TAIWAN SEMICONDUCTOR CO., LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2011 and 2010
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
TAIWAN SEMICONDUCTOR CO., LTD.:

We have audited the consolidated balance sheets of TAIWAN SEMICONDUCTOR CO., LTD. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2011 and 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, based on our audits, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of TAIWAN SEMICONDUCTOR CO., LTD. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

KPMG
CPA: Mei, Yuan-Chen
Gau, Wey-Chuan

Taipei, Taiwan, R.O.C
March 27, 2012

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 Taiwan, the Republic of China, and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Taiwan, the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010
(In thousands of New Taiwan dollars)

Assets	December31, 2011 Amount	%	December31, 2010 Amount	%
Current assets:				
Cash and cash equivalents (note 4(a))	$ 1,721,078	20	1,255,438	17
Financial assets at fair value through profit or loss – current (note 4(c))	1,808	-	-	-
Notes and accounts receivable, net (note 4(b))	1,337,692	16	1,336,784	18
Available-for-sale financial assets – current (note 4(c))	48,070	1	-	-
Other financial assets – current	107,309	1	128,147	2
Inventories (note 4(d))	1,426,347	17	1,352,564	18
Prepaid expenses and other current assets	125,549	2	154,292	2
	4,767,853	57	4,227,225	57
Funds and investments:				
Available-for-sale financial assets – non-current (note 4(c))	-	-	3,967	-
Financial assets carried at cost – non-current (note 4(c))	10,882	-	17,316	-
	10,882	-	21,283	-
Property, plant and equipment (note 4(f))**:**				
Land	454,910	5	454,910	6
Buildings and improvements	1,296,333	15	1,201,529	16
Machinery and equipment	3,350,183	39	2,703,505	35
Transportation equipment	17,269	-	15,376	-
Office equipment and others	196,978	2	174,144	2
Leased assets	319,789	4	319,789	4
	5,635,462	65	4,869,253	63
Less: accumulated depreciation	2,108,796	25	1,751,316	23
Less: accumulated impairment	2,359	-	3,961	-
Prepayment for purchases of machinery and equipment and construction in progress	97,206	1	151,942	2
	3,621,513	41	3,265,918	42
Intangible assets:				
Trademarks (note 4(f))	128	-	-	-
Deferred pension costs (note 4(j))	266	-	494	-
Land use right (note 4(f))	13,680	-	13,000	-
	14,074	-	13,494	-
Other assets:				
Refundable deposits	16,420	-	17,695	-
Deferred expenses	46,130	1	41,644	1
Deferred income tax assets – non-current (note 4(l))	7,891	-	19,350	-
Refundable deposits and other assets	1,350	1	209	-
	71,791	2	78,898	1
Total assets	$ 8,486,113	100	7,606,818	100

Liabilities and Stockholders' Equity	December 31, 2011 Amount	%	December 31, 2010 Amount	%
Current liabilities:				
Short-term borrowings (note 4(g))	$ 590,873	7	298,547	4
Financial liabilities at fair value through profit or loss – current (note 4(c))	-	-	301	-
Notes and accounts payable	862,067	10	936,205	12
Accrued expenses and other current liabilities (note 4(e))	599,540	6	521,353	7
Long-term borrowings due within one year (note 4(i))	84,100	1	16,400	-
	2,136,580	24	1,772,806	23
Long-term liabilities:				
Bonds payable (note 4(i))	-	-	123,893	2
Long-term borrowings (note 4(h))	499,400	6	143,500	2
Capital lease liabilities – non-current (note 4(e))	337,651	4	341,457	4
	837,051	10	608,850	8
Other liabilities:				
Accrued pension liabilities	41,675	-	44,335	1
Deferred income tax liabilities and others (note 4(l))	50,616	1	30,828	-
	92,291	1	75,163	1
Total liabilities	3,065,922	35	2,456,819	32
Stockholders' equity:				
Common stock (note 4(m))	2,439,968	29	2,439,968	32
Capital surplus (note 4(m))				
Capital surplus from common stock in excess of par value	834,230	10	834,230	11
Other capital surplus	167,293	2	176,346	2
	1,010,523	12	1,010,576	13
Retained earnings (note 4(m))				
Legal reserve	302,084	4	249,956	3
Unappropriated earnings	859,723	10	812,734	11
	1,161,807	14	1,062,690	14
Other adjustments to stockholders' equity:				
Accumulated translation adjustment	268,618	3	117,282	2
Unrecognized pension cost	(5,513)	-	(8,962)	-
Unrealized loss on available-for sale financial assets	-	-	(11,944)	-
Treasury stock (note 4(m))	(23,310)	-	(14,552)	-
	239,795	3	81,824	2
Minority interest	577,098	7	554,941	7
Total stockholders' equity	5,420,191	65	5,149,999	68
Commitments and contingencies (note 7)				
Total liabilities and stockholders' equity	$ 8,486,113	100	7,606,818	100

See accompanying notes to consolidated financial statements.

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2011 and 2010

(Expressed in thousands of New Taiwan dollars, except for net income per common share)

		December31, 2011		December 31, 2010	
		Amount	%	Amount	%
Sales revenue	$	6,644,868	102	6,859,022	102
Less: Sales returns and allowances		125,065	2	132,677	2
Net sales		6,519,803	100	6,726,345	100
Cost of goods sold		4,880,631	75	4,865,211	72
Gross profit		1,639,172	25	1,861,134	28
Operating expenses:					
Selling		518,956	8	497,556	7
Administrative		281,327	4	267,411	4
Research and development		94,769	1	89,236	1
		895,052	13	854,203	12
Operating income		744,120	12	1,006,931	16
Non-operating income:					
Interest income		9,035	-	4,164	-
Gain on disposal of investments		-	-	7,199	-
Foreign exchange gain		35,045	1	-	-
Gain on bad debt recoveries		-	-	758	-
Gain on reversal of impairment loss		1,854	-	493	-
Gain on valuation of financial assets		1,808	-	167	-
Gain on valuation of financial liabilities		-	-	394	-
Other income (note 4(i))		34,103	1	27,433	-
		81,845	2	40,608	-
Non-operating expenses:					
Interest expense		35,840	1	31,408	-
Loss on disposal of property, plant and equipment		3,751	-	25,445	-
Investment loss under equity method		13,214	-	-	-
Foreign exchange loss		-	-	113,263	2
Impairment loss (note 4(c))		-	-	6,865	-
Loss on valuation of financial liabilities		8,525	-	-	-
Other loss		6,091	-	11,840	-
		67,421	1	188,821	2
Income before income taxes		758,544	13	858,718	14
Income tax expenses		178,615	3	212,404	3
Consolidated net income	$	579,929	10	646,314	11
Consolidated net income attributed to:					
Parent company stockholders	$	390,713	7	521,279	9
Minority interest		189,216	3	125,035	2
Consolidated net income	$	579,929	10	646,314	11

		Before taxes	After taxes	Before taxes	After taxes
Net income per common share (note 4(n)):					
Basic earnings per common share	$	1.81	1.61	2.42	2.14
Diluted earnings per common share	$	1.80	1.60	2.39	2.11

See accompanying notes to consolidated financial statements.

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011 and 2010
(Expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Unappropriated earnings	Other adjustments to stockholders' equity: Accumulated translation adjustment	Other adjustments to stockholders' equity: Unrecognized pension cost	Other adjustments to stockholders' equity: Unrealized loss on available-for-sale financial assets	Other adjustments to stockholders' equity: Treasury stock	Minority interest	Total stockholders' equity
Balance as of January 1, 2010	$ 2,439,968	999,319	237,353	401,657	230,782	(1,715)	(8,891)	-	360,077	4,658,550
Appropriation of earnings (note 1):										
Provision of legal reserve	-	-	12,603	(12,603)	-	-	-	-	-	-
Cash dividends	-	-	-	(97,599)	-	-	-	-	-	(97,599)
Purchase of corporate bond	-	(202)	-	-	-	-	-	-	-	(202)
Purchase of treasury stock	-	-	-	-	-	-	-	(14,552)	-	(14,552)
Adjustment arising from changes in percentage of ownership in investees	-	11,459	-	-	-	-	-	-	-	11,459
Consolidated net income for the year ended December 31, 2010	-	-	-	521,279	-	-	-	-	125,035	646,314
Accumulated translation adjustment	-	-	-	-	(113,500)	-	-	-	-	(113,500)
Changes in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	(3,053)	-	-	(3,053)
Changes in unrecognized pension cost	-	-	-	-	-	(7,247)	-	-	-	(7,247)
Changes in minority interest	-	-	-	-	-	-	-	-	69,829	69,829
Balance as of December 31, 2010	2,439,968	1,010,576	249,956	812,734	117,282	(8,962)	(11,944)	(14,552)	554,941	5,149,999
Appropriation of earnings (note 2):										
Provision of legal reserve	-	-	52,128	(52,128)	-	-	-	-	-	-
Cash dividends	-	-	-	(291,596)	-	-	-	-	-	(291,596)
Purchase of corporate bond	-	(9,693)	-	-	-	-	-	-	-	(9,693)
Purchase of treasury stock	-	-	-	-	-	-	-	(8,758)	-	(8,758)
Employee stock options	-	1,365	-	-	-	-	-	-	-	1,365
Adjustment arising from changes in percentage of ownership in investees	-	(725)	-	-	-	-	-	-	-	(725)
Changes in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	11,944	-	-	11,944
Consolidated net income for the year ended December 31, 2011	-	-	-	390,713	-	-	-	-	189,216	579,929
Accumulated translation adjustment	-	-	-	-	151,336	-	-	-	-	151,336
Changes in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	(3,053)	-	-	(3,053)
Changes in unrecognized pension cost	-	-	-	-	-	3,449	-	-	-	3,449
Changes in minority interest	-	-	-	-	-	-	-	-	(167,059)	(167,059)
Balance as of December 31, 2009	**$ 2,439,968**	**1,001,523**	**302,084**	**859,723**	**268,618**	**(5,513)**	**-**	**(23,310)**	**557,098**	**5,420,191**

Note 1: Directors' and supervisors' remuneration and employees' bonuses amounting to $1,083 thousand and $6,499 thousand, respectively, were recognized in the consolidated statements of income for 2009.
Note 2: Directors' and supervisors' remuneration and employees' bonuses amounting to $4,214 thousand and $25,333 thousand, respectively, were recognized in the consolidated statements of income for 2010.

