. Part of the capacity is reserved for research and development work and currently supports technology development for 16nm, 10nm and beyond. TSMC has developed a centralized fab manufacturing management system for the customers' benefit with consistent quality and reliability performance, greater flexibility for demand fluctuations, faster yield learning and time-to-volume, and minimized costly product re-qualification. It enabled Fab 15 to fast ramp 28nm capacity from zero to 50,000 wafers output per month in eight months to satisfy customers' demand.

4.2.2 Engineering Performance Optimization

Highly sophisticated information technology (IT) solutions, such as advanced equipment control, fault detection and diagnosis, engineering big data mining, and centralized operation platforms, are implemented to optimize TSMC equipment, process and yield performance. They also improve production efficiency, effectiveness, and engineering capability via information integration, workflow optimization and automation.

Advanced analytical methods identify critical equipment and process parameters that are linked to device performance. Methodologies such as virtual metrology, yield dissection and management integrate Advanced Process Control (APC), Fault Detection Classification (FDC), Statistical Process Control (SPC), and Circuit Probe data in order to optimize equipment performance to match device performance.



Accurate modeling and control at each process stage drives intelligent module loop control. The process control hierarchy dispatched via sophisticated computer-integrated manufacturing systems enables optimization from equipment to end product, which achieves precision and lean operation in a high product mix semiconductor manufacturing environment.

4.2.3 Precision and Lean Operations

TSMC's unique manufacturing infrastructure is tailored for a high product mix foundry environment. Following its commitment to manufacturing excellence, TSMC has equipped a sophisticated scheduling and dispatching system, implemented industry-leading automated materials handling systems, and employed Lean Manufacturing approaches to provide customers with on-time-delivery and best-in-class cycle time. Real-time equipment performance and productivity monitoring, analysis, diagnosis and control minimize production interruption and maximize cost effectiveness.

4.2.4 450mm Wafer Manufacturing Transition

TSMC joined the Global 450mm Consortium (G450C) located in the College of Nanoscale Science and Engineering (CNSE) of New York University at Albany, New York. The consortium includes five IC makers and CNSE (which represents New York State and provides the clean room facility), as well as key 450mm tool suppliers as associate members.

Currently, TSMC has 16 experienced employees working in the consortium. TSMC has assumed the Operation GM position in the consortium and commits to lead the industry for a cost-effective 450mm transition. The clean room of G450C in Albany has been ready for tool installation since Q1 2013. The majority of the tools will be installed in 2013.

Besides 450mm tool readiness, TSMC is also developing novel 450mm operation to bring the maximum value of semiconductor wafer fabrication to customers, including advanced quality and the most competitive cycle time in advanced technology. 450mm will be a new era of semiconductor manufacturing with new manufacturing capability advanced from today's leading edge technology.

4.2.5 Raw Materials and Supply Chain Risk Management

In 2012, TSMC continued Supply Chain Risk Management meetings periodically to integrate Company resources from materials management, fab operations, risk management and quality management. TSMC worked with its suppliers to enhance the performance of quality, delivery, risk management, and to support green procurement, environmental protection and safety.

4.3 Customer Trust

4.3.1 Customers

TSMC's worldwide customers have diverse product specialties and excellent performance records in various segments of the semiconductor industry. Fabless customers include: Advanced Micro Devices, Inc., Altera Corporation, Broadcom Corporation, Marvell Semiconductor Inc., MediaTek Inc., NVIDIA Corporation, OmniVision Technologies and Qualcomm Inc. IDM customers include: Analog Devices Inc., STMicroelectronics and Texas Instruments Inc. etc.

Customer Service

TSMC believes that providing superior customer service is critical to enhancing customer satisfaction and loyalty, which is the path to retaining existing customers, attracting new customers, and strengthening customer relationships. With a dedicated customer service team as a main contact window for coordination and facilitation, TSMC strives to provide world-class, high-quality, efficient and professional services in design support, masking, manufacturing, and backend to achieve optimum experience for our customers and, in return, to gain customer's trust and sustain Company profitability.

To facilitate customer interaction and information access on a real-time basis, TSMC's EFOUNDRY® services offer a suite of web-based applications that provide a more active role in design, engineering, and logistics. Designers have 24-hour a day,

seven-day-a-week access to critical information and are able to create custom reports through EFOUNDRY® online services. Design Collaboration focuses on content availability and accessibility, with close attention to complete, accurate, and current information at each level of the wafer design life cycle. Engineering Collaboration includes online access to engineering lots, wafer yields, wafer acceptance test (WAT) analysis, and quality reliability data. Logistics Collaboration provides access to data updated three times a day on any given wafer lot's status in order, fabrication, assembly and testing, and shipping.

Customer Satisfaction

To assess customer satisfaction and to ensure that as many as possible of our customers' needs and wants are adequately addressed, TSMC conducts an annual customer satisfaction survey (ACSS) with all active customers, either by web or interview survey, through an independent consultancy.

Complementary with ACSS, quarterly-based business reviews (QBRs) are also performed by the customer service team to survey customers' satisfaction during their visits on technical and business related services offered. Through both surveys and intensive interaction with customers by the account team, TSMC is able to maintain close contact with customers for better service and collaboration.

All customer feedback is routinely reviewed by executives and developed into improvement plans to become an integral part of this survey process with a complete closed-loop. TSMC has maintained a focus on customer survey data as one key indicator of corporate performance – not just of past performance, but also as a leading indicator of future performance. TSMC has acted on the belief that satisfaction leads to loyalty, and customer loyalty leads to higher levels of retention and expansion.

5. Corporate Social Responsibility

TSMC is an important part of the technology industry. As we look to the future, we not only aim to maintain our leadership in worldwide competition and promote Taiwan's globalization and economic growth, we also will continue to carry out our corporate social responsibility and do our utmost to be good corporate citizens.

Our 10 principles for practicing corporate social responsibility are important standards for continuing to support positive change in society:

1. We insist on honesty and integrity. We are honest to our shareholders, employees, customers, and to the public alike.
2. We respect the rule of law and always obey the law.
3. We abhor cronyism. We do not seek favoritism from the government or any government official, and we do not bribe.
4. We practice good corporate governance, and balance the interests of shareholders, employees, and all stakeholders in the Company.
5. We do not engage in politics.
6. We provide good job opportunities with a safe, comfortable, and intellectually challenging environment to give our employees both physical comfort and mental stimulation.
7. We contribute our part in controlling climate change and place great importance on the protection of the environment.
8. We emphasize and reward innovation, and actively manage the risks that innovation may bring.
9. We invest in green businesses such as solid state lighting and solar to contribute to a greener world.
10. We support educational and cultural activities, and provide long-term care to communities.

TSMC fulfills its social responsibilities to all stakeholders. As we carry out the principles listed above, it is our firm belief that customers will trust us more because of our honesty and integrity, respect for the law, and good corporate governance. Investors will be more willing to invest over the long term because of our clear core values, and employees will feel closer to the Company as they identify with those values. Carrying out TSMC's social responsibilities brings us greater competitive advantage, creates greater value for shareholders, and benefits all of our stakeholders.

