

**Taiwan Semiconductor Manufacturing
Company Limited**

**Financial Statements for the
Six Months Ended June 30, 2012 and 2011 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2012 and 2011, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited, in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China, the consolidated financial statements of Taiwan Semiconductor Manufacturing Company Limited and subsidiaries as of and for the six months ended June 30, 2012 and 2011 on which we have issued an unqualified opinion.

August 14, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited

BALANCE SHEETS

JUNE 30, 2012 AND 2011

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

| ASSETS | 2012 | | 2011 | | LIABILITIES AND SHAREHOLDERS' EQUITY | 2012 | | 2011 | |
|---|----------------|------|----------------|------|--|----------------|-----|----------------|-----|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | CURRENT LIABILITIES | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 116,989,019 | 14 | \$ 95,297,486 | 13 | Short-term loans (Note 14) | \$ 30,772,585 | 4 | \$ 33,140,881 | 4 |
| Financial assets at fair value through profit or loss (Notes 2, 5 and 22) | 18,950 | - | 17,455 | - | Financial liabilities at fair value through profit or loss (Notes 2, 5 and 22) | 26,718 | - | - | - |
| Available-for-sale financial assets (Notes 2, 6 and 22) | 1,756,835 | - | 4,171,309 | 1 | Accounts payable | 12,803,106 | 1 | 10,138,171 | 1 |
| Held-to-maturity financial assets (Notes 2, 7 and 22) | 700,562 | - | 2,114,955 | - | Payables to related parties (Note 23) | 3,658,125 | - | 3,386,091 | - |
| Receivables from related parties (Notes 3 and 23) | 38,476,727 | 5 | 27,402,025 | 4 | Income tax payable (Notes 2 and 17) | 6,779,393 | 1 | 6,076,318 | 1 |
| Notes and accounts receivable (Note 3) | 21,578,627 | 3 | 23,797,744 | 3 | Cash dividends payable (Note 19) | 77,748,668 | 9 | 77,730,236 | 10 |
| Allowance for doubtful receivables (Notes 2, 3 and 8) | (485,120) | - | (488,000) | - | Accrued profit sharing to employees and bonus to directors (Notes 2 and 19) | 14,132,524 | 2 | 15,859,637 | 2 |
| Allowance for sales returns and others (Notes 2 and 8) | (6,262,194) | (1) | (5,641,777) | (1) | Payables to contractors and equipment suppliers | 43,949,310 | 5 | 34,942,119 | 5 |
| Other receivables from related parties (Notes 3 and 23) | 652,396 | - | 3,231,557 | - | Accrued expenses and other current liabilities (Note 22) | 16,838,182 | 2 | 11,786,554 | 2 |
| Other financial assets | 155,754 | - | 423,794 | - | Current portion of bonds payable (Notes 15 and 22) | - | - | 4,500,000 | 1 |
| Inventories (Notes 2 and 9) | 28,428,847 | 3 | 28,404,692 | 4 | Total current liabilities | 206,708,611 | 24 | 197,560,007 | 26 |
| Deferred income tax assets (Notes 2 and 17) | 2,540,243 | - | 1,053,036 | - | | | | | |
| Prepaid expenses and other current assets | 1,812,338 | - | 1,068,001 | - | LONG-TERM LIABILITIES | | | | |
| Total current assets | 206,362,984 | 24 | 180,852,277 | 24 | Bonds payable (Notes 15 and 22) | 35,000,000 | 4 | - | - |
| | | | | | Other long-term payable (Note 22) | 54,000 | - | - | - |
| LONG-TERM INVESTMENTS (Notes 2, 7, 10, 11 and 22) | | | | | Total long-term liabilities | 35,054,000 | 4 | - | - |
| Investments accounted for using equity method | 132,250,792 | 15 | 110,458,979 | 15 | | | | | |
| Held-to-maturity financial assets | 701,723 | - | 1,404,575 | - | OTHER LIABILITIES | | | | |
| Financial assets carried at cost | 497,835 | - | 497,835 | - | Accrued pension cost (Notes 2 and 16) | 3,883,230 | - | 3,860,459 | - |
| Total long-term investments | 133,450,350 | 15 | 112,361,389 | 15 | Guarantee deposits (Note 25) | 250,129 | - | 502,883 | - |
| | | | | | Total other liabilities | 4,133,359 | - | 4,363,342 | - |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 23) | | | | | Total liabilities | 245,895,970 | 28 | 201,923,349 | 26 |
| Cost | | | | | | | | | |
| Buildings | 165,491,613 | 19 | 146,790,740 | 19 | CAPITAL STOCK - NT\$10 PAR VALUE (Note 19) | | | | |
| Machinery and equipment | 1,113,874,688 | 127 | 950,275,417 | 124 | Authorized: 28,050,000 thousand shares | | | | |
| Office equipment | 15,395,864 | 2 | 12,915,965 | 2 | Issued: 25,920,709 thousand shares in 2012 | | | | |
| | 1,294,762,165 | 148 | 1,109,982,122 | 145 | 25,914,283 thousand shares in 2011 | 259,207,094 | 30 | 259,142,831 | 34 |
| Accumulated depreciation | (859,587,011) | (98) | (754,185,331) | (99) | CAPITAL SURPLUS (Notes 2 and 19) | 56,025,149 | 6 | 55,802,387 | 7 |
| Advance payments and construction in progress | 79,017,436 | 9 | 93,045,607 | 12 | RETAINED EARNINGS (Note 19) | | | | |
| Net property, plant and equipment | 514,192,590 | 59 | 448,842,398 | 58 | Appropriated as legal capital reserve | 115,820,123 | 13 | 102,399,995 | 13 |
| | | | | | Appropriated as special capital reserve | 7,606,224 | 1 | 6,433,874 | 1 |
| INTANGIBLE ASSETS | | | | | Unappropriated earnings | 196,302,944 | 23 | 151,443,573 | 20 |
| Goodwill (Note 2) | 1,567,756 | - | 1,567,756 | - | | 319,729,291 | 37 | 260,277,442 | 34 |
| Deferred charges, net (Notes 2 and 13) | 4,505,501 | 1 | 5,216,575 | 1 | OTHERS | | | | |
| Total intangible assets | 6,073,257 | 1 | 6,784,331 | 1 | Cumulative translation adjustments (Note 2) | (7,830,895) | (1) | (11,461,047) | (1) |
| | | | | | Unrealized gain on financial instruments (Notes 2 and 22) | 334,651 | - | 187,908 | - |
| OTHER ASSETS | | | | | | (7,496,244) | (1) | (11,273,139) | (1) |
| Deferred income tax assets (Notes 2 and 17) | 8,056,117 | 1 | 10,855,491 | 1 | Total shareholders' equity | 627,465,290 | 72 | 563,949,521 | 74 |
| Refundable deposits | 4,263,506 | - | 4,796,851 | 1 | | | | | |
| Others (Notes 2 and 23) | 962,456 | - | 1,380,133 | - | TOTAL | \$ 873,361,260 | 100 | \$ 765,872,870 | 100 |
| Total other assets | 13,282,079 | 1 | 17,032,475 | 2 | | | | | |
| TOTAL | \$ 873,361,260 | 100 | \$ 765,872,870 | 100 | | | | | |

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

| | 2012 | | 2011 | |
|--|--------------------|-----------|--------------------|-----------|
| | Amount | % | Amount | % |
| GROSS SALES (Notes 2 and 23) | \$ 234,483,507 | | \$ 212,301,752 | |
| SALES RETURNS AND ALLOWANCES (Notes 2 and 8) | <u>3,734,225</u> | | <u>1,907,979</u> | |
| NET SALES | 230,749,282 | 100 | 210,393,773 | 100 |
| COST OF SALES (Notes 9, 18 and 23) | <u>121,938,291</u> | <u>53</u> | <u>113,265,613</u> | <u>54</u> |
| GROSS PROFIT BEFORE AFFILIATES ELIMINATION | 108,810,991 | 47 | 97,128,160 | 46 |
| REALIZED (UNREALIZED) GROSS PROFIT FROM AFFILIATES (Note 2) | <u>(139,950)</u> | <u>-</u> | <u>249,480</u> | <u>-</u> |
| GROSS PROFIT | <u>108,671,041</u> | <u>47</u> | <u>97,377,640</u> | <u>46</u> |
| OPERATING EXPENSES (Notes 18 and 23) | | | | |
| Research and development | 18,351,671 | 8 | 15,283,607 | 7 |
| General and administrative | 8,402,018 | 4 | 6,029,204 | 3 |
| Marketing | <u>1,155,674</u> | <u>-</u> | <u>1,211,366</u> | <u>1</u> |
| Total operating expenses | <u>27,909,363</u> | <u>12</u> | <u>22,524,177</u> | <u>11</u> |
| INCOME FROM OPERATIONS | <u>80,761,678</u> | <u>35</u> | <u>74,853,463</u> | <u>35</u> |
| NON-OPERATING INCOME AND GAINS | | | | |
| Equity in earnings of equity method investees, net (Notes 2 and 10) | 5,083,116 | 3 | 2,914,860 | 2 |
| Interest income | 464,380 | - | 402,293 | - |
| Settlement income (Note 25) | 448,275 | - | 433,425 | - |
| Technical service income (Note 23) | 232,904 | - | 224,238 | - |
| Foreign exchange gain, net (Note 2) | 213,731 | - | 322,334 | - |
| Others (Notes 2 and 23) | <u>305,738</u> | <u>-</u> | <u>461,096</u> | <u>-</u> |
| Total non-operating income and gains | <u>6,748,144</u> | <u>3</u> | <u>4,758,246</u> | <u>2</u> |

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

| | 2012 | | 2011 | |
|--|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| | Amount | % | Amount | % |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Impairment loss of financial assets (Notes 2, 6 and 22) | \$ 2,677,529 | 1 | \$ - | - |
| Impairment loss on idle assets (Note 2) | 418,330 | - | - | - |
| Interest expense | 370,798 | - | 146,374 | - |
| Valuation loss on financial instruments, net (Notes 2, 5 and 22) | 150,310 | - | 197,255 | - |
| Loss on disposal of property, plant and equipment (Notes 2 and 23) | 66,620 | - | 153,131 | - |
| Others (Note 2) | <u>7,869</u> | <u>-</u> | <u>122,232</u> | <u>-</u> |
| Total non-operating expenses and losses | <u>3,691,456</u> | <u>1</u> | <u>618,992</u> | <u>-</u> |
| INCOME BEFORE INCOME TAX | 83,818,366 | 37 | 78,992,717 | 37 |
| INCOME TAX EXPENSE (Notes 2 and 17) | <u>8,531,562</u> | <u>4</u> | <u>6,764,610</u> | <u>3</u> |
| NET INCOME | <u>\$ 75,286,804</u> | <u>33</u> | <u>\$ 72,228,107</u> | <u>34</u> |
| | 2012 | | 2011 | |
| | Before Income Tax | After Income Tax | Before Income Tax | After Income Tax |
| EARNINGS PER SHARE (NT\$, Note 21) | | | | |
| Basic earnings per share | <u>\$ 3.23</u> | <u>\$ 2.90</u> | <u>\$ 3.05</u> | <u>\$ 2.79</u> |
| Diluted earnings per share | <u>\$ 3.23</u> | <u>\$ 2.90</u> | <u>\$ 3.05</u> | <u>\$ 2.79</u> |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)**

