TAIWAN SEMICONDUCTOR MANUFACTURING CO LTD
Form 20-F
April 13, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 1-14700

(Exact Name of Registrant as Specified in Its Charter)

Taiwan Semiconductor Manufacturing Company Limited
(Translation of Registrant s Name Into English)

Republic of China
(Jurisdiction of Incorporation or Organization)

No. 8, Li-Hsin Road 6

Hsinchu Science Park

Hsinchu, Taiwan

Republic of China

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares, par value NT$10.00 each*	The New York Stock Exchange, Inc.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2011, 25,916,222,575 Common Shares, par value NT$10 each were outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No ___

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15)(d) of the Securities Exchange Act of 1934. Yes ___ No ü

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ü No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ___ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ü Accelerated Filer ___ Non-Accelerated Filer ___

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ___ International Financial Reporting Standards as issued ___ Other ü

by the International Accounting Standards Board

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ___ Item 18 ü

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No ü

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American Depositary Shares representing such Common Shares

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This annual report includes statements that are, or may be deemed to be, forward-looking statements within the meaning of U.S. securities laws. The terms anticipates, expects, may, will, should and other similar expressions identify forward-looking statements. These statements appear number of places throughout this annual report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance and our actual results of operations, financial condition and liquidity, and the development of the industries in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this annual report. Important factors that could cause those differences include, but are not limited to:

- the volatility of the semiconductor and microelectronics industry;
- overcapacity in the semiconductor industry;
- the increased competition from other companies and our ability to retain and increase our market share;
- our ability to develop new technologies successfully and remain a technological leader;
- our ability to maintain control over expansion and facility modifications;
- our ability to generate growth and profitability;
- our ability to hire and retain qualified personnel;
- our ability to acquire required equipment and supplies necessary to meet business needs;
- our reliance on certain major customers;
- the political stability of our local region; and
- general local and global economic conditions.

Forward-looking statements include, but are not limited to, statements regarding our strategy and future plans, future business condition and financial results, our capital expenditure plans, our capacity management plans, expectations as to the commercial production using 20-nanometer and more advanced technologies, technological upgrades, investment in research and development, future market demand, future regulatory or other developments in our industry. Please see Item 3. Key Information Risk Factors for a further discussion of certain factors that may cause actual results to differ materially from those indicated by our forward-looking statements.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial and Operating Data

The selected income statement data, cash flow data and other financial data for the years ended December 31, 2009, 2010 and 2011, and the selected balance sheet data as of December 31, 2010 and 2011, set forth below, are derived from our audited consolidated financial statements included herein, and should be read in conjunction with, and are qualified in their entirety by reference to, these consolidated financial statements, including the notes thereto. The selected income statement data, cash flow data and other financial data for the years ended December 31, 2007 and 2008 and the selected balance sheet data as of December 31, 2007, 2008 and 2009, set forth below, are derived from our audited consolidated financial statements not included herein. The consolidated financial statements have been prepared and presented in accordance with accounting principles generally accepted (GAAP or R.O.C. GAAP) in the Republic of China (R.O.C. or Taiwan), which differ in some material respects from accounting principles generally accepted in the United States of America (U.S. GAAP) as further explained under note 34 to our consolidated financial statements.

	Year ended and as of December 31					
	2007	2008	2009	2010	2011	2011
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Income Statement Data:						
R.O.C. GAAP						
Net sales	322,630	333,158	295,742	419,538	427,081	14,109
Cost of sales[6]	(180,280)	(191,408)	(166,413)	(212,484)	(232,938)	(7,695)
Gross profit before affiliates elimination	142,350	141,750	129,329	207,054	194,143	6,414
Unrealized gross profit from affiliates					(74)	(3)
Gross profit	142,350	141,750	129,329	207,054	194,069	6,411
Operating expenses[6]	(30,628)	(37,315)	(37,367)	(47,879)	(52,512)	(1,735)
Income from operations	111,722	104,435	91,962	159,175	141,557	4,676
Non-operating income and gains	11,934	10,822	5,654	13,136	5,359	177
Non-operating expenses and losses	(2,014)	(3,785)	(2,153)	(2,041)	(1,768)	(58)
Income before income tax	121,642	111,472	95,463	170,270	145,148	4,795
Income tax expense	(11,710)	(10,949)	(5,997)	(7,988)	(10,695)	(353)
Net income	109,932	100,523	89,466	162,282	134,453	4,442
Net income attributable to minority interests	(755)	(590)	(248)	(677)	(252)	(8)
Net income attributable to shareholders of the parent	109,177	99,933	89,218	161,605	134,201	4,434
Basic earnings per share[1]	4.04	3.84	3.45	6.24	5.18	0.17
Diluted earnings per share[1]	4.04	3.81	3.44	6.23	5.18	0.17
Basic earnings per ADS equivalent[1]	20.21	19.19	17.27	31.19	25.89	0.86
Diluted earnings per ADS equivalent[1]	20.20	19.05	17.22	31.17	25.88	0.86
Basic weighted average shares outstanding[1]	27,005	26,039	25,836	25,906	25,914	25,914
Diluted weighted average shares outstanding[1]	27,025	26,234	25,912	25,920	25,925	25,925

U.S. GAAP						
Net sales	323,221	334,340	296,109	419,988	427,488	14,123
Cost of sales	(202,046)	(203,734)	(167,122)	(212,771)	(232,989)	(7,697)
Gross profit before affiliates elimination	121,175	130,606	128,987	207,217	194,499	6,426
Unrealized gross profit from affiliates					(74)	(3)
Gross profit	121,175	130,606	128,987	207,217	194,425	6,423
Operating expenses	(44,775)	(44,424)	(37,627)	(48,434)	(52,405)	(1,731)
Income from operations	76,400	86,182	91,360	158,783	142,020	4,692
Income before income tax	85,973	91,884	94,253	170,088	149,238	4,930
Income tax expense	(14,012)	(10,062)	(4,960)	(5,768)	(12,135)	(401)

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	Year ended and as of December 31					
	2007	2008	2009	2010	2011	2011
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Net income	71,961	81,822	89,293	164,320	137,103	4,529
Net income attributable to shareholders of the parent	71,658	81,473	89,102	163,639	136,873	4,522
Basic earnings per share[2]	2.71	3.15	3.45	6.32	5.28	0.17
Diluted earnings per share[2]	2.71	3.13	3.44	6.31	5.28	0.17
Basic earnings per ADS equivalent[2]	13.57	15.77	17.24	31.58	26.41	0.87
Diluted earnings per ADS equivalent[2]	13.56	15.66	17.19	31.57	26.40	0.87
Basic weighted average shares outstanding[2]	26,409	25,826	25,836	25,906	25,914	25,914
Diluted weighted average shares outstanding[2]	26,429	26,021	25,912	25,920	25,925	25,925
Balance Sheet Data:						
R.O.C. GAAP						
Working capital	201,116	195,812	180,671	138,328	108,253	3,576
Long-term investments	36,461	39,982	37,845	39,776	34,459	1,138
Properties	260,252	243,645	273,675	388,444	490,375	16,200
Goodwill	5,988	6,044	5,931	5,705	5,694	188
Total assets	570,865	558,917	594,696	718,929	774,265	25,579
Long-term bank borrowing	1,722	1,420	579	302	1,588	52
Long-term bonds payable	12,500	4,500	4,500	4,500	18,000	595
Guaranty deposit-in and other liabilities[3]	17,251	15,817	11,436	12,231	5,627	186
Total liabilities	80,179	78,544	95,648	140,224	142,221	4,699
Capital stock	264,271	256,254	259,027	259,101	259,162	8,562
Cash dividend on common shares	77,489	76,881	76,876	77,708	77,730	2,568
Shareholders equity attributable to shareholders of the parent	487,092	476,377	495,083	574,145	629,594	20,799
Minority interests in subsidiaries	3,594	3,996	3,965	4,560	2,450	81
U.S. GAAP						
Goodwill	46,926	47,028	46,825	46,419	46,399	1,533
Total assets	610,843	599,484	635,275	759,266	818,774	27,049
Total liabilities	94,021	84,424	99,278	144,109	147,161	4,862
Capital Stock	264,271	256,254	259,027	259,101	259,162	8,562
Shareholders equity attributable to common shareholders of the parent	513,228	511,089	532,043	610,597	669,163	22,106
Noncontrolling interests in subsidiaries	3,594	3,971	3,954	4,560	2,450	81

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	Year ended and as of December 31					
	2007	2008	2009	2010	2011	2011
	NT$	NT$	NT$	NT$	NT$	US$
	(in millions, except for percentages, earnings per share and per ADS, and operating data)					
Other Financial Data:						
R.O.C. GAAP						
Gross margin	44%	42%	44%	49%	45%	45%
Operating margin	35%	31%	31%	38%	33%	33%
Net margin	34%	30%	30%	39%	31%	31%
Capital expenditures	84,001	59,223	87,785	186,944	213,963	7,068
Depreciation and amortization	80,005	81,512	80,815	87,810	107,682	3,557
Cash provided by operating activities	183,766	221,494	159,966	229,476	247,587	8,179
Cash used in investing activities	(70,689)	(8,042)	(96,468)	(202,086)	(182,523)	(6,030)
Cash used in financing activities	(135,410)	(115,393)	(85,471)	(48,638)	(67,858)	(2,242)
Net cash inflow (outflow)	(22,851)	99,628	(23,338)	(23,389)	(4,415)	(146)
Operating Data:						
Wafer (200mm equivalent) shipment[4]	8,005	8,467	7,737	11,860	12,549	12,549
Billing Utilization Rate[5]	93%	88%	75%	101%	91%	91%

(1) Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008 and profit sharing to employees in stock for earning year 2007.

(2) Retroactively adjusted for stock dividends for earning year 2007 to earning year 2008.

(3) Consists of other long-term payables, obligations under capital leases and total other liabilities.

(4) In thousands.

(5) Billing Utilization Rate is equal to annual wafer shipment divided by annual capacity. Capacity includes wafers committed by Vanguard and SSMC. Please see Item 7. Major Shareholders and Related Party Transaction Related Party Transactions.

(6) As a result of the adoption of Interpretation 2007-052, Accounting for Bonuses to Employees, Directors and Supervisors, the Company records profit sharing to employees and bonus to directors and supervisors as an expense rather than as an appropriation of earnings starting in 2008.

Exchange Rates

We publish our financial statements in New Taiwan dollars, the lawful currency of the R.O.C. In this annual report, $, US$ and U.S. dollars mean United States dollars, the lawful currency of the United States, and NT$ and NT dollars mean New Taiwan dollars. This annual report contains translations of certain NT dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. The translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars for periods through December 31, 2008 were made at the year-end noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the statistical release of the Federal Reserve Board. Unless otherwise noted, all translations for the year 2011 were made at the exchange rate as of December 30, 2011, which was NT$30.27 to US$1.00. On April 6, 2012, the exchange rate was NT$29.50 to US$1.00.

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The following table sets forth, for the periods indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged.

	NT dollars per U.S. dollar			
	Average[1]	High	Low	Period-End
2007	32.82	33.41	32.26	32.43
2008	31.51	33.58	29.99	32.76
2009	32.96	35.21	31.95	31.95
2010	31.39	32.43	29.14	29.14
2011	29.42	30.67	28.50	30.27
October 2011	30.26	30.67	29.86	29.91
November 2011	30.22	30.43	30.02	30.31
December 2011	30.25	30.38	30.10	30.27
January 2012	29.99	30.28	29.61	29.61
February 2012	29.53	29.65	29.37	29.37
March 2012	29.52	29.61	29.37	29.50
April 2012 (through April 6, 2012)	29.49	29.52	29.46	29.50

(1) Annual averages calculated from month-end rates and monthly averages calculated from daily closing rates.

No representation is made that the NT dollar or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate or at all.

Capitalization and Indebtedness

Not applicable.

Reasons for the Offer and Use of Proceeds

Not applicable.

Risk Factors

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the Securities and Exchange Commission, among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf, and that such factors may adversely affect our business and financial status and therefore the value of your investment:

Risks Relating to Our Business

Any global systemic political, economic and financial crisis or catastrophic natural disasters (as well as the indirect effects flowing therefrom) could negatively affect our business, results of operations, and financial condition.

In recent times, several major systemic economic and financial crises and natural disasters negatively affected global business, banking and financial sectors, including the semiconductor industry and markets. These types of crises cause turmoil in global markets that often result in declines in electronic products sales from which we generate our income through our goods and services. In addition, these crises may cause a

number of indirect effects such as undermining the ability of our customers to remain competitive vis-à-vis the financial and economic challenges created by insolvent countries and companies still struggling to survive in the wake of these crises. For example, there could be in the future knock-on effects from these types of crises on our business, including significant decreases in orders from our customers; insolvency of key suppliers resulting in product delays; inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies; and counterparty failures negatively impacting our treasury operations. Even though the Tohoku earthquake and tsunami in Northeastern Japan of March 2011, and the 2011 Thailand flooding caused the global electronics supply-chain to suffer a tighter supply in silicon wafers and electronic components, those natural disasters did not have a material impact on our past and current operations. Any future systemic political, economic or financial crisis or catastrophic natural disaster (as well as the indirect effects flowing from these crises or disasters) could cause revenues for the semiconductor industry as a whole to decline dramatically, and if the economic conditions or financial condition of our customers were to deteriorate, additional accounting related allowances may be required in the future and such additional allowances could increase our operating expenses and therefore reduce our operating income and net income. Thus, any future global economic crisis or catastrophic natural disaster (and their indirect effects) could materially and adversely affect our results of operations.

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Since we are dependent on the highly cyclical semiconductor and microelectronics industries, which have experienced significant and sometimes prolonged periods of downturns and overcapacity, our revenues, earnings and margins may fluctuate significantly.

The semiconductor market and microelectronics industries have historically been cyclical and subject to significant and often rapid increases and decreases in product demand. Our semiconductor foundry business is affected by market conditions in such highly cyclical semiconductor and microelectronics industries. Most of our customers operate in these industries. Variations in order levels from our customers result in volatility in our revenues and earnings. From time to time, the semiconductor and microelectronics industries have experienced significant and sometimes prolonged periods of downturns and overcapacity. Any systemic economic, political, or financial crisis, such as the one that occurred in 2008-2009, could create significant volatility and uncertainty within the semiconductor and microelectronics industries which may disrupt traditional notions of cyclicality within such industries. As such, the nature, extent and scope of such periods of downturns and overcapacity may vary drastically in accordance with the degree of volatility of market demand. Because we are, and will continue to be, dependent on the requirements of semiconductor and microelectronics companies for our services, periods of downturns and overcapacity in the general semiconductor and microelectronics industries lead to reduced demand for overall semiconductor foundry services, including our services. If we cannot take appropriate actions such as reducing our costs to sufficiently offset declines in demand, our revenues, margin and earnings will suffer during periods of downturns and overcapacity. Furthermore, due to the increasingly complex technological nature of our products and services and the ever uncertain global economic environment, we may need to provide higher accounting provisions on potential sales returns and allowances by our customers that may adversely affect the results of our operations.

Decreases in demand and average selling prices for products that contain semiconductors may adversely affect demand for our products and may result in a decrease in our revenues and earnings.

A vast majority of our sales revenue is derived from customers who use our services in communication devices, personal computers, consumer electronics products and other categories, such as industrial products. Any decrease in the demand for the products may decrease the demand for overall global semiconductor foundry services, including our services and may adversely affect our revenues. Further, because we own most of our manufacturing capacities, a significant portion of our operating costs is fixed. In general, these costs do not decline when customer demand or our capacity utilization rates drop, and thus declines in customer demand, among other factors, may significantly decrease our margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which can improve our margins. In addition, the historical and current trend of declining average selling prices (or ASP) of end use applications places downward pressure on the prices of the components that go into such applications. If the ASP of end use applications continues decreasing, the pricing pressure on components produced by us may lead to a reduction of our revenues, margin and earnings.

If we are unable to compete effectively in the highly competitive foundry segment of the semiconductor industry, we may lose customers and our profit margin and earnings may decrease.

The markets for our foundry services are highly competitive both in Taiwan and internationally. We compete with other dedicated foundry service providers, as well as integrated device manufacturers. Some of these companies may have access to more advanced technologies and greater financial and other resources than us, (such as the possibility of receiving direct or indirect government bailout/economic stimulus funds or other incentives that may be unavailable to us). Our competition may, from time to time, also decide to undertake aggressive pricing initiatives in one or more technology nodes. Competitive activities may decrease our customer base, or our ASP, or both.

If we are unable to remain a technological leader in the semiconductor industry, we may become less competitive.

The semiconductor industry and its technologies are constantly changing. We compete by developing process technologies using increasingly advanced nodes and on manufacturing products with more functions. We also compete by developing new derivative technologies. If we do not anticipate these changes in technologies and rapidly develop new and innovative technologies, or our competitors unforeseeably gain sudden access to additional technologies, we may not be able to provide foundry services on competitive terms. Although we have concentrated on maintaining a competitive edge in research and development, if we fail to achieve advances in technologies or processes, or to obtain access to advanced technologies or processes developed by others, we may become less competitive.

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If we are unable to manage our capacity and the streamlining of our production facilities effectively, our competitiveness may be weakened.

We perform periodic long term market demand forecasts to estimate market and general economic conditions for our products and services. Based upon these estimates, we manage our overall capacity which may increase or decrease in accordance with market demand. Because market conditions may vary significantly and unexpectedly, our market demand forecast may change significantly at any time. Further, since certain manufacturing lines or tools in some of our manufacturing facilities may be suspended or shut down temporarily during periods of decreased demand, we may not be able to ramp up in a timely manner during periods of increased demand. During periods of continued decline in demand, our operating facilities may not be able to absorb and complete in a timely manner outstanding orders re-directed from shuttered facilities. Based on demand forecasts, we have been adding capacity to our 300mm wafer fabs in the Hsinchu Science Park, Tainan Science Park and Central Taiwan Science Park, respectively. Total monthly capacity for 300mm wafer fabs was increased from 171,400 wafers as of December 31, 2009 to 244,600 wafers as of December 31, 2010 and to 290,100 wafers as of December 31, 2011. Expansion and modification of our production facilities will, among other factors, increase our costs. For example, we will need to purchase additional equipment, train personnel to operate the new equipment or hire additional personnel. If we do not increase our net sales accordingly, in order to offset these higher costs, our financial performance may be adversely affected. See Item 4. Information on the Company Capacity Management and Technology Upgrade Plans for a further discussion.

We may not be able to implement our planned growth or development if we are unable to obtain sufficient financial resources to meet our future capital requirements.

Capital requirements are difficult to plan in the highly dynamic, cyclical and rapidly changing semiconductor industry. From time to time, we will continue to need significant capital to fund our operations and manage our capacity in accordance with market demand. Our continued ability to obtain sufficient external financing is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flow;
- general market conditions for financing activities;
- market conditions for financing activities of semiconductor companies; and
- social, economic, financial, political and other conditions in Taiwan and elsewhere.