Corporate Social Responsibility: Uplift Society

TSMC \ Society	Morality	Business Ethics	Economy	Rule of Law	Sustainability	Work/Life Balance Happiness	Philanthropy
Integrity	V	V					
Law Compliance				V			
Anti-Corruption Anti-Bribery Anti-Cronyism	V	V		V			
Environmental Protection Climate Control Energy Conservation				V	V		
Corporate Governance		V	V	V			
Provide Well-paying Jobs			V			V	
Good Shareholder Return			V				
Employees' Work-life Balance						V	
Encourage Innovation		V	V				
Good Work Environment						V	
Volunteers Organization					V	V	V
Education and Culture Foundation							V

5.1 Environmental Health and Safety (ESH) Management

TSMC believes its environmental, safety and health practices must not only comply with legal requirements, but also measure up to or exceed recognized international practices. In 2010, the Company's ESH policy was renewed and endorsed by Chairman and Chief Executive Officer Dr. Morris Chang. The policy aims to reach the goals of "zero incident" and "sustainable development," and to make TSMC a world-class company in environmental, safety and health management. The Company's strategies for reaching these goals are to comply with regulations, promote safety and health, strengthen recycling and pollution prevention, manage ESH risks, instill an ESH culture, establish a green supply chain, and fulfill its related corporate social responsibilities. TSMC was honored to be included in the Dow Jones Sustainability Indexes (DJSI) for a 12th consecutive year, and was also named as the semiconductor sector leader by the DJSI for the second time since 2010.

All TSMC manufacturing facilities have received ISO 14001: 2004 certification for environmental management systems and OHSAS 18001: 2007 certification for occupational safety and health management systems. All fabs in Taiwan have also been TOSHMS (Taiwan Occupational Safety and Health Management System) certified since 2009.

TSMC strives for continuous improvement and actively seeks to enhance pollution prevention, power and resource conservation, waste reduction, safety and health management, fire and explosion prevention and minimize the impact of other risks, such as earthquakes, in order to reduce the overall environmental, safety and health risk.

In 2006, TSMC began to adopt the IECQ QC 080000 Hazardous Substance Process Management (HSPM) System in order to meet regulatory and customer needs for the management of hazardous materials. All TSMC manufacturing facilities have been QC 080000 certified since 2007. By practicing QC 080000, TSMC ensures that its products comply with regulatory and customer requirements, including the European Union's Restriction of Hazardous Substances (RoHS) Directive, EU REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), Montreal Protocol on substances that deplete the ozone layer, halogen free in electronic products, and Perfluorooctane Sulfonates (PFOS) restriction standards.

In 2011, TSMC adopted the ISO 50001 Energy Management System for the continuous improvement of energy conservation. TSMC, represented by the Fab 12 Phase 4 data center, has become Taiwan's first company to earn ISO 50001 certification for a high density computing data center. In 2012, Fab 12 Phase 4/5 and Fab 14 Phase 3/4 also earned ISO 50001 certifications.

TSMC regularly communicates with suppliers and contractors regarding environmental, safety and health issues and encourages them to improve their ESH performance. In line with this policy, TSMC uses priority work management and self-management to govern work performed by contractors. TSMC requires contractors performing high-risk operations to complete certification for technicians, and to establish their own OHSAS 18001 safety and health management system before bidding on contracts. This self-management is aimed at increasing the sense of responsibility of TSMC's contractors, with the goal of promoting safety awareness and technical improvement for all contractors in the industry.

TSMC collaborates with suppliers to improve the sustainability of the Company's supply chain regarding ESH-related issues such as carbon and water footprinting, and conflict mineral management. TSMC not only performs on-site ESH audits at its suppliers manufacturing sites, but also proactively assists them with improving ESH performance.

Reducing the carbon and water footprints of TSMC's supply chain is essential to the Company's green supply chain ideals. Since 2009, TSMC has required suppliers to set up carbon inventory procedures. In 2010 TSMC led 15 selected suppliers to join the carbon footprint development project, which was sponsored by the Taiwan Industrial Development Bureau and assisted by the Industrial Technology Research Institute. In this project, the Company completed a carbon footprint of both TSMC and suppliers' products. In addition to 12-inch, TSMC continued to set up 8-inch wafer and 6-inch wafer product carbon footprints and received PAS2050 certifications in 2011 and 2012.

TSMC also monitors potential water shortages in the supply chain and investigates the supply chain's water inventory. TSMC is also preparing to work with suppliers on water footprinting and conservation plans. The ESH management programs of TSMC suppliers are tied to a sustainability index that includes three components: the Green Index, the Social Index and the Risk Index. The "Green Index" includes environmental management systems, regulatory compliance, hazardous substance management, conflict mineral investigation, greenhouse gas inventory, carbon footprinting, water footprinting and other green activities. The "Social Index" includes labor and ethical conduct and participation in social activities. The "Risk Index" includes safety and health management, fire prevention, natural disaster mitigation, IT interruption recovery, transportation reliability, supply chain management, pandemic response planning and a business continuity plan. This sustainability index is applied to TSMC's critical suppliers.

5.2 TSMC Education and Culture Foundation

The TSMC Education and Culture Foundation, established in 1998 to coordinate the Company's sponsorship as part of its efforts in corporate social responsibility, continues to devote its resources towards education, promotion of art and culture events, and community building.

In 2012, the TSMC Foundation contributed NT\$63 million to its long-term projects of promoting education and arts. In science education, "Lifting the Ability of High School Physics Experiments" a public/private partnership in cooperation with the Wu Chien-shiung Education Foundation and the Ministry of Education, gained overwhelmingly positive responses from school teachers. The TSMC Foundation also supported National Tsing-hua University's "Senior High School Academic Express" to promote lecture courses for academic knowledge in senior high schools. In art education, TSMC brought 10,000 students to visit the National Palace Museum exhibition "King Wu Ding and Lady Hao: Art and Culture of the Late Shang Dynasty". The TSMC Foundation also continued its support of the Taipei Fine Arts Museum to establish the "TSMC Children's Art Education Center," which will open in 2013.

5.3 TSMC Volunteer Program

Social responsibility has been a feature of TSMC's company culture since its founding. The TSMC Foundation is dedicated to promoting education and culture, providing aid for the underprivileged, advocating energy saving, and caring for communities. The TSMC Foundation launched an employee volunteer program in 2003 as a channel through which its most valuable asset, high-tech professional employees, give to the society. Employees and their family members have been invited to participate in the following programs:

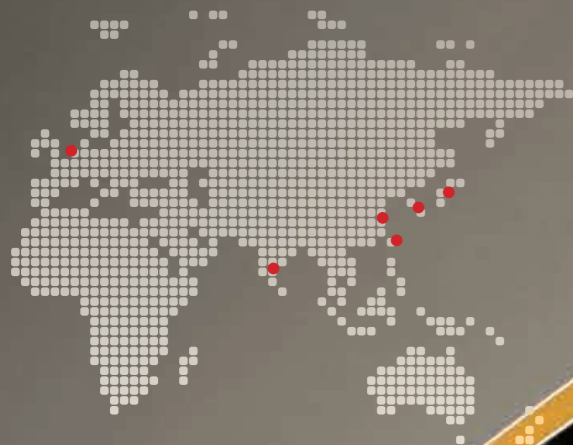
TSMC Volunteer Docent Program: To further public understanding of the semiconductor industry, more than 700 employees volunteered in 2012 to guide visitors through the "World of Semiconductors" exhibit in the National Museum of Science in Taichung.

TSMC Book Reading Volunteer Program: To address the resource disparity between urban and rural schools and inspire a love of reading, more than 100 volunteers regularly travel to remote townships throughout Taiwan to read stories to schoolchildren.