See accompanying notes to consolidated financial statements.

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(Expressed in thousands of New Taiwan dollars)

	2011	2010
Cash flows from operating activities:		
Consolidated net income	$ 579,929	646,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	358,568	294,558
Amortization expense	20,993	18,721
Provision (reversal) for doubtful accounts	5,043	(758)
Allowance for sales returns and discounts	6,724	4,420
Cost of stock-based compensation	4,369	9,900
Amortization of discount on bonds payable	2,461	3,696
Amortization of expense on issuance bonds	31	47
Net loss not recognized as pension cost	3,449	(6,846)
Loss on market price decline, disposal, and slow-moving inventories (gain from price recovery)	29,482	(69,817)
Investment loss (gain) under equity method	1,189	(2,866)
Loss on disposal of fixed assets	3,751	25,445
Loss (gain) on disposal of investment	13,214	(7,198)
Gain on valuation of financial assets and liabilities	(1,808)	(561)
Impairment loss on financial assets	-	6,865
Gain on reversal of impairment loss of nonfinancial assets	-	(493)
Loss (gain) on puchase of bonds payable	(5,014)	3
Other adjustments	26,168	17,809
Changes in operating assets and liabilities, net		
Changes in operating assets, net		
Decrease (increase) in financial assets	(2,709)	101,857
Increase in notes receivable	(4,776)	(19,875)
Increase in accounts receivable	(7,899)	(156,822)
Decrease in other receivable	-	9,900
Decrease (increase) in inventory	(104,454)	33,338
Increase in prepaid expense	(1,348)	(33,432)
Decrease (increase) in prepayments	4,485	(3,879)
Decrease in other financial assets	14,729	13,977
Decrease in deferred income tax assets	37,064	41,230
Changes in operating liabilities, net		
Decrease in financial liabilities	(301)	(26)
Increase (decrease) in notes payable	13,606	(19,223)
Increase (decrease) in accounts payable	(87,744)	155,807
Increase (decrease) in income tax payable	(11,756)	39,351
Increase in accrued expenses and other current liabilities	87,539	88,883
Increase in deferred income tax liabilities	19,788	30,519
Increase (decrease) in accrued pension liabilities	(2,623)	4,297
Net cash provided by operating activities	1,002,150	1,225,141
Cash flows from investing activities:		
Acquisition of available-for-sale financial assets	(48,070)	-
Proceeds from disposal of available-for-sale financial assets	5403	-
Proceeds from disposal of financial assets under cost method	332	9,970
Proceeds from decrease in capital of investee carried at cost	6,105	1,279
Acquisition of property, plant and equipment	(717,818)	(971,910)
Proceeds from disposal of property, plant and equipment	-	57,297
Decrease (increase) in refundable deposit	1,275	(1,202)
Increase in deferred expenses	(25,066)	(21,052)
Acquisition of intangible assets	(135)	-
Increase in other assets	(1,141)	(180)
Net cash used in investing activities	(779,115)	(925,798)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	292,326	(37,875)
Redemption and repurchase of convertible bonds payable	(131,065)	(2,729)
Increase in long-term borrowings	440,000	164,000
Decrease in long-term borrowings	(16,400)	(51,883)
Decrease in lease payable	(21,365)	(7,226)
Payments of cash dividends	(291,596)	(97,596)
Transfer (repurchase) of treasury stock	(8,758)	(14,552)
Decrease (increase) in minority interest	(170,788)	71,388
Net cash provided by financing activities	92,354	23,527
Effect of exchange rate changes	150,251	(112,761)
Net increase in cash and cash equivalents	465,640	210,109
Cash and cash equivalents at beginning of period	1,255,438	1,045,329
Cash and cash equivalents at end of period	**$ 1,721,078**	**1,255,438**
Supplemental disclosures of cash flow information:		
Cash payment of interest	$ 16,882	9,547
Less: capitalized interest	3,478	825
Cash payments of interest (excluding capitalized interest)	**$ 13,404**	**8,722**
Cash payments of income tax	**$ 103,920**	**100,417**
Supplementary disclosures of non-cash investing and financing activities:		
Long-term borrowings due within one year	**$ 67,700**	**16,400**
Adjustment of lease assets	**$ -**	**4,273**

See accompanying notes to consolidated financial statements.

TAIWAN SEMICONDUCTOR CO., LTD.AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010
(Amounts expressed in thousands of New Taiwan dollars, unless specified otherwise)

1. Organization and Principal Activities

TAIWAN SEMICONDUCTOR CO., LTD. (the Company) was incorporated in January 1979 under the Company Act of the Republic of China. Its major business activities are the manufacture and sale of rectifiers and bar code printers. The Company's common stock has been officially listed and traded on the GreTai Securities Market starting from February 2000.

In order to improve operating efficiency and industry competitiveness from specialization, the Company restructured its business and organization. The Company separated its bar code printer business unit from itself and transferred it to establish TSC Auto ID Technology Co., Ltd. (TSC Auto ID). The board of directors' meeting approved August 1, 2007, as the date of record of the split. The spun-off bar code printer business unit's business value was $150,000, comprising related assets amounting to $357,957 and liabilities amounting to $207,957. TSC Auto ID categorically assumed all assets and liabilities and related rights and obligations after the date of record of the split. TSC Auto ID issued common stock of $150,000, with par value of 10 NT dollars, to the Company as acquisition cost.

The Company and the subsidiaries consolidated in the preparation of the consolidated financial statements are referred to as the Consolidated Company.

As of December 31, 2011 and 2010, the Consolidated Company had 2,264 and 2,538 employees, respectively.

2. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles and practices generally accepted in Taiwan, the Republic of China.

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies and measurement basis adopted in preparing the accompanying consolidated financial statements are summarized as follows:

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Status of consolidation

(1) For the purpose of preparing consolidated financial statements at the end of each quater, an entity is deemed a subsidiary if the Company directly or indirectly owns over 50% of its voting stock or has the power to control it. The consolidated subsidiaries are summarized below:

	Name of investor	Name of investee	Percentage of the direct and indirect ownership by the Company on December 31 2011	2010	Nature of operations
1.	The Company	Ever Energetic Int'l. Ltd. (Ever Energetic)	100.00	100.00	Holding company
2.	The Company	Ever Winner Int'l. Co., Ltd. (Ever Winner)	100.00	100.00	Holding company
3.	The Company	Skyrise Int'l. Ltd. (Skyrise)	100.00	100.00	Holding company
4.	The Company	Taiwan Semiconductor Europe GmbH (TSCE)	100.00	100.00	Trading of rectifiers
5.	The Company	Taiwan Semiconductor Japan Ltd. (TSCJ)	100.00	100.00	Trading of rectifiers
6.	The Company	Taiwan Semiconductor (H.K.) Co., Ltd. (TSCH)	25.22	25.22	Trading of rectifiers
7.	The Company	TSC Auto ID Technology Co., Ltd. (TSC Auto ID)	37.94	38.45	Manufacture and sale of bar code printers
8.	The Company	Advanced Technology Corporation (AET)	100.00	100.00	Manufacture and sale of wafer
9.	Ever Energetic	TSC America, Inc. (TSCA)	75.00	75.00	Trading of rectifiers
10.	Ever Energetic	Taiwan Semiconductor (H.K.) Co., Ltd. (TSCH)	36.96	36.96	Trading of rectifiers
11.	Ever Winner	TSC America, Inc. (TSCA)	25.00	25.00	Trading of rectifiers
12.	Ever Winner	Taiwan Semiconductor (H.K.) Co., Ltd. (TSCH)	37.82	37.82	Trading of rectifiers
13.	Ever Winner	Shanghai Great Technology Trading Co., Ltd. (TSCC)	100.00	100.00	Trading of rectifiers
14.	TSCH	TAIWANSEMI (Shenzhen) Co., Ltd. (TSCZ)	100.00	100.00	Trading of rectifiers
15.	TSCH	Yangxin Everwell Electronic Co., Ltd. (Yangxin Everwell)	100.00	100.00	Manufacture and sale of rectifiers
16.	TSCH	Tianjin Everwell Technology Co., Ltd. (Tianjin Everwell)	100.00	100.00	Manufacture and sale of wafer
17.	TSC Auto ID	TSC Auto ID Technology EMEA GmbH (TSCAE)	100.00	100.00	Bar code printers trading
18.	TSCAE	TSC Auto ID Technology Dubai (TSCAD)	100.00	-	Bar code printers trading
19.	TSCAE	TSC Auto ID Technology Spain, S.L. (TSCAS)	100.00	-	Bar code printers trading
20.	TSC Auto ID	TSC Auto ID (H.K.) Ltd. (TSC HK)	100.00	100.00	Bar code printers trading and holding company
21.	TSC Auto ID	TSC Auto Technology America Inc. (TSCAA)	100.00	100.00	Bar code printers trading
22.	TSC HK	Tianjin TSC Auto ID Technology Co., Ltd. (TTSC)	100.00	100.00	Manufacture and sale of bar code printers

(Continued)

(2) The changes in ownership of subsidiaries in the consolidated financial statements for 2011 and 2010 are shown below:

Ever Energetic carried out the procedure for capital reduction and refunded capital to the Company amounting to $135,769 (US$4,306 thousand) from August to October 2010.

Skyrise decreased its capital by $1,590 (US$50 thousand) to offset a deficit in the first quarter of 2010.

TSC Auto ID issued new shares for cash in recent years. The Company's holding percentage was changed when it did not purchase the new shares in the original holding percentage. The Company sold shares of TSC Auto ID, and the employees of TSC Auto ID began to exercise the employee stock options starting from the fourth quarter of 2009. In 2011, TSC Auto ID issued new shares for cash, and the Company purchased them in the original holding percentage. As of December 31, 2011, the Company's holding percentage in TSC Auto ID had decreased to 37.94%.