| | Capital Stock - Common Stock | | Capital Surplus | Retained Earnings | | | Total | Others | | Total Shareholders' Equity |
|---|------------------------------|-----------------------|----------------------|--------------------------|----------------------------|----------------------------|-----------------------|--|--|----------------------------|
| | Shares (In Thousands) | Amount | | Legal Capital Reserve | Special Capital Reserve | Unappropriated Earnings | | Cumulative Translation Adjustments | Unrealized Gain/Loss On Financial Instruments | |
| BALANCE, JANUARY 1, 2012 | 25,916,222 | \$ 259,162,226 | \$ 55,846,357 | \$ 102,399,995 | \$ 6,433,874 | \$ 213,357,286 | \$ 322,191,155 | \$ (6,433,369) | \$ (1,172,855) | \$ 629,593,514 |
| Appropriations of prior year's earnings | | | | | | | | | | |
| Legal capital reserve | - | - | - | 13,420,128 | - | (13,420,128) | - | - | - | - |
| Special capital reserve | - | - | - | - | 1,172,350 | (1,172,350) | - | - | - | - |
| Cash dividends to shareholders - NT\$3.00 per share | - | - | - | - | - | (77,748,668) | (77,748,668) | - | - | (77,748,668) |
| Net income for the six months ended June 30, 2012 | - | - | - | - | - | 75,286,804 | 75,286,804 | - | - | 75,286,804 |
| Adjustment arising from changes in percentage of ownership in equity method investees | - | - | 83,954 | - | - | - | - | - | - | 83,954 |
| Translation adjustments | - | - | - | - | - | - | - | (1,397,526) | - | (1,397,526) |
| Issuance of stock from exercising employee stock options | 4,487 | 44,868 | 94,838 | - | - | - | - | - | - | 139,706 |
| Net changes of valuation gain/loss on available-for-sale financial assets | - | - | - | - | - | - | - | - | 1,508,301 | 1,508,301 |
| Net change in shareholders' equity from equity method investees | - | - | - | - | - | - | - | - | (795) | (795) |
| BALANCE, JUNE 30, 2012 | <u>25,920,709</u> | <u>\$ 259,207,094</u> | <u>\$ 56,025,149</u> | <u>\$ 115,820,123</u> | <u>\$ 7,606,224</u> | <u>\$ 196,302,944</u> | <u>\$ 319,729,291</u> | <u>\$ (7,830,895)</u> | <u>\$ 334,651</u> | <u>\$ 627,465,290</u> |
| BALANCE, JANUARY 1, 2011 | 25,910,078 | \$ 259,100,787 | \$ 55,698,434 | \$ 86,239,494 | \$ 1,313,047 | \$ 178,227,030 | \$ 265,779,571 | \$ (6,543,163) | \$ 109,289 | \$ 574,144,918 |
| Appropriations of prior year's earnings | | | | | | | | | | |
| Legal capital reserve | - | - | - | 16,160,501 | - | (16,160,501) | - | - | - | - |
| Special capital reserve | - | - | - | - | 5,120,827 | (5,120,827) | - | - | - | - |
| Cash dividends to shareholders - NT\$3.00 per share | - | - | - | - | - | (77,730,236) | (77,730,236) | - | - | (77,730,236) |
| Net income for the six months ended June 30, 2011 | - | - | - | - | - | 72,228,107 | 72,228,107 | - | - | 72,228,107 |
| Adjustment arising from changes in percentage of ownership in equity method investees | - | - | 14,643 | - | - | - | - | - | - | 14,643 |
| Translation adjustments | - | - | - | - | - | - | - | (4,917,884) | - | (4,917,884) |
| Issuance of stock from exercising employee stock options | 4,205 | 42,044 | 89,310 | - | - | - | - | - | - | 131,354 |
| Net changes of valuation gain/loss on available-for-sale financial assets | - | - | - | - | - | - | - | - | 176,970 | 176,970 |
| Net change in shareholders' equity from equity method investees | - | - | - | - | - | - | - | - | (98,351) | (98,351) |
| BALANCE, JUNE 30, 2011 | <u>25,914,283</u> | <u>\$ 259,142,831</u> | <u>\$ 55,802,387</u> | <u>\$ 102,399,995</u> | <u>\$ 6,433,874</u> | <u>\$ 151,443,573</u> | <u>\$ 260,277,442</u> | <u>\$ (11,461,047)</u> | <u>\$ 187,908</u> | <u>\$ 563,949,521</u> |

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

| | 2012 | 2011 |
|---|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 75,286,804 | \$ 72,228,107 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 57,167,176 | 49,954,937 |
| Unrealized (realized) gross profit from affiliates | 139,950 | (249,480) |
| Amortization of premium/discount of financial assets | 1,142 | 7,757 |
| Gain on disposal of available-for-sale financial assets, net | - | (35,151) |
| Equity in earnings of equity method investees, net | (5,083,116) | (2,914,860) |
| Cash dividends received from equity method investees | 1,285,480 | 1,914,392 |
| Loss on disposal of property, plant and equipment and other assets, net | 56,220 | 10,251 |
| Impairment loss of financial assets | 2,677,529 | - |
| Impairment loss on idle assets | 418,330 | - |
| Deferred income tax | 2,096,079 | 336,498 |
| Changes in operating assets and liabilities: | | |
| Financial assets and liabilities at fair value through profit or loss | 22,693 | (25,289) |
| Receivables from related parties | (13,699,193) | (1,668,051) |
| Notes and accounts receivable | (1,684,241) | (1,546,839) |
| Allowance for sales returns and others | 1,374,315 | (1,699,667) |
| Other receivables from related parties | (65,063) | (64,293) |
| Other financial assets | (33,744) | (5,588) |
| Inventories | (5,575,450) | (2,758,344) |
| Prepaid expenses and other current assets | (86,602) | 284,243 |
| Accounts payable | 2,787,642 | (2,091,732) |
| Payables to related parties | 615,433 | 811,641 |
| Income tax payable | (3,868,404) | (1,032,551) |
| Accrued profit sharing to employees and bonus to directors | 5,076,820 | 4,900,168 |
| Accrued expenses and other current liabilities | 3,582,071 | (1,875,486) |
| Accrued pension cost | <u>22,332</u> | <u>35,858</u> |
| Net cash provided by operating activities | <u>122,514,203</u> | <u>114,516,521</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of: | | |
| Property, plant and equipment | (105,768,037) | (139,147,091) |
| Investments accounted for using equity method | (2,170,738) | (511,390) |
| Proceeds from return of capital by investees | 186,726 | - |
| Proceeds from disposal or redemption of: | | |
| Available-for-sale financial assets | - | 1,035,151 |
| Held-to-maturity financial assets | - | 2,675,000 |
| Property, plant and equipment and other assets | 83,226 | 2,068,298 |

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Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

| | 2012 | 2011 |
|--|-----------------------|-----------------------|
| Increase in deferred charges | \$ (674,769) | \$ (788,025) |
| Decrease in refundable deposits | 228,229 | 3,841,898 |
| Decrease (increase) in other assets | <u>30,798</u> | <u>(22,600)</u> |
| Net cash used in investing activities | <u>(108,084,565)</u> | <u>(130,848,759)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | 4,846,057 | 2,232,244 |
| Proceeds from issuance of bonds | 17,000,000 | - |
| Repayment of bonds | (4,500,000) | - |
| Decrease in guarantee deposits | (188,903) | (245,004) |
| Proceeds from exercise of employee stock options | <u>139,706</u> | <u>131,354</u> |
| Net cash provided by financing activities | <u>17,296,860</u> | <u>2,118,594</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 31,726,498 | (14,213,644) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | <u>85,262,521</u> | <u>109,511,130</u> |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | <u>\$ 116,989,019</u> | <u>\$ 95,297,486</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Interest paid | <u>\$ 266,881</u> | <u>\$ 221,853</u> |
| Income tax paid | <u>\$ 10,270,194</u> | <u>\$ 7,417,035</u> |
| INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS | | |
| Acquisition of property, plant and equipment | \$ 116,448,332 | \$ 133,768,114 |
| Decrease (increase) in payables to contractors and equipment suppliers | (10,630,116) | 5,379,459 |
| Increase in payables to related parties | (50,110) | - |
| Nonmonetary exchange trade-out price | <u>(69)</u> | <u>(482)</u> |
| Cash paid | <u>\$ 105,768,037</u> | <u>\$ 139,147,091</u> |
| Disposal of property, plant and equipment and other assets | \$ 65,393 | \$ 2,905,302 |
| Decrease (increase) in other receivables to related parties | 17,902 | (836,522) |
| Nonmonetary exchange trade-out price | <u>(69)</u> | <u>(482)</u> |
| Cash received | <u>\$ 83,226</u> | <u>\$ 2,068,298</u> |
| Acquisition of deferred charges | \$ 787,769 | \$ 788,025 |
| Increase in other long-term payables (including current portion) | <u>(113,000)</u> | <u>-</u> |
| Cash paid | <u>\$ 674,769</u> | <u>\$ 788,025</u> |

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Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

| | 2012 | 2011 |
|--|-------------------|---------------------|
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Idle assets reclassified from property, plant and equipment | <u>\$ 418,330</u> | <u>\$ -</u> |
| Current portion of other long-term payables (under accrued expenses and other current liabilities) | <u>\$ 59,000</u> | <u>\$ 897,298</u> |
| Current portion of bonds payable | <u>\$ -</u> | <u>\$ 4,500,000</u> |

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

1. GENERAL

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

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

As of June 30, 2012 and 2011, the Company had 31,648 and 30,364 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

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

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

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

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

Allowance for Doubtful Receivables

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

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

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

Inventories

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

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

Investments Accounted for Using Equity Method

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

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

Pension Costs

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

Income Tax

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

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

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

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

Stock-based Compensation

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Spin-off

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

3. ACCOUNTING CHANGES

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

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

4. CASH AND CASH EQUIVALENTS

| | <u>June 30</u> | |
|---|-----------------------|----------------------|
| | 2012 | 2011 |
| Cash and deposits in banks | \$ 108,197,295 | \$ 91,164,818 |
| Repurchase agreements collateralized by government bonds | 4,152,458 | 4,132,668 |
| Repurchase agreements collateralized by corporate bonds | 3,600,314 | - |
| Repurchase agreements collateralized by short-term commercial paper | <u>1,038,952</u> | <u>-</u> |
| | <u>\$ 116,989,019</u> | <u>\$ 95,297,486</u> |

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

| | <u>June 30</u> | |
|--------------------------------------|------------------|------------------|
| | 2012 | 2011 |
| <u>Trading financial assets</u> | | |
| Forward exchange contracts | \$ 18,950 | \$ - |
| Cross currency swap contracts | <u>-</u> | <u>17,455</u> |
| | <u>\$ 18,950</u> | <u>\$ 17,455</u> |
| <u>Trading financial liabilities</u> | | |
| Forward exchange contracts | <u>\$ 26,718</u> | <u>\$ -</u> |

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

Outstanding forward exchange contracts consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|----------------------|----------------------|---|
| <u>June 30, 2012</u> | | |
| Sell US\$/Buy JPY | July 2012 | US\$211,000/JPY16,778,329 |
| Sell US\$/Buy EUR | July 2012 | US\$46,396/EUR37,000 |
| Sell NT\$/Buy JPY | July 2012 | NT\$1,127,870/JPY3,000,000 |

Outstanding cross currency swap contracts consisted of the following:

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|----------------------|---|---|---|
| <u>June 30, 2011</u> | | | |
| July 2011 | US\$128,000/NT\$3,699,250 | 0.46%-1.01% | - |

For the six months ended June 30, 2012 and 2011, net losses on derivative financial instruments were NT\$150,310 thousand and NT\$197,255 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets held by the Company are overseas publicly traded stock. For the six months ended June 30, 2012, the Company recognized an impairment loss on available-for-sale financial assets of NT\$2,677,529 thousand due to the significant decline in fair value.

7. HELD-TO-MATURITY FINANCIAL ASSETS

| | June 30 | |
|-----------------|-------------------|---------------------|
| | 2012 | 2011 |
| Corporate bonds | \$ 1,402,285 | \$ 3,519,530 |
| Current portion | <u>(700,562)</u> | <u>(2,114,955)</u> |
| | <u>\$ 701,723</u> | <u>\$ 1,404,575</u> |

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

As of June 30, 2012 and 2011, the balance of the allowance for doubtful receivables was NT\$485,120 thousand and NT\$488,000 thousand, respectively. There was no additions or deductions of allowances for doubtful receivables for the six months ended June 30, 2012 and 2011.

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

| | Six Months Ended June 30 | |
|------------------------------|--------------------------|---------------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 4,887,879 | \$ 7,341,444 |
| Provision | 3,734,225 | 1,907,979 |
| Write-off | <u>(2,359,910)</u> | <u>(3,607,646)</u> |
| Balance, end of period | <u>\$ 6,262,194</u> | <u>\$ 5,641,777</u> |

9. INVENTORIES

| | June 30 | |
|--------------------------|----------------------|----------------------|
| | 2012 | 2011 |
| Finished goods | \$ 3,592,729 | \$ 6,952,784 |
| Work in process | 21,651,626 | 17,713,682 |
| Raw materials | 2,192,967 | 2,221,347 |
| Supplies and spare parts | <u>991,525</u> | <u>1,516,879</u> |
| | <u>\$ 28,428,847</u> | <u>\$ 28,404,692</u> |

Write-down of inventories to net realizable value in the amount of NT\$776,757 thousand and NT\$258,871 thousand, respectively, were included in the cost of sales for the six months ended June 30, 2012 and 2011.