Sufficient external financing may not be available to us on a timely basis, on reasonable market terms, or at all. As a result, we may be forced to curtail our expansion and modification plans or delay the deployment of new or expanded services until we obtain such financing.

We may not be able to implement our planned growth and development or maintain our leading position if we are unable to recruit and retain qualified executives, managers and skilled technical and service personnel or suffer production disruptions caused by labor disputes.

We depend on the continued services and contributions of our executive officers and skilled technical and other personnel. Our business could suffer if we lose, for whatever reasons, the services and contributions of some of these personnel and we cannot adequately replace them, or if we suffer disruptions to our production operations arising from labor or industrial disputes. We may be required to increase or reduce the number of employees in connection with any business expansion or contraction, in accordance with market demand for our products and services. Since there is intense competition for the recruitment of these personnel, we cannot ensure that we will be able to fulfill our personnel requirements, or rehire such reduced personnel on comparable terms in a timely manner during an economic upturn.

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We may be unable to obtain in a timely manner and at a reasonable cost the equipment necessary for us to remain competitive.

Our operations and ongoing expansion plans depend on our ability to obtain an appropriate amount of equipment and related services from a limited number of suppliers in a market that is characterized by limited supply and long delivery cycles. During such times, supplier-specific or industry-wide lead times for delivery can be as long as six months or more. To better manage our supply chain, we have implemented various business models and risk management contingencies with suppliers to shorten the procurement lead time. We also provide our projected demand for various items to many of our equipment suppliers to help them plan their production in advance. We have purchased used tools and continue to seek opportunities in acquiring relevant used tools. If we are unable to obtain equipment in a timely manner to fulfill our customers orders, or at a reasonable cost, our financial condition and results of operations could be negatively impacted.

Our revenue and profitability may decline if we are unable to obtain adequate supplies of raw materials in a timely manner and at reasonable prices.

Our production operations require that we obtain adequate supplies of raw materials, such as silicon wafers, gases, chemicals, and photoresist, on a timely basis. Shortages in the supply of some materials experienced by specific vendors or by the semiconductor industry generally have in the past resulted in occasional industry-wide price adjustments and delivery delays. Also, since we procure some of our raw materials from sole-source suppliers, there is a risk that our need for such raw materials may not be met when needed or that back-up supplies may not be readily available. Our revenue and earnings could decline if we are unable to obtain adequate supplies of the necessary raw materials in a timely manner or if there are significant increases in the costs of raw materials that we cannot pass on to our customers.

If the Ministry of Economic Affairs uses a substantial portion of our production capacity, we will not be able to service our other customers.

According to our agreement with the Industrial Technology Research Institute of Taiwan, or ITRI, the Ministry of Economic Affairs of the R.O.C., or an entity designated by the Ministry of Economic Affairs, has an option to purchase up to 35% of certain of our capacity, if our outstanding commitments to our customers are not prejudiced. Although the Ministry of Economic Affairs has never exercised this option, if this option is exercised to any significant degree during tight market conditions, we may not be able to provide services to all of our other customers unless we are able to increase our capacity accordingly or outsource such increased demand and in a timely manner.

Any inability to obtain, preserve and defend our technologies and intellectual property rights could harm our competitive position.

Our ability to compete successfully and to achieve future growth will depend in part on the continued strength of our intellectual property portfolio. While we actively enforce and protect our intellectual property rights, there can be no assurance that our efforts will be adequate to prevent the misappropriation or improper use of our proprietary technologies, trade secrets, software or know-how. Also, we cannot assure you that, as our business or business models expand into new areas, or otherwise, we will be able to develop independently the technologies, trade secrets, patents, software or know-how necessary to conduct our business or that we can do so without unknowingly infringing the intellectual property rights of others. As a result, we may have to rely increasingly on licensed technologies and patent licenses from others. To the extent that we rely on licenses from others, there can be no assurance that we will be able to obtain any or all of the necessary licenses in the future on terms we consider reasonable or at all. The lack of necessary licenses could expose us to claims for damages and/or injunctions from third parties, as well as claims for indemnification by our customers in instances where we have contractually agreed to indemnify our customers against damages resulting from infringement claims.

We have received, from time-to-time, communications from third parties asserting that our technologies, manufacturing processes, the design of the integrated circuits made by us or the use by our customers of semiconductors made by us may infringe their patents or other intellectual property rights. And, because of the nature of the industry, we may continue to receive such communications in the future. In some instances, these disputes have resulted in litigation. Recently, there has been a notable increase in the number of claims or lawsuits initiated by certain litigious, non-practicing entities and these non-practicing entities are also becoming more aggressive in their monetary demands and requests for court-issued injunctions. Such lawsuits or claims may increase our cost of doing business and may potentially be extremely disruptive if the plaintiffs succeed in blocking the trade of our products and services. If we fail to obtain or maintain certain government, technologies or intellectual property licenses and, if litigation relating to alleged intellectual property matters occurs, it could prevent us from manufacturing or selling particular products or applying particular technologies, which could reduce our opportunities to generate revenues. See Item 8. Financial Information Legal Proceedings for a further discussion.

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We are subject to the risk of loss due to explosion and fire because some of the materials we use in our manufacturing processes are highly combustible.

We and many of our suppliers use highly combustible and toxic materials in our manufacturing processes and are therefore subject to the risk of loss arising from explosion, fire, or environmental influences which cannot be completely eliminated. Although we maintain many overlapping risk prevention and protection systems, as well as comprehensive fire and casualty insurance, including insurance for loss of property and loss of profit resulting from business interruption, our risk management and insurance coverage may not be sufficient to cover all of our potential losses. If any of our fabs or vendor facilities were to be damaged, or cease operations as a result of an explosion, fire, or environmental influences, it could reduce our manufacturing capacity and may cause us to lose important customers, thereby having a potentially adverse and material impact on our financial performance.

Any impairment charges may have a material adverse effect on our net income.

Under R.O.C. GAAP and U.S. GAAP, we are required to evaluate our long-lived assets and intangible assets for impairment whenever triggering events or changes in circumstances indicate that the asset may be impaired and carrying value may not be recoverable. If certain criteria are met, we are required to record an impairment charge. We are also required under R.O.C. GAAP and U.S. GAAP to evaluate goodwill for impairment at least on an annual basis or more frequently whenever triggering events or changes in circumstances indicate that goodwill may be impaired and the carrying value may not be recoverable.

We currently are not able to estimate the extent or timing of any impairment charge for future years. Any impairment charge required may have a material adverse effect on our net income.

The determination of an impairment charge at any given time is based significantly on our expected results of operations over a number of years subsequent to that time. As a result, an impairment charge is more likely to occur during a period when our operating results are otherwise already depressed. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies for a discussion of how we assess if an impairment charge is required and, if so, how the amount is determined.

The loss of or significant curtailment of purchases by any of our largest customers could adversely affect our results of operations.

While we generate revenue from hundreds of customers worldwide, our ten largest customers accounted for approximately 53%, 54% and 56% of our net sales in 2009, 2010 and 2011, respectively. Our largest customer accounted for 10%, 9% and 14% of our net sales in 2009, 2010 and 2011, respectively. The loss of, or significant curtailment of purchases by, one or more of our top customers, including curtailments due to increased competitive pressures, industrial consolidation, a change in their designs, or change in their manufacturing sourcing policies or practices of these customers, or the timing of customer or distributor inventory adjustments, may adversely affect our results of operations and financial condition.

Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business and results of operations.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud and corruption, our reputation and results of operations could be harmed.

We are required to comply with various R.O.C. and U.S. laws and regulations on internal controls. For example, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, we are required to furnish a report by management on our internal control over financial reporting, including management s assessment of the effectiveness of our internal control over financial reporting. Moreover, R.O.C. law requires us to establish internal control systems that would reasonably ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. We are also required under R.O.C. law to file an internal control declaration within four months of the end of each fiscal year.

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Internal controls may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, fraud or corruption. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on the market price of our common shares and ADSs.

Our global manufacturing, design and sales activities subject us to risks associated with legal, political, economic or other conditions or developments in various jurisdictions, including in particular the R.O.C., which could negatively affect our business and financial status and therefore the market value of your investment.

Our principal executive officers and our principal production facilities are located in the R.O.C., and a substantial majority of our net revenues are derived from our operations in the R.O.C. In addition, we have operations worldwide and a significant percentage of our revenue comes from sales to locations outside the R.O.C. Operating in the R.O.C. and overseas exposes us to changes in policies and laws, as well as the general political and economic conditions, security risks, health conditions and possible disruptions in transportation networks, in the various countries in which we operate, which could result in an adverse effect on our business operations in such countries and our results of operations as well as the market price and the liquidity of our ADSs and common shares.

For example, even though the R.O.C. and the PRC have co-existed for the past 62 years and significant economic and cultural relations have been established during that time, the financial markets have viewed certain past developments in relations between the two sides as occasions to depress general market prices of the securities of Taiwanese companies, including our own. In addition, the R.O.C. government has not lifted some trade and investment restrictions imposed on Taiwanese companies on the amount and types of certain investments that can be made in Mainland China.

Our operational results could also be materially and adversely affected by natural disasters or interruptions in the supply of utilities (such as water or electricity), in the locations in which we, our customers or our suppliers operate.

The apparent frequency and severity of natural disasters has increased recently. We have manufacturing and other operations in locations subject to natural disasters, such as severe weather, flooding, earthquakes and tsunamis, as well as interruptions or shortages in the supply of utilities, such as water and electricity, which could disrupt operations. We have operations in earthquake-prone locations and any major natural disaster occurring in any such locations may cause severe disruptions to our business operations and financial performance. In addition, our suppliers and customers also have operations in such locations. For example, most of our production facilities, as well as those of many of our suppliers and customers and upstream providers of complementary semiconductor manufacturing services, are located in Taiwan and Japan, which are susceptible to earthquakes, tsunamis, flooding, typhoons, and droughts from time to time. In addition, we have sometimes suffered power outages in Taiwan caused by difficulties encountered by our electricity supplier, the Taiwan Power Company, or other power consumers on the same power grid, which have resulted in interruptions to our production schedule. While our business continuity management and emergency response plans are intended to prevent or minimize losses in the future, there is no assurance that the measures will fully eliminate the losses or the insurance will fully cover any losses. One or more natural disasters or interruptions to the supply of utilities that results in a prolonged disruption to our operations, or the operations of our customers or suppliers, may adversely affect the results of our operations and financial conditions.

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Our failure to comply with applicable environmental and climate related laws and regulations, as well as international accords to which we are subject, could also harm our business and operational results.

The manufacturing, assembling and testing of our products require the use of chemicals and materials that are subject to environmental, climate-related, and health and safety laws and regulations issued worldwide. Although we may be eligible for various exemptions and/or extensions of time for compliance, our failure to comply with any of these applicable laws or regulations could result in:

- significant penalties and legal liabilities, such as the denial of import permits;
- the temporary or permanent suspension of production of the affected products;
- unfavorable alterations in our manufacturing, fabrication and assembly and test processes; and
- restrictions on our operations or sales.

Existing and future environmental and climate related laws and regulations as well as applicable international accords to which we are subject, could also require us, among other things, to do the following: (a) purchase, use or install expensive pollution control, reduction or remediation equipment; (b) implement climate change mitigation programs and abatement or reduction of greenhouse gas emissions programs, or carbon credit trading programs; (c) modify our product designs and manufacturing processes, or incur other significant expenses associated with such laws and regulations such as obtaining substitute raw materials or chemicals that may cost more or be less available for our operations. It is still unclear whether such necessary actions would affect the reliability or efficiency of our products and services.

Any of the above contingencies resulting from the actual and potential impact of local or international laws and regulations, as well as international accords on environmental or climate change, could harm our business and operational results by increasing our expenses or requiring us to alter our manufacturing and assembly and test processes. For further details, please see our compliance record with Taiwan and international environmental and climate related laws and regulations in Item 4. Information on the Company Environmental Regulations .

Climate change, other environmental concerns and green initiatives also present other commercial challenges, economic risks and physical risks that could harm our operational results or affect the manner in which we conduct our business.

Increasing climate change and environmental concerns could affect the results of our operations if any of our customers request that we exceed any standard(s) set for environmentally compliant products and services. For example, we have been working with our suppliers, customers, and several industry consortia to develop and provide products that are compliant with the EU RoHS (European Union Restriction of Hazardous Substances) Directive. Even though we are entitled to rely on various exemptions under RoHS, some of our customers might request that we provide products that exceed the legal standard set by RoHS without using any of the exemptions still permitted under RoHS. If we are unable to offer such products or offer products that are compliant, but are not as reliable due to the lack of reasonably available alternative technologies or materials, we may lose market share to our competitors.

Further, energy costs in general could increase significantly due to climate change and other regulations. Therefore, our energy costs may increase significantly if utility or power companies pass on their costs, either fully or partially, such as those associated with carbon taxes, emission cap and carbon credit trading programs. For further details, please see details of our business continuity management of climate change policy in Item 4. Information on the Company Environmental Regulation .

In order to mitigate risks resulting from climate change, we continue to actively carry out energy conservation measures, implement voluntary perfluorinated compounds (PFCs) emission reduction projects and conduct greenhouse gas inventories and verification every year. Since 2005, we have publicly disclosed climate change information every year through participation in the annual survey conducted by the nonprofit carbon disclosure project, which includes greenhouse gas emission and reduction information for all of our fabs.

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Adverse fluctuations in exchange rates could decrease our operating margin.

Over one-half of our capital expenditures and manufacturing costs are denominated in currencies other than NT dollars, primarily in U.S. dollars, Japanese yen and Euros. More than 90% of our sales are denominated in U.S. dollars and currencies other than NT dollars. Therefore, any significant fluctuation to our disadvantage in such exchange rates would have an adverse effect on our financial condition. For example, during the period from September 1, 2010 to December 30, 2010, the U.S. dollar depreciated 8.9% against the NT dollar, which had a negative impact on our results of operations. Specifically, every 1% depreciation of the U.S. dollar against the NT dollar exchange rate results in approximately 0.4 percentage point decrease in our operating margin. In addition, fluctuations in the exchange rate between the U.S. dollar and the NT dollar may affect the U.S. dollar value of our common shares and the market price of the ADSs and of any cash dividends paid in NT dollars on our common shares represented by ADSs. Please see Item 11. Quantitative and Qualitative Disclosures About Market Risk for a further discussion on the possible impact of other market factors on our results of operations.

Fluctuations in inflationary and deflationary market expectations could negatively affect costs of and demand for our products and services, which may harm our financial results.

The world economy is becoming more vulnerable to sudden unexpected fluctuations in inflationary and deflationary market expectations and conditions. For example, certain structural changes that resulted from the 2008-2009 and recent EU financial crises may cause variations in the expectation of inflation or deflation. Both high inflation and deflation adversely affect an economy, at both the macro and micro levels, by reducing economic efficiency, disrupting saving and investment decisions and reducing the efficiency of the market prices as a mechanism to allocate resources. Such fluctuations are likely to negatively affect the costs of our operations and the business operations of our customers who may be forced to plan their purchases of our goods and services within an uncertain macro and micro economy. Therefore, the demand for our products and services could unexpectedly fluctuate severely in accordance with market and consumer expectations of inflation or deflation. Please see Item 5. Operating and Financial Review and Prospects Inflation & Deflation for a further discussion.

Risks Relating to Ownership of ADSs

Your voting rights as a holder of ADSs will be limited.

Holders of American Depositary Receipts (ADRs) evidencing ADSs may exercise voting rights with respect to the common shares represented by these ADSs only in accordance with the provisions of our ADS deposit agreement. The deposit agreement provides that, upon receipt of notice of any meeting of holders of our common shares, the depositary bank will, as soon as practicable thereafter, mail to the holders (i) the notice of the meeting sent by us, (ii) voting instruction forms and (iii) a statement as to the manner in which instructions may be given by the holders.

ADS holders will not generally be able to exercise the voting rights attaching to the deposited securities on an individual basis. According to the provisions of our ADS deposit agreement, the voting rights attaching to the deposited securities must be exercised as to all matters subject to a vote of shareholders collectively in the same manner, except in the case of an election of directors. Election of directors is by means of cumulative voting. See Item 10. Additional Information Voting of Deposited Securities for a more detailed discussion of the manner in which a holder of ADSs can exercise its voting rights.

You may not be able to participate in rights offerings and may experience dilution of your holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under our ADS deposit agreement, the depositary bank will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the United States Securities Act of 1933, as amended, (the Securities Act), with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. Although we may be eligible to take advantage of certain exemptions for rights offerings by certain foreign companies, we can give no assurance that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to have such a registration statement declared effective. In addition, if the depositary bank is unable to obtain the requisite approval from the Central Bank of the Republic of China (Taiwan) for the conversion of the subscription payments into NT dollars or if the depositary determines that it is unlikely to obtain this approval, we may decide with the depositary bank not to make the rights available to holders of ADSs. See Item 10. Additional Information Foreign Investment in the R.O.C. and Item 10. Additional Information Exchange Controls in the R.O.C. . Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

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If the depositary bank is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

The value of your investment may be reduced by possible future sales of common shares or ADSs by us or our shareholders.

One or more of our existing shareholders may, from time to time, dispose of significant numbers of our common shares or ADSs. For example, the National Development Fund of Taiwan, R.O.C. which owned 6.4% of TSMC s outstanding shares as of February 29, 2012, has sold our shares in the form of ADSs in several transactions during the period between 1997 and 2005.

We cannot predict the effect, if any, that future sales of ADSs or common shares, or the availability of ADSs or common shares for future sale, will have on the market price of ADSs or common shares prevailing from time to time. Sales of substantial amounts of ADSs or common shares in the public market, or the perception that such sales may occur, could depress the prevailing market price of our ADSs or common shares.

The market value of our shares may fluctuate due to the volatility of, and government intervention in, the R.O.C. securities market.

Because the Taiwan Stock Exchange experiences from time to time substantial fluctuations in the prices and volumes of sales of listed securities, there are currently limits on the range of daily price movements on the Taiwan Stock Exchange. In response to past declines and volatility in the securities markets in Taiwan, and in line with similar activities by other countries in Asia, the government of the R.O.C. formed the Stabilization Fund, which has purchased and may from time to time purchase shares of Taiwan companies to support these markets. In addition, other funds associated with the R.O.C. government have in the past purchased, and may from time to time purchase, shares of Taiwan companies on the Taiwan Stock Exchange or other markets. In the future, market activity by government entities, or the perception that such activity is taking place, may take place or has ceased, may cause fluctuations in the market prices of our ADSs and common shares.