For capacity improvement of YEW, YEW increased its capital by converting retained earnings of USD 8,000 thousand, which was reported to the Investment Commission, MOEA, on October 24, 2011, and approved on January 5, 2012.

In 2011, TSCAE increased the investments in TSCAD and TSCAS, and the holding percentage in TSCAD and TSCAS are 100%.

(b) Accounting principles and consolidation policy

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company directly or indirectly owns greater than 50 percent of the subsidiary's voting shares or is able to exercise control over the subsidiary's operations and financial policies. All significant inter-company balances and transactions are eliminated in consolidation. The shares held by minority interest shareholders are reflected in the minority interest.

The difference between the net purchase price and the net equity of an acquired subsidiary is accounted for as goodwill or consolidated debit or credit (included in "other assets" or "other liabilities" on the accompanying consolidated balance sheets) and is not amortized.

(c) Foreign currency transactions and translation

The Company and subsidiaries record transactions in their respective local currencies. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into local currencies using the exchange rates on that date. The resulting exchange gains or losses from settlement of such transactions or translations of foreign monetary assets or liabilities are reflected in the statements of income.

(Continued)

Non-monetary assets and liabilities denominated in foreign currencies are measured at the historical exchange rates prevailing at the transaction dates.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into local currencies at the exchange rate at the date that the fair value was determined. The resulting exchange gains or losses from non-monetary assets and liabilities recognized at fair value through profit or loss are reflected in the statements of income. The resulting exchange gains or losses from non-monetary assets recognized at fair value in equity are reflected in the statements of changes in stockholders' equity.

(d) Distinction between current and non-current items

Assets to be realized within 12 months subsequent to the balance sheet date or to be available for sale during the normal course of an operating cycle are classified as current assets. Liabilities to be redeemed within 12 months subsequent to the balance sheet date, and obligations incurred but to be redeemed during the normal course of an operating cycle are classified as current liabilities. Items not classified as current assets (liabilities) are classified as non-current assets (liabilities).

(e) Impairment of assets

The Company and subsidiaries assess at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company and subsidiaries estimate the recoverable amount of the asset. The Company and subsidiaries recognize impairment loss for an asset whose carrying value is higher than the recoverable amount. The Company and subsidiaries reverse impairment losses recognized in prior periods for assets if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(f) Cash equivalents

The Company and subsidiaries consider all short-term highly liquid investments that are readily convertible to cash and subject to an insignificant risk of change in value to be cash equivalents.

(g) Financial assets/liabilities at fair value through profit or loss

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. Except for effective hedging derivative financial instruments, all financial derivatives are included in this category. Changes in fair values are charged to current operations.

(Continued)

(h) Available-for-sale financial assets

These are measured at fair value, and any changes, excluding impairment loss and unrealized foreign currency exchange gain or loss, are reported as a separate component of stockholders' equity until realized. Realized gain or loss on financial instruments is charged to current operations. If there is objective evidence of impairment, an impairment loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss has decreased, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to equity, while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

(i) Financial assets carried at cost

Financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at their original cost. 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.

(j) Notes and accounts receivable

Before December 31, 2010, the allowance for doubtful accounts was based on an aging analysis and the likelihood of collection of the Company's accounts receivable balances. Effective January 1, 2011, the Company adopted the third amendment of Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement". The Company first assesses whether any objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

(k) Other financial assets

These consist of income tax refund receivables and other receivables that represent the Company and subsidiaries' ownership or contractual rights to receive cash or financial assets from a counterparty, and are assessed by their collectability. Assets held for trading or held temporarily and to be realized within 12 months subsequent to the balance sheet date are classified as other financial assets – current.

(l) Inventories

The cost of inventories includes all necessary costs of purchase, costs of conversion, and other costs in bringing the inventories to a salable and useable location and condition. The fixed production overhead is allocated to the finished goods and work in progress based on the normal

(Continued)

capacity of production facilities. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. At each period-end, inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted-average-cost formula. Net realizable value is calculated based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(m) Property, plant, and equipment, and leased assets

Property, plant, and equipment

Property, plant, and equipment are stated at cost. Interest costs related to the construction of property, plant and equipment are capitalized and included in the cost of the related asset. Repairs and maintenance are charged to expenses as incurred. Costs associated with significant additions, improvements, and replacements to property, plant and equipment are capitalized. Gains or losses on the disposal of property, plant and equipment are accounted for as non-operating income or expenses in the consolidated statements of income.

Depreciation of property, plant, and equipment is provided for by using the straight-line method over the estimated useful lives of the respective assets. Assets still in use after full depreciation are further depreciated over the newly estimated useful lives and residual values. The useful lives of major property, plant and equipment are as follows:

(1) Buildings and improvements: 3~55 years.

(2) Machinery and equipment: 2~15 years.

(3) Transportation equipment: 3~5 years.

(4) Office equipment and others: 3~15 years.

Leased assets

Leased assets are stated at the lower of the fair value or present value of total rental payment (minus the amount borne by the lessor) plus the preferential purchase price or guaranteed residual value. The Company uses the straight-line method (except for leased land) to recognize depreciation based on the estimated useful life.

(Continued)

(n) Intangible assets

Other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount is determined by the original cost after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The useful lives of the intangible assets are as follows:

(1) Land use right: amortized over the contract term

(2) Trademarks right: 6 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

(o) Deferred expenses

The purchase costs of software are recorded as deferred expenses and are amortized over the estimated economic useful lives by the straight-line method.

(p) Retirement plan

In compliance with the ROC Labor Standards Act, the Company's and domestic subsidiaries' employee defined benefit retirement plans cover all regular employees. According to these plans, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of employee retirement benefits are based on the number of service years and the last six months' average salary before the employee retirement. Each employee will earn two months' salary for the first fifteen years of service, and one month's salary for each year of service thereafter. The maximum retirement benefit is forty-five months of salary. Under this retirement plan, the Company is responsible for the entire pension payment. The Labor Pension Act of the ROC ("the Act") become effective from July 1, 2005. In accordance with the Act, employees who elect to follow the Act and employees who are employed after the effective date of the Act adopt a defined contribution scheme, whereby the Company makes monthly contributions to the employees' individual pension fund accounts of no less than 6% of the employees' monthly wages.

(Continued)

An actuarial valuation of pension liability is performed as of the year-end date, and a minimum pension liability is provided for the amount of the accumulated benefit obligation in excess of the fair value of plan assets, and is recognized as net periodic pension costs. Net periodic pension costs include service costs, interest costs, and pension gain or loss in the current period amortized over the employees' average remaining service years.

The Company contributes 2% of wages and salaries to the pension fund maintained with Bank of Taiwan on a monthly basis. Payment of employee retirement benefits will be paid firstly from the pension fund. Accrual of pension expense and recognition of pension liability for managers is based on actuarial reports.

In accordance with the Act, the Company and domestic subsidiaries which adopt a defined contribution scheme make monthly contributions to the employees' individual pension fund accounts of 6% of the employees' monthly wages and recognize the contribution as current pension expense.

Because the foreign holding companies have not actually hired employees, they have not established retirement plans. Other consolidated foreign subsidiaries adopt defined contribution retirement plans according to local regulations and recognize contributions as current expenses.

(q) Convertible bonds

Convertible bonds issued by the Company create both a financial liability and stock options to convert to equity for holders; in conformity with SFAS No. 36, "Financial Instruments: Disclosure and Presentation", they are recorded as hybrid financial instruments. At the time of issuance, the original cost of issuance is allocated to both the liability and equity component of the convertible bond. The liability component of the convertible bond is determined by the fair value of similar liabilities which are unrelated to the equity component－stock option. The difference between the total amount of convertible bonds and the liability component is recorded as capital surplus－stock option. Any change in fair value of the equity component of the convertible bonds is not recognized. The interest on the convertible bond is calculated by using the effective interest method and is amortized over the contract term and recorded as current expense. The embedded derivative financial liability is measured at fair value, and any changes are reflected in current profit or loss. When the bondholders request conversion, the Company will adjust the liability component first and recognize it as net income or loss after valuing at the fair value. The stock issuance shall be accounted for on the basis of the fair value of the liability component and stock option.

The Company classified the price reset option of the convertible bonds as financial liabilities held for trading purposes. The options without resetting clauses are recognized as equity. In accordance with Interpretation (98) Ji-Mi No. 046 and Interpretation (97) Ji-Mi No. 331 issued by the Accounting Research and Development Foundation (ARDF), when the price is reset according to market price, decreases in fair value are transferred to shareholders' equity.

(Continued)

(r) Share-based payment transactions

The employee stock options of the Company and TSC Auto ID granted before January 1, 2008, are accounted for in accordance with Interpretations (92) Ji-Mi No. 070, 071 and 072 issued by the ARDF and are not required to adopt SFAS No. 39 retrospectively. Service cost for employee stock options granted before that date is recognized using the intrinsic value method, and pro-forma disclosures of net income and earnings per share are still required to be prepared under the fair value method.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payment is expensed over the vesting period, and the corresponding increase in equity is recognized. The vesting period is the period during which all the specified vesting conditions of the shared-based payment arrangement are to be satisfied. The vesting conditions included service conditions and performance conditions. The evaluation of the transaction does not consider the vesting conditions except market conditions.

(s) Treasury stock

The outstanding shares of the Company purchased back by it should be recorded as treasury stock at the purchasing cost before such shares are disposed of or retired.

If treasury stock is disposed of afterward, the difference is recorded as capital surplus when the disposal price is higher than the carrying amount; when the situation is reversed, the difference is recorded as a reduction of capital surplus generated from treasury stock transactions, and any insufficiency is applied to retained earnings. The carrying amount of the treasury stock is calculated by using the weighted-average method, and determined individually by each repurchasing reason.

When retiring treasury stock, common stock and capital surplus derived from paid-in capital in excess of par value should be eliminated proportionally. If the carrying amount of retired treasury stock is higher than the eliminated amount of common stock and capital surplus, then the difference is recorded as a reduction of capital surplus derived from treasury stock, with any insufficiency applied to retained earnings; when the situation is reversed, the difference is recorded as capital surplus.