TSMC Energy-saving Volunteer Program: TSMC employees with professional expertise in energy conservation provide schools in Hsinchu, Taichung, and Tainan with consulting services in lowering water and electricity consumption, reducing carbon emissions, and environmental safety.

TSMC Community Volunteer Program: The 404 volunteers participating in this program in 2012 served the Hsinchu Veterans Home and the St. Teresa Children Center, organizing activities and offering companionship to these often-neglected members of society.

TSMC Ecology Volunteer Program: In this new initiative established in 2012, TSMC employees serve at the Pheasant-Tailed Jacana Ecology Education Park in Tainan and TSMC's own ecology park at its Fab 15 site in Taichung, guiding visitors and educating them about the ecology of these natural habitats.



More than **37,000**
Employees Worldwide

Three Advanced 12-inch GIGAFAB™ Facilities,
Four 8-inch Fabs, and One 6-inch Fab in Taiwan

TSMC Serves Customers through Offices in America, Canada,
Europe, Japan, China, South Korea, and India



6. Financial Statements

Taiwan Semiconductor Manufacturing Company Limited

Balance Sheets (Unconsolidated)

December 31, 2012~2008

(In Thousands of New Taiwan Dollars)

	2012	2011	2010	2009	2008
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 109,150,810	\$ 85,262,521	\$ 109,511,130	\$ 117,043,543	\$ 138,208,360
Financial assets at fair value through profit or loss	38,824	14,925	-	181,743	42,460
Available-for-sale financial assets	1,845,052	2,617,134	3,918,274	-	-
Held-to-maturity financial assets	701,146	701,136	4,796,589	9,944,843	5,881,999
Receivables from related parties	40,987,444	24,777,534	25,733,974	22,541,773	11,728,204
Notes and accounts receivable	15,726,431	19,894,386	22,250,905	19,884,520	11,441,176
Allowance for doubtful receivables	(474,037)	(485,120)	(488,000)	(431,000)	(436,746)
Allowance for sales returns and others	(5,732,738)	(4,887,879)	(7,341,444)	(8,583,632)	(5,868,582)
Other receivables from related parties	274,963	188,028	1,302,281	246,003	489,742
Other financial assets	175,261	122,010	418,206	1,104,072	711,755
Inventories	35,296,391	22,853,397	25,646,348	18,830,216	12,807,936
Deferred income tax assets	7,728,464	5,779,544	5,133,775	4,063,410	3,650,700
Prepaid expenses and other current assets	2,097,329	1,725,736	1,352,244	1,006,046	1,192,475
Total current assets	207,815,340	158,563,352	192,234,282	185,831,537	179,849,479
LONG-TERM INVESTMENTS					
Investments accounted for using equity method	139,264,161	128,200,718	114,977,174	104,660,098	109,871,178
Available-for-sale financial assets	-	-	1,033,049	1,046,672	2,032,658
Held-to-maturity financial assets	-	702,291	1,405,698	12,219,055	11,761,325
Financial assets carried at cost	483,759	497,835	501,835	519,988	519,502
Total long-term investments	139,747,920	129,400,844	117,913,756	118,427,813	124,184,663
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Buildings	173,344,932	149,495,478	128,646,942	124,522,047	114,014,588
Machinery and equipment	1,202,761,097	984,978,666	852,733,592	713,426,126	635,008,261
Office equipment	16,683,484	13,824,434	11,730,537	10,781,099	9,748,869
	1,392,789,513	1,148,298,578	993,111,071	848,729,272	758,771,718
Accumulated depreciation	(924,961,566)	(804,740,797)	(706,605,445)	(627,764,323)	(557,247,254)
Advance payments and construction in progress	118,775,347	110,815,752	80,348,673	33,786,577	17,758,038
Net property, plant and equipment	586,603,294	454,373,533	366,854,299	254,751,526	219,282,502
INTANGIBLE ASSETS					
Goodwill	1,567,756	1,567,756	1,567,756	1,567,756	1,567,756
Deferred charges, net	4,882,081	4,719,244	5,456,427	5,891,685	6,401,461
Total intangible assets	6,449,837	6,287,000	7,024,183	7,459,441	7,969,217
OTHER ASSETS					
Refundable deposits	2,394,826	4,491,735	8,638,749	2,698,116	2,719,737
Deferred income tax assets	2,244,947	7,221,824	7,154,266	7,763,643	6,497,972
Others	917,019	1,069,586	1,420,131	494,546	55,677
Total other assets	5,556,792	12,783,145	17,213,146	10,956,305	9,273,386
TOTAL	\$ 946,173,183	\$ 761,407,874	\$ 701,239,666	\$ 577,426,622	\$ 540,559,247

	2012	2011	2010	2009	2008
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	\$ 34,714,929	\$ 25,926,528	\$ 30,908,637	\$ -	\$ -
Financial liabilities at fair value through profit or loss	6,274	-	7,834	-	83,618
Accounts payable	13,392,221	9,522,688	10,559,283	9,678,849	4,314,265
Payables to related parties	3,230,342	2,992,582	2,574,450	2,039,342	1,202,350
Income tax payable	15,196,399	10,647,797	7,108,869	8,761,120	9,222,811
Salary and bonus payable	5,986,850	4,840,794	5,287,751	8,677,299	1,601,897
Accrued profit sharing to employees and bonus to directors	11,186,591	9,055,704	10,959,469	6,771,338	15,148,057
Payables to contractors and equipment suppliers	44,371,108	33,811,970	41,992,198	28,756,884	7,574,891
Accrued expenses and other current liabilities	10,711,164	8,216,367	8,623,769	7,886,263	5,951,578
Current portion of bonds payable	-	4,500,000	-	-	8,000,000
Total current liabilities	138,795,878	109,514,430	118,022,260	72,571,095	53,099,467
LONG-TERM LIABILITIES					
Bonds payable	80,000,000	18,000,000	4,500,000	4,500,000	4,500,000
Other long-term payables	54,000	-	-	416,390	931,252
Total long-term liabilities	80,054,000	18,000,000	4,500,000	4,916,390	5,431,252
OTHER LIABILITIES					
Accrued pension cost	3,926,276	3,860,898	3,824,601	3,807,176	3,710,009
Guarantee deposits	199,315	439,032	747,887	1,001,376	1,479,152
Deferred credits	-	-	-	47,873	462,256
Total other liabilities	4,125,591	4,299,930	4,572,488	4,856,425	5,651,417
Total liabilities	222,975,469	131,814,360	127,094,748	82,343,910	64,182,136
SHAREHOLDERS' EQUITY					
Capital stock - \$10 par value					
Common stock	259,244,357	259,162,226	259,100,787	259,027,066	256,254,373
Capital surplus	56,137,809	55,846,357	55,698,434	55,486,010	49,875,255
Retained earnings					
Appropriated as legal capital reserve	115,820,123	102,399,995	86,239,494	77,317,710	67,324,393
Appropriated as special capital reserve	7,606,224	6,433,874	1,313,047	-	391,857
Unappropriated earnings	287,174,942	213,357,286	178,227,030	104,564,972	102,337,417
	410,601,289	322,191,155	265,779,571	181,882,682	170,053,667
Others					
Cumulative translation adjustments	(10,753,763)	(6,433,369)	(6,543,163)	(1,766,667)	481,158
Net loss not recognized as pension cost	(5,299)	-	-	-	-
Unrealized gain (loss) on financial instruments	7,973,321	(1,172,855)	109,289	453,621	(287,342)
	(2,785,741)	(7,606,224)	(6,433,874)	(1,313,046)	193,816
Total shareholders' equity	723,197,714	629,593,514	574,144,918	495,082,712	476,377,111
TOTAL	\$ 946,173,183	\$ 761,407,874	\$ 701,239,666	\$ 577,426,622	\$ 540,559,247