ITEM 4. INFORMATION ON THE COMPANY

Our History and Structure

We believe we are currently the world s largest dedicated foundry in the semiconductor industry. We were founded in 1987 as a joint venture among the R.O.C. government, Philips and other private investors and were incorporated in the R.O.C. on February 21, 1987. Our common shares have been listed on the Taiwan Stock Exchange since September 5, 1994, and our ADSs have been listed on the New York Stock Exchange since October 8, 1997.

Our Principal Office

Our principal executive office is located at No. 8, Li-Hsin Road 6, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China. Our telephone number at that office is (886-3) 563-6688. Our web site is www.tsmc.com. Information contained on our website does not constitute part of this annual report.

Business Overview of the Company

As a foundry, we manufacture semiconductors using our manufacturing processes for our customers based on their own or third parties proprietary integrated circuit designs. We offer a comprehensive range of wafer fabrication processes, including processes to manufacture CMOS logic, mixed-signal, radio frequency, embedded memory, BiCMOS mixed-signal and other semiconductors. We estimate that our revenue market segment share among total foundries worldwide was 48% in 2011. We also offer design, mask making, probing, testing and assembly services.

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We believe that our large capacity, particularly for advanced technologies, is a major competitive advantage. Please see Manufacturing Capacity and Technology and Capacity Management and Technology Upgrade Plans for a further discussion of our capacity.

We count among our customers many of the world s leading semiconductor companies, ranging from fabless semiconductor and system companies such as Advanced Micro Devices, Inc., Altera Corporation, Broadcom Corporation, Marvell Semiconductor Inc., MediaTek Inc., nVidia Corporation and Qualcomm Incorporated, to integrated device manufacturers such as LSI Corporation, STMicroelectronics and Texas Instruments Inc. Fabless semiconductor and system companies accounted for approximately 81%, and integrated device manufacturers accounted for approximately 19% of our net sales in 2011.

Our Semiconductor Facilities

We currently operate one 150mm wafer fab, six 200mm wafer fabs and three 300mm wafer fabs, including Fab 15, where we commenced production in the first quarter of 2012. Our corporate headquarters and five of our fabs are located in the Hsinchu Science Park, two fabs are located in the Tainan Science Park, one fab is located in the Central Taiwan Science Park, one fab is located in the United States, and one fab is located in Shanghai. Our corporate headquarters and our five fabs in Hsinchu occupy parcels of land of a total of approximately 555,300 square meters. We lease these parcels from the Hsinchu Science Park Administration in Hsinchu under agreements that will be up for renewal between May 2013 and December 2029. We have leased from the Central Taiwan Science Park Administration a parcel of land of approximately 184,400 square meters for our Taichung fabs under agreements that will be up for renewal in December 2028. We have leased from the Southern Taiwan Science Park Development Office approximately 612,700 square meters of land for our fabs in the Tainan Science Park under agreements that will be up for renewal between July 2017 and January 2032. WaferTech owns a parcel of land of approximately 1,052,186 square meters in the State of Washington in the United States, where the WaferTech fab and related offices are located. TSMC China owns the land use rights of 369,100 square meters of land in Shanghai, where Fab 10 and related offices are located. Other than certain equipment under leases located at testing areas, we own all of the buildings and equipment for our fabs. We are expanding our 300mm fabrication capacity and research and development through Fab 12 in the Hsinchu Science Park, Fab 14 in the Tainan Science Park and Fab 15 in the Central Taiwan Science Park. Total monthly capacity for 300mm wafer fabs was increased from 171,400 wafers as of December 31, 2009 to 244,600 wafers as of December 31, 2010 and to 290,100 wafers as of December 31, 2011. We will continuously evaluate our capacity in light of prevailing market conditions.

Semiconductor Manufacturing Capacity and Technology

We manufacture semiconductors on silicon wafers based on proprietary circuitry designs provided by our customers or third party designers. Two key factors that characterize a foundry s manufacturing capabilities are output capacity and fabrication process technologies. Since our establishment, we have possessed the largest capacity among the world s dedicated foundries. We also believe that we are the technology leader among the dedicated foundries in terms of our net sales of advanced semiconductors with a resolution of 65-nanometer and below, and are one of the leaders in the semiconductor manufacturing industry generally. We are the first semiconductor foundry with proven low-k interconnect technology in commercial production from the 0.13 micron node down to 28-nanometer node. Following our commercial production based on 65-nanometer Nexsys® process technology in 2006, we also unveiled 55-nanometer Nexsys® process technology in 2007. Our 65-nanometer and 55-nanometer Nexsys® technologies are the third-generation proprietary processes that employ low-k dielectrics. In 2008, we also qualified our 45-nanometer and 40-nanometer process technologies with ultra low-k dielectrics and advanced immersion lithography. In the fourth quarter of 2011, we have begun volume production of 28-nanometer products with first-generation high-k/metal gate transistor.

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The following table lists our fabs and those of our affiliates, together with the year of commencement of commercial production, technology and capacity during the last five years:

Fab[1]	Year of commencement	Current most advanced technology for volume production[2]	Monthly capacity[3][4]				
			2007	2008	2009	2010	2011
2	1990	0.45	51,685	51,609	53,649	48,244	48,244
3	1995	0.15	90,500	92,400	95,377	100,957	102,173
5	1997	0.15	55,800	54,200	48,600	47,500	42,740
6	2000	0.11	94,000	95,100	96,800	94,997	96,282
8	1998	0.11	89,400	91,600	85,750	85,753	85,737
10	2004	0.15	31,000	43,000	45,500	49,600	77,500
11	1998	0.15	35,500	35,500	36,565	36,300	36,500
12	2001	0.028	160,755	167,910	199,283	238,927	265,419
14	2004	0.04	133,279	179,258	186,443	311,447	387,206
SSMC[5]	2000	0.15	20,700	24,600	22,010	23,146	21,907
Total			762,619	835,177	869,977	1,036,871	1,163,708

(1) Fab 2 produces 150mm wafers. Fabs 3, 5, 6, 8, 10, Fab 11 (WaferTech) and SSMC produce 200mm wafers. Fab 12 and Fab 14 produce 300mm wafers. Fabs 2, 3, 5, 8 and 12 are located in Hsinchu Science Park. Fab 6 and Fab 14 are located in the Tainan Science Park. WaferTech is located in the United States, SSMC is located in Singapore and Fab 10 is located in Shanghai.

(2) In microns, as of year-end.

(3) Estimated capacity in 200mm equivalent wafers as of year-end for the total technology range available for production.

(4) Under an agreement with Vanguard, TSMC is required to use its best commercial efforts to maintain utilization of a fixed amount of reserved capacity and will not increase or decrease the stipulated quantity by more than 5,000 wafers per month. Please see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions Vanguard International Semiconductor Corporation for a discussion of certain of the Vanguard contract terms. The amounts to be used at Vanguard are not included in our monthly capacity figures.

(5) Represents that portion of the total capacity that we had the option to utilize as of December 31, 2007, December 31, 2008, December 31, 2009, December 31, 2010 and December 31, 2011. This fab commenced production in September 2000.

As of December 31, 2011, our monthly capacity (in 200mm equivalent wafers) was 1,163,708 wafers, compared to 1,036,871 wafers at the end of 2010. This increase was primarily due to the expansion of our 28/40/65-nanometer advanced technologies. Our semiconductor manufacturing facilities require substantial investment to construct and are largely fixed-cost assets once they are in operation. Because we own most of our manufacturing capacity, a significant portion of our operating costs is fixed. In general, these costs do not decline when customer demand or our capacity utilization rates drop, and thus declines in customer demand, among other factors, may significantly decrease our margins. Conversely, as product demand rises and factory utilization increases, the fixed costs are spread over increased output, which can improve our margins.

Capacity Management and Technology Upgrade Plans

We periodically perform long term market demand forecasts to estimate market and general economic conditions for our products and services. Based upon these estimates, we manage our overall capacity which may increase or decrease in accordance with market demand. Because market conditions may vary significantly and unexpectedly, our market demand forecast may change significantly at any time. Based on current demand forecasts, we intend to maintain our strategy of expanding manufacturing capacity and improving manufacturing process technologies to meet both the fabrication and the technological needs of our customers.

Our capital expenditures in 2009, 2010 and 2011 were NT$87,785 million, NT$186,944 million and NT$213,963 million (US$7,286 million, translated from a weighted average exchange rate of NT$29.367 to US$1.00), respectively. Our capital expenditures in 2012 are expected to be approximately US$6 billion, which, depending on market conditions, may be adjusted upwards later. For the past few years, our capital expenditures were funded by our operating cash flow. The capital expenditures for 2012 are also expected to be funded by our operating cash flow. In 2012, we anticipate our capital expenditures to focus primarily on the following:

adding production capacity to our 300mm wafer fabs;

expanding buildings/facilities for Fab 12, Fab 14 and Fab 15;

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developing new process technologies in 20nm and 14nm nodes;

capacity expansion for mask and backend operations;

other research and development projects; and

solar and solid state lighting businesses.

These investment plans are still preliminary and may change per market conditions.

Markets and Customers

The primary customers of our foundry services are fabless semiconductor companies/systems companies and integrated device manufacturers. The following table presents the breakdown of net sales by type of customers during the last three years:

	Year ended December 31					
	2009		2010		2011	
Customer Type	**Net Sales**	**Percentage**	**Net Sales**	**Percentage**	**Net Sales**	**Percentage**
	(in millions, except percentages)					
Fabless semiconductor companies/systems companies	NT$237,572	80.3%	NT$331,264	78.9%	NT$346,615	81.2%
Integrated device manufacturers	58,108	19.7%	88,054	21.0%	80,431	18.8%
Others	62	0.0%	220	0.1%	35	0.0%
Total	NT$295,742	100.0%	NT$419,538	100.0%	NT$427,081	100.0%

We categorize our net sales based on the country in which the customer is headquartered, which may be different from the net sales for the countries to which we actually sell or ship our products. Under this approach, the following table presents a regional geographic breakdown of our net sales during the last three years:

	Year ended December 31					
	2009		2010		2011	
Region	**Net Sales**	**Percentage**	**Net Sales**	**Percentage**	**Net Sales**	**Percentage**
	(in millions, except percentages)					
North America	NT$203,870	69.0%	NT$282,498	67.3%	NT$294,858	69.0%
Asia Pacific	41,554	14.0%	60,796	14.5%	59,618	14.0%
Europe	30,407	10.3%	44,360	10.6%	39,440	9.2%
Japan	10,124	3.4%	18,539	4.4%	17,093	4.0%
China	9,787	3.3%	13,345	3.2%	16,072	3.8%
Total	NT$295,742	100.0%	NT$419,538	100.0%	NT$427,081	100.0%

A significant portion of our net sales are attributable to a relatively small number of customers. In 2009, 2010 and 2011, our ten largest customers accounted for approximately 53%, 54% and 56% of our net sales, respectively. Our largest customer accounted for 10%, 9% and 14% of our net sales in 2009, 2010 and 2011, respectively.

Over the years, we have attempted to strategically manage our exposure to commodity memory semiconductor manufacturing services. This policy has successfully shielded us from significant adverse effects resulting from the previous precipitous price drops in the commodity memory semiconductor market.

We provide worldwide customer support. Our office in Hsinchu and wholly-owned subsidiaries in the United States, Japan, Mainland China, the Netherlands, South Korea and India are dedicated to serving our customers worldwide. Foundry services, which are both technologically and logistically intensive, involve frequent and in-depth interaction with customers. We believe that the most effective means of providing foundry

services is by developing direct and close relationships with our customers. Our customer service and technical support managers work closely with the sales force to offer integrated services to customers. To facilitate customer interaction and information access on a real-time basis, a suite of web-based applications have also been offered to provide more active interactions with customers in design, engineering and logistics, collectively branded as eFoundry® service.

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Commitments by Customers. Because of the fast-changing technology and functionality in semiconductor design, foundry customers generally do not place purchase orders far in advance to manufacture a particular type of product. However, we engage in discussions with customers regarding their expected manufacturing requirements in advance of the placement of purchase orders.

Several of our customers have entered into arrangements with us to ensure that they have access to specified capacity at our fabs. These arrangements are primarily in the form of deposit agreements. In a deposit agreement, the customer makes an advance cash deposit for an option on a specified capacity at our fabs. Deposits are generally refunded as shipments are made. As of December 31, 2011, our customers had on deposit an aggregate of approximately US$13 million to reserve future capacity.

The Semiconductor Fabrication Process

In general, the semiconductor manufacturing process begins with a thin silicon wafer on which an array of semiconductor devices is fabricated. The wafer is then tested, cut into dice, and assembled into packages that are then individually retested. Our focus is on wafer fabrication although we also provide all other services either directly or through outsourcing arrangements.

Our Foundry Services

Range of Services. Because of our ability to provide a full array of services, we are able to accommodate customers with a variety of needs at every stage of the overall foundry process. The flexibility in input stages allows us to cater to a variety of customers with different in-house capabilities and thus to service a wider class of customers as compared to a foundry that cannot offer design or mask making services, for example.

Fabrication Processes. We manufacture semiconductors using the complementary metal oxide silicon, CMOS and BiCMOS processes. The CMOS process is currently the dominant semiconductor manufacturing process. The BiCMOS process combines the high speed of the bipolar circuitry and the low power consumption and high density of the CMOS circuitry. We use the CMOS process to manufacture logic semiconductors, memory semiconductors including static random access memory (SRAM), flash memory, mixed-signal/radio frequency (RF) semiconductors, which combine analog and digital circuitry in a single semiconductor, micro-electro-mechanical-system (MEMS), which combines micrometer featured mechanical parts, analog and digital circuitry in a single semiconductor, and embedded memory semiconductors, which combine logic and memory in a single semiconductor. The BiCMOS process is used to make high-end mixed-signal and other types of semiconductors.

Types of Semiconductors We Manufacture. We manufacture different types of semiconductors with different specific functions by changing the number and the combinations of conducting, insulating and semiconducting layers and by defining different patterns in which such layers are applied on the wafer. At any given point in time, there are hundreds of different products in various stages of fabrication at our fabs. We believe that the keys to maintaining high production quality and utilization rates are our effective management and control of the manufacturing process technologies which comes from our extensive experience as the longest existing dedicated foundry and our dedication to quality control and process improvements.

The following is a general, non-exhaustive description of the key types of semiconductors that we currently manufacture. Depending on future market conditions, we may provide other services or manufacture other types of products that may differ significantly from the following:

Logic Semiconductors. Logic semiconductors process digital data to control the operation of electronic systems. The largest segment of the logic market, standard logic devices, includes microprocessors, microcontrollers, digital signal processors (DSP), graphic chips and chip sets.

Mixed-Signal/RF Semiconductors. Analog/digital semiconductors combine analog and digital devices on a single semiconductor to process both analog and digital data. We make mixed-signal/RF semiconductors using both the CMOS and BiCMOS processes. We currently offer CMOS mixed-signal process down to the 28-nanometer Nexsys® technology for manufacturing mixed-signal/RF semiconductors. The primary uses of mixed-signal/RF semiconductors are in hard disk drives, wireless communications equipment and network communications equipment, with those made with the BiCMOS process occupying the higher end of the mixed-signal/RF market.

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Memory Semiconductors. Memory semiconductors, which are used in electronic systems to store data and program instructions, are generally classified as either volatile memories (which lose their data content when power supplies are switched off) or nonvolatile memories (which retain their data content without the need for a constant power supply). We currently offer CMOS process for the manufacture of SRAM, embedded DRAM as volatile memories, and for the manufacture of flash memory and embedded flash as nonvolatile memories.

CMOS Image Sensor Semiconductors. Image sensors are primarily used in camera phones and tablets. We are currently the leading foundry for the production of CMOS image sensors, characterized by technology features including low dark current, high sensitivity, small pixel size and high dynamic range achieved through integration with mixed mode processes.

High Voltage Semiconductors. We currently offer a range of high-voltage processes including high voltage CMOS (HVCMOS), bipolar-CMOS-DMOS (BCD) and ultra-high voltage technology (UHV), ranging from 5V to 700V, which are suitable for various panel-size display driver and power IC applications.

The table below presents a breakdown of our net sales during the last three years by each semiconductor type:

	Year ended December 31					
	2009[3]		2010[3]		2011	
Semiconductor Type	**Net Sales**	**Percentage**	**Net Sales**	**Percentage**	**Net Sales**	**Percentage**
	(in millions, except percentages)					
CMOS						
Logic	NT$213,160	72.1%	NT$300,405	71.6%	NT$297,775	69.7%
Memory	2,068	0.7%	2,297	0.6%	1,023	0.2%
Mixed-Signal[1]	77,427	26.2%	112,715	26.9%	124,469	29.1%
BiCMOS[2]	2,912	1.0%	3,548	0.8%	2,769	0.7%
Others	175	0.0%	573	0.1%	1,045	0.3%
Total	NT$295,742	100.0%	NT$419,538	100.0%	NT$427,081	100.0%

(1) Mixed-signal semiconductors made with the CMOS process.

(2) Mixed-signal and other semiconductors made with the BiCMOS process.

(3) The net sales of Logic and Memory semiconductors in 2009 and 2010 have been reclassified to follow 2011 category.

Design and Technology Platforms. Modern IC designers need sophisticated design infrastructure to optimize productivity and cycle time. Such infrastructures include design flow for electronic design automation (EDA), silicon proven building blocks such as libraries and IPs, simulation and verification design kits such as process design kit (PDK) and tech files. All of these infrastructures are built on top of the technology foundation, and each technology needs its own design infrastructure to be usable for designers. This is the concept of our technology platforms.

For years, TSMC and its alliance partners spent considerable effort, time and resources to build our technology platforms. We unveiled our Open Innovation Platform® (OIP) initiative in 2008 to further enhance our technologies offerings. More OIP deliverables were introduced in 2011. In the design methodology area, in addition to the introduction of the 12th release of Reference Flow, we also announced the second release of Analog/Mixed Signal (AMS) Reference Flow, and the third release of the Radio Frequency Reference Design Kit (RF RDK).

Multi-project Wafers Program (CyberShuttle). To help our customers reduce costs, we offer a dedicated multi-project wafer processing service that allows us to provide multiple customers with circuits produced with the same mask. This program reduces mask costs by a very significant amount, resulting in accelerated time-to-market for our customers. We have extended this program to all of our customers and library and IP partners using our broad selection of process technologies, ranging from the latest 20-, 28-, 40-, 45-, 55- and 65-nanometer processes to 0.18-, 0.25- and 0.35-micron. This extension offers a routinely scheduled multi-project wafer run to customers on a shared-cost basis for prototyping and verification.

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We developed our multi-project wafer program in response to the current system-on-chip development methodologies, which often require the independent development, prototyping and validation of several IPs before they can be integrated onto a single device. By sharing mask costs among our customers to the extent permissible, the system-on-chip supplier can enjoy reduced prototyping costs and greater confidence that the design will be successful.