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | June 30 | | | |
|--|-----------------------|------------------------|-----------------------|------------------------|
| | 2012 | | 2011 | |
| | Carrying Amount | % of Owner- ship | Carrying Amount | % of Owner- ship |
| TSMC Global Ltd. (TSMC Global) | \$ 43,788,660 | 100 | \$ 41,617,880 | 100 |
| TSMC Partners, Ltd. (TSMC Partners) | 38,087,704 | 100 | 32,657,501 | 100 |
| TSMC China Company Limited (TSMC China) | 15,255,074 | 100 | 5,198,868 | 100 |
| Vanguard International Semiconductor Corporation (VIS) | 8,857,198 | 41 | 9,110,898 | 38 |
| TSMC Solar | 8,626,042 | 99 | - | - |
| Systems on Silicon Manufacturing Company Pte Ltd. (SSMC) | 5,935,087 | 39 | 5,519,534 | 39 |
| TSMC SSL | 3,224,899 | 95 | - | - |
| TSMC North America | 3,086,841 | 100 | 2,830,777 | 100 |
| Xintec Inc. (Xintec) | 1,524,811 | 40 | 1,596,809 | 41 |
| VentureTech Alliance Fund III, L.P. (VTAF III) | 1,236,004 | 52 | 2,587,484 | 99 |
| Global UniChip Corporation (GUC) | 1,110,221 | 35 | 1,064,925 | 35 |
| VentureTech Alliance Fund II, L.P. (VTAF II) | 843,778 | 98 | 1,015,748 | 98 |
| TSMC Europe B.V. (TSMC Europe) | 213,863 | 100 | 201,892 | 100 |
| Emerging Alliance Fund, L.P. (Emerging Alliance) | 197,892 | 99 | 277,059 | 99 |
| TSMC Japan Limited (TSMC Japan) | 158,983 | 100 | 146,863 | 100 |
| TSMC Guang Neng Investment, Ltd. (TSMC GN) | 79,275 | 100 | - | - |
| TSMC Korea Limited (TSMC Korea) | 24,460 | 100 | 22,622 | 100 |
| Motech Industries Inc. (Motech) | - | - | 6,132,395 | 20 |
| TSMC Solar Europe B.V. (TSMC Solar Europe) | - | - | 391,148 | 100 |
| TSMC Solar North America, Inc. (TSMC Solar NA) | - | - | 83,704 | 100 |
| TSMC Lighting North America, Inc. (TSMC Lighting NA) | - | - | 2,872 | 100 |
| | <u>\$ 132,250,792</u> | | <u>\$ 110,458,979</u> | |

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

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

In January 2012, the Company invested NT\$100,000 thousand and established a wholly-owned subsidiary, TSMC GN, which engages mainly in investment activities. In February 2012, the Company participated directly or through TSMC GN in the issuance of new shares by TSMC SSL and TSMC Solar for cash. As of June 30, 2012, the Company's percentages of ownership in TSMC SSL and TSMC Solar were to 95% and 99%, respectively.

For the six months ended June 30, 2012 and 2011, equity in earnings of equity method investees was a net gain of NT\$5,083,116 thousand and NT\$2,914,860 thousand, respectively.

As of June 30, 2012 and 2011, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$13,587,844 thousand and NT\$14,691,013 thousand, respectively.

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

| | Six Months Ended June 30 | |
|------------------------------|---------------------------------|---------------------|
| | 2012 | 2011 |
| Balance, beginning of period | \$ 275,584 | \$ 2,504,496 |
| Amortization | <u>(126,819)</u> | <u>(476,809)</u> |
| Balance, end of period | <u>\$ 148,765</u> | <u>\$ 2,027,687</u> |

As of June 30, 2012 and 2011, balance of the aforementioned difference allocated to goodwill was NT\$1,061,885 thousand and NT\$1,415,565 thousand, respectively. There was no acquisition or impairment in goodwill for the six months ended June 30, 2012 and 2011.

11. FINANCIAL ASSETS CARRIED AT COST

| | June 30 | |
|----------------------------|-------------------|-------------------|
| | 2012 | 2011 |
| Non-publicly traded stocks | \$ 338,584 | \$ 338,584 |
| Mutual funds | <u>159,251</u> | <u>159,251</u> |
| | <u>\$ 497,835</u> | <u>\$ 497,835</u> |

12. PROPERTY, PLANT AND EQUIPMENT

| | Six Months Ended June 30, 2012 | | | | |
|---|---|-----------------------------------|-----------------------|-------------------------|-----------------------------------|
| | Balance, Beginning of Period | Additions (Deductions) | Disposals | Reclassification | Balance, End of Period |
| Cost | | | | | |
| Buildings | \$ 149,495,478 | \$ 16,020,438 | \$ (24,303) | \$ - | \$ 165,491,613 |
| Machinery and equipment | 984,978,666 | 130,284,874 | (727,156) | (661,696) | 1,113,874,688 |
| Office equipment | <u>13,824,434</u> | <u>1,896,031</u> | <u>(324,601)</u> | <u>-</u> | <u>15,395,864</u> |
| | <u>1,148,298,578</u> | <u>\$ 148,201,343</u> | <u>\$ (1,076,060)</u> | <u>\$ (661,696)</u> | <u>1,294,762,165</u> |
| Accumulated depreciation | | | | | |
| Buildings | 90,274,267 | \$ 4,555,965 | \$ (23,035) | \$ - | 94,807,197 |
| Machinery and equipment | 704,885,017 | 50,861,873 | (724,659) | (243,366) | 754,778,865 |
| Office equipment | <u>9,581,513</u> | <u>744,037</u> | <u>(324,601)</u> | <u>-</u> | <u>10,000,949</u> |
| | <u>804,740,797</u> | <u>\$ 56,161,875</u> | <u>\$ (1,072,295)</u> | <u>\$ (243,366)</u> | <u>859,587,011</u> |
| Advance payments and construction in progress | <u>110,815,752</u> | <u>\$ (31,753,011)</u> | <u>\$ (45,305)</u> | <u>\$ -</u> | <u>79,017,436</u> |
| | <u>\$ 454,373,533</u> | | | | <u>\$ 514,192,590</u> |

| | Six Months Ended June 30, 2011 | | | | |
|---|------------------------------------|-----------------------|-----------------------|--------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Disposals | Reclassification | Balance, End of Period |
| Cost | | | | | |
| Buildings | \$ 128,646,942 | \$ 18,154,973 | \$ (11,175) | \$ - | \$ 146,790,740 |
| Machinery and equipment | 852,733,592 | 98,688,934 | (1,119,442) | (27,667) | 950,275,417 |
| Office equipment | <u>11,730,537</u> | <u>1,424,494</u> | <u>(239,066)</u> | <u>-</u> | <u>12,915,965</u> |
| | 993,111,071 | <u>\$ 118,268,401</u> | <u>\$ (1,369,683)</u> | <u>\$ (27,667)</u> | <u>1,109,982,122</u> |
| Accumulated depreciation | | | | | |
| Buildings | 81,347,877 | \$ 4,360,111 | \$ (9,762) | \$ - | 85,698,226 |
| Machinery and equipment | 616,495,207 | 44,015,931 | (1,079,340) | (15,678) | 659,416,120 |
| Office equipment | <u>8,762,361</u> | <u>547,690</u> | <u>(239,066)</u> | <u>-</u> | <u>9,070,985</u> |
| | 706,605,445 | <u>\$ 48,923,732</u> | <u>\$ (1,328,168)</u> | <u>\$ (15,678)</u> | <u>754,185,331</u> |
| Advance payments and construction in progress | <u>80,348,673</u> | <u>\$ 15,499,713</u> | <u>\$ (2,802,779)</u> | <u>\$ -</u> | <u>93,045,607</u> |
| | <u>\$ 366,854,299</u> | | | | <u>\$ 448,842,398</u> |

No interest was capitalized during the six months ended June 30, 2012 and 2011.

13. DEFERRED CHARGES, NET

| | Six Months Ended June 30, 2012 | | | | |
|----------------------------------|------------------------------------|-------------------|-----------------------|------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Amortization | Reclassification | Balance, End of Period |
| Technology license fees | \$ 1,617,310 | \$ - | \$ (209,844) | \$ - | \$ 1,407,466 |
| Software and system design costs | 2,316,571 | 375,826 | (544,876) | (57,438) | 2,090,083 |
| Patent and others | <u>785,363</u> | <u>411,943</u> | <u>(246,792)</u> | <u>57,438</u> | <u>1,007,952</u> |
| | <u>\$ 4,719,244</u> | <u>\$ 787,769</u> | <u>\$ (1,001,512)</u> | <u>\$ -</u> | <u>\$ 4,505,501</u> |

| | Six Months Ended June 30, 2011 | | | |
|----------------------------------|------------------------------------|-------------------|-----------------------|---------------------------|
| | Balance, Beginning of Period | Additions | Amortization | Balance, End of Period |
| Technology license fees | \$ 2,277,832 | \$ - | \$ (334,985) | \$ 1,942,847 |
| Software and system design costs | 2,075,935 | 672,362 | (507,499) | 2,240,798 |
| Patent and others | <u>1,102,660</u> | <u>115,663</u> | <u>(185,393)</u> | <u>1,032,930</u> |
| | <u>\$ 5,456,427</u> | <u>\$ 788,025</u> | <u>\$ (1,027,877)</u> | <u>\$ 5,216,575</u> |

14. SHORT-TERM LOANS

| | June 30 | |
|--|----------------------|----------------------|
| | 2012 | 2011 |
| Unsecured loans: | | |
| US\$1,029,700 thousand, due by August 2012, and annual interest at 0.53%-0.77% in 2012; US\$922,000 thousand and EUR158,350 thousand, due in July 2011, and annual interest at 0.35%-1.53% in 2011 | <u>\$ 30,772,585</u> | <u>\$ 33,140,881</u> |

15. BONDS PAYABLE

| | <u>June 30</u> | |
|--|----------------------|--------------------|
| | <u>2012</u> | <u>2011</u> |
| Domestic unsecured bonds: | | |
| Issued in September 2011 and repayable in September 2016, 1.40% interest payable annually | \$ 10,500,000 | \$ - |
| Issued in September 2011 and repayable in September 2018, 1.63% interest payable annually | 7,500,000 | - |
| Issued in January 2012 and repayable in January 2017, 1.29% interest payable annually | 10,000,000 | - |
| Issued in January 2012 and repayable in January 2019, 1.46% interest payable annually | 7,000,000 | - |
| Issued in January 2002 and repayable in January 2012, 3.00% interest payable annually | <u>-</u> | <u>4,500,000</u> |
| | 35,000,000 | 4,500,000 |
| Current portion | <u>-</u> | <u>(4,500,000)</u> |
| | <u>\$ 35,000,000</u> | <u>\$ -</u> |

With the approval from the Financial Supervisory Commission, the Company issued domestic unsecured bonds in the amount of NT\$18,900,000 thousand in August 2012.

16. PENSION PLANS

The pension mechanism under the Labor Pension Act (the "Act") is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts and recognized pension costs of NT\$564,181 thousand and NT\$555,524 thousand for the six months ended June 30, 2012 and 2011, respectively.

The Company has a defined benefit plan under the Labor Standards Law that provides benefits based on an employee's length of service and average monthly salary for the six-month period prior to retirement. The Company contributes an amount equal to 2% of salaries paid each month to a pension fund (the Fund), which is administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan. The Company recognized pension costs of NT\$141,823 thousand and NT\$150,832 thousand for the six months ended June 30, 2012 and 2011, respectively.

