

TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD

Form 6-K

August 30, 2011

1934 Act Registration No. 1-14700

**SECURITIES AND EXCHANGE**

**COMMISSION**

**Washington, DC 20549**

**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

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

**THE SECURITIES EXCHANGE ACT OF 1934**

For the month of August 2011

**Taiwan Semiconductor Manufacturing Company Ltd.**

(Translation of Registrant's Name Into English)

**No. 8, Li-Hsin Rd. 6,**

**Hsinchu Science Park,**

**Taiwan**

(Address of Principal Executive Offices)

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

Form 20-F ☒

Form 40-F ☐

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

Yes ☐

No ☒

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

## **Taiwan Semiconductor Manufacturing**

### **Company Limited**

**Financial Statements for the**

**Six Months Ended June 30, 2011 and 2010 and**

**Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders

Taiwan Semiconductor Manufacturing Company Limited

We have audited the accompanying balance sheets of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2011 and 2010, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Semiconductor Manufacturing Company Limited as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

July 25, 2011

### Notice to Readers

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

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

## Taiwan Semiconductor Manufacturing Company Limited

## BALANCE SHEETS

JUNE 30, 2011 AND 2010

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

ASSETS	2011		2010	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 95,297,486	13	\$ 131,854,140	20
Financial assets at fair value through profit or loss (Notes 2, 5 and 23)	17,455	-	378	-
Available-for-sale financial assets (Notes 2, 6 and 23)	4,171,309	1	-	-
Held-to-maturity financial assets (Notes 2, 7 and 23)	2,114,955	-	7,031,587	1
Receivables from related parties (Notes 3 and 24)	27,402,025	4	24,822,081	4
Notes and accounts receivable (Note 3)	23,797,744	3	27,261,560	4
Allowance for doubtful receivables (Notes 2, 3 and 8)	(488,000)	-	(523,000)	-
Allowance for sales returns and others (Notes 2 and 8)	(5,641,777)	(1)	(5,982,628)	(1)
Other receivables from related parties (Notes 3 and 24)	3,231,557	-	634,274	-
Other financial assets (Note 25)	423,794	-	718,908	-
Inventories (Notes 2 and 9)	28,404,692	4	22,122,521	3
Deferred income tax assets (Notes 2 and 18)	1,053,036	-	3,216,953	1
Prepaid expenses and other current assets	1,068,001	-	1,134,163	-
<b>Total current assets</b>	<b>180,852,277</b>	<b>24</b>	<b>212,290,937</b>	<b>32</b>
<b>LONG-TERM INVESTMENTS (Notes 2, 6, 7, 10, 11 and 23)</b>				
Investments accounted for using equity method	110,458,979	15	115,722,527	17
Available-for-sale financial assets	-	-	1,039,916	-
Held-to-maturity financial assets	1,404,575	-	3,528,645	1
Financial assets carried at cost	497,835	-	497,835	-
<b>Total long-term investments</b>	<b>112,361,389</b>	<b>15</b>	<b>120,788,923</b>	<b>18</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12 and 24)</b>				
Cost				
Buildings	146,790,740	19	126,586,981	19
Machinery and equipment	950,275,417	124	802,138,783	121
Office equipment	12,915,965	2	11,402,593	2
	1,109,982,122	145	940,128,357	142
Accumulated depreciation	(754,185,331)	(99)	(665,861,387)	(100)
Advance payments and construction in progress	93,045,607	12	36,387,561	5
<b>Net property, plant and equipment</b>	<b>448,842,398</b>	<b>58</b>	<b>310,654,531</b>	<b>47</b>
<b>INTANGIBLE ASSETS</b>				
Goodwill (Note 2)	1,567,756	-	1,567,756	-
Deferred charges, net (Notes 2 and 13)	5,216,575	1	5,504,428	1
<b>Total intangible assets</b>	<b>6,784,331</b>	<b>1</b>	<b>7,072,184</b>	<b>1</b>
<b>OTHER ASSETS</b>				