Customer Service

We believe that our devotion to customer service has been an indispensable factor in attracting new customers, helping to ensure the satisfaction of existing customers, and building a mutually beneficial relationship with our customers. The key elements are our:

- customer-oriented culture through multi-level interaction with customers;
- ability to deliver wafers of consistent quality, competitive ramp-up speed and fast yield improvement;
- responsiveness to customer s issues and requirements, such as engineering change orders and special wafer handling;
- flexibility in manufacturing processes, supported by our competitive technical capability and production planning;
- dedication to help reduce customer costs through collaboration and services, such as our multi-project wafer program, which combines multiple designs on a single mask set for cost-saving; and
- availability of eFoundry®, the online service which provides real-time necessary information in design, engineering, and logistics to ensure seamless services to our customers throughout product life cycle.

We also conduct an annual customer satisfaction survey to assess customer satisfaction and to ensure that their needs and wants are adequately understood and addressed. Continual improvement plans based upon customer feedback are an integral part of this business process. We use data derived from the survey as a key indicator of our corporate performance as well as a leading indicator of future performance. We believe that satisfaction leads to better customer relationships, which would result in more business opportunities.

Research and Development

The semiconductor industry is characterized by rapid changes in technology, frequently resulting in the introduction of new technologies to meet customers demands and in the obsolescence of recently introduced technology and products. We believe that, in order to stay technologically ahead of our competitors and to maintain our market position in the foundry segment of the semiconductor industry, we need to maintain our position as a technology leader not only in the foundry segment but in the semiconductor industry in general. We spent NT$21,593 million, NT$29,707 million and NT$33,830 million (US$1,118 million) in 2009, 2010 and 2011, respectively, on research and development, which represented 7.3%, 7.1% and 7.9% of our net sales for these periods. We plan to continue to invest significant amounts on research and development in 2012, with the goal of maintaining a leading position in the development of advanced process technologies. Our research and development efforts have allowed us to provide our customers access to certain advanced process technologies, such as 65-nanometer, 55-nanometer, 45-nanometer, 40-nanometer and 28-nanometer Nexsys® technology for volume production, prior to the implementation of those advanced process technologies by many integrated device manufacturers and our competitors. In addition, we expect to advance our process technologies further down to 20/14-nanometer and below in the coming years to maintain our technology leadership. We will also continue to invest in research and development for our mainstream technologies offerings to provide function-rich process capabilities to our customers. Our research and development efforts are divided into centralized research and development activities and research and development activities undertaken by each of our fabs. Our centralized research and development activities are principally directed toward developing new Logic, system-on-chip (SOC), derivatives and package/system-in-package (SIP) technologies, and cost-effective 3D IC Chip on Wafer on Substrate (CoWoS) solutions. Fab-related research and development activities mostly focus on upgrading the manufacturing process technologies.

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In continuing to advance our process technologies, we intend to rely primarily on our internal engineering capability and know-how and our research and development efforts, including collaboration with our customers, equipment vendors and R&D consortia.

We also continuously create in-house inventions and know-how. Since our inception, every year we apply for and are issued a substantial number of United States and other patents, the majority of which are semiconductor-related.

Equipment

The quality and technology of the equipment used in the semiconductor manufacturing process are important in that they effectively define the limits of our process technologies. Advances in process technologies cannot be brought about without commensurate advances in equipment technology. The principal pieces of equipment used by us to manufacture semiconductors are scanners, cleaners and track equipment, inspection equipment, etchers, furnaces, wet stations, strippers, implanters, sputterers, CVD equipment, testers and probers. Other than certain equipment under leases located at testing areas, we own all of the equipment used at our fabs.

In implementing our capacity management and technology advancement plans, we expect to make significant purchases of equipment required for semiconductor manufacturing. Some of the equipment is available from a limited number of vendors and/or is manufactured in relatively limited quantities, and certain equipment has only recently been developed. We believe that our relationships with our equipment suppliers are good and that we have enjoyed the advantages of being a major purchaser of semiconductor fabrication equipment. We work closely with manufacturers to provide equipment customized to our needs for certain advanced technologies.

Raw Materials

Our manufacturing processes use many raw materials, primarily silicon wafers, chemicals, gases and various types of precious metals. Raw materials costs constituted 13.0% of our net sales in 2010 and 12.6% of our net sales in 2011. Although most of our raw materials are available from multiple suppliers, some materials are purchased through sole-sourced vendors. Our raw material procurement policy is to select only those vendors who have demonstrated quality control and reliability on delivery time and to maintain multiple sources for each raw material so that a quality or delivery problem with any one vendor will not adversely affect our operations. The quality and delivery performance of each vendor is evaluated quarterly and quantity allocations are adjusted for subsequent periods based on the evaluation.

The most important raw material used in our production is silicon wafers, which is the basic raw material from which integrated circuits are made. The principal suppliers for our wafers are Shin-Etsu Handotai and SUMCO Corporation of Japan, MEMC Electronic Materials, Inc. of the United States, Siltronic AG of Germany and Formosa Sumco Technology Corporation of Taiwan. Together they supplied approximately 96.7%, 96.8% and 96.0% of our total wafer needs in 2009, 2010 and 2011, respectively. We have in the past obtained, and believe we will continue to be able to obtain, a sufficient supply of 150mm, 200mm and 300mm wafers. Please see Item 3. Key Information - Risk Factors - Risks Relating to Our Business for a discussion of the risk related to raw materials. The price of silicon wafers decreased during 2009 due to the severe economic downturn. However, the continued market recovery after 2009 has increased demand. The 2011 Tohoku earthquake and tsunami also resulted in a tighter supply in silicon wafers and a higher price for such items. In order to secure a reliable and flexible supply of high quality wafers, we have entered into long-term agreements and intend to continue to develop strategic relationships with major wafer vendors to cover our anticipated wafer needs for the next three to five years. Also, we have established a special cross-function taskforce comprised of individuals from our fab operations, materials management, risk management and quality system management divisions to reduce our supply chain risks. This taskforce works with our primary suppliers to develop their business continuity plans, qualify their dual-plant materials, prepare safety inventories, improve the quality of their products and manage the supply chain risk of their suppliers.

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Competition

We compete internationally and domestically with dedicated foundry service providers, as well as with integrated device manufacturers that devote a significant portion of their manufacturing capacity to foundry operations. We compete primarily on the basis of process technologies, manufacturing excellence and customer service. The level of competition differs according to the process technologies involved. For example, in more mature technologies, the competition tends to be more intense. Some companies compete with us in selected geographic regions or application end markets. In recent years, substantial investments have been made by others to establish new dedicated foundry companies worldwide.

Environmental Regulations

The semiconductor production process generates gaseous chemical wastes, liquid wastes, wastewater and other industrial wastes in various stages of the manufacturing process. We have installed in our fabs various types of pollution control equipment for the treatment of gaseous chemical wastes and wastewater and equipment for the recycling of treated water. Operations at our fabs are subject to regulation and periodic monitoring by the R.O.C. Environmental Protection Administration, the U.S. Environmental Protection Agency or the State Environmental Protection Administration of mainland China, and local environmental protection authorities, including the various science park administrations in the R.O.C., the Washington State Department of Ecology or the Shanghai Environmental Protection Bureau.

We have adopted pollution control measures that are expected to result in the effective maintenance of environmental protection standards consistent with the practice of the semiconductor industry in Taiwan, the U.S. and mainland China. We conduct an annual environmental audit to ensure that we are in compliance in all material respects with, and we believe that we are in compliance in all material respects with, applicable environmental laws and regulations.

Electricity and Water

We use electricity supplied by the Taiwan Power Company in our manufacturing process. Businesses in the Hsinchu Science Park, Tainan Science Park and Central Taiwan Science Park, such as ours, enjoy preferential electricity supply. We have sometimes suffered power outages caused by difficulties encountered by our electricity supplier, the Taiwan Power Company, which have led to interruptions in our production schedule. The semiconductor manufacturing process also uses extensive amounts of fresh water. Due to the growth of the semiconductor manufacturers in the Hsinchu Science Park, Tainan Science Park and Central Taiwan Science Park, and the droughts that Taiwan experiences from time to time, there is concern regarding future availability of sufficient fresh water and the potential impact that insufficient water supplies may have on our semiconductor production.

Risk Management

We employ an enterprise risk management system to integrate the prevention and control of risk that TSMC or our subsidiaries may face. We have also prepared emergency plans to respond to natural disasters and other disruptive events that could interrupt the operation of our business. These emergency plans have been developed in order to prevent or minimize the loss of personnel or damage to our facilities, equipment and machinery caused by natural disasters and other disruptive events. We also maintain insurance with respect to our facilities, equipment and inventories. The insurance for the fabs and their equipment covers, subject to some limitations, various risks, including fire, typhoons, earthquakes and other risks generally up to the respective policy limits for their replacement values and lost profits due to business interruption. In addition, we have insurance policies covering losses with respect to the construction of all our fabs. Equipment and inventories in transit are also insured. No assurance can be given, however, that insurance will fully cover any losses and our emergency response plans will be effective in preventing or minimizing losses in the future.

For further information, please see detailed risk factors related to the impact of climate change regulations and international accords, and business trends on our operations in Item 3. Key Information - Risk Factors - Risks Relating to Our Business .

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Our Subsidiaries and Affiliates

Vanguard International Semiconductor Corporation (VIS). In 1994, we, the R.O.C. Ministry of Economic Affairs and other investors established Vanguard, then an integrated dynamic random access memory (DRAM) manufacturer. Vanguard commenced volume commercial production in 1995 and listed its shares on the GreTai Securities Market in March 1998. In 2004, Vanguard completely terminated its DRAM production and became a pure foundry company. As of February 29, 2012, we owned approximately 38.8% of the equity interest in Vanguard. Please see Item 7. Major Shareholders and Related Party Transactions for a further discussion.

WaferTech in the United States. In 1996, we entered into a joint venture called WaferTech (of which the manufacturing entity is Fab 11) with several U.S.-based investors to construct and operate a US$1.2 billion foundry in the United States. Initial trial production at WaferTech commenced in July 1998 and commercial production commenced in October 1998. As of February 29, 2012, we owned 100% of the equity interest in WaferTech.

Systems on Silicon Manufacturing Company Pte. Ltd. (SSMC). In March 1999, we entered into an agreement with Philips and EDB Investment Pte. Ltd. to found a joint venture, SSMC, to build a fab in Singapore. The SSMC fab commenced production in December 2000. As of February 29, 2012, we owned approximately 38.8% of the equity interest in SSMC. Please see Item 7 Major Shareholders and Related Party Transactions for a further discussion.

Global Unichip Corporation (GUC). In January 2003, we acquired a 52.0% equity interest in GUC, a System-on-Chip (SoC) design service company that provides large scale SOC implementation services. GUC has been listed on Taiwan Stock Exchange since November 3, 2006. Since July 2011, we are no longer deemed to be a controlling entity of GUC and its subsidiaries due to the termination of a Shareholders Agreement. As a result, we no longer consolidate GUC and its subsidiaries in our financial statements. As of February 29, 2012, we owned approximately 34.8% of the equity interest in GUC.

TSMC China. In August 2003, we established TSMC China (of which the manufacturing entity is Fab 10), a wholly-owned subsidiary primarily engaged in the manufacturing and selling of integrated circuits. TSMC China commenced production in late 2004.

VisEra Technologies Company, Ltd. (VisEra). In October 2003, we and OmniVision Technologies Inc., entered into a shareholders agreement to form VisEra Technologies Company, Ltd., a joint venture in Taiwan, for the purpose of providing back-end manufacturing service. As of February 29, 2012, we owned approximately 43.2% of the equity interest in VisEra Technologies Company Ltd. Please see Item 7. Major Shareholders and Related Party Transactions for a further discussion.

Xintec, Inc. (Xintec). In January 2007, we acquired a 51.2% equity interest in Xintec, a supplier of wafer level packaging service, to support our complementary metal oxide silicon (CMOS) image sensor manufacturing business. As of February 29, 2012, we owned approximately 40.2% combined equity interest in Xintec.

Mcube Inc. (Mcube). In September 2009, we acquired preferred and common equity interest in Mcube, a U.S. company engaged in the business of MEMS (Micro Electro Mechanical Systems) applications. As of February 29, 2012, we owned approximately 24.9% of the equity interest in Mcube.

Motech Industries Inc. (Motech). In February 2010, we acquired a 20.0% equity interest in Motech, a Taiwan solar cell manufacturer. Motech has been a publicly traded company on Taiwan s GreTai Security Market since May 2003. In August 2011, we transferred our 20.0% equity interest in Motech to TSMC Solar Ltd., our newly incorporated subsidiary.

TSMC Solar Ltd. (TSMC Solar). To foster a stronger sense of corporate entrepreneurship and facilitate business specializations in order to strengthen overall profitability and operational efficiency, TSMC transferred its solar businesses into its newly incorporated subsidiary, TSMC Solar, in August 2011. TSMC Solar is engaged in research, development, design, manufacture and sales of technologies and products related to renewable energy and energy saving. As of February 29, 2012, we owned approximately 98.6% of the equity interest in TSMC Solar.

TSMC Solid State Lighting Ltd. (TSMC SSL). To foster a stronger sense of corporate entrepreneurship and facilitate business specializations in order to strengthen overall profitability and operational efficiency, TSMC transferred its solid state lighting businesses into its newly incorporated subsidiary, TSMC SSL, in August 2011. TSMC SSL is engaged in research, development, design, manufacture and sales of solid state lighting devices and related application products and systems. As of February 29, 2012, we owned approximately 95.0% of the equity interest in TSMC SSL.

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ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEWS AND PROSPECTS

Overview

We manufacture a variety of semiconductors based on designs provided by our customers. Our business model is commonly called a dedicated semiconductor foundry. The foundry segment of the semiconductor industry as a whole experienced rapid growth over the last 25 years since our inception. As the leader of the foundry segment of the semiconductor industry, our net sales and net income were NT$295,742 million and NT$89,218 million in 2009, NT$419,538 million and NT$161,605 million in 2010, and NT$427,081 million (US$14,109 million) and NT$134,201 million (US$4,434 million) in 2011, respectively. The sales in 2010 increased by 41.9% from 2009, mainly due to continuous growth in the semiconductor industry and customer demand, partially offset by the effect of U.S. dollar depreciation and a decline in ASP. Our sales in 2011 increased slightly by 1.8% from 2010, mainly due to growth in customer demand and more favorable product mix, partially offset by the effect of U.S. dollar depreciation.

The principal source of our revenue is wafer fabrication, which accounted for approximately 90% of our net sales in 2011. The rest of our net sales were derived from design, mask making, probing, and testing and assembly services. Factors that significantly impact our revenue include:

- the worldwide demand for semiconductor products;
- pricing;
- the worldwide semiconductor production capacity as well as our production capacity;
- capacity utilization;
- availability of raw materials and supplies;
- technology migration; and
- fluctuation in foreign currency exchange rate.

Though equally important, three of the above factors are discussed as follows:

Pricing. We establish pricing levels for a specific period with our customers, subject to adjustment during the course of that period to take into account market developments and other factors. We believe that our large capacity, flexible manufacturing capabilities, focus on customer service and ability to deliver high yields in a timely manner have contributed to our ability to obtain premium pricing for our wafer production.

Production Capacity. Our production capacity affects our business as follows:

We currently own and operate our semiconductor manufacturing facilities, the aggregate production capacity for which had been expanded from 869,977 200mm equivalent wafers per month as of the end of 2009 to 1,036,871 200mm equivalent wafers per month as of the end of 2010 and 1,163,708 200mm equivalent wafers per month as of the end of 2011.

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Technology Migration.

Our operations utilize a variety of process technologies, ranging from mainstream process technologies of 0.5 micron or above circuit resolutions to advanced process technologies of 28-nanometer and below circuit resolutions. The table below presents a breakdown of wafer sales by circuit resolution during the last three years:

	Year ended December 31		
Resolution	2009 Percentage of total wafer revenue[1]	2010 Percentage of total wafer revenue[1]	2011 Percentage of total wafer revenue[1]
£28-nanometer	-	-	1%
40/45-nanometer	4%	17%	26%
65-nanometer	29%	29%	29%
90-nanometer	20%	14%	9%
0.11/0.13 micron	14%	12%	8%
0.15 micron	4%	4%	6%
0.18 micron	17%	13%	12%
0.25 micron	5%	4%	4%
0.35 micron	4%	4%	3%
³0.5 micron	3%	3%	2%
Total	100%	100%	100%

(1) Percentages represent wafer revenue by technology as a percentage of total revenue from wafer sales, which exclude revenue not associated with wafer sales, such as revenue from testing and masks. Total wafer revenue excludes sales returns and allowances.

Critical Accounting Policies

Summarized below are our accounting policies that we believe are important to the portrayal of our financial results and also involve the need for management to make estimates about the effect of matters that are uncertain in nature. Actual results may differ from these estimates, judgments and assumptions. Certain accounting policies are particularly critical because of their significance to our reported financial results and the possibility that future events may differ significantly from the conditions and assumptions underlying the estimates used and judgments made by our management in preparing our financial statements. The following discussion should be read in conjunction with the consolidated financial statements and related notes, which are included in this annual report.

Revenue Recognition. We recognize revenue when evidence of an arrangement exists, the rewards of ownership and significant risk of the goods have been transferred to the buyer, price is fixed or determinable, and the collectability is reasonably assured. We record a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted at a specific percentage based on historical experience, our management s judgment, and any known factors that would significantly affect the allowance, and our management periodically reviews the adequacy of the percentage used. However, because of the inherent nature of estimates, actual returns and allowances could be different from our estimates. If the actual returns are greater than our estimated amount, we could be required to record an additional provision, which would have a negative impact on our recorded revenue and gross margin.

As of December 31, 2009, 2010 and 2011, the amount recorded as sales returns and allowances in the accompanying consolidated statements of income was NT$13,913 million, NT$12,093 million and NT$3,410 million (US$113 million), respectively, representing 4.5%, 2.8% and 0.8% of our gross sales for the years ended December 31, 2009, 2010 and 2011. The higher percentage in 2009 was mainly attributed to higher sales incentives offered to certain customers in 2009 due to the economic downturn, compounded by an increased level of credits to customers for product related issues. The decline in 2010 percentage was the result of over 40% growth in sales, lower sales incentives offered as compared to 2009 and a return of our product related issues back to normal level. The 2011 percentage was further reduced as both sales incentives and product related issues were reduced.

Allowance for Doubtful Accounts. We determine provision for doubtful accounts by examining our historical collection experience and current trends in the credit quality of our customers as well as our internal credit policies. If economic conditions or financial conditions of our customers deteriorate, additional allowance may be required in the future and such additional allowance would increase our operating expenses and therefore reduce our operating income and net income.