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

| | <u>Six Months Ended June 30</u> | |
|------------------------------|---------------------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| The Fund | | |
| Balance, beginning of period | \$ 3,017,351 | \$ 2,835,231 |
| Contributions | 116,685 | 116,010 |
| Interest | 26,304 | 27,083 |
| Payments | <u>(10,791)</u> | <u>(3,833)</u> |
| Balance, end of period | <u>\$ 3,149,549</u> | <u>\$ 2,974,491</u> |
| Accrued pension cost | | |
| Balance, beginning of period | \$ 3,860,898 | \$ 3,824,601 |
| Accruals | <u>22,332</u> | <u>35,858</u> |
| Balance, end of period | <u>\$ 3,883,230</u> | <u>\$ 3,860,459</u> |

17. INCOME TAX

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

| | Six Months Ended June 30 | |
|--|---------------------------------|---------------------|
| | 2012 | 2011 |
| Income tax expense based on “income before income tax” at statutory rate (17%) | \$ 14,249,122 | \$ 13,428,762 |
| Tax effect of the following: | | |
| Tax-exempt income | (4,601,908) | (7,114,959) |
| Temporary and permanent differences | (1,031,430) | (1,064,087) |
| Additional income tax under the Alternative Minimum Tax Act | - | 102,078 |
| Additional tax at 10% on unappropriated earnings | 4,186,013 | 6,259,344 |
| Income tax credits used | <u>(6,444,051)</u> | <u>(5,754,530)</u> |
| Income tax currently payable | <u>\$ 6,357,746</u> | <u>\$ 5,856,608</u> |

- b. Income tax expense consisted of the following:

| | Six Months Ended June 30 | |
|--|---------------------------------|---------------------|
| | 2012 | 2011 |
| Income tax currently payable | \$ 6,357,746 | \$ 5,856,608 |
| Income tax adjustments on prior years | 48,609 | 464,078 |
| Other income tax adjustments | 29,128 | 107,426 |
| Net change in deferred income tax assets | | |
| Investment tax credits | 5,213,861 | 2,877,767 |
| Temporary differences | (162,415) | 342,984 |
| Valuation allowance | <u>(2,955,367)</u> | <u>(2,884,253)</u> |
| Income tax expense | <u>\$ 8,531,562</u> | <u>\$ 6,764,610</u> |

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

| | June 30 | |
|--|---------------------|----------------------|
| | 2012 | 2011 |
| Current deferred income tax assets | | |
| Investment tax credits | \$ 1,184,000 | \$ 504,814 |
| Temporary differences | | |
| Allowance for sales returns and others | 626,219 | 479,551 |
| Unrealized loss on financial instruments | 455,180 | 44,719 |
| Others | <u>274,844</u> | <u>23,952</u> |
| | <u>\$ 2,540,243</u> | <u>\$ 1,053,036</u> |
| Noncurrent deferred income tax assets | | |
| Investment tax credits | \$ 13,782,099 | \$ 18,592,633 |
| Temporary differences | | |
| Depreciation | 1,416,895 | 1,843,188 |
| Others | 239,847 | 188,179 |
| Valuation allowance | <u>(7,382,724)</u> | <u>(9,768,509)</u> |
| | <u>\$ 8,056,117</u> | <u>\$ 10,855,491</u> |

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

d. Integrated income tax information:

The balance of the imputation credit account as of June 30, 2012 and 2011 was NT\$14,283,587 thousand and NT\$8,826,775 thousand, respectively.

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

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

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

f. As of June 30, 2012, investment tax credits consisted of the following:

| Law/Statute | Item | Total Creditable Amount | Remaining Creditable Amount | Expiry Year |
|-----------------------------------|---------------------------------------|-------------------------|-----------------------------|-------------|
| Statute for Upgrading Industries | Purchase of machinery and equipment | \$ 6,509,546 | \$ 6,509,546 | 2013 |
| | | 7,006,655 | 7,006,655 | 2014 |
| | | <u>482,351</u> | <u>482,351</u> | 2015 |
| | | <u>\$ 13,998,552</u> | <u>\$ 13,998,552</u> | |
| Statute for Upgrading Industries | Research and development expenditures | \$ 1,148,374 | \$ - | 2012 |
| | | <u>4,994,463</u> | <u>950,426</u> | 2013 |
| | | <u>\$ 6,142,837</u> | <u>\$ 950,426</u> | |
| Statute for Upgrading Industries | Personnel training expenditures | \$ 17,391 | \$ - | 2012 |
| | | <u>17,121</u> | <u>17,121</u> | 2013 |
| | | <u>\$ 34,512</u> | <u>\$ 17,121</u> | |
| Statute for Industrial Innovation | Research and development expenditures | <u>\$ 1,234,249</u> | <u>\$ -</u> | 2012 |

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

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

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

18. LABOR COST, DEPRECIATION AND AMORTIZATION

| | Six Months Ended June 30, 2012 | | |
|----------------------------|--|---|----------------------|
| | Classified as Cost of Sales | Classified as Operating Expenses | Total |
| Labor cost | | | |
| Salary and bonus | \$ 12,836,051 | \$ 9,059,980 | \$ 21,896,031 |
| Labor and health insurance | 668,696 | 416,384 | 1,085,080 |
| Pension | 441,465 | 264,539 | 706,004 |
| Meal | 319,082 | 143,672 | 462,754 |
| Welfare | 120,965 | 74,897 | 195,862 |
| Others | <u>19,319</u> | <u>26,673</u> | <u>45,992</u> |
| | <u>\$ 14,405,578</u> | <u>\$ 9,986,145</u> | <u>\$ 24,391,723</u> |
| Depreciation | <u>\$ 51,166,519</u> | <u>\$ 4,995,356</u> | <u>\$ 56,161,875</u> |
| Amortization | <u>\$ 638,174</u> | <u>\$ 363,338</u> | <u>\$ 1,001,512</u> |

| | Six Months Ended June 30, 2011 | | |
|----------------------------|--|---|----------------------|
| | Classified as Cost of Sales | Classified as Operating Expenses | Total |
| Labor cost | | | |
| Salary and bonus | \$ 12,307,288 | \$ 8,604,243 | \$ 20,911,531 |
| Labor and health insurance | 622,318 | 348,469 | 970,787 |
| Pension | 452,941 | 253,415 | 706,356 |
| Meal | 328,234 | 134,064 | 462,298 |
| Welfare | 117,756 | 67,701 | 185,457 |
| Others | <u>28,121</u> | <u>16,350</u> | <u>44,471</u> |
| | <u>\$ 13,856,658</u> | <u>\$ 9,424,242</u> | <u>\$ 23,280,900</u> |
| Depreciation | <u>\$ 45,678,813</u> | <u>\$ 3,238,520</u> | <u>\$ 48,917,333</u> |
| Amortization | <u>\$ 653,237</u> | <u>\$ 374,640</u> | <u>\$ 1,027,877</u> |

19. SHAREHOLDERS' EQUITY

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

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

Capital surplus consisted of the following:

| | June 30 | |
|----------------------------|----------------------|----------------------|
| | 2012 | 2011 |
| Additional paid-in capital | \$ 23,869,088 | \$ 23,718,218 |
| From merger | 22,804,510 | 22,805,390 |
| From convertible bonds | 8,892,847 | 8,893,190 |
| From long-term investments | 458,649 | 385,534 |
| Donations | <u>55</u> | <u>55</u> |
| | <u>\$ 56,025,149</u> | <u>\$ 55,802,387</u> |

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

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

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

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

The Company accrued profit sharing to employees based on certain percentage of net income during the period, which amounted to NT\$5,043,952 thousand and NT\$4,873,630 thousand for the six months ended June 2012 and 2011, respectively. Bonuses to directors were expensed based on estimated amount of payment. If the actual amounts subsequently resolved by the shareholders differ from the estimated amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If profit sharing is resolved to be distributed to employees in stock, the number of shares is determined by dividing the amount of profit sharing by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholders' meeting.

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

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

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

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

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

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

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

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

20. STOCK-BASED COMPENSATION PLANS

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

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

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

| | Number of Options (In Thousands) | Weighted- average Exercise Price (NT\$) |
|---------------------------------------|---|--|
| <u>Six months ended June 30, 2012</u> | | |
| Balance, beginning of period | 14,293 | \$32.1 |
| Options exercised | <u>(4,487)</u> | 31.1 |
| Balance, end of period | <u><u>9,806</u></u> | 32.6 |
| <u>Six months ended June 30, 2011</u> | | |
| Balance, beginning of period | 21,437 | \$31.4 |
| Options exercised | <u>(4,205)</u> | 31.2 |
| Balance, end of period | <u><u>17,232</u></u> | 31.6 |

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

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

| Range of Exercise Price (NT\$) | Number of Options (In Thousands) | Options Outstanding | |
|---|---|--|---|
| | | Weighted-average Remaining Contractual Life (Years) | Weighted-average Exercise Price (NT\$) |
| \$20.9-\$29.3 | 6,907 | 0.8 | \$ 27.0 |
| 38.0- 50.1 | <u>2,899</u> | 2.5 | 45.8 |
| | <u><u>9,806</u></u> | 1.3 | 32.6 |

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

No compensation cost was recognized under the intrinsic value method for the six months ended June 30, 2012 and 2011. Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the valuation assumptions at the various grant dates and pro forma results of the Company for the six months ended June 30, 2012 and 2011 would have been as follows:

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

| | Six Months Ended June 30 | |
|---|---------------------------------|---------------|
| | 2012 | 2011 |
| Net income: | | |
| Net income as reported | \$ 75,286,804 | \$ 72,228,107 |
| Pro forma net income | 75,234,634 | 72,182,896 |
| Earnings per share (EPS) - after income tax (NT\$): | | |
| Basic EPS as reported | \$2.90 | \$2.79 |
| Pro forma basic EPS | 2.90 | 2.79 |
| Diluted EPS as reported | 2.90 | 2.79 |
| Pro forma diluted EPS | 2.90 | 2.78 |

21. EARNINGS PER SHARE

EPS is computed as follows:

| | <u>Amounts (Numerator)</u> | | <u>Number of Shares (Denominator) (In Thousands)</u> | <u>EPS (NT\$)</u> | |
|--|------------------------------|-----------------------------|--|----------------------------------|---------------------------------|
| | <u>Before Income Tax</u> | <u>After Income Tax</u> | | <u>Before Income Tax</u> | <u>After Income Tax</u> |
| <u>Six months ended June 30, 2012</u> | | | | | |
| Basic EPS | | | | | |
| Earnings available to common shareholders | \$ 83,818,366 | \$ 75,286,804 | 25,919,175 | <u>\$ 3.23</u> | <u>\$ 2.90</u> |
| Effect of dilutive potential common shares | - | - | 7,329 | | |
| Diluted EPS | | | | | |
| Earnings available to common shareholders (including effect of dilutive potential common shares) | <u>\$ 83,818,366</u> | <u>\$ 75,286,804</u> | <u>25,926,504</u> | <u>\$ 3.23</u> | <u>\$ 2.90</u> |
| <u>Six months ended June 30, 2011</u> | | | | | |
| Basic EPS | | | | | |
| Earnings available to common shareholders | \$ 78,992,717 | \$ 72,228,107 | 25,913,396 | <u>\$ 3.05</u> | <u>\$ 2.79</u> |
| Effect of dilutive potential common shares | - | - | 10,165 | | |
| Diluted EPS | | | | | |
| Earnings available to common shareholders (including effect of dilutive potential common shares) | <u>\$ 78,992,717</u> | <u>\$ 72,228,107</u> | <u>25,923,561</u> | <u>\$ 3.05</u> | <u>\$ 2.79</u> |

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

The average number of shares outstanding for EPS calculation has been considered for the effect of retrospective adjustments. This adjustment caused each of the basic and diluted after income tax EPS for the six months ended June 30, 2011 to remain at NT\$2.79.

22. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

| | June 30 | | | |
|--|--------------------|------------|--------------------|------------|
| | 2012 | | 2011 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Assets</u> | | | | |
| Financial assets at fair value through profit or loss | \$ 18,950 | \$ 18,950 | \$ 17,455 | \$ 17,455 |
| Available-for-sale financial assets | 1,756,835 | 1,756,835 | 4,171,309 | 4,171,309 |
| Held-to-maturity financial assets | 1,402,285 | 1,417,459 | 3,519,530 | 3,554,538 |
| Financial assets carried at cost | 497,835 | - | 497,835 | - |
| <u>Liabilities</u> | | | | |
| Financial liabilities at fair value through profit or loss | 26,718 | 26,718 | - | - |
| Bonds payable (including current portion) | 35,000,000 | 35,278,868 | 4,500,000 | 4,528,220 |
| Other long-term payables (including current portion) | 113,000 | 113,000 | 897,298 | 897,298 |

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
 - 2) Except for derivatives, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.
 - 3) The fair values of those derivatives are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
 - 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
 - 5) Fair value of bonds payable was based on their quoted market price.
 - 6) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.
- c. Valuation gains (losses) arising from changes in fair value of derivatives contracts determined using valuation techniques were recognized as net losses of NT\$7,768 thousand and net gains of NT\$17,455 thousand for the six months ended June 30, 2012 and 2011, respectively.
- d. As of June 30, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$1,421,235 thousand and NT\$3,536,985 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$65,799,303 thousand and NT\$37,640,881 thousand, respectively.