(t) Revenue recognition

Revenue is recognized when titles to the products and the risks and rewards of ownership are transferred to the customers. Related costs and expenses matching the revenues are recognized as incurred. Allowances for estimated sales returns and discounts are provided in the period the related revenue is recognized based on historical experience.

(Continued)

(u) Employees' bonuses and directors' and supervisors' remuneration

Starting on January 1, 2008, employees' bonuses and directors' and supervisors' remuneration appropriated by the Company and its domestic subsidiaries are accounted for by Interpretation (96) Ji-Mi No. 052 issued by the ARDF and are recorded as either operating costs or operating expenses. Any differences between the amount approved in the shareholders' meeting and recognized in the financial statements are accounted for as changes in accounting estimates and recognized as profit or loss.

(v) Income taxes

Income tax is computed on an accounting income basis. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

Classification of deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such asset or liability.

Income tax expense is reduced by investment tax credits in the year in which the credits arise.

According to the ROC Income Tax Act, undistributed earnings of the Company and domestic subsidiaries are subject to an additional 10% corporate income surtax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

Income tax of the Company and subsidiaries is based on the tax laws of various countries. Income tax is declared on an individual company basis. Income tax expense of the Company and subsidiaries is the sum of income tax expense of the companies included in the consolidation.

(w) Earnings per share

Earnings per share of common stock are computed as net income (loss) divided by the weighted-average number of common shares outstanding during the period. The convertible bonds, employee stock options, and employee bonuses which were settled by issuing shares and not approved by a shareholders' meeting are deemed to be potential common shares. If the potential common stock possesses diluting effects, then diluted earnings per share shall be

(Continued)

disclosed in addition to basic earnings per share. For the purpose of calculating diluted earnings per share, the potential common shares should be deemed to have been converted into common stock at the beginning of the period, and the effect on the net income attributable to additional common shares outstanding should be considered accordingly. Earnings per share are retroactively computed for the increase in stock resulting from retained earnings or capital surplus.

3. Reasons for and Effect of Accounting Changes

Effective from January 1, 2011, the Consolidated Company adopted the third amendment of Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement". In accordance with SFAS No. 34, receivables, which included notes receivable, accounts receivable, other receivables, refundable deposits, etc., should apply the statement's guidelines on accounting recognition, subsequent evaluation, and impairment. This accounting change did not have a significant impact on the net profit and EPS in the Consolidated Company's financial statements as of and for the year ended December 30, 2011.

Effective from January 1, 2011, the Consolidated Company adopted the newly issued SFAS No. 41, "Operating Segments", which supersedes SFAS No. 20, "Segment Reporting". In accordance with the statement, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Consolidated Company determines and presents operating segments based on the information that internally was provided to the chief operating decision maker (CODM). This change in accounting principle did not have a significant impact on the financial statements for the year ended December 31, 2011. The comparative information for 2010 has been restated.

4. Significant Account Disclosures

(a) Cash and cash equivalents

	December 31, 2011	December 31, 2010
Cash on hand	$ 973	1,112
Checking and savings accounts	1,296,823	1,252,236
Time deposits	153,282	2,090
Cash equivalents	270,000	-
	$ 1,721,078	1,255,438

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Notes and accounts receivable, net

		December 31, 2011	December 31, 2010
Notes receivable	$	47,773	42,997
Accounts receivable		1,321,457	1,316,291
Less: allowance for doubtful accounts		(20,394)	(18,084)
allowance for sales returns and discounts		(11,144)	(4,420)
	$	1,337,692	1,336,784

(c) Financial instruments

As of December 31, 2011 and 2010, various financial assets and liabilities held by the Consolidated Company were as follows:

		December 31, 2011	December 31, 2010
Financial assets at fair value through profit or loss – current:			
Financial assets held for trading:			
Forward exchange contracts	$	1,808	-
Available-for-sale financial assets – current:			
Fund of funds	$	48,070	-
Available-for-sale financial assets – non-current:			
Foreign listed stocks	$	-	3,967
Financial assets carried at cost – non-current:			
Zowie Technology Co.	$	1,756	1,805
Applied Wireless Identification Group, Inc. (AWID)		152	152
First Bio Venture Capital Co.		635	635
World Bio Venture Capital Co.		2,045	8,149
Ascendax Venture Co.		6,000	6,000
Taiwan Hi-Tech Co.		294	575
	$	10,882	17,316
Financial liabilities at fair value through profit or loss – current:			
Financial liabilities held for trading:			
Forward exchange contracts	$	-	239
Interest rate swap contracts		-	62
	$	-	301

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Permanent impairment loss on financial assets carried at cost amounting to $6,865 was recognized in 2010 after the Company determined that the investments in Zowie, AWID, First Bio, World Bio, GWS, and ANI were impaired with little indication of recovery.

The Consolidated Company entered into derivative contracts to avoid risks due to the exchange rates and the floating interest rates of bank borrowing. The derivative instruments that did not meet the specific criteria for hedge accounting were classified as financial assets and liabilities held for trading.

(1) As of December 31, 2011and 2010, the forward exchange contracts held by the Company were as follows:

December 31, 2011

Item	Currency	Period	Contract amount	Book value
Derivative financial liabilities – forward exchange contracts:				
Selling forward	EUR	November 2011 ~ January 2012	EUR 500 thousand	$ 1,316
Selling forward	EUR	December 2011 ~ February 2012	EUR 500 thousand	207
Selling forward	USD	November 2011 ~ January 2012	USD 2,000 thousand	144
Selling forward	USD	December 2011 ~ February 2012	USD 2,000 thousand	144
Total				**$ 1,808**

December 31, 2010

Item	Currency	Period	Contract amount	Book value
Derivative financial liabilities – forward exchange contracts:				
Selling forward	USD	January 2010 ~ January 2011	USD 204 thousand	**$ 239**

(Continued)

(2) The Consolidated Company had no interest rate swap contracts on December 31, 2011. As of December 31, 2010, the interest rate swap contracts held by the Consolidated Company were as follows:

		December 31, 2010		
Item	**Currency**	**Period**	**Contract amount**	**Book value**
Derivative financial liabilities－interest rate swap contracts	USD	January 2010 ~ January 2011	USD 201 thousand	$ **62**

(d) Inventories

	December 31, 2011	December 31, 2010
Finished goods	$ 745,903	606,025
Less: provision for obsolescence and devaluation	(73,085)	(47,064)
	672,818	558,961
Work in process	266,024	224,904
Less: provision for obsolescence and devaluation	(31,812)	(26,022)
	234,212	198,882
Raw material and supplies	376,552	438,279
Less: provision for obsolescence and devaluation	(17,226)	(18,111)
	359,326	420,168
Inventories－outsourced	93,267	111,359
Inventories in transit	66,724	63,194
	$ 1,426,347	**1,352,564**

The Consolidated Company recognized related gain or loss on inventories amounting to a loss of $24,337 and a gain of $69,586 for the years ended December 31, 2011 and 2010, respectively. Write-down of inventories to net realizable value in the amount of $27,952 was included in the cost of sales for the year ended December 31, 2011.

Decrease in provision for obsolescence and devaluation in the amount of $76,224 was booked as reduction of the cost of sales for the year ended December 31, 2010.

(Continued)

(e) Property, plant and equipment, and leased assets

(1) Property, plant and equipment

(i) For future growth of operations, the Company signed contracts and acquired land in Yilan City for $228,563 on August 12 and October 5, 2010. As of December 30, 2010, the Company had fully paid the purchase price and completed the transfer registration of the land rights.

(ii) For future growth of operations, TSC Auto ID acquired land and a building for $202,466 on August 25, 2010. As of December 31, 2010, TSC Auto ID had fully paid the purchase price and completed the transfer registration of the office property rights.

(iii) Interest capitalized for purchasing property, plant and equipment for the years ended December 31, 2011 and 2010, amounted to $3,478 and $825, respectively. The interest capitalization rates were 3.00%.

(iv) Please refer to note 5 for property, plant and equipment pledged as collateral for bank loans.

(2) Leased assets

The Consolidated Company signed land lease agreements with the Ministry of Economic Affairs in Taiwan to lease land in the Letzer Industrial Park for the construction of plants. The leases are over a period of 20 years, and rent is paid every 3 months. Rent is calculated as the land's assessed price multiplied by its annual rent rate. The assessed price is adjusted yearly according to the consumer price index, and the annual rental rate is based on the mid/long-term capital loan interest rate as prescribed by the Executive Yuan and recalculated every half-year. The lease deposit is equivalent to 3-6 times the monthly rent at the inception of the lease. At any time during the lease, the Consolidated Company may wish to purchase the leased land at the pre-determined price. The rent already paid during the lease may be used to offset the purchase price; therefore, the Consolidated Company classifies the lease under capital lease. The terms of the lease are as follows

Tenant	Term	Leased object	Use	Annual lease rate	Lease deposit	Estimated discounted purchase price
The Company	October 26, 2006 ~ October 25, 2026	Land No. 186-71 and 186-73, Ligong Sec., Letzer Industrial Park, Yilan City	Semiconductor plant	4.1%	$ 10,323	-
TSC Auto ID	August 25, 2007 ~ May 24, 2024	Land No. 178, Ligong Sec., Letzer Industrial Yilan City	Barcode printer plant	4.1%	2,1054	10,510

(Continued)

The Consolidated Company provided bank certificates of deposit and security deposits as lease guarantee. The land valuation and annual lease rate should be adjusted periodically. As of December 31, 2010 and 2011, the leasehold land cost was revised as $319,789. Details were as follows:

Tenant	**Landlord**	**Use**	**December 31, 2011**	**December 31, 2010**
The Company	Ministry of Economic Affairs	Semiconductor plant	$ 222,958	222,958
TSC Auto ID	Ministry of Economic Affairs	Barcode printer plant	96,831	96,831
			319,789	319,789
	Add: Realized interest expense		69,553	51,705
	Prepaid interest expense		861	863
	Less: Rent paid		(39,122)	(19,195)
	Current portion of lease payable		(13,430)	(11,705)
	Net amount		$ 337,651	341,457