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Deferred income tax assets (Notes 2 and 18)	10,855,491	1	9,600,630	2
Refundable deposits	4,796,851	1	2,381,457	-
Others (Notes 2 and 24)	1,380,133	-	459,256	-
<b>Total other assets</b>	<b>17,032,475</b>	<b>2</b>	<b>12,441,343</b>	<b>2</b>

<b>TOTAL</b>	<b>\$ 765,872,870</b>	<b>100</b>	<b>\$ 663,247,918</b>	<b>100</b>
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	<b>2011</b>		<b>2010</b>	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>CURRENT LIABILITIES</b>				
Short-term loans (Note 14)	\$ 33,140,881	4	\$ 17,759,356	3
Financial liabilities at fair value through profit or loss (Notes 2, 5 and 23)	-	-	173,978	-
Accounts payable	10,138,171	1	9,783,999	1
Payables to related parties (Note 24)	3,386,091	-	3,218,130	-
Income tax payable (Notes 2 and 18)	6,076,318	1	3,484,996	-
Cash dividends payable (Note 20)	77,730,236	10	77,708,120	12
Accrued profit sharing to employees and bonus to directors (Notes 2 and 20)	15,859,637	2	11,777,660	2
Payables to contractors and equipment suppliers	34,942,119	5	25,443,411	4
Accrued expenses and other current liabilities (Notes 16 and 23)	11,786,554	2	11,875,119	2
Current portion of bonds payable (Notes 15 and 23)	4,500,000	1	-	-
<b>Total current liabilities</b>	<b>197,560,007</b>	<b>26</b>	<b>161,224,769</b>	<b>24</b>
<b>LONG-TERM LIABILITIES</b>				
Bonds payable (Notes 15 and 23)	-	-	4,500,000	1
Other long-term payables (Notes 16 and 23)	-	-	161,390	-
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>	<b>4,661,390</b>	<b>1</b>
<b>OTHER LIABILITIES</b>				
Accrued pension cost (Notes 2 and 17)	3,860,459	-	3,805,044	1
Guarantee deposits (Note 27)	502,883	-	872,331	-
<b>Total other liabilities</b>	<b>4,363,342</b>	<b>-</b>	<b>4,677,375</b>	<b>1</b>
<b>Total liabilities</b>	<b>201,923,349</b>	<b>26</b>	<b>170,563,534</b>	<b>26</b>
<b>CAPITAL STOCK - NT\$10 PAR VALUE (Note 20)</b>				
Authorized: 28,050,000 thousand shares				
Issued: 25,914,283 thousand shares in 2011				
25,905,017 thousand shares in 2010	259,142,831	34	259,050,172	39
<b>CAPITAL SURPLUS (Notes 2 and 20)</b>	<b>55,802,387</b>	<b>7</b>	<b>55,566,995</b>	<b>8</b>
<b>RETAINED EARNINGS (Note 20)</b>				
Appropriated as legal capital reserve	102,399,995	13	86,239,494	13
Appropriated as special capital reserve	6,433,874	1	1,313,047	-
Unappropriated earnings	151,443,573	20	90,567,054	14
	<b>260,277,442</b>	<b>34</b>	<b>178,119,595</b>	<b>27</b>

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OTHERS (Notes 2 and 23)				
Cumulative translation adjustments	(11,461,047)	(1)	(1,034,256)	-
Unrealized gain on financial instruments	187,908	-	981,878	-
	(11,273,139)	(1)	(52,378)	-
Total shareholders' equity	563,949,521	74	492,684,384	74
TOTAL	\$ 765,872,870	100	\$ 663,247,918	100

