

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

November 02, 2012

1934 Act Registration No. 1-14700

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of November 2012

Taiwan Semiconductor Manufacturing Company Ltd.

(Translation of Registrant's Name Into English)

No. 8, Li-Hsin Rd. 6,

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Hsinchu Science Park,

Taiwan

(Address of Principal Executive Offices)

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

Form 20-F Form 40-F

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

Yes No

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

SIGNATURES

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

Taiwan Semiconductor Manufacturing Company Ltd.

Date: November 2, 2012

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

Taiwan Semiconductor Manufacturing

Company Limited

Financial Statements for the

Nine Months Ended September 30, 2012 and 2011 and

Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

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

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

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

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

October 23, 2012

Notice to Readers

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

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

Taiwan Semiconductor Manufacturing Company Limited

BALANCE SHEETS

SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

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

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

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

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

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

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

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

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

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Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

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

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

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 124,589,534	\$ 102,622,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	90,037,204	76,638,870
Unrealized (realized) gross profit from affiliates	129,569	(346,768)
Amortization of premium/discount of financial assets	1,721	9,120
Gain on disposal of available-for-sale financial assets	(37,923)	(35,151)
Loss on disposal of financial assets carried at cost	269	-
Equity in earnings of equity method investees, net	(7,410,841)	(3,531,943)
Cash dividends received from equity method investees	1,688,878	2,941,548
Loss on disposal of property, plant and equipment and other assets, net	93,515	70,696
Impairment loss of financial assets	2,677,529	-
Impairment loss on idle assets	418,330	-
Deferred income tax	2,235,309	478,443
Changes in operating assets and liabilities:		
Financial assets and liabilities at fair value through profit or loss	(29,199)	(417,015)
Receivables from related parties	(19,344,388)	(3,003,144)
Notes and accounts receivable	(632,845)	356,782
Allowance for doubtful receivables	(1,272)	(2,880)
Allowance for sales returns and others	1,741,025	(1,425,155)
Other receivables from related parties	(71,114)	(100,558)
Other financial assets	15,520	139,043
Inventories	(7,951,726)	2,366,196
Prepaid expenses and other current assets	(274,827)	(387,631)
Accounts payable	1,855,509	(2,673,005)
Payables to related parties	207,468	586,598
Income tax payable	173,072	571,629
Accrued profit sharing to employees and bonus to directors	(401,689)	(4,026,768)
Accrued expenses and other current liabilities	5,121,949	(1,489,045)
Accrued pension cost	46,167	66,557
Net cash provided by operating activities	194,876,744	169,409,050
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash contributed related to spin-off	-	(1,270,340)
Acquisitions of:		
Property, plant and equipment	(183,020,856)	(175,162,624)
Investments accounted for using equity method	(2,241,991)	(2,734,568)

Financial assets carried at cost	(1,093)	-
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Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

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

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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Interest paid	\$ 630,931	\$ 292,211
Income tax paid	\$ 10,291,304	\$ 7,436,712
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 182,382,575	\$ 153,008,625
Decrease in payables to contractors and equipment suppliers	827,158	22,154,481
Increase in payables to related parties	(188,808)	-
Nonmonetary exchange trade-out price	(69)	(482)
Cash paid	\$ 183,020,856	\$ 175,162,624

(Continued)

Taiwan Semiconductor Manufacturing Company Limited

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

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

SUPPLEMENTAL INFORMATION FOR SPIN-OFF BUSINESSES

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

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

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

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

(Concluded)

Taiwan Semiconductor Manufacturing Company Limited

NOTES TO FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

1. GENERAL

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

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

As of September 30, 2012 and 2011, the Company had 32,459 and 29,920 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

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

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

Use of Estimates

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

Held-to-maturity Financial Assets

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

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

Financial Assets Carried at Cost

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

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

Allowance for Doubtful Receivables

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

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

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

Inventories

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

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

Investments Accounted for Using Equity Method

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

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

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

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

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

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

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

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

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

Intangible Assets

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

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

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

Pension Costs

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

Income Tax

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

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

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

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

Stock-based Compensation

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

Treasury Stock

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

Revenue Recognition and Allowance for Sales Returns and Others

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

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

Spin-off

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

3. ACCOUNTING CHANGES

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

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

4. CASH AND CASH EQUIVALENTS

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

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

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

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

Outstanding forward exchange contracts consisted of the following:

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

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

September 30, 2011

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

Outstanding cross currency swap contracts consisted of the following:

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

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

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

7. HELD-TO-MATURITY FINANCIAL ASSETS

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

8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS

Movements of the allowance for doubtful receivables were as follows:

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

Balance, end of period	\$ 483,848	\$ 485,120
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Movements of the allowance for sales returns and others were as follows:

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

9. INVENTORIES

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

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

10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

(Continued)

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

(Concluded)

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

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

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

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

As of September 30, 2012 and 2011, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$16,809,981 thousand and NT\$12,574,108 thousand, respectively.