Future lease payments as of December 31, 2011, are estimated as follows:

Period	**Amount**
January 1, 2012~December 31, 2012	$ 25,080
January 1, 2013~December 31, 2013	30,052
January 1, 2014~December 31, 2014	30,639
January 1, 2015~December 31, 2015	31,175
Later years	348,534
	$ 465,480

(f) Intangible assets

Movements of original costs and accumulated amortization of intangible assets for the years ended December 31, 2011 and 2010 were as follows:

	Proprietary technology	**Land use right**	**Trademarks right**	**Total**
Beginning balance of original cost as of January 1, 2011	$ -	18,137	-	18,137
Add: Intangible assets acquired	-	-	135	135
Consolidated effects of foreign exchange conversion	-	1,499	-	1,499
Less: Accumulated amortization	-	(5,956)	(7)	(5,963)
Ending balance as of December 31, 2011	$ -	13,680	128	13,808

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Proprietary technology	Land use right	Trademarks right	Total
Beginning balance of original cost as of January 1, 2010	$ 92,499	18,137	-	110,636
Add: Consolidated effects of foreign exchange conversion	-	413	-	413
Less: Accumulated amortization	(32,812)	(5,550)	-	(38,362)
Accumulated impairment loss	(59,687)	-	-	(59,687)
Ending balance as of December 31, 2010	$ -	13,000	-	13,000

The Consolidated Company recognized amortization expenses of intangible assets amounting to $413 and $1,105 for the years ended December 31, 2011 and 2010, respectively.

(g) Short-term borrowings

	December 31, 2011	December 31, 2010
Secured loans	$ 212,019	235,273
Credit loans	378,854	63,274
Total	$ 590,873	298,547

Interest rates ranged from 0.79% to 2.00% and from 0.79% to 3.73% for the years ended December 31, 2011 and 2010, respectively. Please refer to notes 5 and 6 for disclosures on mortgaged and pledged assets.

(h) Long-term borrowings

Creditor	Purpose	December 31, 2011	December 31, 2010
Cosmos Bank	Purchase of office	$ 143,500	159,900
Taiwan Cooperative Bank	Redemption of bonds and working capital for operations	440,000	-
Less: Current portion of long-term borrowings		(84,100)	(16,400)
Total		$ 499,499	143,500

(1) Interest rates ranged from 1.39% to 2.3996% and from 1.39% to 1.55% for the years ended December 31, 2011 and 2010, respectively. Please refer to note 6 for disclosures on mortgaged and pledged assets.

(Continued)

(2) As of December 31, 2011, future principal payments on long-term borrowings were as follows:

Period	Amount
January 1, 2012~December 31, 2012	$ 84,100
January 1, 2013~December 31, 2013	151,800
January 1, 2014~December 31, 2014	151,800
January 1, 2015~December 31, 2015	117,900
Later years	77,900
	$ 583,500

(i) Convertible corporate bonds payable

In accordance with SFAS No. 36, the conversion rights of the fourth unsecured convertible corporate bonds were separated from the liabilities, and the issuance costs should be allocated to the liability and equity components in proportion of the original recognized amount of these components. Related information was as follows:

Total issuance amount of convertible corporate bonds (net of issuance costs)	$ 1,247,500
Fair value of convertible corporate bonds at issuance	(1,076,065)
Embedded non-equity derivative instrument at issuance	(92,264)
Equity component – stock option	$ 79,171

On November 22, 2007, the Company issued the fourth unsecured convertible corporate bonds of $1,250,000. The coupon rate is zero, and the bonds will mature after 5 years. According to the conversion rules, the conversion price is calculated by using the lower of the simple average closing price of the Company's common shares for either the one, three or five business days before the price determination date as the basic price multiplied by 101% of the conversion premium rate. The conversion price on the issuance date was $43.13 (dollars) and was adjusted based on the prescribed formula over the years. And since the ex-rights date in 2010, the conversion price was adjusted to $32.88 (dollars) per share based on the prescribed formula. Effective on the second day of the first month after issuance till ten days before maturity, with the exception of the lock-up period in accordance with the law, holders of the corporate bonds may convert the bonds into the Company's common shares in accordance with the conversion price. The holders of the corporate bonds could choose to exercise the put options when the corporate bonds have been issued for two years. The exercisable date of the put options was November 22, 2009, and the holders could resell the corporate bonds to the Company on that date in accordance with the issuance and conversion conditions. If the holders of the corporate bonds do not exercise the put options, they must hold the bonds until maturity or convert the bonds to common stock. From June 20, 2011, since the outstanding balance of the convertible bonds was less than 10% of the total face value, in accordance with the issuance and conversion conditions, the bondholders exercised the redemption right. As of September 2, 2011, the

(Continued)

Company had redeemed $124,900 of the convertible bonds, and the Company no longer had any outstanding convertible bonds.

Related information as of December 31, 2011 and 2010, was as follows:

	December 31, 2011	December 31, 2010
Total issuance amount of convertible corporate bonds	$ 1,250,000	1,250,000
Cumulative repurchased amount	(877,800)	(746,800)
Cumulative redemption amount	(371,200)	(371,200)
Cumulative amount of conversion	(1,000)	(1,000)
Unamortized discount and issuance cost of corporate bonds	-	(7,107)
	$ -	123,893

The Company recognized the interest expenses of bonds payable for the years ended December 31, 2011 and 2010, amounting to $2,461 and $3,696, respectively.

The embedded non-equity derivative instruments were written off because the fair value was $0 since November 22, 2009.

Based on the resolution of the board of directors, beginning from 2008, the Company repurchased the fourth issuance of the Company's unsecured convertible bonds from the over-the-counter market. For the year ended December 31, 2010, the bonds repurchased amounted to $2,325 with a par value of $2,300, and the realized loss on convertible bonds payable amounted to $6, and capital surplus – treasury stock amounted to $114.

For the year ended on December 31, 2011, the Company repurchased convertible bonds amounting to $131,065 with a par value of $131,000, and realized gain on convertible bonds payable amounted to $5,014, capital surplus – treasury stock amounted to $6,468, and the Company wrote off capital surplus – convertible bond share options amounting to $16,161 in full.

(j) Retirement plans

The Company and TSC Auto ID had an actuarial valuation of their pension plans. Based on the actuarial report, the companies' funded status was reconciled with accrued pension liabilities as of December 31, 2011 and 2010, as follows:

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2011	December 31, 2010
Benefit obligation:			
Vested benefit obligation	$	(33,930)	(27,457)
Non-vested benefit obligation		(26,890)	(34,890)
Accumulated benefit obligation		(60,820)	(62,347)
Additional benefits based on future salaries		(25,653)	(27,933)
Projected benefit obligation		(86,473)	(90,280)
Fair value of plan assets		37,836	35,958
Funded status		(48,637)	(54,322)
Unrecognized net transition obligation		300	731
Unrecognized net pension loss		12,441	18,749
Additional minimum pension liability		(5,779)	(9,456)
Accrued pension liabilities	**$**	**(41,675)**	**(44,298)**

(1) The vested benefits of the employees in the Company and TSC Auto ID amounted to $37,659 and $29,585 as of December 31, 2011 and 2010, respectively.

(2) The components of net pension cost were as follows:

		2011	2010
Service cost	$	904	986
Interest cost		1,580	1,747
Actual return on plan assets		(436)	(545)
Amortization of net transition benefit obligation		1,668	744
Net pension cost	**$**	**3,716**	**2,932**
Defined contribution pension cost	**$**	**15,643**	**12,791**

(3) Actuarial assumptions were as follows:

	2011	2010
Discount rate	1.63%~2.00%	1.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.00%	1.75%

The employees of the Company's former bar code printer division was transferred to TSC Auto ID as a result of the breakup, and in accordance with the agreement on the breakup, their years of service were transferred. According the actuarial report as of August 1, 2007, the Company's pension obligations for those employees transferred to TSC Auto ID amounted to $23,270, which will be paid entirely by the Company. The Company recognized the amount under personnel costs in 2007. In addition, the Company recognized gains as a result of the breakup amounting

(Continued)

to $27,206, recorded under personnel cost. As of December 31, 2011 and 2010, the Company's pension obligations amounted to $15,529 and $16,454, respectively, recorded under payables.

The pension cost of domestic and foreign subsidiaries amounted to $34,531 and $29,697 for the years ended December 31, 2011 and 2010, respectively.

(k) Share-based payment transactions

(1) Share-based payment transactions of the Company and TSC Auto ID as of December 31, 2011, were as follows:

Type	The Company's first employee stock option plan on December 31, 2011	TSC Auto ID's first employee stock option plan on December 31, 2007	TSC Auto ID's first employee stock option plan on December 31, 2007
Grant date	Aug 26, 2011	Dec 4, 2007	Aug 26, 2011
Thousand units granted	2,000	1,840	800
Contractual life	5 years	5 years	5 years
Vesting period	2 years	2 years	2 years

(2) The Company and TSC Auto ID adopted the Black-Scholes model in estimating the fair value of stock options on the grant date. Under this valuation model, the assumptions used were as follows:

	The Company 2011	TSC Auto ID 2011
Exercise price	$ 14.75	81.3
Expected life of the option	3.875	3.875
Current market price	$ 14.75	81.3
Expected volatility	39.23%	38.71%
Risk-free interest rate	1.123%	1.123%

(3) The movements in the balance of employee stock options and the weighted-average exercise price for the years ended December 31, 2011and 2010, for the Company and TSC Auto ID were as follows:

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2011	
	Number of exercisable shares (thousand)	**Weighted-average exercise price**
Balance, beginning of period	-	$ -
Granted	2,000	14.75
Balance, end of period	**2,000**	14.75
Options exercisable at end of period	-	14.75
Expected weighted-average remaining period (years)		**4.58**

The expenses incurred in share-based payment transactions amounted to $1,365 for the year ended December 31, 2011.