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

# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	2011 Amount	%	2010 Amount	%
GROSS SALES (Notes 2 and 24)	\$ 212,301,752		\$ 196,370,319	
SALES RETURNS AND ALLOWANCES (Notes 2 and 8)	1,907,979		5,560,054	
NET SALES	210,393,773	100	190,810,265	100
COST OF SALES (Notes 9, 19 and 24)	113,265,613	54	98,822,613	52
GROSS PROFIT	97,128,160	46	91,987,652	48
REALIZED GROSS PROFIT FROM AFFILIATES (Note 2)	249,480	-	1,646	-
REALIZED GROSS PROFIT	97,377,640	46	91,989,298	48
OPERATING EXPENSES (Notes 19 and 24)				
Research and development	15,283,607	7	12,596,905	7
General and administrative	6,029,204	3	4,809,249	2
Marketing	1,211,366	1	1,358,880	1
Total operating expenses	22,524,177	11	18,765,034	10
INCOME FROM OPERATIONS	74,853,463	35	73,224,264	38
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net (Notes 2 and 10)	2,914,860	2	2,179,835	1
Settlement income (Note 27)	433,425	-	1,278,400	1
Interest income	402,293	-	388,318	-
Foreign exchange gain, net (Note 2)	322,334	-	92,744	-
Technical service income (Note 24)	224,238	-	236,790	-
Valuation gain on financial instruments, net (Notes 2, 5 and 23)	-	-	29,739	-

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Others (Notes 2 and 24)	461,096	-	169,924	-
Total non-operating income and gains	4,758,246	2	4,375,750	2

(Continued)

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# Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
<b>NON-OPERATING EXPENSES AND LOSSES</b>				
Valuation loss on financial instruments, net (Notes 2, 5 and 23)	\$ 197,255	-	\$ -	-
Loss on disposal of property, plant and equipment (Note 2)	153,131	-	-	-
Interest expense	146,374	-	79,188	-
Casualty loss (Note 9)	-	-	194,137	-
Others	122,232	-	76,974	-
<b>Total non-operating expenses and losses</b>	<b>618,992</b>	<b>-</b>	<b>350,299</b>	<b>-</b>
 <b>INCOME BEFORE INCOME TAX</b>	 <b>78,992,717</b>	 <b>37</b>	 <b>77,249,715</b>	 <b>40</b>
<b>INCOME TAX EXPENSE (Notes 2 and 18)</b>	<b>6,764,610</b>	<b>3</b>	<b>3,304,682</b>	<b>1</b>
 <b>NET INCOME</b>	 <b>\$ 72,228,107</b>	 <b>34</b>	 <b>\$ 73,945,033</b>	 <b>39</b>
	2011		2010	
	Before	After	Before	After
	Income	Income	Income	Income
	Tax	Tax	Tax	Tax
<b>EARNINGS PER SHARE (NT\$, Note 22)</b>				
Basic earnings per share	\$ 3.05	\$ 2.79	\$ 2.98	\$ 2.85
Diluted earnings per share	\$ 3.05	\$ 2.79	\$ 2.98	\$ 2.85

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

(Concluded)

## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	Capital Stock - Common Stock								Others		
	Shares	Amount	Capital	Legal	Retained Earnings	Unappropriated	Total	Cumulative	Unrealized	Gain (Loss)	Share
	(In Thousands)		Surplus	Capital Reserve	Special Capital Reserve	Earnings		Translation		On Financial	Interest
								Adjustments		Instruments	
1,	25,910,078	\$ 259,100,787	\$ 55,698,434	\$ 86,239,494	\$ 1,313,047	\$ 178,227,030	\$ 265,779,571	\$ (6,543,163)	\$ 109,289	\$ 5	
ons of											
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od	-	-	-	-	-	-	-	-	-	(98,351)	
	25,914,283	\$ 259,142,831	\$ 55,802,387	\$ 102,399,995	\$ 6,433,874	\$ 151,443,573	\$ 260,277,442	\$ (11,461,047)	\$ 187,908	\$ 5	

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L,	25,902,706	\$	259,027,066	\$	55,486,010	\$	77,317,710	\$	-	\$	104,564,972	\$	181,882,682	\$	(1,766,667)	\$	453,621	\$	4
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The accompanying notes are an integral part of the financial statements.

## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 72,228,107	\$ 73,945,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,954,937	39,684,919
Realized gross profit from affiliates	(249,480)	(1,646)
Amortization of premium/discount of financial assets	7,757	8,666
Gain on disposal of available-for-sale financial assets, net	(35,151)	-
Loss on disposal of financial assets carried at cost	-	1,263
Equity in earnings of equity method investees, net	(2,914,860)	(2,179,835)
Cash dividends received from equity method investees	1,914,392	-
Loss (gain) on disposal of property, plant and equipment and other assets, net	10,251	(9,334)
Deferred income tax	336,498	(990,530)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets and liabilities at fair value through profit or loss	(25,289)	355,343
Receivables from related parties	(1,668,051)	(2,280,308)
Notes and accounts receivable	(1,546,839)	(7,377,040)
Allowance for doubtful receivables	-	92,000
Allowance for sales returns and others	(1,699,667)	(2,601,004)
Other receivables from related parties	(64,293)	33,182
Other financial assets	(5,588)	385,164
Inventories	(2,758,344)	(3,292,305)
Prepaid expenses and other current assets	284,243	(230,184)
Increase (decrease) in:		
Accounts payable	(2,091,732)	492,889
Payables to related parties	811,641	1,178,788
Income tax payable	(1,032,551)	(5,276,124)
Accrued profit sharing to employees and bonus to directors	4,900,168	5,006,322
Accrued expenses and other current liabilities	(1,875,486)	(4,941,797)
Accrued pension cost	35,858	(2,132)
Deferred credits	-	(47,873)
Net cash provided by operating activities	114,516,521	91,953,457
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	(139,147,091)	(98,190,906)
Investments accounted for using equity method	(511,390)	(8,018,146)
Financial assets carried at cost	-	(480)
Proceeds from disposal or redemption of:		
Available-for-sale financial assets	1,035,151	-
Held-to-maturity financial assets	2,675,000	11,595,000

(Continued)

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## Taiwan Semiconductor Manufacturing Company Limited

## STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
Financial assets carried at cost	\$ -	\$ 3,370
Property, plant and equipment and other assets	2,068,298	20,903
Increase in deferred charges	(788,025)	(585,185)
Decrease in refundable deposits	3,841,898	316,659
Increase in other assets	(22,600)	-
Net cash used in investing activities	(130,848,759)	(94,858,785)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	2,232,244	17,759,356
Decrease in guarantee deposits	(245,004)	(129,045)
Proceeds from exercise of employee stock options	131,354	85,614
Net cash provided by financing activities	2,118,594	17,715,925
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,213,644)	14,810,597
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	109,511,130	117,043,543
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 95,297,486	\$ 131,854,140
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 221,853	\$ 145,179
Income tax paid	\$ 7,417,035	\$ 9,452,574
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of property, plant and equipment	\$ 133,768,114	\$ 94,612,614
Decrease in payables to contractors and equipment suppliers	5,379,459	3,701,212
Nonmonetary exchange trade-out price	(482)	(122,920)
Cash paid	\$ 139,147,091	\$ 98,190,906
Disposal of property, plant and equipment and other assets	\$ 2,905,302	\$ 143,823
Increase in other receivables to related parties	(836,522)	-

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Nonmonetary exchange trade-out price	(482)	(122,920)
Cash received	\$ 2,068,298	\$ 20,903
NON-CASH FINANCING ACTIVITIES		
Current portion of bonds payable	\$ 4,500,000	\$ -
Current portion of other long-term payables (under accrued expenses and other current liabilities)	\$ 897,298	\$ 569,149

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

(Concluded)

**Taiwan Semiconductor Manufacturing Company Limited**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010**

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

**1. GENERAL**

Taiwan Semiconductor Manufacturing Company Limited (the Company or TSMC), a Republic of China (R.O.C.) corporation, was incorporated on February 21, 1987. The Company is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks. Beginning in 2010, the Company also engages in the researching, developing, designing, manufacturing and selling of solid state lighting devices and related applications products and systems, and renewable energy and efficiency related technologies and products. On September 5, 1994, its shares were listed on the Taiwan Stock Exchange (TSE). On October 8, 1997, TSMC listed some of its shares of stock on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADSs).

As of June 30, 2011 and 2010, the Company had 30,364 and 24,882 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

Significant accounting policies are summarized as follows:

**Foreign-currency Transactions**

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

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

**Use of Estimates**

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



### **Classification of Current and Noncurrent Assets and Liabilities**

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

### **Cash Equivalents**

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

### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

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

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

### **Available-for-sale Financial Assets**

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

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

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

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

### **Held-to-maturity Financial Assets**

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

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

#### **Financial Assets Carried at Cost**

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

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

#### **Allowance for Doubtful Receivables**

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

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

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

#### **Inventories**

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

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

### **Investments Accounted for Using Equity Method**

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

When the Company subscribes for additional investee's shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company's share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus.