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Prior to January 1, 2011, we record provision for doubtful accounts based on a percentage of accounts receivable due from our customers. Effective on January 1, 2011, we evaluate for indication of impairment of accounts receivable based on an individual and collective basis at the end of each reporting period according to the third revision of Statement of Financial Accounting Standards (SFAS) No. 34. 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 short average collection period, the amount of the impairment loss recognized is the difference between the carrying amount of accounts receivable and estimated future cash flows without considering the discounting effect. Changes in the carrying amount of the allowance account are recognized as bad debt expense which is recorded in the operating expenses - general and administrative. When accounts receivable are considered uncollectable, the amount is written off against the allowance account.

As of December 31, 2010 and 2011, the allowance set aside for doubtful receivables was NT$504 million and NT$491 million (US$16 million), respectively, representing 1.0% and 1.1% of our gross notes and accounts receivables as of those dates.

Inventory valuation. Inventories are stated at the lower of cost or net realizable value for finished goods, work-in-progress, raw materials, supplies and spare parts. Inventory write-downs are made on an item-by-item basis, except where it may be appropriate to group similar or related items.

A significant amount of our manufacturing costs are fixed because our extensive manufacturing facilities (which provide us such large production capacity) require substantial investment to construct and are largely fixed-cost assets once they become operational. When the capacity utilization increases, the fixed manufacturing costs are spread over a larger amount of output, which would lower the inventory cost per unit thereby improving our gross margin.

We evaluate our ending inventory based on standard cost under normal capacity utilization, and reduce the carrying value of our inventory when the actual capacity utilization is higher than normal capacity utilization. No adjustment is made to the carrying value of inventory when the actual capacity utilization is at or lower than normal capacity utilization. Normal capacity utilization is established based on historic loadings compared to total available capacity in our wafer manufacturing fabs.

Due to rapid technology changes, we also evaluate our ending inventory and reduce the carrying value of inventory for estimated obsolescence and unmarketable inventory by an amount that is the difference between the cost of the inventory and the net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which is generally 180 days or less.

Valuation allowance for deferred tax assets. When we have net operating loss carry forwards, investment tax credits or temporary differences in the amount of tax recorded for tax purposes and accounting purposes, we may be able to reduce the amount of tax that we would otherwise be required to pay in future periods. We recognize all existing future tax benefits arising from these tax attributes as deferred tax assets and then establish a valuation allowance equal to the extent, if any, that it is more likely than not that such deferred tax assets will not be realized. We record an income tax benefit or expense when there is a net change in our total deferred tax assets and liabilities in a period. The ultimate realization of the deferred tax assets depends upon the generation of future taxable income during the periods in which the net operating losses and temporary differences become deductible or the investment tax credits may be utilized. Specifically, our valuation allowance is impacted by our expected future revenue growth and profitability, tax holidays, Alternative Minimum Tax, 10% tax imposed on unappropriated earnings and the amount of tax credits that can be utilized within the statutory period. In determining the amount of valuation allowance for deferred tax assets as of December 31, 2011, we considered past performance, the general outlook of the semiconductor industry, business conditions, future taxable income and prudent and feasible tax planning strategies.

Because the determination of the amount of valuation allowance is based, in part, on our forecast of future profitability, it is inherently uncertain and subjective. Changes in market conditions and our assumptions may cause the actual future profitability to differ materially from our current expectation, which may require us to increase or decrease the amount of valuation allowance that we have recorded.

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As of December 31, 2010 and 2011, the ending balances for valuation allowance were NT$16,423 million and NT$13,531 million (US$447 million), respectively, representing 56.3% and 50.3% of gross deferred tax assets as of those dates. In 2011, we evaluated the effect of Alternative Minimum Tax and the application of tax exemptions for a five-year period. As we plan to apply the tax-exempt income in later years, income tax payable is anticipated to increase and we will utilize available investment tax credits as an offset against income taxes. Since more investment tax credits can be utilized, valuation allowance has been adjusted down in 2011 accordingly.

Valuation of long-lived assets and intangible assets. We assess the impairment of long-lived assets and intangible assets whenever triggering events or changes in circumstances indicate that the asset may be impaired and carrying value may not be recoverable. Our long-lived assets subject to this evaluation include property, plant and equipment and amortizable intangible assets. Factors we consider important which could trigger an impairment review include, but are not limited to, the following:

- significant under performance relative to historical or projected future operating results;
- significant changes in the manner of our use of the acquired assets or our overall business strategy; and
- significant unfavorable industry or economic trends.

When we determine that the carrying value of intangible assets and other long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment for long-lived assets based on a projected future cash flow. If the long-lived or intangible assets that are determined to be impaired, we recognize an impairment loss through a charge to our operating results to the extent the present value of discounted cash flows attributable to the assets are less than their carrying value. Such cash flow analysis includes assumptions about expected future economic and market conditions, the applicable discount rate, and the future revenue generation from the use or disposition of the assets. We also perform a periodic review to identify assets that are no longer used and are not expected to be used in future periods. An impairment charge is recorded to the extent, if any, that the carrying amount of the idle assets exceeds their fair value. Under R.O.C. GAAP, if the recoverable amount increases in a future period, the amount previously recognized as impairment will 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. Under U.S. GAAP, the reversal of impairment charges is prohibited.

The process of evaluating the potential impairment of long-lived assets requires significant judgment. We are required to review for impairment groups of assets related to the lowest level of identifiable independent cash flows. Due to our asset usage model and the interchangeable nature of our semiconductor manufacturing capacity, we must make subjective judgments in determining the independent cash flows that can be related to specific asset groups. In addition, because we must make subjective judgments regarding the remaining useful lives of assets and the expected future revenue and expenses associated with the assets, changes in these estimates based on changed economic conditions or business strategies could result in material impairment charges in future periods. Our projection for future cash flow is generally less during periods of reduced earnings. As a result, an impairment charge is more likely to occur during a period when our operating results are already otherwise depressed.

For purposes of evaluating the recoverability of long-lived assets, assets purchased for use in the business but subsequently determined to have no future economic benefits are written down to their fair value and recorded as either idle assets or assets held for disposition. In 2010 and 2011, an impairment loss for idle assets of NT$0.3 million and NT$98 million (US$3 million) was recorded, respectively. No impairment loss for idle assets was recorded in 2009. As of December 31, 2010 and 2011, net long-lived assets and intangible assets amounted to NT$394,471 million and NT$495,542 million (US$16,371 million), respectively.

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Goodwill. Goodwill is recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Under U.S. GAAP, and effective on January 1, 2005 under R.O.C. GAAP, we assess the impairment of goodwill on an annual basis, or more frequently whenever triggering events or changes in circumstances indicate that goodwill may be impaired and carrying value may not be recoverable. Moreover, effective on January 1, 2006, goodwill is no longer amortizable under R.O.C. GAAP. Factors we consider important which could trigger an impairment review include, without limitation, the following:

- significant decline in our stock price for a sustained period; and
- significant decline in our market capitalization relative to net book value.

Application of the goodwill impairment test is also highly subjective and requires significant judgment, including the identification of cash generating units, assigning assets and liabilities to the relevant cash generating units, assigning goodwill to the relevant cash generating units, and determining the fair value of the relevant cash generating units. Our assessment of fair value is based upon a cash flow analysis that includes assumptions about expected future operating performance, such as revenue growth rates and operating margins, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. Under R.O.C. GAAP, the fair value of the cash generating units is compared to the associated carrying value including goodwill. On the other hand, under U.S. GAAP, the fair value of the reporting units is compared to the associated carrying value including goodwill.

Under R.O.C. GAAP, goodwill recorded from the acquisition of TSMC-Acer and WaferTech is evaluated for impairment on an annual basis. Based on our most recent evaluation, the fair value calculated by discounting projected cash flow in five years was higher than the associated carrying value. As a result, we did not record any impairment charge under R.O.C. GAAP. Under U.S. GAAP, goodwill recorded from the acquisition of TSMC-Acer and WaferTech is evaluated for impairment on an annual basis. Based on our most recent evaluation, the fair value calculated by using the discounted cash flow method was higher than the associated carrying value. As a result, we did not record any impairment charge under U.S. GAAP either.

As of December 31, 2010 and 2011, goodwill amounted to NT$5,705 million and NT$5,694 million (US$188 million), respectively, under R.O.C. GAAP. The change in the NT dollar amount of goodwill was due to changes in the exchange rate between NT dollar and U.S. dollar.

Valuation of investments accounted for using the equity method. We assess the impairment of investments accounted for using the equity method whenever triggering events or changes in circumstances indicate that an investment may be impaired and carrying value may not be recoverable. We measure the impairment based on a projected future cash flow of the investees, the underlying assumptions for which had been formulated by such investees internal management team, taking into account market conditions for the industries which the investees operate in to ensure the reasonableness of such assumptions. If an investment is determined to be impaired, we recognize an impairment loss through a charge to our operating results to the extent the present value of discounted cash flows attributable to the investee is less than the carrying value of the investment.

For the years ended December 31, 2009, 2010 and 2011, no impairment loss was recorded as the value determined based on the discounted cash flow of the investees was higher than the carrying value of the investments accounted for using the equity method.

Accounting for investments in private and publicly-traded securities. We hold equity interests in companies, some of which are publicly traded and have highly volatile share prices. We also hold investments in debt securities, such as corporate bonds, government bonds, and etc. We review all of our investments for impairment quarterly and record an impairment charge when we believe an investment has experienced an other-than-temporary decline in value. Determining whether an other-than-temporary decline in value of the investment has occurred is highly subjective. Such evaluation is dependent on the specific facts and circumstances. Factors we consider include, but are not limited to, the following: the market value of the security in relation to its cost basis, the duration of the decline in value, the financial condition of the investees and our intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. Impairment reviews with respect to private security investments also require significant judgment. Factors indicative of an other-than-temporary decline in value include recurring operating losses, credit defaults and subsequent rounds of financing at valuation below the cost basis of the investment.

We have experienced declines in the value of certain privately held investments and publicly traded securities and recorded impairment loss of NT$913 million, NT$160 million and NT$266 million (US$9 million) in 2009, 2010 and 2011, respectively. While we have recognized all declines that are currently believed to be other-than-temporary as a charge to income, adverse changes in market conditions or poor operating results of underlying investments could result in further losses in future periods.

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Results of Operations

The following table sets forth, for the periods indicated, certain financial data from our consolidated statements of income, expressed in each case as a percentage of net sales:

	For the year ended December 31		
	2009	2010	2011
Net sales	100.0%	100.0%	100.0%
Cost of sales	(56.3)%	(50.6)%	(54.6)%
Gross profit	43.7%	49.4%	45.4%
Operating expenses			
General and administrative	(3.8)%	(3.1)%	(3.3)%
Sales and marketing	(1.5)%	(1.3)%	(1.1)%
Research and development	(7.3)%	(7.1)%	(7.9)%
Total operating expenses	(12.6)%	(11.5)%	(12.3)%
Income from operations	31.1%	37.9%	33.1%
Non-operating income and gains	1.9%	3.2%	1.3%
Non-operating expenses and losses	(0.7)%	(0.5)%	(0.4)%
Income before income tax	32.3%	40.6%	34.0%
Income tax expense	(2.0)%	(1.9)%	(2.5)%
Net income	30.3%	38.7%	31.5%
Net income attributable to minority interests	(0.1)%	(0.2)%	(0.1)%
Net income attributable to shareholders of the parent	30.2%	38.5%	31.4%

Year to Year Comparisons

Net Sales and Gross Margin

	For the year ended December 31					
	2009	2010	% Change from 2009	2011		% Change from 2010
	NT$	NT$		NT$	US$	
	(in millions)			(in millions)		
Net sales	295,742	419,538	41.9%	427,081	14,109	1.8%
Cost of sales	(166,413)	(212,484)	27.7%	(232,938)	(7,695)	9.6%
Gross profit before affiliates elimination	129,329	207,054	60.1%	194,143	6,414	(6.2)%
Unrealized gross profit from affiliates				(74)	(3)	
Gross profit	129,329	207,054	60.1%	194,069	6,411	(6.3)%
Gross margin percentage	43.7%	49.4%		45.4%	45.4%	

Net Sales

Our net sales in 2011 increased by 1.8% from 2010, which was mainly attributable to the growth in customer demand. The overall wafer shipments increased by 5.8%, from 11,860 thousand 200mm equivalent wafers in 2010 to 12,549 thousand 200mm equivalent wafers in 2011. Furthermore, we had a more favorable product mix in 2011 as the portion of wafer sales from 65 nanometer and below circuit resolutions

reached 56% compared to 46% in 2010. However, as a significant portion of our sales were denominated in U.S. dollars, our net sales in 2011 were negatively impacted by a stronger weighted average NT dollar against U.S. dollar, which appreciated against the U.S. dollar by 6.7% to NT$29.367 to US$1.00 in 2011 from NT$31.491 to US$1.00 in 2010.

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Our net sales in 2010 increased by 41.9% from 2009, which was largely due to the overall growth in industry and customer demand. The overall wafer shipments increased by 53.3%, from 7,737 thousand 200mm equivalent wafers in 2009 to 11,860 thousand 200mm equivalent wafers in 2010. However, as a significant portion of our sales were denominated in U.S. dollars, our net sales in 2010 were negatively impacted by a stronger weighted average NT dollar against the U.S. dollar, which appreciated by 4.2% to NT$31.491 to US$1.00 in 2010 from NT$32.868 to US$1.00 in 2009. Furthermore, our ASP declined in 2010.

Gross Margin

Our gross margin fluctuated with the level of capacity utilization, price change and product mix, among other factors. In 2011, our gross margin decreased to 45.4% of net sales from 49.4% of net sales in 2010. The lower margin in 2011 was primarily due to lower capacity utilization as we increased our capacity in 2011, price decline and a stronger NT dollar against the U.S. dollar, which negatively impacted our gross margin by 7.1, 2.8 and 2.4 percentage points, respectively, offset in part by cost improvements and others which contributed favorably to a 8.3 percentage points increase in the gross margin.

In 2010, our gross margin increased to 49.4% of net sales from 43.7% of net sales in 2009. The higher margin in 2010 was primarily due to higher capacity utilization and cost reductions, which contributed favorably to 6.8 and 3.6 percentage points increase, respectively, in the gross margin, offset in part by price declines and a stronger NT dollar against the U.S. dollar, which negatively impacted our gross margin by 3.6 and 1.5 percentage points, respectively.

Operating Expenses

	For the year ended December 31					
	2009	2010	% Change from 2009	2011		% Change from 2010
	NT$	NT$		NT$	US$	
	(in millions)			(in millions)		
Research and development	21,593	29,707	37.6%	33,830	1,118	13.9%
General and administrative	11,286	12,804	13.5%	14,164	468	10.6%
Sales and marketing	4,488	5,368	19.6%	4,518	149	(15.8)%
Total operating expenses	37,367	47,879	28.1%	52,512	1,735	9.7%
Percentage of net sales	12.6%	11.5%		12.3%	12.3%	
Income from operations	91,962	159,175	73.1%	141,557	4,676	(11.1)%
Operating Margin	31.1%	37.9%		33.1%	33.1%	

Operating expenses increased by NT$4,633 million in 2011, or 9.7%, from NT$47,879 million in 2010, after an increase in operating expenses of NT$10,512 million in 2010, or 28.1%, from 2009.

Research and Development Expenses

We remain strongly committed to being the leader in developing advanced process technologies. We believe that continued investments in process technologies are essential for us to remain competitive in the markets we serve. Research and development expenditures increased by NT$4,123 million in 2011, or 13.9%, from 2010, mainly due to higher spending in further developing 20nm technology, partially offset by lower employee profit sharing expenses and bonus. In 2010, research and development expenditures increased by NT$8,114 million, or 37.6%, from 2009, mainly reflecting higher spending in further developing 28nm and 20nm technologies and higher employee profit sharing expenses and bonuses in 2010. We plan to continue to invest significant amounts in research and development in 2012.

General and Administrative, Sales and Marketing Expenses

General and administrative, sales and marketing expenses in 2011 increased by NT$510 million, or 2.8% from 2010, due to an increase in general and administrative expenses by NT$1,360 million, or 10.6%, and a decrease of sales and marketing expenses by NT$850 million, or

15.8%. The net increase was primarily due to higher opening expenses for Fab15 (Phase I) and Fab10 (Phase II), partially offset by lower employee profit sharing expenses and bonus in 2011.

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General and administrative, sales and marketing expenses in 2010 increased by NT$2,398 million, or 15.2%, from 2009, due to an increase in general and administrative expenses and sales and marketing expenses by NT$1,518 million and NT$880 million, or 13.5% and 19.6%, respectively. The increase was mainly due to higher employee profit sharing expenses and bonuses in 2010, higher labor costs due to business scale expansion, and more opening expenses for Fab14 (Phase IV) and Fab12 (Phase V), partially offset by lower legal fees due to litigation concluded in 2009.

Non-Operating Income and Expenses

	For the year ended December 31					
	2009	2010	% Change from 2009	2011		% Change from 2010
	NT$	NT$		NT$	US$	
	(in millions)			(in millions)		
Non-operating income and gains	5,654	13,136	132.3%	5,359	177	(59.2)%
Non-operating expenses and losses	(2,153)	(2,041)	(5.2)%	(1,768)	(58)	(13.4)%
Net non-operating income (expenses)	3,501	11,095	216.9%	3,591	119	(67.6)%

Net non-operating income in 2011 decreased by NT$7,504 million, or 67.6% from NT$11,095 million in 2010 primarily due to a NT$5,993 million decrease in settlement income from SMIC as we received less settlement payment in cash and absence of receipt of SMIC shares in 2011 pursuant to the settlement agreement. In addition, equity in earnings of equity method investees declined by NT$1,400 million as a result of weakened operating performance of such equity method investees in 2011.

Net non-operating income in 2010 increased by NT$7,594 million, or 216.9%, from NT$3,501 million in 2009 primarily due to a NT$5,475 million increase in settlement income from SMIC, a NT$2,252 million increase in equity in earnings of equity method investees, a NT$753 million decrease in loss on impairment of financial assets and a NT$721 million increase in net gain on settlement and disposal of financial assets, partially offset by a NT$936 million decrease in interest income and a NT$781 million increase in loss on disposal of property and equipment. Equity in earnings generated from equity method investees increased, reflecting business improvement of such equity method investees in 2010. The decrease in loss on impairment of financial assets was primarily due to an increase in the fair value of financial assets in 2010. The increase in net gain on settlement and disposal of financial assets was mainly due to higher disposal gain on debt and equity securities. Interest income decreased primarily due to lower interest rates in 2010. The increase in loss on disposal of property and equipment mainly resulted from the disposal of steel frame in a newly-acquired, partially-constructed memory fab.