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

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

Movements of the difference allocated to goodwill were as follows:

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

11. FINANCIAL ASSETS CARRIED AT COST

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

12. PROPERTY, PLANT AND EQUIPMENT

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

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\$ 454,373,533

\$ 547,772,841

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

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

13. DEFERRED CHARGES, NET

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

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

14. SHORT-TERM LOANS

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

15. BONDS PAYABLE

	September 30 2012	September 30 2011
Domestic unsecured bonds:		

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

(Continued)

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

(Concluded)

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

16. PENSION PLANS

The pension mechanism under the Labor Pension Act (the Act) is deemed a defined contribution plan. Pursuant to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts and recognized pension costs of NT\$878,763 thousand and NT\$843,618 thousand for the nine months ended September 30, 2012 and 2011, respectively.

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

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

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

17. INCOME TAX

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

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

- b. Income tax expense consisted of the following:

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

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

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

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

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

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

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

d. Integrated income tax information:

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

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

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

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

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

Law/Statute	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 6,503,274	\$ 6,503,274	2013
		7,006,655	7,006,655	2014
		482,351	482,351	2015
		\$ 13,992,280	\$ 13,992,280	
Statute for Upgrading Industries	Research and development expenditures	\$ 1,148,374	\$ -	2012
		4,706,569	95,135	2013
		\$ 5,854,943	\$ 95,135	
Statute for Upgrading Industries	Personnel training expenditures	\$ 17,391	\$ -	2012

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

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

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

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

18. LABOR COST, DEPRECIATION AND AMORTIZATION

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

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

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

19. SHAREHOLDERS EQUITY

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

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

Capital surplus consisted of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20. STOCK-BASED COMPENSATION PLANS

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

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

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

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

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

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

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

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

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

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

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

21. TREASURY STOCK

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

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

22. EARNINGS PER SHARE

EPS is computed as follows:

	Amounts (Numerator)		Number of Shares (Denominator) (In Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Nine months ended September 30, 2012</u>					
Basic EPS					
Earnings available to common shareholders	\$ 137,301,802	\$ 124,589,534	25,919,899	\$ 5.30	\$ 4.81
Effect of dilutive potential common shares	-	-	7,139		
Diluted EPS					
Earnings available to common shareholders (including effect of dilutive potential common shares)	\$ 137,301,802	\$ 124,589,534	25,927,038	\$ 5.30	\$ 4.81

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

(Concluded)

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

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

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

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

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, short-term loans, payables and guarantee deposits. The carrying amounts of these financial instruments

approximate their fair values due to their short maturities.

- 2) Except for derivatives, available-for-sale and held-to-maturity financial assets were based on their quoted market prices.

- 3) The fair values of those derivatives are determined using valuation techniques incorporating estimates and assumptions that were consistent with prevailing market conditions.
- 4) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- 5) Fair value of bonds payable was based on their quoted market price.
- 6) Fair value of other long-term payables was based on the present value of expected cash flows, which approximates their carrying amount.
- c. Valuation gains/losses arising from changes in fair value of derivatives contracts determined using valuation techniques were recognized as net gains of NT\$44,124 thousand and NT\$409,181 thousand for the nine months ended September 30, 2012 and 2011, respectively.
- d. As of September 30, 2012 and 2011, financial assets exposed to fair value interest rate risk were NT\$1,449,875 thousand and NT\$2,237,177 thousand, respectively, financial liabilities exposed to fair value interest rate risk were NT\$105,353,695 thousand and NT\$58,693,483 thousand, respectively.
- e. Movements of the unrealized gains or losses on financial instruments for the nine months ended September 30, 2012 and 2011 were as follows:

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

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

Balance, end of period	\$ (1,466,161)	\$ 239,378	\$ (1,226,783)
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f. Information about financial risks

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

24. RELATED PARTY TRANSACTIONS

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

a. Subsidiaries

TSMC North America

TSMC China

TSMC Europe

TSMC Japan

TSMC Global

b. Investees

Xintec (holding a controlling financial interest)

VIS (accounted for using the equity method)

SSMC (accounted for using the equity method)

GUC (accounted for using the equity method)