	2011		2010	
TSC Auto ID 2007 employee stock option plan	**Exercisable shares (thousand)**	**Weighted-average exercise price**	**Exercisable shares (thousand)**	**Weighted-average exercise price**
Outstanding at beginning of period	825	$ 15	1,460	15
Options exercised	(413)	15	(635)	15
Outstanding at end of period	**412**	13.6	**825**	15
Options exercisable at end of period	**412**	13.6	**365**	15
Expected weighted-average remaining period (years)		**0.90**		**1.90**

	2011	
TSC Auto ID 2011 employee stock option plan	**Exercisable shares (thousand)**	**Weighted-average exercise price**
Outstanding at beginning of period	-	$ -
Options exercised	800	81.3
Outstanding at end of period	**800**	81.3
Options exercisable at end of period	-	
Expected weighted-average remaining period (years)		**4.58**

(Continued)

(4) TSC Auto ID used the intrinsic value method to recognize the compensation cost of options granted. The employee stock option plan was effective before December 31, 2007. If TSC Auto ID used the fair value method to recognize compensation cost based on SFAS No. 39 and used the Black-Scholes method to estimate the fair value of the stock options on the date they were granted, the pro forma net income and EPS, and the assumptions used for the years ended December 31, 2011 and 2010, would be as follows:

			2011	**2010**
Assumptions	Dividend rate		-	-
	Expected price volatility		-	-
	Risk-free rate		2.375%	2.375%
	Expected time to expiration (years)		3.75	3.75
Net income	Net income as reported	$	307,990	207,131
	Pro forma net income		307,885	206,876
Basic EPS (in dollars)	Basic EPS as reported		9.19	7.46
	Pro forma basic EPS		9.19	7.45
Diluted EPS (in dollars)	Diluted EPS as reported		9.00	7.21
	Pro forma diluted EPS		9.00	7.20

(l) Income taxes

(1) Each subsidiary declares its own income tax separately using its applicable local tax rate.

(2) The Company and domestic subsidiaries were subject to an income tax rate of 17% in 2011 and 2010, and calculated the Alternative Minimum Tax (AMT) according to the “Income Basic Tax Act”.

(3) The components of consolidated income tax expense for 2011 and 2010 are summarized as follows:

		2011	**2010**
Current income tax expense	$	122,105	140,264
Deferred income tax expense		56,510	72,140
Income tax expense	**$**	**178,615**	**212,404**

(4) The reconciliation between expected income tax calculated on pre-tax consolidated financial statement income at statutory income tax rates and income tax expense as reported in the accompanying consolidated financial statements for the years ended December 31, 2011 and 2010, is summarized as follows:

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2011	2010
Expected income tax expense	$ 137,276	144,695
Subsidiaries' income tax expense	69,746	89,666
Effect of impairment loss and investment loss (gain) recognized under equity method	(37,916)	(64,320)
Offshore dividend income	-	34,149
Realized loss on disposal of long-term equity	-	(3,640)
Additional 10% surtax on undistributed earnings	18,067	2,728
Effect of change in income tax rate	-	9,863
Provision for (reversal of) allowance for deferred income tax assets	43,734	(24,610)
Alternative Minimum Tax in excess of the statutory tax	-	7,976
Income tax adjustment for prior years and others	(52,292)	15,897
Income tax expense	**$ 178,615**	**212,404**

(5) The components of deferred income tax assets (liabilities) as of December 31, 2011 and 2010, are summarized as follows:

	December 31, 2011	December 31, 2010
Deferred income tax assets:		
Losses due to decline in value of financial assets carried at cost	$ 20,698	20,690
Provision for doubtful accounts in excess of statutory limitation	3,213	2,476
Allowance for decline in value of inventories	18,508	10,941
Investment tax credits	118,093	99,322
Unrealized inter-company profits	18,714	27,535
	179,226	160,964
Less: valuation allowance	(114,785)	(69,446)
	64,441	91,518
Deferred income tax liabilities:		
Provision for loss on foreign investments	(16,910)	(17,062)
Investment gain recognized under equity method	(44,970)	(26,175)
Unrealized foreign exchange gain and others	(13,161)	(2,371)
	(75,041)	(45,608)
Net deferred income tax assets (liabilities)	**$ (10,600)**	**45,910**

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The above net deferred tax assets (liabilities) are recorded as follows:

	December 31, 2011	December 31, 2010
Deferred income tax assets – current	$ 32,125	57,730
Deferred income tax assets – non-current	7,891	19,350
Deferred income tax liabilities – current	-	(342)
Deferred income tax liabilities – non-current	(50,616)	(30,828)
	$ (10,600)	45,910

(6) The tax authorities have examined the income tax returns of the Company and TSC Auto ID through 2008. For 2008, TSC Auto ID was assessed supplementary tax because the Tax Authorities had different determinations of investment credits for research and development expense. However, TSC Auto ID disagreed with the assessment for its 2008 income tax return and therefore has initiated an administrative appeal for 2008. The application for review is in progress, and TSC Auto ID's estimated income tax payable is adequate.

(7) In accordance to the Statute for Upgrading Industries, the Company is able to enjoy investment tax credits from investments in machinery and equipment, in research and development, and in poverty-stricken regions. As of December 31, 2011, details of investment tax credits were as follows:

Year of occurrence	Unused tax credits	Year of expiry
Research and development:		
2009 (Declared)	$ 5,668	2013
Investment in poverty-stricken regions:		
2008 (Assessed)	71,167	2012
2010 (Declared)	38,523	2014
Purchase of machinery and equipment:		
2009 (Declared)	2,535	2013
2010 (Declared)	200	2014
	$ 118,093	

(8) Related information about the integrated income tax system is as follows:

	December 31, 2011	December 31, 2010
Unappropriated earnings:		
Earned prior to January 1, 1998	$ 150,283	150,283
Earned after January 1, 1998	709,440	662,451
Total	$ 859,723	812,734
Imputation credit account balance	$ 38,252	64,290

(Continued)

	2010	2009
Creditable ratio for earnings distribution to resident stockholders	9.85% (estimated)	10.73% (actual)

(9) Because of the expansion of operations and demand for capital of the foreign operations, the earnings from investing in foreign subsidiaries will not be remitted to the Company in the short term. In accordance with SFAS No. 22, "Income Taxes", the difference between financial income and taxable income caused by no earnings remittance is treated as a permanent income tax difference.

(m) Stockholders' equity

(1) Common stock and employee stock options

As of December 31, 2011 and 2010, the authorized capital amounted to $3,600,000 (including $100,000 authorized for the issuance of the employee stock options). As of December 31, 2011 and 2010, the Company's outstanding capital was $2,439,968, divided into common stock with par value of $10 (dollars) each.

(2) Capital surplus

	December 31, 2011	December 31, 2010
Premium on shares issued above par value	$ 417,545	417,545
Conversion premium from convertible corporate bonds	409,712	409,712
Issued premium from employee stock options	6,973	6,973
Employee stock options (note 4(k))	1,365	-
Treasury stock transactions	95,438	88,970
Stock option component of convertible corporate bonds (note 4(i))	-	16,161
Interest compensation payable on convertible corporate bonds	17,020	17,020
Long-term investments under equity method	53,470	54,195
	$ 1,001,523	1,010,576

Pursuant to the ROC Company Act, with the exception of capital surplus originating from long-term equity investments accounted for by the equity method, capital surplus shall be only used to offset a deficit. However, the realized capital surplus generated from additional paid-in capital and endowments received by the Company can be used to increase capital. According to the Criteria Governing the Issuance of Securities by Securities Issuers, capital increases from capital surplus should not exceed 10% of total common stock outstanding.

(Continued)

In addition, capital surplus from additional paid-in capital can only be used to increase capital in years after the year in which such capital surplus is registered with the authorities.

In accordance with the ROC Company Act, as amended in January 2012, capital surplus cannot be distributed as dividends in cash or shares unless it offsets a deficit. The realized capital surplus includes the reserves generated from donation and the excess of the issuance price over the par value of capital stock. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized in batches, the combined amount of capital reserve capitalized in batches in any one year cannot exceed 10% of paid-in capital.

(3) Legal reserve and special reserve

According to the ROC Company Act, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of authorized common stock. Legal reserve can only be used to offset an accumulated deficit and cannot be used to distribute cash dividends. However, when it reaches an amount equal to one half of paid-in capital, one half of the balance can be transferred to common stock upon approval at a stockholders' meeting. In accordance with the ROC Company Act as amended in January 2012 and the Company's articles of incorporation, 10% of the annual earnings (net of losses of prior years, if any) is retained as statutory reserve until the reserve equals the amount of the Company's paid-in capital. The distributions of remaining earnings, either as stock dividends or cash dividends, are subject to the approval of the Company's stockholders. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

According to ROC SFB regulations, an ROC publicly listed company should retain a special reserve equal to any deductions from stockholders' equity before distribution of earnings. If the aforementioned deduction from stockholders' equity is reversed, the same amount could be removed from special reserve and transferred to unappropriated earnings. The remaining earnings may be distributed as stockholders' dividends.

(4) Distribution of earnings and dividend policy

In accordance with the Company's articles of incorporation, if there are earnings at year-end, 10 percent should be set aside as legal reserve and special earnings reserve according to SFB regulations after the payment of income tax and the offsetting of accumulated losses from prior years. If there is a balance remaining, 1 percent should be set aside for directors' and supervisors' remuneration, and 4 to 10 percent should be set aside for employees' bonuses. The remaining portion will be combined with earnings from prior years, and the board of directors shall make a distribution proposal to be approved by the shareholders' meeting. However, certain earnings may be retained depending on business conditions.

(Continued)

The Company is in the growth stage of the industry life cycle. In consideration of future capital needs and operational development, the cash dividends cannot be lower than 10% of total stock dividends. However, stock dividends instead of cash dividends are distributed if the cash dividends per share are less than $0.2 (dollars).

The employees' bonuses and remuneration to directors and supervisors were estimated according to the net income (net of tax and 10% legal reserve) for the years 2011 and 2010, multiplied by the expected ratio by taking into consideration the Company's experience in the past. For the years ended December 31, 2011 and 2010, the Company recognized employees' bonuses amounting to $21,062 and $25,333, respectively, and remuneration to directors and supervisors amounting to $3,510 and $4,214, respectively. If the subsequent resolution by the shareholders' meeting differs from the amount recognized in the financial statements, the difference is accounted for as a change in accounting estimates and recorded under current-period profit/loss.