Income Tax Benefit (Expense)

	For the year ended December 31					
	2009	2010	% Change from 2009	2011		% Change from 2010
	NT$	NT$		NT$	US$	
	(in millions)			(in millions)		
Income tax expense	(5,997)	(7,988)	33.2%	(10,695)	(353)	33.9%
Net income attributable to shareholders of the parent	89,218	161,605	81.1%	134,201	4,434	(17.0)%
Net margin	30.2%	38.5%		31.4%	31.4%	

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Income tax expenses increased by NT$2,707 million in 2011, or 33.9%, from 2010. The increase was mainly related to increase in tax on unappropriated earnings as a result of higher unappropriated earnings in 2011 compared to 2010.

Income tax expenses increased by NT$1,991 million in 2010, or 33.2%, from 2009. The increase was mainly due to an increase in taxable income, partially offset by lower statutory tax rate, from 25% to 17%. See Taxation below for further discussion.

Liquidity and Capital Resources

Our sources of liquidity include cash flow from operations, cash and cash equivalents, short-term investments and revolving credit facilities provided by multiple banks.

Our primary source of liquidity is cash flow from operations. Cash flow from operations for 2011 was NT$247,587 million (US$8,179 million), an increase of NT$18,111 million from 2010.

Our cash, cash equivalents and current investments in financial instruments amounted to NT$150,622 million (US$4,976 million) as of December 31, 2011, down from NT$181,574 million as of December 31, 2010. The current investments in financial instruments primarily consist of corporate bonds, publicly-traded stocks, government bonds, and money market funds.

As of December 31, 2011, we also had an aggregate unused short-term credit lines of approximately NT$63,708 million (US$2,105 million) and an aggregate unused long-term credit lines of approximately NT$2,050 million (US$68 million).

We believe that our cash generated from operations, cash and cash equivalents, short-term investments, ability to access capital market and revoling credit facilities will be sufficient to fund our working capital needs, capital expenditures, dividend payments and other business requirements associated with existing operations over the next 12 months.

	For the year ended December 31			
	2009	2010	2011	
	NT$ (in millions)	NT$ (in millions)	NT$ (in millions)	US$
Net cash provided by operating activities	159,966	229,476	247,587	8,179
Net cash used in investing activities	(96,468)	(202,086)	(182,523)	(6,030)
Net cash used in financing activities	(85,471)	(48,638)	(67,858)	(2,242)
Net decrease in cash	(23,338)	(23,389)	(4,415)	(146)

Cash and cash equivalents decreased by NT$4,415 million in 2011, or 3.0%, from 2010, following a decrease of NT$23,389 million in 2010, or 13.7%, from 2009.

Operating Activities

In 2011, we generated NT$247,587 million (US$8,179 million) net cash from operating activities, as compared to NT$229,476 million and NT$159,966 million in 2010 and 2009, respectively. In 2011, net cash generated from operating activities increased primarily due to an increase of NT$19,872 million in non-cash depreciation and amortization expenses, the absence of non-cash gain of NT$4,434 million from SMIC shares received as litigation compensation and from change in inventories and notes and accounts receivables, partially offset by a decrease of NT$27,404 million in net income.

In 2010, net cash generated from operating activities increased primarily due to an increase of NT$72,387 million in net income and an increase of NT$6,995 million in non-cash depreciation and amortization expenses, partially offset by the NT$5,341 million change in accrual for employee profit sharing and bonus and non-cash gain from SMIC shares as litigation compensation in the amount of NT$4,434 million.

In 2011, depreciation and amortization expenses were NT$107,682 million (US$3,557 million), as compared to NT$87,810 million and NT$80,815 million in 2010 and 2009, respectively. Higher depreciation and amortization expenses in 2011 and 2010 were mainly attributable to increase in capital expenditures to expand production capacity in advanced technologies.

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Investing Activities

In 2011, net cash used in investing activities was NT$182,523 million (US$6,030 million), as compared to NT$202,086 million and NT$96,468 million in 2010 and 2009, respectively. The decrease in 2011 was primarily due to lower investment in financial assets, higher disposal or redemption of investment in financial assets, lower refundable deposits and the absence of new investment in equity method investees, partially offset by higher spending on capital expenditures during the year. The increase in 2010 was primarily due to the significantly higher spending on capital expenditures, an increase in investment in equity method investees and an increase in refundable deposits, partially offset by higher amount of cash received from disposal or redemption of investments in financial assets during the year.

Capital expenditures in 2011 were primarily related to:

- adding production capacity to 300mm and 200mm wafer fabs;
- expanding buildings/facilities for Fab 12, Fab 14 and Fab 15;
- developing process technologies including 28nm node and below;
- capacity expansion for mask and backend operations;
- other research and development projects; and
- solar and solid state lighting businesses.

During the past few years, our capital expenditures were funded by our operating cash flow. The capital expenditures for 2012 are also expected to be funded by our operating cash flow. See Item 4. Information on the Company Capacity Management and Technology Upgrade Plans for discussion of our capacity management and capital expenditures.

Financing Activities

In 2011, net cash used in financing activities was NT$67,858 million (US$2,242 million), as compared to NT$48,638 million and NT$85,471 million in 2010 and 2009, respectively. In 2011, net cash used in financing activities increased primarily due to the change from NT$31,214 million cash provided by short-term loans in 2010 to NT$5,287 million cash used to repay short-term loans in 2011 and the higher repayment of other long-term liabilities of NT$2,526 million, partially offset by the proceeds from issuance of corporate bonds amounting to NT$18,000 million and increase in long-term debts of NT$2,250 million. In 2010, net cash used in financing activities decreased primarily due to an increase of NT$31,214 million in short-term debt mainly to naturally hedge a portion of our accounts receivable denominated in U.S. dollars and the repayment in 2009 of corporate bonds amounting to NT$8,000 million, partially offset by repayment in 2010 of other long-term liabilities of NT$1,107 million.

As of December 31, 2011, our short-term loans were NT$25,927 million (US$856 million, translated from 2011 year-end revaluation exchange rate of NT$30.288 to US$1.00), and our aggregate long-term debt was NT$24,150 million (US$798 million) of which NT$4,563 million (US$151 million) was classified as current. The short-term loans were denominated in U.S. dollars. To protect against reductions in value and the volatility of asset value caused by changes in foreign exchange rates, we utilized short-term loans and derivative financial instruments, including currency forward contracts and cross currency swaps, to hedge our currency exposure. See Item 11. Quantitative and Qualitative Disclosures About Market Risk for a discussion of the hedging instruments used. The long-term debt included NT$22,500 million of the long-term bonds with fixed interest rates ranging from 1.40% to 3.00%.

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Cash Requirements

The following table sets forth the maturity of our long-term debt (bank loans and bonds) outstanding as of December 31, 2011:

	Long-term debt (in NT$ millions)
During 2012	4,563
During 2013	625
During 2014	125
During 2015	125
During 2016 and thereafter	18,712

The following table sets forth information on our material contractually obligated payments for the periods indicated as of December 31, 2011:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
		(in NT$ millions)			
Short-Term Loans[1]	25,927	25,927	-	-	-
Long-Term Debt[2]	24,150	4,563	750	11,337	7,500
Capital Lease Obligations[3]	871	138	51	49	633
Operating Leases[4]	6,757	628	1,158	1,101	3,870
Other Payments[5]	3,400	3,400	-	-	-
Capital Purchase or other Purchase Obligations[6]	55,462	54,238	1,224	-	-
Total Contractual Cash Obligations[7]	116,567	88,894	3,183	12,487	12,003

(1) The maximum amount and average amount of short-term loans outstanding during the year ended December 31, 2011 were NT$36,020 million and NT$33,582 million, respectively. The purpose of the short-term loans was mainly to naturally hedge a portion of our accounts receivable. As a substantial portion of our accounts receivable was denominated in U.S. dollars, we use short-term loans denominated in U.S. dollars to naturally hedge the fluctuation of foreign exchanges rates. See note 16 to our consolidated financial statements for further information regarding interest rates and future repayment dates.

(2) Includes loan payable and bond payable but excludes relevant interest payments which are not expected to be material in any given period in the future. See notes 17 and 18 to our consolidated financial statements for further information regarding interest rates and future repayment of long-term debts.

(3) Capital lease obligations represent our commitment for leases of property, which are described in note 14 to our consolidated financial statements.

(4) Operating lease obligations are described in note 29 to our consolidated financial statements.

(5) Other payments represent payables for acquisition of property, plant and equipment.

(6) Represents commitments for construction or purchase of equipment, raw material and other property or services. These commitments are not recorded on our balance sheet as of December 31, 2011, as we have not received related goods or taken title of the property.

(7) Minimum pension funding requirement is not included since such amounts have not been determined. We made pension contributions of approximately NT$212 million in 2011 and estimate that we will contribute approximately NT$220 million to the pension fund in 2012. See note 20 to our consolidated financial statements for additional details regarding our pension plan.

During 2011, we entered into derivative financial instruments transactions to manage exposures related to foreign-currency denominated receivables or payables and interest rate fluctuations. As of December 31, 2011, we anticipated our cash requirements in 2012 for outstanding forward exchange agreements and cross currency swaps of approximately NT$584 million, RMB1,119 million, EUR39 million, and US$22 million with our expected cash receipts of approximately JPY260 million, US$196 million, and NT$2,038 million, and EUR2 million. See Item 11. Quantitative and Qualitative Disclosures about Market Risk for more information regarding our derivative financial instruments transactions. See also note 2 to the consolidated financial statements for our accounting policy of derivative financial instruments, and note 6 and note 26 to

the consolidated financial statements for additional details regarding our derivative financial instruments transactions.

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Generally, we do not provide letters of credit to, or guarantees for any entity other than our consolidated subsidiaries.

Significant amounts of capital are required to build, expand, and upgrade our production facilities and equipment. Our capital expenditures for 2012 are expected to be approximately US$6 billion, which, depending on market conditions, may be adjusted upwards later.

U.S. GAAP Reconciliation

Our consolidated financial statements are prepared in accordance with R.O.C. GAAP, which differs in certain material aspects from U.S. GAAP. The following table sets forth a comparison of our net income and shareholders equity in accordance with R.O.C. GAAP and U.S. GAAP for the periods indicated:

	For the year ended December 31			
	2009	2010	2011	
	NT$	NT$	NT$	US$
	(in millions)			
Net income attributable to the shareholders of the parent in accordance with:				
R.O.C. GAAP	89,218	161,605	134,201	4,434
U.S. GAAP	89,102	163,639	136,873	4,522
Shareholders equity attributable to the shareholders of the parent in accordance with:				
R.O.C. GAAP	495,083	574,145	629,594	20,799
U.S. GAAP	532,043	610,597	669,163	22,106

Differences between R.O.C. GAAP and U.S. GAAP that have a material effect on our net income and shareholders equity as reported under R.O.C. GAAP include compensation expense pertaining to stock bonuses to employees, recognition of and subsequent accounting for goodwill, 10% tax imposed on unappropriated earnings, stock-based compensation and deconsolidation of investees. Please refer to note 34 to the consolidated financial statements, which provides a description of the principal differences between R.O.C. GAAP and U.S. GAAP as they relate to us and a reconciliation to U.S. GAAP of certain items, including net income and shareholders equity.

Taxation

In 2010, the R.O.C. government reduced the corporate income tax rate from 25% to 17% effective from 2010. In the same year, the Statute for Industries Innovation was passed to replace the Statute for Upgrading Industries in tax incentives. Under the new statute, the research and development expenditure tax credit rate was reduced from 30% to 15%, and the 7% tax credit incentive for purchased equipment was terminated.

We are eligible for five-year tax holidays for income generated from construction and capacity expansions of production facilities according to the regulation under the Statute for Upgrading Industries of the R.O.C. The exemption period may begin at any time within five years, as applicable, following the completion of a construction or expansion of production facilities. The aggregate tax benefits of such exemption periods in 2009, 2010 and 2011 were NT$8,652 million, NT$17,410 million and NT$13,832 million (US$457 million), respectively. We commenced the exemption period for part of Fab 14 (Phase III), part of Fab 12 (Phase III) and others in 2010; part of Fab 12 (Phase IV), part of Fab 14 (Phase III and IV) in 2011. The Statute for Upgrading Industries expired at the end of 2009. However, under the Grandfather Clause, we can continue to enjoy five-year tax holidays if the relevant investment plans were approved by R.O.C. tax authority before the expiration of the Statute.

Under regulations promulgated under the R.O.C. Statute for Industries Innovation, we were eligible for a tax credit for specified percentages of research and development expenditures. The tax credit rate of research and development expenditures is 15% during the period from 2010 to 2019.

The R.O.C. government enacted the R.O.C. Alternative Minimum Tax Act (AMT Act) which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the R.O.C. AMT Act is a supplemental tax which is payable if the income tax payable pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the R.O.C. AMT Act. The taxable income for calculating the AMT includes most income that is exempted from income tax under various legislations, such as tax holidays and investment tax credits. The AMT rate for business entities is 10%. However, the R.O.C. AMT Act grandfathered certain tax exemptions and tax credits granted prior to the enactment of the R.O.C. AMT. We currently expect the AMT to have a small effect on our income tax expense in 2012.

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Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Inflation & Deflation

During 2011, neither inflation nor deflation had a material impact on our operations, or the business operations of our customers and suppliers. However, with uncertain global economy outlook, we cannot assure that there will be no significant variations in the future, which may have a material impact on our results of operations.

Recent Accounting Pronouncements

For R.O.C. GAAP, please refer to note 4 to the consolidated financial statements. For U.S GAAP, please refer to note 35 to the consolidated financial statements.

Climate Change Related Issues

The manufacturing, assembling and testing of our products require the use of chemicals and materials that are subject to environmental, climate related, health and safety laws and regulations issued worldwide as well as international accords such as the Kyoto Protocol. Climate change related laws or regulations currently are too indefinite for us to assess the impact on our future financial condition with any degree of reasonable certainty. For example, the Taiwan legislative authority has been studying relevant laws relating to environmental protection and climate related changes, such as the Greenhouse Gas Reduction Act and Energy Tax . Since there has been no concrete guidance or laws issuing from the Taiwan government as of the date of this filing, the impact of such laws is indeterminable at the moment. Please see detailed risk factors related to the impact of climate change regulations and international accords, and business trends on our operations in Item 3. Key Information - Risk Factors - Risks Relating to Our Business . Please also see our compliance record with Taiwan and international environmental and climate related laws and regulations in Item 4. Information on the Company Environmental Regulation .

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Executive Officers

MANAGEMENT

Members of our board of directors are elected by our shareholders. Our board of directors is currently composed of nine directors. Of our current nine directors, five are independent directors. The chairman of the board of directors is elected by the directors. The chairman of the board of directors presides at all meetings of the board of directors, and also has the authority to act as our representative. The term of office for directors is three years.

Pursuant to R.O.C. Securities and Exchange Law, effective from January 1, 2007, a public company is required to either establish an audit committee or to have supervisors. A public company s audit committee should be composed of all of its independent directors but not less than three, of which at least one member should have accounting or related financial management expertise, and the relevant provisions under the R.O.C. Securities and Exchange Law, the R.O.C. Company Law and other laws applicable to the supervisors are also applicable to the audit committee.

Prior to January 1, 2007, we had two supervisors. The supervisors major duties and powers included, but were not limited to (i) investigation of our financial condition; (ii) inspection of corporate records; (iii) giving reports in connection with the company s financial statements at shareholders meetings. Beginning from January 1, 2007, the duties and powers of our supervisors are being exercised by our Audit Committee which is composed of all of our independent directors, and supersedes and replaces the office of supervisors.

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Pursuant to the R.O.C. Company Law, a person may serve as our director in his personal capacity or as the representative of another legal entity. A director who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement director may serve the remainder of the term of office of the replaced director. For example, the National Development Fund of Taiwan, R.O.C., one of our largest shareholders, has served as our director since our founding. As a corporate entity, the National Development Fund is required to appoint a representative to act on its behalf in discharging its directorial duties. Mr. Johnsee Lee has been our representative of the National Development Fund since August 6, 2010.

The following table sets forth the name of each director and executive officer, their positions, the year in which their term expires and the number of years they have been with us as of February 29, 2012. On March 2, 2012, Senior Vice President of R&D Dr. Shang-yi Chiang, Senior Vice President of Operations Dr. Mark Liu, and Senior Vice President of Business Development Dr. C.C. Wei were appointed as Executive Vice Presidents and Co-Chief Operating Officers. The business address for each of our directors and executive officers is No. 8, Li Hsin Road 6, Hsinchu Science Park, Hsinchu, Taiwan, Republic of China.

Name	Position with our company	Term Expires	Years with our company
Morris Chang	Chairman & Chief Executive Officer	2012	25
F.C. Tseng	Vice Chairman	2012	25
Johnsee Lee	Director (Representative of the National Development Fund)	2012	2
Stan Shih	Independent Director	2012	12
Sir Peter Leahy Bonfield	Independent Director	2012	10
Thomas J. Engibous	Independent Director	2012	3
Gregory C. Chow[(1)]	Independent Director	2012	1
Kok-Choo Chen[(1)]	Independent Director	2012	1
Rick Tsai[(2)]	Director	2012	22
Shang-yi Chiang	Executive Vice President & Co-Chief Operating Officer		12
Mark Liu	Executive Vice President & Co-Chief Operating Officer		18
C.C. Wei	Executive Vice President & Co-Chief Operating Officer		14
Stephen T. Tso	Senior Vice President & Chief Information Officer		15
Richard Thurston	Senior Vice President & General Counsel		10
Lora Ho	Senior Vice President, Chief Financial Officer & Spokesperson		13
Jason C.S. Chen	Senior Vice President of Worldwide Sales & Marketing		7
M.C. Tzeng	Vice President of Operations/Affiliate Fabs		25
Wei-Jen Lo	Vice President of Operations/Manufacturing Technology		8
Jack Sun	Vice President of Research & Development & Chief Technology Officer		15
Y.P. Chin	Vice President of Operations/Product Development		25
N.S. Tsai	Vice President of Quality & Reliability		23
Rick Cassidy	Vice President & President of TSMC North America		15
L.C. Tu	Vice President of Human Resources		25
J.K. Lin	Vice President of Operations/Mainstream Fabs		25
J.K. Wang	Vice President of Operations/300mm Fabs		25
Irene Sun	Vice President of Corporate Planning		8
Burn J. Lin	Vice President of Research & Development		12
Y. J. Mii[(3)]	Vice President of Research & Development		18
Cliff Hou[(3)]	Vice President of Research & Development		15

(1) Mr. Gregory C. Chow and Ms. Kok-Choo Chen were elected as our independent directors in our Annual Shareholders Meeting held on June 9, 2011.

(2)

Rick Tsai is the Chairman and Chief Executive Officer of two of our subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd. Before taking these positions, he was TSMC s President of New Businesses.