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)

e. Others

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

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

	2012	%	2011	%
	Amount		Amount	
For the nine months ended September 30				
Sales				
TSMC North America	\$ 238,620,510	63	\$ 175,631,354	55
Others	3,810,675	1	3,003,084	1
	\$ 242,431,185	64	\$ 178,634,438	56
Purchases				
TSMC China	\$ 11,401,736	26	\$ 7,576,707	20
WaferTech	6,009,695	14	5,753,541	16
VIS	3,295,850	8	4,313,015	12
SSMC	2,759,305	6	2,963,867	8
Others	-	-	126,405	-
	\$ 23,466,586	54	\$ 20,733,535	56
Manufacturing expenses				
Xintec (outsourcing and rent)	\$ 126,170	-	\$ 234,394	-
VisEra (outsourcing)	12,437	-	12,807	-
VIS (rent)	-	-	5,902	-
Others	230	-	-	-
	\$ 138,837	-	\$ 253,103	-
Research and development expenses				
TSMC Technology (primarily consulting fee)	\$ 549,422	2	\$ 379,328	2
TSMC Canada (primarily consulting fee)	159,156	1	134,611	1
TSMC Europe (primarily consulting fee)	37,138	-	32,781	-
VIS (rent)	-	-	1,984	-
Others	14,058	-	27,432	-
	\$ 759,774	3	\$ 576,136	3
Marketing expenses - commission				
TSMC Europe	\$ 253,956	14	\$ 278,938	16
TSMC Japan	211,785	11	204,379	11
TSMC China	52,033	3	48,001	3
Others	16,399	1	15,239	1

\$	534,173	29	\$	546,557	31
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	2012	%	2011	%
	Amount		Amount	
Sales of property, plant and equipment and other assets				
TSMC China	\$ 45,982	70	\$ 2,691,880	85
VisEra	9,000	13	-	-
WaferTech	-	-	72,880	2
VIS	-	-	36,008	1
Others	10	-	253	-
	\$ 54,992	83	\$ 2,801,021	88
Purchases of property, plant and equipment and other asset				
TSMC China	\$ 68,455	-	\$ 70,491	-
GUC	21,768	-	-	-
Others	7,961	-	-	-
	\$ 98,184	-	\$ 70,491	-
Non-operating income and gains				
VIS (primarily technical service income)	\$ 190,436	2	\$ 179,067	3
SSMC (primarily technical service income)	163,122	2	160,376	2
TSMC China (primarily technical service income and gains on disposal of property, plant and equipment)	510	-	99,973	2
Others	12,887	-	3,716	-
	\$ 366,955	4	\$ 443,132	7
Non-operating expenses and losses				
TSMC China (losses on disposal of property, plant and equipment)	\$ 14,025	-	\$ -	-
As of September 30				
Receivables				
TSMC North America	\$ 43,302,832	98	\$ 28,158,589	98
Others	819,090	2	522,195	2
	\$ 44,121,922	100	\$ 28,680,784	100
Other receivables				
VIS	\$ 102,169	42	\$ 85,453	6
TSMC North America	78,243	33	22,451	2
SSMC	54,975	23	47,921	3
TSMC China	508	-	1,318,300	88
Others	5,345	2	17,191	1
	\$ 241,240	100	\$ 1,491,316	100

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

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

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

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

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

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

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

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

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

25. SIGNIFICANT LONG-TERM LEASES

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

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

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

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

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

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

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

27. SPIN-OFF BUSINESS INFORMATION

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

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

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

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

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

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

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

29. ADDITIONAL DISCLOSURES

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

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

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Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: Please see Table 4 attached;

- f. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;

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- g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: Please see Table 5 attached;
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Please see Table 6 attached;
- i. Names, locations, and related information of investees over which the Company exercises significant influence: Please see Table 7 attached;
- j. Information about derivatives of investees over which the Company has a controlling interest:
Do not meet the criteria for hedge accounting

1) TSMC China

TSMC China entered into forward exchange contracts during the nine months ended September 30, 2012 to manage exposures due to foreign exchange rate fluctuations. No forward exchange contract was outstanding as of September 30, 2012

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

2) Xintec

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

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

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

3) TSMC Partners

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

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

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

4) TSMC Solar

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

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

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

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

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

5) TSMC SSL

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

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

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

For the nine months ended September 30, 2012, net losses arising from derivative financial instruments of TSMC SSL amounted to NT\$6,470 thousand.