- e. Movements of the unrealized gains or losses on financial instruments for the six months ended June 30, 2012 and 2011 were as follows:

| | Six Months Ended June 30, 2012 | | |
|--|--|---|-------------------|
| | From Available- for-sale Financial Assets | Equity- method Investments | Total |
| Balance, beginning of period | \$ (1,508,301) | \$ 335,446 | \$ (1,172,855) |
| Recognized directly in shareholders' equity | (714,048) | (795) | (714,843) |
| Removed from shareholders' equity and recognized in earnings | <u>2,222,349</u> | <u>-</u> | <u>2,222,349</u> |
| Balance, end of period | <u>\$ -</u> | <u>\$ 334,651</u> | <u>\$ 334,651</u> |

| | Six Months Ended June 30, 2011 | | |
|--|--|---|-------------------|
| | From Available- for-sale Financial Assets | Equity- method Investments | Total |
| Balance, beginning of period | \$ (395,306) | \$ 504,595 | \$ 109,289 |
| Recognized directly in shareholders' equity | 212,121 | (98,351) | 113,770 |
| Removed from shareholders' equity and recognized in earnings | <u>(35,151)</u> | <u>-</u> | <u>(35,151)</u> |
| Balance, end of period | <u>\$ (218,336)</u> | <u>\$ 406,244</u> | <u>\$ 187,908</u> |

f. Information about financial risks

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

23. RELATED PARTY TRANSACTIONS

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

a. Subsidiaries

TSMC North America
TSMC China
TSMC Europe
TSMC Japan

b. Investees

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

c. Indirect subsidiaries

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

d. Indirect investees

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

e. Others

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

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

| | 2012 | | 2011 | |
|---|-----------------------|-----------|-----------------------|-----------|
| | Amount | % | Amount | % |
| <u>For the six months ended June 30</u> | | | | |
| Sales | | | | |
| TSMC North America | \$ 145,613,637 | 62 | \$ 115,627,277 | 54 |
| Others | <u>2,331,268</u> | <u>1</u> | <u>1,474,631</u> | <u>1</u> |
| | <u>\$ 147,944,905</u> | <u>63</u> | <u>\$ 117,101,908</u> | <u>55</u> |
| Purchases | | | | |
| TSMC China | \$ 7,036,635 | 25 | \$ 4,935,280 | 19 |
| WaferTech | 3,752,087 | 13 | 3,763,210 | 15 |
| VIS | 1,960,314 | 7 | 2,829,238 | 11 |
| SSMC | 1,804,215 | 7 | 1,994,243 | 8 |
| Others | <u>-</u> | <u>-</u> | <u>124,673</u> | <u>-</u> |
| | <u>\$ 14,553,251</u> | <u>52</u> | <u>\$ 13,646,644</u> | <u>53</u> |

| | 2012 | | 2011 | |
|--|-------------------|-----------|---------------------|-----------|
| | Amount | % | Amount | % |
| Manufacturing expenses | | | | |
| Xintec (outsourcing and rent) | \$ 71,598 | - | \$ 177,596 | - |
| VisEra (outsourcing) | 8,657 | - | 8,111 | - |
| VIS (rent) | - | - | 5,902 | - |
| Others | 230 | - | - | - |
| | <u>\$ 80,485</u> | <u>-</u> | <u>\$ 191,609</u> | <u>-</u> |
| Research and development expenses | | | | |
| TSMC Technology (primarily consulting fee) | \$ 330,524 | 2 | \$ 252,450 | 2 |
| TSMC Canada (primarily consulting fee) | 107,855 | 1 | 88,283 | 1 |
| TSMC Europe (primarily consulting fee) | 25,951 | - | 19,775 | - |
| VIS (rent) | - | - | 1,984 | - |
| Others | 6,675 | - | 21,718 | - |
| | <u>\$ 471,005</u> | <u>3</u> | <u>\$ 384,210</u> | <u>3</u> |
| Marketing expenses - commission | | | | |
| TSMC Europe | \$ 165,991 | 14 | \$ 189,792 | 16 |
| TSMC Japan | 138,456 | 12 | 130,927 | 11 |
| TSMC China | 34,114 | 3 | 31,876 | 2 |
| Others | 12,704 | 1 | 11,287 | 1 |
| | <u>\$ 351,265</u> | <u>30</u> | <u>\$ 363,882</u> | <u>30</u> |
| Sales of property, plant and equipment and other assets | | | | |
| TSMC China | \$ 45,982 | 70 | \$ 2,427,178 | 84 |
| VisEra | 9,000 | 14 | - | - |
| WaferTech | - | - | 72,880 | 2 |
| VIS | - | - | 36,008 | 1 |
| Others | 10 | - | 253 | - |
| | <u>\$ 54,992</u> | <u>84</u> | <u>\$ 2,536,319</u> | <u>87</u> |
| Purchases of property, plant and equipment and other asset | | | | |
| TSMC China | \$ 68,455 | - | \$ 70,491 | - |
| GUC | 4,137 | - | - | - |
| Others | 4,472 | - | - | - |
| | <u>\$ 77,064</u> | <u>-</u> | <u>\$ 70,491</u> | <u>-</u> |
| Non-operating income and gains | | | | |
| VIS (primarily technical service income) | \$ 123,856 | 2 | \$ 124,055 | 3 |
| SSMC (primarily technical service income) | 106,258 | 2 | 94,255 | 2 |
| TSMC China (primarily technical service income and gains on disposal of property, plant and equipment) | 244 | - | 96,138 | 2 |
| Others | 9,679 | - | 2,216 | - |
| | <u>\$ 240,037</u> | <u>4</u> | <u>\$ 316,664</u> | <u>7</u> |

| | 2012 | | 2011 | |
|---|----------------------|------------|----------------------|------------|
| | Amount | % | Amount | % |
| Non-operating expenses and losses | | | | |
| TSMC China (losses on disposal of property, plant and equipment) | \$ 9,350 | - | \$ - | - |
| <u>As of June 30</u> | | | | |
| Receivables | | | | |
| TSMC North America | \$ 37,694,156 | 98 | \$ 27,063,064 | 99 |
| Others | <u>782,571</u> | <u>2</u> | <u>338,961</u> | <u>1</u> |
| | <u>\$ 38,476,727</u> | <u>100</u> | <u>\$ 27,402,025</u> | <u>100</u> |
| Other receivables | | | | |
| VIS | \$ 503,976 | 78 | \$ 512,256 | 16 |
| SSMC | 66,094 | 10 | 47,445 | 1 |
| TSMC North America | 62,719 | 10 | 14,955 | - |
| TSMC China | 2,582 | - | 1,979,030 | 61 |
| Motech | - | - | 436,600 | 14 |
| Others | <u>17,025</u> | <u>2</u> | <u>241,271</u> | <u>8</u> |
| | <u>\$ 652,396</u> | <u>100</u> | <u>\$ 3,231,557</u> | <u>100</u> |
| Payables | | | | |
| TSMC China | \$ 1,317,606 | 36 | \$ 955,093 | 28 |
| VIS | 944,589 | 26 | 1,087,485 | 32 |
| WaferTech | 731,713 | 20 | 620,389 | 18 |
| SSMC | 355,721 | 10 | 440,314 | 13 |
| Others | <u>308,496</u> | <u>8</u> | <u>282,810</u> | <u>9</u> |
| | <u>\$ 3,658,125</u> | <u>100</u> | <u>\$ 3,386,091</u> | <u>100</u> |
| Other assets (deferred credits) | | | | |
| TSMC China | \$ (7,857) | - | \$ 10,347 | 1 |
| VisEra | (1,064) | - | - | - |
| Others | <u>(9)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ (8,930)</u> | <u>-</u> | <u>\$ 10,347</u> | <u>1</u> |

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

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

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

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

24. SIGNIFICANT LONG-TERM LEASES

The Company leases several parcels of land from the Science Park Administration. These operating leases expire on various dates from December 2012 to May 2032 and can be renewed upon expiration.

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

| Year | Amount |
|--|---------------------|
| 2012 (3 rd and 4 th quarter) | \$ 233,125 |
| 2013 | 441,808 |
| 2014 | 425,370 |
| 2015 | 415,050 |
| 2016 | 404,886 |
| 2017 and thereafter | <u>3,401,106</u> |
| | <u>\$ 5,321,345</u> |

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Significant commitments and contingencies of the Company as of June 30, 2012, excluding those disclosed in other notes, were as follows:

- a. Under a technical cooperation agreement with Industrial Technology Research Institute, the R.O.C. Government or its designee approved by the Company can use up to 35% of the Company's capacity if the Company's outstanding commitments to its customers are not prejudiced. The term of this agreement is for five years beginning from January 1, 1987 and is automatically renewed for successive periods of five years unless otherwise terminated by either party with one year prior notice.
- b. Under several foundry agreements, the Company shall reserve a portion of its production capacity for certain major customers that have guarantee deposits with the Company. As of June 30, 2012, the Company had a total of US\$6,812 thousand of guarantee deposits.
- c. Under a Shareholders Agreement entered into with Philips and EDB Investments Pte Ltd. on March 30, 1999, the parties formed a joint venture company, SSMC, which is an integrated circuit foundry in Singapore. The Company's equity interest in SSMC was 32%. Nevertheless, Philips parted with its semiconductor company which was renamed as NXP B.V. in September 2006. The Company and NXP B.V. purchased all the SSMC shares owned by EDB Investments Pte Ltd. pro rata according to the Shareholders Agreement on November 15, 2006. After the purchase, the Company and NXP B.V. currently own approximately 39% and 61% of the SSMC shares respectively. The Company and Philips (now NXP B.V.) are required, in the aggregate, to purchase at least 70% of SSMC's capacity, but the Company alone is not required to purchase more than 28% of the capacity. If any party defaults on the commitment and the capacity utilization of SSMC fall below a specific percentage of its capacity, the defaulting party is required to compensate SSMC for all related unavoidable costs.

- d. In August 2006, TSMC filed a lawsuit against Semiconductor Manufacturing International Corporation, SMIC (Shanghai) and SMIC Americas (aggregately referred to as “SMIC”) in the Superior Court of California for Alameda County for breach of a 2005 agreement that settled an earlier trade secret misappropriation and patent infringement litigation between the parties, as well as for trade secret misappropriation, seeking injunctive relief and monetary damages. In September 2006, SMIC filed a cross-complaint against TSMC in the same court alleging breach of settlement agreement, implied covenant of good faith and fair dealing. SMIC also filed a civil action against TSMC in November 2006 with the Beijing People’s High Court alleging defamation and breach of good faith. On June 10, 2009, the Beijing People’s High Court ruled in favor of TSMC and dismissed SMIC’s lawsuit. On November 4, 2009, after a two-month trial, a jury in the California action found SMIC to have both breached the 2005 settlement agreement and misappropriated TSMC’s trade secrets. TSMC has subsequently settled both lawsuits with SMIC. Pursuant to the new settlement agreement, the parties have agreed to the entry of a stipulated judgment in favor of TSMC in the California action, and to the dismissal of SMIC’s appeal against the Beijing High Court’s finding in favor of TSMC. Under the new settlement agreement and the related stipulated judgment, SMIC has agreed to make cash payments by installments to TSMC totaling US\$200 million, which are in addition to the US\$135 million previously paid to TSMC under the 2005 settlement agreement, and, conditional upon relevant government regulatory approvals, to issue to TSMC a total of 1,789,493,218 common shares of Semiconductor Manufacturing International Corporation and a three-year warrant to purchase 695,914,030 common shares (subject to adjustment) of Semiconductor Manufacturing International Corporation at HK\$1.30 per share (subject to adjustment). TSMC has received the approval from the Investment Commission of Ministry of Economic Affairs and acquired the above mentioned common shares in July 2010, which are recorded within available for sale financial assets, and obtained the subsequent cash settlement income in accordance with the agreement.
- e. In June 2010, Keranos, LLC. filed a lawsuit in the U.S. District Court for the Eastern District of Texas alleging that TSMC, TSMC North America, and several other leading technology companies infringe three expired U.S. patents. In response, TSMC, TSMC North America, and several co-defendants in the Texas case filed a lawsuit against Keranos in the U.S. District Court for the Northern District of California in November 2010, seeking a judgment declaring that they did not infringe the asserted patents, and that those patents are invalid. These two litigations have been consolidated into a single case in the U.S. District Court for the Eastern District of Texas. The outcome cannot be determined at this time.
- f. In December 2010, Ziptronix, Inc. filed a complaint in the U.S. District Court for the Northern District of California accusing TSMC, TSMC North America and one other company of allegedly infringing several U.S. patents. This litigation is in its early stages and therefore the outcome of the case cannot be determined at this time.

26. SIGNIFICANT SUBSEQUENT EVENTS

The Company joined the Customer Co-Investment Program of ASML Holding N.V. (ASML) and entered into the investment agreement on August 5, 2012. The agreement includes an investment of EUR837,816 thousand by TSMC Global to acquire 5% of ASML’s equity with a lock-up period of 2.5 years. The above agreement is subject to the shareholders’ approval at an Extraordinary General Meeting of ASML and relevant government regulatory approvals. Both parties also signed the research and development funding agreement and the Company will provide EUR277,000 thousand to ASML’s research and development programs from 2013 to 2017.