The employees' bonuses and remuneration to directors and supervisors of TSC Auto ID were estimated according to the net income for the years 2011 and 2010, multiplied by the expected ratio of 5%. TSC Auto ID recognized employees' bonuses amounting to $13,860 and $8,891, respectively, and remuneration to directors and supervisors amounting to $13,860 and $8,891, respectively. If the subsequent resolution by the shareholders' meeting differs from the amount recognized in the financial statements, the difference is accounted for as a change in accounting estimates and recorded under current-period profit/loss.

The annual shareholders' meeting of the Company on June 15, 2011, and June 15, 2010, resolved to distribute earnings as employees' bonuses and directors' and supervisors' remuneration for 2010 and 2009 as follows:

	2010	**2009**
Employees' bonuses – cash	$ 25,333	6,499
Directors' and supervisors' remuneration	4,214	1,083
	$ 29,547	**7,582**

The above distributions of 2010 and 2009 earnings were approved by the board of directors, and the amounts were consistent with the Company's financial reports.

(Continued)

(5) Treasury stock

In accordance with Article 28-2 of the Securities and Exchange Act, the Company started to buy back treasury stock for transferring stock to its employees and to maintain the credit of the Company and shareholders' interests from January 2011 and December 2010 for the 381 thousand and 619 thousand common shares, respectively, of treasury stock bought back, and the cost amounted to $8,758 and $14,552, respectively. The treasury stock had not been transferred to employees as of December 31, 2011.

In accordance with the Securities and Exchange Act, the number of shares of treasury stock shall not exceed 10% of the total shares of common stock issued by the Company. The total carrying amount of treasury stock shall not exceed the total amount of retained earnings plus additional paid-in capital and realized capital surplus. Treasury stock bought back for transfer to employees shall be transferred within three years from the date of buyback. Treasury stock not transferred within the above time limit shall be deemed as not issued by the Company and cancelled. For the year ended December 31, 2011, the maximum number of shares of treasury stock was 1,000 thousand shares and amounted to $23,310, which conformed to the Securities and Exchange Act. Based on the financial statements for 2011, the maximum number of shares and the maximum amount the Company could buy back as December 31, 2011, were 24,400 shares and $2,092,841, respectively. As of December 31, 2011, the Company had bought back 1,000 thousand shares, and the amount was $23,310.

In accordance with the provisions of the Securities and Exchange Act, the treasury stock held by the Company may not be pledged, and before it is transferred, it cannot exercise the rights of shareholders.

(n) Earnings per share

Basic earnings per share and diluted earnings per share of the Company for the years ended December 31, 2011 and 2010 , were computed as follows:

	2011		2010	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Basic earnings per share (in dollars):				
Net income	$ 440,717	390,713	589,691	521,279
Weighted-average common shares outstanding (thousand shares)	243,001	243,001	243,995	243,995
Basic earnings per share (in dollars)	$ 1.81	1.61	2.42	2.14

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2011		2010	
	Before taxes	**After taxes**	**Before taxes**	**After taxes**
Diluted earnings per share (in dollars):				
Net income	$ 440,717	390,713	589,691	521,279
Effect of common stock with dilution potential:				
Convertible corporate bond	2,461	2,043	3,696	3,068
Net income plus the effect of common stock with dilution potential	$ 443,178	392,756	593,387	524,347
Weighted-average common shares outstanding (thousand shares)	243,001	243,001	243,995	243,995
Effect of common stock with dilution potential:				
Convertible corporate bond	2,805	2,805	3,986	3,986
Employee stock options	200	200	-	-
Diluted weighted-average common shares outstanding (thousand shares)	246,006	246,006	247,981	247,981
Diluted earnings per share (in dollars)	$ 1.80	1.60	2.39	2.11

(o) Related information on financial instruments

(1) The Consolidated Company's non-derivative short-term financial assets and liabilities included cash and cash equivalents, accounts and notes receivable/payable (including related parties), other financial assets, short-term borrowings, etc. The fair value of these instruments was estimated according to book value on the balance sheet date. Because the expiration date of these instruments was close to the balance sheet date, the book value is considered to be a reasonable basis to assess the fair value. As of December 31, 2011 and 2010, the fair value information on the Consolidated Company's financial assets and liabilities other than the above financial assets and liabilities was as follows:

	December 31, 2011		December 31, 2010	
Non-derivative	**Book value**	**Fair value**	**Book value**	**Fair value**
Financial assets:				
Financial assets at fair value through profit or loss－current	$ 1,808	1,808	-	-
Available-for-sale financial assets－non-current	48,070	48,070	3,967	3,967
Financial assets carried at cost	10,882	-	17,316	-
Refundable deposit	16,420	16,420	17,695	17,695

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		December 31, 2011		December 31, 2010	
Non-derivative		**Book value**	**Fair value**	**Book value**	**Fair value**
Financial liabilities:					
Financial liabilities at fair value through profit or loss－current	$	-	-	301	301
Bonds payable－non-current		-	-	123,893	123,893
Long-term borrowings (including long-term borrowings due within one year)		583,500	583,500	159,900	159,900
Capital lease liabilities (including current and non-current)		351,081	351,081	353,162	353,162

(2) The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) The fair values of financial instruments are based on quoted market prices, where available. If quoted market prices are not available, the fair value is then determined based on certain valuation techniques. The estimations and assumptions of the valuation techniques adopted by the Consolidated Company are identical to those adopted by other market participants when pricing the financial instruments.

(ii) Financial assets carried at cost were investments in non-public stocks. Because they were not traded in the open market, the fair value might not be estimable in practice;; please refer to note 4(c).

(iii) The amount of refundable deposits was insignificant, so the book value was deemed to be the fair value.

(iv) The convertible bond payables were measured at amortized cost.

(v) Long-term borrowings and capital lease liabilities were interest-bearing and carried floating interest rates. Therefore, the borrowed amount was the fair value.

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) The fair values of financial assets and liabilities which were based on quoted market prices in an active market or determined by using certain valuation techniques were as follows:

	December 31, 2011		December 31, 2010	
	Based on quoted market prices	Determined by using valuation techniques	Based on quoted market prices	Determined by using valuation techniques
Non-derivative financial instruments				
Financial assets:				
Cash and cash equivalents	$ 1,721,078	-	1,255,438	-
Notes and accounts receivable (including related party)	-	1,337,692	-	1,336,784
Other financial assets (including current and non-current)	-	107,309	-	128,147
Financial assets at fair value through profit or loss－current	-	1,808	-	-
Available-for-sale financial assets－non-current	-	48,070	3,967	-
Refundable deposit	-	16,420	-	17,695
Financial liabilities:				
Short-term borrowings	-	590,873	-	298,547
Notes and accounts payable (including related party)	-	862,067	-	936,205
Long-term borrowings (including due within one year)	-	583,500	-	159,900
Financial liabilities at fair value through profit or loss－current	-	-	-	301
Bonds payable－non-current	-	-	-	123,893
Capital lease liabilities (including current and non-current)	-	351,081	-	353,162

(4) For the years ended December 31, 2011 and 2010, valuation gain arising from change in fair value of financial instruments by using valuation techniques amounted to $1,808 and $561, respectively.

(5) As of December 31, 2011 and 2010, the financial assets with fair value risk arising from interest rate change amounted to $2,142,295 and $1,236,155, respectively. The financial liabilities with fair value risk arising from interest rate change amounted to $1,174,373 and $458,447, respectively.

(6) Financial risk

(i) Market risk

The market price of the convertible corporate bond issued by the Company is determined by the market price of the Company's stock and the market interest rate. In addition, the Company's long-term equity investments under the equity method and carried at cost have no active market prices; therefore, it was unable to evaluate the fair value of those equity investments.

The Consolidated Company holds securities classified as financial assets at fair value through profit or loss and available-for-sale financial assets, which are valued at fair value. Therefore, the Company and subsidiaries are exposed to market risk from changes in market prices of the underlying securities.

(ii) Credit risk

The primary potential credit risk arises from financial instruments like bank deposits, equity securities and accounts receivable. The Consolidated Company's cash is deposited in different financial institutions. Equity securities held by the Company and subsidiaries were listed stock and beneficiary certificates issued by companies with good credit ratings. The Consolidated Company controls credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk related to cash in bank and equity securities.

In order to reduce credit risk, the Consolidated Company periodically evaluates the financial status of its major customers and the collectability of accounts receivable, and provides for bad debt accordingly. Owing to the good credit records of its major customers, the Consolidated Company has not incurred any material credit risk loss.

(iii) Liquidity risk

As the capital and working capital of the Company and subsidiaries are sufficient to fulfill all contractual obligations, there is no liquidity risk of being unable to fulfill contractual obligations.

(iv) Cash flow risk arising from interest rate change

The Consolidated Company's short-term borrowings and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Consolidated Company's future cash flow. If the market interest rate increases by 1%, the Consolidated Company's cash outflow would increase by approximately $11,744 and $4,584 for the years ended December 31, 2011and 2010, respectively.

(Continued)

The Company’s convertible corporate bonds carry a fixed interest rate and thus do not bear significant cash flow risk from changes in market interest rate. In addition, fluctuation in the Company’s share market price will influence the cash flow arising from future redemption of convertible corporate bonds. When bondholders exercise their conversion right, cash flow will be reduced as the Company redeems its convertible corporate bonds in the future.

5. Related-party Transactions

(a) Name and relationship of related parties

Name	Relationship
Mr. Wang	Chairman
Directors, supervisors, president and vice presidents	Key management personnel

(b) Summary of significant transactions with related parties

(1) Commitments and contingencies

Mr. Wang had provided guarantees of $50,000 and $230,000 for bank borrowings of TSC Auto ID as of December 31, 2011, and 2010, respectively. TSC Auto ID did not draw down from the bank in either year.