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

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

### **Property, Plant and Equipment and Assets Leased to Others**

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

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

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

### **Intangible Assets**

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

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

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

### **Pension Costs**

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

### **Income Tax**

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

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

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

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

**Stock-based Compensation**

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

**Revenue Recognition and Allowance for Sales Returns and Others**

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

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

**3. ACCOUNTING CHANGES**

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

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, Operating Segments. The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, Segment Reporting. The Company conformed to the disclosure requirements as of and for the six months ended June 30, 2011. The information for the six months ended June 30, 2010 has been recast to reflect the new segment reporting requirement.

**4. CASH AND CASH EQUIVALENTS**

	000000000000	000000000000
	2011	2010
	June 30	
Cash and deposits in banks	\$ 91,164,818	\$ 129,953,580
Repurchase agreements collateralized by government bonds	4,132,668	1,900,560
	\$ 95,297,486	\$ 131,854,140

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

	00000000 June 30 2011	00000000 2010
<b>Trading financial assets</b>		
Cross currency swap contracts	\$ 17,455	\$ 378
<b>Trading financial liabilities</b>		
Forward exchange contracts	\$ -	\$ 13,893
Cross currency swap contracts	-	160,085
	\$ -	\$ 173,978

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

Outstanding forward exchange contracts consisted of the following:

	Contract Amount (In Thousands)
<b>June 30, 2010</b>	
Sell EUR/Buy NT\$	July 2010 EUR14,000/NT\$549,304
Sell US\$/Buy NT\$	July 2010 US\$40,000/NT\$1,277,000

Outstanding cross currency swap contracts consisted of the following:

	Contract Amount (In Thousands)	Range of Interest Rates Paid	Range of Interest Rates Received
<b>June 30, 2011</b>			
July 2011	US\$128,000/NT\$3,699,250	0.46%-1.01%	0.00%-0.00%
<b>June 30, 2010</b>			
July 2010 to August 2010	US\$615,000/NT\$19,689,710	0.41%-0.67%	0.00%-0.00%

For the six months ended June 30, 2011 and 2010, changes in fair value related to derivative financial instruments recognized in earnings was a net loss of NT\$197,255 thousand and a net gain of NT\$29,739 thousand, respectively.

**6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	000000000 June 30 2011	000000000 June 30 2010
Overseas publicly traded stock	\$ 4,171,309	\$ -
Corporate bonds	-	1,039,916
	4,171,309	1,039,916
Current portion	(4,171,309)	-
	\$ -	\$ 1,039,916

**7. HELD-TO-MATURITY FINANCIAL ASSETS**

	000000000 June 30 2011	000000000 June 30 2010
Corporate bonds	\$ 3,519,530	\$ 9,560,232
Structured time deposits	-	1,000,000
	3,519,530	10,560,232
Current portion	(2,114,955)	(7,031,587)
	\$ 1,404,575	\$ 3,528,645

Structured time deposits categorized as held-to-maturity financial assets consisted of the following:

	000000000 Principal Amount	000000000 Interest Receivable	000000000 Range of Interest Rates	000000000 Maturity Date
<u>June 30, 2010</u>				
Callable domestic deposits	\$ 1,000,000	\$ 819	0.36%	July 2010

**8. ALLOWANCES FOR DOUBTFUL RECEIVABLES, SALES RETURNS AND OTHERS**

Movements of the allowance for doubtful receivables were as follows:

	000000000 Six Months Ended June 30 2011	000000000 Six Months Ended June 30 2010
Balance, beginning of period	\$ 488,000	\$ 431,000

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Provision	-	92,000
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Balance, end of period	\$ 488,000	\$ 523,000
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Movements of the allowance for sales returns and others were as follows:

	0000000000 <b>Six Months Ended June 30 2011</b>	0000000000 <b>Six Months Ended June 30 2010</b>
Balance, beginning of period	\$ 7,341,444	\$ 8,583,632
Provision	1,907,979	5,560,054
Write-off	(3,607,646)	(8,161,058)
Balance, end of period	\$ 5,641,777	\$ 5,982,628

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**9. INVENTORIES**

	000000000000	000000000000
	June 30	
	2011	2010
Finished goods	\$ 6,952,784	\$ 2,266,830
Work in process	17,713,682	16,884,693
Raw materials	2,221,347	1,953,960
Supplies and spare parts	1,516,879	1,017,038
	\$ 28,404,692	\$ 22,122,521

Write-down of inventories to net realizable value in the amount of NT\$258,871 thousand and NT\$47,183 thousand, respectively, were included in the cost of sales for the six months ended June 30, 2011 and 2010. Inventories losses related to earthquake in the amount of NT\$194,137 thousand were classified under non-operating expenses and losses for the six months ended June 30, 2010.

**10. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	000000000000	000000000000	000000000000	000000000000
	June 30		June 30	
	2011	% of	2010	% of
	Carrying	Owner-	Carrying	Owner-
	Amount	ship	Amount	ship
TSMC Global Ltd. (TSMC Global)	\$ 41,617,880	100	\$ 46,004,067	100
TSMC Partners, Ltd. (TSMC Partners)	32,657,501	100	34,361,272	100
Vanguard International Semiconductor Corporation (VIS)	9,110,898	38	9,233,879	38
Motech Industries Inc. (Motech)	6,132,395	20	6,225,880	20
Systems on Silicon Manufacturing Company Pte Ltd. (SSMC)	5,519,534	39	6,727,380	39
TSMC China Company Limited (TSMC China)	5,198,868	100	3,134,321	100
TSMC North America	2,830,777	100	2,800,334	100
VentureTech Alliance Fund III, L.P. (VTAF III)	2,587,484	99	2,890,551	99
Xintec Inc. (Xintec)	1,596,809	41	1,576,835	41
Global UniChip Corporation (GUC)	1,064,925	35	1,000,709	35
VentureTech Alliance Fund II, L.P. (VTAF II)	1,015,748	98	1,128,923	98
TSMC Solar Europe B.V. (TSMC Solar Europe)	391,148	100	-	-
Emerging Alliance Fund, L.P. (Emerging Alliance)	277,059	99	315,832	99
TSMC Europe B.V. (TSMC Europe)	201,892	100	156,985	100
TSMC Japan Limited (TSMC Japan)	146,863	100	146,335	100
TSMC Solar North America, Inc. (TSMC Solar NA)	83,704	100	-	-
TSMC Korea Limited (TSMC Korea)	22,622	100	19,224	100
TSMC Lighting North America, Inc. (TSMC Lighting NA)	2,872	100	-	-
	\$ 110,458,979		\$ 115,722,527	

For the renewable energy and efficiency related businesses development, the Company established wholly-owned subsidiaries, TSMC Solar NA, TSMC Solar Europe and TSMC Lighting NA, in the third quarter of 2010. In addition, the Company will transfer solar and solid state lighting businesses to its wholly-owned, newly incorporated subsidiaries as part of the strategic planning in the third quarter of 2011.

For the year ended December 31, 2010, the Company increased its investment in VTAF III for the amount of NT\$1,862,278 thousand, and the Company's percentage of ownership in VTAF III increased from 98% to 99%.

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

For the six months ended June 30, 2011 and 2010, equity in earnings of equity method investees was a net gain of NT\$2,914,860 thousand and NT\$2,179,835 thousand, respectively. Related equity in earnings/losses of equity method investees were determined based on the audited financial statements, except those of TSMC Solar Europe, Emerging Alliance, TSMC Europe, TSMC Japan, TSMC Solar NA, TSMC Korea and TSMC Lighting NA for the six months ended June 30, 2011 and those of Emerging Alliance, TSMC Europe, TSMC Japan and TSMC Korea for the six months ended June 30, 2010. The Company believes that, had the aforementioned equity method investees' financial statements been audited, any adjustments arising would have no material effect on the Company's financial statements.