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

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

| | June 30 | | | |
|---|--|---------------------------------|--|---------------------------------|
| | 2012 | | 2011 | |
| | Foreign Currencies (In Thousands) | Exchange Rate (Note) | Foreign Currencies (In Thousands) | Exchange Rate (Note) |
| <u>Financial assets</u> | | | | |
| Monetary items | | | | |
| USD | \$ 2,246,434 | 29.885 | \$ 1,934,278 | 28.769 |
| EUR | 151,956 | 37.73 | 130,392 | 41.78 |
| JPY | 28,961,969 | 0.3776 | 37,532,002 | 0.3584 |
| Non-monetary items | | | | |
| HKD | 456,320 | 3.85 | 1,127,381 | 3.70 |
| Investments accounted for using equity method | | | | |
| USD | 3,109,771 | 29.885 | 2,999,310 | 28.769 |
| EUR | 5,668 | 37.73 | 14,194 | 41.78 |
| JPY | 421,035 | 0.3776 | 409,773 | 0.3584 |
| RMB | 3,231,687 | 4.73 | 1,175,368 | 4.45 |
| <u>Financial liabilities</u> | | | | |
| Monetary items | | | | |
| USD | 2,082,531 | 29.885 | 1,783,553 | 28.769 |
| EUR | 171,250 | 37.73 | 214,283 | 41.78 |
| JPY | 43,793,568 | 0.3776 | 38,261,549 | 0.3584 |

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

28. ADDITIONAL DISCLOSURES

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

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

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

Do not meet the criteria for hedge accounting

1) TSMC China

TSMC China entered into forward exchange contracts during the six months ended June 30, 2012 to manage exposures due to foreign exchange rate fluctuations. Outstanding forward exchange contract as of June 30, 2012 consisted of the following:

| | Maturity Date | Contract Amount (In Thousands) |
|-------------------|--------------------------|---|
| Sell US\$/Buy JPY | July 2012 to August 2012 | US\$6,791/JPY538,948 |
| Sell US\$/Buy EUR | July 2012 | US\$3,238/EUR2,579 |

For the six months ended June 30, 2012, net gains arising from forward exchange contracts of TSMC China amounted to NT\$6,934 thousand.

2) Xintec

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

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------|-----------------------------|---|
| Sell US\$/Buy NT\$ | July 2012 to September 2012 | US\$16,400/NT\$486,689 |

For the six months ended June 30, 2012, net gains arising from forward exchange contracts of Xintec amounted to NT\$4,464 thousand.

3) TSMC Partners

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

| | Maturity Date | Contract Amount (In Thousands) |
|-------------------|----------------------|---|
| Sell RMB/Buy US\$ | July 2012 | RMB1,258,088/US\$199,000 |

For the six months ended June 30, 2012, net losses arising from forward exchange contracts of TSMC Partners amounted to NT\$41,296 thousand.

4) TSMC Solar

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

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------|--------------------------|---|
| Sell NT\$/Buy US\$ | July 2012 to August 2012 | NT\$337,412/US\$11,300 |
| Sell NT\$/Buy JPY | July 2012 | NT\$19,656/JPY52,000 |
| Sell NT\$/Buy EUR | July 2012 | NT\$11,297/EUR300 |

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

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|----------------------|---|---|---|
| July 2012 | NT\$676,922/US\$22,630 | - | 0.15%-0.20% |

For the six months ended June 30, 2012, net losses arising from derivative financial instruments of TSMC Solar amounted to NT\$3,874 thousand.

5) TSMC SSL

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

| | Maturity Date | Contract Amount (In Thousands) |
|--------------------|----------------------|---|
| Sell NT\$/Buy US\$ | July 2012 | NT\$170,352/US\$5,700 |
| Sell NT\$/Buy JPY | July 2012 | NT\$90,669/JPY241,000 |

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

| Maturity Date | Contract Amount (In Thousands) | Range of Interest Rates Paid | Range of Interest Rates Received |
|----------------------|---|---|---|
| July 2012 | US\$2,650/NT\$79,200 | 0.30%-0.32% | - |

For the six months ended June 30, 2012, net losses arising from derivative financial instruments of TSMC SSL amounted to NT\$5,651 thousand.

Meet the criteria for hedge accounting

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

Xintec is exposed to interest rate risk because its long-term bank loans bear floating interest rates. Accordingly, Xintec enters into interest rate swap contract to hedge such a cash flow interest rate risk. As of June 30, 2012, the outstanding interest rate swap contract of Xintec consisted of the following:

| Hedged Item | Hedging Financial Instrument | Fair Value June 30, 2012 | Expected Cash Flow Generated Period | Expected Timing for the Recognition of Gains or Losses from Hedge |
|----------------------|-------------------------------------|---------------------------------|--|--|
| Long-term bank loans | Interest rate swap contract | \$(69) | 2012 | 2012 |

For the six months ended June 30, 2012, the adjustment for current period to shareholder's equity amounted to a loss of NT\$17 thousand for the above Xintec's interest rate swap contract. The amount removed from shareholder's equity and recognized as a loss amounted to NT\$180 thousand.

k. Information on investment in Mainland China

- 1) The name of the investee in Mainland China, the main businesses and products, its issued capital, method of investment, information on inflow or outflow of capital, percentage of ownership, equity in the net gain or net loss, ending balance, amount received as dividends from the investee, and the limitation on investee: Please see Table 8 attached.
- 2) Significant direct or indirect transactions with the investee, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: Please see Note 23.

29. OPERATING SEGMENTS INFORMATION

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

30. THE AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on August 14, 2012.

Taiwan Semiconductor Manufacturing Company Limited and Investees

FINANCINGS PROVIDED

FOR THE SIX MONTHS ENDED JUNE 30, 2012

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

| No. | Financing Company | Counter-party | Financial Statement Account | Maximum Balance for the Period (US\$ in Thousands) (Note 3) | Ending Balance (US\$ in Thousands) (Note 3) | Amount Actually Drawn (US\$ in Thousands) | Interest Rate | Nature for Financing | Transaction Amounts | Reason for Financing | Allowance for Bad Debt | Collateral | | Financing Limits for Each Borrowing Company (Note 1) | Financing Company's Total Financing Amount Limits (Note 2) |
|-----|-------------------|---------------|--|---|---|---|-----------------|-----------------------------------|---------------------|----------------------|------------------------|------------|-------|--|--|
| | | | | | | | | | | | | Item | Value | | |
| 1 | TSMC Partners | TSMC China | Long-term receivables from related parties | \$ 7,471,250 (US\$ 250,000) | \$ 7,471,250 (US\$ 250,000) | \$ 7,471,250 (US\$ 250,000) | 0.25%-0.26% | The need for short-term financing | \$ - | Purchase equipment | \$ - | - | \$ - | \$ 38,088,238 | \$ 38,088,238 |
| | | TSMC Solar | Other receivables from related parties | 1,195,400 (US\$ 40,000) | 1,195,400 (US\$ 40,000) | 851,723 (US\$ 28,500) | 0.4017%-0.4757% | The need for short-term financing | - | Operating capital | - | - | - | 3,808,824 | |
| | | TSMC SSL | Other receivables from related parties | 896,550 (US\$ 30,000) | 896,550 (US\$ 30,000) | - | - | The need for short-term financing | - | Operating capital | - | - | - | 3,808,824 | |

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

Note 2: The total amount available for lending purpose shall not exceed the net worth of TSMC Partners.

Note 3: The maximum balance for the period and ending balance represents the amounts approved by Board of Directors.

Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES HELD

JUNE 30, 2012

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

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | June 30, 2012 | | | | Note |
|-------------------|---|--|---|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | |
| TSMC | <u>Corporate bond</u> | | | | | | | |
| | Nan Ya Plastics Corporation | - | Held-to-maturity financial assets | - | \$ 1,099,769 | N/A | \$ 1,113,222 | |
| | China Steel Corporation | - | " | - | 302,516 | N/A | 304,237 | |
| | <u>Stock</u> | | | | | | | |
| | Semiconductor Manufacturing International Corporation | - | Available-for-sale financial assets | 1,789,493 | 1,756,835 | 6 | 1,756,835 | |
| | TSMC Global | Subsidiary | Investments accounted for using equity method | 1 | 43,788,660 | 100 | 43,788,660 | |
| | TSMC Partners | Subsidiary | " | 988,268 | 38,087,704 | 100 | 38,088,238 | |
| | VIS | Investee accounted for using equity method | " | 628,223 | 8,857,198 | 41 | 8,732,307 | |
| | TSMC Solar | Subsidiary | " | 1,118,000 | 8,626,042 | 99 | 8,626,042 | |
| | SSMC | Investee accounted for using equity method | " | 314 | 5,935,087 | 39 | 5,721,104 | |
| | TSMC SSL | Subsidiary | " | 430,400 | 3,224,899 | 95 | 3,224,899 | |
| | TSMC North America | Subsidiary | " | 11,000 | 3,086,841 | 100 | 3,086,841 | |
| | Xintec | Investee with a controlling financial interest | " | 94,011 | 1,524,811 | 40 | 1,524,811 | |
| | GUC | Investee accounted for using equity method | " | 46,688 | 1,110,221 | 35 | 4,855,537 | |
| | TSMC Europe | Subsidiary | " | - | 213,863 | 100 | 213,863 | |
| | TSMC Japan | Subsidiary | " | 6 | 158,983 | 100 | 158,983 | |
| | TSMC Korea | Subsidiary | " | 80 | 24,460 | 100 | 24,460 | |
| | United Industrial Gases Co., Ltd. | - | Financial assets carried at cost | 19,300 | 193,584 | 10 | 334,168 | |
| | Shin-Etsu Handotai Taiwan Co., Ltd. | - | " | 10,500 | 105,000 | 7 | 334,111 | |
| | W.K. Technology Fund IV | - | " | 4,000 | 40,000 | 2 | 35,833 | |
| | <u>Fund</u> | | | | | | | |
| | Horizon Ventures Fund | - | Financial assets carried at cost | - | 103,992 | 12 | 103,992 | |
| | Crimson Asia Capital | - | " | - | 55,259 | 1 | 55,259 | |
| | <u>Capital</u> | | | | | | | |
| | TSMC China | Subsidiary | Investments accounted for using equity method | - | 15,255,074 | 100 | 15,285,878 | |
| | VTAF III | Subsidiary | " | - | 1,236,004 | 52 | 1,214,772 | |
| | VTAF II | Subsidiary | " | - | 843,778 | 98 | 837,708 | |
| | Emerging Alliance | Subsidiary | " | - | 197,892 | 99 | 197,892 | |
| | TSMC GN | Subsidiary | " | - | 79,275 | 100 | 79,275 | |
| TSMC Solar | <u>Stock</u> | | | | | | | |
| | Motech | Investee accounted for using equity method | Investments accounted for using equity method | 87,480 | 4,700,982 | 20 | 3,137,591 | |
| | TSMC Solar Europe | Subsidiary | " | - | 133,845 | 100 | 133,845 | |
| | TSMC Solar NA | Subsidiary | " | 1 | 14,702 | 100 | 14,702 | |
| | <u>Capital</u> | | | | | | | |
| | VTAF III | Investee accounted for using equity method | Investments accounted for using equity method | - | 1,660,071 | 47 | 1,660,071 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | June 30, 2012 | | | | Note |
|--------------------|---|--|---|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | |
| TSMC SSL | <u>Stock</u> TSMC Lighting NA | Subsidiary | Investments accounted for using equity method | 1 | \$ 2,947 | 100 | \$ 2,947 | |
| TSMC GN | <u>Stock</u> TSMC Solar | Investee accounted for using equity method | Investments accounted for using equity method | 3,836 | 29,597 | - | 29,597 | |
| | TSMC SSL | Investee accounted for using equity method | " | 4,760 | 35,667 | 1 | 35,667 | |
| TSMC Partners | <u>Corporate bond</u> General Elec Cap Corp. Mtn | - | Held-to-maturity financial assets | - | US\$ 20,017 | N/A | US\$ 20,230 | |
| | <u>Stock</u> TSMC Development, Inc. (TSMC Development) | Subsidiary | Investments accounted for using equity method | 1 | US\$ 563,809 | 100 | US\$ 563,809 | |
| | VisEra Holding Company | Investee accounted for using equity method | " | 43,000 | US\$ 92,646 | 49 | US\$ 92,646 | |
| | InveStar Semiconductor Development Fund, Inc. (ISDF) | Subsidiary | " | 787 | US\$ 12,611 | 97 | US\$ 12,611 | |
| | TSMC Technology | Subsidiary | " | 1 | US\$ 11,117 | 100 | US\$ 11,117 | |
| | InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II) | Subsidiary | " | 14,153 | US\$ 9,764 | 97 | US\$ 9,764 | |
| | TSMC Canada | Subsidiary | " | 2,300 | US\$ 4,256 | 100 | US\$ 4,256 | |
| | Mcube Inc. | Investee accounted for using equity method | " | 6,333 | - | 25 | - | |
| | <u>Fund</u> Shanghai Walden Venture Capital Enterprise | - | Financial assets carried at cost | - | US\$ 5,000 | 6 | US\$ 5,000 | |
| TSMC North America | <u>Stock</u> Spansion Inc. | - | Available-for-sale financial assets | 272 | US\$ 2,983 | - | US\$ 2,983 | |
| TSMC Development | <u>Corporate bond</u> GE Capital Corp. | - | Held-to-maturity financial assets | - | US\$ 20,026 | N/A | US\$ 20,230 | |
| | JP Morgan Chase & Co. | - | " | - | US\$ 15,000 | N/A | US\$ 14,981 | |
| | <u>Stock</u> WaferTech | Subsidiary | Investments accounted for using equity method | 293,640 | US\$ 272,633 | 100 | US\$ 272,633 | |
| Emerging Alliance | <u>Common stock</u> Audience, Inc. | - | Available-for-sale financial assets | 46 | US\$ 891 | - | US\$ 891 | |
| | Global Investment Holding Inc. | - | Financial assets carried at cost | 11,124 | US\$ 3,065 | 6 | US\$ 3,065 | |
| | RichWave Technology Corp. | - | " | 4,074 | US\$ 1,545 | 10 | US\$ 1,545 | |
| | <u>Preferred stock</u> Next IO, Inc. | - | Financial assets carried at cost | 8 | US\$ 500 | - | US\$ 500 | |
| | QST Holdings, LLC | - | " | - | US\$ 142 | 4 | US\$ 142 | |
| | <u>Capital</u> VentureTech Alliance Holdings, LLC (VTA Holdings) | Subsidiary | Investments accounted for using equity method | - | - | 7 | - | |
| VTAF II | <u>Common stock</u> Audience, Inc. | - | Available-for-sale financial assets | 319 | US\$ 6,146 | 2 | US\$ 6,146 | |
| | Sentelic | - | Financial assets carried at cost | 1,806 | US\$ 2,607 | 9 | US\$ 2,607 | |
| | Aether Systems, Inc. | - | " | 1,800 | US\$ 1,701 | 23 | US\$ 1,701 | |
| | RichWave Technology Corp. | - | " | 1,267 | US\$ 1,036 | 3 | US\$ 1,036 | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | June 30, 2012 | | | | Note | |
|-------------------|-------------------------------------|-----------------------------------|---|---|--|--------------------------------|--|----------|--|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | | |
| VTAF II | <u>Preferred stock</u> | | | | | | | | |
| | 5V Technologies, Inc. | - | Financial assets carried at cost | 2,890 | US\$ 2,168 | 4 | US\$ 2,168 | | |
| | Aquantia | - | " | 4,556 | US\$ 4,316 | 3 | US\$ 4,316 | | |
| | Cresta Technology Corporation | - | " | 92 | US\$ 28 | - | US\$ 28 | | |
| | Impinj, Inc. | - | " | 475 | US\$ 1,000 | - | US\$ 1,000 | | |
| | Next IO, Inc. | - | " | 179 | US\$ 1,219 | 1 | US\$ 1,219 | | |
| | Pixim, Inc. | - | " | 33,347 | US\$ 772 | 2 | US\$ 772 | | |
| | Power Analog Microelectronics | - | " | 7,330 | US\$ 3,483 | 21 | US\$ 3,483 | | |
| | QST Holdings, LLC | - | " | - | US\$ 593 | 13 | US\$ 593 | | |
| | <u>Capital</u> | | | | | | | | |
| | VTA Holdings | Subsidiary | Investments accounted for using equity method | - | - | 31 | - | | |
| VTAF III | <u>Common stock</u> | | | | | | | | |
| | Mutual-Pak Technology Co., Ltd. | Subsidiary | Investments accounted for using equity method | 14,168 | US\$ 1,596 | 58 | US\$ 1,596 | | |
| | InvenSense, Inc. | - | Available-for-sale financial assets | 259 | US\$ 2,931 | - | US\$ 2,931 | | |
| | Accton Wireless Broadband Corp. | - | Financial assets carried at cost | 2,249 | US\$ 315 | 6 | US\$ 315 | | |
| | | <u>Preferred stock</u> | | | | | | | |
| | BridgeLux, Inc. | - | Financial assets carried at cost | 7,522 | US\$ 9,379 | 3 | US\$ 9,379 | | |
| | GTBF, Inc. | - | " | 1,154 | US\$ 1,500 | N/A | US\$ 1,500 | | |
| | LiquidLeds Lighting Corp. | - | " | 1,600 | US\$ 800 | 11 | US\$ 800 | | |
| | Neoconix, Inc. | - | " | 4,031 | US\$ 4,810 | 4 | US\$ 4,810 | | |
| | Powervation, Ltd. | - | " | 449 | US\$ 7,030 | 16 | US\$ 7,030 | | |
| | Stion Corp. | - | " | 8,152 | US\$ 55,474 | 17 | US\$ 55,474 | | |
| | Tilera, Inc. | - | " | 3,890 | US\$ 3,025 | 2 | US\$ 3,025 | | |
| | Validity Sensors, Inc. | - | " | 9,340 | US\$ 3,456 | 4 | US\$ 3,456 | | |
| | | <u>Capital</u> | | | | | | | |
| | | Growth Fund Limited (Growth Fund) | Subsidiary | Investments accounted for using equity method | - | US\$ 452 | 100 | US\$ 452 | |
| | VTA Holdings | Subsidiary | " | - | - | 62 | - | | |
| Growth Fund | <u>Common stock</u> | | | | | | | | |
| | Veebeam | - | Financial assets carried at cost | 10 | US\$ 25 | - | US\$ 25 | | |
| ISDF | <u>Common stock</u> | | | | | | | | |
| | Integrated Memory Logic, Inc. | - | Available-for-sale financial assets | 1,277 | US\$ 5,001 | 2 | US\$ 5,001 | | |
| | Memsic, Inc. | - | " | 1,286 | US\$ 3,342 | 5 | US\$ 3,342 | | |
| | | <u>Preferred stock</u> | | | | | | | |
| | Sonics, Inc. | - | Financial assets carried at cost | 230 | US\$ 497 | 2 | US\$ 497 | | |
| ISDF II | <u>Common stock</u> | | | | | | | | |
| | Memsic, Inc. | - | Available-for-sale financial assets | 1,072 | US\$ 2,787 | 4 | US\$ 2,787 | | |
| | Alchip Technologies Limited | - | Financial assets carried at cost | 7,520 | US\$ 3,664 | 14 | US\$ 3,664 | | |
| | Sonics, Inc. | - | " | 278 | US\$ 10 | 3 | US\$ 10 | | |
| | Goyatek Technology, Corp. | - | " | 745 | US\$ 163 | 6 | US\$ 163 | | |
| | Auden Technology MFG. Co., Ltd. | - | " | 1,049 | US\$ 223 | 3 | US\$ 223 | | |
| | | <u>Preferred stock</u> | | | | | | | |
| | Sonics, Inc. | - | Financial assets carried at cost | 264 | US\$ 455 | 3 | US\$ 455 | | |

(Continued)

| Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | June 30, 2012 | | | | Note |
|-------------------|--|-------------------------------|---|--------------------------------|--|--------------------------------|--|------|
| | | | | Shares/Units (In Thousands) | Carrying Value (Foreign Currencies in Thousands) | Percentage of Ownership (%) | Market Value or Net Asset Value (Foreign Currencies in Thousands) | |
| Xintec | <u>Capital</u> Compositech Ltd. | - | Financial assets carried at cost | 587 | \$ - | 3 | \$ - | |
| TSMC Solar Europe | <u>Stock</u> TSMC Solar Europe GmbH | Subsidiary | Investments accounted for using equity method | 1 | EUR 3,451 | 100 | EUR 3,451 | |
| TSMC Global | <u>Corporate bond</u> Aust + Nz Banking Group | - | Held-to-maturity financial assets | 20,000 | US\$ 20,000 | N/A | US\$ 20,008 | |
| | Commonwealth Bank of Australia | - | " | 25,000 | US\$ 25,000 | N/A | US\$ 24,823 | |
| | Commonwealth Bank of Australia | - | " | 25,000 | US\$ 25,000 | N/A | US\$ 24,744 | |
| | Deutsche Bank AG London | - | " | 20,000 | US\$ 19,941 | N/A | US\$ 20,181 | |
| | JP Morgan Chase + Co. | - | " | 35,000 | US\$ 35,026 | N/A | US\$ 35,111 | |
| | Westpac Banking Corp. | - | " | 25,000 | US\$ 25,000 | N/A | US\$ 24,926 | |
| | Westpac Banking Corp. 12/12 Frn | - | " | 5,000 | US\$ 5,000 | N/A | US\$ 5,009 | |
| | <u>Government bond</u> Societe De Financement De Lec | - | Held-to-maturity financial assets | 15,000 | US\$ 15,000 | N/A | US\$ 15,002 | |
| | <u>Money market fund</u> Ssga Cash Mgmt Global Offshore | - | Available-for-sale financial assets | 17 | US\$ 17 | N/A | US\$ 17 | |

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Investees

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal (Note 1) | | | | Ending Balance (Note 2) | |
|--------------|-------------------------------------|---|---------------|------------------------|-----------------------------|--------------|-----------------------------|--------------|-----------------------------|--------|----------------|-----------------------|-----------------------------|--------------|
| | | | | | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Shares/Units (In Thousands) | Amount | Carrying Value | Gain/Loss on Disposal | Shares/Units (In Thousands) | Amount |
| TSMC | Stock TSMC SSL | Investments accounted for using equity method | - | Subsidiary | 227,000 | \$ 1,746,893 | 203,400 | \$ 2,034,000 | - | \$ - | \$ - | \$ - | 430,400 | \$ 3,224,899 |
| | TSMC GN | " | - | Subsidiary | - | - | - | 100,000 | - | - | - | - | - | 79,275 |

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

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

Taiwan Semiconductor Manufacturing Company Limited and Investees

**ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(Amounts in Thousands of New Taiwan Dollars)**

| Company Name | Types of Property | Transaction Date | Transaction Amount | Payment Term | Counter-party | Nature of Relationships | Prior Transaction of Related Counter-party | | | | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|-------------------|------------------------------------|--------------------|------------------------------|--------------------------------------|-------------------------|--|---------------|---------------|--------|-----------------|------------------------|-------------|
| | | | | | | | Owner | Relationships | Transfer Date | Amount | | | |
| TSMC | Fab | February 13, 2012 to June 26, 2012 | \$ 2,484,947 | By the construction progress | Da Cin Construction Co., Ltd. | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab | February 13, 2012 to June 26, 2012 | 1,218,754 | By the construction progress | Fu Tsu Construction Co., Ltd. | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab | March 19, 2012 to June 28, 2012 | 671,551 | By the construction progress | China Steel Structure Co., Ltd. | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab | March 19, 2012 to June 26, 2012 | 132,839 | By the construction progress | Tung Ho Steel Enterprise Corporation | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |
| | Fab | May 28, 2012 to June 26, 2012 | 139,911 | By the construction progress | Tasa Construction Corporation | - | N/A | N/A | N/A | N/A | Public bidding | Manufacturing purpose | None |

Taiwan Semiconductor Manufacturing Company Limited and Investees

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE SIX MONTHS ENDED JUNE 30, 2012
(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationships | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable | | Note |
|--------------------|--|---|---------------------|-------------------------------|-----------------------------------|-----------------------------------|----------------------|-------------------------|---------------------------------------|---------------|------|
| | | | Purchases/ Sales | Amount (US\$ in Thousands) | % to Total | Payment Terms | Unit Price (Note) | Payment Terms (Note) | Ending Balance (US\$ in Thousands) | % to Total | |
| TSMC | TSMC North America GUC | Subsidiary | Sales | \$ 145,613,637 | 62 | Net 30 days after invoice date | - | - | \$ 37,694,156 | 63 | |
| | | Investee accounted for using equity method | Sales | 2,206,950 | 1 | Net 30 days after monthly closing | - | - | 781,905 | 1 | |
| | VIS | Investee accounted for using equity method | Sales | 108,243 | - | Net 30 days after monthly closing | - | - | - | - | |
| | TSMC China WaferTech | Subsidiary | Purchases | 7,036,635 | 25 | Net 30 days after monthly closing | - | - | (1,317,606) | 8 | |
| | | Indirect subsidiary | Purchases | 3,752,087 | 13 | Net 30 days after monthly closing | - | - | (731,713) | 4 | |
| | VIS | Investee accounted for using equity method | Purchases | 1,960,314 | 7 | Net 30 days after monthly closing | - | - | (944,589) | 6 | |
| SSMC | Investee accounted for using equity method | Purchases | 1,804,215 | 7 | Net 30 days after monthly closing | - | - | (355,721) | 2 | | |
| TSMC North America | GUC | Investee accounted for using equity method by TSMC | Sales | 291,130 (US\$ 9,817) | - | Net 30 days after invoice date | - | - | 45,292 (US\$ 1,516) | - | |
| Xintec | OmniVision | Parent company of director (represented for Xintec) | Sales | 505,379 | 38 | Net 30 days after monthly closing | - | - | 217,002 | 47 | |