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Balance Sheets (Consolidated)

December 31, 2012 ~ 2008

(In Thousands of New Taiwan Dollars)

	2012	2011	2010	2009	2008
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 143,410,588	\$ 143,472,277	\$ 147,886,955	\$ 171,276,341	\$ 194,613,752
Financial assets at fair value through profit or loss	39,554	15,360	6,886	186,081	55,730
Available-for-sale financial assets	2,410,635	3,308,770	28,883,728	14,389,946	10,898,715
Held-to-maturity financial assets	5,056,973	3,825,680	4,796,589	9,944,843	5,881,999
Receivables from related parties	353,811	185,764	2,722	12,524	407
Notes and accounts receivable	58,257,798	46,321,240	51,029,885	44,637,642	25,023,321
Allowance for doubtful receivables	(480,212)	(490,952)	(504,029)	(543,325)	(455,751)
Allowance for sales returns and others	(6,038,003)	(5,068,263)	(7,546,264)	(8,724,481)	(6,071,026)
Other receivables from related parties	185,550	122,292	124,586	121,292	99,918
Other financial assets	473,833	617,142	1,021,552	1,849,987	1,911,699
Inventories	37,830,498	24,840,582	28,405,984	20,913,751	14,876,645
Deferred income tax assets	8,001,202	5,936,490	5,373,076	4,370,309	3,969,330
Prepaid expenses and other current assets	2,786,408	2,174,014	2,037,647	1,368,838	1,813,692
Total current assets	252,288,635	225,260,396	261,519,317	259,803,748	252,618,431
LONG-TERM INVESTMENTS					
Investments accounted for using equity method	23,430,020	24,900,332	25,815,385	17,871,208	18,907,158
Available-for-sale financial assets	38,751,245	-	1,033,049	1,358,049	2,032,658
Held-to-maturity financial assets	-	5,243,167	8,502,887	15,553,242	15,426,252
Financial assets carried at cost	3,605,077	4,315,005	4,424,207	3,063,004	3,615,447
Total long-term investments	65,786,342	34,458,504	39,775,528	37,845,503	39,981,515
PROPERTY, PLANT AND EQUIPMENT					
Cost					
Land and land improvements	1,527,124	1,541,128	891,197	934,090	953,857
Buildings	197,314,677	172,872,550	145,966,024	142,294,558	132,249,996
Machinery and equipment	1,279,167,719	1,057,588,736	913,155,252	775,653,489	697,498,743
Office equipment	19,973,722	16,969,266	14,856,582	13,667,747	12,430,800
Leased assets	766,732	791,480	701,552	714,424	722,339
	1,498,749,974	1,249,763,160	1,075,570,607	933,264,308	843,855,735
Accumulated depreciation	(1,000,284,504)	(876,252,220)	(773,278,157)	(693,743,886)	(618,816,267)
Advance payments and construction in progress	119,063,976	116,863,976	86,151,573	34,154,365	18,605,882
Net property, plant and equipment	617,529,446	490,374,916	388,444,023	273,674,787	243,645,350
INTANGIBLE ASSETS					
Goodwill	5,523,707	5,693,999	5,704,897	5,931,318	6,044,392
Deferred charges, net	5,435,862	5,167,564	6,027,085	6,458,554	7,125,828
Total intangible assets	10,959,569	10,861,563	11,731,982	12,389,872	13,170,220
OTHER ASSETS					
Deferred income tax assets	4,776,015	7,436,717	7,362,784	7,988,303	6,636,873
Refundable deposits	2,426,712	4,518,863	8,677,970	2,733,143	2,767,199
Others	1,267,886	1,353,983	1,417,300	260,864	97,001
Total other assets	8,470,613	13,309,563	17,458,054	10,982,310	9,501,073
TOTAL	\$ 955,034,605	\$ 774,264,942	\$ 718,928,904	\$ 594,696,220	\$ 558,916,589

	2012	2011	2010	2009	2008
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Short-term loans	\$ 34,714,929	\$ 25,926,528	\$ 31,213,944	\$ -	\$ -
Financial liabilities at fair value through profit or loss	15,625	13,742	19,002	25	85,187
Hedging derivative financial liabilities	-	232	814	-	-
Accounts payable	14,490,429	10,530,487	12,104,173	10,905,884	5,553,151
Payables to related parties	748,613	1,328,521	867,085	783,007	489,857
Income tax payable	15,635,594	10,656,124	7,184,697	8,800,249	9,331,825
Salary and bonus payable	7,535,296	6,148,499	6,424,064	9,317,035	2,215,780
Accrued profit sharing to employees and bonus to directors and supervisors	11,186,591	9,081,293	11,096,147	6,818,343	15,369,730
Payables to contractors and equipment suppliers	44,831,798	35,540,526	43,259,857	28,924,265	7,998,773
Accrued expenses and other current liabilities	13,148,944	13,218,235	10,779,923	12,635,182	7,540,055
Current portion of bonds payable and long-term bank loans	128,125	4,562,500	241,407	949,298	8,222,398
Total current liabilities	142,435,944	117,006,687	123,191,113	79,133,288	56,806,756
LONG-TERM LIABILITIES					
Bond payables	80,000,000	18,000,000	4,500,000	4,500,000	4,500,000
Long-term bank loans	1,359,375	1,587,500	301,561	578,560	1,420,476
Other long-term payables	54,000	-	6,554,208	5,602,420	9,548,226
Obligations under capital leases	748,115	870,993	694,986	707,499	722,339
Total long-term liabilities	82,161,490	20,458,493	12,050,755	11,388,479	16,191,041
OTHER LIABILITIES					
Accrued pension cost	3,979,541	3,908,508	3,812,351	3,797,032	3,701,584
Guarantee deposits	203,890	443,983	789,098	1,006,023	1,484,495
Others	500,041	403,720	381,182	322,850	360,246
Total other liabilities	4,683,472	4,756,211	4,982,631	5,125,905	5,546,325
Total Liabilities	229,280,906	142,221,391	140,224,499	95,647,672	78,544,122
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT					
Capital stock - \$10 par value					
Common stock	259,244,357	259,162,226	259,100,787	259,027,066	256,254,373
Capital surplus	56,137,809	55,846,357	55,698,434	55,486,010	49,875,255
Retained earnings					
Appropriated as legal capital reserve	115,820,123	102,399,995	86,239,494	77,317,710	67,324,393
Appropriated as special capital reserve	7,606,224	6,433,874	1,313,047	-	391,857
Unappropriated earnings	287,174,942	213,357,286	178,227,030	104,564,972	102,337,417
	410,601,289	322,191,155	265,779,571	181,882,682	170,053,667
Others					
Cumulative translation adjustments	(10,753,763)	(6,433,369)	(6,543,163)	(1,766,667)	481,158
Net loss not recognized as pension cost	(5,299)	-	-	-	-
Unrealized gain (loss) on financial instruments	7,973,321	(1,172,855)	109,289	453,621	(287,342)
	(2,785,741)	(7,606,224)	(6,433,874)	(1,313,046)	193,816
Equity attributable to shareholders of the parent	723,197,714	629,593,514	574,144,918	495,082,712	476,377,111
MINORITY INTERESTS					
	2,555,985	2,450,037	4,559,487	3,965,836	3,995,356
Total shareholders' equity	725,753,699	632,043,551	578,704,405	499,048,548	480,372,467
TOTAL	\$ 955,034,605	\$ 774,264,942	\$ 718,928,904	\$ 594,696,220	\$ 558,916,589