(3) Y.J. Mii and Cliff Hou were promoted to Vice President on August 9, 2011.

Morris Chang is the Chairman and Chief Executive Officer. He has been the founding Chairman of our board of directors since our establishment and was our Chief Executive Officer from March 1998 to June 2005. He resumed his position as our Chief Executive Officer on June 12, 2009. From 1985 to 1994, he was President and then Chairman of the board of directors of ITRI. Prior to that, Dr. Chang was President and Chief Operating Officer of General Instrument Corporation; Corporate Group and Senior Vice-President for Texas Instruments. He holds a bachelor s degree and a master s degree in mechanical engineering from the Massachusetts Institute of Technology and a Ph.D. in electrical engineering from Stanford University and has been active in the international semiconductor industry for over 56 years.

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F.C. Tseng is the Vice Chairman. He has been our Vice Chairman since July 2005. He was Deputy Chief Executive Officer from August 2001 to June 2005. He is also the Chairman of Global Unichip Corp., a director of Digimax, Inc. and an independent director of Acer Inc. He formerly served as the President of Vanguard from 1996 to 1998 and our President from May 1998 to August 2001. Prior to his presidency at Vanguard, Dr. Tseng served as our Senior Vice President of Operations. He holds a Ph.D. in electrical engineering from National Cheng-Kung University and has been active in the semiconductor industry for over 40 years.

Johnsee Lee is a director. He is the Chairman of the Development Center for Biotechnology. He also serves as the President of Taiwan Bio Industry Organization and an independent director of Taiwan Polysilicon Corp. and Zhen Ding Technology Holding Limited. He was the President of ITRI from 2003 to 2010 and has also served on many government and industrial boards and committees. Before returning to Taiwan, he held various technical and managerial positions at Argonne National Laboratory and Johnson Matthey Inc. in the U.S. from 1981 to 1990. He holds a Ph.D. in chemical engineering from the Illinois Institute of Technology, and a MBA from the University of Chicago. He is also a graduate of Harvard Business School s Advanced Management Program.

Stan Shih is an independent director. He is the Group Chairman of iD SoftCapital and a director of Acer Inc., Qisda Corp., Wistron Corp. and Nan Shan Life Insurance Company, Ltd. He is also co-founder and Chairman Emeritus of the Acer Group. He served as the Chairman and Chief Executive Officer of the Acer Group from 1976 to 2004. Mr. Shih holds a bachelor s degree, a master s degree and an honorary Ph.D. in electrical engineering from National Chiao Tung University. He also holds an honorary doctoral degree in technology from the Hong Kong Polytechnic University, an honorary fellowship from the University of Wales and an honorary doctoral degree in international law from the Thunderbird, American Graduate School of International Management.

Sir Peter Leahy Bonfield is an independent director. Sir Peter Bonfield was the Chief Executive Officer and Chairman of the Executive Committee of British Telecommunications from January 1996 to January 2002. He is currently the non-executive director and Chairman of the Board of Directors of NXP Semiconductor in the Netherlands. He is also a director of L.M. Ericsson in Sweden, Mentor Graphics Corporation Inc. in U.S., Sony Corporation in Japan and Actis Capital LLP in London. He is a member of the Sony Corporation Advisory Board, The Longreach Group Advisory Board, and New Venture Partners LLP Advisory Board. He is the Vice President of the British Quality Foundation and Fellow of The Royal Academy of Engineering. He holds an honors degree in engineering from Longhborough University.

Thomas J. Engibous is an independent director. He joined Texas Instruments (TI) in 1976 and served there until retirement in 2008. During his 32-year career at TI, his duties included Chairman from 2004 to 2008, Chairman, President and Chief Executive Officer from 1998 to 2004, President and Chief Executive Officer from 1996 to 1998 and Executive Vice President and President of the company s Semiconductor Group from 1993 to 1996. Mr. Engibous currently serves as the Chairman of J.C. Penney Company Inc., Trustee of the Southwestern Medical Foundation, and a member of the Business Council. He holds a master s degree in electrical engineering and an honorary doctorate in engineering from Purdue University.

Gregory C. Chow is an independent director. He is currently Professor of Economics and Class of 1913 Professor of Political Economy, Emeritus, and Lecture with the Rank at Princeton University. He is a member of the Taiwan Academia Sinica and the American Philosophical Society, and a fellow of the American Statistical Association and of the Econometric Society. Professor Chow has over 50 years of teaching experience at such institutes as the Sloan School of Management of M.I.T., Cornell University, IBM Thomas Watson Research Center, Columbia University and Princeton University. Professor Chow also served as an adviser on economic policy, economic reform and economic education in Taiwan and China. He holds a Ph.D. and master degree in Economics from Chicago University and an honorary Doctorate of Business Administration from Hong Kong University of Science and Technology. He also holds honorary professorships at various major universities in China and the City University of Hong Kong. His publications include 14 books and over 200 articles.

Kok-Choo Chen is an independent director. She served as our Senior Vice President and General Counsel from 1997 to 2001. Currently, Ms. Chen is an advisor to the Taiwan Executive Yuan and the Taipei City Government. Ms. Chen has over 24 years of experience working in international law firms. She has also taught law at Soochow University, National Chengchi University and National Tsing-Hua University in Taiwan for over 28 years. In addition, Ms. Chen is the founder of two Taiwan heritage site museums (Taipei Story House and Futai Street Mansion), as well as a director of the TSMC Education and Culture Foundation. Ms. Chen is licensed to practice law in England, Singapore and California.

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Rick Tsai is a director. He is also the Chairman and Chief Executive Officer of two TSMC subsidiaries, TSMC Solar Ltd. and TSMC Solid State Lighting Ltd. . Dr. Tsai was TSMC s President of New Businesses from June 12, 2009 to July 31, 2011, President and Chief Executive Officer from July 2005 to June 11, 2009, President & Chief Operating Officer from August 2001 to June 2005 and Executive Vice President of Worldwide Marketing and Sales from September 2000 to August 2001. Prior to that, he served as our Executive Vice President of Operations. He also served as the President of Vanguard from 1999 to 2000. He joined us in 1989 as Deputy Director of our Fab 2 operations. He holds a Ph.D. in material science from Cornell University.

Shang-yi Chiang is our Executive Vice President and Co-Chief Operating Officer. Dr. Chiang re-joined us as Senior Vice President of Research and Development in September 2009. He was also Chairman of VisEra Technologies Company and Xintec Inc. from August 2006 to July 2010. He was Senior Vice President of Research and Development from November 2000 to August 2006. He joined us as Vice President of Research and Development in 1997. Prior to that, he worked at Hewlett Packard. Dr. Chiang holds a Ph.D. in electrical engineering from Stanford University.

Mark Liu is our Executive Vice President and Co-Chief Operating Officer. Prior to that, he was our Senior Vice President of Operations. From March 2008 to October 2009, he served as Senior Vice President of Advanced Technology Business. From January 2002 to March 2008, he was Senior Vice President of Operations II. He was Vice President of our Fab 8 and Fab 12 Sites Operations from July 2000 to January 2002 and Vice President of South Sites Operations from 1999 to July 2000. Dr. Liu joined us in 1993 and held the positions as Director of Fab 3 Operations and Senior Director of South Sites Operations. He holds a Ph.D. in electrical engineering and computer science from University of California, Berkeley.

C.C. Wei is our Executive Vice President and Co-Chief Operating Officer. Prior to that, he was our Senior Vice President of Business Development. From March 2008 to October 2009, he was Senior Vice President of Mainstream Technology Business. From January 2002 to March 2008, Dr. Wei was Senior Vice President of Operations I. He was Vice President of South Sites Operations from April 2000 to January 2002 and Vice President of North Sites Operations from February 1998 to April 2000. Prior to that, he was Senior Vice President at Chartered Semiconductor Manufacturing Ltd. in Singapore starting from 1993. He holds a Ph.D. in electrical engineering from Yale University.

Stephen T. Tso is our Senior Vice President of Information Technology, Material Management and Risk Management and Chief Information Officer. He joined us as Vice President of Research and Development in December 1996. Prior to that, he was General Manager of Metal CVD Products in Applied Materials. He was assigned as the President of WaferTech in November 2001. Dr. Tso holds a Ph.D. in material science and engineering from University of California, Berkeley.

Richard Thurston is our Senior Vice President and General Counsel. Prior to joining us in January 2002, he was a partner with Kelt Capital Partners, LP, in Addison, Texas, and a senior partner with the Dallas Texas-based law firm of Haynes and Boone. Dr. Thurston was also Vice President and Assistant General Counsel, and the Asia Pacific Regional Counsel for TI from 1984 to 1996. Dr. Thurston holds a Ph.D. in East Asian studies from University of Virginia and a J.D. from Rutgers School of Law.

Lora Ho is our Senior Vice President, Chief Financial Officer and Spokesperson. Prior to joining us in 1999 as controller, she had served as Vice President of Finance and Chief Financial Officer at Acer Semiconductor Manufacturing Inc. since 1990. Ms. Ho holds an MBA from National Taiwan University.

Jason C.S. Chen is our Senior Vice President of Worldwide Sales and Marketing. He joined us as Vice President of Corporate Development in March 2005. Prior to that, he was Vice President and Co-Director of Marketing and Sales group with Intel Corporation. Mr. Chen holds an MBA degree from University of Missouri, Columbia.

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M.C. Tzeng is our Vice President of Operations/Affiliate Fabs. From March 2008 to October 2009, he was Vice President of Mainstream Technology Business. Prior to that, he was Vice President of Operations I from January 2002 to March 2008. He was the Senior Director of Fab 2 Operations from 1997 to January 2002. He joined us in 1987 and has held various positions in manufacturing functions. He holds a master degree in applied chemistry from Chung Yuan University.

Wei-Jen Lo is our Vice President of Operations/Manufacturing Technology. He was Vice President of Advanced Technology Business from September 2009 to October 2009, Vice President of Research & Development from June 2006 to September 2009 and Vice President of Operations from July 2004 to June 2006. Prior to that, he was Director in charge of advanced technology development with Intel Corporation. Dr. Lo holds a Ph.D. in solid state physics & surface chemistry from University of California, Berkeley.

Jack Sun is our Chief Technology Officer, effective November 2009, and also has been our Vice President of Research and Development since 2006. He was promoted to Senior Director in 2000. He joined us in 1997 as Director of Advanced Module Technology Division before taking the position of Director, Logic Technology Development Division. Prior to that, he served at International Business Machines for 14 years in Research and Development. Dr. Sun holds a Ph.D. in electrical engineering from University of Illinois at Urbana-Champaign.

Y.P. Chin is Vice President of Operations/Product Development. He was Vice President of Advanced Technology Business from March 2008 to October 2009. Prior to that, he was Senior Director of Operations II from June 2006 to March 2008 and Product Engineering & Services from 2000 to 2006. He joined us in 1987 and has held various positions in product and engineering functions. He holds a master degree in electrical engineering from National Cheng Kung University.

N.S. Tsai has been Vice President of Quality & Reliability since February 2008. Prior to that, he was Senior Director of Quality & Reliability since 2004, Senior Director of Assembly Test Technology & Service from 2002 to 2004. Dr. Tsai also served as a Vice President of Vanguard from 1997 to 2000. He joined us in 1989 and held various positions in R&D and manufacturing functions. He holds a Ph.D. in material science from Massachusetts Institute of Technology.

Rick Cassidy was promoted as Vice President in February 2008. He has been President of TSMC North America since January 2005. He joined us in 1997 and has held various positions in TSMC North America, including Business Operations, Field Technical Support, and Business Management. He holds a B.A. degree in engineering technology from United States Military Academy at West Point.

L.C. Tu has been Vice President of Human Resources since August 2009. Prior to that, he was Senior Director of Corporate Planning Organization from 2002 to 2009. He joined us in 1987 and held various positions in engineering functions. He holds a master degree in business administration from Tulane University.

J.K. Lin is our Vice President of Operations/Mainstream Fabs. He was promoted as Vice President of Operations in August 2010. Prior to that, he was Senior Director of Mainstream Fabs from May to August in 2010. He joined us in 1987 and held various positions in manufacturing functions. He holds a B.S. degree from National Changhua University of Education.

J.K. Wang is our Vice President of Operations/300mm Fabs. He was promoted as Vice President of Operations in August 2010. Prior to that, he was Senior Director of 300mm Fabs from May to August in 2010. He joined us in 1987 and held various positions in manufacturing functions and R&D technology development. He holds a master degree in chemical engineering from National Cheng-Kung University.

Irene Sun is our Vice President of Corporate Planning. She was promoted as Vice President of Corporate Planning in August 2010. Prior to that, she was Senior Director of Corporate Planning from 2009 to 2010. She joined us in 2003 and held various positions in Corporate Planning Organization. She holds a Ph.D. in materials science and engineering from Cornell University.

Burn J. Lin is our Vice President of Research ***&*** Development. He was promoted as Vice President of Research & Development in February 2011. Prior to that, he was our Senior Director of Nanopatterning Technology Division from 2000 to 2011. He joined us in 2000. Dr. Lin is the editor in chief of the Journal of Micro/nanolithography, MEMS, and MOEMS, a fellow of IEEE and of SPIE. He holds a Ph.D. in electrical engineering from Ohio State University.

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Y. J. Mii is our Vice President of Research and Development. He was promoted as Vice President of Research and Development in August 2011. Prior to that, he was our Senior Director of Platform I Division from 2006 to 2011. He joined TSMC in 1994 and has been involved continuously in the development and manufacturing of advanced CMOS technologies in both Operations and R&D. He holds a Ph.D. in electrical engineering from the University of California, Los Angeles.

Cliff Hou is our Vice President of Design and Technology Platform. He was prompted as Vice President of Design and Technology Platform in August 2011. Prior to that, he was Senior Director of Design and Technology Platform from 2010 to 2011. He joined TSMC in 1997 and established the Company s technology design kit and reference flow development organizations. He holds a Ph.D. in electrical and computer engineering from Syracuse University.

There is no family relationship between any of our directors or executive officers and any other director or executive officer.

Share Ownership

The following table sets forth certain information as of February 29, 2012 with respect to our common shares owned by our directors and executive officers.

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Name of Shareholders	Number of Common Shares Owned[2]	Percentage of Outstanding Common Shares[2]	Number of Common Shares Underlying Stock Options[3]
Morris Chang, Chairman & CEO	123,137,914	0.48%	-
F.C. Tseng, Vice Chairman	34,662,675	0.13%	-
Johnsee Lee, Director[1]	1,653,709,980	6.38%	-
Stan Shih, Independent Director	1,480,286	0.01%	-
Sir Peter Leahy Bonfield, Independent Director	-	-	-
Thomas J. Engibous, Independent Director	-	-	-
Gregory C. Chow, Independent Director	-	-	-
Kok-Choo Chen, Independent Director	-	-	-
Rick Tsai, Director	33,871,046	0.13%	-
Shang-yi Chiang, Executive Vice President & Co-Chief Operating Officer	2,192,481	0.01%	-
Mark Liu, Executive Vice President & Co-Chief Operating Officer	13,462,114	0.05%	-
C.C. Wei, Executive Vice President & Co-Chief Operating Officer	8,183,325	0.03%	276,882
Stephen T. Tso, Senior Vice President & CIO	14,875,064	0.06%	-
Richard Thurston, Senior Vice President & General Counsel	1,569,892	0.01%	87,710
Lora Ho, Senior Vice President, CFO & Spokesperson	6,381,080	0.02%	-
Jason C.S. Chen, Senior Vice President	2,317,320	0.01%	-
M.C. Tzeng, Vice President	7,618,595	0.03%	-
Wei-Jen Lo, Vice President	2,324,127	0.01%	-
Jack Sun, Vice President & CTO	4,568,831	0.02%	-
Y.P. Chin, Vice President	7,875,122	0.03%	-
N.S. Tsai, Vice President	2,051,180	0.01%	-

Rick Cassidy, Vice President	-	-	570,907 DIV>

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FREEDOM ACQUISITION HOLDINGS, INC.
(a corporation in the development stage)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Freedom Acquisition Holdings, Inc.

We have audited the accompanying balance sheet of Freedom Acquisition Holdings, Inc. (a corporation in the development stage) (the Company) as of October 31, 2006 and the related statements of operations, stockholders equity and cash flows for the period from June 8, 2006 (date of inception) to October 31, 2006. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Freedom Acquisition Holdings, Inc. (a corporation in the development stage) as of October 31, 2006, and the results of its operations and its cash flows for the period from June 8, 2006 (date of inception) to October 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ ROTHSTEIN, KASS & COMPANY, P.C.

Roseland, New Jersey
November 29, 2006

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FREEDOM ACQUISITION HOLDINGS, INC.
(a corporation in the development stage)

BALANCE SHEET

October 31, 2006

ASSETS	
Current asset, cash	$ 78,721
Other assets deferred offering costs	213,810
	$ 292,531
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities	
Accrued expenses	$ 250
Accrued offering costs	15,000
Notes payable, stockholders	250,000
Total current liabilities	265,250
Commitments	
Stockholders equity	
Preferred stock, $.0001 par value; 1,000,000 shares authorized; none issued	
Common stock, $.0001 par value, authorized 200,000,000 shares; 9,375,000 shares issued and outstanding	750
Additional paid-in capital	24,250
Income accumulated during the development stage	2,281
Total stockholders equity	27,281
	$ 292,531

See accompanying notes to financial statements

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FREEDOM ACQUISITION HOLDINGS, INC.
(a corporation in the development stage)

STATEMENT OF OPERATIONS

		For the Period from June 8, 2006 (date of inception) to October 31, 2006
Interest income	$	2,681
Formation and operating costs		400
Net income		2,281
Weighted average number of common shares outstanding, basic and diluted		7,500,000
Net loss per common share, basic and diluted	$	

See accompanying notes to financial statements

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FREEDOM ACQUISITION HOLDINGS, INC.
(a corporation in the development stage)

STATEMENT OF STOCKHOLDERS EQUITY

For the period from June 8, 2006 (date of inception) to October 31, 2006

	Common Shares	Amount	Additional Paid-in Capital	Income Accumulated During the Development Stage	Total Stockholders Equity
Common shares issued	7,500,000	$ 750	$ 24,250	$	$ 25,000
Net income				2,281	2,281
Balances, at October 31, 2006	7,500,000	$ 750	$ 24,250	$ 2,281	$ 27,281

See accompanying notes to financial statements

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FREEDOM ACQUISITION HOLDINGS, INC.
(a corporation in the development stage)

STATEMENT OF CASH FLOWS

		For the Period from June 8, 2006 (date of inception) to October 31, 2006
Cash flows from operating activities		
Net income	$	2,281
Adjustment to reconcile net income to net cash used in operating activities:		
Change in operating assets and liabilities:		
Accrued expenses		250
Net cash provided by operating activities		2,531
Cash flows from financing activities		
Proceeds from notes payable, stockholders		250,000
Proceeds from issuance of common stock		25,000
Payments for deferred offering costs		(198,810)
Net cash provided by financing activities		76,190
Net increase in cash		78,721
Cash, beginning of period		
Cash, end of period	$	78,721
Supplemental schedule of non-cash financing activities:		
Accrual of deferred offering costs	$	15,000

See accompanying notes to financial statements

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Freedom Acquisition Holdings, Inc.
(a corporation in the development stage)

Notes to Financial Statements

NOTE A DESCRIPTION OF ORGANIZATION AND BUSINESS OPERATIONS

Freedom Acquisition Holdings, Inc. (a corporation in the development stage) (the Company) was incorporated in Delaware on June 8, 2006. The Company was formed to acquire an operating business through a merger, capital stock exchange, asset acquisition, stock purchase or other similar business combination. The Company has neither engaged in any operations nor generated revenue to date. The Company is considered to be in the development stage as defined in Statement of Financial Accounting Standards (SFAS) No. 7, Accounting and Reporting By Development Stage Enterprises, and is subject to the risks associated with activities of development stage companies. The Company has selected December 31st as its fiscal year end.