Meet the criteria for hedge accounting

1) Xintec

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

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

For the nine months ended September 30, 2012, the adjustment for current period to shareholder's equity amounted to a net gain of NT\$5 thousand for the above Xintec's interest rate swap contract. The amount removed from shareholder's equity and recognized as a loss amounted to NT\$227 thousand.

2) TSMC Global

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

TSMC Global entered into derivative contracts during the nine months ended September 30, 2012 to hedge cash flow risk arising from foreign exchange rate fluctuations of an expected equity transaction. Outstanding forward exchange contracts as of September 30, 2012 consisted of the following:

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

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

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

k. Information on investment in Mainland China

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

30. OPERATING SEGMENTS INFORMATION

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

31. THE AUTHORIZATION OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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								September 30, 2012	
Held Company	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousands)	Carrying Value (Foreign Currencies in Thousands)	Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)	Note	
TSMC SSL	<u>Stock</u> TSMC Lighting NA	Subsidiary	Investments accounted for using equity method	1	\$ 2,890	100	\$ 2,890		
TSMC GN	<u>Stock</u> TSMC Solar	Investee accounted for using equity method	Investments accounted for using equity method	4,302	30,909	-	30,909		
	TSMC SSL	Investee accounted for using equity method		4,680	30,691	1	30,691		
TSMC Partners	<u>Corporate bond</u> General Elec Cap Corp. Mtn	-	Held-to-maturity financial assets	-	US\$ 19,995	N/A	US\$ 20,046		
	<u>Stock</u> TSMC Development, Inc. (TSMC Development)	Subsidiary	Investments accounted for using equity method	1	US\$ 581,920	100	US\$ 581,920		
	VisEra Holding Company	Investee accounted for using equity method		43,000	US\$ 99,406	49	US\$ 99,406		
	TSMC Technology	Subsidiary		1	US\$ 11,532	100	US\$ 11,532		
	InveStar Semiconductor Development Fund, Inc. (II) LDC. (ISDF II)	Subsidiary		14,153	US\$ 8,672	97	US\$ 8,672		
	InveStar Semiconductor Development Fund, Inc. (ISDF)	Subsidiary		787	US\$ 6,336	97	US\$ 6,336		
	TSMC Canada	Subsidiary		2,300	US\$ 4,554	100	US\$ 4,554		
	Mcube Inc.	Investee accounted for using equity method		6,333	-	25	-		
	<u>Fund</u> Shanghai Walden Venture Capital Enterprise	-	Financial assets carried at cost	-	US\$ 5,000	6	US\$ 5,000		
TSMC North America	<u>Stock</u> Spansion Inc.	-	Available-for-sale financial assets	270	US\$ 3,216	-	US\$ 3,216		
TSMC Development	<u>Corporate bond</u> GE Capital Corp.	-		-	US\$ 19,993	N/A	US\$ 20,046		

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		Held-to-maturity financial assets					
	JP Morgan Chase & Co.	-	-	US\$ 15,000	N/A	US\$ 15,006	
Stock							
	WaferTech	Subsidiary	Investments accounted for using equity method	293,640	US\$ 290,054	100	US\$ 290,054
Emerging Alliance							
<u>Common stock</u>							
	Audience, Inc.	-	Available-for-sale financial assets	46	US\$ 286	-	US\$ 286
	Global Investment Holding Inc.	-	Financial assets carried at cost	11,124	US\$ 3,065	6	US\$ 3,065
	RichWave Technology Corp.	-		4,074	US\$ 1,545	10	US\$ 1,545
<u>Preferred stock</u>							
	Next IO, Inc.	-	Financial assets carried at cost	8	US\$ 500	-	US\$ 500
	QST Holdings, LLC	-		-	US\$ 142	4	US\$ 142
<u>Capital</u>							
	VentureTech Alliance Holdings, LLC (VTA Holdings)	Subsidiary	Investments accounted for using equity method	-	-	7	-
VTAF II							
<u>Common stock</u>							
	Audience, Inc.	-	Available-for-sale financial assets	319	US\$ 1,976	2	US\$ 1,976
	Sentelic	-	Financial assets carried at cost	1,806	US\$ 2,607	9	US\$ 2,607
	Aether Systems, Inc.	-		1,800	US\$ 1,701	23	US\$ 1,701
	RichWave Technology Corp.	-		1,267	US\$ 1,036	3	US\$ 1,036