Taiwan Semiconductor Manufacturing Company Limited

Statements of income (Unconsolidated)

For the Years Ended December 31, 2012 ~ 2008

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

	2012	2011	2010	2009	2008
GROSS SALES	\$ 506,697,738	\$ 421,472,087	\$ 418,666,448	\$ 299,471,214	\$ 330,228,027
SALES RETURNS AND ALLOWANCES	6,825,851	3,226,594	11,703,136	13,728,346	8,460,944
NET SALES	499,871,887	418,245,493	406,963,312	285,742,868	321,767,083
COST OF SALES	265,538,540	233,083,068	209,921,268	159,106,619	183,589,540
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	234,333,347	185,162,425	197,042,044	126,636,249	138,177,543
REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES	(25,029)	398,440	(52,742)	(160,279)	72
GROSS PROFIT	234,308,318	185,560,865	196,989,302	126,475,970	138,177,615
OPERATING EXPENSES					
Research and development	38,788,245	31,594,034	27,623,299	19,688,032	19,737,038
General and administrative	16,330,060	12,715,339	11,681,756	10,238,131	9,895,617
Marketing	2,388,243	2,345,729	2,837,739	2,027,454	2,254,728
Total operating expenses	57,506,548	46,655,102	42,142,794	31,953,617	31,887,383
INCOME FROM OPERATIONS	176,801,770	138,905,763	154,846,508	94,522,353	106,290,232
NON-OPERATING INCOME AND GAINS					
Equity in earnings of equity method investees, net	8,127,748	3,778,083	7,111,443	-	72,568
Settlement income	883,845	947,340	6,939,764	1,464,915	951,180
Interest income	867,227	697,196	764,027	1,117,374	2,728,892
Technical service income	497,638	408,153	446,746	375,118	619,237
Foreign exchange gain, net	327,744	-	-	-	1,113,406
Gain on settlement and disposal of financial assets, net	110,365	125,353	-	53,364	452,159
Gain on disposal of property, plant and equipment and other assets	21,159	103,017	77,452	196,856	298,772
Rental income	469	67,576	145,006	138,744	164,321
Valuation gain on financial instruments, net	-	801,195	312,862	587,151	-
Others	351,882	359,133	110,668	187,987	325,090
Total non-operating income and gains	11,188,077	7,287,046	15,907,968	4,121,509	6,725,625
NON-OPERATING EXPENSES AND LOSSES					
Impairment of financial assets	2,677,529	-	-	-	247,488
Interest expense	945,114	445,887	214,641	142,026	355,056
Impairment loss on idle assets	418,330	-	-	-	210,477
Valuation loss on financial instruments, net	152,814	-	-	-	1,230,966
Loss on disposal of property, plant and equipment	146,647	202,901	838,750	58,242	3
Foreign exchange loss, net	-	673,085	58,737	630,455	-
Casualty loss	-	-	190,992	-	-
Equity in losses of equity method investees, net	-	-	-	2,695,720	-
Others	19,465	163,092	161,152	136,397	213,049
Total non-operating expenses and losses	4,359,899	1,484,965	1,464,272	3,662,840	2,257,039
INCOME BEFORE INCOME TAX	183,629,948	144,707,844	169,290,204	94,981,022	110,758,818
INCOME TAX EXPENSE	17,471,146	10,506,565	7,685,195	5,763,186	10,825,650
NET INCOME	\$ 166,158,802	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168
EARNINGS PER SHARE (Note)					
Basic earnings per share	\$ 6.41	\$ 5.18	\$ 6.24	\$ 3.45	\$ 3.84
Diluted earnings per share	\$ 6.41	\$ 5.18	\$ 6.23	\$ 3.44	\$ 3.81

Note: Retroactively adjusted for stock dividends for earning year 2008

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Statements of Income (Consolidated)

For the Years Ended December 31, 2012 ~ 2008

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

	2012	2011	2010	2009	2008
GROSS SALES	\$ 513,435,603	\$ 430,490,500	\$ 431,630,858	\$ 309,655,614	\$ 341,983,355
SALES RETURNS AND ALLOWANCES	7,187,023	3,409,855	12,092,947	13,913,375	8,825,695
NET SALES	506,248,580	427,080,645	419,537,911	295,742,239	333,157,660
COST OF SALES	262,628,681	232,937,388	212,484,320	166,413,628	191,408,099
GROSS PROFIT BEFORE AFFILIATES ELIMINATION	243,619,899	194,143,257	207,053,591	129,328,611	141,749,561
UNREALIZED GROSS PROFIT FROM AFFILIATES	(25,029)	(74,029)	-	-	-
GROSS PROFIT	243,594,870	194,069,228	207,053,591	129,328,611	141,749,561
OPERATING EXPENSES					
Research and development	40,402,138	33,829,880	29,706,662	21,593,398	21,480,937
General and administrative	17,638,088	14,164,114	12,803,997	11,285,478	11,096,599
Marketing	4,497,451	4,517,816	5,367,597	4,487,849	4,736,657
Total operating expenses	62,537,677	52,511,810	47,878,256	37,366,725	37,314,193
INCOME FROM OPERATIONS	181,057,193	141,557,418	159,175,335	91,961,886	104,435,368
NON-OPERATING INCOME AND GAINS					
Equity in earnings of equity method investees, net	2,028,611	897,611	2,298,159	45,994	701,533
Interest income	1,645,036	1,479,514	1,665,193	2,600,925	5,373,823
Settlement income	883,845	947,340	6,939,764	1,464,915	951,180
Foreign exchange gain, net	582,498	-	-	-	1,227,653
Gain on settlement and disposal of financial assets, net	541,089	233,214	736,843	15,999	721,050
Technical service income	496,654	407,089	450,503	367,013	1,181,966
Gain on disposal of property, plant and equipment and other assets	31,919	203,959	216,199	113,963	100,874
Rental income	808	78,076	156,939	153,919	166,317
Valuation gain on financial instruments, net	-	507,432	320,730	594,660	-
Others	571,577	604,292	351,742	296,160	397,053
Total non-operating income and gains	6,782,037	5,358,527	13,136,072	5,653,548	10,821,449
NON-OPERATING EXPENSES AND LOSSES					
Impairment of financial assets	4,231,602	265,515	159,798	913,230	1,560,055
Interest expense	1,020,422	626,725	425,356	391,479	614,988
Impairment loss on idle assets	444,505	98,009	319	-	210,477
Valuation loss on financial instruments, net	257,788	-	-	-	1,081,019
Loss on disposal of property, plant and equipment	31,816	200,673	849,254	68,486	589
Foreign exchange loss, net	-	185,555	99,130	626,971	-
Casualty loss	-	-	190,992	-	-
Others	299,121	391,791	316,163	152,621	317,443
Total non-operating expenses and losses	6,285,254	1,768,268	2,041,012	2,152,787	3,784,571
INCOME BEFORE INCOME TAX	181,553,976	145,147,677	170,270,395	95,462,647	111,472,246
INCOME TAX EXPENSE	15,590,287	10,694,417	7,988,465	5,996,424	10,949,009
NET INCOME	\$ 165,963,689	\$ 134,453,260	\$ 162,281,930	\$ 89,466,223	\$ 100,523,237
ATTRIBUTABLE TO:					
Shareholders of the parent	\$ 166,158,802	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168
Minority interest	(195,113)	251,981	676,921	248,387	590,069
	\$ 165,963,689	\$ 134,453,260	\$ 162,281,930	\$ 89,466,223	\$ 100,523,237
EARNINGS PER SHARE (Note)					
Basic earnings per share	\$ 6.41	\$ 5.18	\$ 6.24	\$ 3.45	\$ 3.84
Diluted earnings per share	\$ 6.41	\$ 5.18	\$ 6.23	\$ 3.44	\$ 3.81