The Company s management has broad discretion with respect to the specific application of the net proceeds of a proposed offering of Units (as defined in Note C below) (the Proposed Offering), although substantially all of the net proceeds of the Proposed Offering are intended to be generally applied toward consummating a business combination with (or acquisition of) an operating business (Business Combination). Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination. Upon the closing of the Proposed Offering, at least 96% of the gross proceeds, after payment of certain amounts to the underwriters, will be held in a trust account (Trust Account) and invested in either short-term securities issued or guaranteed by the United States having a rating in the highest investment category granted thereby by a recognized credit rating agency at the time of acquisition or short-term tax exempt municipal bonds issued by governmental entities located within the United States and otherwise meeting the condition under Rule 2a-7 promulgated under the Investment Company Act of 1940, until the earlier of (i) the consummation of its first Business Combination or (ii) the distribution of the Trust Account as described below. The remaining proceeds may be used to pay for business, legal and accounting due diligence on prospective acquisitions and continuing general and administrative expenses. The Company, after signing a definitive agreement for the acquisition of a target business, will submit such transaction for stockholder approval. In the event that 20% or more of the outstanding stock (excluding, for this purpose, those shares of common stock issued prior to the Proposed Offering) vote against the Business Combination and exercise their conversion rights described below, the Business Combination will not be consummated. Public stockholders voting against a Business Combination will be entitled to convert their stock into a pro rata share of the Trust Account (including

the additional 3% fee of the gross proceeds payable to the underwriters upon the Company s consummation of a Business Combination), including any interest earned (net of taxes payable and the amount distributed to the Company to fund its working capital requirements) on their pro rata share, if the Business Combination is approved and consummated. However, voting against the Business Combination alone will not result in an election to exercise a stockholder s conversion rights. A stockholder must also affirmatively exercise such conversion rights at or prior to the time the Business Combination is voted upon by the stockholders. All of the Company s stockholders prior to the Proposed Offering, including all of the directors of the Company will agree to vote all of the shares of common stock held by them in accordance with the vote of the majority in interest of all other stockholders of the Company.

In the event that the Company does not consummate a Business Combination within 18 months from the date of the consummation of the Proposed Offering, or 24 months from the consummation of the Proposed Offering if certain extension criteria have been satisfied, the proceeds held in the Trust Account will be distributed to the Company s public stockholders, excluding the existing stockholders to the extent of their initial stock holdings. In the event of such distribution, it is likely that the per share value of the residual assets remaining available for distribution (including Trust Account assets) will be less than the initial public offering price per Unit in the Proposed Offering (assuming no value is attributed to the Warrants contained in the Units to be offered in the Proposed Offering discussed in Note C).

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NOTE B BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Development stage company:

The Company complies with the reporting requirements of SFAS No. 7, Accounting and Reporting by Development Stage Enterprises.

Stock combination:

On November 29, 2006, the Company effected a four-fifths (4/5) stock and unit combination. All transactions and disclosures in the financial statements, related to the Company s common stock and units, have been adjusted to reflect the effect of the stock and unit combination.

Net income per common share:

Income per common share is based on the weighted average number of common shares outstanding. The Company complies with SFAS No. 128, Earnings Per Share, which requires dual presentation of basic and diluted earnings per share on the face of the statements of operations, which the Company has adopted. Basic income per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted income per share reflects the potential dilution that could occur if convertible debentures, options and warrants were to be exercised or converted or otherwise resulted in the issuance of common stock that then shared in the earnings of the entity.

Concentration of credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash accounts in a financial institution, which at times, exceeds the Federal depository insurance coverage of $100,000. The Company has not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

Fair value of financial instruments:

The fair value of the Company s assets and liabilities, which qualify as financial instruments under SFAS No. 107, Disclosure About Fair Value of Financial Instruments, approximates the carrying amounts represented in the balance sheet.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deferred offering costs:

The Company complies with the requirements of the SEC Staff Accounting Bulletin (SAB) Topic 5A Expenses of Offering. Deferred offering costs consist principally of legal costs of $50,000, accounting costs of $25,000, and other offering costs of $138,810 incurred through the balance sheet date that are related to the Proposed Offering and that will be charged to capital upon the completion of the Proposed Offering or charged to expense if the Proposed Offering is not completed.

Income tax:

The Company complies with SFAS 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and

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liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

NOTE C PROPOSED OFFERING

The Proposed Offering calls for the Company to offer for public sale up to 30,000,000 units (Units). Each Unit consists of one share of the Company s common stock, $0.0001 par value, and one redeemable common stock purchase warrant (Warrant). The expected public offering price will be $10.00 per unit. Each Warrant will entitle the holder to purchase from the Company one share of common stock at an exercise price of $7.50 commencing on the later of (a) one year from the date of the final prospectus for the Proposed Offering or (b) the completion of a Business Combination with a target business, and will expire five years from the date of the prospectus. The Warrants will be redeemable at a price of $0.01 per Warrant upon 30 days prior notice after the Warrants become exercisable, only in the event that the last sale price of the common stock is at least $14.25 per share for any 20 trading days within a 30 trading day period ending on the third business day prior to the date on which notice of redemption is given. If the Company is unable to deliver registered shares of common stock to the holder upon exercise of the warrants during the exercise period, there will be no cash settlement of the warrants and the warrants will expire worthless.

NOTE D RELATED PARTY TRANSACTIONS

Each of Berggruen Holdings North America Ltd. (Berggruen Holdings), Marlin Equities II, LLC (Marlin Equities) and three independent directors have purchased an aggregate of 7,500,000 of the Company s founders units for an aggregate price of $25,000 in a private placement. The units are identical to those sold in the Proposed Offering, except that each of the founders will agree to vote its founders common stock in the same manner as a majority of the public stockholders who vote at the special or annual meeting called for the purpose of approving the Company s initial business combination. As a result, they will not be able to exercise conversion rights with respect to the founders common stock if the Company s initial business combination is approved by a majority of its public stockholders. The founders common stock included therein will not participate with the common stock included in the units sold in the Proposed Offering in any liquidating distribution. The founders warrants included therein will become exercisable after the Company s consummation of a business combination, if and when the last sales price of the Company s common stock exceeds $14.25 per share for any 20 trading days within a 30 trading day period beginning 90 days after such business combination and will be non-redeemable so long as they are held

by the Company s founders or their permitted transferees.

The Company issued two $125,000 unsecured promissory notes, one each, to Berggruen Holdings and Marlin Equities. These advances are non-interest bearing, unsecured and are due within 60 days following the consummation of the Proposed Offering. A portion of the loans will be repaid out of the proceeds of the Proposed Offering not placed in trust and the balance of the loans will be repaid out of the interest we receive on the balance of the trust account.

The Company presently occupies office space provided by Berggruen Holdings, Inc. Berggruen Holdings, Inc. has agreed that, until the acquisition of a target business by the Company, it will make such office space, as well as certain office and secretarial services, available to the Company, as may be required by the Company from time to time. The Company has agreed to pay such affiliate $10,000 per month for such services.

Berggruen Holdings and Marlin Equities collectively have agreed to purchase directly from the Company, in a private placement, 4,500,000 warrants immediately prior to the Proposed Offering at a price of $1 per warrant (an aggregate purchase price of approximately $4,500,000) from the Company and not as part of the Proposed Offering. They have also agreed that these warrants purchased by them will not be sold or transferred until at least one year after the completion of a Business Combination.

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In addition, Berggruen Holdings and Marlin Equities, collectively have agreed to purchase 5,000,000 units at a price of $10 per unit (an aggregate price of $50,000,000) from the Company in a private placement that will occur immediately prior to the Company s consummation of a business combination. These private placement units will be identical to the units sold in the Proposed Offering. They have also agreed that these units will not be sold, transferred, or assigned until at least one year after the completion of the Business Combination.

NOTE E COMMITMENTS

The Company is committed to pay an underwriting discount of 4% of the public unit offering price to the underwriters at the closing of the Proposed Offering, with an additional 3% fee of the gross offering proceeds payable upon the Company s consummation of a Business Combination.

The Company expects to grant the underwriters a 30-day option to purchase up to 4,500,000 additional units to cover the over-allotment. The over-allotment option will be used only to cover a net short position resulting from the initial distribution.

NOTE F PREFERRED STOCK

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors.

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$300,000,000

Freedom Acquisition Holdings, Inc.

30,000,000 Units

PROSPECTUS

, 2006

Citigroup

Ladenburg Thalmann & Co. Inc.

Until , 2006, (25 days after the date of this prospectus) federal securities law may require all dealers selling our securities, whether or not participating in this offering, to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

No dealer, salesperson or any other person is authorized to give any information or make any representations in connection with this offering other than those contained in this prospectus and, if given or made, the information or representations must not be relied upon as having been authorized by us. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which the offer or solicitation is not authorized or is unlawful.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

References to the company, the Registrant, we, us, our and similar expressions in this Part II refer to Freedom Acquisition Holdings, Inc.

Item 13. *Other Expenses Of Issuance And Distribution*

The following table sets forth the costs and expenses, other than the underwriting discount, payable by us in connection with this offering of the securities being registered. All amounts are estimates except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers Inc. filing fee and the American Stock Exchange fee.

SEC registration fee	$ 36,915
NASD filing fee	33,500
Accounting fees and expenses	60,000
Legal fees and expenses	300,000
Printing and engraving expenses	100,000
American Stock Exchange Fees	70,000
Miscellaneous	99,585
Total	$ 700,000

Item 14. *Indemnification of Directors and Officers*

As permitted by Section 102 of the Delaware General Corporation Law, we have adopted provisions in our amended and restated certificate of incorporation and bylaws that will be in effect upon the consummation of this offering that limit or eliminate the personal liability of our directors for a breach of their fiduciary duty of care as a director. The duty of care generally requires that, when acting on behalf of the corporation, directors exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director s duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payments of dividends; or

any transaction from which the director derived an improper personal benefit.

These limitations of liability do not affect the availability of equitable remedies such as injunctive relief or rescission. Our amended and restated certificate of incorporation also authorizes us to indemnify our officers and directors to the fullest extent permitted under Delaware law.

As permitted by Section 145 of the Delaware General Corporation Law, our amended and restated certificate of incorporation provides that:

we must indemnify our directors and officers and may indemnify our employees and agents to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions;

we must advance expenses to our directors and officers and may advance to our employees and agents in connection with a legal proceeding to the fullest extent permitted by the Delaware General Corporation Law, subject to limited exceptions; and

the rights provided in our bylaws are not exclusive.

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Our amended and restated certificate of incorporation and our bylaws provide for the indemnification provisions described above and elsewhere herein. In addition, we have entered or will enter into contractual indemnity agreements with our directors and officer which may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnity agreements generally require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers, subject to certain exceptions and limitations. These indemnity agreements also require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified. In addition, we have purchased a policy of directors and officers liability insurance that insures our directors and officer against the cost of defense, settlement or payment of a judgment in some circumstances. These indemnification provisions and the indemnity agreements may be sufficiently broad to permit indemnification of our officers and directors for liabilities arising under the Securities Act, and reimbursement of expenses incurred in connection with such liabilities.

We have agreed to indemnify the several underwriters against specific liabilities, including liabilities under the Securities Act of 1933.

Item 15. ***Recent Sales of Unregistered Securities***

On July 20, 2006, Berggruen Holdings North America Ltd. purchased 4,627,500 of our units for an aggregate purchase price of $12,340 in a private placement.

On July 20, 2006, Marlin Equities II, LLC purchased 4,627,500 of our units for an aggregate purchase price of $12,340 in a private placement.

On July 20, 2006, Herbert A. Morey purchased 40,000 of our units for an aggregate purchase price of $106.66 in a private placement.

On July 20, 2006, William P. Lauder purchased 40,000 of our units for an aggregate purchase price of $106.66 in a private placement.

On July 20, 2006, James N. Hauslein purchased 40,000 of our units for an aggregate purchase price of $106.66 in a private placement.

On July 20, 2006, Berggruen Holdings North America Ltd. agreed to purchase 2,225,000 of our warrants to purchase one share of our common stock at a price of $1.00 per warrant. Berggruen Holdings North America Ltd. is obligated to purchase such warrants from us immediately prior to the consummation of this offering.

On July 20, 2006, Marlin Equities II, LLC agreed to purchase 2,225,000 of our warrants to purchase one share of our common stock at a price of $1.00 per warrant. Marlin Equities is obligated to purchase such warrants from us immediately prior to the consummation of this offering.

On July 20, 2006, Berggruen Holdings North America Ltd. agreed to purchase 3,125,000 of our units for an aggregate purchase price of $25,000,000 at a price of $10.00 per unit. Berggruen Holdings North America Ltd. is obligated to purchase such units from us immediately prior to our consummation of a business combination.

On July 20, 2006, Marlin Equities II, LLC agreed to purchase 3,125,000 of our units for an aggregate purchase price of $25,000,000 at a price of $10.00 per unit. Marlin Equities is obligated to purchase such units from us immediately prior to our consummation of a business combination.

The sales of the above securities were deemed to be exempt from the registration under the Securities Act of 1933 in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering. In each such transaction, such entity represented its intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the instruments representing such securities issued in such transactions.

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Item 16. ***Exhibits and Financial Statement Schedules.***

(a) The following exhibits are filed as part of this Registration Statement:

Exhibit No.	Description
1.1	Form of Underwriting Agreement
3.1*	Form of Amended and Restated Certificate of Incorporation
3.2*	Bylaws
4.1*	Specimen Unit Certificate
4.2*	Specimen Common Stock Certificate
4.3*	Warrant Agreement dated July 20, 2006 between Continental Stock Transfer & Trust Company and the Registrant
4.4*	Specimen Public Warrant Certificate (included in Exhibit 4.3)
4.5*	Specimen Private Warrant Certificate (included in Exhibit 4.3)
4.6*	First Amendment dated as of November 9, 2006 to Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant
4.7	Second Amendment dated as of November 29, 2006 to Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant.
5.1	Opinion of Greenberg Traurig, LLP
10.1*	Form of Registration Rights Agreement among the Registrant and the Founders
10.2*	Founders Units Subscription Agreement dated as of July 20, 2006 among the Registrant and Berggruen Holdings
10.3*	Founders Units Subscription Agreement dated as of July 20, 2006 among the Registrant and Marlin Equities
10.4*	Founders Units Subscription Agreement dated as of July 20, 2006 among the Registrant and James N. Hauslein
10.5*	Founders Units Subscription Agreement dated as of July 20, 2006 among the Registrant and William P. Lauder
10.6*	Founders Units Subscription Agreement dated as of July 20, 2006 among the Registrant and Herbert A. Morey
10.7*	Sponsors Warrant and Co-Investment Units Subscription Agreement dated as of July 20, 2006 among the Registrant and Berggruen Holdings
10.8*	Sponsors Warrant and Co-Investment Units Subscription Agreement dated as of July 20, 2006 among the Registrant and Marlin Equities
10.9*	Form of Investment Management Trust Agreement by and between the Registrant and Continental Stock Transfer & Trust Company
10.10*	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and Berggruen Holdings
10.11*	

	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and Marlin Equities
10.12*	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and Nicolas Berggruen
10.13*	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and Martin E. Franklin
10.14*	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and James N. Hauslein
10.15*	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and William P. Lauder
10.16*	Letter Agreement dated as of July 20, 2006 among the Registrant, Citigroup Global Markets Inc. and Herbert A. Morey

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Exhibit No.	Description
10.17*	Form of Letter Agreement among the Registrant and Berggruen Holdings, Inc. providing office space to the Registrant
10.18*	Promissory Note, dated June 14, 2006, issued to Berggruen Holdings
10.19*	Promissory Note, dated June 14, 2006, issued to Marlin Equities
10.20	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and Berggruen Holdings
10.21	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and Marlin Equities
10.22	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and Nicolas Berggruen
10.23	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and Martin E. Franklin
10.24	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and James N. Hauslein
10.25	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and William P. Lauder
10.26	Amended Letter Agreement dated as of November 30, 2006 among the Registrant, Citigroup Global Markets Inc. and Herbert A. Morey
10.27	Form of Berggruen Holdings Employee Letter Agreement
23.1	Consent of Rothstein, Kass & Company, P.C.
23.2	Consent of Greenberg Traurig, LLP (included in Exhibit 5.1)
24.1*	Power of Attorney (included in the signature page to this registration statement)
99.1*	Form of Code of Ethics
99.2*	Form of Charter of Audit Committee
99.3*	Form of Charter of Governance and Nominating Committee
99.4*	Form of Charter of Compensation Committee

* Previously filed.

(b) No financial statement schedules are required to be filed with this Registration Statement.

Item 17. ***Undertakings.***

(a) The undersigned hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on the 30th day of November, 2006.

FREEDOM ACQUISITION HOLDINGS, INC.

/s/ NICOLAS BERGGRUEN
Nicolas Berggruen
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ NICOLAS BERGGRUEN Nicolas Berggruen	President, Chief Executive Officer and Director (principal executive officer, principal financial officer and principal accounting officer)	November 30, 2006
*	Director	November 30, 2006
Martin E. Franklin		
*	Director	November 30, 2006
James N. Hauslein		
*	Director	November 30, 2006
William P. Lauder		
*	Director	November 30, 2006
Herbert A. Morey		

The undersigned, by signing his name, hereto, does sign and execute this Amendment pursuant to the Power of Attorney executed by the above named officer and directors of the Registrant and previously filed with the Securities and Exchange Commission on behalf of such officer and

directors.

*By:	/s/ NICOLAS BERGGRUEN	Attorney-in-Fact	November 30, 2006

Nicolas Berggruen