(2) Remuneration of key management

In 2011 and 2010, the salary and other compensation paid to the directors, supervisors, president and vice presidents was as follows:

	2011	2010
Salaries	$ 53,647	53,696
Bonuses and allowances	20,007	13,620
Professional execution fees	782	1,248
Employee bonuses	7,818	14,386

The above-mentioned salary and other compensation of senior management included the accrued employee bonuses and directors’ and supervisors’ remuneration; please refer to note 4(m) “stockholders’ equity”.

6. Pledged Assets

Assets pledged as collateral as of December 31, 2011 and 2010, are summarized as follows:

(Continued)

Pledged assets	Pledged to secure	December 31, 2011	December 31, 2010
Land	Collateral for bank borrowings and syndicated loan credit	$ 147,357	148,137
Buildings and improvements	"	196,772	200,288
Machinery and equipment	Syndicated loan credit	146,420	214,319
Time deposits (recorded in refundable deposit)	Collateral for rental land	11,818	11,590
Time deposits (recorded in other financial assets - current)	Compensation account for bank borrowings	-	6,109
		$ 502,367	580,443

7. Significant Commitments and Contingencies

(a) As of December 31, 2011, the guarantee notes provided by the Consolidated Company to the banks amounted to $1,156,000 and USD22,000 thousand.

(b) As of December 31, 2011, the unused letters of credit issued by the Consolidated Company amounted to USD107 thousand.

8. Major Casualty Losses: None.

9. Significant Subsequent Events: None.

10. Other Information

(a) The information on employee, depreciation, and amortization expenses, by function, for the years ended December 31, 2011 and 2010, is summarized as follows:

	2011			2010		
Account	Cost of goods sold	Operating expense	Total	Cost of goods sold	Operating expense	Total
Employee expenses						
Salaries	$ 395,149	374,425	769,574	$ 348,209	348,693	696,902
Labor and health insurance	32,346	29,696	62,042	25,448	26,195	51,643
Pension	37,808	16,082	53,890	32,069	13,351	45,420
Others	38,994	11,439	50,433	32,870	8,396	41,266
Depreciation	316,824	41,744	358,568	251,962	42,596	294,558
Amortization	8,898	12,095	20,993	10,257	8,464	18,721

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Unrecorded adjusting entries

In accordance with the Statute for Upgrading Industries, the Company and subsidiaries recorded a provision for loss on foreign investment equal to 20% of the foreign investment made and recognized it as periodic expenses. According to the regulation, in the event the Company and subsidiaries incur no actual investment loss within five years of the appropriation, the unused reserve shall be taken as income in the fifth year. Such provision is not acceptable under generally accepted accounting principles in the ROC. The provision has been reversed when preparing the accompanying consolidated financial statements. As of December 31, 2011 and 2010, the provision for loss on foreign investment amounted to $99,474 and $100,366, respectively.

(2) Reclassifications

Certain accounts in the consolidated financial statements as of December 31, 2010, have been reclassified to conform to those as of December 31, 2011. The result of this reclassification does not have a material impact in the financial statement as of December 31, 2010.

(3) Foreign currency financial assets and liabilities were as follows:

	December 31, 2011		**December 31, 2010**	
	Exchange rate	**NTD (in thousands)**	**Exchange rate**	**NTD (in thousands)**
Financial assets:				
Monetary items:				
USD	30.2800	313,932	29.1300	854,168
EUR	39.1800	236,172	38.9200	150,933
JPY	0.3906	96,120	0.3582	95,352
HKD	3.8970	570,000	3.7480	354,044
RMB	4.8070	571,460	4.4407	407,674
KRW	0.0262	236	0.0260	1,388
		1,787,920		**1,863,559**
Non-monetary items:				
EUR	39.1800	10	-	-
JPY	-	-	0.3582	3,967
HKD	3.8970	1,061	-	-
		1,071		**3,967**
Financial derivatives:				
USD	30.2950	1,523	-	-
EUR	39.1800	285	-	-
		1,808		**-**

(Continued)

	December 31, 2011		December 31, 2010	
	Exchange rate	**NTD (in thousands)**	**Exchange rate**	**NTD (in thousands)**
Financial liabilities:				
Monetary items:				
USD	30.2800	579,291	29.1300	256,777
EUR	39.1800	12,109	38.9200	5,621
JPY	0.3906	17,429	0.3582	4,569
HKD	3.8970	86,150	3.7480	11,720
RMB	4.8070	1,061,823	4.4407	868,911
KRW	0.0260	764	0.0260	610
		1,757,566		1,148,208
Financial derivatives:				
USD	-	-	30.2700	301

(4) Disclosure of plan for required adoption of international financial reporting standards

(i) Under Rule No. 0990004943 issued by the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC), companies with shares listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the International Financial Reporting Standards and the International Accounting Standards and their Interpretations as well as related guidance translated by the Accounting Research and Development Foundation and approved by the FSC starting from 2013. To comply with this framework, the Consolidated Company has set up a project team and made a plan to adopt IFRSs. The implementation of this plan is led by the accounting manager. The main contents of the plan, schedule, and status of execution as of December 31, 2011, were as follows:

Contents of plan	Responsible department	Status of execution
Evaluation phase: From January 1, 2010, to December 31, 2011		
• Make a plan to adopt IFRSs and set up a project team	Accounting	Completed
• Conduct phase I internal training for employees	Accounting	Completed
• Compare and analyze the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Accounting	Completed
• Assess the adjustments of the existing accounting policies	Accounting	Completed

(Continued)

TAIWAN SEMICONDUCTOR CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Contents of plan	Responsible department	Status of execution
• Assess the applicability of IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Accounting	Completed
• Assess the adjustments of the related information technology system and internal control	Internal audit and information technology	Completed
Preparation phase: From January 1, 2011, to December 31, 2012		
• Determine how to adjust the existing accounting policies in accordance with IFRSs	Accounting	Completed
• Determine how to apply to IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Accounting	Completed
• Adjust the related information technology system and internal control	Internal audit and information technology	In progress
• Conduct phase II internal training for employees	Accounting	In progress
Implementation Phase: From January 1, 2012, to December 31, 2013		
• Test run the adjusted related information technology system	Information technology	
• Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs	Accounting	
• Prepare the financial statements in conformity with IFRSs	Accounting	

(Continued)

(ii) The Consolidated Company has assessed the material differences shown below between the existing accounting policies and the accounting policies to be adopted under the IFRSs:

Accounting Topics	Description of Differences
Employee benefits	Under the existing ROC GAAP, there is no relevant rule about compensated absences. However, under IFRSs, when there are accumulated compensated absences at the end of reporting periods which may be used in later years, the Company should estimate the expected cost of employee benefits at the end of the reporting periods.
Income tax	Under ROC GAAP, a deferred income tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. However, a deferred income tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or non-current according to the expected reversal or realization date of the temporary difference. Under IFRSs, a deferred income tax asset or liability is always classified as non-current.
	Under ROC GAAP, deferred tax assets are recognized in full but are reduced by a valuation allowance account if there is evidence showing that a portion of or all the deferred tax assets will not be realized. However, under IFRSs, an entity recognizes deferred tax assets only if realization is “probable”, and a valuation allowance account is not used.

(iii) The Consolidated Company has assessed the above differences based on the IFRSs approved by the FSC. The explanation of the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs that might occur is only an initial decision made based on the current environment and situation, and therefore might be amended due to changes in the environment and situation that may occur later.

(Continued)

11. Segment Financial Information

(a) General Information

Operating segments required to be disclosed are categorized as Rectifier (rectifier trading) and Bar Code (manufacture and sale of bar code printers).

The Consolidated Company is required to disclose individual strategic business units which offer different products and services. Since the business units require different skills and marketing strategies, they need to be managed separately.

(b) Information about reported segment profit or loss, segment assets, segment liabilities, and their basis of measurement and the reconciliations.

The Consolidated Company does not distribute deferred income tax assets, income tax expenses or profits, and extraordinary gains or losses to the operating departments. The profits and losses of operating departments have been measured by net profits or losses before income taxes. The reported amount was consistent with the report used by the chief operating decision maker and with the amount used for the purpose of resource allocation and assessment of segment performance.

The information on operating departments is as follows:

	2011			
	Rectifier	**Bar Code**	**Adjustments and eliminations**	**Total**
Area revenue:				
Third-party customers	$ 4,843,640	1,676,163	-	6,519,803
Inter-company	5,004,261	69	(5,004,330)	-
Total revenue	$ 9,847,901	1,676,232	(5,004,330)	6,519,803
Area profit before taxes and minority interest	$ 317,043	396,052	31,025	744,120
Total assets	$ 14,055,546	1,740,514	(7,309,947)	8,486,113

	2010			
	Rectifier	**Bar Code**	**Adjustments and eliminations**	**Total**
Area revenue:				
Third-party customers	$ 5,320,094	1,406,251	-	6,726,345
Inter-company	6,380,858	47	(6,380,905)	-
Total revenue	$ 11,700,952	1,406,298	(6,380,905)	6,726,345
Area profit before taxes and minority interest	$ 589,630	396,052	21,249	1,006,931
Total assets	$ 13,256,788	1,450,734	(7,100,704)	7,606,818

(Continued)

(c) Enterprise-wide information

(1) Information about products and services

Information about the Consolidated Company's revenues from external customers is summarized as follows:

Product	2011	2010
Rectifier	$ 4,843,571	5,320,094
Bar Code	1,676,232	1,406,251
	$ 6,519,803	**6,726,345**

(2) Information about geographic areas

Information about the Company's operations in different geographical locations is as follows. The revenues were classified according to the external customers' geographical locations; however, non-current assets were classified according to where the assets were located.

Area	2011	2010
Asia	$ 4,153,857	4,363,706
Europe	1,462,474	1,481,426
Americas	753,353	762,854
Other	150,119	118,359
	$ 6,519,803	**6,726,345**

Non-current assets:

Area	2011	2010
Asia	$ 3,713,337	3,378,364
Europe	761	558
Americas	4,162	671
	$ 3,718,260	**3,379,593**

(3) Major customers

There were no individual customers representing greater than 10% of consolidated revenue in 2011 and 2010.