Note: Retroactively adjusted for stock dividends for earning year 2008

Taiwan Semiconductor Manufacturing Company Limited

Statements of Cash Flows (Unconsolidated)

For the Years Ended December 31, 2012 ~ 2008

(In Thousands of New Taiwan Dollars)

	2012	2011	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	\$ 166,158,802	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	124,399,879	102,925,423	83,366,121	74,327,868	74,569,562
Unrealized (realized) gross profit from affiliates	25,029	(398,440)	52,742	160,279	(72)
Amortization of premium/discount of financial assets	2,281	9,860	18,611	6,322	(97,381)
Gain on disposal of available-for-sale financial assets	(110,634)	(35,151)	-	(37,370)	(443,404)
Gain on held-to-maturity financial assets redeemed by the issuer	-	-	-	(16,091)	-
Loss (gain) on disposal of financial assets carried at cost	269	-	1,263	97	(8,755)
Equity in losses (earnings) of equity method investees, net	(8,127,748)	(3,778,083)	(7,111,443)	2,695,720	(72,568)
Cash dividends received from equity method investees	1,688,878	2,941,548	422,490	1,402,592	1,804,351
Loss (gain) on disposal of property, plant and equipment and other assets, net	125,488	99,884	761,298	(138,613)	(298,769)
Impairment loss of financial assets	2,677,529	-	-	-	247,488
Settlement income from receiving equity securities	-	-	(4,434,364)	-	-
Impairment loss on idle assets	418,330	-	-	-	210,477
Deferred income taxes	2,618,657	(493,026)	(373,253)	(1,678,381)	2,361,261
Changes in operating assets and liabilities:					
Financial assets and liabilities at fair value through profit or loss	(17,625)	(22,759)	189,577	(222,901)	(164,405)
Receivables from related parties	(16,209,910)	956,440	(3,192,201)	(10,813,569)	14,973,444
Notes and accounts receivable	4,167,955	2,356,519	(2,366,385)	(8,443,344)	6,470,152
Allowance for doubtful receivables	(11,083)	(2,880)	57,000	(5,746)	(252,226)
Allowance for sales returns and others	844,859	(2,453,565)	(1,242,188)	2,715,050	2,011,897
Other receivables from related parties	(89,347)	(38,049)	85,830	235,470	43,835
Other financial assets	(53,251)	138,196	904,157	(392,317)	(380,057)
Inventories	(12,442,994)	2,775,646	(6,816,132)	(6,022,280)	8,179,206
Prepaid expenses and other current assets	(371,593)	(382,852)	(445,797)	290,470	(330,664)
Increase (decrease) in:					
Accounts payable	1,361,012	(1,805,422)	624,608	4,925,758	(5,171,553)
Payables to related parties	(67,770)	418,132	535,108	836,992	(1,797,280)
Income tax payable	4,548,602	3,538,928	(1,652,251)	(461,691)	(1,766,153)
Salary and bonus payable	1,146,056	(426,797)	(3,389,548)	7,075,402	(30,280)
Accrued profit sharing to employees and bonus to directors	2,130,887	(1,903,765)	4,188,131	(881,731)	15,148,057
Accrued expenses and other current liabilities	2,410,768	16,750	265,241	1,259,544	(3,112,220)
Accrued pension cost	65,378	96,880	17,425	97,167	52,330
Deferred credits	-	-	(47,873)	(230,487)	(129,494)
Net cash provided by operating activities	<u>277,288,704</u>	<u>238,734,696</u>	<u>222,023,176</u>	<u>155,902,046</u>	<u>211,949,947</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash contributed related to spin-off	-	(1,270,340)	-	-	-
Acquisitions of:					
Property, plant and equipment	(242,063,668)	(202,757,541)	(182,335,032)	(86,970,843)	(56,766,192)
Available-for-sale financial assets	-	-	-	-	(23,697,000)
Held-to-maturity financial assets	-	-	-	(10,803,805)	(12,371,965)
Investments accounted for using equity method	(2,259,244)	(7,390,883)	(8,262,519)	(320,443)	(494,765)
Financial assets carried at cost	(1,093)	-	(480)	(1,411)	(20,681)
Cash from merger of subsidiaries	-	-	-	-	270,650
Proceeds from return of capital by investee	587,902	320,013	-	27,753	2,465,293
Proceeds from disposal or redemption of:					
Available-for-sale financial assets	612,834	1,035,151	-	1,037,370	45,584,934
Held-to-maturity financial assets	700,000	4,789,000	15,943,000	6,293,000	15,004,000
Financial assets carried at cost	14,900	-	3,370	18,828	10,606
Property, plant and equipment and other assets	93,984	4,650,078	387,735	71,850	2,042,899
Increase in deferred charges	(1,743,043)	(1,658,296)	(1,538,301)	(1,347,228)	(3,199,813)