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

Taiwan Semiconductor Manufacturing Company Limited and Investees

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

JUNE 30, 2012

(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Related Party | Nature of Relationships | Ending Balance (US\$ in Thousands) | Turnover Days (Note 1) | Overdue | | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|---------------|---------------------------|--|---------------------------------------|---------------------------|--------------|--------------|---|----------------------------|
| | | | | | Amount | Action Taken | | |
| TSMC | TSMC North America GUC | Subsidiary | \$ 37,756,875 | 39 | \$ 9,457,732 | - | \$ 10,328,664 | \$ - |
| | | Investee accounted for using equity method | 781,905 | 37 | 18 | - | 432,248 | - |
| | VIS | Investee accounted for using equity method | 503,976 | (Note 2) | - | - | - | - |
| TSMC Partners | TSMC China | The same parent company | 7,471,250 (US\$ 250,000) | (Note 2) | - | - | - | - |
| | TSMC Solar | The same parent company | 851,723 (US\$ 28,500) | (Note 2) | - | - | - | - |
| | VisEra Holding Company | Investee accounted for using equity method | 411,193 (US\$ 13,759) | (Note 2) | - | - | - | - |
| Xintec | OmniVision | Parent company of director (represented for Xintec) | 217,002 | 83 | - | - | - | - |

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

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

Taiwan Semiconductor Manufacturing Company Limited and Investees

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

JUNE 30, 2012

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

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of June 30, 2012 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands) | Note |
|------------------|--------------------|---------------------------------|---|---|---|-----------------------------|-------------------------|--|---|--|--|
| | | | | June 30, 2012 (Foreign Currencies in Thousands) | December 31, 2011 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | | | |
| TSMC | TSMC Global | Tortola, British Virgin Islands | Investment activities | \$ 42,327,245 | \$ 42,327,245 | 1 | 100 | \$ 43,788,660 | \$ 300,894 | \$ 300,894 | Subsidiary |
| | TSMC Partners | Tortola, British Virgin Islands | Investing in companies involved in the design, manufacture, and other related business in the semiconductor industry | 31,456,130 | 31,456,130 | 988,268 | 100 | 38,087,704 | 3,539,445 | 3,539,445 | Subsidiary |
| | TSMC China | Shanghai, China | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | 18,939,667 | 18,939,667 | - | 100 | 15,255,074 | 1,912,271 | 1,922,500 | Subsidiary |
| | VIS | Hsin-Chu, Taiwan | Research, design, development, manufacture, packaging, testing and sale of memory integrated circuits, LSI, VLSI and related parts | 13,232,288 | 13,232,288 | 628,223 | 41 | 8,857,198 | 796,105 | 197,086 | Investee accounted for using equity method |
| | TSMC Solar | Tai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | 11,180,000 | 11,180,000 | 1,118,000 | 99 | 8,626,042 | (1,428,888) | (1,493,149) | Subsidiary |
| | SSMC | Singapore | Fabrication and supply of integrated circuits | 5,120,028 | 5,120,028 | 314 | 39 | 5,935,087 | 2,265,485 | 878,653 | Investee accounted for using equity method |
| | TSMC SSL | Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 4,304,000 | 2,270,000 | 430,400 | 95 | 3,224,899 | (612,617) | (582,054) | Subsidiary |
| | TSMC North America | San Jose, California, U.S.A. | Selling and marketing of integrated circuits and semiconductor devices | 333,718 | 333,718 | 11,000 | 100 | 3,086,841 | 122,116 | 122,116 | Subsidiary |
| | Xintec | Taoyuan, Taiwan | Wafer level chip size packaging service | 1,357,890 | 1,357,890 | 94,011 | 40 | 1,524,811 | (148,677) | (72,729) | Investee with a controlling financial interest |
| | VTAF III | Cayman Islands | Investing in new start-up technology companies | 2,035,977 | 2,074,155 | - | 52 | 1,236,004 | 107,045 | 107,974 | Subsidiary |
| | GUC | Hsin-Chu, Taiwan | Researching, developing, manufacturing, testing and marketing of integrated circuits | 386,568 | 386,568 | 46,688 | 35 | 1,110,221 | 280,891 | 93,722 | Investee accounted for using equity method |
| | VTAF II | Cayman Islands | Investing in new start-up technology companies | 865,237 | 949,267 | - | 98 | 843,778 | 64,027 | 62,746 | Subsidiary |
| | TSMC Europe | Amsterdam, the Netherlands | Marketing and engineering supporting activities | 15,749 | 15,749 | - | 100 | 213,863 | 17,119 | 17,119 | Subsidiary |
| | Emerging Alliance | Cayman Islands | Investing in new start-up technology companies | 865,075 | 892,855 | - | 99 | 197,892 | (5,019) | (4,994) | Subsidiary |
| | TSMC Japan | Yokohama, Japan | Marketing activities | 83,760 | 83,760 | 6 | 100 | 158,983 | 2,372 | 2,372 | Subsidiary |
| | TSMC GN | Taipei, Taiwan | Investment activities | 100,000 | - | - | 100 | 79,275 | (9,682) | (9,682) | Subsidiary |
| | TSMC Korea | Seoul, Korea | Customer service and technical supporting activities | 13,656 | 13,656 | 80 | 100 | 24,460 | 1,097 | 1,097 | Subsidiary |
| TSMC Solar | Motech | Taipei, Taiwan | Manufacturing and sales of solar cells, crystalline silicon solar cell, and test and measurement instruments and design and construction of solar power systems | 6,228,661 | 6,228,661 | 87,480 | 20 | 4,700,982 | (3,208,834) | Note 2 | Investee accounted for using equity method |
| | VTAF III | Cayman Islands | Investing in new start-up technology companies | 1,798,991 | 1,795,131 | - | 47 | 1,660,071 | 107,045 | Note 2 | Investee accounted for using equity method |
| | TSMC Solar Europe | Amsterdam, the Netherlands | Investing in solar related business | 411,032 | 411,032 | - | 100 | 133,845 | (63,732) | Note 2 | Subsidiary |
| | TSMC Solar NA | Delaware, U.S.A. | Selling and marketing of solar related products | 147,686 | 147,686 | 1 | 100 | 14,702 | (36,509) | Note 2 | Subsidiary |

(Continued)

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of June 30, 2012 | | | Net Income (Losses) of the Investee (Foreign Currencies in Thousands) | Equity in the Earnings (Losses) (Note 1) (Foreign Currencies in Thousands) | Note |
|-------------------|--|--------------------|---|---|---|-----------------------------|-------------------------|--|---|--|--|
| | | | | June 30, 2012 (Foreign Currencies in Thousands) | December 31, 2011 (Foreign Currencies in Thousands) | Shares (In Thousands) | Percentage of Ownership | Carrying Value (Foreign Currencies in Thousands) | | | |
| TSMC SSL | TSMC Lighting NA | Delaware, U.S.A. | Selling and marketing of solid state lighting related products | \$ 3,133 | \$ 3,133 | 1 | 100 | \$ 2,947 | \$ (7) | Note 2 | Subsidiary |
| TSMC Partners | TSMC Development VisEra Holding Company | Delaware, U.S.A. | Investment activities | US\$ 0.001 | US\$ 0.001 | 1 | 100 | US\$ 563,809 | US\$ 103,774 | Note 2 | Subsidiary |
| | | Cayman Islands | Investing in companies involved in the design, manufacturing, and other related businesses in the semiconductor industry | US\$ 43,000 | US\$ 43,000 | 43,000 | 49 | US\$ 92,646 | US\$ 10,390 | Note 2 | Investee accounted for using equity method |
| | ISDF | Cayman Islands | Investing in new start-up technology companies | US\$ 787 | US\$ 787 | 787 | 97 | US\$ 12,611 | US\$ 2,513 | Note 2 | Subsidiary |
| | TSMC Technology | Delaware, U.S.A. | Engineering support activities | US\$ 0.001 | US\$ 0.001 | 1 | 100 | US\$ 11,117 | US\$ 502 | Note 2 | Subsidiary |
| | ISDF II | Cayman Islands | Investing in new start-up technology companies | US\$ 14,153 | US\$ 14,153 | 14,153 | 97 | US\$ 9,764 | US\$ (63) | Note 2 | Subsidiary |
| TSMC Development | TSMC Canada Mcube Inc. | Ontario, Canada | Engineering support activities | US\$ 2,300 | US\$ 2,300 | 2,300 | 100 | US\$ 4,256 | US\$ 234 | Note 2 | Subsidiary |
| | | Delaware, U.S.A. | Research, development, and sale of micro-semiconductor device | US\$ 1,800 | US\$ 1,800 | 6,333 | 25 | - | US\$ (6,421) | Note 2 | Investee accounted for using equity method |
| TSMC Development | WaferTech | Washington, U.S.A. | Manufacturing, selling, testing and computer-aided designing of integrated circuits and other semiconductor devices | US\$ 280,000 | US\$ 280,000 | 293,640 | 100 | US\$ 272,633 | US\$ 102,514 | Note 2 | Subsidiary |
| VTAF III | Mutual-Pak Technology Co., Ltd. Growth Fund VTA Holdings | Taipei, Taiwan | Manufacturing and selling of electronic parts and researching, developing, and testing of RFID | US\$ 4,718 | US\$ 3,937 | 14,168 | 58 | US\$ 1,596 | US\$ (519) | Note 2 | Subsidiary |
| | | Cayman Islands | Investing in new start-up technology companies | US\$ 1,830 | US\$ 1,830 | - | 100 | US\$ 452 | US\$ (58) | Note 2 | Subsidiary |
| VTAF II | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 62 | - | - | Note 2 | Subsidiary |
| | | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 31 | - | - | Note 2 | Subsidiary |
| Emerging Alliance | VTA Holdings | Delaware, U.S.A. | Investing in new start-up technology companies | - | - | - | 7 | - | - | Note 2 | Subsidiary |
| TSMC Solar Europe | TSMC Solar Europe GmbH | Hamburg, Germany | Selling of solar related products and providing customer service | EUR 9,900 | EUR 9,900 | 1 | 100 | EUR 3,451 | EUR (1,651) | Note 2 | Subsidiary |
| TSMC GN | TSMC Solar | Tai-Chung, Taiwan | Engaged in researching, developing, designing, manufacturing and selling renewable energy and saving related technologies and products | 38,362 | - | 3,836 | - | 29,597 | (1,428,888) | Note 2 | Investee accounted for using equity method |
| | TSMC SSL | Hsin-Chu, Taiwan | Engaged in researching, developing, designing, manufacturing and selling solid state lighting devices and related applications products and systems | 47,624 | - | 4,760 | 1 | 35,667 | (612,617) | Note 2 | Investee accounted for using equity method |

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

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited and Investees

INFORMATION ON INVESTMENT IN MAINLAND CHINA

FOR THE SIX MONTHS ENDED JUNE 30, 2012

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

| Investee Company | Main Businesses and Products | Total Amount of Paid-in Capital (Foreign Currencies in Thousands) | Method of Investment | Accumulated Outflow of Investment from Taiwan as of January 1, 2012 (US\$ in Thousands) | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of June 30, 2012 (US\$ in Thousands) | Percentage of Ownership | Equity in the Earnings (Losses) | Carrying Value as of June 30, 2012 (US\$ in Thousands) | Accumulated Inward Remittance of Earnings as of June 30, 2012 |
|--|--|---|----------------------|---|------------------|--------|---|-------------------------|---------------------------------|--|---|
| | | | | | Outflow | Inflow | | | | | |
| TSMC China | Manufacturing and selling of integrated circuits at the order of and pursuant to product design specifications provided by customers | \$ 18,939,667 (RMB 4,502,080) | (Note 1) | \$ 18,939,667 (US\$ 596,000) | \$ - | \$ - | \$ 18,939,667 (US\$ 596,000) | 100% | \$ 1,922,500 (Note 3) | \$ 15,255,074 | \$ - |
| Shanghai Walden Venture Capital Enterprise | Investing in new start-up technology companies | 2,324,062 (US\$ 78,791) | (Note 2) | 147,485 (US\$ 5,000) | - | - | 147,485 (US\$ 5,000) | 6% | (Note 4) | 149,425 (US\$ 5,000) | - |

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

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

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

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

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