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares/Units (In Thousands)	September 30, 2012		Percentage of Ownership (%)	Market Value or Net Asset Value (Foreign Currencies in Thousands)		Note
					Carrying Value (Foreign Currencies in Thousands)					
VTAF II	<u>Preferred stock</u>									
	5V Technologies, Inc.	-	Financial assets carried at cost	2,890	US\$	2,168	4	US\$	2,168	
	Aquantia	-		4,556	US\$	4,316	2	US\$	4,316	
	Cresta Technology Corporation	-		92	US\$	28	-	US\$	28	
	Impinj, Inc.	-		711	US\$	1,100	-	US\$	1,100	
	Next IO, Inc.	-		179	US\$	1,219	1	US\$	1,219	
	Power Analog Microelectronics	-		7,330	US\$	3,483	21	US\$	3,483	
	QST Holdings, LLC	-		-	US\$	593	13	US\$	593	
	<u>Capital</u>									
	VTA Holdings	Subsidiary	Investments accounted for using equity method	-	-	-	31	-	-	
VTAF III	<u>Common stock</u>									
	Mutual-Pak Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	14,168	US\$	1,373	58	US\$	1,373	
	InvenSense, Inc.	-	Available-for-sale financial assets	93	US\$	1,115	-	US\$	1,115	
	Accton Wireless Broadband Corp.	-	Financial assets carried at cost	2,249	US\$	315	6	US\$	315	
	<u>Preferred stock</u>									
	BridgeLux, Inc.	-	Financial assets carried at cost	7,522	US\$	9,379	3	US\$	9,379	
	GTBF, Inc.	-		1,154	US\$	1,500	N/A	US\$	1,500	
	LiquidLeds Lighting Corp.	-		1,600	US\$	800	11	US\$	800	
	Neoconix, Inc.	-		4,031	US\$	4,810	4	US\$	4,810	
	Powervation, Ltd.	-		449	US\$	7,030	16	US\$	7,030	
	Stion Corp.	-		8,152	US\$	55,474	17	US\$	55,474	
	Tilera, Inc.	-		3,890	US\$	3,025	2	US\$	3,025	
	Validity Sensors, Inc.	-		9,340	US\$	3,456	4	US\$	3,456	
	<u>Capital</u>									
	Growth Fund Limited (Growth Fund)	Subsidiary	Investments accounted for using equity method	-	US\$	424	100	US\$	424	
	VTA Holdings	Subsidiary		-	-	-	62	-	-	
Growth Fund	<u>Common stock</u>									
	Veebeam	-	Financial assets carried at cost	10	US\$	25	-	US\$	25	
ISDF	<u>Common stock</u>									

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	Integrated Memory Logic, Inc.	-	Available-for-sale financial assets	1,402	US\$	4,772	2	US\$	4,772
	Memsic, Inc.	-		1,286	US\$	2,044	5	US\$	2,044
	<u>Preferred stock</u>								
	Sonics, Inc.	-	Financial assets carried at cost	230	US\$	497	2	US\$	497
ISDF II	<u>Common stock</u>								
	Memsic, Inc.	-	Available-for-sale financial assets	1,072	US\$	1,705	4	US\$	1,705
	Alchip Technologies Limited	-	Financial assets carried at cost	7,520	US\$	3,664	14	US\$	3,664
	Sonics, Inc.	-		278	US\$	10	3	US\$	10
	Goyatek Technology, Corp.	-		745	US\$	163	6	US\$	163
	Auden Technology MFG. Co., Ltd.	-		1,049	US\$	223	3	US\$	223
	<u>Preferred stock</u>								
	Sonics, Inc.	-	Financial assets carried at cost	264	US\$	455	3	US\$	455

(Continued)

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

(Concluded)

TABLE 3**Taiwan Semiconductor Manufacturing Company Limited and Investees**

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

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

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

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

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

TABLE 4**Taiwan Semiconductor Manufacturing Company Limited and Investees****ACQUISITION OF INDIVIDUAL REAL ESTATE PROPERTIES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationships	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationships	Transfer Date	Amount			
SMC	Fab	February 7, 2012 to September 27, 2012	\$ 150,713	By the construction progress	MandarTech Interiors Inc.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 7, 2012 to September 27, 2012	124,159	By the construction progress	I Domain Industrial Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to September 26, 2012	3,614,272	By the construction progress	Da Cin Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	February 13, 2012 to September 27, 2012	1,481,350	By the construction progress	Fu Tsu Construction Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to September 27, 2012	1,943,723	By the construction progress	China Steel Structure Co., Ltd.	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	March 19, 2012 to July 27, 2012	185,115	By the construction progress	Toko Steel Structure Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None
	Fab	May 28, 2012 to September 27, 2012	279,434	By the construction progress	Tasa Construction Corporation	-	N/A	N/A	N/A	N/A	Public bidding	Manufacturing purpose	None

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

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