	2012	2011	2010	2009	2008
Decrease (increase) in refundable deposits	\$ 2,096,909	\$ 4,147,014	\$ (5,940,633)	\$ 21,621	\$ 21,801
Decrease (increase) in other assets	17,600	27,600	(1,004,581)	-	-
Net cash used in investing activities	<u>(241,942,919)</u>	<u>(198,108,204)</u>	<u>(182,747,441)</u>	<u>(91,973,308)</u>	<u>(31,150,233)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in short-term loans	8,788,401	(4,982,109)	30,908,637	-	-
Cash dividends	(77,748,668)	(77,730,236)	(77,708,120)	(76,876,312)	(76,881,311)
Proceeds from issuance of bonds	62,000,000	18,000,000	-	-	-
Repayment of bonds	(4,500,000)	-	-	(8,000,000)	-
Decrease in guarantee deposits	(239,717)	(308,855)	(253,489)	(477,776)	(761,525)
Cash bonus paid to employees	-	-	-	-	(3,939,883)
Bonus to directors	-	-	-	-	(176,890)
Proceeds from exercise of employee stock options	242,488	217,697	244,824	260,533	227,150
Acquisition of treasury stock	-	(71,598)	-	-	(33,480,997)
Net cash used in financing Activities	<u>(11,457,496)</u>	<u>(64,875,101)</u>	<u>(46,808,148)</u>	<u>(85,093,555)</u>	<u>(115,013,456)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>23,888,289</u>	<u>(24,248,609)</u>	<u>(7,532,413)</u>	<u>(21,164,817)</u>	<u>65,786,258</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>85,262,521</u>	<u>109,511,130</u>	<u>117,043,543</u>	<u>138,208,360</u>	<u>72,422,102</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 109,150,810</u>	<u>\$ 85,262,521</u>	<u>\$ 109,511,130</u>	<u>\$ 117,043,543</u>	<u>\$ 138,208,360</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION					
Interest paid	\$ 670,165	\$ 369,085	\$ 200,892	\$ 351,803	\$ 355,056
Income tax paid	\$ 10,312,114	\$ 7,454,386	\$ 9,640,396	\$ 7,791,196	\$ 10,282,464
INVESTING AND FINANCING ACTIVITIES AFFECTION BOTH CASH AND NON-CASH ITEMS					
Acquisition of property, plant and equipment	\$ 255,108,068	\$ 195,932,728	\$ 195,950,918	\$ 108,592,471	\$ 58,951,343
Decrease (increase) in payables to contractors and equipment suppliers	(12,764,075)	6,827,106	(13,491,140)	(21,620,819)	(2,185,151)
Increase in payables to related parties	(280,256)	-	-	-	-
Nonmonetary exchange trade-out price	(69)	(2,293)	(124,746)	(809)	-
Cash paid	<u>\$ 242,063,668</u>	<u>\$ 202,757,541</u>	<u>\$ 182,335,032</u>	<u>\$ 86,970,843</u>	<u>\$ 56,766,192</u>
Disposal of property, plant and equipment and other assets	\$ 91,641	\$ 3,370,165	\$ 1,872,880	\$ 64,390	\$ 2,051,168
Decrease (increase) in other receivables from related parties	2,412	1,124,206	(1,142,108)	8,269	(8,269)
Decrease (increase) in other financial assets	-	158,000	(218,291)	-	-
Nonmonetary exchange trade-out price	(69)	(2,293)	(124,746)	(809)	-
Cash received	<u>\$ 93,984</u>	<u>\$ 4,650,078</u>	<u>\$ 387,735</u>	<u>\$ 71,850</u>	<u>\$ 2,042,899</u>
Acquisition of deferred charges	\$ 2,184,901	\$ 1,658,296	\$ -	\$ -	\$ -
Increase in accounts payable	(303,584)	-	-	-	-
Increase in payables to related parties	(25,274)	-	-	-	-
Increase in other long-term payables	(113,000)	-	-	-	-
Cash paid	<u>\$ 1,743,043</u>	<u>\$ 1,658,296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Acquisition of treasury stock	\$ -	\$ 71,598	\$ -	\$ -	\$ 30,427,413
Decrease in accrued expenses and other current liabilities	-	-	-	-	3,053,584
Cash paid	<u>\$ -</u>	<u>\$ 71,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,480,997</u>
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	\$ -	\$ 718,637	\$ 769,144	\$ 1,026,421
Current portion of bonds payable	\$ -	\$ 4,500,000	\$ -	\$ -	\$ 8,000,000

Taiwan Semiconductor Manufacturing Company, Limited and Subsidiaries

Statements of Cash Flows (Consolidated)

For the Years Ended December 31, 2012 ~ 2008

(In Thousands of New Taiwan Dollars)

	2012	2011	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income attributable to shareholders of the parent	\$ 166,158,802	\$ 134,201,279	\$ 161,605,009	\$ 89,217,836	\$ 99,933,168
Net income (loss) attributable to minority interests	(195,113)	251,981	676,921	248,387	590,069
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	131,349,289	107,681,521	87,810,103	80,814,748	81,512,191
Unrealized gross profit from affiliates	25,029	74,029	-	-	-
Amortization of premium/discount of financial assets	4,850	24,711	34,142	21,483	(93,393)
Stock option compensation cost	6,219	-	-	-	-
Impairment loss of financial assets	4,231,602	265,515	159,798	913,230	1,560,055
Loss (gain) on disposal of available-for-sale financial assets, net	(399,598)	(212,442)	(603,368)	20,337	(637,219)
Gain on held-to-maturity financial assets redeemed by the issuer	-	-	-	(16,091)	-
Gain on disposal of financial assets carried at cost, net	(141,491)	(20,772)	(133,475)	(20,245)	(83,831)
Equity in earnings of equity method investees, net	(2,028,611)	(897,611)	(2,298,159)	(45,994)	(701,533)
Cash dividends received from equity method investees	2,088,472	2,848,141	320,002	1,239,490	1,661,134
Loss (gain) on disposal of property, plant and equipment and other assets, net	(103)	(3,286)	633,230	(45,475)	(100,285)
Settlement income from receiving equity securities	(886)	(158,779)	(4,434,364)	-	-
Impairment loss on idle assets	444,505	98,009	319	-	210,477
Deferred income taxes	573,234	(491,122)	(377,248)	(1,752,409)	2,279,414
Changes in operating assets and liabilities:					
Financial assets and liabilities at fair value through profit or loss	(22,311)	(13,734)	198,172	(215,513)	1,412,531
Receivables from related parties	(168,047)	123,265	9,802	(12,117)	10,478
Notes and accounts receivable	(11,936,558)	3,627,110	(6,392,243)	(19,614,321)	22,180,805
Allowance for doubtful receivables	(10,633)	(12,844)	(39,296)	87,574	(246,056)
Allowance for sales returns and others	975,853	(2,478,001)	(1,178,217)	2,653,455	1,981,991
Other receivables from related parties	(63,258)	2,294	(3,294)	(21,374)	143,702
Other financial assets	122,322	376,342	740,959	7,834	(425,937)
Inventories	(12,989,916)	2,611,297	(7,492,233)	(6,037,106)	8,985,615
Prepaid expenses and other current assets	(626,405)	(403,762)	(752,408)	585,430	(443,462)
Accounts payable	1,395,907	(1,968,820)	933,894	4,916,885	(6,021,731)
Payables to related parties	(605,182)	462,578	84,078	293,150	(1,013,519)
Income tax payable	4,979,470	3,490,268	(1,615,552)	(531,576)	(1,794,303)
Salary and bonus payable	1,386,797	(275,565)	(2,892,971)	7,101,255	(17,670)
Accrued profit sharing to employees and bonus to directors and supervisors	2,105,298	(1,925,594)	4,277,804	(1,056,399)	15,369,730
Accrued expenses and other current liabilities	2,337,647	212,128	189,042	1,118,543	(4,794,918)
Accrued pension cost	66,617	98,915	15,319	95,448	36,062
Net Cash Provided by Operating Activities	289,063,801	247,587,051	229,475,766	159,966,465	221,493,565
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of:					
Property, plant and equipment	(246,137,361)	(213,962,521)	(186,944,203)	(87,784,906)	(59,222,654)
Available-for-sale financial assets	(31,525,876)	(35,088,394)	(48,340,334)	(38,800,577)	(85,273,867)
Held-to-maturity financial assets	-	(584,280)	(4,101,501)	(12,224,353)	(16,523,275)
Investments accounted for using equity method	-	-	(6,242,350)	(42,947)	(55,871)
Financial assets carried at cost	(56,512)	(403,908)	(1,812,928)	(321,195)	(463,211)
Proceeds from disposal or redemption of:					
Available-for-sale financial assets	964,367	59,305,023	37,816,288	36,039,978	138,515,023
Held-to-maturity financial assets	2,711,440	4,789,000	15,943,000	7,944,800	15,634,620
Financial assets carried at cost	353,656	226,226	242,335	131,075	199,424
Property, plant and equipment and other assets	157,484	698,055	115,524	24,241	194,940
Proceeds from return of capital by investees	-	-	-	-	2,345,867
Increase in deferred charges	(1,782,299)	(1,715,892)	(1,801,728)	(1,469,831)	(3,395,287)
Decrease (increase) in refundable deposits	2,092,151	4,149,543	(5,944,827)	34,056	10,570
Decrease (increase) in other assets	26,688	63,723	(1,015,458)	1,176	(8,163)
Net Cash Used in Investing Activities	(273,196,262)	(182,523,425)	(202,086,182)	(96,468,483)	(8,041,884)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in short-term loans	8,788,401	(5,287,416)	31,213,944	-	-
Cash dividends	(77,748,668)	(77,730,236)	(77,708,120)	(76,876,312)	(76,779,032)
Proceeds from long-term bank loans	50,000	2,250,000	-	286,574	98,400