As of June 30, 2011 and 2010, the quoted market price of publicly traded stocks in unrestricted investments accounted for using the equity method (VIS and GUC) were NT\$14,691,013 thousand and NT\$13,692,207 thousand, respectively.

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

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Balance, beginning of period	\$ 2,504,496	\$ 1,429,118
Additions	-	2,055,660
Amortizations	(476,809)	(472,501)
Balance, end of period	\$ 2,027,687	\$ 3,012,277

Movements of the difference allocated to goodwill were as follows:

	<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Balance, beginning of period	\$ 1,415,565	\$ 1,061,885
Additions	-	353,680
Balance, end of period	\$ 1,415,565	\$ 1,415,565

## 11. FINANCIAL ASSETS CARRIED AT COST

	00000000	00000000
	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Non-publicly traded stocks	\$ 338,584	\$ 338,584
Mutual funds	159,251	159,251
	\$ 497,835	\$ 497,835

## 12. PROPERTY, PLANT AND EQUIPMENT

	0000000000000000	0000000000000000	0000000000000000	0000000000000000	0000000000000000
	Six Months Ended June 30, 2011				
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period
Cost					
Buildings	\$ 128,646,942	\$ 18,154,973	\$ (11,175)	\$ -	\$ 146,790,740
Machinery and equipment	852,733,592	98,688,934	(1,119,442)	(27,667)	950,275,417
Office equipment	11,730,537	1,424,494	(239,066)	-	12,915,965
	993,111,071	\$ 118,268,401	\$ (1,369,683)	\$ (27,667)	1,109,982,122
Accumulated depreciation					
Buildings	81,347,877	\$ 4,360,111	\$ (9,762)	\$ -	85,698,226
Machinery and equipment	616,495,207	44,015,931	(1,079,340)	(15,678)	659,416,120
Office equipment	8,762,361	547,690	(239,066)	-	9,070,985
	706,605,445	\$ 48,923,732	\$ (1,328,168)	\$ (15,678)	754,185,331
Advance payments and construction in progress	80,348,673	\$ 15,499,713	\$ (2,802,779)	\$ -	93,045,607
	\$ 366,854,299				\$ 448,842,398

	Six Months Ended June 30, 2010					
	Balance, Beginning of Period	Additions	Disposals	Reclassification	Balance, End of Period	
Cost						
Buildings	\$ 124,522,047	\$ 2,065,029	\$ (95)	\$ -	\$ 126,586,981	
Machinery and equipment	713,426,126	89,052,436	(479,621)	139,842	802,138,783	
Office equipment	10,781,099	894,165	(272,229)	(442)	11,402,593	
	848,729,272	\$ 92,011,630	\$ (751,945)	\$ 139,400	940,128,357	
Accumulated depreciation						
Buildings	73,525,160	\$ 4,059,404	\$ (95)	\$ -	77,584,469	
Machinery and equipment	545,693,910	34,213,131	(479,621)	139,842	579,567,262	
Office equipment	8,545,253	437,074	(272,229)	(442)	8,709,656	

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	627,764,323	\$	38,709,609	\$	(751,945)	\$	139,400	665,861,387
Advance payments and construction in progress	33,786,577	\$	2,600,984	\$	-	\$	-	36,387,561
	\$	254,751,526					\$	310,654,531

No interest was capitalized during the six months ended June 30, 2011 and 2010.

**13. DEFERRED CHARGES, NET**

	0000000000	0000000000	0000000000	0000000000
	<b>Balance,</b>	<b>Six Months Ended June 30, 2011</b>		
	<b>Beginning of</b>			<b>Balance,</b>
	<b>Period</b>	<b>Additions</b>	<b>Amortization</b>	<b>End of Period</b>
Technology license fees	\$ 2,277,832	\$ -	\$ (334,985)	\$ 1,942,847
Software and system design costs	2,075,935	672,362	(507,499)	2,240,798
Patent and others	1,102,660	115,663	(185,393)	1,032,930
	\$ 5,456,427	\$ 788,025	\$ (1,027,877)	\$ 5,216,575