	2012	2011	2010	2009	2008
Repayment of long-term bank loans	\$ (212,500)	\$ (1,142,968)	\$ (967,034)	\$ (378,673)	\$ (468,313)
Proceeds from issuance of bonds	62,000,000	18,000,000	-	-	-
Repayment of bonds	(4,500,000)	-	-	(8,000,000)	-
Decrease in obligations under capital leases	(108,863)	-	-	-	-
Decrease in other long-term payables	(2,367,866)	(3,633,052)	(1,107,333)	-	-
Decrease in guarantee deposits	(240,093)	(342,242)	(232,925)	(478,472)	(758,514)
Cash bonus paid to employees	-	-	-	-	(3,939,883)
Bonus to directors and supervisors	-	-	-	-	(176,890)
Proceeds from donation	-	-	49,021	-	-
Proceeds from exercise of employee stock options	242,488	217,697	244,824	260,533	227,150
Acquisition of treasury stock	-	(71,598)	-	-	(33,480,997)
Increase (decrease) in minority interests	286,200	(118,226)	(130,083)	(284,774)	(114,742)
Net Cash Used in Financing Activities	(13,810,901)	(67,858,041)	(48,637,706)	(85,471,124)	(115,392,821)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,056,638	(2,794,415)	(21,248,122)	(21,973,142)	98,058,860
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASHEQUIVALENTS	(2,118,327)	(147,682)	(2,141,264)	(1,364,269)	1,568,404
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	-	(1,472,581)	-	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	143,472,277	147,886,955	171,276,341	194,613,752	94,986,488
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 143,410,588	\$ 143,472,277	\$ 147,886,955	\$ 171,276,341	\$ 194,613,752
SUPPLEMENTAL INFORMATION DISCLOSURE OF CASH FLOW INFORMATION					
Interest paid	\$ 736,607	\$ 540,611	\$ 392,805	\$ 580,376	\$ 676,318
Capitalized interest	(6,442)	(9,093)	-	-	-
Interest paid (excluding capitalized interest)	\$ 730,165	\$ 531,518	\$ 392,805	\$ 580,376	\$ 676,318
Income tax paid	\$ 11,312,039	\$ 7,677,085	\$ 9,818,418	\$ 8,088,124	\$ 10,477,018
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS					
Acquisition of property, plant and equipment	\$ 257,689,153	\$ 207,175,565	\$ 201,696,476	\$ 109,151,226	\$ 60,978,527
Decrease (increase) in payables to contractors and equipment suppliers	(11,551,723)	6,846,682	(14,599,987)	(21,361,340)	(1,742,041)
Nonmonetary exchange trade-out price	(69)	(3,164)	(124,746)	(809)	-
Increase in other liabilities	-	(56,562)	(27,540)	-	-
Increase in obligations under capital leases	-	-	-	(4,171)	(13,832)
Cash paid	\$ 246,137,361	\$ 213,962,521	\$ 186,944,203	\$ 87,784,906	\$ 59,222,654
Acquisition of available-for-sale financial assets	\$ -	\$ 35,024,974	\$ 48,405,875	\$ -	\$ -
Increase (decrease) in accrued expenses and other current liabilities	-	63,420	(65,541)	-	-
Cash paid	\$ -	\$ 35,088,394	\$ 48,340,334	\$ -	\$ -
Disposal of property, plant and equipment and other assets	\$ 157,553	\$ 543,219	\$ 458,561	\$ 25,050	\$ 194,940
Decrease (increase) in other financial assets	-	158,000	(218,291)	-	-
Nonmonetary exchange trade-out price	(69)	(3,164)	(124,746)	(809)	-
Cash received	\$ 157,484	\$ 698,055	\$ 115,524	\$ 24,241	\$ 194,940
Acquisition of deferred charges	\$ 2,253,722	\$ 1,715,892	\$ -	\$ -	\$ -
Increase in accounts payable	(303,584)	-	-	-	-
Increase in payables to related parties	(25,274)	-	-	-	-
Increase in other long-term payables	(142,565)	-	-	-	-
Cash paid	\$ 1,782,299	\$ 1,715,892	\$ -	\$ -	\$ -
Acquisition of treasury stock	\$ -	\$ -	\$ -	\$ -	\$ 30,427,413
Decrease in accrued expenses and other current liabilities	-	-	-	-	3,053,584
Cash paid	\$ -	\$ -	\$ -	\$ -	\$ 33,480,997
NONCASH INVESTING AND FINANCING ACTIVITIES					
Idle assets reclassified from property, plant and equipment	\$ 444,505	\$ 98,009	\$ -	\$ -	\$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 913,485	\$ 3,399,855	\$ 1,406,601	\$ 4,005,307	\$ 1,126,546
Current portion of bonds payable	\$ -	\$ 4,500,000	\$ -	\$ -	\$ -
Current portion of long-term bank loans	\$ 128,125	\$ 62,500	\$ 241,407	\$ 949,298	\$ 8,222,398

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TSMC Deputy Spokesperson/Corporate Communications

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Auditors

Company: Deloitte & Touche
Auditors: Hung-Peng Lin, Shu-Chieh Huang
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Company: The Transfer Agency Department of Chinatrust
Commercial Bank
Address: 5F, 83, Sec. 1, Chung-Ching S. Rd., Taipei 100-08, Taiwan
R.O.C.
Tel: 886-2-21811911 Fax: 886-2-23116723
Website: <http://www.chinatrust.com.tw>

ADR Depository Bank

Company: Citibank, N.A.
Depository Receipts Services
Address: 388 Greenwich Street, New York, NY 10013, U.S.A.
Website: <http://www.citi.com/dr>
Tel: 1-877-2484237 (toll free)
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TSMC's depository receipts of the common shares are listed on New York Stock Exchange (NYSE) under the symbol TSM. The information relating to TSM is available at <http://www.nyse.com> and <http://mops.twse.com.tw>

Safe Harbor Notice:

The statements included in this business overview that are not historical in nature are "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. TSMC cautions readers that forward-looking statements are subject to significant risks and uncertainties and are based on TSMC's current expectations. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including, among others, risks associated with cyclical and market conditions in the semiconductor industry; demand and supply for TSMC's foundry manufacturing capacity in particular and for foundry manufacturing capacity in general; intense competition; the failure of one or more significant customers to continue to place the same level of orders with us; TSMC's ability to remain a technological leader in the semiconductor industry; TSMC's ability to manage its capacity; TSMC's ability to obtain, preserve and defend its intellectual property rights; natural disasters and other unexpected events which may disrupt production; and exchange rate fluctuations. Additional information as to these and other risk factors that may cause TSMC's actual results to differ materially from TSMC's forward-looking statements may be found in TSMC's Annual Report on Form 20-F, filed with the United States Securities and Exchange Commission (the "SEC") on April 2, 2013, and such other documents as TSMC may file with, or submit to, the SEC from time to time. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.



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Taiwan Semiconductor
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Morris Chang, Chairman

